

MUTUAL LEARNING PROGRAMME:
PEER COUNTRY COMMENTS PAPER – THE CZECH REPUBLIC

Is it possible to keep Czech older workers in the labour market until
the age of 67?

Peer Review of the “Activation of elderly: increasing participation, enforcing
employability and working age until the age of 67”

The Netherlands, 31 May–1 June 2010

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CONTENTS

1	LABOUR MARKET SITUATION IN THE PEER COUNTRY.....	4
2	ASSESSMENT OF THE POLICY MEASURE	6
3	ASSESSMENT OF THE SUCCESS FACTORS AND TRANSFERABILITY	10
4	QUESTIONS	12
	ANNEX 1: SUMMARY TABLE	13

1 LABOUR MARKET SITUATION IN THE PEER COUNTRY

This paper has been prepared for a Peer Review within the framework of the Mutual Learning Programme. It provides information on Czech Republic's comments on the policy example of the Host Country for the Peer Review. For information on the policy example, please refer to the Host Country Discussion Paper.

1.1 General situation

In terms of the economy, the Czech Republic is a country that is heavily dependent on the economic situation in other European countries. It is no surprise then, that the economic recession in Europe has also hit Czechia, albeit with some delay. The country's annual public deficit rose from 0.68% of GDP in 2007 to 2.72% in 2008 and 5.93% in 2009, which is almost double the Maastricht limit. In the EU, the public deficit was 6.8% of GDP in 2009. Czech long-term national debt was 35% of GDP in 2009, while in 2007 it was 29%. The corresponding figure is 73.6% for EU countries, and the Maastricht criteria set the limit here at 60%. The prime aim of the Czech government (and of all the Czech major political parties in their campaign for the upcoming May 2010 general elections) is to reduce the debt by cutting public spending.

The economic recession has clearly affected the Czech labour market. The unemployment rate among those aged 15-64 years was 5.45% in 2008, but increased to 7.98% in 2009 and reached 9.70% in the first quarter of 2010. Despite it being lower than the EU-27 average, it is one of the highest levels of unemployment the Czech Republic has experienced since 1990. In a country whose population had been used to zero unemployment in communist past, the current relatively high unemployment rate is a serious political, social and also psychological problem. A particular negative aspect of Czech unemployment is the proportion of long-term unemployed people. Since 2001, the proportion of long-term unemployed has been oscillating between 50 and 55%, making it one of the worst in Europe.¹ Analysts put the blame on rather inflexible labour market mechanisms coupled with generous welfare measures that fail to motivate the unemployed to seek jobs. As a result, many unemployed individuals find it more convenient to receive unemployment benefits, which are rather high in relation to the minimum income, while working in the 'grey' economy.

Unemployment in the Czech Republic has correlated closely with the level of education. While men with basic education (ISCED 1 and 2) had an unemployment rate of 26% and those with vocational education 6.3%, men with tertiary education (ISCED 5 and 6) had an unemployment rate of 2.5% only. The corresponding figures for women in 2009 were 22.3% for women with basic education, 9.6% for women with vocational education, but only 2.3% for women with tertiary education.

The not-so-bad, general unemployment figures (compared to European ones) are partly due to demographic effects. Despite the fact that the demand side of the labour market has been decreasing since 2008, the supply side has been following the same trend: there are decreasing numbers of young people aged 20-24 entering the labour market (mostly due to low fertility and partially – for the time being – due to an increased number of the young gaining their tertiary education). A slight gradual increase in those aged 60-64 who have had to stay longer in the labour market due to incremental increases in statutory retirement

