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Ageing Workers in Belgium

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Hoger instituut
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1. INTRODUCTION

The ageing process, mainly due to the baby boomers approaching the retirement age, the increase in life expectancy at birth and finally the reduction of fertility rates (Tables 1 and 2¹), is a crucial challenge for the next years. The lengthening of life expectancy contributes to the ageing of the population as a whole. Along with the reduction in fertility rates, it leads to the reduction of the share of young people in the active population as well as to the increase of the share of older workers in it. This implies in its turn that the active population is getting older too.

In the last few years, policies and interventions in Belgium have been aimed at supporting the “right” of older workers to participate in the labour market instead of their right to withdraw from it. Despite some improvements, the situation of people aged between 55 and 64 remains particularly worrying.

While workers aged between 25 and 44 represent the core of the Belgian workforce (with, on average in 2001, employment rates of 90% for men and 74% for women) those aged between 55 and 64 represent a very small part of the active population: 25% of them were employed in 2001 (see the Federal Belgian Minister for Employment and Labour -MET, 2002a). Employment rates further decrease if the individuals have a poor qualification level. Regional disparities should be mentioned too: Brussels has the highest employment rates of people aged between 50-64, while the Walloon Region and Flanders have very similar “low” profiles in this respect.

Inactivity rates are particularly high in Belgium among people aged more than 60 as well as older women. According to MET (2002a), three persons out of five in the 50-64 age group were out of the labour market at the beginning of year 2002. In the age group 55-59, three women out of four were inactive in 2001, while one man out of two was still active. Early retirement schemes and measures for the “older unemployed”, which have been extensively used during almost twenty years, have to be considered highly responsible for this situation.

Finally, few jobless people in this age group were actively looking for a job and long-term unemployment has hit this category severely. The continuous evolution of firms’ needs in terms of qualifications and knowledge exposes older people to a higher risk of unemployment². Being old and unemployed seems to be an important handicap in Belgium, as the difficulty of re-integration into the labour market increases with age.

Improving older workers’ employment patterns in Belgium could contribute to boost the economic growth through an optimal use of the workforce. Furthermore, since a smaller active population will imply, on one hand, fewer people paying taxes and more receiving public benefits, and on the other hand, a higher demand for health and care services, increasing the participation of older workers in the labour market may relieve the burden of an ageing population and eventually contribute to increase the overall well-being.

¹ Tables and Charts are reported in the Annex.

² Admittedly, the exemption of “older unemployed” (50+) from the obligation to look for work, has to a large extent affected the Belgian unemployment statistics for this age group

2. TRENDS AND DEVELOPMENTS ON THE BELGIAN LABOUR MARKET

The Belgian population: the present and the future...

According to the latest Eurostat (2002a) baseline projections, which assume continuation of the existing demographic trends, in the next few years people aged 65 or more will represent an increasing share of the total population in Belgium as well as in the EU (see Table 3). The old-age dependency ratio, often used to assess the ageing process, (Table 4 and Chart 2)³ will therefore increase owing to changes into the current age and gender structure of the population. The actual dependency ratio on transfer incomes is also bound to increase. The joint pension report of the European Commission (2002a), notes that in 2000 it was very high in Belgium because of the low employment rates: for every 100 active workers, 86 others were entitled to a replacement income and 43% of those were aged less than 65. Considering the old-age dependency ratio without accounting for changes (potential and actual) in the labour force is rather useless. By the year 2025, the Belgian labour force will decrease (4.28%) and the ratio of people aged less than 40 to those aged more than 40 will shift from 1.35 to 1.07

The Labour Force: Activity Rates and Employment Rates

While all industrialised countries are characterised by almost stable employment rates of people aged 25-54, those in the age group 55-64 are generally very low. In Belgium, more particularly, activity rates of people aged 55-64 were less than 26% in 2000 (Table 5, 6, 7). As a consequence, their employment rates are very low especially for older women. In the mid-seventies and mid-nineties, policies were mainly aimed at reducing unemployment through interventions on labour supply with the consequence that young entrants and women have been rarely pushed to enter the labour market. Raising the employability of re-entering women and reconciling work and family life is certainly an important objective, because of the higher share of women in the future labour force⁴.

The culture of early retirement....

The Belgian pension system consists of three pillars⁵. The first pillar is a pay-as-you-go system for wage earners composed of a general compulsory scheme covering all salaried workers in the private sector, a scheme for civil servants and finally a scheme for self-employed workers⁶. Second pillar pension arrangements are organised in the form of voluntary pension funds. Third pillar pension provisions mainly take the form of pension savings or life insurance⁷.

³ For an alternative scenario see Lypszyc (2002).

⁴ The gender gap in participation rates is displayed in Table 8 and reaches its maximum level in the age group 50-54.

⁵ See Table 12.

⁶ Each of those schemes has a different method of financing and of computing benefits. However, a common thread is the computation of pensions accounting for a full contributory career (45 years of contributions).

⁷ The democratisation of the second pillar which is rather underdeveloped in comparison with some other countries, has been put on the institutional agenda.

Broadly speaking, a compulsory retirement age does not exist in Belgium. Individuals can opt for early or late exit from the labour market. Sometimes pension income is adjusted to account for the longer (shorter) duration of the working life. Income losses or gains can be more or less neutral and affect therefore the decision to pursue work⁸. In Belgium, the loss in the pension income essentially depends on the length of the previous working life. Besides adjustments accounting for incomplete careers, no other measures exist to prevent early exit.

Very low activity and employment rates of older workers are due, to a large extent, to a well-established early retirement culture. Early retirement schemes can be broadly subdivided in two groups: mandatory collective retirement and individual early retirement schemes. While the former are generally set out within collective arrangements, the latter are the outcome of an individual decision and often operate with the “complicity” of the Belgian unemployment insurance system.

These measures have been, “more or less” officially⁹, developed in Belgium to create jobs for young people, to fight against their unemployment, as well as to allow firms to overcome the structural changes intervened in the economy. The extensive use of these systems is also due to the financial incentives that they offer. For many years, they have been assimilated to a sort of intergenerational solidarity. Furthermore, low-skilled or insufficiently qualified workers were in this way replaced by more qualified or more flexible young workers.

These measures are a financial burden for the federal budget through both missing contributions during the period spanning from early retirement to the normal retirement age and additional costs. Indeed, individuals’ pension rights are essentially unaffected by the decision to retire early or not since for the Belgian social security system, days spent on replacement income count as working periods in the computation of average earnings and activity periods opening the right to the pension (see Jousten 2002).

Early retirement schemes become attractive where no alternative employment is available. The choice to participate in the labour market at the end of the career (as well as in its early stage) depends on various factors, financial and non-financial. Their final impact, and the way in which they affect labour supply, will be a function of the particular response of economic agents to changes in incentives. As a result, individuals will choose one of the alternative pathways out of the labour market: first, a one-time transition from a full-time career job to complete labour force withdrawal. Second, partial retirement (combining retirement from the full-time career job with further employment or various forms of unemployment and disability benefits without withdrawing completely from the labour market). Thirdly, retirement – most often redundancy due to restructuring – combining periods of inactivity (job search and retraining) with periods of work.

Slight decline in the use of early retirement schemes...

The conventional early retirement schemes have undergone a slight decline in recent years and recent discussions and decisions at the government level move into the direction of discouraging them. From Charts 5, 6 and 7, it appears that, while the number of early retired on a full-time basis keeps on decreasing¹⁰, the number of early retired on a part-time basis remains almost constant

⁸ See de Callataj (2002)

⁹ Disability and sickness allowances are not extensively used owing to tight controls and strict medical screenings.

¹⁰ The same trend appears for cross-border workers as depicted in Chart 8.

over time. We also notice that men use early retirement schemes more extensively than women. This is certainly due to regulations about women retirement age as well as to the very low employment rates of the latter from earlier stages of their career. In order to benefit from these schemes, the worker should have reached the age of 58 (60 from this year on) as well as a certain length of working life. Measures aimed at discouraging the take-up of early retirement will have little impact on women, at least for the time being.

