



Annualized hours (hours-averaging) schemes

What are annualized hours schemes?

Annualized hours, or hours-averaging, schemes allow variations in weekly hours of work, while requiring that a fixed annual total or a weekly average of working hours be reached. Further, variations in weekly hours must respect established minimum and maximum limits on daily and weekly hours. So long as these limits are respected, as well as the annual total or weekly average, no overtime premium is payable for hours worked beyond the statutory “normal hours”. Other

important provisions of annualized hours schemes include notice periods for changes in schedules, the periods of time over which hours worked are averaged (called “reference periods”), and the conditions for the payment of overtime. Wages are often paid on an average basis throughout the year, and these schemes can include special provisions for annual leave and holidays. Hours-averaging schemes can also be introduced in connection with shift work.

How is annualizing of hours constrained?

The scope for averaging hours over a period longer than one week is constrained by the laws and regulations on standard working time, which define the maximum hours employees must work on average over an established reference period, and on total working time, which define

the number of working hours which are not allowed to be exceeded in a single day or a single week. The table below shows the absolute maximum limit on total hours worked in one day, standard hours and the reference periods over which they can be averaged.

Statutory provisions on hours averaging in selected countries

Limits on maximum and standard working hours

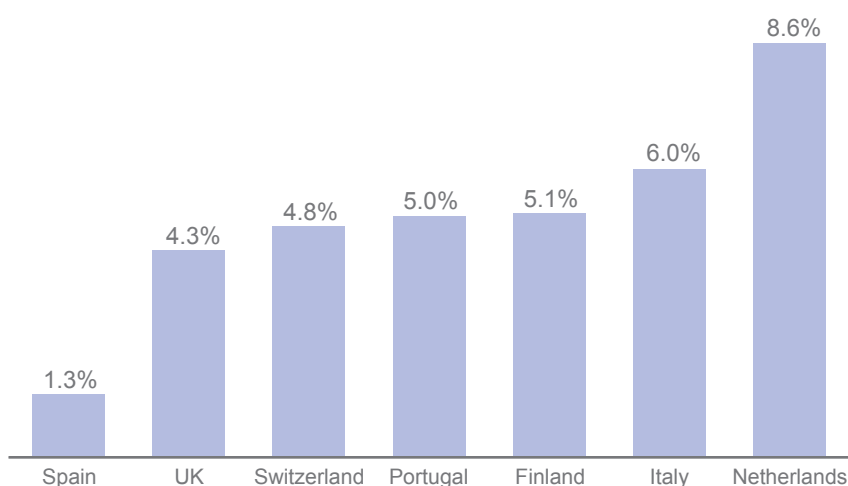
Country	Total hours	Standard hours	Reference period
Finland	138 per month or 250 per year	40 per week	1 year
Germany	10 per day	8 per day	24 weeks
Ireland	13 per day	48 per week	4 months
Japan	10 per day	8 per day or 40 per week	1 month
United Kingdom	13 per day	48 per week	17 weeks

Source: Kluwer Law International: *International encyclopedia: Labour law and industrial relations* (2002); EIRO: *Overtime in Europe* (2003).

How widespread are annualized hours schemes?

Annualized hours schemes are a relatively recent development, and these schemes are rare to non-existent in most countries. These schemes are most prevalent in Germany, where they are used in 28 per cent of all companies, and in Japan, where they are found in 36 per cent of companies and cover 23 per cent of all workers in the country.¹ Although reliable data on the extent of annualized hours schemes is generally unavailable, preliminary data from the EU Labour Force Survey show that about 5 per cent of employed people interviewed in six EU countries and Switzerland were working on annualized hours schemes in 2001.² The corresponding numbers in the examined countries are presented in the chart below.

Share of employees with annualized working hours in 2001



Source: Eurostat: *Work organization: A dimension of job quality*, data from the Ad-hoc Module of the 2001 Labour Force Survey in the EU (Brussels, 2002); own calculations.

Advantages and disadvantages

Some of the potential advantages of annualized hours, or hours-averaging, schemes for both employers and employees are listed below.

Advantages for employers

- Matching hours more closely with production or service requirements.
- Improvement in the competitiveness, performance and productivity of companies.
- Reducing costs, particularly labour costs (i.e. overtime payments) and extra premium payments (i.e. for night and weekend work).

Advantages for employees

- Guarantees a stable income regardless of weekly variations in hours worked.
- May be coupled with reductions in working time and an increase in paid time off.
- May save existing jobs and reduce precarious employment.
- Provides greater scope for employee influence over the organization of working hours, especially when combined with time banking (see Information Sheet No. WT-14 on flexitime and “time banking” schemes).

However, due to the often diverging working time preferences between employers and workers, annualized hours schemes also have some potential disadvantages.

Disadvantages for employers

- Some loss of managerial control over working hours.
- Can generate complicated administrative procedures and associated costs.
- Problems when employees are not willing to work extra hours at short notice.

Disadvantages for employees

- Irregular and unpredictable working hours.
- Short notice periods for changes in work schedules and varying workloads.
- May reduce total earnings if overtime is eliminated and there is no accompanying increase in basic pay rates.
- Loss of control over the amount of hours actually worked in a given week.



Introducing annualized hours (hours-averaging) schemes: The need for negotiation

Successful introduction of annualized hours schemes therefore require that the conditions for setting annualized hours — in particular, the compensation for the averaging of working hours, the level of wages, the distribution of working time and the amount of advance notice required for announcing modified hours of work — have been negotiated with workers' representatives. Workers' acceptance of these schemes is crucial to their success.

Case example

In order to avoid cuts in staff and reduced competitiveness, the management of a film and video production group in Hamburg, employing more than 900 workers, decided to reduce personnel costs because of a decline in demand for these services. After a period of nine months of negotiations, the management and workers' representatives agreed to introduce annualized hours of work. This approach should enable the company to reduce the high operating costs of weekend and overtime work. Previously, workers worked about 400 to 500 overtime hours per year, which were remunerated at a 50 per cent premium (compared to normal hours of work) and a 75 per cent to 100 per cent premium in the case of weekend work. Unproductive periods during working hours will also be reduced. According to the new working time pattern, full-time workers are now working 1,900 to 1,950 hours a year (based on a 38-hour week), and premium rates for overtime and weekend work are no longer applicable. In return, the firms' partners agreed to a general 20 per cent raise in wages to minimize the loss of wages resulting from the elimination of premium pay for overtime and weekend work. Instead of a wage increase, workers could choose a reduction in the number of hours worked, such that they work only 80 per cent of full-time working hours (1,520 hours a year), and they also get 50 additional days off per year. The reported results of this new agreement were positive: not only reduced operating costs, but also better work atmosphere and increased worker motivation because of their acceptance of additional time off in lieu of extra payments.

Source: "Studio Hamburg: Jahresarbeitszeitmodell sichert Arbeitsplätze durch Befriedigung kurzfristiger Kundenanforderungen", at <http://www.bmgs.bund.de/de/asp/arbeitszeitmodelle/dokument1.asp?id=43>, 21 September 2003.

¹ J.C. Messenger (ed.): *Working time and workers' preferences in industrialized countries: Finding the balance* (London, Routledge, forthcoming).

² Joint UNECE-Eurostat-ILO Seminar, 27-29 May 2002, Geneva.

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