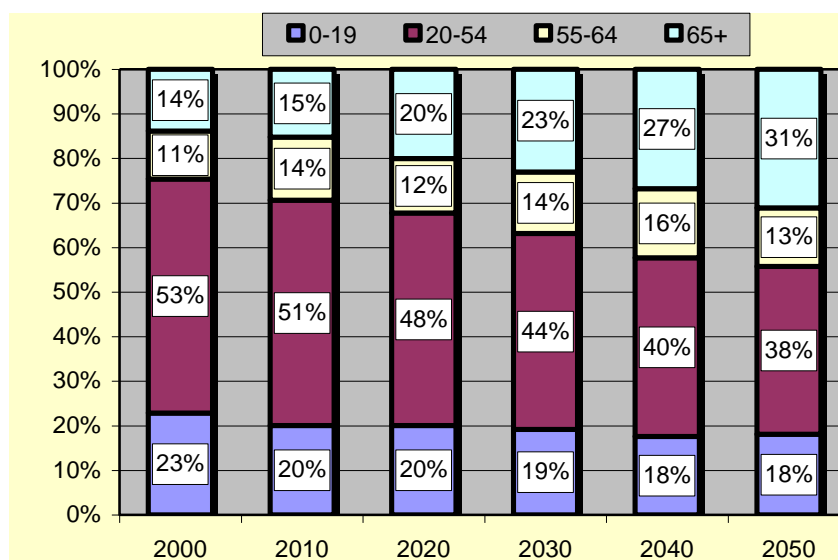
¹ During 2008 and 2009, the proportion of the long-term unemployed decreased substantially and reached 30% in the 4th quarter of 2009. The EU 27 average was 35%, but the variance between countries was huge: from 54% in Slovakia to 11% in Denmark (22% in the Netherlands). The Czech decrease was brought about mainly by a 'statistical effect' – the number of unemployed has been increasing (denominator), but the number of long-term unemployed has remained more or less constant (numerator).

age might have, at least in theory, a counter-effect. However, their numbers have been offset by their early retirement.

1.2 Older workers in the labour market

The Czech Republic has been ageing dynamically, due to 'very low' (i.e. below 1.5 children) to the 'lowest low fertility' (below 1.3 children per woman) rates, that were recorded during the 1990s and until 2008, as well as due to relatively fast growing life expectancy. Demographically, the ageing process concerns not only the population as a whole, but also the Czech labour force (see fig. 1).

Figure 1. Projected age structure of Czech population 2010–2050



Source: Czech Statistical Office

The old-age-dependency ratio (i.e. the ratio between elderly persons aged 65+ and number of persons aged 15-64) will also increase significantly in the future. While the ratio was 21% in 2008 (the EU-27 had a ratio of 27%), the Czech Statistical Office (CSO) expects the proportion to grow to 37% in 2030 and 57% in 2050. Given such circumstances, it is understandable that the Czech country report *Ageing and Employment Policies* claims that the ageing population is a serious problem especially because the Czechs tend to exit the labour market earlier than workers in other countries do (OECD 2004).² It also explains why keeping older workers in the labour market should be the prime long-term aim of Czech labour policy.

Employment of older workers aged 55-64 in the Czech Republic is low and has not reached the level set by one of the Stockholm employment targets that is 50% employment by 2010. The actual 2009 employment rate for this population was 47%.³ It is primarily the low employment level of women that prevents the country from reaching the target, as only 35% of women (as compared to 60% of men) were employed in 2009. The main reason is the low statutory retirement age of women. The decision to increase the pension age was taken in 1995, when the statutory retirement age was 60 for men and 53-57 for women, depending on the number of children they had had (childless women could retire at the age of 57, and for every child a woman had raised, the age was reduced by one year). In 1996 annual increases to the statutory retirement age began: two months were added annually for men, and four months for women. By January 1, 2007, the retirement was 62 for men

² OECD (2004). *Ageing and Employment Policies. Czech Republic*. Paris:OECD.

³ However, the total employment rate of population aged 15-64 is better than the EU-27 average. In the last quarter of 2009 the rate was 65.3% in the Czech Republic, while in the EU-27 it was 64.4% (and in the Netherlands 76.5%).

and 57-61 for women (depending on the number of children). In January 2010, the statutory retirement age started to increase again by the same speed as before: by two months for men and four months for women. By 2030 it will have gradually increased universally to 65 for men and for women with up to one child. Each child above one will decrease female retirement age by one year. One will be entitled to draw his/her pension provided s(he) has worked at least 35 years (currently 25 years). The early retirement will also continue to be an option in the future.⁴

Other contributing factor include a relatively low retirement age, especially among women and higher unemployment levels among older workers; in 2009, the age-specific unemployment rate for men aged 55-59 was 6.0%, while for women of the same age group it was 6.5%. The average unemployment rate for the same time period was 5.8% for men and 7.7% for women.

