

Tartu Ülikooli sotsiaalteaduslike
rakendusüuringute keskus RAKE



RAKE

ELDERLY IN THE ESTONIAN LABOUR MARKET

Executive summary
2012



EXECUTIVE SUMMARY

The ageing of the population and the resulting decrease of the labour force will pose new challenges to developed, transition and developing economies in the coming decades. If productivity or the working age does not (or both do not) rise, the ageing of the population will undermine economic growth, reduce savings (thus influencing consumption and investment – the elderly will save less and spend more on the household, social services and health care and less on motor vehicles, leisure services and education, as a result of which the ageing of the population may influence the structure of total demand) and investments (the elderly are less risk-tolerant, which will affect capital formation and investment and the structure of the financial markets), the state budget (pensions, health care and long-term care expenses are projected to rise) and the economic well-being of the elderly (Vodopivec, Dolonec 2008). The 2009 Ageing Report says that the ageing of Europe means constantly increasing expenses on the health care system as well as in the field of long-term care. According to the report, Estonia's expenses in the field of health care will rise by 1.2% of the GDP in the field of health care and 0.1% of the GDP in the field of care by 2060 in comparison with 2007.

Subject to Decision no. 940/2011/EU of the European Parliament and of the Council, successive European Councils have recognised the need to tackle the effect of ageing populations on European social models. A key response to this rapid change in the age structure consists in promoting the creation of a culture of active ageing as a lifelong process and thus ensuring that the rapidly-growing population comprised of people who are currently in their late 50s and over, who are, on the whole, healthier and better educated than any such age group before them, have good opportunities for employment and active participation in social and family life, including through volunteering, lifelong learning, cultural expression and sports.

Likewise, it has been emphasised in the Commission Communication "The demographic future of Europe – from challenge to opportunity"¹ that in order to be able to seriously consider working longer, people must not be faced with discriminatory prejudices, they must have been prepared to update and make the most of the skills they have gained with experience and have access to more flexible retirement schemes, and they must not only be in good physical and mental health but also have good prospects of remaining so for a long time to come.

Long-term employment is a win-win situation: it supports the growth of labour force and 1) helps to compensate for the negative effects of ageing on economic growth, 2) does not create such strong pressure on the state budget (more tax revenue and less pension-related expenses), 3) helps the elderly save more (thus also interest revenue), ensuring higher income upon retirement.

In comparison with the average of the European Union, the labour market activity of the elderly is high in Estonia. Nevertheless, against the background of the ageing of the population and decrease of the birth rate, the **employment of the elderly in good health** must be promoted for the purpose of alleviating the pressure on the labour, social and health care system. Survey results refer to the fact that the main impediments to the participation of the elderly in the labour market is currently **the attitude towards elderly employees, the poor health of the elderly and the outdated**

¹ Brussels, 12.10.2006 COM(2006) 571 final.

knowledge and skills of the elderly. These issues were discussed in the focus groups, trying to find solutions for overcoming the bottlenecks jointly with experts of the field.

The attitude towards employment of the elderly and perception of the need arising from the ageing of the population pose a problem among employers as well as the elderly. The results of the employers survey clearly indicate that the employers do not think of the ageing of the labour force today: most of the employers (82%) have not assessed the company's risks arising from the ageing of the labour force and 77% of organisation executives do not think that the share of the elderly will significantly rise in their organisation in the next five years. Among the elderly there is a large portion of those who wish/plan to retire either before or immediately after reaching the retirement age. These results refer to the fact that **society is currently largely unaware of the problem of the ageing population.** Thus, the state needs to pay attention to the issue, **encouraging a discussion in society** as to what challenges lie ahead in terms of demographic developments and how to cope with these in such a way that Estonia's competitiveness is preserved in the longer term.

