Older men’s labor force participation in Belgium

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Abstract

We provide an overview of the institutional framework in Belgium that is of relevance for labor market participation and retirement decision at older ages. We then describe key labor market indicators using data from the Labour Force Survey (LFS) over the period 1983-2013 and also present trends in participation in (early-) retirement routes. Next, we explore how the types of jobs in the country have changed over time, both in terms of their “quality” and the “quantity” of work involved.

1. Introduction

The Belgian labor market has undergone profound changes over the course of the last 4 decades. Changes have been particularly noticeable for the age group 50+. While for women, the country has witnessed a steady increase in labor force participation (LFP) since the early 1980's (and even beyond), the picture is wholly different for men of the same age cohorts (e.g., see figure 1).

Empirically, male LFP has transited through three-stages: After a first period of strongly declining labor force participation rates in the 1980’s (and partly the early 1990’s) followed a second period of relative stability at low levels – both from a historical and from a cross-country point of view (see, e.g., Gruber and Wise (2004) for the latter). Finally, as of the early-to mid-1990’s, there has been a steady upward trend in male LFP, first starting at younger ages and then progressing upwards through age groups.

What are the factors that explain these rather profound changes in terms of labor market outcomes in Belgium? This is the issue that we are investigating in the present chapter. The questioning is by no means new: Dellis et al (2004) already used administrative data covering the years 1993-1995 to compute various retirement incentive measures (financial and option value), estimate retirement

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probit models, and simulate the effects of stylized reforms in terms of effective retirement ages.\footnote{Further follow-up work extended the analysis to other dimensions, such as the fiscal cost of these early retirement schemes as well as their impact on health and well-being ((Desmet et al (2007), Jousten and Lefebvre (2013); Jousten et al (2005), Jousten et al (2012 and 2016), Maes (2011)) )\textsuperscript{2}} However, given the period at study, these authors only captured the first two of the three stages that we described above. The main contributions of the chapter to the literature are therefore twofold: First, we extend the study period beyond the early nineties to the year 2013. Second, we take a step back from individual retirement incentive analysis to explore more broadly factors that have changed over the course of the period of analysis with an influence on employment at older ages.

The chapter’s structure is as follows. Section 2 provides an overview of the institutional framework in Belgium that is of relevance for labor market participation and retirement processes at older ages. Section 3 describes key labor market indicators using data from the Labour Force Survey (LFS) over the period 1983-2013—such as the rates of LFP, employment and unemployment—and also presents trends in participation in (early-) retirement routes. Section 4 explores how the types of jobs in the country have changed over time, both in terms of their “quality” and the “quantity” of work involved. Section 5 concludes and sketches pathways for future research.

2. Institutional framework and recent reforms

The Belgian labor market is segmented into three main components: The civil-servant regimes, the scheme for the self-employed and the main (and at the same time residual) contractual wage-earner scheme.

Civil servants benefit from a special regulatory environment, in the sense that both their professional work-life and their retirement are organized under a separate set of rules from other workers. Key characteristics include the quasi-complete layoff protection (and the associated non-eligibility for unemployment benefits), a “career-break” system (also allowing part-time retirement at older ages with full maintenance of pension accrual), a defined benefit disability pension system (no roll-over occurs at the retirement age), as well as extensive defined benefit retirement pension rights, encompassing some types of early retirement benefits (either formally called this way or acting as such), retired worker benefits (reference full-retirement age of 65, early claiming age of 62) as well as survivor benefits. No dependent spouse or household benefits are available. All inactivity benefits are essentially general-budget financed, except for survivor benefits where a special 7.5 percent contribution is levied on all active workers belonging to the respective scheme.

The civil servant regime is often considered to be the most generous of the three regimes, though this does not always have to be true. On the one hand, key elements contributing towards its relative generosity are (i) the layoff protection and the traditional (quasi-mechanical) progression through the pay-scales, (ii) the short wage-averaging period used when computing pensions (increased from 5 to 10 last years of earnings as of 1/1/2012 for regular civil servants born after 1/1/1962, with some categories of civil servants such as railway staff still benefiting from a more favorable 4 year averaging period up from even lower levels before 1/1/2012), (iii) the shorter career requirement than the Belgian “reference” of 45 years for some professional groups (policemen, teachers, judges,
railway staff, military), as well as the sometimes rather low full retirement age (as low as 55 years for some railway workers, 56 for large groups of military personnel, 58 for the police, etc.), (iv) the indexing of pensions that follows wages (of active workers in the rank and pay-scale) rather than the usual price indexing using the slowed-down “health-index” (a modified consumer price index widely used for indexing purposes in the country). On the other hand, this generosity is not benefiting everyone in the same way, as many of the above advantages only accrue to specific categories of civil servants, hence leaving others ineligible for these special favors. Similarly, some distinctive features of the civil-servant system can render benefits substantially lower than those accruing in the other schemes. This is, e.g., the case of permanent disability earlier on in life where the short reference period and the early stage of progression through largely seniority-based pay scales combine toward generating low pension levels. Also dependent benefits under the retirement section do not include benefits for divorced partners, etc. as in some of the other schemes.