Substitutes for early retirement: "Canada Dry" and "older unemployed" schemes

Other pre-existing schemes tend to offset the measures aimed at reducing early retirement. As illustrated in Chart 9, the number of older unemployed steadily grows over time. Obviously workers may lose their job when aged more than 50, however many observers suspect that (part of) the rising trend is due to individual agreements between employers and workers. On some particular conditions a dismissed worker benefits from the status of "older unemployed" and is exempted from the obligation of looking for work – as s/he is no longer available in the labour market¹¹ (see table 9). The "Canada Dry" schemes¹² exploit this status and they are to be considered highly responsible for the present situation on the Belgian labour market.

Canada Dry practices are very similar to conventional early retirement schemes but offer multiple advantages by allowing the employer not to fulfil the specific obligations that are attached to the latter (such as the conclusion of a collective agreement, social contributions on the part of the allowance to be paid directly by the employer, and the obligation of hiring an unemployed person to replace the dismissed worker). A worker who wants to benefit from the Canada Dry system has to be laid off. He/she thus becomes dependent on the unemployment insurance and after one year, from age 50, he/she has access to status of "older unemployed". In most cases, employers lay off older workers wishing to retire and pay them a supplement that is more or less equivalent to the one paid under formal early retirement schemes. Unfortunately, due to the 'informal' nature of the Canada Dry system, no statistics are available until now concerning the extent of its use.

Expenditures on Social Protection and the cost of Ageing

In 1999 (Eurostat, 2002b; 2002c), the overall social expenditures on social protection amounted to 11.6% of GDP in Belgium. The highest share was represented by old age and survivors' benefits (41.8% of total social benefits) and sickness, health care and disability (33.6 %). In the same year, old-age pensions were the main component of pension expenditures (64%) while survivors' and disability pensions accounted for 10.9% and 20.5% of them, respectively (Eurostat, 2002c, 2002d). They are expected to strongly increase by the year 2050 (see tables 10-11) along with health care expenditures.

On the revenue side, employers' contributions have increased from 41.5 % to 49.4 % of total receipts between 1990 and 1999, while the contributions paid by the protected persons have decreased from 25.5 % to 22.4 % of total receipts over the same time-period (Eurostat, 2002b, 2002c, 2002d).

The issue of the financial sustainability of the pension system is therefore critical and should be managed in a way to preserve and to improve its social sustainability. Pensions should thus be "adequate and sustainable" (see European Commission 2002a).

¹¹ See Burnay (2002) for a sociological portrait of older unemployed.

¹² The name 'Canada Dry' refers to an ersatz product for whiskey and, in this context, for conventional early retirement.

For older workers, replacement rates (i.e. the ratio of pension over the average gross wage) of social security pensions relative to earnings and effective tax rates on work are relevant to the retirement decision. Their interaction can result in high “effective tax rates” on continuing work. Nevertheless, for half of people aged 55-64, social benefits are the main income source. For this reason, besides financial sustainability of pension systems, their social sustainability as well as the legitimacy of the provision governing pension systems, play important roles. A decreasing replacement rate carries along a raising risk of poverty and a legitimacy problem: workers with the highest wages would not be willing to keep on paying social contributions while knowing that their own pension will decrease when compared to the contributions they have paid.

In Table 10 we report the long-term projections of the cost of ageing as computed by the Economic Policy Committee (EPC)¹³. The scenarios A2 and B2, which assume higher levels of unemployment and of well being, show that while pensions will remain the main component, the major increase will occur in the expenditures for health care.

Income inequality and the risk of poverty

The European Commission (2002b) remarks that income inequality among Belgian pensioners is high compared to other Member States. Poverty risks - although close to the EU average – are also higher for Belgians aged more than 65 (see Table 11). The general system (first pillar) only guarantees low replacement rates since past earnings are linked to price rather than wages.

The indicators for relative poverty show that the risk of poverty is twice as high for people aged 65 and more. Among older people, people aged 75 and more, as well as women, are worst affected. Since the wage gap between men and women is still high, this will imply a lower level of pensions for female workers and thereby a higher risk of poverty.

According to data extracted from the 1997 wave of the European Community Household Panel (ECHP), 20% of people aged 65 and more, and 22% of people aged 75 and more are below the 60% of the median income (see Eurostat, 2002e) compared to 16% of the total population.

Older people (above 62 or 65 from 2009 onwards) with insufficient income are protected by a social assistance scheme for the elderly, the GRAPA.¹⁴ In 2001, 91,715 older people, i.e. 5.3% of the pensioners, have received it. Almost $\frac{3}{4}$ of them were women and more than half was aged over 75. The distribution of the number of beneficiaries by household type, shows that single women represent the majority of them (44.7%).

Retirement age

Statutory retirement age is 65 (for women 62). However, since life expectancy at birth keeps on rising and the average retirement age keeps on decreasing, the length of the inactivity steadily increases, generating increasing expenditures linked to older age (Table 13 and Chart 10).

¹³Other projections about the cost of ageing can be found in the first report drawn by the Belgian Committee for Ageing (2002). Those are slightly different from those proposed by the EPC owing to the hypothesis retained about life expectancy at birth and the concentration of the migration rate around ages 20-24.

¹⁴ See Table 12 (a) for the description of schemes providing basic income for the elderly as results from European Commission (2002a).

Training and education of older workers

A recent OECD report shows that if the employment rate of men would return to its 1960 level, the ageing process would have no impact on labour supply (see OECD, 2002a). Raising the productivity of older workers through adequate skill-enhancing policies would reinforce this positive effect.

As skills and productivity of older workers decline, training, adaptability to new skills and technology, mobility and wage flexibility gain importance. In their absence, employers might want to avoid the relatively high costs associated with hiring older workers. New technologies modify job and skill requirements and may affect older workers' employment and retirement plans through a potential skill-bias. Moreover, impending retirement reduces their time horizon as they consider whether to upgrade their skills. Some figures about training broken down by level of education and by age group are reported in tables 14 and 15.

3. POLICIES AIMED AT OLDER WORKERS

In recent years Belgium has moved from a situation where the issues raised by older workers were well understood although a coherent, 'holistic' action plan was missing to a situation characterised by a high number of interventions in this field. Although many measures are focused on the reduction of hiring costs of older workers, a rather comprehensive approach was presented in the NAP 2002. Measures are mainly aimed at encouraging workers aged 50 or more to stay on the labour market, at discouraging early retirement, at stimulating "older unemployed" to re-enter the labour market and, finally, at providing incentives to stay in the labour market to individuals aged 45 or more.

Some interventions act on prevention, while others are geared towards raising the participation rates of older workers. Besides measures affecting the retirement age (set at age 65 and equal for men and women in 2009), great importance has been given to the improvement of working conditions and job quality. Policies oriented to stimulating life-long learning seem also to receive increasing attention from policy makers. In addition, the flexibility of work is being considered since it can contribute to lengthen the active life of older workers¹⁵. Moreover, some measures aimed at reducing the financial traps likely to operate at the end of the working life, including incentives to move back into employment and to discourage early retirement - have been introduced. The latter include a progressive reduction of the age of "conventional" early retirement (passing from 58 to 60).

In order to increase the employment rates the intersectoral agreement covering the two-year period 2001-2002, concluded in December 2000, introduced specific measures that apply to workers aged over 45 and to groups 'at risk'. Some of these measures were the right to a 'time credit' (allowing employees to take a period off work or reduce their hours by half, without breaking off the contract of employment and without loss of social security rights); the right to a one-fifth working time reduction; and the right of those aged over 50 to a reduction in working time granting them a specific monthly allowance. The National Labour Council adopted opinion no 1339 on this issue at the same time. Subsequently, the law of 10 August 2001 (which came into force on 1 January 2002) on the reconciliation of work and quality of life enshrined this new system of time credits and reduced working time.

