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How have employment transitions for older workers in Germany and the UK changed?

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SOEP – The German Socio-Economic Panel study at DIW Berlin

782-2015

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How have employment transitions for older workers in Germany and the UK changed?¹

by David Wright, PhD student University of Brighton, UK

Abstract

Extending working life is an objective for many nations. However, the UK government has recently reported only modest improvement “compared to many nations”. A comparison of European, Labour Force Surveys show that Germany has reversed early retirement much faster than the UK since 2003. This was not forecast by previous researchers. In particular, Ebbinghaus’ influential cross-national analysis of early retirement, published in 2006, had predicted that liberal welfare states regimes like the UK would react faster than conservative ones like Germany. A review of changes to pensions and employment policies suggests the UK puts more emphasis on recruitment of older workers, flexible working and gradual retirement while Germany puts more emphasis on retention of older workers through age-management and employment protection. The paper compares the employment transitions of older workers using data covering 1993 to 2013 from the longitudinal surveys British Household Panel Survey, Understanding Society and the German Socio-Economic Panel. It finds little evidence for the recruitment of older workers or gradual retirement in either the UK or Germany and concludes it was the greater employment protection for older workers in Germany that enabled the employment rate for older workers to increase even during the recent recession.

Keywords: Older workers, United Kingdom, Germany

¹ Paper originally presented to European Sociological Association Research Network on “Ageing in Europe” PhD Workshop held at University of Duisburg-Essen March 2015

Introduction

Why has the employment rate of older people been increasing more quickly in Germany than the UK?

This is surprising because while both countries have had policies to extend working life since 2000, Germany started with much higher rates of early retirement and it was predicted that the 'liberal market economy' in the UK would enable it to reverse early retirement faster than the 'conservative' Germany (Ebbinghaus, 2006). This paper reviews recent policy initiatives in Germany and the UK to extend working lives and concludes that while both are increasing the State Pension Age their employment policies take quite different approaches. The UK is placing emphasis on getting older unemployed workers back to work while Germany has greater employment protection and age-management so that older workers can retain their jobs.

The paper reviews recent UK research which suggests older workers want 'gradual' retirement whereby they change the hours or type of job in preference to 'cliff-edge' retirement where they stay working in the same job until retirement.

It sets out two hypotheses. Firstly, the way to improve employment rates of older people is via recruitment rather than retention. Secondly, the way to enable older workers to extend the working life is by 'gradual' retirement.

Cross-national analysis of longitudinal panel data from 1993 to 2013 shows that it is encouraging retention rather than recruitment that has led to the increasing employment of older workers in Germany.

Analysis of employment transitions shows that older workers in both countries tend to stay working the same hours and in the same type of job until they retire.

The conclusion is that neither hypothesis is supported by the evidence.

The policy implication is that labour markets do not work for older workers and the opportunity of gradual retirement has not yet become a reality.

Definition of older workers

There is no universal definition of the term 'older worker' but this paper will use it to refer to people aged 55 to 64 i.e. the ten years before the normal retirement age of 65. Both UK and Germany have plans to increase the State Pension Age to 67. So this paper will use the term 'extended workers' to refer to people working 65 to 67.

Why make a Cross-National Comparison between UK and Germany

The 2014 UK Government report 'Fuller Working Lives' states *'too many are leaving work prematurely. Unplanned exit from the labour market can have catastrophic consequences for individuals' living standards into old age, and comes at a great cost to the economy, business and society'* (DWP, 2014, p3).

While it reports that the UK employment rate for 55-64 year olds had been increasing, it notes the improvement is relatively modest compared to many other nations.

Concern over early retirement is not unique to the UK. Across Europe many governments had encouraged early retirement as a socially acceptable alternative to unemployment. Employers had used it to reduce labour costs and the generous early retirement packages meant it was welcomed by older workers (Hirsch, 2007, Ebbinghaus, 2006). However this 'welfare without work' (Esping-Andersen, 1996) made pension schemes unsustainable. In response, the 2000 European Summit at Lisbon Summit agreed to reverse the trend of early retirement.

As evidence of the increase in employment of older workers in some countries, Figure 1 shows maps of Labour Force Survey results for Europe in 2003 and 2013. The top map shows that in 2003 it was Scandinavian countries, Iceland and some regions of the UK that had the highest employment rates in the 55 to 64 age group while many parts of Germany had much lower rates.

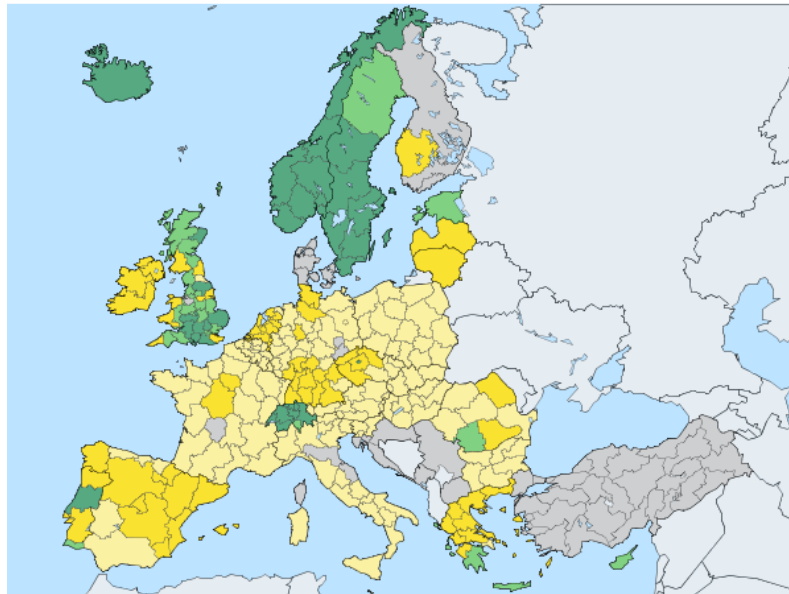
The bottom map shows that in 2014, much of Germany has reached these higher employment rates.