Improvement of the health of the population is a longer-term process where it is difficult to achieve results in a shorter term. Thus, it is important that **the state continue systematic efforts to promote a healthy lifestyle.** In recent years, some progress has been made in that regard: facilities for increasing physical activity (e.g. health tracks) have been created and the importance of healthy nutrition has been emphasised through various campaigns. The results of such measures will become evident over a longer term and will improve the overall health of the population, ensuring a healthier generation in the future.

Prevention is important for improving the health of the elderly and family doctors should be involved in it more than they currently are. Survey results indicated that these days family doctors pay little attention to the possible risks arising from the workplace of the elderly. **Tying the frequency of employees' medical examinations to their age** should be considered, because at an older age the risk of health problems caused by the workplace and the risk of non-compliance of the workplace and the health status is higher.

The fringe benefits tax on expenses incurred by the employer for the purpose of promoting the healthy lifestyle of the employees must be abolished, in order to motivate employers to invest in employees' health. According to the employees who participated in the focus groups, the current system of tax on fringe benefits clearly reduces employers' motivation to invest in the health of employees. For example, it was pointed out that fruit offered to customers is exempt from tax on fringe benefits, but fruit offered to employees is not. The focus group also referred to the fact that if the purchase of glasses for an employee is compensated, then according to law the glasses must not leave the office at all times, otherwise the expense is once again subject to tax on fringe benefits. Also, massage expenses and expenses on practicing sports, which the employer incurs as an investment in the health of its employees, are usually subject to taxation.

Survey results indicate that the physical workload poses a problem for the elderly. In order to support investments in **the adjustment of the workplace according to the needs of elderly employees (incl. upon hiring an elderly employee),** partial compensation of such investments by employers should be considered similarly to the current labour policy measure of supporting the adjustment of workplaces for people with disabilities. Also, **flexible work organisation should be**

supported (e.g. part-time work, teleworking), because it is an important, albeit little used measure for keeping the elderly employed. In the event of part-time work, raising awareness is of importance, because the tradition of part-time work is weaker in Estonia than in many other European states.

Survey results indicate that the employment of the elderly is related to the level of education: people with higher education are more active and successful in the labour market. Thus, it is important to support the acquisition of higher and vocational education corresponding to the needs of the labour market among young people and the elderly. It may be presumed that in the future the problem will be partially resolved owing to the rise of the overall level of education, but **in order to support the participation of the present elderly in employment attention must be paid to lifelong learning as well as active employment measures.**

Although the elderly do not have a negative attitude towards in-service training and self-education, the share of the elderly among those participating in lifelong learning is smaller than that of young people. One of the reasons is that the elderly themselves do not see any need to invest in their knowledge and skills, because a large portion of the elderly are planning on leaving the labour market either immediately after reaching the retirement age or a few years later. Employers do not want to invest in employees who are likely to leave the organisation soon. Thus, the attitudes need to be changed regarding lifelong learning. The problem will partially be resolved in the future, because the present middle-aged and young people are used to constant self-education and are probably more active in educating themselves at an older age, as well. Some of the first positive initiatives supporting it have already been started: “University of the Dignified”, “Folk University of the Third Youth” and “Golden League Initiative”. In order to ensure systematic development, **the elderly need to be pointed out as a target group in the adult education strategy and measures for their participation in lifelong learning need to be developed.**

Long-term unemployment has become an acute problem among the elderly in the midst of the economic crisis. Active employment measures do not currently pay any attention to the elderly as a target group. The experts who participated in the focus groups pointed out that the elderly need a **specialised career counselling service** that is currently not available. The data of the Unemployment Insurance Fund indicates that the elderly unemployed are provided more with employment services that support the indirect return to the labour market (public work, work exercises, work clubs) than with services related to the direct return to the labour market (career counselling employment training, start-up support). Thus, it is necessary **to develop active labour policy measures such as career counselling and training services based on the needs, knowledge and skills of the elderly.** Survey results indicate that in labour market risk groups, like in the overall population, the elderly contain the same portion of **non-Estonians and people with a lower level of education.** Thus, special attention needs to be paid to these groups upon developing employment measures.

