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## **PROBLEMS OF WORLD AGRICULTURE**

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## **Economic activity of older people in selected EU countries**

**Abstract.** The paper presents an analysis of changes in activity of the population in older age people (50-64 years) in selected EU countries: Finland, Germany, the Netherlands and Estonia in the context of demographic aging. The study period covered the years 2000 to 2012. It was low participation of people aged 50+ in most European countries and the EU average. At the same time there was an increase in the labor market involvement of people in this age group in recent years. Also presented are examples of good practices used in those countries that have successfully improved the situation on the labor market, leading to an increase in employment of people around the age of retirement.

**Key words:** economic activity, the age of retirement, the employment rate

### **Introduction**

For decades, developed countries, including the countries of the European Union, have been trying to manage the problem of demographic aging. The decline in fertility, together with increasing age inevitably lead to an ever-increasing proportion of older people in the population. Economic growth, improved health conditions, advances in medicine and medical technology in the last 50 years have increased the average life expectancy by 20 years. On the other hand, the fertility rate dropped drastically, to the extent that none of the current EU Member States currently reach the level of simple replacement of generations, which is attributable to 2.1 children per woman of childbearing age [Michalska 2012]. Demographic projections indicate that by 2030 the number of people of working age in the EU will fall by almost 21 million, while the share of the elderly and the oldest in the entire population of the Union and individual member states will continue to grow. It is expected that in 2030 every third person in the European countries will be aged over 60 years, and every tenth citizen of the European Union reaches the age of 80 years and more [Schimanek 2013]. According to the forecast by Eurostat, as a result of the processes of aging in EU countries, the proportion of people of retirement age will increase from 17.4% in 2010 to 29.5% in 2060. In Poland, the number of people over age 65 in the same period will increase from 13.5% to 34.5 %. So drastic demographic changes must cause huge tension in both the health care system, as well as the pension system. An aging population causes a rise in health care costs, and the cost of the payment of pension benefits, while fewer people of working age will have to ensure the financing of these benefits [Pelc 2011].

The process of aging is applied to the high level of deactivation of people aged about retirement. In almost all European countries, the actual age of cessation of labor is lower than the statutory retirement age. The average European withdraws from the labor market at the age of about 60 years, i.e. several years before the right to receive a full pension. In Poland, the average age of labor market exit is among the lowest in Europe.

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The scale of the problems resulting from low economic activity of older people is the reason that the European Council in 2000, under the Lisbon Strategy, adopted as one of the priority objectives, an increase in the level of employment in the Member States up to 70% in 2010, including growth of the employment rate of people aged 55-64 years to a level not lower than 50% in 2010. It should be emphasized that the majority of EU countries did not achieve this goal, and the gap in relation to the target value was the average for the countries of the 3.7 pp In June 2010 the European Council adopted the strategy "Europe 2020", under which five major objectives were agreed. The first is to raise the employment rate of 2020 people aged 20-64 to at least 75%, among other things, by increasing the number of older people in the workplace.

The low level of activity of mature and older people has major implications, not only economic but also social. Not working causes social marginalization and leads to exclusion of persons 50+, because low economic activity also generates low social activity. The consequences of social exclusion of persons 50+ affect the whole society, which is not able to use the capacity, knowledge and experience of these people, as well as financing social benefits enjoyed by persons 50+ [Schimanek 2013]. In terms of macroeconomics, earlier deactivation of people calls on the one hand the effects of reduced tax revenues and revenues from contributions. On the other hand, it contributes to the increase in the cost of benefits for those burdening the state budget. According to many experts, an opportunity the aging population not to have to resign from the current level of life is to increase their economic activity by, among others, extending the period of activity [Wolińska 2011]. Therefore, the issues of activation in older working age are now a necessity and should be one of the most important elements of socio-economic policies of all countries of the European Union.

## **Purpose and method of research, the source of empirical data**

For many years, European countries have taken measures to activate and increase the employment of people over fifty years of age, who have not yet reached retirement age. A good example includes Finland, Germany, the Netherlands and Estonia, where effective government programs have contributed to spectacular changes in this regard. The aim of the study is to determine the changes in activity of the older population in these countries. The study brought closer to the practices of these countries leading to activation of the elderly. Directly analyzed population is the group of older population of working age, i.e. people aged 50 to 64 years. This age group is referred to as "Generation 50+". Due to the age of these people they can be active on the labor market. The study period covers the years 2000 to 2012.

