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From early exit culture to the policy of active ageing – the case of Finland

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ABSTRACT

The paper reviews the Finnish welfare state policy concerning the relationship between ageing and work. It focuses on the signs of change from the policy promoting early retirement to the policy promoting staying at work. The different phases in the development of early exit arrangements are outlined, and subsequent programmatic changes, which culminated in the pension reform at the beginning of the new millennium, are discussed. Furthermore, a separate section is devoted to the various national work promoting programs. Besides analysing policy lines the outcome of the early/late exit policy is also looked at from the perspective of the individual. The paper concludes that the change in the early exit programs has been accompanied by change in the social and political environment creating a growing consensus on the importance of increased longevity in working life. The notion of early exit as a social right has shifted to a paradigm, which highlights work as a duty in an individually flexible context.

INTRODUCTION

Finland shares the basic characteristics of the Nordic welfare state model: universal coverage, good income replacement rates, the scope of citizenship rights, and service intensity (Stephens 1996, 36). However, compared with the other Nordic countries Finland was a laggard when it came to development of the welfare state (Esping-Andersen and Korpi 1987, 54). Only in the 1980s did the coverage or benefit level of Finnish social protection catch up with the other Nordic welfare states (Kangas 1994, 79). The late but fast maturing of the Finnish welfare state was also reflected in the development of arrangements providing early exit from the labour market: the bulk of the early retirement programs were introduced in the late 1980s.

In the past decades Scandinavian welfare states have responded to economic and social change with active labour market policies, social service expansion, and gender equalization. The surplus of unskilled labour has been managed mainly by retraining and job creation (Esping-Andersen 1996, 10-20). As far as ageing employees are concerned, the Finnish welfare state has diverged from this Nordic model and followed a more continental route. Until recently, Finland has opted to manage the deindustrialization process as well as economic crisis by reducing the supply of labour through intensive early retirement. As a consequence, more than half the 55-64 age group is retired, and the employment rate of older Finnish men in particular, is among the lowest in Europe (OECD 2001, 215-217).

The first attempts to alter the Finnish early exit policy took place at the end of the 1980s. However, to understand the development and the outcome of this policy, we have to keep in mind the impact of the rapid economic downturn of the early 1990s. The golden era of increasing social rights and economic prosperity came to a halt at the turn of the decade when the overheated national economy fell into recession. This was the deepest recession in Finland since independence, and it left in its wake a legacy of long-term unemployment, low labour force participation and a large public sector debt.

If we add to these constraints the ageing of the population, the expected labour shortage, and growing costs of retirement, we have the main arguments for reversing the early retirement trend. The demographic change especially will set challenges for the future. Until 2020 the population in Finland is expected to age the most rapidly among the EU countries. This is mainly due to the fact that in the years ahead there will be significant demographic growth

only among the over-55s. Among the EU countries, Finland currently has the highest proportion of 45-54s, which means that by 2010 Finland will have the highest proportion of population in the 55-64 age group. These baby boomers will reach retirement age between 2010 and 2020, and by 2030 every fourth Finn will be aged 65 and over. Only by 2050 will the proportion of the 65+ age group decline to the average EU level. As well as the ageing of the baby boomers, the increasing life expectancy and low birth rate underlie the Finnish demographic development. Thus the ageing problem is not expected to be temporary and fade away with the baby boomers, but it is considered as a continuous challenge to the finances of social security (KM 2002:4, 14-15).

The demographic change means that in the near future there will be more people leaving the labour market than coming in. It is expected that after the year 2006 the level of the labour force will start to decline (KM 2002:4, 15). To reverse this trend and guarantee the sustainable financing of the welfare state a new policy goal to promote employment has been set. In accordance with this goal, the Ministry of Social Affairs and Health envisages that in 2010 people will be staying on at work for 2-3 years longer than at present (Strategies for Social... 2002, 6).

In the following sections we will examine the Finnish welfare state policy affecting the relationship between ageing and work by focusing, in particular, on the signs of change from the policy promoting early retirement to the policy promoting staying at work. To give a picture of the empirical reality of the ageing Finnish society we will begin with an overview of the employment situation of the ageing labour force. We will then move on to the institutional setting of the early exit process. We shall outline the different phases in the development of early exit pathways and describe the present composition of institutional exit arrangements. Because Finland appears to be a very program-oriented nation, a separate section is devoted to the various national programs, which have been launched to change early exit into late exit. Besides analysing the policy lines and the macro level outcomes in the form of exit arrangements and employment rate, we will also look at the outcome of the early/late exit policy from the perspective of the individual. Finally, we will discuss the Finnish welfare state paradigm regulating the end of the working life. It is our submission that the notion of early exit as a social right has shifted to a paradigm highlighting work as a duty as well as individual flexibility.

AGEING PEOPLE IN THE LABOUR MARKET: FROM MASS UNEMPLOYMENT TO GROWING EMPLOYMENT

In the long term the employment trend of the ageing population in Finland has followed the general European model: the employment rate of those over 55 has declined significantly. However, in the 1990s the employment trends in Finland were different. A deep recession with extremely high unemployment in the early years was followed by rapidly growing employment among the ageing population in the latter half of the decade.

In the first half of the 1970s the employment activity rate of the ageing population was quite high: in the 55-64 age group two thirds of men and more than two fifths of women were employed. In the following decades the economic recessions, rapid industrial restructuring and promotion of competitiveness accompanied by new qualifications for the labour force reduced the demand for ageing workers. At the beginning of the 1990s only about two fifths – a little over for men and a little under for women – of the 55-64 age group were employed. And the bottom had not yet been reached. The deep recession that Finland experienced in the early 1990s further drastically diminished the employment activity rates: in the mid 1990s only one third of both men and women in the 55-64 age group was employed (Ikäohjelman...2002, 40).