2 ASSESSMENT OF THE POLICY MEASURE

Generally speaking, one must fulfill four criteria to be able to work and be employed: (1) to be able to work (in terms of their physical and psychological health), (2) to have relevant job skills, (3) to be able to find a job, and (4) to have a desire to work.⁵ These criteria do not always hold true for older Czech workers and hence significant differences between the Czech and Dutch contexts can be expected. The following section considers each criterion as it relates to the possibility of increased participation of the older workers aged up to 67 in the labour market.

2.1 Ability to work

The Czech and Dutch contexts differ significantly in regards to this criterion. First of all, raising the Czech retirement age to 67 is politically impossible. The Czech public, as well as some political parties strongly opposed the law that was aimed at gradually increasing the retirement age to 62-65 years. The law placated the opponents by maintaining the irrational principle of lowering the retirement age in relation to the number of raised children. The mortality indicator also speaks against such a drastic raise in retirement age. In 2009, Czech life expectancy at birth was 74.1 years for men (compared to 78.4 years in the Netherlands) and 79.2 years for women (81.5 years in the Netherlands). Life expectancy at the age of 65 also shows significant disparities between the two countries; 15.3 years for Czech males (17.4 years for the Dutch) and 17.6 years for Czech females (19.9 years for Dutch females). However, life expectancy data alone are not sufficient when considering older workers. It is more important to consider the so-called *healthy life expectancy* (or *healthy life years*), which better indicate the older population's state of health⁶. In 2006

⁴ In consistence with Article 30 of the Law on Retirement Pension Insurance (155/95 Coll.) issued in 1995, people may choose to retire 2 or 3 years before the statutory retirement age. Early retirement decreases the pensions. The significant decrease in the share of statutory retirements after 2001 was due to a change towards less favourable financial circumstances attached to them. Another amendment was introduced in 2010 that established the possibility to retire earlier only by a maximum of 3 years. With the increasing statutory retirement age, the possibility to retire earlier will cover 5 years prior to the retirement age.

⁵ (Hora, O., Žižlavský M. 2009. "Na okraj trhu práce: Vnímání vlastního postavení na trhu práce nezaměstnanými a marginalizovanými" (At the edge of labour market: the unemployed and marginalized's perception of their own status at the labour market). In T. Sirovátka, J. Winkler, M. Žižlavský (eds.) *Nejistoty na trhu práce* (Uncertainties at the labour market). Albert: Brno, pp. 80–114.

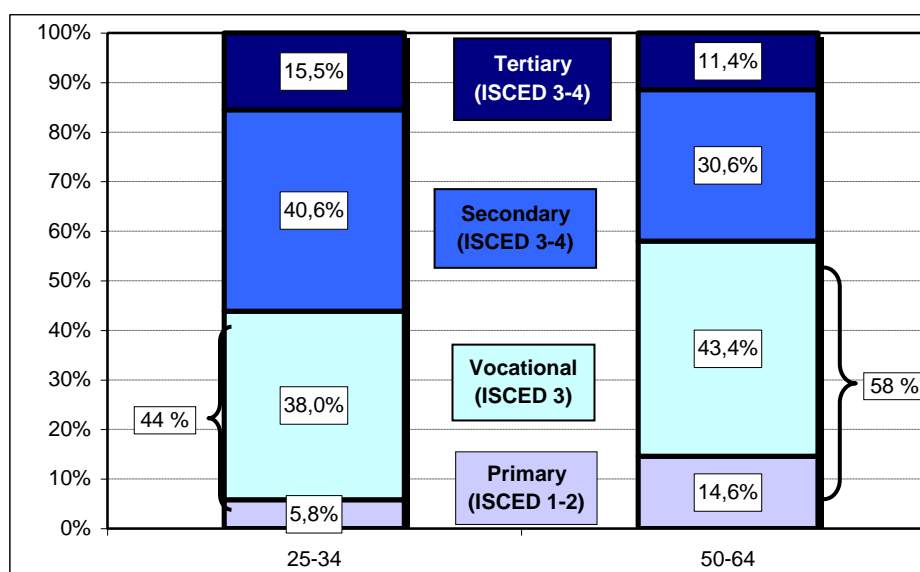
⁶ "The Healthy Life Years indicator (also called the disability-free life expectancy) measures the number of remaining years that a person of a certain age is still supposed to live without disability. It is used to distinguish between years of life free of any activity limitation and years experienced with at least one activity limitation. HLY is a functional health status measure that is increasingly used to complement the conventional life expectancy measures." (see http://ec.europa.eu/health/ph_information/indicators/lifeyears_en.htm).