¹⁵ In the same sense see Eurofound (1998)

The national collective agreement n° 77 (December 2001) also introduced, in the health sector as well as in the non-profit sector, arrangements allowing people aged 45 or more to progressively reduce their working time by granting them a full-time wage, or a premium if they decide to keep on working on a full-time basis.

An important feature of Belgium's institutional structure is its fragmentation at different levels of power (federal, community and regional). These levels share the powers concerning employment and training. This decentralisation is also reflected in the consultation of the social partners¹⁶, when drafting the NAP. This process involves a variety of political, technical and administrative participants, co-ordinated by the Federal Minister of Employment. Building on the 2002 Employment Guidelines that promote collective bargaining in the area of « active ageing » (guideline 3), the *social partners* have drafted a major part of Section D of the 2002 NAP - thus demonstrating the commitment of all actors to counter the ageing process.

Nevertheless, greater efforts are needed to achieve the targets set for older workers. In the most recent intersectoral agreement (signed on January 14th, 2003) early retirement schemes have been maintained and no new arrangements aimed at making jobs more flexible have been adopted.

In addition to the measures already mentioned, an important *tax reform* will be gradually introduced from 2002 to 2005 and should, together with cuts in social security contributions, reduce the overall tax burden on labour. The Government has also decided to further improve the net (disposable) income of low-wages workers. Since January, 1st 2003 the disposable income has been raised thanks to additional reductions in employees' social contributions.

Concerning *training*, the social partners have confirmed their commitment to increase the share of the wage bill devoted to continuous training and to elaborate training plans specific to older workers: the 0.10% share affected to groups that are most at risk in the labour market is therefore targeted now at training of older workers (the aim is to bring Belgium up to the level of its three neighbouring countries in 2004, i.e. 1.9%). In 2001 among the 3.911 trainees aged 45 or more, 40.8% were women. In Flanders, work experience programmes for the older unemployed have been extended.

A strong emphasis is now put on measures to *modernise working time and work organisation*. The reduction of working time negotiated individually or collectively (e.g. generalisation of the 38-hour work week as from 1st January 2003) aims at both increasing the number of jobs and improving the quality of jobs by promoting the reconciliation of working and family life.¹⁷

Workers aged 50 or more who opt for a reduction in their working time, will have the opportunity of devoting this "free-time" to training activities or to coaching or mentoring of new workers in the same firms or in the same sector¹⁸. Federal and regional governments support "mentoring" or "coaching" measures through which senior workers act as mentors of new workers. These

¹⁶ In January 2001, the Flemish social partners concluded a two-year (2001-2) agreement relating to employment, which included commitments to increase participation in lifelong training and measures to improve the quality of employment.

¹⁷ An example is given by the "Zilverplannen" in Flanders, aimed at stimulating firms to adopt human resources management strategies coherent with the age of the workers. Firms that promote the integration of older workers will obtain specific financial support (in 2002: 0.185 million Euro).

¹⁸ As an example, at the regional level, the Flemish government and social partners have elaborated within the Flemish Economic and Social Consultation Committee (Vlaams Economisch Sociaal Overlegcomité, VESOC) action plans that aim to a human resource policy based on age: a financial support may be granted to the firms that elaborate actions oriented to discourage early exit from working life.

measures contribute to proportional participation on the labour market for groups that are currently underrepresented: such plans have been drafted for foreign nationals, people with disabilities, women, older workers and former prisoners (of relevance to guideline 7).

A great interest is also granted to *outplacement* measures. An employer firing a worker aged 45 or more is obliged to provide him/her with outplacement services during a period of time proportional to his seniority within the firm. A framework to make this measure operational has been conceived with the national collective agreement n° 82 dated 10th July 2002.

Various other counselling and guiding measures are also being studied in order to individually meet the needs of those workers that are excluded from the labour market when aged.

A *reduction of employers' social security contributions* for workers aged 58 or more has been introduced in the year 2002. Its extension to workers aged 55 or more is currently being discussed with the social partners.

A number of important initiatives have been taken in order to *harmonise* the high number of federal activation measures in the employment sector.

The Government is also addressing the issue of poverty risk among older people. Some measures aimed at increasing the pension levels have been targeted at older pensioners and individuals drawing minimum pension incomes. Since January 2003 the minimum allowance granted to older people has been raised in order to reach the level of the minimum pension income granted to wage-earners workers. Moreover, thanks to the tax reform, pensioners will pay a smaller amount of taxes.

In addition to these measures, from 1st April, 2003 the pensions of all salaried workers and of self-employed workers will increase. On the same date, workers attaining the retirement age will be automatically granted the pension income. In the same sense, as from 1st January 2003, a pension will be automatically granted to people depending on a replacement income when they reach the retirement age.

Finally, in order to discourage the use of Canada Dry practices, employers will be obliged in the future to pay a social security contribution similar to the one imposed in the early retirement schemes. Moreover, from 1st July 2002 workers becoming unemployed when aged 50 or more, have to keep on being registered as job seekers until they are 55. The reduced social security contributions for employers hiring a worker aged 58 (or more) should also raise employment rates of people belonging to this age group.

The measures contained in the "Activa" plan as well as those promoting jobs for people living in specific marginalized regions, share the same objective for individuals aged at least 45.

4. SURVEY OF THE STUDIES ABOUT THE AGEING PROCESS IN BELGIUM

The situation characterising the labour market of the elderly and the consequences of the ageing process have triggered a high number of scientific contributions aimed at investigating the determinants of the retirement decision, taking as a starting point either the demand or the supply

of labour of older workers. A number of studies have also investigated the role that existing (financial) incentives may have in terms of early exit from the labour market. Finally, owing to the the lack of appropriate data, only very few of them have aimed at evaluating the impact of direct measures targeted at raising the employment rates of older workers.

To assess the importance of withdrawal incentives and their impact on replacement rates at the end of the career, some authors have focused on specific measures (e.g. Matheus et al, 2000) while others have tried to investigate more generally the occurrence and eventually the impact of financial traps (e.g. De Lathouwer, 2002; De Greef, 2000; D'Addio and De Greef, 2002).

Among the former, Matheus et al (2000) have shown that policies aimed at reducing labour market participation through social benefits have different effects according to the target group. If the focus is on the working population as a whole (or only on young people), an increase in social benefits for *temporary* withdrawal will have the highest effect in quantitative terms. Conversely, if the policy only aims at older workers a variation in the benefits associated to *permanent* withdrawal will have the best outcomes. Among the studies that have tried to assess whether financial traps affect the participation choice either of low qualified people, or of people having very low disposable incomes, De Lathouwer (2002), De Greef (2000), Nicaise (2001) and D'Addio and De Greef (2002) offer some interesting insights. All these studies agree on the need of sustaining policies targeted at raising the employability of workers and more generally the quality of work, (including policies aimed at reconciling family and working life) in order to reduce the incentives that can give rise to these traps. Finally, in spite of the difficulty linked to their evaluation, the authors acknowledge that non-financial factors may play a crucial role in the participation decision especially among older workers.

The retirement age plays a crucial role in studies about retirement decisions. An individual who wants to leave the labour market before reaching the age opening the right to a full pension income, compares the discounted value of the different options existing in the country. He/she computes the probability associated with each of them and compares the associated marginal gain or loss. The expected gain computed in this way may be seen as an "implicit tax" on continuing work (see Nicaise, 2002). A high number of studies have computed this tax at a more/less aggregate level taking as the benchmark, a system not inducing any actuarial adjustment¹⁹ (see Desmet and Pestieau, 2002). Their objective is usually the investigation of its potential impact on the retirement decision - including retirement age. In a very simple model, Desmet and Pestieau (2002) show that this tax decreases with individuals' productivity.

