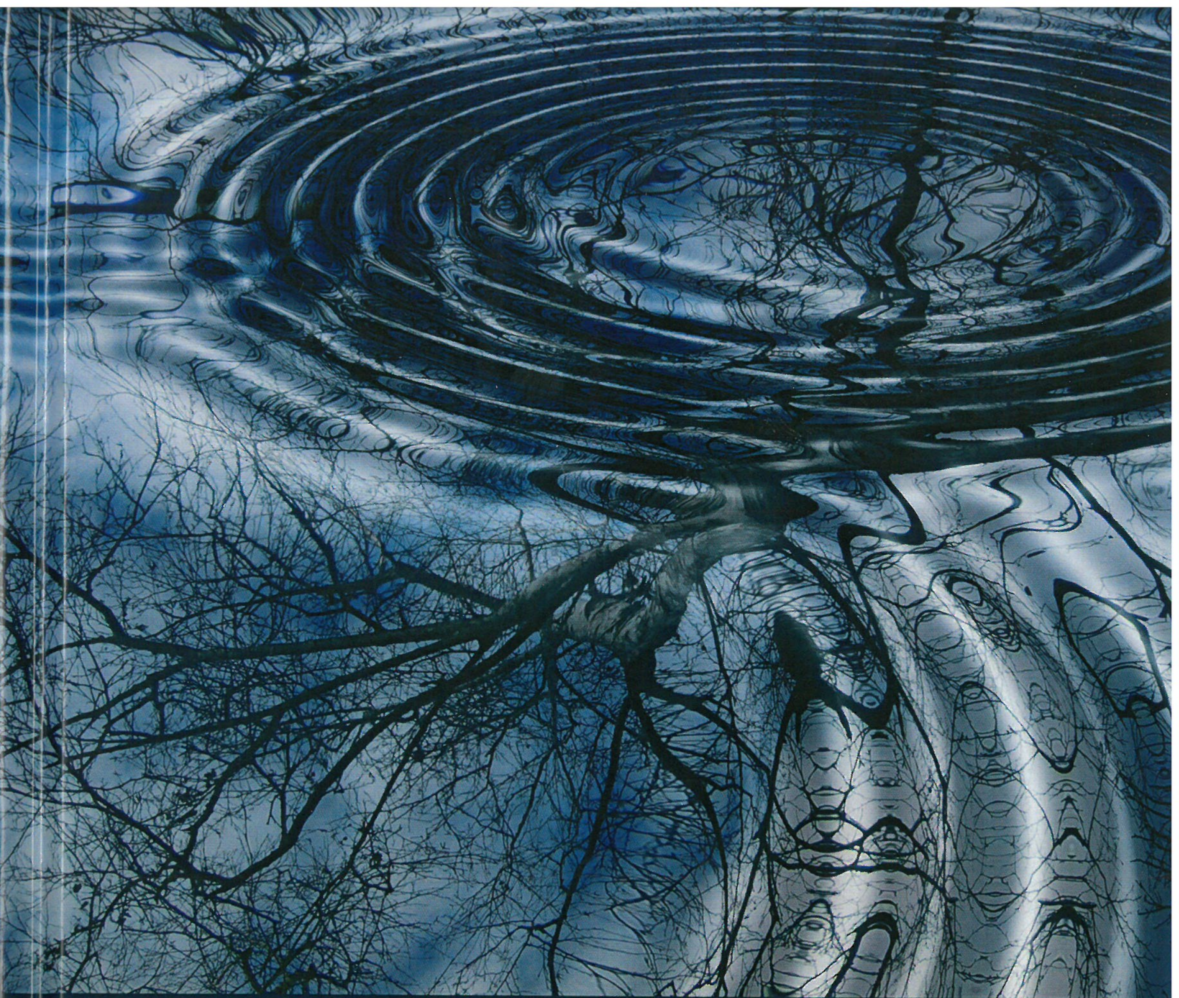

The Aging Workforce Handbook

Individual, Organizational and Societal Challenges

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INVESTOR IN PEOPLE

CHAPTER

5 Population Aging and Labor Market Policy in Germany, the United Kingdom, Japan, and the Republic of Korea: The Effects of Institutional Context on Old Age Employment

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Introduction

Demographic trends are causing significant population aging in most industrialized countries, leading to economic and societal challenges for states, organizations, and individuals (Kulik, Ryan, Harper, & George, 2014). By 2050, the age group 60+ is, based on United Nations (UN) data, estimated to make up 22 percent of the world's population, up from 10 percent in 2000. While in 2011, Japan, Italy, and Germany had the highest percentage of individuals aged 60+; this will change by 2050 when Portugal, Bosnia and Herzegovina, the Republic of Korea (Korea), and Cuba will have surpassed Italy and Germany (Bloom, Boersch-Supan, McGee, & Seike, 2011). Furthermore, the average age of the working age population (age 15–64 (Harper, 2014)) will increase, and the overall size of this age group relative to the total population will contract (Chand & Tung, 2014). This is because the proportion of younger individuals is decreasing as a result of decreasing fertility rates (Anderson & Kohler, 2013). As a consequence, the old-age dependency ratio – those aged 65+ compared to those aged 15–64 – will rise (Spijker & MacInnes, 2013).

Population aging has extensive implications for societies and economies (Harper, 2014). These include, among others, shifts in

(1) National labor markets, labor productivity, and the availability of sufficient amounts of skilled labor (Dychtwald, Erickson, & Morison, 2006; Lisenkova, Mérette, & Wright, 2013; Mahlberg, Freund, & Prskawetz, 2013; Phang, 2011);
(2) Patterns of individual consumption and savings (Bidewell, Griffin, & Hesketh, 2006; Bloom, Canning, & Fink, 2010; Hock & Weil, 2012); and
(3) The long-term sustainability of national-level welfare state policies including pension and health care systems (Bloom et al., 2014; Ebbinghaus, 2006; Yoon, 2013).