Figure 1. Employment Rates in Europe in 2003 (top) and 2014 (bottom) for people aged 55 to 64

Employment rate of the age group 55-64 by NUTS 2 regions

% - 2003

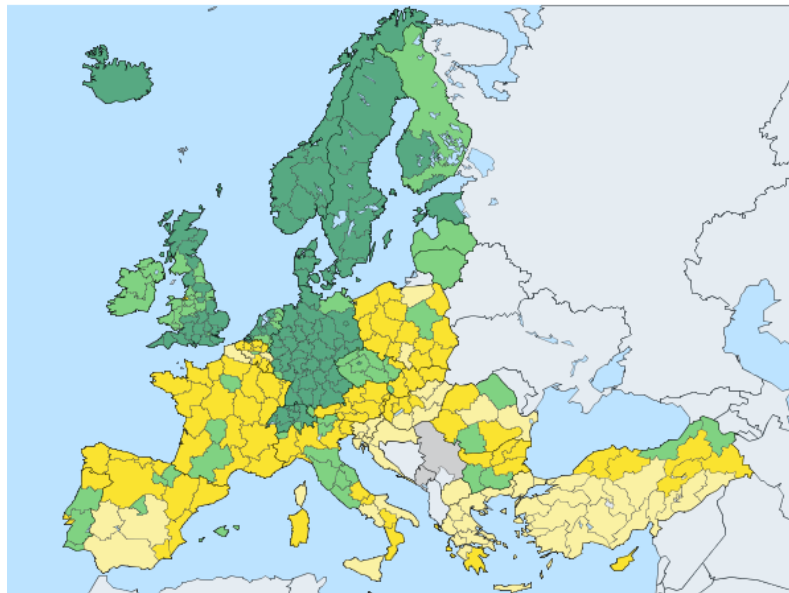
TotalTotal



Employment rate of the age group 55-64 by NUTS 2 regions

% - 2014

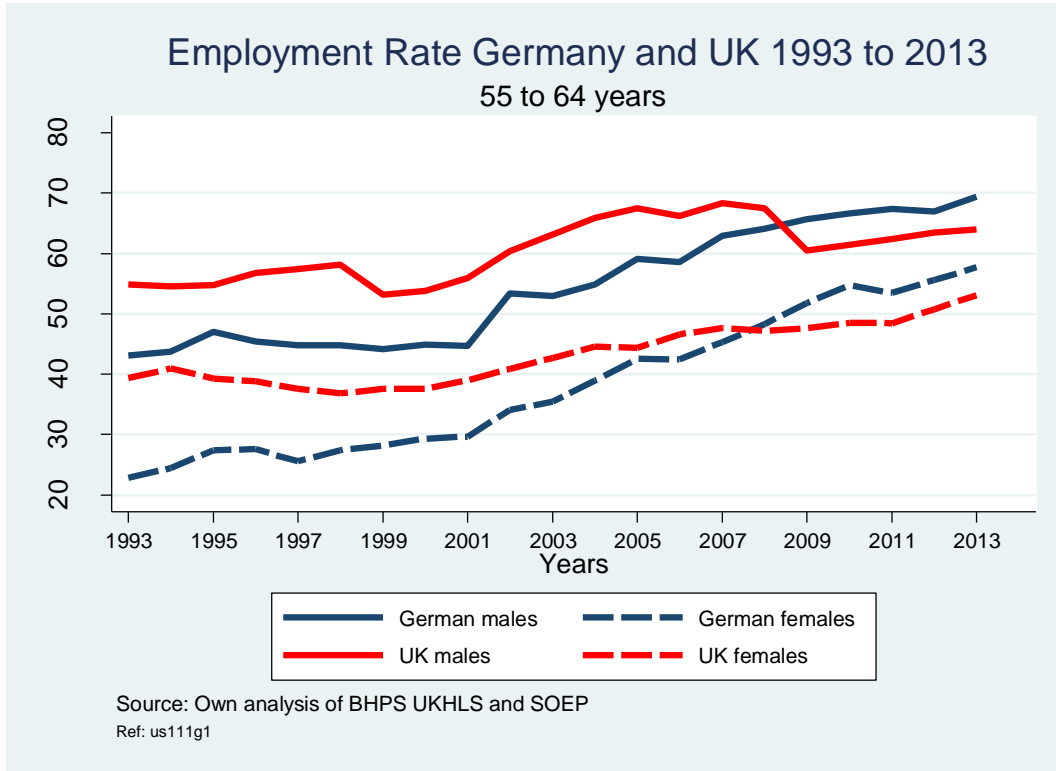
TotalTotal



Source: Eurostat – Product Ref: tgs00054 last update 24/06/2015 downloaded 28/06/2015

Fig 2 uses panel data to show that employment rates for 55 to 64 year olds in Germany started at a lower level but began to rise after 2002 and overtook the UK after the downturn in 2008

Figure 2. Employment Rates Germany and United Kingdom (panel data) 1993 to 2013 for people aged 55 to 64

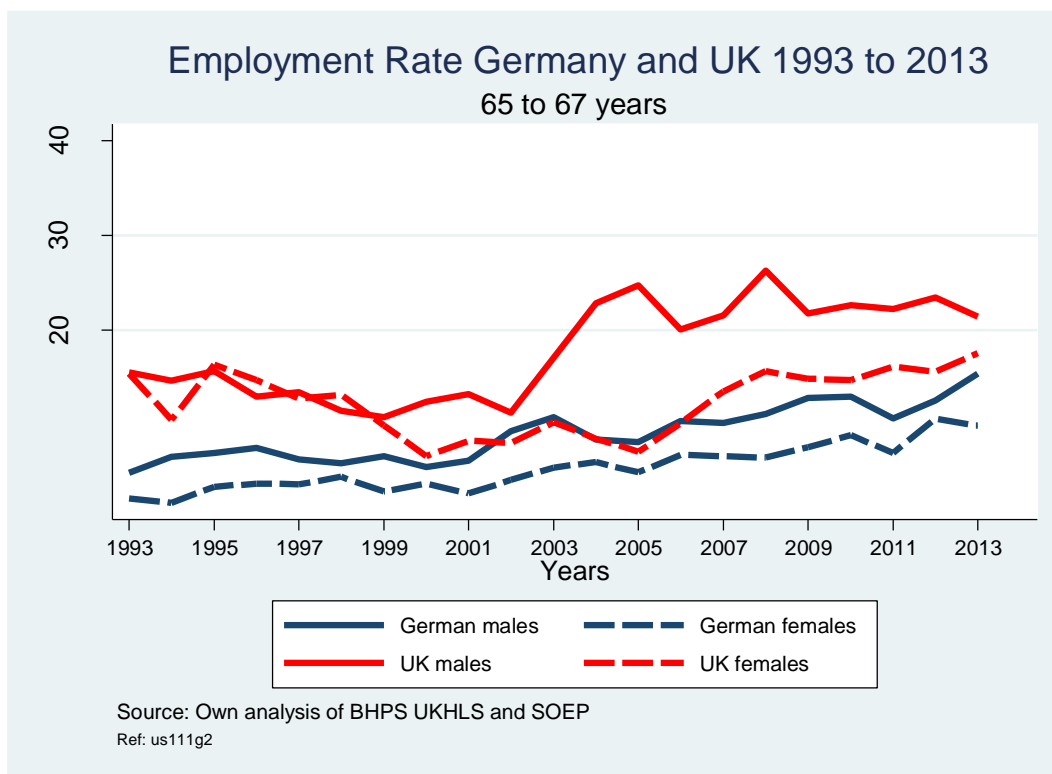


The graph shows a downturn in the employment rate of UK males but not UK females after 2008. This can be associated with the recession which affected industries such as construction and manufacturing which employed a higher proportion of older men than women

The latest panel data analysed is 2013 but a comparison with the equivalent Labour Force Survey data from Eurostat confirms these trends have continued to 2014 (Eurostat, 2015).