The contributions of Jousten (2002) and Lozachmeur (2002), show that the implicit tax may strongly affect the retirement decisions. Along the same line, Dellis et al (2001; 2002) note that early retirement schemes - and more generally any Belgian pension scheme - are not neutral with respect to the retirement age. The authors show that a neutral adjustment would be ensured only if the present value of the pension accrual would approach zero. To attain this target, pension schemes should contain a mechanism leading to an adjustment of pension benefits depending on the retirement age; mechanism that existed in Belgium until the early nineties and has been suppressed since then. Interesting conclusions were reached about the present value of pension benefits associated with men and women different behaviours. Dellis et al (2002; 2001) also devote an important part of their studies to the analysis of individuals' retirement decision accounting for the financial incentives computed using their structural model. Again, they find that the Belgian protection system is non-neutral with respect to the age of retirement.

Desmet and Lozachmeur (2002) investigated the retirement choices of married couples. They show that in Belgium, women account for the retirement decisions of their partner, while men don't do that. The results of their simulation exercise (in which they assume a reform raising the eligibility

¹⁹ Implying that the present discounted value of all future benefits would be equal at all retirement ages.

age granting access to all early retirement and retirement schemes) show that not accounting for the spill-over effects generated by joint decisions, leads to the underestimation of the probability of retirement in the post-reform period.

While the previous studies focus on the supply of labour, Paolini (2002) explores the role of labour demand in (early) retirement policies. The author takes as a starting point the work of Lazear (1979) in order to study the optimal wage path and the optimal retirement age set in the (implicit) contract between employer and employee at the beginning of the career. His theoretical model leads to the following conclusion: trade unions and employers may have important incentives in introducing and thereafter maintaining specific retirement and early retirement schemes when wages are increasing with age and firms pay young people less than older workers.

In many countries, workers are indeed paid according to their seniority. In this way, employers try to stimulate young people to stay in the firm and to be more efficient. Indeed, if they leave the firm before having gathered access to higher wages they would not receive the “dividends of this compulsory loan” (see Desmet and Pestieau, 2002). On the assumption of credibility towards future generations, the firm will therefore honour the implicit contract. De Callataÿ (2002) shows that when alternative schemes to break this contract exist, employers don’t hesitate to use them. The author focuses more particularly on the second pillar of the Belgian pension system and shows that it offers further incentives to early retirement both on the employers’ and the workers’ side.

A macro-economic approach is followed by Sneeseens et al (2002). Their study aims at assessing the effect of early retirement schemes in terms of employment creation and destruction. Their conclusion underlines the high cost of measures aimed at reducing the size of the active population even when they are targeted at some specific group of it (e.g. the low skilled). Indeed, the authors show that the long-term effect of this kind of measures is to increase labour costs through either direct or indirect mechanisms and that this effect is quantitatively important. Moreover, despite the fact that they often achieve the target of higher hiring probabilities for young people, these measures carry along a considerable decrease in the overall number of people hired.

Other authors (see Lypszyc, 2002, Burnay, 2002a; Bonsang, et al, 2002) have analysed the well-being, living and health conditions of people having experienced either early retirement schemes or the status of older unemployed. In addition, Burnay (2002b) devotes her study to sociological portrait of older unemployed. While it is certainly true that early retirement schemes still remain an important pathway out of the labour market - especially for some categories of workers (see Vandermeeren and Thyré, 2002) - the extensive use of these measures has not generally led either to the improvement of living conditions of their beneficiaries, nor to a rise in the employment rates of other groups involved.

As a general remark, we can say that only coherent and holistic approaches will be able to deal successfully with the ageing process and its consequences. Raising the employability of workers, counselling them, improving working conditions in addition to the rational use of early retirement schemes can give the best outcomes.

CONCLUSIONS: SOME KEY ISSUES FOR THE FUTURE?

The draft Joint Employment Report (European Commission, 2002a) underlines the need for further integration of inclusion policies and co-ordination between the three Belgian regions and the actors at different levels of government. Although much progress has been made, an integrated ageing

policy is still lacking in Belgium. A coherent approach to the ageing process should begin with higher degree of co-ordination in the statement of objectives. While Flanders has set targets for total employment rates to be reached by 2004 (67%) and by 2010 (70%), the Walloon Region has set a target for the employment rates of women. However, no target has been quantified for older workers. Raising the participation rates of women and older workers remains an important task in Belgium and initiatives that address regional disparities remain limited in scope.

Better evaluation of policies

Evaluation reports of national programmes for ageing workers (e.g. the Finnish one²⁰) are useful tools to understand the programmes' conception, organisation and the results achieved. The number of studies devoted to the evaluation of measures introduced in Belgium is still too low and a major effort should be made in this direction.

A comprehensive vision on ageing

A broader approach to the age issue is needed, as suggested by the High Council for Employment in Belgium (2002). The decision to participate in the labour market is the outcome of different factors. At the end of the career, this choice may also be affected by generous early retirement schemes. The Belgian "Canada Dry" practices should therefore be considered as a serious obstacle to achieve the target of higher participation rates of older people in the labour market. Their (complete) removal would represent a crucial step in the Belgian approach aimed at reversing the consequences of the ageing process.

Finally, only by responding in a coherent way to the different needs of individuals in different life phases, policies can contribute to raise the employment rates, making workers more willing to work, more available on the labour market and more mobile: by favouring a better quality of jobs, and by reconciling family life, working life, leisure and voluntary activities. The theme of a "generation change" should therefore become the key issue for the future²¹.

²⁰ See the report of the Finnish Ministry of Social Affairs and Health (2002).

²¹ Relating to this see the report of the Finnish Ministry of Social Affairs and Health (2002).

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ANNEX: TABLES AND CHARTS

Table 1: Life Expectancy at birth in the EU

	1990	1995	2000
Men	72.7	73.4	74.9
Women	79.4	80.2	81.4

Source EUROSTAT (2002a)

Table 2: Fertility rates in the EU

1990	1995	2000
1.62	1.55	1.65

Source EUROSTAT (2002a)

Table 3: Breakdown by age of the Belgian population (Units x 1000)

<i>Age-group</i>	2000	<i>% Change between the years 2000 and 2015</i>
0-14	1795	-11
15-24	1240	-1
25-54	4,434	-6
55-64	1,042	+36
65 and more	1,712	+17
80 and more	353	+61

Table 4: Old age-dependency ratio in Belgium (Source: The social situation in the EU 2002)

1990	2000	2010
22	26	27

Table 5: Labour Force variation in Belgium (Source: Feld, 2001)

Labour Force		Variation in the labour force		Demographic effect	Behavioural effect
2000	2025	Absolute figures	%		
4,345,953	4,159,787	-186,166	-4.28	-9.63	5.34
Breakdown by sex					
		Male and female labour force (in %)		Ratio -40/+40	
		2000	2025	2000	2025
Men		57.0	55.2	1.35	1.07
Women		43.0	44.9		

Table 6: Activity rates and employment rates of older people in the EU (Source European Commission, 2001)

2 Activity rates and employment rates of older people 1995 and 2000								
COUNTRY	55-64				45-54			
	1995		2000		1995		2000	
	ER	AR	ER	AR	ER	AR	ER	AR
A	29.0	30.2	29.2	31.4	73.9	77.2	76.7	80.7
B	23.3	24.2	25.0	25.9	64.7	69.0	68.6	72.2
D	37.8	42.8	37.4	42.9	75.4	81.9	77.7	84.3
DK	49.3	53.6	54.6	56.9	80.0	84.9	82.6	85.5
E	31.8	36.3	36.6	40.7	55.8	64.7	62.1	68.4
FIN	34.4	39.6	41.2	45.5	74.9	85.0	81.7	88.0
F	29.4	31.4	29.3	31.6	75.8	82.6	77.5	83.8
EL	40.5	41.9	39.0	40.6	63.5	66.6	65.9	69.7
IRL	39.7	43.0	45.1	46.3	57.0	63.5	67.5	70.2
I	27.0	28.3	27.3	28.6	61.1	64.1	64.3	67.5
L	24.0	24.0	27.2	27.6	65.8	67.1	71.9	72.7
NL	28.8	29.9	37.9	38.6	69.0	72.7	75.6	77.5
P	45.5	47.4	51.7	53.5	73.6	77.4	76.8	79.2
S	63.1	68.1	64.3	68.4	88.2	93.0	84.3	88.3
UK	47.6	51.5	50.5	52.8	77.2	82.3	78.7	82.0
EU	35.7	38.9	37.5	40.6	70.8	76.4	73.7	78.5

Source: Eurostat, LFS
Note: Activity rates (AR) and employment rates (ER) presented in this table are based on the European Community LFS and might therefore differ slightly from those presented in the text which are based on the QLFD series (see Data Sources in the Annex).