While demographic change will challenge existing economic and societal processes and outcomes (OECD, 2006), a potentially low rate of labor market attachment of older individuals exacerbates these challenges. In fact, many Western industrialized countries have been experiencing low labor market participation rates of those aged 55–64 – especially among women (Besamusca, Tijdens, Keune, & Steinmetz, 2015; Thévenon, 2013) – as well as low effective retirement ages (D'Addio, Keese, & Whitehouse, 2010; Hofäcker, 2010).

"Early retirement" was often actively promoted by national policy makers with the support of other stakeholders (Ebbinghaus, 2001; Flynn, Upchurch, Muller-Camen, & Schröder, 2013) between the 1970s and 1990s. During these decades, older workers were often given financial incentives if leaving the labor market prematurely in order to open up jobs for the younger unemployed (Blossfeld, Buchholz, & Hofäcker, 2006), a rationale whose validity and effectiveness is highly contested (Böheim, 2014; Gruber & Wise, 2010). These financially attractive "pull factors" significantly influenced individuals' retirement decisions and promoted early labor market exit decisions (Shultz, Morton, & Weckerle, 1998). Furthermore, "push factors" force older workers out of employment notwithstanding their desire to remain in the labor market (Dorn & Sousa-Poza, 2008). Such push factors are mostly based on implicit and explicit age discrimination – leading to layoffs and redundancies – because often older workers are perceived to be less productive than their younger peers (Conen, Henkens, & Schippers, 2012; Skirbekk, 2004), even though the accuracy of this perception is questioned (Mahlberg et al., 2013).

Consequently, older individuals' actual and relative employment participation declined steeply between 1960 and the mid-1990s. While in 1960, 72.1 percent of men aged 60–64 were in active employment, this declined to 45.3 percent by 1995, even though there were significant differences between OECD countries (OECD, 2015). Contrary to some continental European countries, neither Korea nor Japan (Duval, 2003; Flynn, Schröder, Higo, & Yamada, 2014) experienced increases in early retirement triggered by state-financed transfer payments (or "pull factors"). Instead, older individuals in Korea and Japan show a persistently high labor market attachment (OECD, 2015).

Policy makers have attempted to counter negative (financial) implications from population aging and early retirement. For example, the European Union (EU) set targets in 2001 that by 2010 the labor market participation of those aged 55–64 would reach 50 percent and retirement will be postponed for this age group by five years (EC, 2001; von Nordheim, 2004). Furthermore, national governments abolished state-financed early retirement pathways (Ebbinghaus & Hofäcker, 2013), and increasingly aim to extend individuals' working lives by postponing or abolishing the compulsory national retirement age (Flynn et al., 2013). Also, EU members transposed EU-initiated anti-age discrimination legislation to make it unlawful to discriminate against individuals in employment because of their biological age (Sargeant, 2008). Nevertheless, age discrimination, ageism, and age stereotypes continue to influence organizational-level hiring and employment decisions (Ng & Feldman, 2012; Posthuma & Campion, 2009; Seike, 2010).

Even though most countries experience demographic challenges (Kulik et al., 2014), national-level policy responses differ, as do the effects of policy responses upon labor market participation of those aged 50+. However, it is not clear how and why some public policy approaches are more successful than others in navigating challenges from demographic change. We suggest that internationally comparative research is needed to assess whether and how countries can learn from one another in dealing with demographic change.

We anticipate that there is a link between national institutions, expressed, for example, in national public policy and social norms, and organizational and individual reactions in relation to old age and employment. While voluntaristic theories propose that individuals and organizations construct society by acting as free agents, having self-efficacy and exerting choice over their life courses, deterministic theories suggest that individual life courses are determined by overarching social and cultural structures that leave no (or little) space for individual (free) action (King, 2012; Lewis, 2002; Macmillan, 2005). There is evidence that some institutional contexts (Evans, 2007) and/or time periods (Côté & Bynner, 2008) might provide more/less structure/agency or different combinations of both, in shaping individual life courses as well as in generating inequalities in work contexts (Wilson & Roscigno, 2014). It is therefore relevant to understand underlying national institutional and social norms when evaluating the effect of demographic change on organizational and individual actors and its effects on employment and retirement processes.

In the following, we will discuss the country cases of Germany, the United Kingdom, Japan, and Korea. The four countries represent varieties of European and Asian welfare states. The two European cases have unique institutional contexts but are exposed to similar institutional pressures, due to EU membership, which compelled policy-makers to increase labor market participation and retirement ages. In the two Asian cases, both of highly industrialized nations, policy-makers faced a different challenge: to increase retirement ages utilized by firms for already employed workers and thus extend the tenure of workers with the same employer.

In the following, we will summarize employment, unemployment, and labor market inactivity rates for those aged 55–64 since 2000 in the United Kingdom, Korea, and Japan, and since 2005 in Germany. We report data for both genders. The analysis is based on available OECD short-term labor market statistics.

We then provide an analysis of the institutional context and its development in the four countries. In doing so, the policy overview focusses on public policies and institutional arrangements that have affected and continue to affect the employment and retirement of individuals aged 50+. More specifically, the section analyzes national production regimes; welfare, pension, and labor market systems; anti-age discrimination legislation as well as public "active ageing" policies.