The regime for the self-employed is the smallest and least generous of the three in absolute terms. Self-employed are entitled to disability benefits as well as to retirement benefits, but have no access to unemployment or special early-retirement schemes (such as career breaks, etc.). Disability benefits are flat-rate and payable until the full retirement age – when the rollover into the earnings-related retirement pension occurs. Retirement (and extensive dependent) benefits are based on an earned-income averaging period of 45 years for both men and women – with earned income corresponding to taxable earnings to which a floor and a ceiling is applied. An average-wage to pension conversion rate of 60 percent for “single” benefit claims and 75 percent for “household” claims (mostly one-earner couples) is applied, with pensions (and disability allowances) indexed to the health index. On 1/1/2016, the full retirement age is currently set at 65, and earlier claiming is allowed as early as age 62 with a career of 40 years. Until 1/1/2014, early claiming of the self-employed was subject to actuarial corrections. Originally of a linear 5 percent per year of anticipation, they were brought to 3, 4, 5, 6 and 7 percent for 1, 2, 3, 4 and 5 years of anticipation as of 1/1/2007. One 1/1/2013 adjustments for those aged 63 and 64 were dropped before the total removal of actuarial penalty factors a year later.

The third and largest scheme (both by enrollment and scope of coverage) is the contractual wage-earner scheme, encompassing the wide majority of private sector workers as well as the contractual staff of the public sector. In terms of its design, it resembles rather closely the system applicable to


4 When considering its generosity with respect to the contributions paid into the system, it ranks second after the civil-servant scheme given the rather low individual contributions towards the scheme – with general budget financing occurring for the residual (unlike all other systems, taxable wages are subject to a floor and a ceiling). For a detailed description of the system, visit http://www.inasti.be/fr/pensions.

5 According to data from the self-employed pension administration, the distribution of pensionable wages for the self-employed is heavily skewed towards lower income levels. According to data from the Self-Employed Pension Administration quoted in Appendix 2.2 of Vandenbroucke (2014), 40 percent of self-employed have incomes below or just above the floor, and only less than 5 percent earning more or just below the ceiling.

6 This system is the best documented and has been the focus of the last waves of the International Social Security project, e.g. Jousten et al (2012 and 2016)
the self-employed. Actually, numerous reforms over the past years have either explicitly or implicitly made changes to the two systems that render them more and more akin to each other in the way benefits are computed and granted. While the full retirement age of 65 and the early claiming age of 62 with 40 years of career as of 1/1/2016 (or 61 and 60 years with 41 and 42 years of career respectively) are akin to those prevailing and having prevailed in the self-employed system, the actuarial adjustments for early claiming had already been fully abolished in the system as of 1/1/1991.

The wage-earner scheme has several key extra features with respect to the self-employed regime: (i) it provides for earnings-related disability, unemployment and conventional early retirement benefits that are not subject to any explicit time limit; (ii) generous “time-credit” schemes are available allowing part-time retirement (reductions to 50 or 80 percent of a full-time job) at older ages largely maintaining full pension accrual. While the threshold age for old-age time credit is currently set at 56, part-time exits are sometimes possible at ages as low as 50 especially for workers affected by industrial restructuring or having worked in “difficult” jobs. 7

