MUTUAL LEARNING PROGRAMME:

PEER COUNTRY COMMENTS PAPER - SERBIA

Activation of elderly in Serbia: between fiscal necessity and generational lump of labour discourse

Peer Review on "Activation of the elderly: increasing participation, enforcing employability and working age until the age of 67'

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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 Serbia's comments on the policy example of the Host Country (The Netherlands) for the Peer Review. For information on the policy example, please refer to the Host Country Discussion Paper.

1.1 General economic situation

In 2009, Serbia was, like the rest of Europe, seriously affected by the global economic and financial crisis. The total decline in GDP in 2009 amounted to some 3.0%. When compared to comparator countries in Central, East and South Europe, in an environment dominated by the global downturn, the fall in GDP recorded by Serbia was not overly dramatic. Still, the crisis caused sharp fiscal revenue decline, as well as a halt in FDI, and the Government had to turn to the IMF and other international financial institutions for substantial support to close the financing gap. Current discourse is that Serbia needs an entirely new growth model, which would be based on export orientation and smaller public expenditures, instead of on demand driven and import-oriented growth supported by expansionary fiscal policy fuelled by the privatisation proceeds, as was the case until 2009. As a part of a stand-by agreement with the IMF, the Government has committed itself to reducing the net spending by pension funds to about 10 percent of GDP by 2015, implying a sharp reduction from the current level of pension spending of around 13 percent. As a short term response to the fiscal crisis, the Government has decided to freeze pension levels in nominal terms in 2009 and 2010 until April 2011. This will reduce somewhat the replacement level of pension benefits from their currently fiscally and demographically unsustainable high levels, but a sustainable solution would require a complete overhaul of pension system.

1.2 Labour market situation

According to the most recent Labour Force Survey from October 2009, employment of the working age population (15-64) reached its historical minimum in several decades of around 2,450,000 workers, and the corresponding employment rate dropped to slightly below 50% - meaning that only one in two persons of working age were employed in 2009. As always, the employment rate was higher for men, at 57.4% and lower for women, at 42.7%, but no widening of the gender activity gap has been observed during the current crisis. The impact of the output decline on the increase in unemployment wasn't as severe as could be expected given the sharp decline in employment, since flows to inactivity were rather strong. Many younger potential labour force members remained in education or returned to inactivity from temporary jobs. Similarly, some older workers who lost their jobs, have moved from employment directly to inactivity. Still, the unemployment rate has reached 17.4% (16.1% for males and 19.2% for females). This represents 3.4 percentage points or 60,000 persons increase from October 2008.

The employment rate of elderly workers (55-64) stood at 34.96% in October 2009, down from 37.88% a year earlier. However, this significant drop was roughly in line with the general drop in the employment rate during the same period.

Looking at the establishment data on formal employment, which are available on a monthly basis, in December 2009 the biggest annual employment loss was recorded within the manufacturing industry of some 33,000 persons (10% within the sector), followed by wholesale and retail trade – around 7,000 persons (3.6% within the sector); construction industry – around 5,000 persons (6.5% within the sector) and hotels and restaurants and transportation by around 2,000 persons each (10.1% and 1.8% respectively).





2 ASSESSMENT OF THE POLICY MEASURE

In this section we argue that Serbia generally follows the example of the host country and most other European countries in their efforts to promote longer labour force participation and employment of the elderly, especially within the age group of 55-64. However, unlike in the host country, these efforts are almost entirely limited to the reform of the pension system, and are driven by a fiscal necessity to curb the prohibitively high pension expenditures. As for the other important complementary policies to promote employability of the elderly, such as these presented in the Host Country Paper, they are either neglected or entirely missing. On the contrary, the intergenerational variant of 'lump of labour' fallacy is still dominant in public discourse.

This unfortunate discourse is fuelled by the variety of factors related to labour market and general economic features of Serbia, which are quite dissimilar compared to the situation in the host country. These factors include: very low employment rates and high unemployment; extremely low youth employment; privatisation and restructuring affecting older workers; generous severance payment schemes pulling older workers into inactivity and retirement; general public perception, shared by some (or even most) policymakers and experts, still embracing 'lump of labour fallacy' in terms of trade-off between youth and older employees within the confines of zero-sum game; lack of effective adult education system and policies.

2.1 Tightening of retirement rules

Driven by the acute fiscal necessity to curb pension expenditures, activation of the elderly or, more precisely, postponement of their access to pension benefits - is very high on the policy agenda in Serbia at this moment. Actually, a thorough reform of the pension system is long overdue because of secular factors, which include ageing of the population, the low and declining number of contributors to the PAYG system, and a worsening dependency ratio. Pension benefits are still high by the EU standards. As an analysis by the World Bank (2009) bluntly put it, the current pension system is unaffordable and pensions are the largest single problem of government expenditures.

Serbia is expected to change its pension law and the new pension draft law is expected to be submitted to Parliament by the end June 2010. This draft law should tighten most retirement rules, including the following:

- gradual increase in the minimum early retirement age from currently 53 years to 58 (i) vears for both men and women by 2020.
- (ii) restricting retirement before the minimum early retirement age to a much more limited number of occupations than is presently the case, especially for the military and police employees:
- (iii) increasing the minimum service requirement for retirement for women from 35 to 38 years (while keeping the corresponding requirement for men unchanged at 40 years) and gradually phasing out more than a half of the extra service credit for women; and
- raising the eligibility age for survivor's pensions to 58 years for men and to 53 for (iv) women.