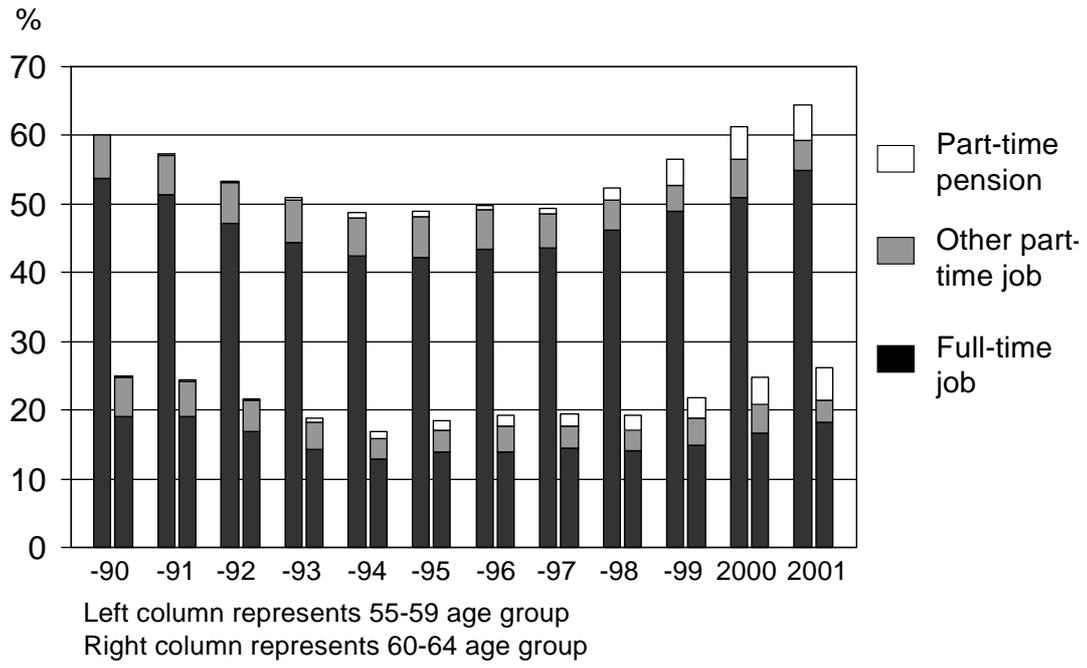
The economic recession in the 1990s particularly affected the employment prospects for those aged 55 and over. This had, at least partially, a program-based explanation: because of the special unemployment compensation program for ageing workers – the extension of unemployment allowance followed by unemployment pension – personnel reductions were targeted particularly at the oldest employees. Also, the low education level of ageing workers made them vulnerable for lay-offs, and, furthermore, labour market training and selective employment measures were mainly focused on younger workers (KM 1996:14). Although the education level of the Finnish population in general is good, the gap between the generations in this area is greater than in most other OECD countries. The education level of the ageing population is considerably poorer than in younger age groups (Kansallisen... 2001, 20-22). This low education level makes it difficult for ageing workers to acquire the skills required for modern jobs and serves to increase their already high risk of long-term unemployment and early retirement. Due to the large number of relatively poorly educated baby boomers, it is estimated that the difficult

employment prospects for ageing people will continue for at least another 10-15 years (Forss 1999, 15-18).

Economic growth after the recession stunted the increasing trend in unemployment rates in 1994, although in the oldest age groups unemployment continued to grow. The unemployment rate of the 55-59 age group reached its peak in 1996, at which time nearly a quarter of the labour force in this age group was unemployed. This massive unemployment left behind a large number of long-term unemployed, and in 2000 most unemployed people over 55 were classified as long-term unemployed. The ongoing phenomenon of long-term unemployment among ageing people indicates that it has become extremely difficult for them to find a job again. During the 1990s there was a marked worsening of the re-employability prospects of those aged 55-64. In this age group more than 20 per cent of those unemployed at the end of 1989 were re-employed in 1990, whereas this figure had fallen to just 3 per cents between 1998 and 1999 (Kansallisen... 2001, 72).

Although among the ageing labour force the legacy of the 1990s' recession was long-term unemployment, the favourable economic development of the latter half of the decade rapidly improved the employment rates. For those ageing workers who had survived the recession as employed, the probability of remaining in work increased significantly. At the end of 2001 the employment rate of the 55-59 age group was 64 per cent, and 26 per cent in the 60-64 age group. Both figures are higher than in 1990 (Figure 1). In fact, the employment rate of those aged 55-59 is even slightly better than it was thirty years ago in 1971 (Kansallisen...2001, 39-41). The employment rate of the 50-54 age group has also almost reached the level preceding the recession. From its 1994 low of 73 per cent, by the end of 2001 it had reached 80 per cent, compared with 81 per cent in 1990 (Labour Force Statistics 1994).

In addition to the favourable employment-rate trend, figure 1 also demonstrates the role of part-time employment in the latter stages of working-life. In general, most employees in Finland work full time. In 2001 only 13 per cent of employees – 9 per cent of men and 18 per cent of women – worked on a part-time basis. Yet in 1990 it was as low as 7 per cent, thus indicating a growing trend in the area of part-time work. In the oldest age groups this is more common, a fact which is due in part to the use of the part-time pension program. In 2001, only 8 per cent of the employees aged 25-54 were part-timers, while in the 55-59 and 60-64 age groups these figures were 16 per cent and 31 per cent respectively (Labour Force Survey, unpublished).



Source: Hytti, 2002 (In Ikäohjelman...2002).

Figure 1. Employment to population ratio among the 55-64 year olds in 1990-2001

EARLY EXIT POLICY: FROM EXPANSION TO RESTRICTIONS

In Finland as in other European countries the labour market and social policies have had an important effect on the organisation of the end of the working life. During the past few decades institutional arrangements together with economic and structural changes have markedly affected the labour market participation of ageing workers.

The Finnish welfare state had a slow start, and this was reflected in the development of early retirement programs. The first program specially designed for early retirement was the unemployment pension, introduced in the 1970s. However, most of the early exit arrangements were introduced only in the late 1980s.

The development of early the exit policy has evolved in three phases. During the first two phases, in the 1970s and 1980s, some old social security measures were converted into early exit arrangements and new instruments specially designed for early exit were created. Due to this development the early exit policy was flourishing by the end of the 1980s. During the third stage, in the 1990s, the policy changed: early exit arrangements were restricted and incentives to continue in employment were created.

Flourishing early retirement policy

During the 1970s there was a period of rapid expansion in the use of the disability pathway. This expansion was largely due to the maturing of the statutory earnings related pension scheme, which came into force in 1962. In 1970 the scope of the employment pension scheme was enlarged to cover not only wage earners but also farmers and other self-employed persons. This extension of the pension scheme was a reflection of dramatic changes in the industrial structure. The new pension scheme for farmers, in particular its disability program, made it possible for the transition from agriculture to other sectors of industry to advance at a faster pace than the normal change of generations would have allowed. In addition to disability pensions, unemploy-

ment-based arrangements for early exit were created. The unemployment pension for the ageing long-term unemployed employees was introduced in 1971 when the unemployment rate was only 3 per cent. The arguments for this new arrangement were based on an occasional need to provide income security for ageing unemployed workers with no chances of re-employment.