Employment, Unemployment, and Inactivity Rates of Those Aged 55–64 in Germany, the United Kingdom, Korea, and Japan

The employment participation of those aged 55+ has changed, in some cases substantially, over the course of the past 20 years. Based on OECD data, Figures 1a–c, 2a–c, and 3a–c show the shifts of the employment rate, unemployment rate, and labor market inactivity rate of the entire population aged 55–64 as well as of men and of women in this age group in five-year bands between 2000 and 2015. The time span has been chosen as it covers the effects of previously existing institutionalized early retirement programs (in 2000) as well as the effects of their gradual abolition throughout the 2000s and 2010s (Hofäcker, Schröder, Li, & Flynn, 2016).

The data shows that between 2000 and 2015, Japan had the highest employment rate for men and, with the exception of 2015, for women, in comparison to the United Kingdom, Korea, and Germany. Unemployment rates in Japan have fluctuated and, after an increase in 2010, fallen, even though they were comparatively high in relation to those observed in the United Kingdom and especially Korea, at least until including 2010 after which they dropped below the UK rate for both men and women. Labor market inactivity data indicates that especially Japanese men in this age group have a strong labor market attachment. Japanese women also show lower inactivity rates than their peers in Germany, Korea and the United Kingdom, however, at a significantly higher, though falling, level compared to Japanese men. Overall, the increase in the employment rate and the decrease in

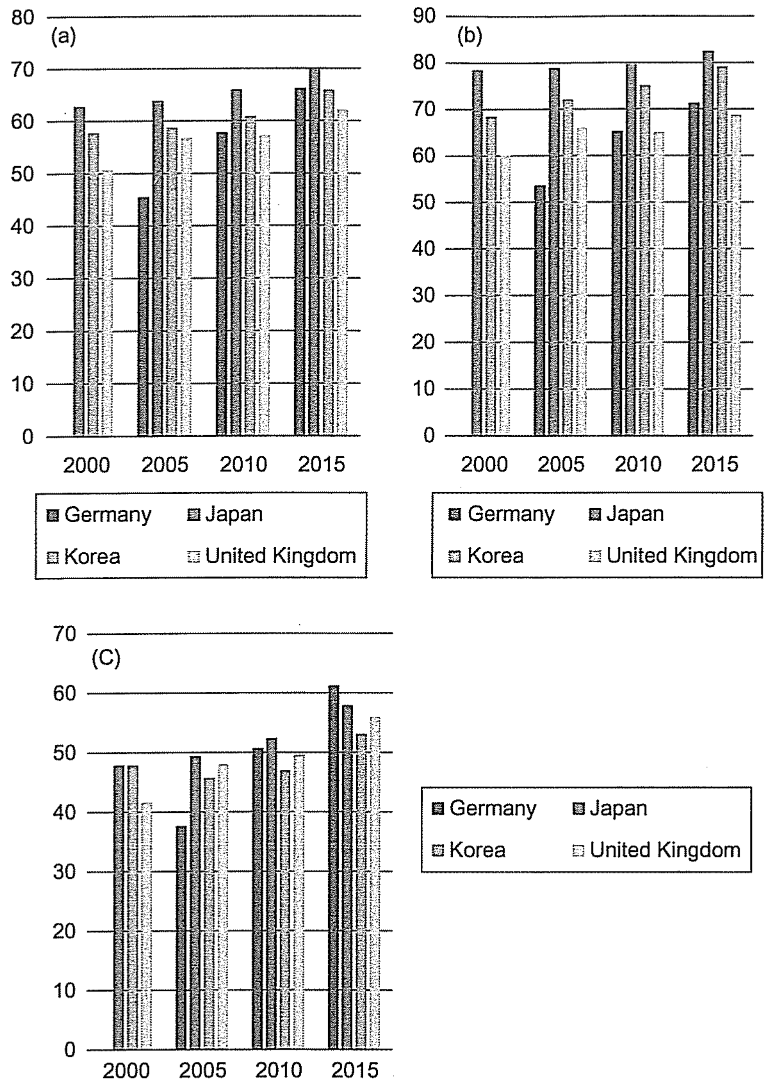

Figure 1. Employment Rate in Percent, Age Group 55–64, by Gender, 2000–2015. (a) Employment Rate, Aged 55–64, All; (b) Employment Rate, Aged 55–64, Males; (c) Employment Rate, Aged 55–64, Females.

the unemployment and inactivity rates were moderate over the observed time span.

A different picture is painted in Germany, where the most pronounced labor force participation change can be observed over the course of the past 10 years. While German data for the