Table 7: Employment and Unemployment Rates of Belgian men and women

	1990	1995	2000	1990	1995	2000
	Men			Women		
Employment Rates EU (2001)						
15-64	68.7	67	69.5	42.9	45.1	51.4
15-24	35.1	30.7	32.8	29.9	24.3	25.4
25-54	88.6	86.2	87.3	56.4	60	67.2
55-64	33.5	33.5	36.4	10.6	12.9	16.6
Unemployment Rates						
15-24	10.1		12.9	19.2		18.2
25-54	4.0		4.6	10.3		7.4
55-64	3.1		3.4	5.0		2.8

Table 8: Gender-gap in participation rates in the EU (Source: European Commission, 2001)

	Gender-gap in participation rates in the EU by 5-year age groups in 2000										
	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	15-64
A	11.7	7.2	8.6	15.5	17.2	18.8	17.5	24.2	37.8	9.2	17.5
B	2.8	9.7	9.6	14.0	17.3	18.4	24.4	30.9	28.9	11.6	17.2
D	7.3	6.8	13.2	19.0	18.2	15.4	14.9	18.7	20.5	16.9	15.8
DK	2.8	10.2	9.5	10.4	5.8	2.3	7.4	6.9	15.3	15.7	8.2
E	6.0	8.4	11.3	25.3	30.2	32.7	39.6	47.5	47.5	26.7	26.4
FIN	-2.8	8.9	13.7	13.9	6.7	2.8	0.1	1.6	-2.6	5.5	5.3
F	7.5	7.6	13.2	17.4	16.0	14.7	16.0	17.4	12.3	0.8	12.8
EL	2.6	11.8	20.9	26.1	30.5	33.6	40.3	45.3	40.7	24.7	27.4
IRL	8.0	11.4	10.1	23.9	29.5	31.2	33.0	38.8	38.9	34.2	23.4
I	4.9	12.0	18.3	29.3	31.7	36.5	40.0	41.4	29.2	22.8	27.6
L	3.9	10.4	9.8	25.1	33.7	31.8	37.5	40.0	37.1	4.0	24.7
NL	1.4	3.8	12.7	18.2	20.8	21.4	21.8	30.4	31.1	15.4	18.3
P	7.0	12.3	8.4	13.5	12.2	17.2	19.0	26.3	24.8	18.1	15.2
S	-4.9	7.1	4.5	5.6	3.7	1.6	3.6	3.2	7.1	6.8	3.8
UK	1.9	13.6	17.3	19.6	18.3	13.8	10.8	13.5	17.1	24.4	15.2
EU15	5.1	9.6	14.1	20.5	20.9	20.4	21.7	25.3	24.5	17.5	18.3

Note: It refers to the difference in percentage points between the participation rate of males and of females in each of the different age-groups.

Source: Eurostat, LFS.

Table 9: Breakdown by age of older unemployed in Belgium, 1992-1998 (source : MET, 2002b) - Men

	1992	1993	1994	1995	1996	1997	1998	('98-'92)
								%
50 - 55 ans	32 304	32 310	32 530	32 493	34 833	39 452	42 490	31,5
55 - 60 ans	73 275	73 329	74 386	78 259	79 832	75 435	70 754	-3,4
60 ans et +	92 271	93 959	95 082	92 382	90 929	89 429	88 868	-3,7
Total	197 850	199 598	201 998	203 134	205 594	204 316	202 112	2,2

Women

	1992	1993	1994	1995	1996	1997	1998	('98-'92)
								%
50 - 55 ans	31 382	31 254	32 495	34 671	37 928	43 114	48 298	53,9
55 - 60 ans	37 677	38 342	39 851	40 872	41 427	41 735	42 161	11,9
60 ans et +	1 066	1 585	1 228	1 081	903	2 564	5 844	448,2
Total	70 125	71 181	73 574	76 624	80 258	87 413	96 303	37,3

Table 10: The cost of ageing as computed by the EPC (Source: European Commission, 2002a)

Budgetary cost of ageing	2000	2050	Change 2000-50	Public finance	2000	2050	Change 2000-50
Pensions	8.7	11.8	3.1	Primary surplus (no change in policy)	7	1.6	-5.5
Health care	6.2	9.3	3.1	- Budgetary cost of ageing			-3.4
Other social security expenditures	7.3	5.0	-2.2	- Other factors (tax reform,...)			-2.1
Education (salary)	4.3	3.7	-0.5	Interest charges of public debt	7	1.2	-5.8
Total	26.4	29.8	3.4	Budget balance	0	-1.2	-1.2
				Public debt	112.9	21.7	-91.2

Table 11: The cost of ageing and other statistics (European Commission, 2002a)

Long-term projections of public pensions spending (EPC 2001)												
	Level			% increase 2000-50	Level			% increase 2000-50				
	2000	2020	2050		2000	2020	2050					
Old-age dependency ratio ²	25,5	32,7	45,0	78,0	24,2	32,2	49,0	100,0				
Public pensions expenditure, % of GDP ³	10,0	11,4	13,3	33,0	10,4	11,5	13,3	27,9				
Factors determining the evolution of public pensions expenditure (2000-2050) ³	Contribution to change in percentage points of GDP				Contribution to change in percentage points of GDP							
<i>Demographic dependency</i>					5,2							
+ <i>Employment</i>					-0,9							
+ <i>Eligibility</i>					0,9							
+ <i>Level of benefits</i>					-2,0							
= <i>Total (including residual)</i>					3,3							
ESSPROS Pensions expenditure ⁴ (1999)					11,6							
Recent income situation (1999 ECHP data)												
	Total		Men		Women		Total		Men		Women	
	0-64	65+	0-64	65+	0-64	65+	0-64	65+	0-64	65+	0-64	65+
At-risk-of-poverty rate ¹ (at 50% of median)	6	12	5	11	7	12	11	12	10	9	12	13
At-risk-of-poverty rate ¹ (at 60% of median)	11	22	10	20	13	22	17	20	17	17	18	22
Inequality of income distribution ¹	4,1	4,3					5,1	4,5				
Income of people aged 65+ as a ratio of income of people aged 0-64 ¹	0,76		0,77		0,76		0,88		0,92		0,86	
Notes:												
1. Source: ECHP-UDB, Eurostat, version December 2002. Data for the UK is provisional. The weights for the Spanish data will be revised. Data for Sweden only cover persons aged less than 85; see methodological note.												
2. Source: EUROSTAT, demographic projections. Number of people aged 65 years and over as a percentage of people aged 15-64.												
3. Source: Economic Policy Committee, Report on 'Budgetary challenges posed by ageing populations', 24 October 2001; see methodological note.												
4. Source: ESSPROS, EUROSTAT; see methodological note.												
5. Source: European Labour Force Survey, 2001.												
6. Source: European Labour Force Survey, 2001. Calculation method still under discussion.												
7. Source: European Commission, DG ECFIN.												