Fig 3 shows the UK has tended to have higher employment of 65 to 67 year olds but employment rates for older men have been stable in recent years while Germany has continued its trend of increasing employment of 65 to 67 year olds.

Figure 3. Employment Rates Germany and United Kingdom 1993 to 2013 for people aged 65 to 67



What is not clear from these cross-sectional graphs is whether older people are retaining their jobs longer or unemployed older people are finding it easier to be recruited to new jobs or both. This is investigated later using longitudinal analysis.

State Pension Ages in UK and Germany

Individual decisions to retire are heavily influenced by the date they receive their pension. This section gives a brief comparison of some key aspects of the UK and German pension systems.

UK

Old-Age Pensions were first introduced by the State in 1908. Originally these non-contributory pensions at 70 were intended to alleviate poverty in old age. Chancellor, David Lloyd-George, claimed old age pensions would 'lift the shadow of the workhouse from the homes of the poor' (Gilbert, 1987). Subsequently, a contributory pension at 65 was introduced by the 1925 Old Age, Widows and Orphans Contributory Pensions Act and the pension age for women lowered to 60 by the 1940 Old Age and Widows Pension Act (ONS, 2011). The basic State pension was so low that many supplementary, occupational or private pension schemes were developed. During the recessions of the 1970s and early 1980s, governments and many employers sought to reduce the labour supply by encouraging older workers in the UK to take 'early retirement' (Hirsch, 2007). However, at the start of the 21st century in 'Winning the Generation Game', the UK Cabinet Office (2000) recognized that expecting an early and long retirement to be paid for by the declining proportion of the population in work was unsustainable. They advocated a policy shift away from early retirement and The Pension Commission was appointed in 2002. The Pensions Commission (2006) advocated the phasing-in of increases to the State Pension Age. The Pension Act 1995 had already made

provision for women's SPA to increase from 60 to 65 between 2010 and 2020 (ONS, 2011). However, later Acts accelerated the process so women's SPA will align with men's by 2018. Thereafter the SPA for both sexes will increase to 68 between 2044 and 2046 (UKGov, 2014b) and could go even higher as the UK Government has proposed to increase SPA in line with life expectancy (UKGov, 2013).

Germany

There is a long history of the UK comparing itself with Germany. Germany industrialized a little later but when, in the late 19th century, leading UK reformers like Joseph Chamberlain were searching for a model for pensions they looked to Germany. In 1889, Chancellor Bismarck produced the first state pension scheme (*Gesetzlich Rentenversicherung* - GRV). It was based on contributions and became payable at the mandatory retirement ages of 70 or earlier if sick. However, unlike the UK, this was not primarily a reaction to social concern for the poor. Bismarck's focus remained building the German nation and, at the risk of over simplifying, he developed welfare to ensure skilled workers owed allegiance to the central government (Manow, 2004). It is one of the most generous state pension schemes in the world but was increasingly used to support early-retirement (Börsch-Supan and Wilke, 2006). As the state scheme was so generous, although private pensions became available in Germany, their adoption is much less common than in the UK. The resulting cost is very large and after many attempts at reform, the Rurup Commission in Germany (BMAS, 2003) recommended phasing in increases to the State Pension Age so that people will be encouraged to work up to 67 or later. Like the UK, Germany now has a timetable to increase the State Pension Age.

Policy Initiatives

This section summarises policy changes affecting the employment of older workers.

UK

One problem with increasing the state pension age was that many contracts of employment terminated at the previous retirement age – typically 60 or 65. So, if their state pension age increased, employees could be lawfully dismissed on the grounds of age before being eligible for a pension. Such age-discrimination was intended to be abolished by the European Equality (Age) Directive 2000/78/EC which was adopted the UK in 2006. However, to enable employers to retain the right to terminate employment solely on the grounds of age, the UK simultaneously introduced the Default Retirement Age. It was finally abolished in 2011 following a campaign by UK charities (AgeUK, 2014).

'Fuller Working Lives' (DWP, 2014) describes many initiatives to make it easier for older unemployed people to remain in work or find new jobs. Two examples are the 'Age Positive' initiative to encourage employers to employ older workers and legislation giving workers a right to request flexible working (UKGov, 2014a).

The UK Government has been changing the tax-benefit system for people below pension age to encourage people to work rather than remain on benefits. This affects older workers who leave their job e.g. through redundancy as they often find it very difficult to find new employment. The 'Work Programme' provides intensive support to enable older unemployed people to return to work and the 'New Enterprise Allowance' to encourage unemployed people into self-employment.

Germany

Germany tightened up access to unemployment benefits through the Hartz reforms, phased out schemes for early retirement, promoted employment of older workers e.g. 'Perspective 50 plus' (BMAS, 2015) and

recognised the benefits of age-management (Ilmarinen, 2006) within the *Altersgerechte Arbeitswelt* programme to prolong working life (BMAS, 2013).

There is evidence that German employers are planning for the increase in retirement age to 67. For example BMW (2014) has reengineering one of its production lines to enable high skilled older workers to remain productive. For some types of workers this policy was reversed in July 2014 by the *Rentenpaket* which controversially offered retirement at 63 to workers with 45 years contributions (BMAS, 2014, Rasner, 2014).

Comparing UK and Germany

Although policy is not entirely consistent in either country, both share the aim of extending working life and have started increasing the state pension age. The UK tends to place more reliance on schemes to get older unemployed workers back to work than Germany where employers are planning to retain older workers.

Previous Research

This section summarises key research firstly for older workers i.e. 55 to 64 and secondly for extended workers i.e. 65+. Each section is subdivided into UK, Germany and Cross-National Comparison.

Older Workers

UK

There is a considerable body of qualitative and quantitative research into the factors affecting individuals' decisions to retire. In their review of earlier research, Phillipson and Smith (2005) found individuals are 'pushed' to leave work due to poor health conditions, disability, caring responsibilities, redundancy, workplace factors and are 'pulled' by the financial security that early retirement packages or benefits offer. Whatever the reason for stopping work, all the research shows older workers find it very difficult to re-enter the labour market. Phillipson and Smith (2005) identified a number of gaps in the research including the nature of decision making in the work/retirement transitions, the role of partners and friends, flexible working and recommended further qualitative surveys and quantitative analysis of longitudinal panel data such as BHPS.

Vickerstaff et al. (2008) sought to fill the gap in the research as far as qualitative analysis was concerned. One of their most significant findings was that older workers face a peak in informal caring responsibilities. However, they still need an income so instead of 'cliff-edge retirement' many older workers wanted a more 'gradual retirement' adapted to their domestic situation (Vickerstaff, 2008, Loretto and Vickerstaff, 2013).

Germany

Starting in the 1970s, Germany massively expanded the use of early retirement to reduce the labour supply in response to economic stagnation (Buchholz et al., 2013). The most widely accepted analysis of early retirement was produced by Ebbinghaus (2006). What marks Ebbinghaus out from much UK research is setting individual responses to 'push' and 'pull' factors within an institutional context. He recommended reducing take-up of the 6 main pathways out of the labour market before 65 e.g. early statutory old age pensions. He concluded that 'conservative' countries in continental Europe, such as Germany, where the pathways out of work were controlled by social partners, would find it much harder to reverse the policy of early retirement than 'liberal' countries such as the UK where the pathways out of work were less generous. However, contrary to this expectation, when Ebbinghaus and Hofäcker (2013) returned to cross-

national study of Early Retirement they saw significant change by many countries but identified Germany as a particularly successful case of early exit reversal.