Thus in the 1970s the seeds of the early exit culture were sown. Firstly, by using the disability program to cover not only special risks but also the general risks of the whole ageing workforce (see Kohli and Rein 1991, 13). Secondly, by introducing the unemployment pension, which over the following two decades grew from a very marginal instrument of early exit to one of the main pathways out of the labour market.

Throughout the 1980s the disability pension remained the main early exit pathway out of the labour market, although the unemployment pension started to provide an important alternative. The use of unemployment pensions increased in the late 1970s due to rising unemployment, which resulted from the oil crisis. Contrary to ideas that the pathway provided by the disability pension would expand, especially in times of poor employment prospects (see e.g. Stone 1984, 11), in Finland, high unemployment actually contributed to a fall in the disability pension incidence. This development has been explained by the blurring of the distinction between disability and unemployment protection. In times of high unemployment, widely used permanent unemployment benefits for the ageing population remove pressure from the disability program. Moreover, around 1980 the earnings-related unemployment allowance was generally higher than the sickness benefit, which discouraged unemployed persons with health problems from shifting over to the disability path (Hytti 1993, 156).

During the 1980s economic growth created an atmosphere, which supported the expansion of the welfare state. Social rights were enlarged, among them the right to an early exit from the labour market. Promoting early retirement was the prevailing policy, and new measures of early retirement were introduced. The individual early retirement pension – a special disability pension for the elderly with relaxed medical criteria – early old-age pension, and a part-time pension were introduced in the late 1980s. These new flexible retirement programs were aimed at smoothing the end of the working life of older employees in a period of rapid industrial change and new production demands. However, they were also expected to accelerate the structural change towards information industry and to support the competitiveness of companies. Furthermore, the prospect of alleviating youth unemployment through early pensions was on the agenda, although this policy was strongly doubted (Eläkeikäkomitean... 1983, 7-13). The individual early retirement pension in particular became very popular: two years after its implementation the number of individ-

ual early retirement pensioners was three times higher than pre-implementation estimates. Older workers welcomed it as a respectable way of withdrawing from the exhausting, rapidly changing and unpredictable working life. Employers also found it a practical and morally justifiable tool for company policies focusing on personnel reduction.

On the individual-collective dimension, the extension of the early retirement programs in the 1980s was twofold. The unemployment pathway focused mainly on collective risks such as companies closing down, while the new flexible retirement pensions concentrated on individual differences. The old retirement and early exit alternatives were considered too rigid because they did not sufficiently take into account the individual differences in the ageing process, working capacity and other personal or work-related factors. The enlargement of social rights was extended towards the ageing population. The promotion of early retirement aimed to increase the individual level of welfare and was also expected to increase the older employees' freedom of choice on how to bring their working life to a close (KM 1981:33, 13-16).

Although the well being of older workers became an issue in the early exit policy in the 1980s, an important underlying motive was the smoothing of industrial processes by affecting the supply of labour. The export-oriented industries in particular were anxious to use early pensions as a means of renewing their staff (Hytti 2002, 25-26). The early exit of older workers from the labour force was a 'bloodless' way of coping with unemployment: since economic policy was not able to increase the demand for work, it fell to social policy to reduce the work supply (see Kohli and Rein 1991, 11). In Finland, early exit arrangements rather than active labour market measures were promoted. The individual's right to exit early under certain conditions was stressed, but the opposite right, the needs and wishes of older workers to be employed, was not emphasized. Furthermore, at the beginning of the following decade mass unemployment, at least temporarily, totally obliterated the idea of the right to work.

The shift to restrictive early exit policy

The new early exit pathways became effective just before Finland crashed into severe economic recession in the early 1990s. This recession hit Finland hard. GDP growth turned negative, unemployment increased to 17 per cent, and

significant cuts in public spending were instituted. Thus, the economic and social environment the early exit arrangements were operating in was quite different from the environment for which they had been designed only a few years previously.

The troubled economy contributed to restrictions in the early exit arrangements, but the first signs of the shift in the policy were already visible before the recession. At the end of 1989 the Finnish Government appointed a committee (Pension Committee 1990) to investigate how early retirement programs could be amended to promote the employment of older workers. Based on demographic pressures, an expected shortage of labour in the future, and the growing pension expenditure, this committee set the goal of raising the effective early retirement age by three years by the year 2020 (KM 1991:41, 2). Thus the objective of lengthening the working life by having older employees stay on at work for a few more years was set already at the beginning of the 1990s, but it was only after the recession that it became a central policy goal. In 1999 this goal was explicitly stated in the program of the Finnish Government, and in 2001 the Ministry of Social Affairs and Health identified it as one of the strategic areas of focus in Finnish social protection policy over the next decade (Strategies... 2001, 6).

The Pension Committee 1990 proposed marked restrictions on the early retirement arrangements – one of its plans was to terminate the unemployment pension program. However, changes in the Finnish early exit arrangements took place more gradually than planned. Radical reforms were not possible, because even though the Finns took a more reserved attitude towards the welfare state in the early 1990s (Sihvo and Uusitalo 1995, 94-104), the support for the early retirement programs was broad (Gould 1994, 49). Path dependencies and corporate negotiations also impeded retrenchment policy (see Pierson 1994). As Stephens (1996, 57) put it “it is very difficult to roll back entitlements, especially the universal ones typical of Scandinavia, once they are instituted”.

One important factor restraining the restrictions on entitlements to early retirement programs was the employment situation. Although the fiscal crisis called for cuts in public expenditure, and the discussion about the disincentives of the social protection schemes intensified, the huge numbers of unemployed made it impossible to legitimize radical restrictions on the entry to early exit arrangements. In the early 1990s high youth unemployment in particular created a special recession-bound work ethic: older employees felt that they had not just a moral right but a moral duty to retire early in order to make room for the young in a tight labour market (Gould 1994, 27). Companies did not pursue restrictive early exit policies either. While in the 1980s the export-

oriented industries were heading the early retirement process, in the 1990s the economic recession intensified this trend especially in those branches primarily focused on the domestic economy. During the post-recession years in the late 1990s the exposure to international competition was again the main factor explaining the utilization of early exit pathways (Hytti 2002, 28-33). Unemployment stayed at a relatively high level even after the economy turned around, and therefore it slowed the restrictive trend of the early exit policies into the latter half of the 1990s.

Thus, because of the high level of unemployment and the strong opposition of the employees' labour unions to tightening the early retirement programs, the restrictions proposed by the Pension Committee 1990 made slow progress. However, in 1994 the first changes in early retirement legislation were introduced, and based on later agreements between social partners the incremental restrictions have continued ever since. The changes in the pension policy touched both entitlements and provisions, and although the emphasis was on restrictions, some positive incentives were on the agenda.