Table 12: Some characteristics of the Belgian pension system (European Commission, 2002a)

a) *Income guarantees for older workers*

Income guarantees for older people				
	Type of income guarantee	Amount	Means-test	Coverage
B	Minimum pensions (minimum 30 years insured full-time employment)	Depends on career length. Max. per year for salaried worker: € 11793.71 (household) or € 9438.10 (single), for self-employed worker: € 9401.16 (household) or € 7050.60 (single). Automatic price indexation.		1/3 of pensioners
	Minimum pension entitlement for each career year (minimum 15 years of employment; at least 1/3 of full-time)	Calculated on the basis of minimum guaranteed pay for a 21-year old (€ 1163.02 per month).	Entitlement only if total monthly pension does not exceed € 1084.53 (household) or € 867.63 (single).	
	Social assistance for the elderly over 62 (65 from 2009 onwards) (GRAPA)	Per year single € 7163, couple € 4775.40 (per individual) Linked to prices (discretionary adjustments possible every two years).	Household income and wealth	

Scope for policies to ensure sustainable pensions						
Employment (2001)	Total	Men	Women	Total	Men	Women
Employment rate (15-64) ⁵	59,9	69,1	50,5	63,9	73,0	54,9
Employment rate (55-64) ⁵	24,1	34,4	14,3	38,5	48,6	28,8
Effective labour market exit age ⁶	58,1	58,5	57,3	NA	NA	NA
Public finances (2001) ⁷						
Public debt, % of GDP			107,6			62,8
Budget balance, % of GDP			0,4			-0,8

b) *Flexibility in retirement*

Flexibility in retirement in general first-pillar schemes (Source: MISSOC)				
	Early Retirement	Standard Retirement	Deferred Retirement	Accumulation with earnings
B	From 60 (subject to 28 years of employment to be raised to 35 by 2005)	Men: 65 Women: 62 (65 in 2009)	No deferred pension	Pension reduced if annual earnings exceed a certain amount which is higher after age 65.

c) *Contribution rate as a % of wages*

	Contribution rate, % of wages ¹	Observations ²
B	37.94% (social security) Employer: 24.87% Employee: 13.07%	Means-tested minimum pensions are financed by taxes. The contribution rate covers all branches of social security. Currently, the social security system runs a deficit. A subsidy of 2.6% of GDP from the state budget to the social security system was required in 2000. This will increase to 5.5% of GDP by 2050.

1 Source: European Commission, MISSOC 2002. The rates apply to the general, first-pillar social protection schemes. In many Member States, there are floors or ceilings for earnings which are subject to contributions. Rates may also be different for the self-employed.

2 The observations are based on the information given in the national strategy reports.

Table 13: Average age of withdrawal from labour market in Belgium, 2000/2001 (European Commission, 2002a)

Men	Women	Total
58.5	57.3	58.5

Table 14 Educational attainments of the population aged 50-64 in Belgium, 2000 (Eurostat, 2002d)

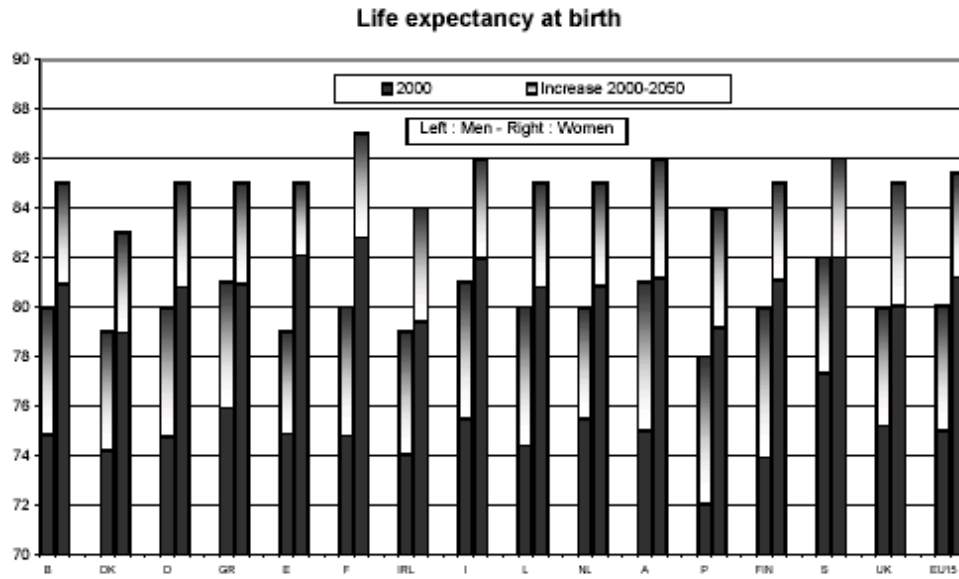
	Men & Women	Men	Women
25-29			
Less than upper secondary	19.8	22.4	17.2
Upper Secondary	42.5	43.6	41.3
Tertiary Education	37.7	34.1	41.5
30-49			
Less than upper secondary	37.2	39.7	34.7
Upper Secondary	33.2	31.9	34.5
Tertiary Education	29.6	28.4	30.8
50-64			
Less than upper secondary	58.6	55.3	61.8
Upper Secondary	23.0	24.5	21.5
Tertiary Education	18.4	20.2	16.7

Table 15:Percentage of the Belgian population, having participated in education or training in the last four weeks, 2000

Age-group	%
25-64	7
25-34	11
35-44	8
45-54	5
55-64	2

CHARTS:

Chart 1: Life expectancy at birth (European Commission, 2002a)



Source: EUROSTAT Population projections - Baseline scenario

Chart 2: Old age dependency ratio (source: European Commission, 2002a)

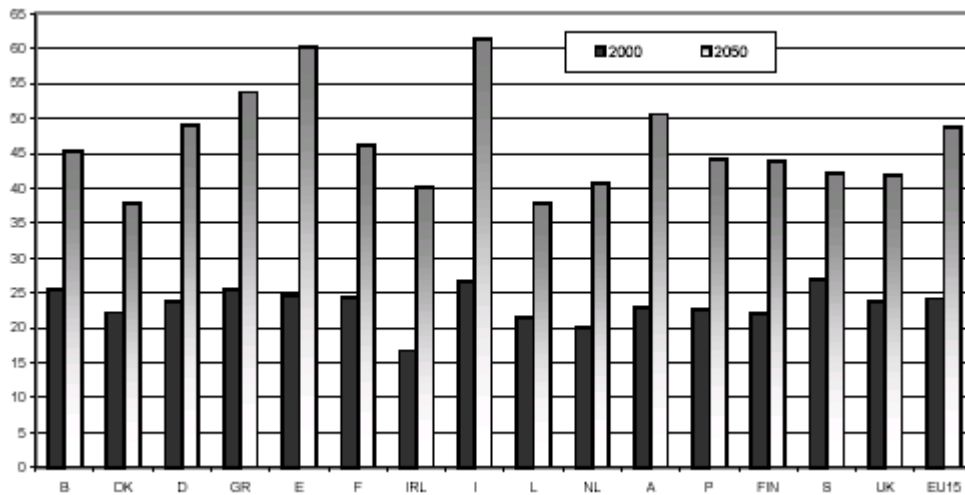
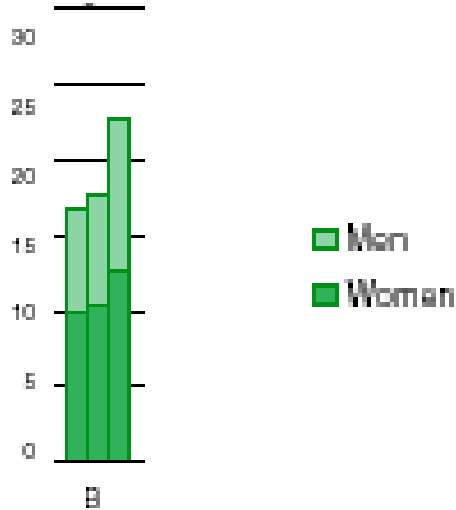
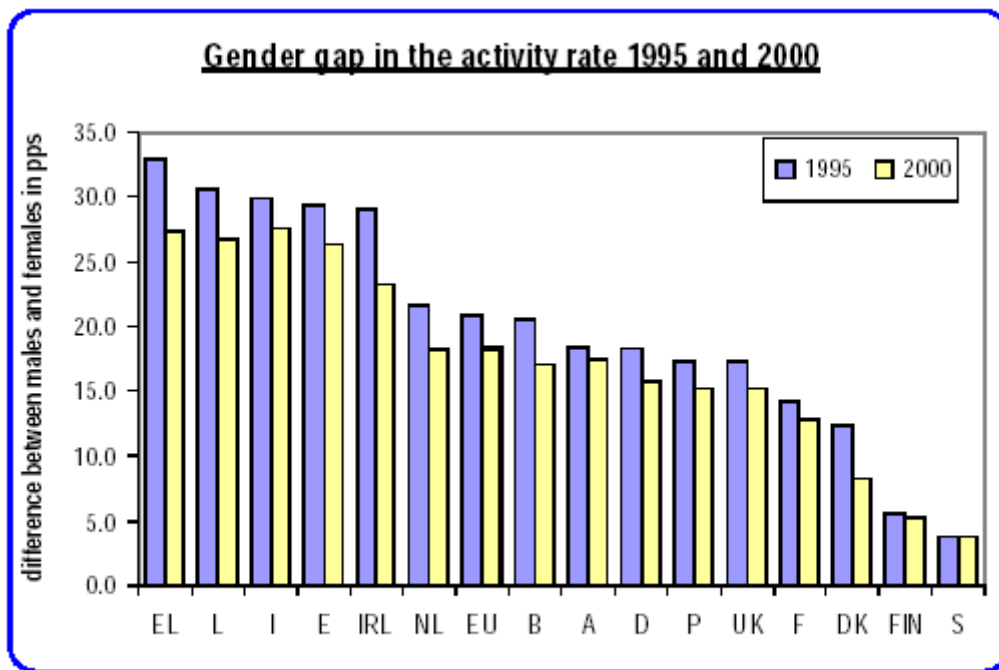