(based on the latest data available), the life expectancy (LE) at birth for Czech males was 73.5 years, but the healthy life expectancy (HLY) was only 57.8 years. Czech females had the following corresponding values: LE = 79.9 years, HLY = 59.8 years. The Dutch data was more optimistic; male LE = 77.7 years, HLY = 65.0 years, female LE = 82.0 years, HLY = 63.2 years.⁷ Given such a state of health among older Czech workers, increased work activity among this population segment could potentially be problematic.

2.2 Job skills

Older workers are beginning to feel the disadvantage of having lower education and obsolete skills and competencies, as the Czech economy has quickly adopted the newest technologies and gradually transformed into a *knowledge economy*. The structure of educational attainment among the older Czech workers (aged 50-64), in comparison with the young population (aged 25-34), shows a greater proportion of individuals with lower education (ISCED 1-3), specifically it is 58% for the old, versus 44% among the young (see figure 1). Moreover, older workers' skills are relatively obsolete because they are the result of the past communist ideology, which emphasized manual worker skills for the needs of heavy industry, the key industrial sector of the communist era. The Czech labour market bears the consequences of this legacy due to the transformation of the Czech economy into a *knowledge-driven* one.

Figure 1: Educational structure of Czech population: age groups 25-34 and 50-64 in 2007



Source: Czech Statistical Office – Labour force survey

2.3 Ability to find a job

The older workers' ability to find a job is closely tied to job offers for such age group. But this is problematic, because the Czech Republic exhibits the difficulties expressed by Mayhew, Elliot and Rijkers⁸ in their analysis of OECD countries. They maintain that even if we give older workers sufficient knowledge and skills, thus increasing the supply options, their situation in the job market may not improve at all, unless employers significantly change their attitudes and begin employing them. Currently, Czech employers prefer to employ 'young and dynamic workers', as is clear from a simple analysis of job

⁷ See internet: http://ec.europa.eu/health/ph_information/indicators/lifeyears_en.htm.

⁸ Mayhew, K., Elliot, M. Rijkers, B. 2008. Upskilling Older Workers. *Ageing Horizons*, 8/2008: 13-21, Oxford Institute of Ageing.

advertisements and from experiences of employees in the Czech Labour Offices, who help registered unemployed find employment. Individuals over 50 are often considered unemployable by employers and are more expensive than younger workers. In other words, age-discrimination is common. The Czech government has been aware of this problem and has addressed the issue several times in the *National Programme of Preparation for Ageing for 2008-2012*.⁹

Generally speaking, older workers participating in lifelong learning have a significantly better chance of finding work. Czech Republic has created a comprehensive governmental document entitled *The Strategy of Lifelong Learning in the CR*, which aims to create adult and non-formal educational opportunities, within the context of a knowledge society, for wide strata of the population.¹⁰ However, the willingness of the Czech population to attend courses that would increase their potential to participate in the labour market has so far been rather low. Eurostat reports that in 2008 only 8% of the Czech population aged 25-65 years participated in lifelong learning programmes. Denmark has a lead position with 30% of the population participating, while in the Netherlands it is 17%.¹¹ According to a Czech specialized empirical study focused on adult education, which utilised a more precise measurement method than Eurostat, 34% of the Czech population aged 20-65 years participated in lifelong learning (Rabušicová, Rabušic 2006).¹² Further analysis showed that among the 50-65 age group, 22% participated in lifelong learning, but only 12% among the 60-65 years old (Rabušic, 2008:275).¹³