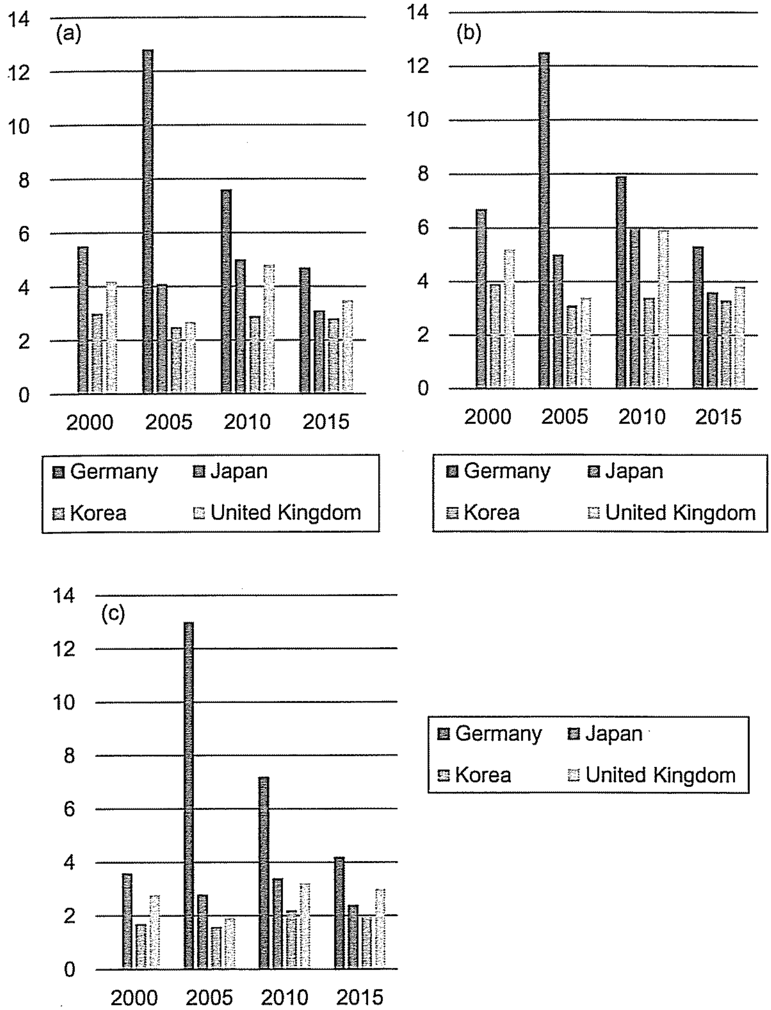

Figure 2. Unemployment Rate in Percent, Age Group 55–64, by Gender, 2000–2015. (a) Unemployment Rate, Aged 55–64, All; (b) Unemployment Rate, Aged 55–64, Males; (c) Unemployment Rate, Aged 55–64, Females.

year 2000 was not available, the data from 2005 shows a significant increase in the employment rate for both men and women, as well as a similarly significant drop in unemployment and inactivity for both genders. This especially concerns the employment rate of German women, which was still far below that of Japan, Korea, and the United Kingdom in 2005 but had surpassed them

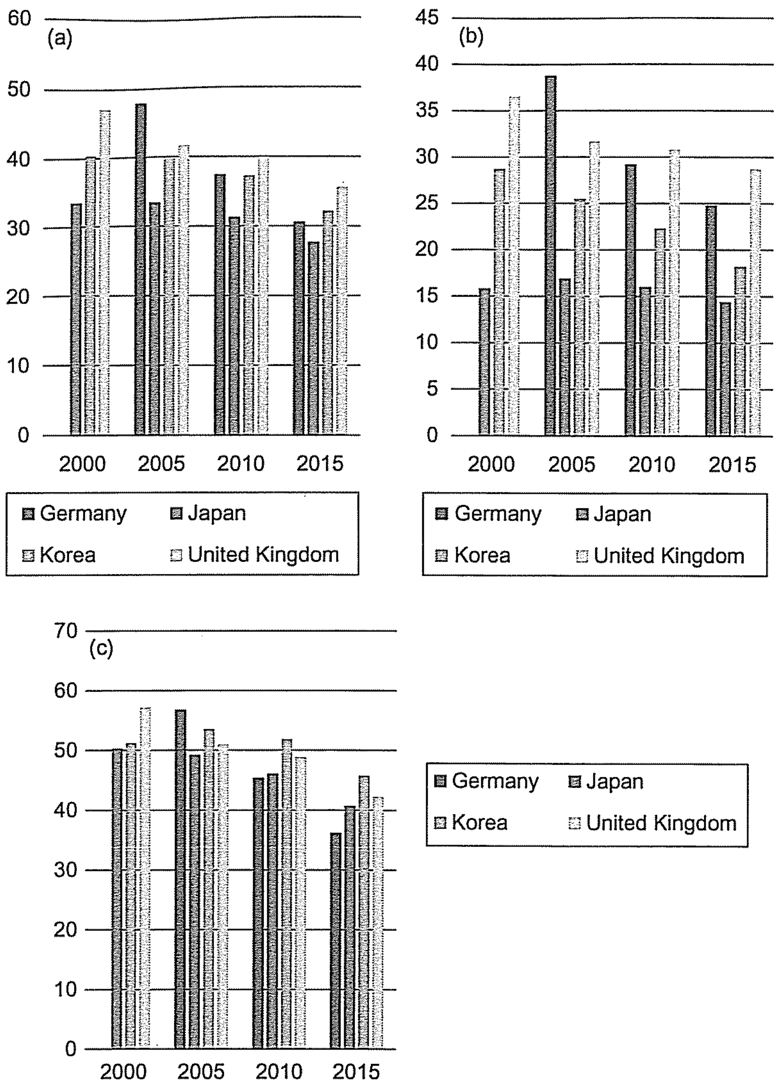

Figure 3. Inactivity Rate in Percent, Age Group 55–64, by Gender, 2000–2015. (a) Inactivity Rate, Aged 55–64, All; (b) Inactivity Rate, Aged 55–64, Males; (c) Inactivity Rate, Aged 55–64, Females.

by 2015. The same trend can be observed for female labor market inactivity, which has fallen below that of the comparators. Female unemployment remains above that of British, Korean and Japanese women, but has dropped significantly between 2005 and 2015.

Data for Korea reveals that employment in the age group 55–64 is generally high and rising, especially among men, though it remains below the Japanese rate. Korean women have experienced only a slight increase in their employment rate after a drop in 2005 and 2010, and, similar to Japan, show a lower labor market attachment than their male counterparts. Due to the relatively low increase, Korean female employment dropped below the equivalent German rate in 2015. The Korean unemployment rate for this age group has been low in comparison for both men and women throughout the observation period, and has remained relatively stable with some fluctuations. While it is low for both genders, the male unemployment rate has been persistently above that of Korean women, which indicates a higher labor market attachment among men than women, as women might transition into labor market inactivity rather than unemployment in reaction to a loss in employment. In fact, Korean female labor market inactivity data shows persistently high rates in comparison to Germany, Japan, and the United Kingdom, especially in recent years.