Chart 3: Men and Women aged 65+ in relation to the total Belgian population, 2000, 2010 and 2025



Source: Eurostat, 2002e

Chart 4: Gender Gap in the activity rates in Belgium (source European Commission, 2001)



Source: Labour Force Survey, Eurostat.

Chart 5 : Conventional Early Retired (Full-Time) and Older Unemployed in Belgium
(Source NEMO²²)

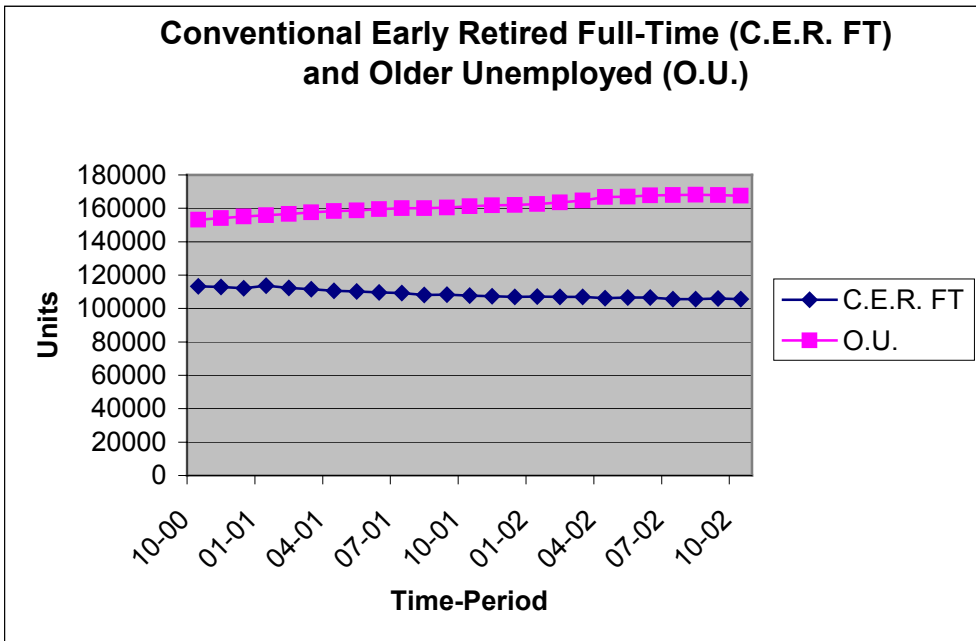
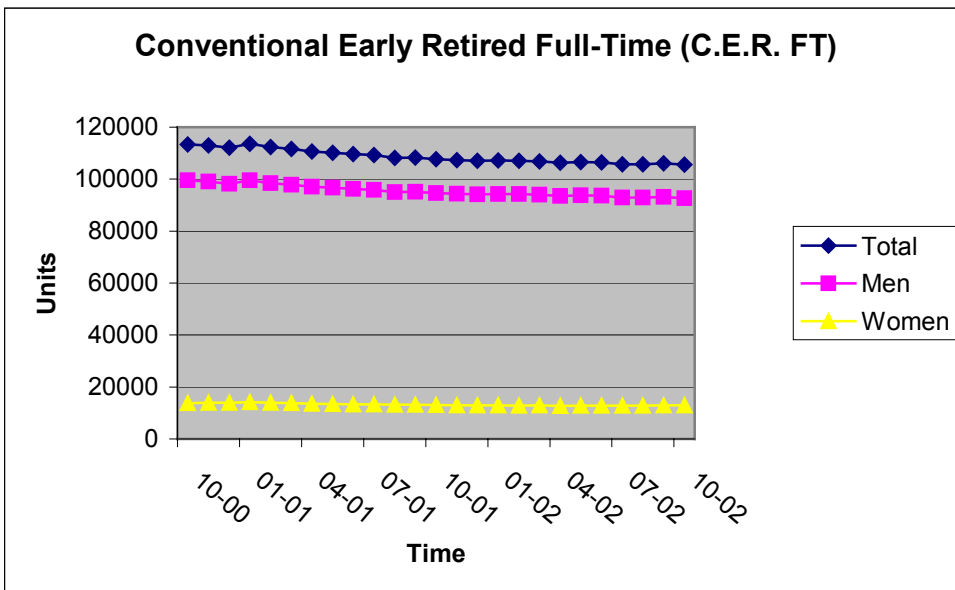


Chart 6: Conventional Early Retired (FT) in Belgium



²² National Employment Office of Belgium.