One limitation in the data used by (Ebbinghaus, 2006) and (Ebbinghaus and Hofäcker, 2013) was that the calculation of cohort-adjusted relative exit rates relied on macro data and was restricted to male employment because *'female employment rates combine the contradictory trends of increasing labour force participation across cohorts and the early exit from work'* (Ebbinghaus and Hofäcker, 2013 p 810). However, researchers such as Ostner (2010) have described how different female participation in work was in East and West and how it has continued to change since Unification in 1991.

Cross National Comparison

Muller-Camen et al. (2011) carried out a series of interviews with experts to compare age-management practices in Germany and the UK. They found that calls to remove age-discrimination and promote working longer were readily accepted in Germany by both employers and workers representatives, where there was already a high level of security of employment for many workers. They had expected employers in 'liberal' UK employers to respond more quickly to government legislation than 'conservative' Germany. However, they found the reality for many was lengthy negotiations with Trade Unions about preserving early retirement and pension rights. This was confirmed by Schröder et al. (2014) who carried out qualitative research with four matched pairs of British and German organisations. They concluded that the German government seemed to have a greater influence over HR practices than the UK.

Extended Workers

UK

The UK has tended to have a higher proportion of extended workers than many other countries. Smeaton and McKay (2003) found that compared to the working age population, a higher proportion of those working after pension age worked part-time and a higher proportion were self-employed. Those working full-time were in the jobs they held before retirement age. They were over-represented in certain industries including distribution, hotels and restaurants but under-represented in construction and manufacturing. In their qualitative analysis, Barnes et al. (2004) categorised people working after retirement age as workers, professionals/creatives or entrepreneurs. Workers had often been in insecure, low paid employment and needed to continue working to maximise their income in retirement. Professionals/creatives had been self-employed but kept working because they identified with their jobs. Entrepreneurs kept working because they enjoyed self-sufficiency and the freedom of owning their business which they often ran with other members of their family.

In the light of increases in SPA, research by Booker and Sacker (2011) indicates that increases in multiple impairments such as mobility, lifting or manual dexterity for those over retiring age will make it difficult for many to continue to work.

Germany

As a result of its previous policy of early retirement, Germany has tended to have a lower proportion of extended workers 65+ than other countries. However, the increase in retirement age to 67 prompted Unger and Schulze (2013) to investigate the health aspects. They concluded that although overall healthy life expectancy had increased this was enjoyed by all women but only men with a higher income. Men in lower income work seemed to suffer more disease, perhaps because their work was physically harder. This kind of inequality was also found by Hofäcker and Naumann (2015) who suggest that, although increasing numbers are working after 65 in Germany, many low-educated workers keep working simply to make ends

meet. They argue for further research into the reasons why people work longer to design future labour market and pension reforms and avoid a rise in social inequalities.

Cross-National Comparison

By its nature early retirement research is mainly concerned with the 55 to 64 age group. However, Scherger et al. (2012) have compared work past retirement age in Germany and the UK. They analysed trends in employment rates of people over 65 from 1991 and show that rates for men are higher than women for both countries and rates for the UK are higher than Germany for both sexes. They noted that different occupations and industries tend to have different retirement patterns. This led them to suggest that differences in the proportions of occupations and industries between Germany and the UK could be affecting national retirement patterns. Their detailed cross-sectional analysis of data from 2008/9 showed many similarities between UK and Germany in that poor health or receipt of a pension encouraged individuals to retire whereas inadequate income encourages people to continue working. They concluded that the people working after retirement age tend to be either privileged e.g. highly educated/ higher occupational class or poor e.g. in debt, with an outstanding mortgage or divorced.

Hypotheses

The summary of recent policy initiatives in Germany and the UK suggests that both aim to increase the employment rate of older workers and increase the State Pension Age. One difference is that the UK is placing more reliance on getting older unemployed workers than Germany which provides greater employment protection so older workers retain their jobs.

The paper reviews recent UK research which suggests older workers would choose 'gradual' retirement e.g. whereby they change the hours or type of job in preference to continuity e.g. where they stay working in the same job until retirement.

This paper explores two hypotheses

H1: The way to improve employment rates of older workers is through recruitment

H2: The way to enabling older workers to stay in work after retirement age is by 'gradual retirement'

Methodology

Both hypotheses require analysis of employment transitions. To measure employment transitions requires longitudinal data which tracks individuals over a number of years. Three longitudinal panel surveys have been used:

- The British Household Panel Survey (BHPS) (Taylor et al., 2010)
- Understanding Society - the United Kingdom Household Longitudinal Study (UKHLS) (University of Essex - Institute for Social and Economic Research and NatCen Social Research, 2014) and
- The German Socio-Economic Panel (SOEP) (Wagner et al., 2007).

The BHPS ran from 1991 to 2008. Initially, the BHPS included only the nations making up Great Britain (England, Scotland and Wales). Northern Ireland was added in 2001 to cover all the United Kingdom. The addition of Northern Ireland added only a few additional participants and a check of results if NI was excluded from the analysis showed negligible difference. To avoid confusion, data has been labelled UK throughout. The UKHLS started in 2009. BHPS participants were included from 2010.

The SOEP has been running since 1984 and training in cross-national comparisons with the BHPS and UKHLS was provided in 2014 by the University of Essex and DIW (Giesselmann and Liebau, 2014).

There is a lot of cross-national research into employment transitions. A key paper by O'Reilly and Bothfeld (2002) compared BHPS and SOEP in the 1990s to investigate the suggestion from the theory of Transitional Labour Markets (Schmid, 1998) that women could use part-time employment as a bridge back to full-time employment. O'Reilly and Bothfeld (2002) analysed three step transitions e.g. unemployed -> part-time work -> full-time work to show that part-time work was not a bridge to full-time work. They found people seemed to make fewer transitions than theory had suggested. Visual inspection of the transitions made by older workers using sequence diagrams (Brzinsky-Fay et al., 2006) showed that the vast majority were one-way transitions i.e. working -> retirement. So only one step transitions were analysed.

For extended workers the age range was restricted to 65 to 67. This was because the abolition of the Default Retirement Age in the UK was so recent that the impact would not have been experienced by older participants and 67 is the higher retirement age being phased into Germany.

Results

Retention or Recruitment?

The following transitions in working status from one year to the next were calculated for 55 to 63 and 65 to 67: Working -> Working (Retention), Working -> Not Working, Not Working -> Working (Recruitment) and Not Working -> Not Working. The percentages recruited i.e. making the transition from Not Working to Working were negligible. People aged 64 were omitted to make a clear break between those under and over retirement age.