Using Pierson's (2001, 422-427) classification we can find three types of policies outlining the changes in Finnish early exit institutions: re-commodification, cost containment and recalibration. Re-commodification – i.e. restricting the sources of income which compete with gainful employment, and increasing work incentives – was a general shifting and explanation of the changes in the rules governing the early exit process. Re-commodification was combined with cost containment, for example, in tightening the qualifying conditions for the unemployment pension and gradually rising the eligibility age for the individual early retirement pension. In addition to entitlements to early pensions, pension provisions were also cut: lower accrual rates were introduced for the part of the pension calculated on the post-contingency period. On the other hand, accrual rates were also revised to serve as work incentives. A higher accrual rate was introduced for those who continue to work beyond the age of 60.

Most of the work incentives were targeted at older employees, but a change in benefit costs was aimed to curb the eagerness of employers to use unemployment pensions. In Finland, in relation to the financing of private sector statutory earnings-related pensions, large employers are responsible for the early retirement expenses of their own employees. Up to 2000 the employers' share of the costs of unemployment pensions was only half of that of disability pensions, which made the unemployment pension quite favourable to large employers. In early 2000, the cost sharing for disability and unemployment pensions was harmonized, so that large employers' full liability for both pension types was the same. The rise in the cost of the unemployment pension

was intended to serve as an enticement for employers to retain their older employees.

Changes in the part-time pension program and rehabilitation policy included not only the dimension of re-commodification but also elements of recalibration. For part-time pensions the recalibration process could be identified as updating, while for the rehabilitation policy it was more a question of rationalization, i.e. correcting earlier incentive-incompatible policy (see Pierson 2001).

The changes in the part-time pension policy were expansive rather than restrictive; yet, they were aimed to increase employment among older workers. At the same time that the eligibility criteria for most early retirement programs were tightened, the qualifying age for the part-time pension was gradually lowered from 60 to 56. This was intended to be an encouragement for continuous participation in the labour market if only on part-time basis, although the impact of subsidized part-time work on the employment situation of the older workforce was considered ambiguous. Instead of reducing the full-time pension recipients, part-time pensions may reduce the number of full-time workers and thus promote early exit (Takala 1999, 135-136). As well as this work incentive purpose, we can also identify a modernizing recalibration dimension in the changes of the part-time pension program. The expansion of the program contributed to working hours becoming more flexible, the individualization of life choices and increasing control for the individual with regard to the use of personal time – all characteristics associated with the post-modern society (Beck 1992).

In the 1990s the rehabilitation policy was recalibrated towards earlier and more diverse ways of promoting the working capacity. The policy changes were aimed at altering the welfare incentives offered by the disability policies to bring them more in line with the idea of promoting employment. The changes underlined the primary importance of rehabilitation over retiring on disability pension. Benefits for the active rehabilitation period were adjusted on a higher level than disability pensions, and the time-limited disability pension was changed to cash rehabilitation benefit, which always includes a treatment or rehabilitation plan. To promote the idea of favouring rehabilitation measures initiated at an early stage, thousands of doctors throughout the country were trained in assessing work capacity, with the emphasis on adopting a new perspective: instead of concentrating on proving their patient's incapability of working, they were encouraged to support the remaining working capacity of the patients (Nikkarinen et al. 1998, 97). The emphasis on the working capacity aimed at promoting labour market integration. However, the re-integration of older retirees was not in focus; the target was to hold on to those still in the labour force.

The changes in the early retirement arrangements in the 1990s were numerous, but the basic structure of the exit institutions, developed in the earlier decades, was left mainly untouched. However, at the beginning of the new millennium more profound changes to the Finnish early retirement programs have been proposed. In November 2001 the social partners came to an agreement on extensive reforms of the statutory earnings-related pensions. The main element of these reforms will take effect in 2005. In the agreement the general retirement age will become flexible, allowing a person to retire on an old-age pension between 62 and 68 years of age. This plan includes economic incentives for postponing retirement: if taken at age 62, the old-age pension will be reduced, whereas a substantial bonus accrual rate is introduced for those who stay on at work beyond the age of 63¹. The age limit for the part-time pension will be raised to 58, and the level of the subsequent old-age pension will be lower than at present. The unemployment pension will be abolished, but it will be replaced by additional days of unemployment daily allowance. Thus, the unemployment pathway burden will shift entirely from the pension system to the unemployment insurance system. Also the individual early retirement pension will be formally abolished. It will be merged into the standard disability pension by relaxing the eligibility criteria for those aged 60 and over. In addition to the above changes in pension entitlements, the legal protection of a person who seeks rehabilitation will be improved. There will be a statutory right to vocational rehabilitation when a person's work capacity is at risk due to illness (Korpiluoma 2001).

These reforms, although yet to be introduced, give a strong indication as to the way forward in relation to the culmination of the individual's working life in Finland. The variety of early exit arrangements will be restricted, the age criteria will be raised, some provisions will be cut, and incentives will be introduced to promote staying on at work. However, the merging of the abolished-to-be programs into the remaining exit arrangements will smooth the radical tendency of the reforms. Besides the restrictive elements, which are very much in line with some of the Pension Committee 1990's proposals, the reforms also contribute to the idea of individual flexibility, which was highlighted in the

¹ If taken at age 62, the old-age pension will be smaller than the normal old-age pension. The accrued old-age pension may be awarded without reduction at age 63. At the moment, the normal accrual rate is 1.5 per cent and for those over 60 years of age it is 2.5 per cent. The accelerated accrual rate of 2.5 per cent will be replaced by a bonus accrual rate of 4.5 per cent between ages 63 and 68 and by a rate of 1.9 per cent between ages 58 and 62.

golden era of the 1980s. In this instance however, the flexibility is aimed at prolonging participation in the full-time work arena, by upping the age at which these options can be exercised.

The restrictions and other changes in the early exit arrangements in the 1990s, as well as the above-mentioned proposals in 2001, coherently followed the logic of making full-time early retirement less attractive and encouraging older employees to stay on at work. The same logic was also manifested in the various national programs launched in the 1990s with the objective of promoting the employment of older workers (see page 25). Before we turn to the national programs however, we will outline the structure of the early exit arrangements as it was at the end of 2001.

THE COMPOSITION OF EXIT ARRANGEMENTS

At the end of 2001, after a decade of restrictive early exit policy, Finland still had a great variety of public early exit arrangements. Four types of arrangement can be distinguished: the gradual retirement path, the voluntary early retirement path, the unemployment path and the disability path (Figure 2).