Further, the draft law will impose strict limits on extra service credits to a limited number of eligible professions.

Eligibility for pensions in Serbia is based on age and years of service (contributions). In the last decade there have been several changes aimed at gradual tightening of eligibility rules and extension of the retirement age. An amendment to the pension law in 2001 established a retirement age of 63 for men and 58 for women with 20 years of service and 65 and 60





with 15 years of service for men and women respectively, and a minimum age of 53 with 40 years of service for men and 35 years of service for women. The 2005 amendments to the pension law eliminated the option of retiring at age 63 for men and 58 for women with 20 years of service, but provided for it to be phased out gradually over the period between 2008 and 2011. As of 2009, men may retire at age 64 with 18 years of service while women may retire at age 59 with 18 years of service. The 2005 law also reduced the minimum pensionable age to 50 for some occupations and introduced the option of retiring at any age with 45 years of service credit. Eligibility for disability arising from a work-related injury is immediate regardless of past contribution history. If the disability is not work related, the individual must have completed 5 years of contributions, with lower eligibility requirements for those younger than age 30 at the time of disability. Disability pensions are only awarded to those incapable of performing any type of work, in line with now dominant international practice. Similarly, a minimum of 5 years of contribution is required before an individual who dies can leave a pension to survivors.

2.2 Measures aimed at stimulating work to 65

The first recognition of the need to support 'active ageing', in order to secure a 'stable balance between an active and inactive elderly population as well as to achieve growing labour force participation rates, could be found in the Serbian National Employment Strategy for the period 2005-2010. The Employment Strategy also emphasizes the need to tackle the problem of older workers affected by the process of privatisation and restructuring and suggests the following set of general priorities and measures:

- Supporting practices of flexible forms of employment suited for older workers,
- Incentives to employers to hire and retain older workers through tax and social security contribution subsidies,
- Provision of basic IT training for older workers, especially 'white collars' workers,
- Increasing inclusion of older workers into active labour market programmes, especially active job search and employment and self-employment subsidy programmes

The national employment strategy envisages three indicators of success for its 'active ageing' guideline – labour force participation rate for persons aged 55-64, as well as their overall and private sector employment rate. However, apart from the 'improvement' in these indicators no specific targets had been set. Unfortunately, until now (the final year of the Strategy's implementation) there has been a worsening in all these indicators.

Among the measures and programmes aimed at older workers implemented in the past few years, two are of special importance. First, tax and contribution subsidies to employers hiring workers above the age of 50 (and somewhat less generous for those over 45). Second, the design and implementation of the 'Severance to Job' project, operating between 2006 and 2009, which was specifically conceived to assist older workers made redundant in the process of privatisation to get another job in the private sector or to start their own business. Although substantial, gross effects of these programmes were not very large – while the still ongoing tax subsidy programme has helped employment of some 10,000 workers over 45 years of age over a period of 5 years, the recently closed Severance to Job programme helped less than 2000 persons make the transition from redundant to re-employed workers. While the former programme has not yet been evaluated, a net impact evaluation of the latter programme is currently under way.

In addition to special programmes aimed at the older workers, in some general programmes of the National Employment Service there are additional incentives for the employment of unemployed persons above the age of 50. For example, a premimum above the standard subsidy amount is given to the employers for every older worker they hire within the job subsidy programme.





2.3 Vocational education and training (VET) and lifelong learning

Although the Strategy of Adult Education Development (VET Strategy, adopted in 2006) is based on the National Employment Strategy, it does not specifically identify older workers as at risk-group. However, an even more serious problem is that the system of adult education is almost dysfunctional in Serbia. According to the most recent ETF assessment (2010), the prevailing discourse in adult education insists on the needs of individuals and makes ample reference to illiteracy issues, while most responsibilities are given to the Ministry of Education and other ministries, neglecting training activities initiated by companies and in particular the development of on the job training/learning. There is no clear reference to any strategic economic development objectives, or any specific support for key sectors in development or in restructuring. Naturally, more sophisticated and potentially expensive policy measures, such as individual learning budgets, are not even under consideration.

2.4 Age-aware HRM policies

Age-aware HRM policies are neither actively supported at the macro level (apart from general guidelines and subsidy measures described above), nor are they known to be widely accepted and practiced by firms and industries at the micro and meso levels.

2.5 Work ability index

The notion of the Work Ability Index is still completely absent in Serbia.