2.4 Willingness to work in old age

Older Czech workers are not very willing to stay in the labour market. The Czech pension system gives advantages to individuals who work beyond the retirement age by providing a continuous increase to their future pension (that is unless they work while drawing their pension). Those who work after retirement age can simultaneously earn their full income and draw their pension, and the government has been encouraging older workers to stay in the labour market through the broad Active Ageing campaign aimed both at workers and employers. Czech seniors, however, remain more or less disinterested and retire at their retirement age. The average exit age in 2008 was 60.6 years in CR compared to 63.2 in the Netherlands).¹⁴ Rabušic (2004) describes this situation as the Czech paradox of early retirement. Due to the low retirement age and increasing life expectancy, Czechs are living in retirement relatively long; even though Czechs are well informed that they should work longer and that their pensions will be in many cases much lower than their last income, they rush to retirement, even to early retirement.¹⁵

Figure 2 reveals that in recent years, the share of early retirement has had a tendency to oscillate around one third of all exits into retirement in a given year.

⁹ See *Quality of Life in Old Age* (2008). Ministry of Labour and Social Affairs, Prague (can be also downloaded from: http://www.mpsv.cz/files/clanky/5606/starnuti_en_web.pdf). This is an important governmental document (inspired by "Active Ageing" concept developed by EU) prepared by the Government Council for Seniors and Population Ageing. The goal implementation of the program has been monitored and annually evaluated.

¹⁰ *The Strategy of Lifelong Learning in the CR* (2007). Ministry of Education, Youth and Sports, Prague (can be downloaded from http://www.msmt.cz/uploads/Strategy_LLL_eng_final.pdf).

¹¹ <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tsiem080&plugin=1>).

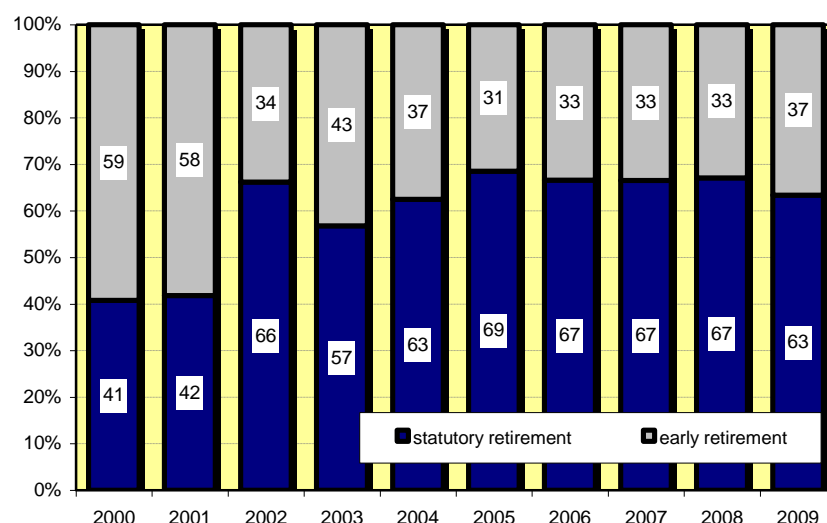
¹² Rabušicová, M., Rabušic, L. 2006. Adult Education in the Czech Republic - who participates and why. *Sociologický časopis/Czech Sociological Review*, 42 (6):1-24.

¹³ Rabušic, L. 2008. Senioři a jejich vzdělávání (The elderly and their education). In Rabušicová, M., Rabušic, L. (eds.) 2008. *Učíme se po celý život?* (Do we learn through all our lives?). Brno: Masarykova Univerzita.

¹⁴ (<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&plugin=1&language=en&pcode=tsiem030>).

¹⁵ Rabušic, L. 2004. Why are they all so eager to retire? *Czech Sociological Review*, 40 (3): 319–342.

