

## Active Ageing Strategies to Strengthen Social Inclusion

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Finland shows a promising path of increasing older people's employment over the past ten years. This growth and the ongoing efforts of the government suggests that active-ageing policies can help facilitating increasing employment, if supported by a determined and consensual restructuring of the incentives that govern retirement and employment behaviour. Ageing of the society, imbalances in the pension budget, the sharp drop in employment after the transformation in CEE countries are initial conditions Finland and Hungary share, so one might conclude that the Finnish experience is applicable to Hungary. There are also differences however, three of which has to be looked at carefully. These are 1) a much lower employment during the late 1990s and early 2000s, 2) lack of consensus in the society regarding the necessity for working longer, retiring later, and 3) despite encouraging new developments, a comprehensive governmental strategy is not yet developed to address older people's employment problem, and reaction to remove incentives from the pension system allowing early retirement is slow.

### The Finnish experience and the Hungarian challenge

Hungary does not only have one of the lowest employment rates in the EU, but as the discussion paper shows in Table 1, it is also Hungary where employment is predicted to shrink the most over the coming decades. One important reason behind this current situation and grim projection is the basis provided by the still very low employment rate of the 55-64 age group. As we shall see, there is good reason to believe that things can change in the future – and so will the projection figures. However, the past can not be changed: low employment of older people is a result of poor life expectancy of the population and pension regulations (ultimately: a particular way of dealing with labour-market tension of the early 1990s). This heritage sets the scene for the need and direction of change – active ageing policies can prove to be very important in either working together with these fields or perhaps playing a co-ordinating role as well.

### Relevance of the Finnish experience

Based on the post-1990 state of the labour market and the problems originating there, the experience of Finland is highly relevant for the case of Hungary. Employment rates dropped in both countries in the first years of the post-socialist transformation and a major tool of dealing with the ensuing problem was the pension system. Ageing of the society and the associated sustainability issues are shared by Hungary too, just as by many other counties in the EU. The proportion of people aged over 65 is high (15.5%), but still has not reached the average of the EU-25 (16.5%). The old-age dependency rate of those aged over 65 was 22.7% in 2005, which is slightly below the average of the EU-25. Just as in Finland, Hungary experienced economic growth in the second half of the 1990s. Except for 2002, growth was never smaller than 3.9 percent. Early retirement ages were and are still low in Hungary too (more than 90% of all applicants retire before the

legal age) and the proportion of disability pensioners is high. Also, retirement ages were raised in Hungary and – also we do not know the share of contribution of overall economic growth, demographic changes and other factors increasing labour demand, such as increased FDI – this rise has definitely translated into growth in employment.

However, there are significant differences between the two countries. Most importantly, overall employment and activity rate in Finland was higher than in Hungary to start with and remained so even today (in Hungary, activity rate was 57 and 41 percent for males and females respectively in the 55-59 age group in 2006, whereas the same figures are around 70 percent in both cases for in Finland). Clearly, legal retirement age differences explain a lot of this. To catch up with the gap between Hungarian and Finnish or even average EU activity and employment, retirement ages should rise more rapidly or for a much longer period in Hungary than they did in Finland.

Rising the retirement age however – even if it is completely successfully translated into employment – has its natural limits. Life expectancy at birth has been generally increasing since the 1990s to reach 72.8 years in 2004 (68.6 years for men and 76.9 for women). According to data from 2003, this figure is below the EU average by almost seven years for men and by more than four years for women. Projections covering the period until 2050 show that among EU members states, Hungary will see the largest increase in life expectancy: men's will increase by 9.6 years by 2050 to reach 78.1 years, and women's by 6.6 years, reaching 83.4 years.

### **Policy similarities and differences compared to active ageing policy in Hungary (with attention to the National Strategy Report)**

Perhaps because this seems trivial, the discussion paper does not stress that the inclusion policies in themselves might not have been able to deliver the observed employment growth. Success of the inclusion policy can be assessed only in light of other, supporting and supported policies. As opposed to Finland, Hungary is not running an integrated policy for raising employment of older people yet. At the same time, the government has taken actions that can form a basis of an active ageing policy. It is clear from the measures actually taken and targets set in the Convergence Programme of the government and other documents, that the problem is not the lack of intention to tackle the problem, but rather that the "attack" is not (yet) firm and coordinated enough.

Research in pension economics shows that it is chiefly the regulation of the pension system that gives the basic set of incentives to the older people to stay or become participants on the labour market. This system has undergone a major and widely communicated reform in Finland. In Hungary, the old-age pension system is being changed in small steps since the 1997 pension reform and although there are speculations of further increases, the currently targeted retirement age is 62 years for both sexes. The raise in retirement age has successfully translated into employment growth among the older workers. Employment rate of 56 year old women for example has increased from 14.5 percent in 1997 to 56.1 percent in 2006. The considerable increase in retirement ages (especially for women, from the age of 55 to the age of 62 in 2009) make many believe that further increase is avoidable or can be made a subject of bargaining. Considering the still considerable employment gap, this is unfortunately not the case.