3 ASSESSMENT OF THE SUCCESS FACTORS AND TRANSFERABILITY

3.1 Tightening of retirement rules

As described above, this is a mechanical measure which can by design achieve success in bringing down pension expenditures relative to GDP. However, undertaken in isolation, it may well fail in improving the labour market and overall socio-economic situation of elderly persons of working age. Serbia is a good example for this statement. Despite the three pension reforms since 2001, labour market indicators for older workers significantly worsened compared to these indicators for the general population. According to the Labour Force Survey of the Statistical Office, in 2003 the employment rate of the 55-64 age group stood at 51.71 per cent compared to 57.91 per cent for the total working age population. In 2009, the employment rate of older workers was down to 34.96, compared to an employment rate of 49.96 per cent for the total working age population – thus increasing the difference between the two respective employment rates from 6.2 percentage points in 2003 to 15 percentage points in 2009, despite the gradual tightening of retirement rules.

What makes the Serbian experience, with the impact of the tightening of retirement rules on the labour market outcomes of the elderly rather different from the Dutch, is the fact that Serbia embarked on a process of transition and economic restructuring after the year 2000 and that transition interfered and changed the expected direction of policy measures. Judging by their employment rates, the impact of economic transformation and privatisation on older workers has been almost devastating. Although such an impact was predictable from previous transition experiences of other Eastern European countries, no comprehensive set of activation policies for older workers was put in place.





3.2 Governance of economic/employment/educational policies

Despite the progress made in the past ten years towards a more decentralised and inclusive approach, governance of key socio-economic policies still remains largely in the hands of central Government. The role of the social partners remains very limited, and social dialogue, especially at the local level, is underdeveloped. The Government and governmental agencies, on the other hand, are not fully equipped to design and implement a set of rather sophisticated and complex measures, such as those aimed at the activation of older workers, apart from the declarative goals to be found in some of the strategic documents. Actually, the issue of transferability is crucial not primarily at the level of adoption of policy guidelines and concepts, but in their translation into operative programmes.

3.3 Technical aspects of specific instruments

Although some of the instruments, such as individual learning accounts, would require an introduction of a new regulation, this by itself does not appear to be a major obstacle in Serbia. Within a wider context of Europeanisation, the Parliament adopts new laws and regulations with decent efficiency. However, a larger problem would be the operationalisation and implementation of such a regulation. Complex instruments which require involvement of multiple stakeholders and flexibility in implementation are likely to be underutilized and/or abused. Therefore, perhaps developing a simpler scheme of training vouchers, which by itself would be a novelty, might be more appropriate in Serbian context.

3.4 Discourse and cultural imbedding of policy assumptions

The dominant discourse about the productivity of older workers and about the social and economic desirability of active ageing strategies is generally simplistic and negative. Older workers are considered to be less productive, not well suited for private employers because of old habits developed under socialism, with obsolete technical skills, ridden with psychological and health problems related to extreme stress in the 1990s. In a rather traditional culture such as Serbian, they are perceived as selfish if pursuing their careers at an advanced age, as if they are taking away jobs from the younger generation. According to a recent survey by the Statistical Office (2009), only 1.3 per cent of Serbian enterprises prefer to hire workers 45 years and older, while approximately 56.3 per cent of them prefer to recruit workers in the 25 to 45 years old age-group,

As another side of the same coin, public attitude about early withdrawal into inactivity of older workers is generally positive and it sometimes finds its way into legislation, even though outright early retirement schemes are avoided by the Government – although they are openly favoured by both unions and employer organisations. For example, there is a regulation in Labour Code which ties the amount of severance payment to be paid to a redundant worker to a total work experience, rather than to the tenure with the current employer. This regulation is not questioned in Serbian public, although it is a cause of constant frustration for foreign employers.

Apparently, hard work and a lot of affirmative action will be needed in order to promote (and sometimes impose) the activation of the elderly policy agenda, including discouraging and penalizing (with lower pension benefits) early retirement, and actively promoting the extension of working life.





4 QUESTIONS

- 1. We would be interested in obtaining an English language translation of the Temporary Subsidy Regulation to Stimulate Age-awareness Policies by the Ministry of Labour and Social Affairs 2004, with later revisions and any other material related to it.
- 2. Learning more about the Work Ability Index and its implementation in the Netherlands would be instrumental, especially in connection with the assessment of disability given the new Serbian (2009), yet to be fully implemented Law on Professional Rehabilitation and Employment of Persons with Disabilities.





ANNEX 1: SUMMARY TABLE

Labour market situation in the Peer Country

- Decline in employment intensified during the economic crisis
- Employment rate of working age population below 50%, unemployment rate 17.4%
- Employment rate of older workers (55-64) stands below 35% in 2009, and the gap between general and older workers employment rate has become much wider during the last decade
- · Youth employment is very low and sharply declining during the crisis

Assessment of the policy measure

- Emphasis on pension system reform because of unaffordable pension spending
- Tightening of eligibility rules main direction for pension reform
- Declarative support to active ageing and adult learning at a strategic level, but little concrete measures
- Subsidies to employers for hiring older workers
- Absence of personal learning budgets, age-awareness personnel policies, and work ability index

Assessment of success factors and transferability

- Fiscal necessity acting as a major 'success' factor
- Financial obstacles to activation of the elderly lack of funds to introduce adult learning programmes and subsidize personal learning budgets and age-aware personnel policies
- Cultural and institutional obstacles generational 'lump of labour fallacy' dominant in public perceptions and influential among policymakers and experts

Questions

- Stimulation of age-aware policies
- Work ability index