Figure 2: Early and statutory retirement in the Czech Republic 2000-2009



Source: Czech Social Security Administration, Retirement statistics for years 2000–2009
<http://www.cssz.cz/cz/informace/statistiky/duchodova-statistika/>

One of the reasons for the popularity of early retirement is unemployment. If an elderly person loses a job and does not have a chance to find another one after living on unemployment benefits for several months, he or she often opts for early retirement (sometimes even for disability pension). There are basically no obstacles to decide, so it is a personal choice.

Further analyses confirm sociological knowledge that retirement decisions are shaped by individual preferences, but that individual choices are made relative to the opportunities and constraints that workers encounter. Retirement is also a very popular concept in many European countries. To conclude this section, one can say that due to the phenomenon of 'path dependency' (meaning that the current stage of the Czech welfare state institutions are heavily dependent on their past), the Czech situation is rather specific. Increasing the participation of Czech older workers will be an enormous task. The Dutch approach will be rather difficult to follow.

3 ASSESSMENT OF THE SUCCESS FACTORS AND TRANSFERABILITY

In many respects, the ideas expressed in the Dutch document are inspiring for the Czech Republic. Nevertheless, the Dutch culture of work and its work ethic based on the Calvinist tradition differ in substantial ways from the Czech work culture. Therefore, evidence presented in this paper supports the thesis expressed at the very beginning of the Host Country Paper: “given the specific Dutch context of the regulation of the labour market...transferability is regarded as problematic” (p. 1). In addition, some of the suggested Dutch measures have so far been assessed only partially and thus no validated results are at hand. So, unfortunately, they cannot serve as examples of ‘good practice’ yet.

Participation in lifelong learning is key to keeping older workers in the labour market. Czech data on older worker participation in adult education have not been a cause for optimism. The representative research on Czech adult education shows that such a lack of participation is due primarily to psychological reasons (see Rabušic, 2008)¹⁶. Specifically, the large proportion of respondents aged 50-65 years believed that further education was pointless for them or that they would be incapable of managing the study requirements. Thus, increasing older workers’ motivation to work even later in life will be the key in prolonging the working life of the Czech population.

The Dutch approach has strengths in its holistic life-course approach. It especially supports the claim that the preparation for aging must become a life-long project, which has also been supported and highlighted by Czech governmental documents concerning ageing. The flexibility of the life-course will probably become a necessity in the near future, highlighting the importance of the Dutch proposal to allow employees to break their careers around the age 45 and take a two-year leave to upgrade their education or retrain (‘mid-career learning right’).

The development of tools for assessing the employability/work ability of employees (Work Ability Index) also has a great potential in the Czech context. Therefore, it is recommended that the Czech Ministry of Labour and Social Affairs use the Work Ability Index questionnaire in the Czech Republic.

The Czech labour market would benefit greatly from an increased proportion of part-time work. This option is not widely used although Czech law allows for it. According to the 2009 Eurostat data, only 5.5% of Czech employees had a part-time contract (taken as a proportion from all the employed). The EU-27 average was 18.8% and in Netherlands it was a sizeable 48.3%. The gradual move from full-time to part-time employment later in life appears as a promising solution, which may increase the older workers’ participation in the Czech labour market.

Another important aspect of the extension of working life is the ‘age-aware human resource management’. Czech older workers are subject to negative stereotyping by the labour market in regard to their effectiveness and ability to contribute to their company or institution. In the context of ageing of the work force, it is extremely important that we overcome these stereotypes. While employers may find it unbelievable, given the current high levels of unemployment, demographic projections indicate that we may experience shortages of labour in the near future. Such shortages can be overcome by retaining older workers at work.

¹⁶ Rabušic, L. 2008. Senioři a jejich vzdělávání (The elderly and their education). In Rabušicová, M., Rabušic, L. (eds.) 2008. *Učíme se po celý život?* (Do we learn through all our lives?). Brno: Masarykova Univerzita.

