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EEO Review: Employment policies to promote active ageing, 2012

Estonia

Reelika Leetmaa

Kirsti Nurmela

PRAXIS Centre for Policy Studies

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1. Introduction

The definition of older workers is not uniform across statistical surveys and research in Estonia. The pension age in 2012, is 63 years for men and 61.5 years for women and legislation (namely, the Labour Market Services and Benefits Act) defines people between 55 and pension age as a labour market risk group.

Compared to the EU average, workers in Estonia remain more active in the labour market at old age with inactivity rates remaining below the EU average across all subgroups within the 55-69 age group. Male and female inactivity rates do not differ much in Estonia, while female inactivity in the EU is much higher. The employment rate of older workers aged 55-69 in Estonia remains well above the EU average in 2010. This is largely on account of higher female employment in older age groups which is 42 % in Estonia, compared to just 28 % in the EU. At the same time, male employment has dropped below the EU average in the 55-59 age group (59 % in Estonia in 2010 compared to 69.5 % in the EU). Comparing across different age groups, employment rates are higher among all subgroups, but are the highest in the 60-64 age group. Unemployment rate data across these age subgroups is mostly not available due to the small sample sizes involved. Statistics Estonia indicates that among 50-69 year olds, unemployment rates are at the same level as among 25-49 year olds (15 % for both groups) with an increasing trend during 2008-2010. As in the general population, the unemployment rate for older men is higher at 17 %, compared to 13 % among women.

According to Eurostat, the average exit age from the labour force in Estonia is higher than the EU average, at 62.6 years in 2009. In general, the Estonian pension insurance system supports working until retirement age and even beyond that due to low pension rates and the possibility to receive pensions and income from work at the same time (Luuk, 2009). People mostly leave the labour market through different forms of old-age pensions and incapacity to work pensions (see also point 2 below). Those who are unemployed or inactive or whose ability to work is limited before the formal pension age, usually find alternative solutions for retiring from the labour market, for instance through incapacity to work pensions (see the analysis of the labour market impact below).

Since employment rates are already fairly high in older age groups, it will also be important to ensure a good work-life quality for older workers in the labour market, including work that corresponds to their capabilities and education, access to training opportunities, etc. Some of these issues are currently problematic in Estonia (see point 3 below).

2. Overview of recent reforms relating to pensions and benefits for older workers

In Estonia, the following parts of the social insurance system have an impact on the employment of older workers:

- old-age pensions of different forms, including early-retirement pension;
- pension for incapacity to work;
- unemployment insurance benefit and unemployment assistance;
- subsistence benefit (Leetmaa et al 2004).

Table 1. Reforms relating to pensions and benefits for older workers, 2007-2011.

Reform	Impact on employment*	Time of implementation
Increase in pension age	Important	Increase for women to equal men's until 2016 and gradual increases for both men and women from 2017 to 2026
Supporting employer financed pension contributions	Marginal	August 2011
Increase in pensions	Marginal	Continuous 2007-2011
Increase in subsistence level	Marginal	Increase in 2008 and in 2011

*Assessment of the authors.

Probably the most influential reform in terms of impact on employment has been the gradual increase in statutory pension age. In 2012 pension age stands at 63 years for men and 61.5 years for women. The pension age for women is being increased and gradually equalised with the pension age for men, reaching 63 by 2016. From 2017 onwards, the retirement age for both men and women will be raised by three months each year up to 65 years by 2026. Based on the previous increase in pension age, Vörk (2009) has found that this has two main general effects: 1) increase in the overall employment rate of older people; and 2) use of alternative pathways to retirement – especially early retirement benefits and disability benefits.

Employment has increased due to those individuals who are capable of working and who remain in employment longer due to pressure from the increased pension age and incentives generated by the possibility to receive pensions and labour earnings simultaneously (Vörk 2009). The employment of older workers has decreased during the recession. Although the impact of the increased pension age is evident when comparing the employment rates of women aged 60-64 who are currently facing a higher pension age with those aged 55-59. Employment change is on the positive side for the first group, while a decrease of 9 percentage points has occurred for the latter.

For those who were already unemployed or inactive and whose health capital was low or skills outdated, the preferred option was to use other pathways to retirement following the increase of the statutory pension age. This is reflected in increasing rates of disability pensioners and early retirement pensioners (Vörk 2009). The share of disability pensioners has been increasing continuously since 2007. The share is the highest among 55-59 year olds, just before statutory pension age (in 2011, 24 % of both men and women aged 55-59 were disability pensioners while this proportion was around 19-20 % in 2007) (Statistics Estonia). Since the pension age will be increasing until 2026, it is expected that similar trends will continue in the future.