A major difference between the two countries is the level of cooperation between of the social partners. While the report depicts tripartite co-ordination as a smooth process in Finland, Hungary

has yet to see a consensus that makes postponing retirement a clear and important objective for all. Active ageing policies have a potentially important role to play in this process, by offering protection and a pleasant work experience in exchange of an increased working life.

The Finnish policy can also build on an already ongoing process of educational reform and expansion. With such a solid foundation, it is reasonable to suppose that older people of the future will be able to respond well to challenges of the labour market. The foreseeable improvement in general level of education (especially due to the expansion of higher education) in Hungary will surely trigger an increase in employment rates of the older people in the future – this process is probably already under way –, but the schooling level of the existing labour force is low. Research shows that literacy skills are particularly low, even when comparing people with the same level of education in other countries. We also know that people with such low education have very bad chances on the labour market and are major contributors to low activity. As of now, there is no comprehensive plan to reform the general education system, but a chance for important changes seem to appear (see below)

### Recent developments

As already mentioned, there are encouraging recent developments that relate to the problem of active ageing. In 2006, a pension package was introduced with the following measures:

- Raising the age of early retirement to minimum 59 from 2009 and to 60 years from 2013 for women;
- Suspension of early retirement pension if regular earnings exceed the minimum wage
- The pension calculation system will be changed from 2008 on in order to encourage longer working life, including a reduction if the initial pension level
- In case of certain hazardous occupations, the employer will have to pay a special contribution after their employees and this burden of payment will gradually be relieved by the government to a decreasing extent

Also in 2006, a resolution was made to break with the practice of early retirement through disability pensions. As a result, a new disability benefit system comes into effect on 1. January 2008. The purpose of the new system is that those disabled people – who can be rehabilitated – could return to the labour market and only those persons should remain on disability, who are definitely unable to work effectively. Instead of an up front pension benefit, applicants will be first eligible to a new so-called ‘rehabilitation benefit’, valid for only 3 years and offering not only passive cash benefit, but also active, complex rehabilitation services. In parallel to changes in disability benefits, a new rehabilitation system has been established to develop and promote abilities and skills of partially disabled people. Participation is mandatory, but if the recipient was unable to secure employment after 3 years, he or she can claim disability pension as before.

Unemployment rate of the 45-60 population is only 1 percentage point below the average and receive no differential treatment from the Employment Offices. Unemployment benefit is also uniformly available to all ages. Older people exhausting unemployment benefit and unable to secure a job are entitled to social assistance.

Besides the uniform availability of jobseekers benefit and allowance, there exist active labour market policies specially targeted at older people. One of them is the extension of the so called "START Extra Programme", assisting long term unemployed over the age of 50 or with low education. The programme, originally launched in 2005, seems to be effective: 27,000 of the 43,000 participants found a job in 2005, and 13,000 out of 22,500 in 2006. These programmes are accompanied by considerable relief of social security contribution and further greater/longer lasting wage subsidies for unemployed 50+. Employers also receive subsidies to support the vocational re-training of their employees in the 45+, 50+ age groups.

### Applicability, transferability

As already pointed out, the Finnish experience has some very specific aspect that are potentially all associated with its success. The policy was

- part of an integrated policy package, including major reforms of exit routes such as pension,
- widely discussed,
- accepted by the social partners,
- taken on by the government as a key task
- implemented together by several ministries and other governmental organisations,
- stressing information of the public,
- reaching the root of the problem, such of preservation of working capacity,
- reaching every part of the society, including corporate partners,
- implemented in an economic upturn.

All of the key features teach an important lesson to Hungary. The most important task is however to find an appropriate way out of the vicious circle of low employment and a hesitation to take measures that have a great impact on the prevailing culture of work and retirement. A key condition is finding convincing and real (if not certain) ways of compensating people for what they are asked to give up in terms of free time and certainty of income. Active ageing policies can go hand in hand with educational initiatives to provide such a set of protective and assistive solutions.

It is probably communication with the public and building consensus is the most important of all lessons. Only an interactive process of communicating the importance of the issue and discussion with the public can build a consensus and commitment that is required for a comprehensive reform.

### Measuring impact of policy

Impact of policy can be measured in Hungary using indicators of employment and retirement behaviour of older people, such as

- changes (increase) in the mean actual retirement age of those retired
- increase in the employment rate of older, age 55-64 people
- proportion of participation of older people in training programmes
- change in the share of disability pensioners among all entering retirement

These and similar indicators (widely used elsewhere too) are alike in the sense that they are easy to calculate, but lack a counterfactual comparison value. Because the outcomes are affected by

many policy instruments, it is generally impossible to separate the sole effect of active ageing-related policies from, say, labour market interventions. An improvement in targeted data collection and proper policy evaluation studies are required to actually evaluate the effectiveness of the policies. This is also an area, where the government seems to consider the required steps.

## Key issues suggested for discussion

- How is it possible to reach a consensus on which the reform policy package can rely? What is the best way of communicating the need and possibility for the change if important affected parties seem to be interested in keeping the status quo?
- Is it possible to administer a fundamental systemic change in times of low economic performance and employment?
- How to target effectively blue-collar and low skilled workers with active ageing policies? Is developing a pathway to skill development and transformation inevitable?

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