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## Article

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## INTEGRATING OLDER EMPLOYEES INTO THE LABOUR MARKET – EVIDENCE FROM A GERMAN LABOUR MARKET PROGRAMME

BERNHARD BOOCKMANN<sup>1</sup> AND  
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### Introduction

Across countries with different demographic developments and different labour market institutions, age is a considerable risk factor for entry into long-term unemployment. The share of the long-term unemployed among all unemployed over the age of 50 is about one third in Germany, amounting to 590,000 people in July 2015 (Bundesagentur für Arbeit 2015). In 2011, the share of the long-term unemployed among all unemployed was highest for individuals aged 50 and above (42 percent), especially for those aged between 55 and 60 (48 percent). For this age group, 13.5 percent of all unemployed have very long unemployment spells of four years or longer (Bundesagentur für Arbeit 2014). Older individuals can therefore be considered a group among the unemployed with special needs.

This article addresses the question of whether and how active labour market policies (ALMP) can help to shorten older workers' unemployment spells and integrate them into regular employment in the first labour market. After setting out the issues in the remainder of this section, we present recent evaluation results for a large-scale ALMP programme in Germany, which provided intensive coaching and counselling to older long-term unemployed workers. Drawing on results presented in Boockmann and Brändle (2015), we summarise the main policy lessons learned from this programme. We then put these results in the context of international ev-

idence of the effects of ALMP programmes for older workers.

### *Does ALMP help older workers?*

Active Labour Market Policy (ALMP) programmes are designed to provide investments in human capital. Whether or not these investments pay off depends, among other things, on the age of the individual. *Ceteris paribus*, older workers benefit less than younger workers because the period of amortisation is shorter. In addition, the latest findings of empirical literature on the evaluation of ALMP programmes suggest that the largest effects are attained not in the short-run, but in the intermediate and long-run (Card, Kluve and Weber 2010; Lechner, Miquel and Wunsch 2011). Yet there is no long-run with respect to the effects of ALMP for older workers. This could result in older workers leaving the labour force just at the moment when the greatest programme effects should unfold. Hence, it could be more efficient to target the younger rather than the older unemployed.

Another issue is that ALMPs for older workers may be ineffective because employers might not hire older workers, whether trained in ALMPs or not. Ilmakunnas and Ilmakunnas (2015) obtain this as a result of a simulation model and an empirical analysis of a recent Finnish labour market reform. Heyma et al. (2014) use a conjoint analysis with a hypothetical hiring process and derive that hiring probabilities decline with age, particularly after the age of 58. They identify multiple channels: uncertainty about productivity, increasing labour costs, less training effectivity. Older workers also have a less dynamic labour force participation: they change jobs less frequently, but once they become unemployed, their reemployment rate is usually lower than for similar younger unemployed (Heyma et al. 2014).

On the other hand, targeting older unemployed workers may be reasonable if they possess sufficient skills and labour market experience, but have lost the habit of applying for jobs and writing CVs. Job search assistance may be more effective for older than for younger workers in this case.



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The fact that ALMP programmes have rarely been applied to older workers until recently, however, has little to do with a lack of effectiveness or efficiency. In times of high unemployment, it was felt that older workers should leave the labour force early to make their jobs available for younger workers. This rests not only on a logical fallacy, but has failed spectacularly: countries with the lowest youth unemployment often have the highest employment ratios among older workers (Eichhorst et al. 2013).

Many countries have subsidised early retirement or continue to do so. Since ALMP and early retirement programmes target the same group of older workers, problems may arise that these policies are not consistent. For instance, in an evaluation of a wage subsidy scheme, Huttunen, Pirttilä and Uusitalo (2013) find that the programme made part-time early retirement arrangements more costly to employers relative to subsidized full-time employment. Thus, the subsidy was effective in counteracting those early retirement incentives that had been created by other programmes.

#### *Who should be targeted?*

Older unemployed workers differ in similar ways from one another as unemployed workers in other age groups. This raises the question of which (sub) groups in particular should be targeted by ALMPs. In their study of wage subsidies for older workers, Boockmann et al. (2012), for instance, differentiate their analysis according to four population groups: men and women in East and West Germany. Women in East Germany are the only group for whom significant employment effects are found. They explain this by the fact that East German women are a group particularly affected by unemployment. Therefore, the elasticity of labour supply is particularly high in this group and upward pressure on wages as a response to the subsidy is unlikely. At the same time, owing to the policy of encouraging female labour force participation in the former GDR, East German women are often well-trained and have substantial labour market experience so that demand is also elastic. These demand and supply factors lead to relatively large quantity effects.

Apart from skill, gender and local labour market conditions, specific target groups among older workers may be defined by age, health status, migration background and placement obstacles such as psycho-social problems or disabilities. The issue of targeting has been identified as crucial for the integration of the older unemployed;

however, there is too little systematic evidence that provides guidance to employment agencies or caseworkers.