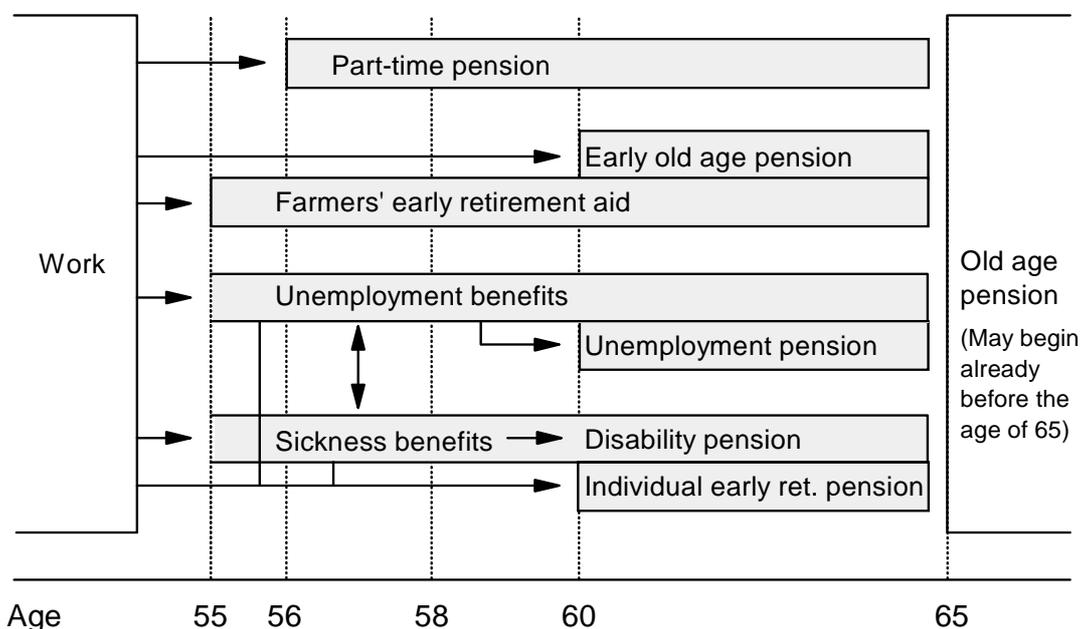


Figure 2. Arrangements for early exit from work in Finland at the end of 2001. According to the recent pension reform the age-limit for the part-time pension and early old-age pension will be raised and the unemployment pension and individual early retirement pension will be abolished.

The first category, gradual retirement, is represented by *the part-time pension*. This option is available to employees aged 56 and over, with long working careers, who switch from full-time to part-time work. From the beginning of 2003 the age-limit is 58 for those born in or after 1947. The part-time pension

represents 50% of the difference between full-time and part-time earnings. A combination of part-time work and retirement is also possible under the partial disability pension program.

The second category includes several voluntary pre-retirement options. It includes the actuarially reduced *early old-age pension*, which can be taken from the age of 60 (in the public sector from the age of 58), and *the farmers' early retirement aid*, which is payable to farmers aged 55-64 who give up farming permanently. The pension reform will raise the age-limit for the early old-age pension to 62. Company-specific programs and special arrangements in the public sector, which offer an old-age pension before the normal retirement age of 65, also belong to this category.

The third category is based on unemployment compensation. It is a combination of unemployment allowance and *unemployment pension*. In general, unemployment allowance is payable for a maximum period of 23 months. However, upon exhausting their right to unemployment allowance, persons aged 57 or over get an automatic extension of the allowance to the age of 60, at which time they become entitled to an unemployment pension. This means that a person who becomes unemployed at the age of 55 years and one month may receive unemployment allowance up to the age of 60, when payment of the unemployment pension will begin. Those unemployed persons who are not entitled to unemployment allowance receive a means-tested labour market support benefit, which does not give the right to an unemployment pension. The pension reform will terminate the unemployment pension and raise the age limit for the automatic extension of the unemployment allowance by two years.

In the fourth category, the exit pathway runs through sickness benefits and disability pensions. The ordinary *disability pension*, either full or partial, is paid to a person who has lost his or her working capacity as a result of illness or injury. It is preceded by sickness benefit for a period of one year. The *individual early retirement pension* is a special form of disability pension for employees between 60 and 64 with a long working career and reduced working capacity. The pension reform includes the termination of the individual early retirement pension for those born in or after 1944.

Kohli and Rein (1991, 15) have pointed out that "although different pathways may produce the same basic outcome in terms of labour force participation, they differ greatly in who controls them, who bears the costs, how they stratify the elderly, and what moral meaning they carry". This is also the case

with the Finnish early exit scene. Even though all above mentioned early retirement benefits are payable through the public pension schemes², and they have been jointly developed by the state and the corporate network, there are distinct differences, for example, in who controls the access to these pathways.

The part-time pension and unemployment pension programs, in particular, have moved early retirement from welfare state control towards company level control (see Trommel and de Vroom 1994,107). These programs, as well as other early retirement arrangements, are based on social security regulations of the welfare state, but the entrance to them is mainly controlled by companies. For example, the employer is not obliged to arrange opportunity for part-time work and part-time pension for older employees, and therefore the final decision on the granting of a part-time pension is up to the employer. Some companies have restricted the availability of part-time pensions to those employees who have health-related problems which affect their working capacity; thus, they are not only exercising control, but also redesigning the qualification criteria for this particular welfare state arrangement. Likewise, in the unemployment pathway, company-level control plays a central role. The automatic extension of the unemployment allowance after 55 until the unemployment pension begins at 60 means that decisions for entering the unemployment pension program are actually taken several years before the pension begins. Moreover, these decisions are mainly taken by companies in lay-off situations and not by the welfare state institutions.

The work incapacity pathway – disability pension and individual early retirement pension – is more clearly under the control of the welfare state institutions; the ultimate gatekeepers of this exit pathway are the pension companies. Medical evidence lays the basis for the determination of eligibility for disability pension, but the concept of work incapacity is highly flexible. Stone (1984, 168) has argued that the disability pathway is, in fact, the most flexible of all need-based distributive systems. The category of work incapacity can

² The Finnish statutory pension scheme consists of earnings-related pensions covering all paid work, and residence based national pensions. National pensions are paid for those pensioners whose earnings-related pension incomes are small or non-existent. The financing of statutory earnings-related pension insurance is based on wage-related contributions paid by both the employers and the employees, while the national pensions are financed out of earmarked tax revenue. All early pension benefits are payable through the statutory earnings-related pension scheme, and except for the part-time pension and farmers' early retirement aid, also through the national scheme.

expand or contract not just for medical reasons but also in order to regulate the labour market or restructure the labour force. However, since the access to disability pension is controlled by medical expertise, it means that the use of the disability pathway shapes the labour force and early exit from it by medical and highly individualized tools. In this respect the disability pathway differs clearly, for example, from the unemployment pathway, which has a more collective-based method of controlling access to it.