Finally, the UK employment rate has increased moderately for men and women over time, though to a lower extent than in Germany. Unemployment was low for both genders, although above the Japanese rate, and showed a significant increase in 2010 for both genders before dropping again in 2015. The 2010 increase might be due to the 2008 Global Financial Crisis, which led to an almost 100 percent increase in overall unemployment in the United Kingdom between 2007 and 2009 (Lallement, 2011). Labor market inactivity has remained high in comparison to that of Germany, Japan, and Korea, even though it has been falling since.

Employment, unemployment, and inactivity data for both genders over time and across countries shows a similar trend: increasing employment and decreasing unemployment, respectively, inactivity in the age group under investigation. This suggests that this age group is either better able to market its skills in the labor market, and therefore able to extend working life despite persistent push factors such as ageism, or that this group is increasingly forced to remain gainfully employed in the absence of labor market exit strategies. The following discussion of the (changing) institutional contexts of the countries under investigation will shed light on factors that might have triggered these developments.

Institutional Context: Germany, the United Kingdom, Japan, and Korea

Based on a review of academic literature as well as government and other stakeholder reports, we analyze public policies related to the employment of those aged 50+ and to retirement, as well as changes there to, in the four countries under investigation since 1990.

GERMANY

Germany is classified as a "coordinated market" economy (Hall & Soskice, 2001) and a "conservative" welfare state (Esping-Andersen, 1990). Germany has a strong internal labor market system, high and primary investment in education during the early life course as well as high employee involvement (Muller, 1999). For most of the time period between the 1970s and 1990s, it featured high incentives for early retirement as well as a high unemployment rigidity and a strongly regulated labor market, leading to an insider-outsider labor market structure in which displaced (older) workers could not easily find new employment. While external labor markets were increasingly gaining in importance, large organizations continued to provide relatively high job security (Buchholz, 2006).

Due to the effects of demographic change on the one hand (Buck & Dworschak, 2003) and the high prevalence of early labor market exit between the 1970s and 1990s on the other (Buchholz, 2006), social security systems came under financial pressure (Auer & Fortuny, 2000). The low labor market participation of those aged 50+ as well as the large number of those taking early retirement was stimulated by labor market and welfare state policies that had been implemented from the 1970s onwards. These policies aimed at reducing youth unemployment and at providing organizations with socially acceptable means to restructure and to lay-off staff in economically difficult times. This strategy was largely in line with trade union demands (Flynn et al., 2013) and allowed organizations to externalize older workers already from age 57, for example by providing individuals with state-financed unemployment benefits and, subsequently, with financially attractive state-financed early retirement options (Trampusch, 2003).

As this strategy was becoming financially unsustainable, the state implemented measures to keep older workers in work longer. From the early 1990s, the social security system, pension system, and welfare benefits have been reformed with the intention to transfer the costs of early exit from the state to organizations and to individuals. This was to reduce the financial attractiveness of early retirement as well as to close off or to limit access to state-financed early retirement pathways (Muller-Camen, Flynn, & Schröder, 2011). One such early retirement pathway (Schilling, 2007), the *Altersteilzeitgesetz* (old-age part-time work law), was abolished in 2010 insofar as new entrants no longer receive state subsidies when joining the scheme. This is even though organizations in the German metal industry continue to offer similar options, based on pressure exerted on them by the metal and steel trade union, however using occupational pension funds instead of state funds to finance the scheme (Muller-Camen, Croucher, Flynn, & Schröder, 2011). Nevertheless, as this model entails that individuals work for 4–6 years on a 50 percent contract, or half of this time with a full contract with the second half of the time period in full-time retirement (the so-called "block model option"), the phasing-out of the state-financed scheme will likely take until 2016 with corresponding negative effects upon social security systems. In addition to creating barriers to early retirement, the state has implemented a pension policy in 2007 that gradually raises the national retirement age (at which individuals born 1952 and later have access to their full state pension) from age 65 to age 67 between 2012 and 2029 (Sproß, 2010). Trade unions have developed divergent views on such policies. While some trade unions such as the German chemical as well as the metal and steel trade unions endorse the extension of working life and foster the implementation of what is called "age-neutral" and therefore non-age-discriminatory Human Resource Management, other trade unions and especially older trade union members still rally in favor of early retirement and what they often consider to be their "right" to retire prior to national retirement age (Flynn et al., 2013).

While the aforementioned policies aimed at closing off previously existing early exit pathways, anti-age discrimination legislation aims at preventing organizations from externalizing or discriminating against older workers on grounds of chronological age, thereby fostering old-age employment. Nevertheless, even though prescribed by the EU, the German government was reluctant to transpose the corresponding EU directive into German law. The political debate about the implementation of the directive began in 2001 but was controversial as it covered all discrimination grounds listed by the EU instead of focusing solely on age. The 2006 *Allgemeines Gleichbehandlungsgesetz* (General Act on Equal Treatment) does not entirely meet EU requirements and might therefore be legally challenged, also because other laws do allow for chronological age to be used to differentiate between employees. These include tenure- and age-based employment security and salary protection clauses in collective bargaining agreements that potentially discriminate against younger workers (Schmidt, 2008).