Several major reforms have affected the work and retirement incentives of all three regimes over time. 8 Five key dimensions have been affected. First, the female retirement age and career requirement have been progressively aligned from age 60 and 40 years of career towards those prevailing for men (65 and 45 respectively) during a transition phase that started on 7/1/1997 and ended on 1/1/2009. 9 Second, the age for early claiming of retirement benefits has been increased from the long-standing age condition of 60 in half-year increments starting on 1/1/2013 and reaching 63 on 1/1/2018. In parallel, career requirements both for early claiming of retirement benefits as well as for eligibility of early-retirement benefits have been progressively tightened to current levels – and are actually projected to tighten further (broadly adding another 2 years on top of current career requirements as of the 1/1/2019). Third, conditions for older unemployed workers have progressively been tightened and benefits rendered less generous. Fourth, in 2016, further legislative action has been taken to increase the full retirement age to 66 in 2025 and to 67 in 2030. The full retirement age also no longer constitutes a forced retirement age in most situations – with individuals increasingly having the right to continue working. Finally, the rules regarding the retirement pension systems’ earnings tests have been substantially loosened – with a complete elimination thereof over the full retirement age. However, while pension legislation has progressively been adapted to reflect this paradigm change, the same does not necessarily hold true of other

7 For a complete overview of the old-age time credit regulations, see http://www.onem.be/fr/documentation/feuille-info/t151.

8 The Intergenerational Solidarity Pact passed into law in December 2005 represents a major milestone. Though not the first reform targeting a tightening eligibility conditions for social benefits, it is the first comprehensive attempt towards increasing labor force participation at younger ages, reducing labor costs, increasing the effective retirement age and permitting a smoother transition into retirement. For a recent evaluation of its effects on older workers’ employment, see Dejemeppe et al (2015).

9 In 1987, the previously applicable early claiming age of 55 for women had already been aligned to that of 60 for men.
social legislation, hence still making the age of 65 a more pivotal age than one could think based on pension laws.

The following timeline provides a visual summary of the main changes to the wage-earner scheme for men over the period 1983 to 2016. It documents the increases in generosity (green) and decreases of generosity (red) associated with the main effective (early) retirement routes.
3. Labor market trends

Data
We use data from the European Union Labour Force Survey (LFS) for the years 1983-2013. The data contains information on self-declared labor market status, as well as from 1992 onwards information on self-declared inactivity status. The information provided by individuals may obviously differ from administrative classification; hence there is no strict correspondence between the institutional environment and reforms thereof as summarized in Section 2 and the self-declared status of an individual. For example, the conditions for being categorized as unemployed for LFS purposes are substantially different from those for unemployment benefit receipt. Similarly, in case of any kind of self-declared activity, there is no information on simultaneous benefit receipt (pension, unemployment, time-credit, etc.)

Headline indicators
Figure 1 documents that the LFP of the Belgian population has undergone profound changes. The strong upward trend in female labor force participation is the reflection of several factors: First, a seminal increase in labor market activity of women that progressively reduces the gap between male
and female LFP levels. Second, a non-negligible role in the observed pattern can be attributed to changes in benefit structures. For example, the LFP curve for women in the age group 60-64 is largely tributary to the fact that as of 1998 an ever larger share of this group finds itself below the full retirement age – and hence potentially active – as a result the latter’s progressive increase. Third, no doubt the female labor market performance is also affected by the same general trends as their male fellow workers that we now discuss in more detail.

Figure 1: Labor force participation – age 50-64

Source: Authors’ calculations based on LFS data

Figure 2: Employment rate – age 50-64

Source: Authors’ calculations based on LFS data
Male LFP has undergone a three-staged process across time, as already pointed out in the introduction. Figure 2 reveals that this trend is to a large part the reflection of an increase in the employment rate – with overall time-patterns of LFP and employment largely overlapping. The changes have been the most pronounced for the age group 55-59, where both the initial decrease and the later increase have by far been the strongest with decreases and increases of the order of magnitude of 15-20 percentage points.

The unemployment rate has not played a major role in the above trends as illustrated in Figure 3. For ages 50-59, female unemployment rates have undergone a profound transformation as they have come down from previous heights to reach levels akin to those of their male counterparts. Also, as a result of the increase in the full retirement age, the unemployment statistics for women aged 60-64 also aligned to those of other age-groups. Figure 4 documents that male and female unemployment rates have remained rather stable over the entire period, with year-on-year variation likely mostly the reflection of the economic environment faced by these specific sex-age cohorts, rather than the overall economic performance as proxied by the trend in real GDP.10

Figure 3 : Unemployment rate – age 50-65

Source: Authors’ calculations based on LFS data

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10 Figure 4 focuses on ages 50-59 to prevent bias relating to the increase of the full retirement age for women.
Inactivity patterns

Where do extra workers come from? Given the above patterns, the only possible answer is from various inactivity statuses. LFS data only contains data on inactivity statuses as of the year 1992 – and hence only for the second half of the period previously discussed.