The disability pathway also differs from the other exit pathways in the moral meaning it carries. The moral contents trace back to the idea of the deserving and undeserving poor. Those with poor health are classified as deserving, because illness is considered as something that people themselves have only very little or no control over. Being based on illness, the disability pathway is considered morally sound. It legitimates the exit from work and bestows a status that is socially acceptable. For the disability pathway to achieve this however, tight medical evaluation is necessary. Thus, medical control, which individualizes the collectively targeted process of early exit, is the key factor in providing the moral meaning of the disability pathway.

The unemployment pathway does not carry the same moral value. Being without a tight entrance test, it often involves the question of opportunity versus willingness to work. To a certain extent this also applies to the disability pathway: even with strict medical tests there is often some suspicion of faked work incapacity. The unemployment pathway is also criticized for creating a situation of moral hazard (Lundqvist 1996). Older employees may agree with their employers on dismissals, or they may even quit work voluntarily, and yet, after a waiting period, be eligible for unemployment allowance and pension. Thus, it is possible for the employees themselves to affect the probability of entering into the unemployment pathway.

The different exit paths are not completely separated. There exists a certain amount of substitutability particularly between the unemployment and disability paths (Hakola 2000, 31-38). However, since the Finnish unemployment and pension plans are financed and administered separately, these institutions have a desire to retain their access autonomy. This separation has created a tendency of cost shifting (see Casey 1987), both plans having been eager to shift responsibility for the border-line cases to the other. Especially during periods of high unemployment the legal concept of work incapacity has been questioned. The growing rejection rate of disability pension applications in times of high unemployment indicates that, in spite of the flexibility of the work incapacity pathway, there has been a tendency to keep this category strictly medical and clearly separated from the unemployment pathway.

The impact of the different pathways on the Finnish early exit process during the past two decades is shown in Figure 3. As we can see, the disability pathway has narrowed whereas the unemployment pathway has widened.

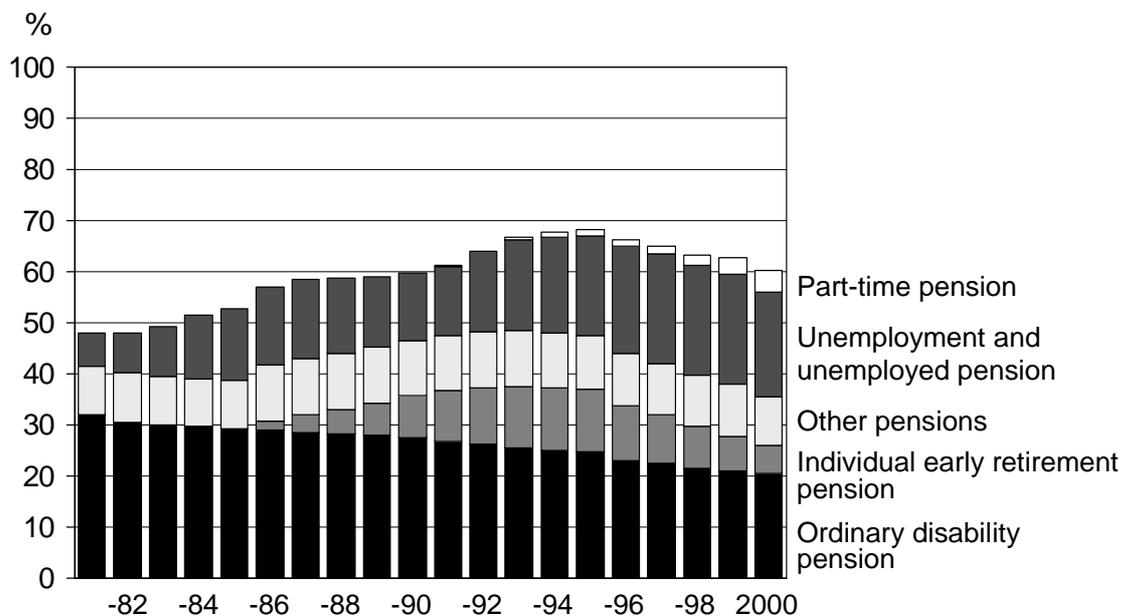


Figure 3. Proportion of persons on different exit pathways in the 55-64 age group, 1981-2000

The figure also depicts an increase in gradual retirement. However, in 2000 the proportion of part-time pensioners within the ageing population was still rather modest. The number of new entries to the gradual exit pathway reveals more clearly the growing importance of this arrangement. In 2000, among those aged 55-64, the number of new entries into the earnings-related pension scheme exceeded 43 000. Of these new entries part-time pensioners accounted for 22 per cent of the total, a figure mirrored by the number of disability pensioners. Entries to the unemployment pension scheme accounted for 30 per cent of all new entries, and the remaining 26 per cent were entries to the old-age pension at a lowered age (Suomen... 2001, 42).

NATIONAL PROGRAMS TO PROMOTE EMPLOYMENT AMONG OLDER WORKERS

The shift from the policy promoting early exit to the policy promoting continuous employment, which took place at the beginning of the 1990s, was not only limited to changes in early exit arrangements; quite a number of nationwide programs and campaigns also contributed to this policy shift.

Although massive unemployment was the main cause for new entries to the exit pathways in the early 1990s, the long tradition of extensive disability pensioning directed attention to health-related matters. The alarming signs coming from older employees also drew attention: experiences of stress symptoms, constant time pressure and straining work conditions were common. The best cures for the early exit trend were considered to be the promotion of work capacity and a change in the attitudes favouring early exit from work. For example, the Federation of Employment Pension Institutions aimed to encourage favourable attitudes towards the promotion and maintenance of work capacity with programs called Respect for Work Ability and Work Ability for Tomorrow. The Finnish Institute of Occupational Health carried out an action program, FinnAge – Respect for the Ageing, and the Ministry of Education and the Ministry for Social Affairs and Health also launched an action program, Fitness for All Ages, which concentrated only on physical activity (Ilmarinen 1999, 235-249). Thus, in the first half of the 1990s the main focus of the campaigns promoting employment was on the ability and willingness of the ageing workforce to stay in employment. The campaigns attempted to change the attitudes and capabilities of ageing workers; the concern over employment opportunities for this group only reached the agenda at a later stage.