The government furthermore implemented some active labor market measures to increase the employment rate of workers aged 50 and over. One such measure is the 2002 *Job-AQTIV* Law that promotes vocational training for older workers as a preventive measure to enhance and maintain their employability also in later life (Frerichs & Taylor, 2005). This approach is particularly relevant as Germany does not, as of yet, place much emphasis and importance on life-long learning measures such as further job-related training (Hofäcker et al., 2016; Schröder, Hofäcker, & Muller-Camen, 2009). Instead, vocational skills and certificates are traditionally acquired in the early life course without many opportunities to change or update skills in later life. Individuals therefore tend to be locked in their occupations and careers even if their skills become obsolete or the industries in which they work are in decline (Rinklake & Buchholz, 2011). Furthermore, the German government launched the *Initiative 50+* in 2007 that aims to improve the employment prospects and opportunities of older workers, and includes some modest training and qualification measures (Sproß, 2010). A consequence of the closure of early retirement pathways on the one hand and the increase of the retirement age on the other is that the average age at which individuals enter retirement and draw corresponding benefits has increased significantly since 1990 (Ebbinghaus & Hofäcker, 2013).

THE UNITED KINGDOM

The institutional regimes surrounding the employment of older workers in the British context can be identified as a "liberal residual" (Esping-Andersen, 1990) welfare system and its "regulatory regime" (Whitley, 2008). The government maintains a "hands off approach," and takes only a minimal role in social provision and workplace regulation. Legislation is written mindful to retain Britain to be the country that has "the most lightly regulated market of any leading economy in the world" (Gall, 2012, p. 3).

Further, employment regulations have taken a light touch approach to influencing organizational practices. A good example of the government's approach to employment regulation is the "right to request" flexible working which in 1999 was extended to parents of young children, but whose scope has since been widened to include parents of older children and workers with eldercare responsibilities. Employers can refuse flexible working requests but are restricted to a set of justifications such as the burden of additional costs that the arrangement would generate. Both the previous Coalition government (2010–2015) and previous labor governments (1997–2010) have sought to extend the "right to request" to all workers but have been met by opposition from some employer groups.

The most important change to employment rights impacting older workers has been the 2006 *Equality Employment (Age) Regulations* (now part of the *Single Equality Act* 2010), which prohibit workplace age discrimination (Hepple, 2010). The regulations cover all Human Resource practices, including recruitment, pay, training, and promotion. However, there is some flexibility where there is an objectively justified and proportionate reason for the discriminatory practice. For example, redundancy schemes (including the statutory redundancy scheme) in which benefits are directly age-related have been determined by UK courts to be justified by the greater difficulty that older workers have in finding re-employment compared to their younger peers. The age regulations originally also set a default retirement age (DRA) of 65, after which employers could lawfully compulsorily retire employees, provided they considered requests from employees who wanted to stay in work past this age. Since October 2011, the DRA has been phased out, and compulsory retirement is only lawful in a small proportion of occupations, for example the police force, in which the job specifications, such as physical stress, justify it. The age regulations and accompanying abolition of the DRA have been acknowledged to have helped older employed people stay in work, but have been less helpful for older job seekers in finding new employment. Although the regulations prevent age discrimination in recruitment, proving that discrimination actually took place tends to be very difficult (Cory, 2012).

The overall public policy approach has been to make work appear more attractive, particularly for people who receive social benefits, such as unemployment pay. Unlike many other parts of continental Europe, the United Kingdom has not featured state-sponsored early retirement incentives since 1989, when the *Job Release Scheme* was abolished (Banks, Blundell, Bozio, & Emmerson, 2008). Partly as a consequence, employment rates have steadily risen for the 50+ workforce since (at least for men) bottoming out in the early 1980s (Hirsch, 2003). This has been through both incremental improvements in individual rights at work and reduction of welfare and public sector pension rights for people out of work. In 2008, incapacity benefit and income support were replaced by the *Employment and Support Allowance* which makes support contingent on recipients undertaking a work capabilities assessment. Further, although work subsidies have been focused on youth unemployment, fairly modest measures have been introduced to incentivize older people on incapacity benefits to return back to work. For example, the labor government's *New Deal* program which provided training and job placement subsidies for younger workers was extended to older workers on incapacity benefits who are seeking part-time work. Furthermore, the Coalition government has delegated authority to develop job placement programs for vulnerable groups, including older workers, to regional "Job Centres." Nevertheless, while there have been measures to help displaced prime age workers back to work, there have not been schemes focused specifically on older workers and their needs.

The State Pension Age (SPA), which is the eligibility age for state pension payments, is currently being equalized at 65 for both men and women. From 2018, the SPA will rise to 66 for men and women, eventually rising to 68 by 2046. However, the state pension only accounts for 42 percent of all pension expenditure, with most of the remaining pensions coming from occupational pension schemes (OECD, 2011). Occupational pension schemes therefore have a great importance for individual old-age income. However, private sector employers have been closing defined-benefit occupational pension schemes to younger workers and have replaced them with less generous defined-contribution schemes. Government has sought to also reduce incentives for public sector workers to retire early. The previous labor government removed provisions which allowed people who started work early to also retire early. The Coalition Government (2010–2015) focused on changing pension entitlements and raising the occupational pension age. Some public sector pension schemes have also capped redundancy entitlements to the detriment of older workers.

In summary, older workers' labor market participation in the United Kingdom largely reflects the institutional arrangement of the country. Throughout most of the 1990s and 2000s, the United Kingdom was one of the few EU countries to have met targets to reach 50 percent employment of the 55- to 64-year-old group. However, since then, other countries with more comprehensive welfare state systems, such as Germany, have caught up.

JAPAN

The Japanese labor market system has often been labeled a "developmental" state whose role is "concerned with setting substantive social and economic goals which involve particular industrial policies" (Whitley, 1991, p. 16), and its welfare state has been termed "productivist" (Holliday, 2000). Since the end of World War II, one of the main macro-economic challenges has been the supply and retention of skilled labor. As a consequence, employers' Human Resource Management practices have rested on two pillars. First, the provision of long-term job security and age-based pay systems; and second the implementation of mandatory retirement rules. Employers were permitted to set mandatory retirement ages of 55 up until 1994 when it rose to 60 (Nomura, 2008). It rose to 65 in 2013 to be in line with new pension age of 65 for both the state pension and the employer-provided pension (at least for men; the female pension age for the employer-provided pension will rise to 65 by 2018) (Okumura & Usui, 2014).