Figure 5 illustrates the trend in the number of people that declare themselves early-retired or retired. It is noticeable that there is a strong downward trend in all age-sex-groups considered, except for the 60-64 year-old females at the beginning of the observation period when their full retirement age was still 60. This downward trend is overall consistent with the pattern of reforms discussed in section 2 which have overall lead to a tightening of eligibility conditions to some early retirement routes (though generosity has sometimes been reformed in an opposite direction).

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11 Given the survey nature of the LFS, the statistics can differ from those based on administrative data. For example, a worker on part-time time credit or career break would appear as employed and active in the LFS, whereas administratively he would possibly show up as early-retired. Similarly, a retiree working with earnings below the earnings test would likely be categorized as employed, and not retired.
A second group of inactives that could explain the upward trend in the LFP rate are the disabled. Figure 6 plots the time-trend over the period 1992-2013. While for men the overall trend is downward-sloping (particularly above age 55), the opposite is true for females. The LFS data thus confirm the observation of a steep increase in the number of female disabled that Jousten et al (2016) identified using administrative data. These authors argued that while some of the upward trend for women could be explained by the increase in the full retirement age, other factors had to be at play.

Figure 7 plots the third and residual group - the “other inactives” including those that fulfill domestic tasks. Two key features stand out: levels that are substantially larger for women than for men; and a sharp drop for women over the course of the last two decades – shaving off a massive two thirds of initial levels for age groups 50-59. For the age group 60-64, the drop is less pronounced because of a slowdown in the middle of the observation period, likely corresponding to a slowdown in transitions from inactivity to retirement as a result of the progressive increase in the retirement age over the period from 1997-2009.\(^\text{12}\)

Our analysis of inactivity patterns thus identifies two main findings: (i) a strong reversal of male activity and employment patterns as of the 1990’s whose mirror image is a decrease in the people declaring themselves as retired or disabled; and (ii) a sustained increase for women activity over the

\(^{12}\) Using a unique administrative panel dataset, Fraïkin and Jousten (2016) document that even for those “other inactives”, most transitions out of the “other inactivity” status occur towards retirement pensions, often accrued based on some form of labor market attachment at earlier stages of their career.
entire observation period, going hand in hand with a very sharp decrease in the rate of female inactivity.

*Figure 6: Disabled as a share of the population – ages 50-64*

Source: Authors’ calculations based on LFS data

*Figure 7: Other inactive as a share of the population – ages 50-64*

Source: Authors’ calculations based on LFS data

4. The changing nature of employment

Beyond the shifts in the activity and employment rates – the extensive margin that the Belgian and European public debate often focuses on – it is important to investigate changes in the quantity of work along the intensive margin as well as other qualitative characteristics of these jobs.
Figure 8 displays the profound changes in educational attainment across the population aged 50-64, with an increasing prevalence of higher education.

**Figure 8 : % of male aged 50-64 with a given education level**

Source: Authors’ calculations based on LFS data

Figure 9 displays the shares of the industrial and service sectors among all workers for the age group 50-64. While the role of the service sector has been trending up over the entire time-span, major differences subsist across genders with female employment being close to 90 percent service-based while male employment is nowadays split approximately two-third/one-third.

Figure 10 presents the share of part time jobs in total employment. Consistently with the increasing availability and popularity of the “time credit” and career break legislations, as well as the greater ease of combining work with retirement, there has been a strong upward trend in the role of part-time work in the Belgian population. For older women, more than half declare themselves in some kind of part-time arrangement, while for men the level is of close to 20 percent for ages 55-64. Combined with the employment trends of Figure 2, Figure 10 documents that part-time work has been the fastest-growing status among people aged 55-64.  