Fig 4 shows that the retention rates both males and females aged 55 to 63 has been increasing faster in German than GB and the UK male retention rate dropped in 2008.

Figure 4. Retention Rates German and United Kingdom panels 1993 to 2013 for people aged 55 to 64

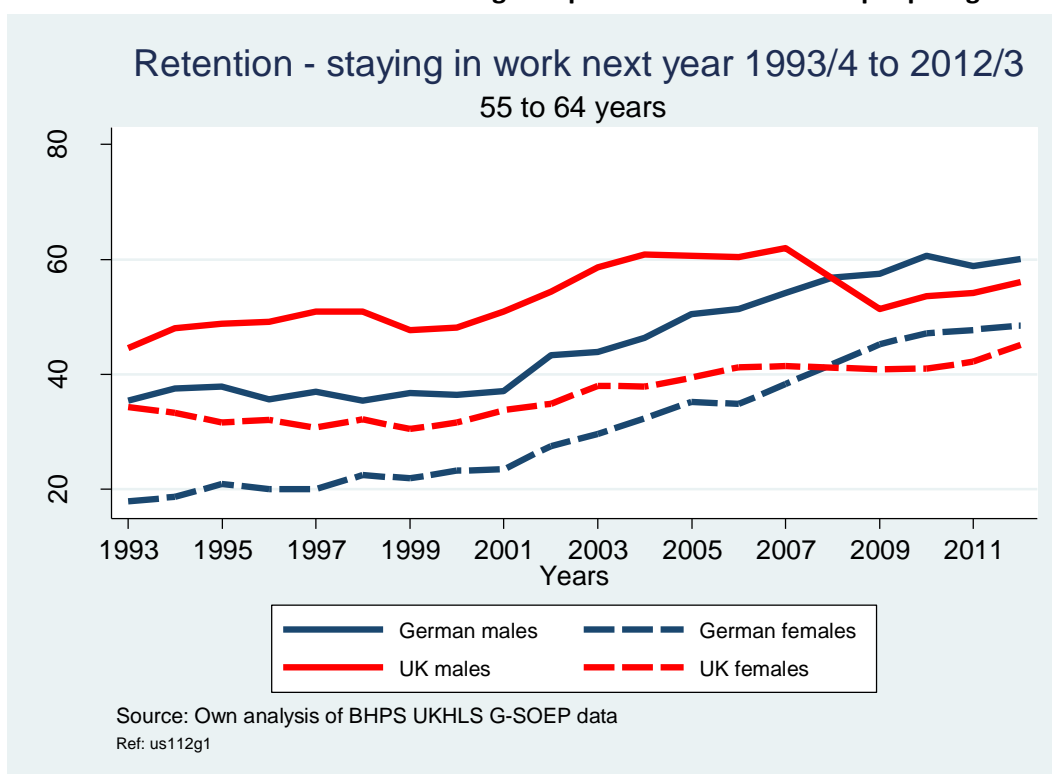
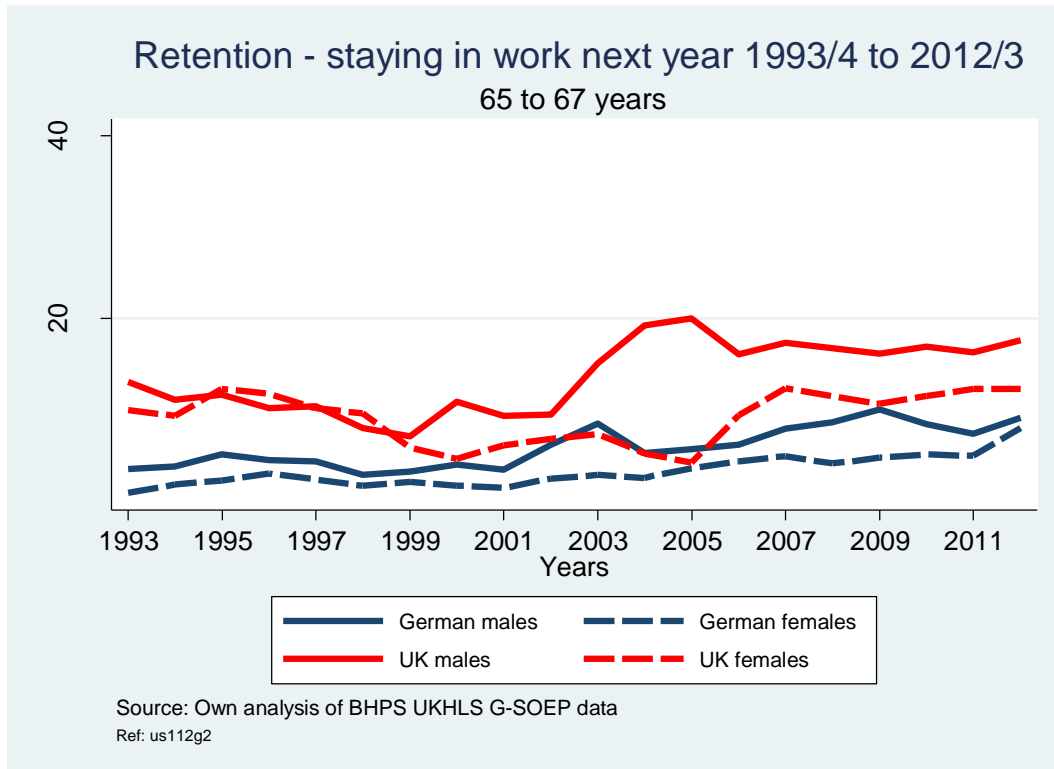


Fig 5. shows that retention rates for 65 to 67 remain higher in the UK than Germany. The changes in retention match the employment rates. This suggests that it is by improving the retention of older workers that Germany has achieved an increased employment rate. The lower 65-67 rate suggests it may be less flexible about working past retirement age.

Figure 5. Retention Rates German and United Kingdom panels 1993 to 2013 for people aged 65 to 67



The conclusion is that the data do not support Hypothesis 1 - The way to improve employment rates of older workers is through recruitment.

Gradual Retirement vs Continuity?

As explained earlier, recent research has been suggested that workers approaching retirement want 'gradual retirement' so they can reduce or have flexibility over their working hours for example allowing them time for caring responsibilities. This has been adopted as part of UK Government policy to extend working lives. This section of the paper seeks evidence about the adoption of this policy to test Hypotheses H2: The way to enabling older workers to stay in work after retirement age is by 'gradual retirement'.

This paper looks at three ways this could be achieved:

- switching from full-time to part time employment or self-employment e.g. to reduce hours
- switching to a lower skilled job e.g. to reduce stress
- changing industry e.g. from production to service to reduce physical demands of the job

Transitions from one year to the next were calculated for the age range 55 to 59. This was considered to be within the age group expressing a desire for flexibility but far enough from retirement for changes to be feasible. The following subsections compare 1993/4 and 2012/13.