The share of old-age pensioners who use early retirement pension has also increased slightly during 2007-2010. In 2007, 17 % of all new old-age pensioners were receiving early retirement pension. In 2009-2010 the share has increased to 24-25 %. Uudeküll and Vörk (2004) show that after the introduction of early retirement pensions in 2000, the majority of people (about 60 % in 2004) who started to use them had been unemployed for about two

years before retiring. These benefits have acted more as a substitute for the low unemployment and subsistence benefits received by those who were already unemployed or inactive rather than a motivation to directly withdraw from employment (Võrk 2009). Thus, the increasing share of early-retirement pensioners is at least partly the result of increased unemployment during the recession.

During 2007-2011, changes have also been introduced to support the creation of employer-financed pension schemes through tax incentives. However, since this touches upon a very small number of workers, the effect of the measure on the employment of older workers is expected to be marginal. In addition, the size of pensions and the subsistence level have constantly increased throughout this period. Despite this, since the replacement rate between pensions and subsistence benefits remain low, these changes also probably have a marginal impact on the employment of older workers. There have been no changes in the size of the unemployment insurance benefit, the unemployment assistance or the pension for incapacity to work during 2007-2011.

3. Assessment of active ageing policies

There is no single and coherent active ageing policy in Estonia that would guide a systematic approach to active ageing across all different policy fields, including health, work-life quality, lifelong learning, social insurance, etc. This is about to change since a new policy framework is being created in 2012 by the Ministry of Social Affairs and an active ageing strategy is planned to be introduced by the end of 2012 in the framework of the European Year for Active Ageing and Solidarity between Generations. Thus, the current chapter reviews in more detail some individual policy aspects across different fields.

One of the aspects that support longer working lives in Estonia is probably the combination of relatively low pensions and the possibility to receive income from work and pension at the same time. In addition, in case of deferred old-age pension, the pension calculated on the basis of the pension formula is increased by 0.9 % per month worked after the official retirement age. These, in combination with the increasing retirement age, have resulted in relatively high employment rates among older workers compared to other EU countries past the official retirement age, even during the economic downturn (18 % among 65-69 year olds in 2010 compared to 10 % for the EU average).

At the same time, the increase in the retirement age has been criticised by the trade unions who stress the need to raise the quality of work among older workers before retirement. An earlier research by Leetmaa et al (2004) has indicated that older workers suffer from poor health (life expectancy in Estonia is considerably lower compared to the EU average) and lower educational attainment. At the same time, their motivation and satisfaction with work is higher than among younger workers and their working environment is equal to that of younger workers. Thus, it is concluded that in the context of higher employment among older workers, it will be important to raise the health of the population and analyse the special needs of older workers in the labour market (Leetmaa et al 2004).

According to Eurostat data, 8.5 % of Estonians aged 55-64 were severely limited in their daily activities in 2010. This is below the EU average of 9.7 %. At the same time, the share of persons who say they are somewhat limited in their daily activities in the 55-64 age group was 31 % in 2010, which is among the EU Member States with the highest share. In addition, as

indicated above, in 2010, the average life expectancy of a one-year old in Estonia was 75.2 years, which is among the lowest in the EU (Eurostat). It is even lower among males (69.9 years compared to 80.0 years for women). Thus, keeping in mind the low life expectancy, high gender difference and relatively high share of those who say they are limited in their daily activities due to their health, it will be important to also tackle the issue of improving the health of older workers.

A recent change in Estonian legislation aims to reduce discrimination faced by older workers based on their health in the labour market. Namely, according to the decision of the Supreme Court, from 2011 a provision of the Health Insurance Act was declared unconstitutional. According to the provision, persons older than 65 years had the right to shorter sickness benefit compared to younger persons. Younger persons had the right to sickness benefit up to 250 days per year while for persons older than 65, the annual sickness allowance was limited to 90 days. Also, while younger persons could take a maximum of 182 consecutive days as sickness leave, older persons could only take 60 consecutive calendar days. These differences were abolished from the act.