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13 Though not reported here, part-time arrangements are substantially less prominent among the self-employed than for wage-earners and civil-servants – a reflection both of the less generous early and part-time retirement routes and the fact that the analyzed LFS data refers to the main job (and not secondary jobs).
Figure 9: % of jobs in the service and industrial sectors – age 50-64

Source: Authors’ calculations based on LFS data
Note: Sum does not necessarily correspond to 100 percent as the primary sector is not included

Figure 10: % of part-time job in total employment – age 50-64

Source: Authors’ calculations based on LFS data

Figure 11 documents that the gender differences in part-time work of Figure 9 are not exclusively due to the different sectoral composition of Figure 9 – as substantial gender differences prevail all across the period of analysis. Another reason for these differences has to be sought in very different part-time prevalence at much lower ages. Figure 12 shows that the share of part-time jobs at ages 35-49 differs even more markedly between gender – with part-time work almost exclusively being a
female phenomenon until the end of the nineties, and still displaying a heavy gender bias thereafter. Part-time patterns later in life are hence a reflection of incentives for older workers, but also reflect a stock of workers that has been working part-time for a longer part of their career. While for men the former elements clearly prevails – given the quasi absence of part-time work at younger ages – the latter plays a more prominent role for women.

*Figure 11: % of part-time jobs in total sectoral employment – age 50-64*

![Graph showing part-time jobs in total sectoral employment for men and women aged 50-64.](image)

Source: Authors’ calculations based on LFS data

*Figure 12: % of part-time jobs in total employment – ages 35-49*

![Graph showing part-time jobs in total employment for men and women aged 35-49.](image)

Source: Authors’ calculations based on LFS data

Figure 13 illustrates that average hours of work for part-time workers has a positive long-term trend over the period of observation – currently settling in the vicinity of 20 hours a week for women and
25 for men. In combination with Figure 10, it confirms the findings of Aliaj et al (2016). These authors propose a decomposition of total hours of work trends in the economy into an employment and an hours-of-work effect. Their analysis shows that while the average hours per worker in the economy have decreased – notably because of an increase of part-time arrangements – total work hours have increase due to the dominance of the increase in the employment rate. Expressed differently, there is some degree of offsetting of the positive employment effects through reduced work hours, shedding a somewhat dubitative light on some strongly encouraged part-time work arrangements.

Figure 14 presents the changing hours of work attributes of part time workers across time. First, changes along this dimension seem to be more profound for men than for women. Second, the category of part-time workers displaying the strongest increase are those working more than 30 hours a week, likely corresponding to workers reducing their weekly work schedule by 1 day – in line with old-age time credit and career break legislations. Third, it is precisely the share of the category of workers with 20 to 29 hours – hence those close to the observed averages of Figure 13 – that drops most significantly over the time-span.

Our results show that interpreting data on average work hours (such as those of Figure 13) as representative of a “typical” part-timer is becoming ever less accurate. We further show that a rather persistent 30 percent of male part-timers and 40 percent of female part-timers have a work intensity corresponding to less than a half-time position (less than 19 hours of work). Given the growth of the overall population of part-timers of Figure 10, it also means that a non-negligible number of extra workers contribute little towards the financing of social security schemes (through social insurance contributions and/or taxes), while at the same time they might accrue minimum benefits (e.g., time credit or career break) or already be claiming a pension or other social benefit (e.g., work after retirement). Finally, the increase of the category of part-time workers with more than 29 hours raises more general questions regarding the part-time career-break and time credit regimes that cannot be answered with LFS data: how many of these individuals working 30 plus hours in part-time arrangements would anyhow have continued working and how many are “additional” workers? Depending on the answer to this question, the considerable current (and future) expenditures associated with both schemes could and should be evaluated as to their efficiency.
Figure 13: Average number of hours in part-time jobs – age 50-64

Source: Authors’ calculations based on LFS data

Figure 14: Distribution of hours of work for part-time workers - age 50-64

Source: Authors’ calculations based on LFS data
5. Concluding remarks
We have described the Belgian institutional landscape that workers are facing when deciding to join the labor force and/or work. Major institutional differences exist between the three social protection regimes for wage-earners of the private and public sectors, as well as for the self-employed – rendering the Belgian context an extremely rich one for economic analysis.

Using data from the European Union Labour Force Survey, we are able to identify trends in activity and inactivity both across time and across genders. Complementary analysis also reveals that the Belgian economy has undergone major sectoral realocations, though we are not able to identify shifts between the three regimes because of lack of data.

We further document a sharp increase in the prevalence of part-time work for both men and women, with the male component mostly occurring closer to retirement while females are already working part-time in large numbers at much lower ages.

Our results also illustrate the potential for further analysis. One promising avenue could be to link these survey data with administrative data on benefit entitlements to get a better understanding of the precise activity and exit patterns of the Belgian population – including their use of career-break and time credit arrangements. Another avenue would be to revisit the models of work incentives as in Dellis et al (2004) – integrating the latest labor market and institutional developments.
Bibliography