To measure the degree of involvement of the population in the labor market, the employment rate was used, indicating how many people out of 100 in the age group are working. This indicator is particularly relevant to the assessment of activity of people over 50 years of age, because in the case of absence of work they often decide to withdraw from other activities. [Chłóń-Domińczak 2013].

The study used data published by the statistical office of the European Union (Eurostat). The main source of data is carried out in the EU Labour Force Survey (EU LFS). According to the methodology of LFS, which is based on standards of the International Labour Organisation, all persons aged 15 and over are classified as

economically active or inactive. Economically active population (labor force) comprises employed and unemployed persons. The unemployed are persons who are not working but actively looking for work. Population passive professionals are people who are not classified as employed or unemployed. With a uniform methodology used by Eurostat, obtained statistics on the labor market in all EU countries are comparable. It is worth noting that in studies of economic activity a different methodology is applied by CSO (Poland). Another is e.g. the definition of an unemployed person. According to Eurostat, the unemployed is a person without employment (aged 15 to 74 years old), who is able to work within two weeks, and who has actively sought work for at least four weeks. The methodology of the CSO (Poland) is based on the number of persons registered in labor offices, without checking whether the registered unemployed person is interested in finding a job.

## Results of research

Eurostat population projections indicate that the population in the 27 countries of the European Union in 2060 will amount to about 517 million people, while in 2010 it was slightly over 501 million. In the period 2010-2050, the population is expected to increase among others, in Finland (7.3%), Sweden (23.45%), the UK (27.3%), while in Estonia, Germany and Poland population is expected to drop by 12.0%, 18.8 % and 14.3 % respectively. Despite the upward trend in the number of population, in the EU will be observed progressive aging of the population. In all EU countries will significantly increase the proportion of people of retirement age. The share of people aged 65+ in the total population in each country is illustrated in Figure 1. While in 2010 the share of people aged 65+ ranged from 11.3 % in Ireland to 20.6 % in Germany and was for all EU countries 17.4 %, in fifty years this percentage will increase significantly. In 2060 the share of people aged 65+ in the EU will be 29.5%, and will vary in the range of 22.0% (in Ireland) to 35.7 % in Latvia. This means that a very large increase in age dependency in the retirement age will occur (Fig. 2). The most dramatic situation is expected in Latvia, where on 100 working people will fall 68 elderly people aged 65+. Old age dependency ratio above 50% will reach most of the countries of the Union, while the level of 60% - outside Latvia, will be exceeded in Bulgaria, Poland, Romania and Slovakia. This unfavorable situation, without the introduction of appropriate reforms, could lead in less than 50 years to disastrous economic and social consequences.

In the European Union in 2000 there were 66.6% employed persons aged 20-64 years, while in 2012 there were 68.5% employed (Fig. 3). This means an increase in the employment rate over the past 13 years, only about 1.9 pp and failure to meet the Lisbon Strategy target level of the index (it was to be 70 % in 2010). The highest employment rate in 2012 was recorded in Sweden (79.4%), the Netherlands (77.2%) and Germany (76.7%). At the same time, Germany is a country where there was the greatest increase of involvement in the labor market over the past 13 years, where the share of employed increased by 7.9 pp. The lowest employment rate in 2012 occurred in Greece (55.3%), Spain (59.3%) and Italy (62.0%). In most countries in the period from 2010 to 2012, occurred the upward trend of the employment rate, which is largely a result of the economic policy of the Union in the field of vocational activation, particularly in relation to older people.

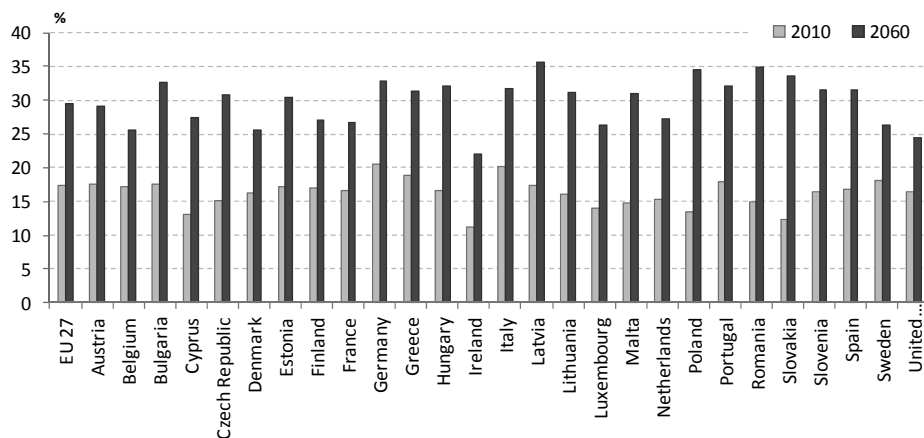


Fig. 1. The share of people aged 65+ in the population aged 15 and more in 2010 and forecast for 2060.