Similarly, with the purpose of reducing discrimination in older age, in 2007 the Estonian Supreme Court declared invalid the articles of the Public Service Act that legally permitted the dismissal of public sector employees aged over 65 years, merely on the basis of their age. Moreover, if the dismissed employee had an employment history of more than five years, the compensation for dismissal based on the employee's age was smaller than that of regular redundancies. Similar articles of the Employment Contracts Act affecting private sector employees were changed a year earlier, in 2006 (see also Nurmela and Karu 2007).

One aspect that could support the employment of older workers both before and after retirement would be the availability of flexible working conditions. In Estonia, the implementation of flexible working conditions is not very common in general, including for older workers. For instance, according to a survey from 2006 that analysed the employment of people aged 50-69 and entering retirement, just 8 % of all persons older than 50 were employed with a shorter than average working time and just 3 % planned to reduce their working hours before retirement (Luuk 2009). Around 10 % of respondents would be motivated to stay longer in the labour market if more flexible working time arrangements were available (Ibid). At the same time, more than 60 % of respondents did not answer working time related questions, indicating low awareness of these opportunities in society.

In order to motivate employers to use more part-time working arrangements, a new legislation took effect in July 2010 to support the creation of part-time jobs. It is specifically targeted at the long-term unemployed and those persons who are working on more than one job. According to the changes, the social tax contributions of employers are reduced under certain conditions to reduce the costs for employers, of setting up part-time jobs. Even though this is not specifically targeted at older workers, the introduction of part-time work would lead the way of using more flexible forms of work among older workers as well. In addition, it has been shown by Krusell (2010) that the share of long-term unemployed is higher in older age groups.

One of the indicators for quality of working life is also whether a person is working in a position matching their skills and education. According to Krusell (2010), 90 % of young people and those in their prime working age found that their educational level corresponds to

the work they are doing. Among older workers, the share barely reached 80 %. At the same time, around 20 % of older workers found that their work would require a lower educational level than they actually have (Krusell 2010). Thus, the match between work and education is problematic in older age. In addition, participation in lifelong learning is also lower among older age groups. In fact, it is especially low among older men (aged 55-64) at around 3 % in 2008-2010, while the share has increased from 4 % in 2007 to 6 % in 2010 for older women. At the same time, participation in lifelong learning in the 55-64 age group (both men and women) is at the EU-27 average level according to Eurostat. According to the Adult Education Development Plan 2009-2013, activities are planned to encourage adults aged 30+ and 40+ with general education to acquire vocational or higher education. There are no further activities to increase the share of older adults in training activities.

There are no special active labour market measures targeted to older unemployed in Estonia. Furthermore, persons older than retirement age cannot register as unemployed and participate in active labour market policies (except for information provision, job mediation and vocational counselling). For those in pre-retirement age, labour market measures are offered based on their specific needs as outlined in their individual plan for finding a job, as for the rest of the unemployed. Still, persons aged between 55 and until statutory pension age are considered as a special labour market risk group, which means that their unemployment situation is assessed as more complicated and the necessary measures are planned separately for each individual. According to Marksoo et al. (2011), the most commonly used labour market services among older people are training and career counselling. In 2010, participation in wage subsidy measures also increased. Additional labour market measures are also provided through individual projects that are financed through the European Social Fund (ESF). For instance, in 2011, financing was opened for projects supporting a return to the labour market for older workers (aged 50-74) and youth (16-24). A total of EUR 6.65 million will be allocated to such projects.

4. Conclusions

Although there is no ageing policy framework adopted in Estonia, the issues of an ageing workforce and active ageing are considered important at least on a rhetorical level. For instance, the Estonian National Reform Program 'Estonia 2020' outlines that there is a need for special measures to bring older people back to the labour market and support their employment. The question of active ageing has become even more prominent recently, largely in relation to the European Year of Active Ageing and Solidarity between Generations. Currently (2012) a policy framework for active ageing is being developed.

In general, the employment of older workers is relatively high in Estonia compared to other EU countries, even after decreases in the rates in recent years, due to the economic recession. Furthermore, the rising retirement age gives reasons to believe that incentives to remain in employment will increase even further. At the same time, the increasing pension age has been criticised with reference to the need to ameliorate the quality of work for older workers before raising their employment rates. This includes addressing the issues of health among older workers, but also the availability of suitable and flexible working conditions and access to training. Currently, workers above retirement age have access only to very limited active labour market policies. Still, until now, the argument for the sustainability of the pension system that has been the underlining aim for increasing the pension age, has not been

followed up by concrete policy proposals aimed at increasing the employability of older workers.

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