Chart 7: Conventional Early Retired (Part-Time) in Belgium

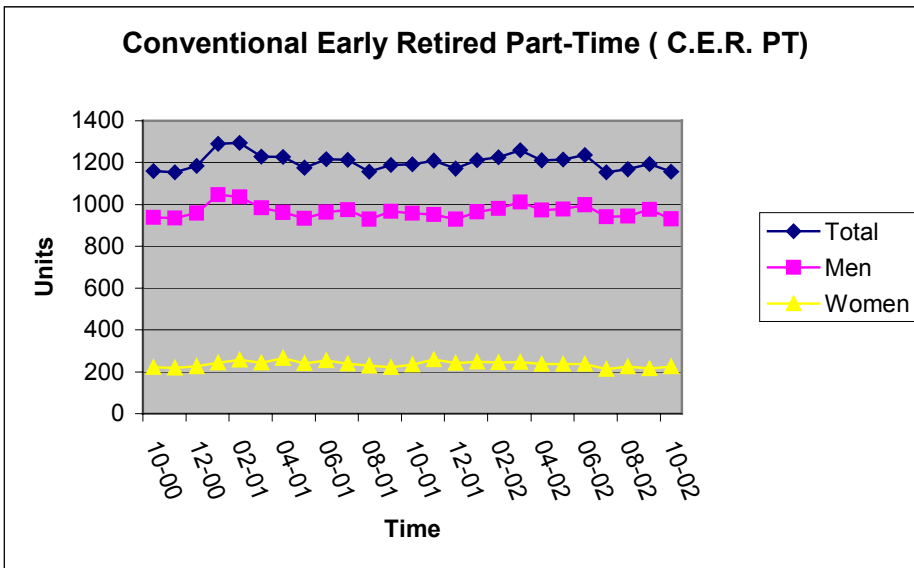


Chart 8: C.E.R. for cross-border workers in Belgium

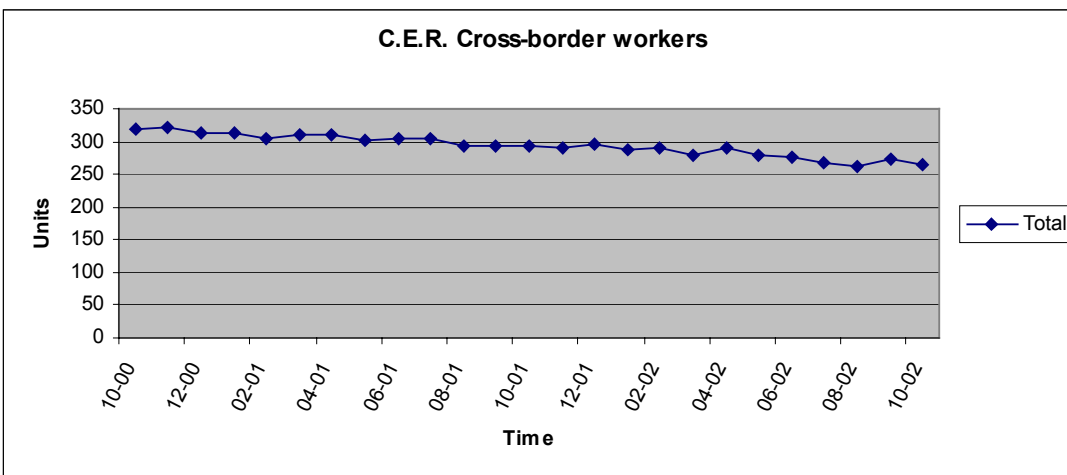


Chart 9: Older unemployed in Belgium

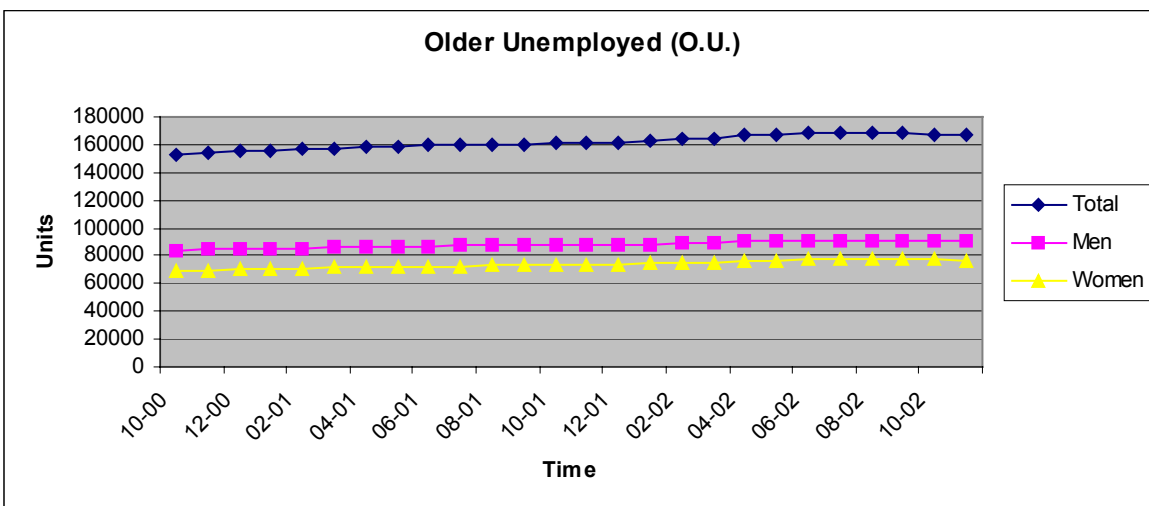
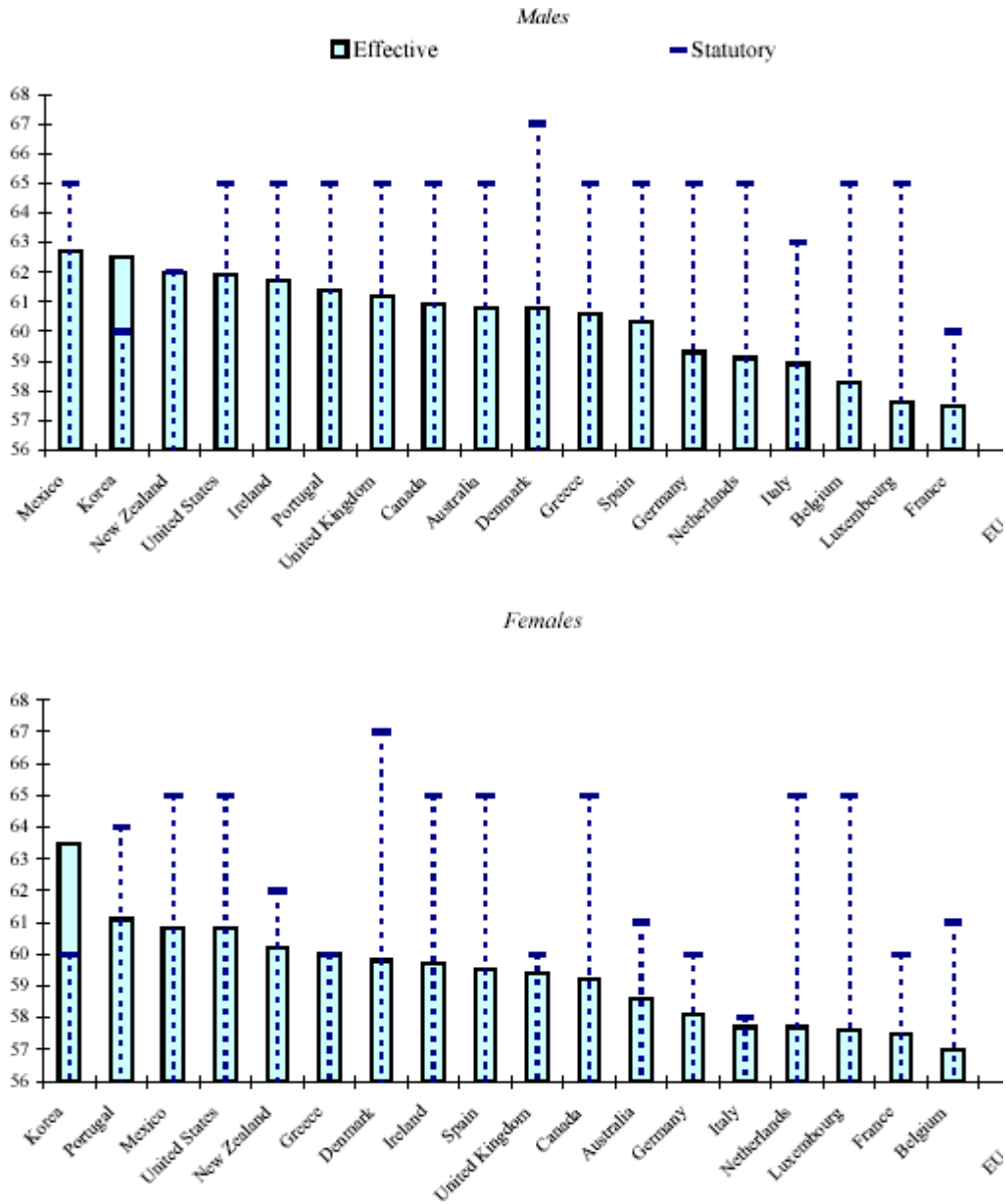


Chart 10: Effective and statutory retirement ages (source OECD, 2002a)



Source : OECD database on older workers.