Whether these early work-promoting programs had any effect on the employment situation of the older workforce is difficult to say because of the counter-effect of the recession. In the first half of the 1990s the number of new entrants to disability pensions among older workers decreased rapidly, but this was mainly do to the simultaneous increase in the number of new entrants to the unemployment pathway: older unemployed persons, especially those on unemployment pension, made no attempt to switch from the unemployment path to the disability path.

In the mid 1990s the peak of unemployment highlighted the poor employment prospects of the older generation, and a new committee was set up to

investigate the situation of older workers in the labour market (KM 1996:14). The central proposal of this committee was the implementation of the National Program on Ageing Workers for the years 1998-2002. As with previous campaigns, this program aimed at promoting activities to maintain the working capacity of the ageing workforce, but to some extent, the focus was shifted from the ageing employees to their work places. The program consisted of comprehensive information and training projects carried out simultaneously in different administrative sectors. It also included extensive research and projects for development of working life. One of the program's main targets was to influence general attitudes; the experience of ageing people as a national asset was emphasized in information disseminated. Following the principles of life-long learning, the level of knowledge and vocational skills of ageing people were raised. Attention was also paid to developing managerial skills and management culture, and the service system of the labour administration was readjusted to meet the needs of older job-seekers. (Ikäohjelman, 17-18).

According to the external evaluation of the Program on Ageing Workers the only unquestionable effect of this program has been the growing level of knowledge of the ageing process and information on the status of older people in the labour market. Other possible effects of the program – for example, establishing the policy for maintaining working capacity at work places, improving the ageing employees' opportunities for training, and contributing to favourable attitudes towards ageing workers – are difficult to distinguish from the effects of such general factors as the improving economic situation and shortage of skilled workers (Arnkil et al. 2002, 28-30). Although the program's independent effects on the employment situation of ageing people are indeterminable, it has at least intensified the favourable trend in the employment of ageing workers.

In the late 1990s the Program on Ageing Workers was not the only undertaking of the Finnish Government to promote employment among ageing people. The National Program for Working Life Development and the national Well-Being at Work Program – both still in progress – are targeted at all ages, but they take a special interest in older workers. The Program for Working Life Development aims to improve productivity and the quality of working life by promoting the skills, knowledge and innovativeness of the employees. Along the same lines, the objective of the Well-Being at Work Program is to maintain well-being at the workplace, for example, through promotion of good practices, research and development projects (Työssä...2001, 65).

We pointed out above that the changes that took place in the early exit arrangements in the 1990s were incremental. The same can be said of the national employment promotion programs. These programs did not create any

breakthroughs or profound cultural changes, but all in all they achieved some favourable outcomes in supporting the longer working life of ageing people. Regarding the level of early retirement arrangements the employment promotion policy was mainly restrictive. To some extent the national programs softened this policy by attempting to diminish the need for early retirement, by whichever pathway, rather than just restrict the opportunities for access to it.

During the 1990s the scope of the national programs developed, from the individual- and health-orientated, to a more workplace- and work-community-oriented direction. Instead of aiming only at changing individuals and their attitudes to meet the requirements of modern employment, the programs of the late 1990s also concentrated on the development of working life. To continue this policy, a new program called "Pull" is being planned at the Ministry of Social Affairs and Health. The Pull-program aims, in particular, to increase the attractiveness of work. The focus of the actions of these programs has been to a large extent on the workplace, and many local or company specific practices have been created. However, the direction of the national employment promotion programs has been top to bottom, and they have been criticized for accentuating mainly the perspective of the state, and not that of the individual.

POLICY OUTCOME: INDIVIDUALS IN AN INSTITUTIONAL CONTEXT

So far we have discussed the relation between ageing and work mainly from an institutional perspective. We have described the relevant policies and practices and the institutional and macro-level outcomes that they have produced with respect to labour market participation of ageing workers in Finland. We will now focus on the individuals, and examine how older workers themselves perceive the organization of the end of working life.

In Finnish society work and family are considered the most important factors contributing to the meaningfulness of life, and high work ethic represents the dominant attitude to work. In the early 1990s a great majority of Finnish employees, 84 per cent, felt that work brings intrinsic satisfaction to them (Pohjola 1996, 112-113). However, the high value placed on work seems to conflict with the great number of early retirees and especially with the fact that a majority of ageing workers who still participate in the labour market have thoughts of early retirement (Gould 2001, 10).

A partial explanation to the inconsistency between the work ethic and the preference of early exit is offered by distinct elements of the Finnish work ethos: pride and persistence. According to Kortteinen (1992, 48), the typical saga of a Finnish worker – from factory workers to office clerks – is a survival story in three-parts: 1) it's hard, 2) the worker tries to pull through, and 3) the worker has managed and is proud of it. The same frame can also be found in the stories of early retirees or those who would prefer to retire early. When they start to feel that they have no more chances to pull through because either their jobs or work capacity are threatened, they justify the early exit by referring to the hard work they have done. The most common reasons for early exit given by the Finnish retirees themselves are poor work capacity, straining work conditions or environment, and labour market constraints (Gould 2001, 21). Thus, the expressed preference for early retirement can indicate that although early exit may be the only realistic option available, interpreting it more as a choice and less as a compulsion enables the worker to retain some sense of personal control over his/her life course and maintain the pride build up through work.

During the recession of the early 1990s, the persistence of Finnish workers was stretched to the limit. A majority of employees reported an increase in the

stressfulness and time pressure of their work (National...2000, 26). The growing trend in the stressfulness of work continued after the recession, and older women in particular suffered from increasing mental workload. Many of the oldest employees found it impossible to adapt to the growing pressures at work: in 2000, one in four employees aged 55 to 64 believed that in two years they would be unable to continue to work in their current job because of their health (Kansallisen, 32-33). Yet there were some positive changes in the well being at work among ageing employees, at the end of the 1990s the over 55s especially, felt that the opportunities to develop oneself or influence one's own position had increased, and management practices had changed for the better (National... 2000, 38). These changes were most likely reflecting the effects of the various work promotion programs.

According to Bauman (1995) one of the most distinctive features of post-modern life is the fragmentation of time into short episodes. The episodic nature of time contributes to the unpredictability of life. In Finland, the recession of the early 1990s and the subsequent shift in the institutional context of early exit towards the unemployment pathway increased the uncertainty of the life course of ageing workers. A sudden episode of unemployment after a long and steady work career was a very unsettling experience for older employees. For many it was also an insidious process: only afterwards was it possible to identify the onset of a period of unemployment as the definite exit from work. The enormous number of redundancies shook the faith in job security particularly among older employees; in the mid 1990s only 5 per cent of the over 55s believed that they could be re-employed in case of a redundancy. However, towards the new millennium the faith in re-employment opportunities recovered; in 2001 nearly 40 per cent of the employees aged 55-64 believed that it would be possible for them to find a new job, and among the 45-54-year-olds the corresponding percentage was 60. Still, the re-employment of ageing unemployed people has remained a major challenge for the work promoting policy line (Ikäohjelman..., 124).