Source: own elaboration based on Eurostat.

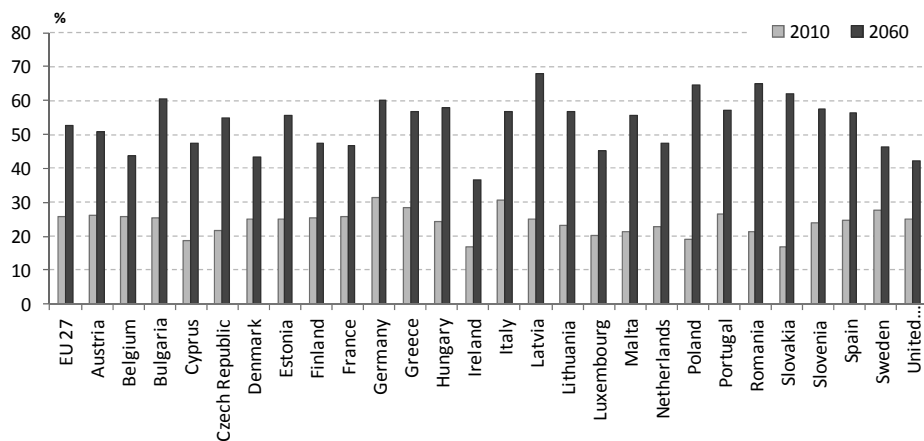


Fig. 2. Old age dependency ratio (the population aged 65 year and older divided by the population aged 15 to 64) and forecast for 2060

Source: own elaboration based on Eurostat.

Despite favorable changes in the occupational activation observed in most EU countries, in some of them there was a relatively large decline in the employment rate in the period 2000-2012. The largest decrease in this ratio occurred in Portugal (-7.0 pp), Ireland (-6.7 pp) and Greece (-6.6 pp).

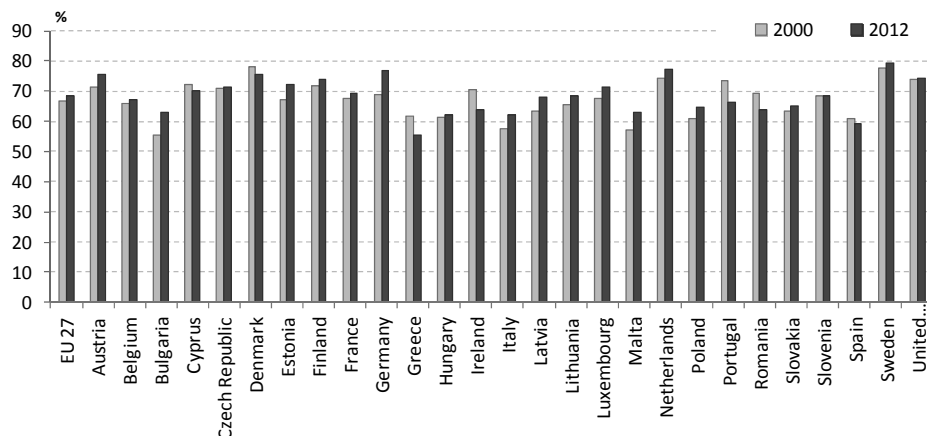


Fig. 3. The employment rate of people aged 20-64 years in 2000 and 2012

Source: own elaboration based on Eurostat.