In order to support the return of the long-term unemployed to the labour market, **the application of measures that would make the hiring of the elderly unemployed attractive for employers must be considered.** Since in the event of an elderly unemployed person the risk of leaving the labour market and the potential need for the adjustment of the workplace due to health status are higher, the hiring of an elderly employee instead of a younger employee is less attractive for an employer. However, if a long-term unemployed leaves the labour market (incl. job seeking), their return is unlikely. Measures worth considering include the system used in many other states whereby the

employer is made exempt (either in full or in part, for instance to the extent of the contribution channelled to the pension fund, for further information see OECD 2006) of the unemployment insurance premium or social tax in the event of hiring elderly (long-term) unemployed. The introduction of such measures needs to be preceded by a thoroughgoing analysis, to avoid any deadweight loss.

The experts who participated in the focus group also pointed to the problem referred to by Marksoo et al (2011) that **it is currently difficult to motivate the unemployed elderly to participate in training aimed at encouraging the return to the labour market and the unemployed elderly are at a high risk of giving up job seeking and dropping out of the labour market.** The instructors of the only project aimed at supporting the return of the elderly unemployed to the labour market, "Second Chance", noted that it was the most difficult to find the elderly who would want to participate in training. Thus, the **cultivation of training habits** plays a great role in encouraging participation in lifelong learning and employment measures – this is something that the state, employers and employees can do together.

Estonia's social policy contains aspects that encourage and discourage the employment of the elderly. Pre-pensions and pensions for incapacity for work encourage the elderly to exit the labour market. It should be taken into account that the elderly who drop out of the labour market are at a high risk of staying out; therefore, efforts must be made to keep the elderly active. **In the event of the pre-pensions system, the practicality of the measure needs to be analysed,** especially in the context of encouraging the employment of the elderly. As of 2012 the recipients of pre-pension (approx. 20 500 people) account for approx. 7% of old-age pensioners. Some of them could be kept in the labour market if the system of pre-pensions was abolished or made less attractive, raising the percentage by which the pension rate is reduced once the person retires early. Many European states have seized these opportunities for encouraging the elderly to stay (OECD 2006) in the labour market. **The system of insurance of incapacity for work must undergo a thorough analysis** in order to identify to what extent the current system is actually violated, among other things, by using pension for incapacity for work as an additional source of income in the event of unemployment and thereafter decide how the system needs to be reformed so it serves the purpose.

The system of old-age pension usually supports the participation of the elderly in the labour market. The Pension Act sets forth a gradual rise of the retirement age, which will presumably encourage the rise of the employment of the elderly. Study results refer to the fact that the main factor motivating the elderly to continue working after attaining the retirement age is the low level of pensions. Thus, it is likely that the growth of the retirement age will rise in an increase of participation of the elderly in the labour force. The participation in the labour market is also encouraged by the fact that **pension will be preserved while working at the retirement age. Postponed old-age pension that is supposed to support working after attaining the retirement age is not attractive for the elderly,** because working at the retirement age does not result in the loss of pension, thus it is economically more useful to receive pension simultaneously with working, not to postpone the receipt of the old-age pension. Therefore, **the abolishment of the postponed old-age pension as a measure should be considered, because it is clearly ineffective.**

According to the study results, **unequal treatment based on age is not a significant problem in Estonia.** Only a few elderly have experienced it and labour dispute committees, courts, the Gender

Equality and Equal Treatment Commissioner and the Chancellor of Justice have received only a few complaints about unequal treatment based on age. In none of the cases has it been found that the complaint is founded.

As indicated above, **society's attitude towards the employment of the elderly needs to be changed. To increase the employment of the elderly, it is important to combine the improvement of health, change attitudes, encourage lifelong learning and adjust the workplaces and the working time of the elderly in such a manner that they fit the needs of the employee.**