#### *Specific needs of older workers*

Existing studies suggest that training can have a positive impact on the retention of older workers (Picchio and van Ours 2013). This does not mean, however, that any kind of training for older workers will be worthwhile. Rather, the training content must be designed so that the special needs of older workers are taken into account.

Findings from the human resources management literature are relevant here (Zwick 2011). Firstly, it should be noted that older workers have a substantially different motivation for training than younger workers. For older workers, staying in employment is of central importance, while the quality of work and relationships with colleagues also often matter a great deal to them. For younger workers, especially the career motive and income growth are central. Younger workers achieve promotion and a career change more frequently than older workers as a result of training.

As far as age-specific skills are concerned, younger workers are stronger with respect to rapid and flexible handling of new information (fluid intelligence). Mature workers, by contrast, have advantages in terms of experience and factual knowledge (crystalline intelligence). Thus older workers prefer more informal training with a clear reference to practical and current problems in the workplace and not formal courses with theoretical content (Zwick 2011).

#### *Types of programmes*

Assuming ALMP programmes work, are correctly targeted, and designed according to the special needs of older employees, there remains the challenge of choosing between different types of programmes. In the ALMP literature, several types of programmes can be distinguished. Each type of programme has its own advantages and disadvantages, especially with regard to the age of the individuals that participate. The effects of each programme type are discussed in more detail in recent overview articles such as Brown and Koettl (2015), Spermann (2015), or Card et al. (2010).

Job search assistance programmes provide coaching and counselling, activation measures and sometimes incentives like sanctions. These programmes involve intensive counselling, the provision of short-term training

and other services. They are given in addition to regular counselling by placement officers and are often characterised by a higher staff-unemployed ratio compared to regular services.

Short-term training programmes with a duration of up to several weeks are designed to refresh a job applicant's qualifications. They often lead to training certificates. Long-term training programmes like vocational training or occupational retraining may take up to several years. This makes it difficult to offer retraining programmes to older employees. While older workers often lack contemporary, off-the-job skills and, therefore, would benefit from intensive training, these measures are unlikely to pay off due to large costs and lock-in effects.

Wage or hiring subsidies aim to integrate individuals directly into firms. They may be an appropriate tool for integrating older workers with sufficient labour market qualifications and provide an opportunity to update job-specific skills. However, the high fiscal costs of wage subsidies require the employment relationship to be lasting in order for the programme to be efficient.

In many countries, a significant share of ALMP consists of public employment schemes. These are publicly-funded jobs, mostly in the second labour market, aiming at increasing the employability of participants. These measures are relatively expensive and often have severe lock-in-effects and small positive effects on employment in the short- to long-run. It is also unclear whether they pay off, i.e. the potential increase in employability is large enough to catch up with the reduced search effort during the programme. This trade-off is, of course, affected by the potential remaining time in the labour force. It is therefore harder to break even for older employees.

These drawbacks leave policymakers with a reduced toolbox of potential active labour market programmes to offer to older employees. Job search assistance and short-term training programmes are particularly worthwhile, while assigning older workers to long-term training and subsidised employment is often unlikely to be efficient.

### **Evidence from a German labour market programme**

This section presents evidence from the evaluation of the German active labour market programme "Perspektive 50plus" (Boockmann and Brändle 2015).

The programme targets the unemployed recipients of means-tested welfare benefits aged 50 and older, was launched in 2005, expanded in 2008, and prolonged until 2015. The programme is organised in regional employment pacts. The funds are supplied by the German Federal Ministry of Labour and Social Affairs (BMAS) based on the fulfilment of integration targets in previous periods.