Changing Type of Employment

Figs 6 and 7 show percentages changing type of employment from one year to the next. This was categorised into part-time employed, full time employed (30 or more hours) and self-employed and a

comparison made between 1993/4 to 2012/3. Germany has a greater increase in the percentage of both males and females remaining in the same type of employment. However, in both countries the percentage changing to part-time or self-employment is relatively small.

Figure 6. Percentages changing type of employment comparing Germany and United Kingdom 1993/4 with 2012/3 for males aged 55 to 59 derived from panel data

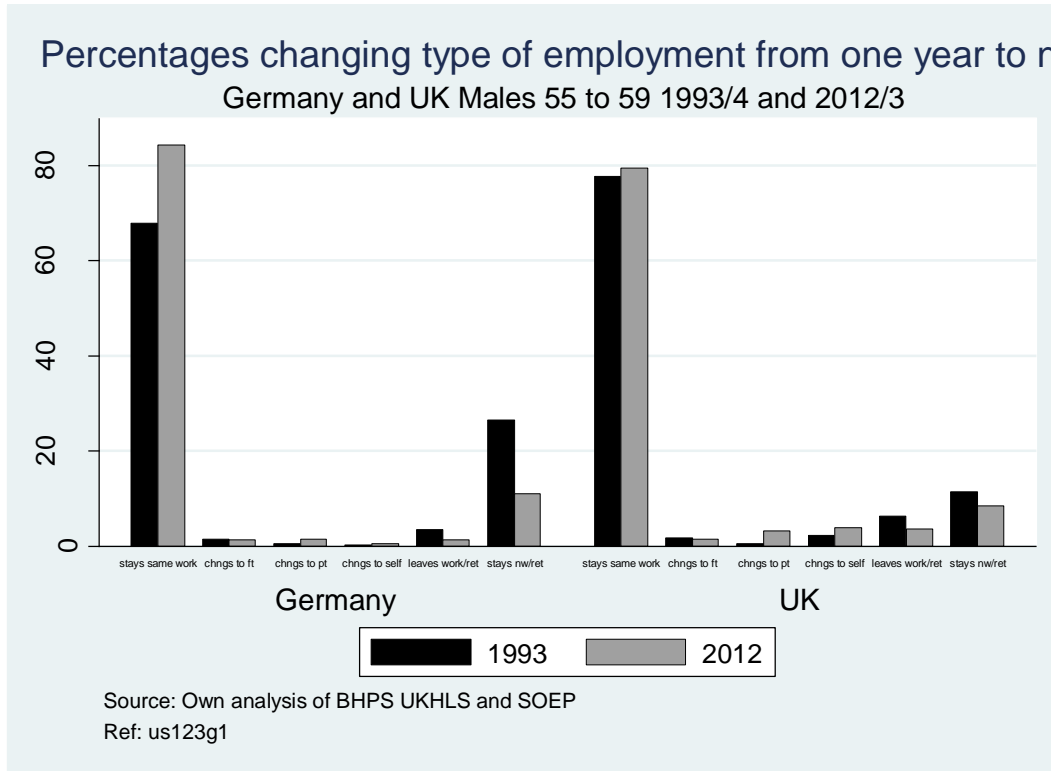
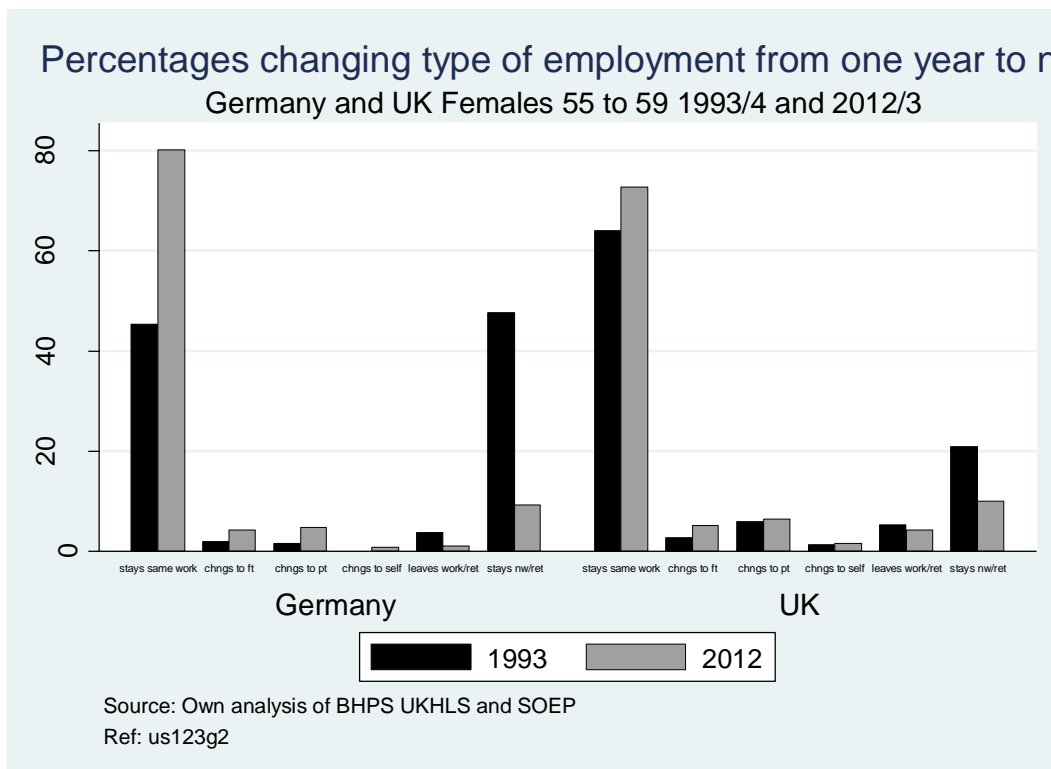


Figure 7. Percentages changing type of employment comparing Germany and United Kingdom 1993/4 with 2012/3 for females aged 55 to 59 derived from panel data



Subsequent analysis of the data which is not included in this paper has indicated that job change is lower for full-time male employees than for either full-time women, part-time employees (predominantly women) or self-employed (predominantly men).

Changing Job Skill

Figs 8 and 9 show percentages changing the level of Job skill from one year to the next. This was categorised into three levels based on the isco-88 classification:

- Low skilled - Skilled Agricultural and Fishery Workers, Craft and Related Trades Workers, Plant and Machine Operators and Assemblers, Elementary occupations
- Medium skilled - Technicians and Associated Professionals, Clerks, Service workers and shop and market sales workers
- High skilled - Legislators, senior officials and managers, Professionals

The comparison between 1993/4 to 2012/3 shows both countries show an increase in the percentage of both males and females remaining in jobs of the same skill level. However, in both countries the percentage changing to a lower skill level remains relatively small.