For the majority of Finnish early retirees, labour market constraints and problems in work or working capacity have not left much room for choice in the organization of the end of the working life (Hytti 1998, 131). The finding that economic incentives play a somewhat mixed role in early retirement decisions (Hakola 2000, 25-31) further supports the idea that following the unemployment or disability exit paths has been for the retirees themselves often a decision of little or no choice. However, the great variety of Finnish early exit arrangements indicates a similar variety of early exit experiences. Finnish society is following the post-modern line of development in the strengthening of individualistic values (Pohjanheimo 1997). Based on a time-use analysis,

Huovinen and Piekkola (2002, 13) argue that the importance of leisure time will increase because of the baby boomer generation's higher wealth. Thus, a growing number of older employees are becoming subjects and not just objects of their own life politics. The gradual retirement pathway in particular, is a good example of a post-modern status passage, which requires that individuals become actively involved in negotiating their life course with social networks and institutional gatekeepers (see Heinz 1996, 52). Of the existing Finnish early exit arrangements the early old-age pension and farmers' early retirement aid are also more voluntary pathways, and as was mentioned above, even the unemployment and disability pathways may leave some room for negotiation, for example, in respect of the timing of the transition.

Although the transition to the most common early exit pathways has involved rather little individual choice, the Finnish early retirement policy has succeeded in generating welfare among early retirees. The majority of those retiring early are fairly satisfied with their lot. Early retirees' own evaluation on their life situation indicates continuity of, rather than decline in welfare, and the comparison with the ageing population does not reveal a disparity in welfare either (Saurama 2001a; b). Those who have followed the more voluntary pathways, such as part-time pension or company-level retirement arrangements, are perhaps the most satisfied with their situation: they are healthier, more contented and better off financially than other early retirees (Gould 1997). Part-time pensioners also report that the transition to part-time work has been smooth, and that they are able to enjoy their additional leisure time (Takala 1999). However, for those older employees whose problems of employability are not medical enough to qualify them for the disability pension and who do not qualify for work either, the output of the early retirement policy has not been generous at all. Those in the most difficult situation financially have been the older, long-term unemployed persons whose labour market engagements have not been sufficient to entitle them to the unemployment pension. For them the institutional context has promoted early exit but with hardly any compensatory arrangements.

CONCLUSIONS: TOWARDS FLEXIBLE LIFE POLITICS

In the 1990s, due to the surplus of labour during the recession and the large support of the welfare state, Finnish policy regulating the end of the working life was a typical case of “a politics of blame avoidance in which cutbacks can take place only through incremental and surreptitious mechanisms or during moments of extraordinary fiscal stress and political consensus” (Clayton and Pontusson 1998, 68; see also Pierson 1994). Gradual tightening of the qualifying conditions and the growing rejection rate of disability pension applications were examples of the incremental and surreptitious mechanisms employed, whereas the ageing of the population, expected labour shortage and increasing costs of the welfare state contributed to the fiscal stress and political consensus.

The regulation of labour has been an important objective of the early/late exit policy. In the 1980s and still in the early 1990s the aim was to reduce the supply of labour, while later, the policy changed to promote employment and increase the supply of labour. Besides the labour supply grounds, the arguments for the early exit policy in the 1980s focused on the individual's social rights. The social climate supported the idea of an individually designed end to the working life and a shared early exit culture emerged. In the 1990s however, the public discourse changed; early exit as a social right was increasingly questioned, and the need for incentives to work became a rising issue (Anttonen and Sipilä 2000, 90). The primacy of work over social security benefits was emphasized and financial incentives and disincentives were built into the pension system. The moral aspect, work as a duty, was embedded, in particular, in the unemployment benefit scheme. However, the method of incentives was not limited to the financial incentives. The efforts of the numerous national programs to promote well being at work can be interpreted as qualitative incentives. They aimed to redirect the moral code of work as a duty to a more voluntary direction by replacing duty with willingness. Yet the issue of work as a right of ageing people has not been raised to the centre of the work promotion policy.

Another dimension of change in the policy targeting the organisation of the end of the working life was the shift towards greater flexibility and individuality. This shift was not straightforward. The flexibility of the individual life course was one of the main goals of the expansion of early exit arrangements in the

late 1980s, but in the early 1990s the recession stunted this development. The unemployment pathway, which was the most common at the time, was mainly based on collective arrangements and not on individual choice. Towards the end of the decade the individual flexibility was highlighted again in the broadening of the gradual pathway. The plans to increase the span of the retirement age to 62-68 will further increase individual choice, although other elements of the reform will simultaneously narrow the flexibility of the options available to those under 62.

Individualisation is also detectable in the implementation of life course organisation. The planning of the special arrangements to regulate the end of the working life has mainly been a corporate endeavour. The earnings-related pension scheme was established in cooperation with the social partners, and over the years they have taken an active part in the development of the scheme. However, the control over these arrangements lies more with the welfare state, and, to a certain extent, companies. The unemployment pathway especially is under the control of company policies. The individuals' responsibility over their own life politics has grown, yet for many there is not much room for choice in the organization of the end of the working life. The recently planned increased flexibility of the entitlement to old-age pension in particular, will more explicitly shift the responsibility of the life course design to the individual. Thus, the actor constellation involved in the regulation of the relationship between ageing and work includes the corporate network responsible for the contents of the programs, the welfare state, companies, and, to a growing extent, individuals as responsible for the control and choice over these programs.

We have argued that the recommodification, cost containment and recalibration policies, which shaped the institutional context of the end of the working life since the early 1990s, caused only incremental adjustments to the early exit arrangements. However, the constant flow of these programmatic changes restricting early exit and particularly the further reaching proposals of the agreement in 2001, suggest a more profound change in the relationship between ageing and work. The programmatic change has been accompanied by systemic change in the social and political environment creating a growing consensus on the importance of increased longevity in working life (see Clayton and Pontusson 1998; Pierson 1994). Thus, it seems that in the development of the Finnish ageing and work culture small but obstinate changes have accumulated to create a shift from the paradigm of early exit as a social right to a paradigm of work as duty in an individually flexible context.

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