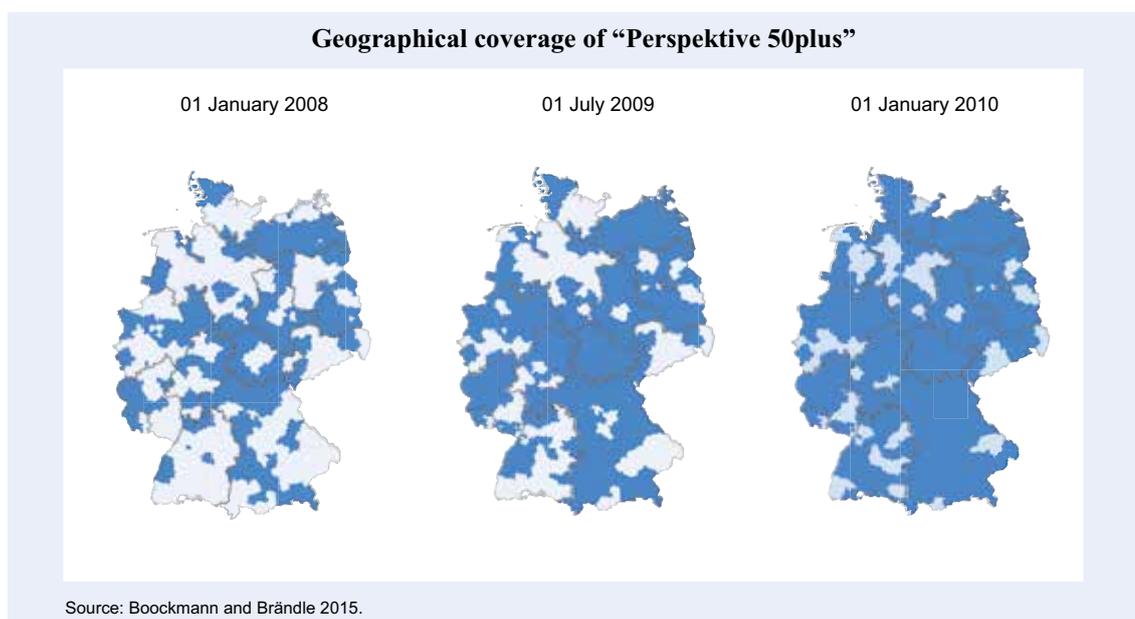
Employment pacts are set free in their choices of measures and organisation of the programme (bottom-up approach). Regarding the set of measures pursued, "Perspektive 50plus" can be characterised as a job search assistance programme. It typically provides coaching and counselling, as well as short-term training and advice in case of problems such as debt, health, and addiction. Other types of measures such as employment subsidies can be provided, but affect only a small share of participants. Hence, the programme is clearly oriented towards integration into regular, unsubsidised jobs.

The causal effects of the programme were estimated using the difference-in-differences method (DiD), propensity score matching, and a combination of both. The DiD approach uses the fact that local job centres have joined the programme in successive steps (see Figure 1, which represents the extension of the programme). A substantial number of job centres joined in July 2009 or January 2010. Hence the DiD estimator is based on the difference in the evolution of integration numbers from 2007 to 2010. On the basis of survey results among job centres, one can argue that accession to the programme was driven by exogenous reasons like existing contacts to job centres that had joined earlier.

Using DiD, we estimate an intent-to-treat effect: the effect of the programme on the potential participants, i.e. unemployed in participating job centres. The control group consists of unemployed in non-participating job centres. The propensity score matching estimations are based on differences in outcomes between actual participants and similar non-participants in non-participating job centres. The data contain a large set of control variables, including detailed information on individuals' employment histories. The DiD matching estimates are based on a DiD estimation on matched samples of participants and non-participants. For details, see Boockmann and Brändle (2015).

Figure 2 shows the estimated effects of participating in the programme on integration into the first labour mar-

Figure 1



ket (unsubsidised employment subject to social insurance contributions) from the DiD matching procedure.

The estimated treatment effect is 4.8 percentage points 90 days after entry into the programme and increases to a maximum of 12.1 percentage points after 16 months in the programme, after which it starts to decline. The matching estimator also yields positive treatment effects; they tend to be even larger than those obtained from DiD matching. The intent-to-treat-effects from the DiD estimator are significantly positive, but smaller than those using individual participation. The implied magnitude for the effect on actual participants (obtained by weighting with the inverse probability of programme participation) is a maximum of five percentage points.

The differences between the effects obtained from matching and DiD can be interpreted as evidence for displacement or substitution effects because the treatment group contains non-participants from participating job centres who may suffer from negative spill-over effects.

In addition to integration into unsubsidised employment, Boockmann and Brändle (2015) looked at the probability of leaving welfare benefit receipt. The effects on this outcome measure are generally smaller and tend to be negative, particularly in the first months of programme participation. Negative effects may be due to reduced exits of participants in other branches of the public welfare system for reasons such as early retirement and invalidity benefits.

Summarising the findings, the evaluation yields large positive effects for older unemployed workers, a disadvantaged and hard-to-place group of the unemployed. Additional results show that both men and women benefit from the programme, although the treatment effects are larger for men. From these results, it appears that assigning older workers to job search assistance may be effective.