Figure 8. Percentages changing job skill level comparing Germany and United Kingdom 1993/4 with 2012/3 for males aged 55 to 59

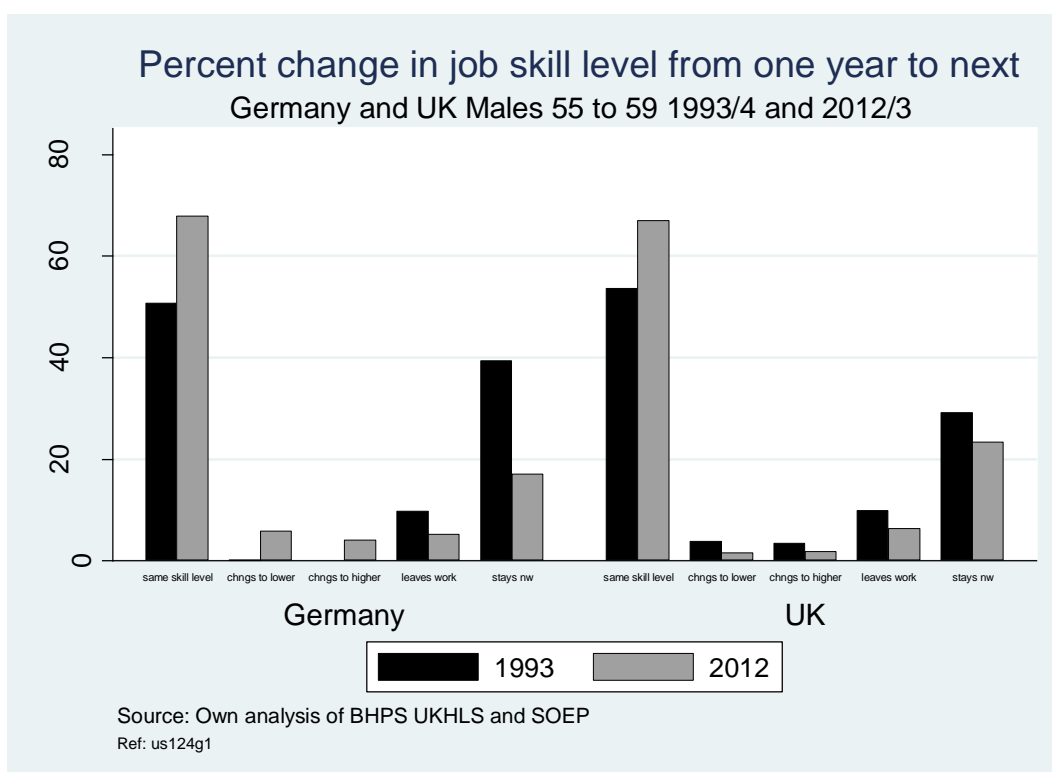
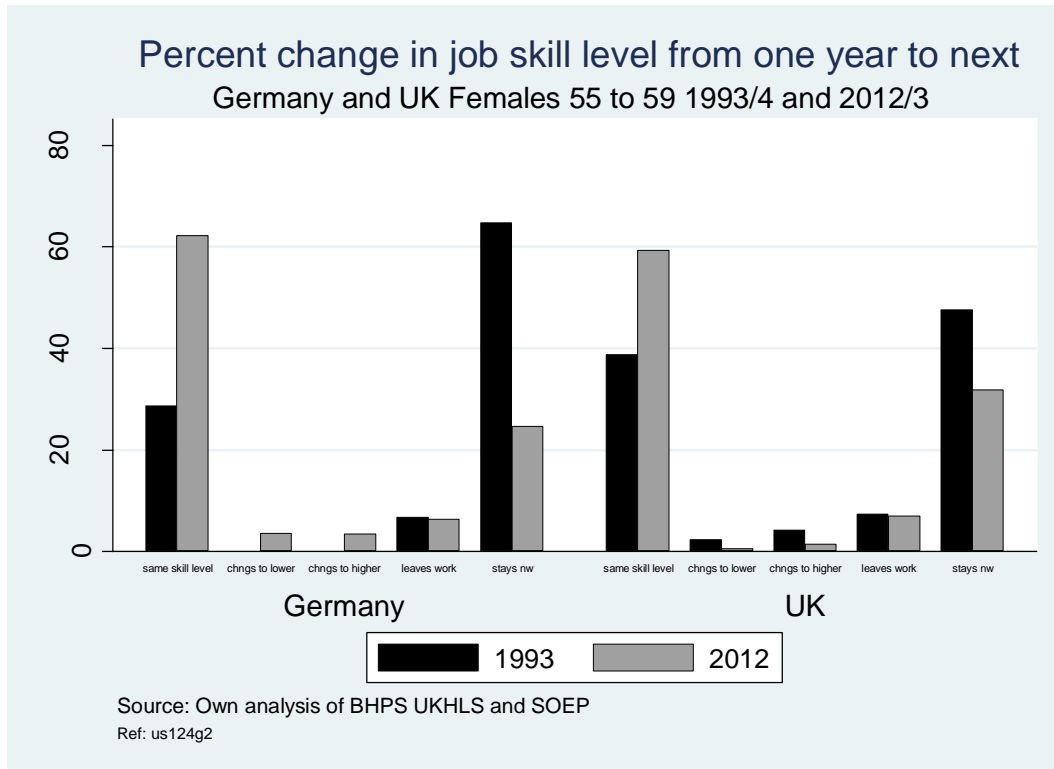


Figure 9. Percentages changing job skill level comparing Germany and United Kingdom 1993/4 with 2012/3 for females aged 55 to 59 derived from panel data



Changing Industry

Figs 10 and 11 show percentages changing Industry from one year to the next. Industry was categorised five ways:

- Agriculture - Agriculture, forestry & fishing
- Production - Mining and Quarrying, Manufacturing, Electricity, gas and water
- Construction - Construction
- Services - Wholesale, retail and repair of motor vehicles, Accommodation and food, Transport and Communications, Financial and Insurance, Real estate, Professional, scientific and technical, Administrative & Support, Public administration and defence; compulsory social security, Education, Human Health and Social, Arts, entertainment and recreation, Other service activities, Activities of Households as employers, Extraterritorial organisations
- Retired/Not Working

The comparison between 1993/4 to 2012/3 shows the percentage changing industry is negligible for both UK and Germany.