The Japanese-style employment institutions have rendered the remuneration of older employees very costly, and a majority of employers have expressed unwillingness to retain older workers without government subsidies. However, employers also worry about losing skills when workers retire. They seek to solve this dilemma in two ways. First, they depend on government subsidies and pension incentives to retain older workers. For example, a 2004 law provided employers with subsidies for administrative support with which to manage aging workforces. Second, employers use the practice of permanent redeployment (known as *Shukko* and *Tenseki*) to move workers after their mandatory retirement ages within and between workplaces (Williamson & Higo, 2009). This process facilitates the creation of phased retirement opportunities for older workers. Small- and medium-sized employers also use older labor to make up for skills shortages resulting from younger graduates' preferences for large companies (Casey, 2005).

Unlike the United Kingdom and Germany, Japan does not have age discrimination regulations. However, through a series of labor laws, government has nudged employers to improve job opportunities for older workers. Under a 1986 extension of the *Laws Concerning the Stability of Employment Opportunities for Older Persons* government began intervening directly to increase employers' mandatory retirement ages so as to coincide with increases in pension age. Such changes have not been perfectly synchronized. While the pension age for the National Pension Insurance flat rate pension benefit has been age 65, employers could still mandatorily retire workers at an earlier age until 2013. A 2006 revision of the law requires employers to take measure to increase older workers' employability: (1) to abolish their mandatory retirement age completely; (2) to raise their mandatory retirement ages from 60 to 65; or (3) to introduce measures to enable workers to work up to 65 through post-retirement job creation. The majority of employers have taken the third option (Yamada & Higo, 2011).

The Japanese pension system is two-tiered, with a flat universal pension and a second earnings-related one. The system is employer-funded but state-administered. Since the 1960s, workers have been permitted to draw their pensions while staying in work. This "working pensioners" system has allowed the government to hold down pension costs without pushing too many older people into poverty (OECD, 2011). Given the country's chronic labor shortage, intergenerational tensions which have emerged in Europe have not been as prevalent in Japan. Trade unions have generally supported, and sometimes introduced, measures to extend working life.

The Japanese government has invested heavily in job placement for the 60+ unemployed workforce. As of 2005, USD 2.7 billion of public money was invested into 1,544 chapters of Silver Human Resource Centres (SHRCs). The centers provide not only job placement but also skills assessments, training, and other services to increase clients' employability. As employers gradually withdrew from their traditional role of finding work for their post-retirement age employees, SHRC's were created by government with a view toward stepping into this role.

Unlike Germany and the United Kingdom, the Japanese government has been seeking to gradually increase the real retirement age for more than half a century and the working pensioners' model has been prevalent since the 1960s. Developments over the past 20 years have been employers' resistance even as they continue to face skills shortages. As such, government has broadly taken three approaches as enumerated above: carrots and sticks to encourage employers to retain older workers and, where these fail, co-opting their role.

KOREA

Like Japan, Korea is generally classified as a "developmental" state. With regard to its welfare state, Esping-Andersen (1996, 1997) classified East Asian countries like Japan, Korea and Taiwan as a "hybrid case" between conservative and liberal welfare regimes. However, there is considerable debate as to whether a separate category such as "productivist" or "Confucian" welfare state more accurate captures the nation's welfare regime (Holliday, 2000; Lee & Ku, 2007).

From the 1970s to the mid-1990s the Korean economy industrialized and grew at a torrid pace with many young workers entering the labor force. Large employers offered a guarantee of employment to the age of contractual mandatory retirement. The Korean government played a small role in matters related to work and retirement: the national pension scheme was only introduced in 1988 and is not yet mature (Yang, 2014). Furthermore, employers had considerable latitude to determine retirement ages. Indeed, the country was the only OECD nation in which employers could set any age, even as low as in the 40s, as the age of contractual mandatory retirement (Klassen & Yu, 2014). The defining feature of work and retirement in Korea was therefore early involuntary contractual mandatory retirement (usually in the early 50s), followed by more than a decade of precarious contract work (Cho & Kim, 2005). Thus Korea – along with Japan – represented unique cases in which retirement occurred for full-time permanent workers while in their 50s, but complete withdrawal for these same individuals from paid employment was not until they reached their early 70s (Higo & Klassen, 2015).

Rapid population aging, in part due to low fertility rates, became a topic of public debate starting in the first years of the 21st century. At the same time, income insecurity and poverty among older people, given a small welfare state and early retirement policies, created impetus for reform (Klassen & Yu, 2014). Labor unions, although lacking substantial influence in most workplaces, publically lobbied for longer working lives in the primary labor market (Klassen & Yu, 2014). The government began to permit its own workers to remain in work to age 60, which created pressures to set a similar policy for private sector workers (Cho, 2014).

By the 2012 presidential election, both major candidates campaigned on a platform to implement, for the first time, a national retirement age that was higher than the age of contractual mandatory retirement in place in most workplaces. This was seen as a way to increase economic democracy; that is to more evenly distribute economic opportunities and rewards (Kim & Klassen, 2014).

In 2013, the national legislature set age 60 as the national retirement age effective as of 2016 for large employers and government agencies, and as of 2017 for all other employers. However, employer groups, all of whom were opposed to a national retirement age, were able to extract a commitment by the government to allow "peak wage" schemes (Kim & Klassen, 2014). These schemes gradually reduce the compensation of workers who reach their mid-50s. As such, by retirement age (60), most workers earn only 60 percent of their highest salaries.