Finally, increased employment of Czech older workers carries a financial relevance as well. Given the fact that Czech government must gradually lower its debt at least to the level of the Maastricht criteria, many governmental programmes will be trimmed down and it is unlikely that new ones would be introduced. The new government, which will result from the elections in May, will face an urgent problem of reforming the Czech pension system. The current system, based primarily on the pay-as-you-go principle, has been contributing significantly to the growing deficit, which is only expected to grow further as the Czech population as a whole continues to age.¹⁷ Therefore, it would be highly desirable that policy-makers restructuring the pension system would take into account the complex issues related to sustainable employability.

¹⁷ In April 2010, the Czech Constitutional Court judged that the current way of calculating pensions is socially unjust and discriminatory and therefore unconstitutional, because individuals with higher incomes (who have thus also contributed higher amounts into the state pension fund) receive proportionally significantly lower pensions than individuals with lower incomes. For example, a worker with an average monthly salary of CZK 14,000 (about EUR 560), this applies to some 20% of Czech population, is entitled to a monthly pension of CZK 9,100 (EUR 364), that is 65% of the salary. An individual earning CZK 25,500 (EUR 1,000) per month, some 25% of the population, receives a pension of CZK 11,170 Kč (EUR 447), or 44% of the salary. In contrast, 5% of the Czech population earning CZK 60,000 Kč (EUR 2,400) per month is entitled to a pension of CZK 13,420 Kč (EUR 537), that is 22% of the salary. The Czech Government is required to end this discriminatory practice by September 2011.

4 QUESTIONS

- When the negotiations about the increase in the statutory retirement age till 67 were taking place in the Netherlands, was the health status of the elderly population taken into consideration?
- Through what mechanisms do the Dutch authorities motivate the population, and especially the 50+ population, to participate intensively in life-long learning?
- How can the WAI questionnaire be introduced into the regular practice of companies and institutions?
- How can the 'generic interventions to stimulate the reduction of the physical and psychological burdens of work' (p.7) be implemented in practice?

ANNEX 1: SUMMARY TABLE

Labour market situation in the Peer Country
<ul style="list-style-type: none"> • The Czech public deficit rose from 0.68% of GDP in 2007 to 2.72% in 2008 and 5.93% in 2009, which is almost double that of the Maastricht limit. • The unemployment rate among those aged 15-64 years was 5.45% in 2008, but increased to 7.98% in 2009 and reached 9.70% in the first quarter of 2010 – one of the highest unemployment levels in the last 20 years. • Long-term unemployment has been high, oscillating around 50% of the unemployed. • The employment of older workers aged 55-64 in Czech Republic is low (47%) and has not reached the level set by one of the Lisbon targets (50% employment by 2010).
Assessment of the policy measure
<ul style="list-style-type: none"> • The Czech life expectancy and especially healthy life expectancy is lower than the Western standard, which makes it problematic to increase the retirement age above 65. • The low level of education of the older workers and their obsolete skills may hinder their employability – their participation in adult education programmes is rather low. • Large numbers of Czech employers regard older workers (above 50 years of age) as unemployable – age discrimination in the Czech labour market. • There are two important governmental programmes concerning older workers (<i>National Programme of Preparation for Ageing for 2008-2012</i>) and adult education (<i>The Strategy of Lifelong Learning in the CR</i>) – implementation of their ideas, as is usual in the Czech Republic, is lukewarm though. • The pattern of early retirement of Czech older workers as a way to avoid long-term unemployment poses a hindrance to their higher employment.
Assessment of success factors and transferability
<ul style="list-style-type: none"> • Due to a different historical development of welfare state institutions in the Netherlands and the Czech Republic (so called 'path dependency' effect), the Dutch situation with respect to the increased employment of older workers is different from the Czech one and therefore difficult to be transferred. • Participation in lifelong learning is key to keeping older workers in the labour market. • The development of tools for assessing the employability/workability of employees also has a great potential in the Czech context. • The 'age-aware human resource management' is an important factor for the sustainable employment of older workers. • The higher frequency of part-time work can contribute to keeping Czech older workers longer in the labour market.

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- How can the WAI questionnaire be introduced into the regular practice of companies and institutions?
- How can the 'generic interventions to stimulate the reduction of the physical and psychological burdens of work'(p.7) be implemented in practice?