Figure 10. Percentages changing industry comparing Germany and United Kingdom 1993/4 with 2012/3 for males aged 55 to 59

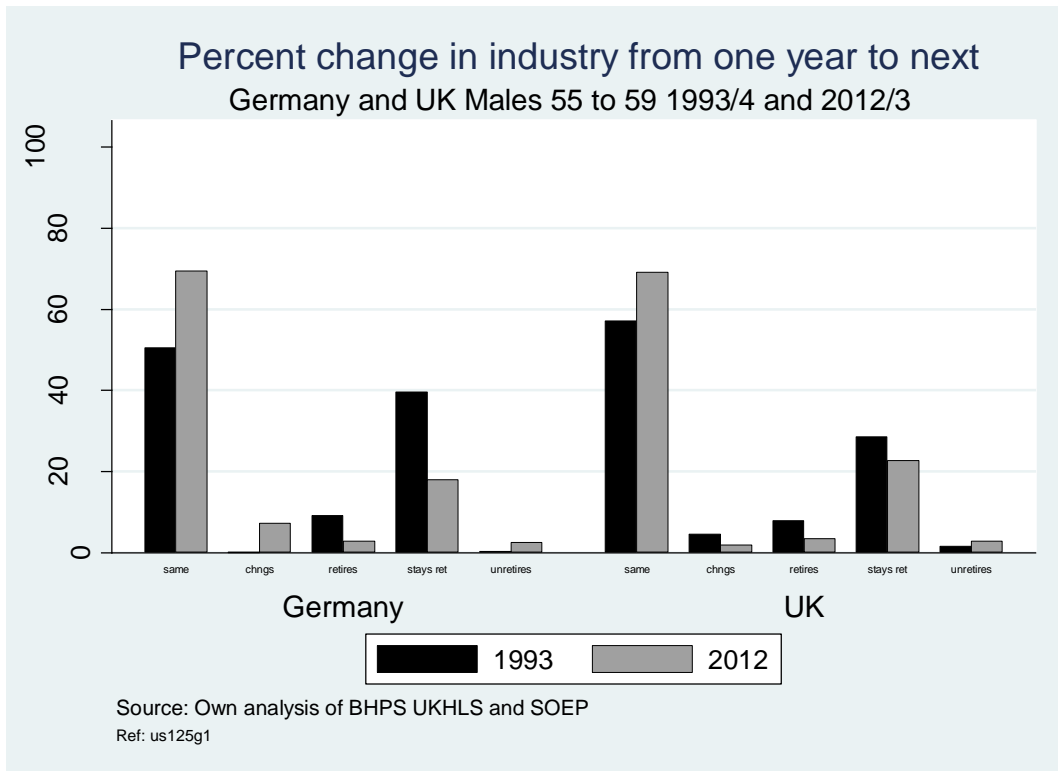
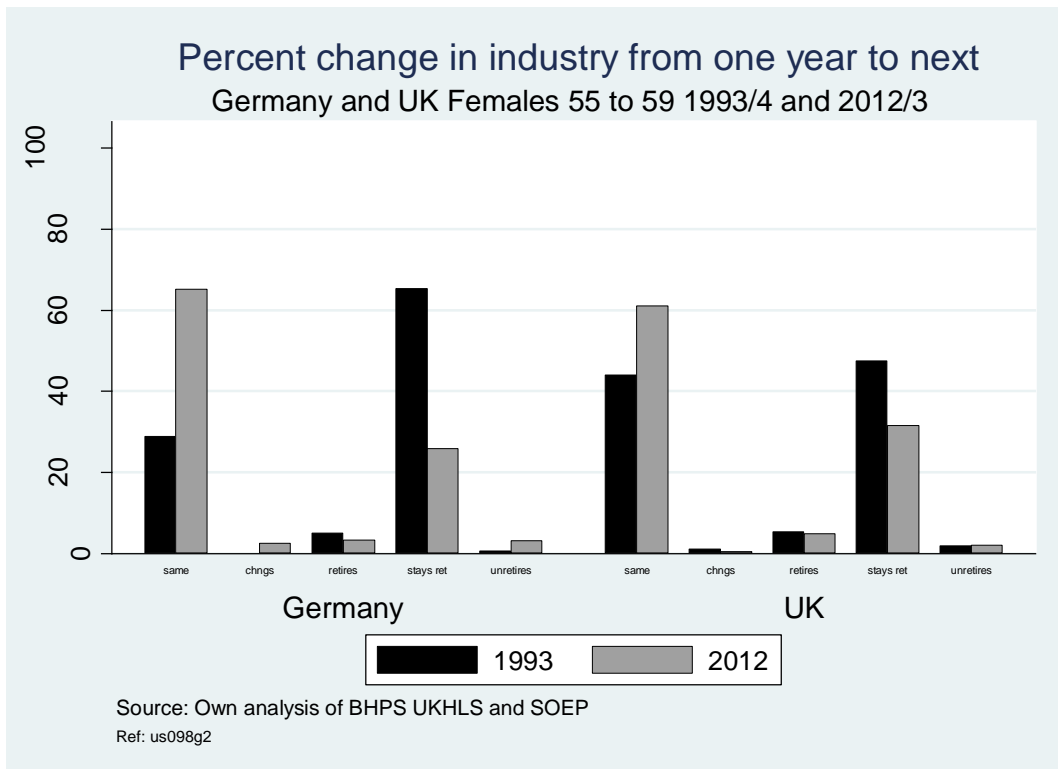


Figure 11. Percentages changing industry comparing Germany and United Kingdom 1993/4 with 2012/3 for females aged 55 to 59



This analysis shows almost all older workers continue in the type of work, at the same skill level and in the same industry until they retire. It is possible that gradual retirement will become a feature of extended working for later cohorts. However, the panel data do not support Hypotheses 2: The way to enabling older workers to stay in work after retirement age is by 'gradual retirement'.

Conclusion

This paper started by asking why the employment rate of older people has been increasing at a faster rate in Germany than the UK?

This was the opposite of what had been expected. Both countries have had policies to extend working life since 2000 but Germany started with very high rates of early retirement. Furthermore one of the most influential studies into reversing early retirement (Ebbinghaus, 2006) predicted 'liberal market economies' like the UK should reverse early retirement faster than the 'conservative' Germany.

This paper suggests that part of the explanation may be that Germany and the UK have quite different policy approaches. The UK tends to place more reliance on getting older unemployed workers back to work and extending working life beyond retirement age through 'gradual retirement'. Germany tends to provide greater employment protection so older workers retain their jobs but expects them to stop work at retirement age. In Germany, extending working life is to be achieved by raising the retirement age and encouraging employers to use age-management to retain workers till the new retirement age. These contrasting approaches fit with the popular characterisation of the UK as a 'liberal market economy' and Germany as 'conservative'.

This paper set out two hypotheses to test these two contrasting policy approaches.

H1: the way to improve employment rates of older people is via recruitment rather than retention

H2: the way to enable older workers to extend the working life is by 'gradual retirement'.

Analysis of longitudinal panel data from 1993 to 2013 showed that for both countries it is retention rather than recruitment that has led to the increasing employment of older workers. It is evident that many older male workers in the UK left following the 2008 recession while workers in Germany appear to have enjoyed greater employment protection. There is therefore no support for Hypothesis 1.

Analysis of employment transitions showed that older workers in both countries tend to continue working with the type of employment, the same job skill level and in the same industry until they retire. This is perhaps more surprising in the UK than Germany as the UK would be expected to have a more flexible labour market. There is no doubting previous research that many older workers want 'gradual retirement'. However, there is no evidence of it in the data analysed so far. There is therefore no support for Hypothesis 2.

The policy implication is that the UK's labour market does not work as intended for older workers and the opportunity of gradual retirement has not yet become a reality.

This paper was produced in the second year of a part-time PhD at the University of Brighton which started October 2013. The next stage of analysis will be to look at the factors that may impact on employment/retirement and compare the employment trajectories for different cohorts.

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