The national pension scheme, as noted above, was only introduced in 1988. Reforms to the scheme were undertaken in the mid-1990s and again in 2007 to reduce benefits and to gradually raise the eligibility age from 60 to 65. There is limited scope in human rights legislation for challenges of age-based decisions about retirement (Rhee, Woo, & Cho, 2013). In 2008 revisions to legislations prohibited the use of age as a criterion for recruitment and hiring, but not for contractually age-based retirement (Cho, 2014). The setting of age 60 as the national age of contractual mandatory retirement ensures that workers are formally protected from age-based discrimination to that age, but not thereafter. There are no extensive active labor market policies in Korea, and there are only marginal programs for older workers, unlike in Japan (Song, 2014).

The increase in the age of contractual mandatory retirement to 60 has just begun to be applied in workplaces in 2016. The reform will decrease old income insecurity and provide workers with greater options for retirement, as well as reduce the number of years they must be in post-retirement employment. However, most large employers have implemented peak wages (as indeed have government agencies), which are controversial for unions and worker associations, as well as individual employees (Kim & Klassen, 2014). Notwithstanding the reform, most workers reaching age 60 are not able to permanently exit the labor market, but continue to require further employment, which is often of a precarious nature. The gap between retirement at age 60, and pension eligibility at age 65 creates the scope for continued high rated of old age poverty.

Discussion and Conclusion

The discussion of the country case studies of Germany, the United Kingdom, Japan, and Korea illustrates that countries follow nation-specific cultural and institutional pressures when addressing demographic change and workforce aging. Germany phased out generous state-financed early retirement opportunities and is currently increasing pension eligibility ages to compel individuals to stay in work longer. Similarly, the United Kingdom abolished the age of contractual mandatory retirement (default retirement age) and is also increasing pension ages. Both Japan and Korea have mandated that firms retain workers until age 65 (the new pension age) and age 60 (the new national retirement age), respectively. All four countries have devised ways to extend individuals' working lives in order to increase employment rates of those aged 50+ and to postpone effective retirement ages.

On the one hand, these policies force individuals to stay in employment by delaying the age at which individuals become eligible to access their full pension. Financial reasons might therefore compel or force individuals to remain employed. On the other hand, changes to national policies enable individuals to stay employed, such as the abolition of the British default retirement age and the Japanese and Korean laws that require employers to offer employment until age 65 and 60, respectively. Furthermore, both Germany and the United Kingdom, at the urging of the EU, outlawed age discrimination, providing individuals with the right to legally challenge companies that discriminate against them in employment processes because of their biological age. Both Japan and Germany actively support older individuals to stay employed and/or return into employment through active labor market policies such as job-related training and job placement. Especially, training and life-long learning helps older individuals to maintain their level of productivity and, hence, their employability.

While Korea is experiencing population and workforce aging to a similar extent as are Japan, Germany, and the United Kingdom, Korean public policy is currently only beginning to address the challenges associated with demographic change and a subsequent concern about the sustainability of social security systems as well as old-age poverty. The increase of the mandatory retirement age to age 60, which was implemented as of January 2016, is a promising start. However, it remains unclear how and under what conditions individuals with irregular, part-time, or fixed-term contacts will be able to extend their working lives, and how employment conditions, such as job status, position, and pay, will change for employees now able to remain employed until age 60? That is, how well will workers 60 and over fare in Korea given that employers have no obligation to continue to employ them or offer comparable compensation and working conditions to them. Similar questions apply in Japan, where employers have some obligation to offer employment to age 65, but considerable latitude to decrease compensation and work conditions after age 60.

Finally, while all four countries have implemented more or less stringent labor market and welfare state policies and active labor market measures to increase the labor market participation of those aged 50+, there appear to be nation-specific reasons that drive this change. The United Kingdom has seen an increasing transfer of the labor market and pension risk from the state and firms to the individual. This necessitates that individuals stay in the labor market longer and generate greater private savings in order to guarantee their standard of living throughout old age. The abolition of the default retirement age enables individuals to do so. However, in line with the liberal market philosophy, it does not obligate employers to hire new (older) staff or retain them if (perceived) performance drops. The risk therefore remains with the individual, who is forced to extend her/his working life to avoid old age poverty. The main driver for reforms in Germany was the concern about the sustainability of social security systems. This led to the abolition of state-financed early retirement pathways as well as to an increase in pension ages. This explains the sharp employment rate increase over recent years as individuals were no longer able to use financially attractive pathways into early retirement, and, in the absence of occupational and/or private pension schemes, are forced to extend their working lives, even if this is against their preference or expectation.

In contrast, the main concern of Japanese and Korean policy makers was to reduce and/or prevent old age poverty by extending the tenure of workers in permanent contracts with large employers. This required reforms to firm-level mandatory retirement ages and the state pension age. As noted at the start of the chapter, workers in Japan and Korea permanently exit the labor market at much older ages than in the United Kingdom and Germany, but exit much earlier than their European counterparts from their main life-time jobs. Thus, unlike the United Kingdom and Germany, in Japan and Korea, the policy aim was not to increase retirement ages of all workers, but rather to increase the firm-level retirement age of a particular group of employees. In legislating that organizations align mandatory retirement with nation pension ages helps close the gap between effective retirement and pension eligibility ages. Therefore, while public policy in Germany and the United Kingdom is forcing individuals to extend their working lives due to (individualized) financial risks, Korea and Japan are enabling (some) older individuals to remain gainfully employed with large employers in secure contracts in order to mitigate financial risks.

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