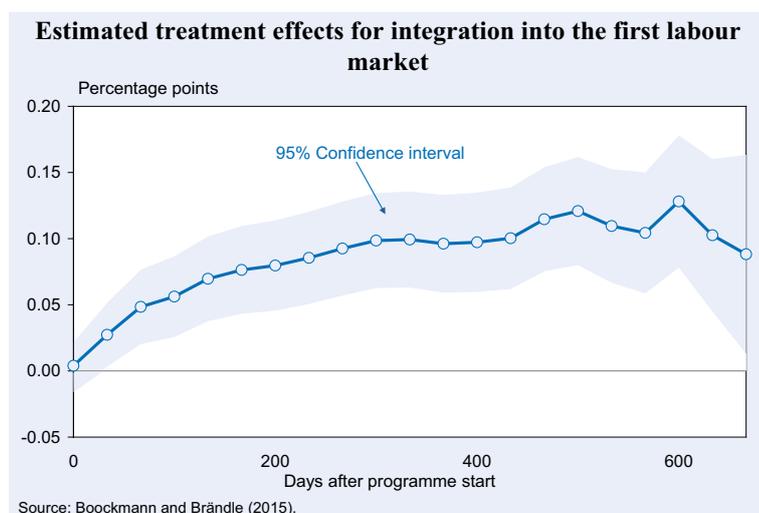
#### **Empirical evidence in existing literature**

Given the vast amount of studies that evaluate ALMP programmes, the literature regarding programmes specifically targeting older individuals is not large. We therefore also compare the results from our evaluation with evidence from ALMP programmes for all groups of workers if subgroup effects for older workers are separately estimated.

#### ***ALMPs for the older unemployed***

Lammers, Bloemen and Hochguertel (2013) use a recent policy change in the Netherlands to study how changes in search requirements for older unemployed individuals affect their transition rates. They find a significant increase in the entry rate into employment for treated individuals of 6 (11) percentage points for men (women). Arni (2010) uses a social experiment for the evaluation of counselling and training policy, especially designed for older workers in Switzerland. He finds that the poli-

Figure 2



cy increases the job finding rate in the treatment group and attributes this change to an increase in job search efficiency of 12 percentage points and a reduction of reservation wages of 40 Swiss Francs. Bollens (2011) analyses the treatment effect of an active labour market programme consisting of job search assistance, counselling and training, for older unemployed in Belgium. He finds significantly higher transitions to employment of about 3.5 to 4 percentage points due to the programme. Thus the positive effects found by Boockmann and Brändle (2015) are no exception.

Romeu-Gordo and Wolff (2011) analyse short-term training measures (from two days to eight weeks) for older workers as part of the German Hartz reforms and find an estimated positive impact of classroom training on employment outcomes for West German men. In-firm training affected the outcomes of all participants positively and the effects are far higher than for classroom training participants.

Hiring subsidies for older workers have been studied for Germany, among others, by Boockmann et al. (2012). They only find positive employment effects for a specific group of unemployed (females in East Germany), while deadweight effects cause the programme to be ineffective for all other groups. This finding, obtained by DiD estimation, substantially deviates from previous matching estimates for all workers amounting to treatment effects of up to 40 percent after 20 months (Bernhard, Gartner and Stephan 2008).

### *Result for older and younger workers*

Most ALMPs do not specifically target groups like older or younger workers, but are available to all groups. For a discussion of targeting, see Eichhorst et al. (2013).

Centeno, Centeno and Novo (2009) analyse the short-term heterogeneous impact of two active labour market programmes composed of intensive job-search assistance and small basic skills training implemented in Portugal, where one subpopulation of unemployed individuals are older employees. Exploiting an ar-

ea-based pilot experiment, they identify average treatment effects on unemployment duration and show that the programme shortens the unemployment duration of older workers, but only to a limited extent. As far as transitions to employment are concerned, the effects on older employees are insignificant. The estimated effects on individuals aged 30 to 40 and among the better educated were slightly better.

Cavaco, Fougère and Pouget (2005) estimate the short-term effects of a French retraining programme for displaced workers. They find mixed evidence regarding the relevance and effects of the programme, mainly because of selection based on observables, i.e. cream-skimming. They find, however, that older participants are less likely to obtain a permanent job and more likely to stay unemployed after the end of the programme.

Heinrich et al. (2013) estimate the impact on earnings and the employment of the two primary adult workforce support and training programmes under the US and find that participants realise improved employment levels and increased average quarterly earnings of several hundred dollars. Older Workforce Investment Act participants (those aged 50 and over) displayed patterns that largely matched the full population.

### **Conclusions**

What lessons can be drawn from the evaluation results for “Perspektive 50plus” and other ALMPs? In general, results show that providing job search assistance to the

older unemployed may be effective for integrating them into jobs. The effectiveness of these programmes is not necessarily weaker than for other age groups. Other policies, such as training and wage subsidies, seem to be less effective for older workers.

The results for “Perspektive 50plus” are even more strongly positive than the results obtained for job search assistance to older workers in other countries. The reason may be that “Perspektive 50plus” is very comprehensive. It includes age-specific measures addressing health problems, a lack of mobility, care obligations and other obstacles for placement. In addition, the programme conveys the message that older unemployed should not withdraw from the labour market, but should continue to seek regular employment. In this respect, it appears that not only older workers, but also employers should be targeted. Existing research results suggest that this approach is successful not only with respect to older workers, but may be extended to all of the unemployed with specific placement needs.

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