Examples of countries that have had the greatest success in the field of occupational activation of people aged 50+ in the last 13 years are Germany, the Netherlands, Estonia and Finland (Fig. 4, 5, 6). While in 2000 in Germany, the Netherlands and Estonia employment rate in this age group was similar to the EU average, in 2012, it was significantly higher than the EU average. In 2012, the employment rate of people aged 50-64 years in Germany, the Netherlands, Estonia and Finland ranged from 58.2% to 61.5%, while the average for the EU was 48.9%. Particular attention should be paid to Germany and the Netherlands, which saw the largest increase in the employment rate - in the case of Germany by 23.9 percentage points, and the Netherlands - by 20.4 pp. However, in case of Estonia and Finland interesting is a particularly high employment rate of women aged 50+. In Estonia it was in 2012, 61.2%, Finland 59.7%. At the same time the largest increase in employment of older women was observed in Germany: from 29.0% (in 2000) to 54.8 % (in 2013).

The reason for such spectacular changes in these countries is effective government policies and actions taken in this regard by the employers themselves. More and more companies are starting to use age management policy. Age management is geared to maintain in employment persons who have crossed 50 years of life while maintaining the work efficiency of these people. Its essence is the maximum consideration of the benefits of employing workers of all ages, including those over 50. As a result, the employer provides a mutual exchange of knowledge and experience between the different generations of workers [Schimanek 2013]. The implementation of government programs to promote employment of older workers in Germany, Finland, Estonia and the Netherlands, to promote the activity of workers in the age of retirement, as well as reducing the possibility of early retirement has allowed these countries to achieve the goal to increase the employment of persons in excess of 50 years of age.

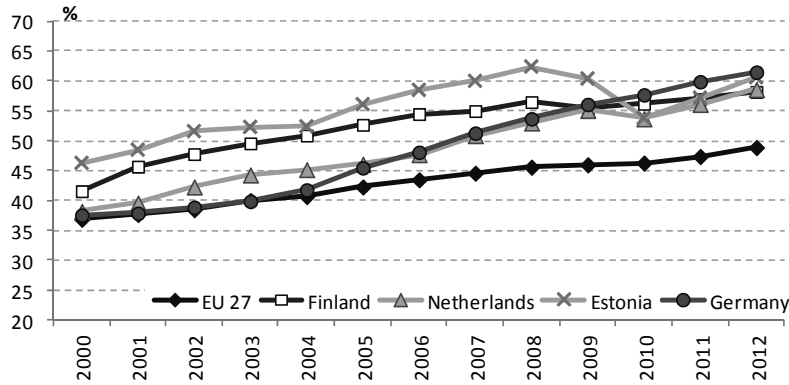


Fig. 4. The employment rate of people aged 50-64 years during 2000-2012

Source: own elaboration based on Eurostat.

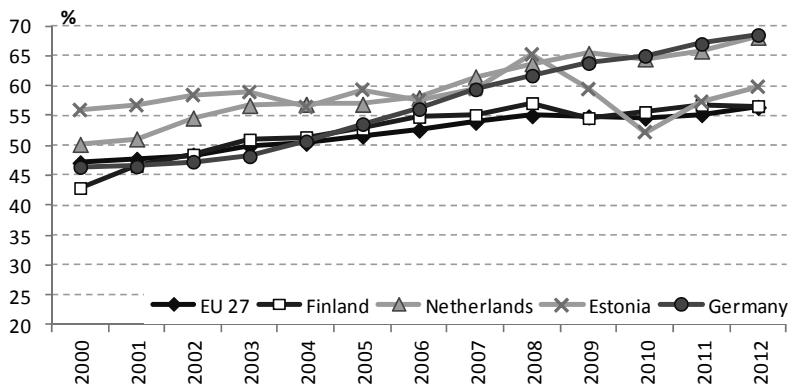


Fig. 5. The employment rate of men aged 50-64 years during 2000-2012

Source: own elaboration based on Eurostat.

In Finland, the activation measures concerning aging workers started in the early 90s, during the economic downturn, one of the consequences of which was the sharp rise in unemployment. They launched pension reforms whose main objective was to raise the retirement age and to limit the possibility of early retirement. One of the next steps of the reform was the introduction of so-called flexible retirement age of 63-68 years. The solution lies in the fact that each year worked over age 63 causes a significant increase in the amount of future pensions. Such a system promotes long activity and encourages remaining in the labor market. At the same time the minimum age for giving the opportunity for early retirement is set at 62 years. Access to benefits that were the cause of professional deactivation, was systematically restricted. Also the ability of retirement for unemployed people approaching retirement age was restricted, the minimum age for the use



of pension in respect of incapacity for work was raised and the minimum age for receiving unemployment benefits in the retirement age.

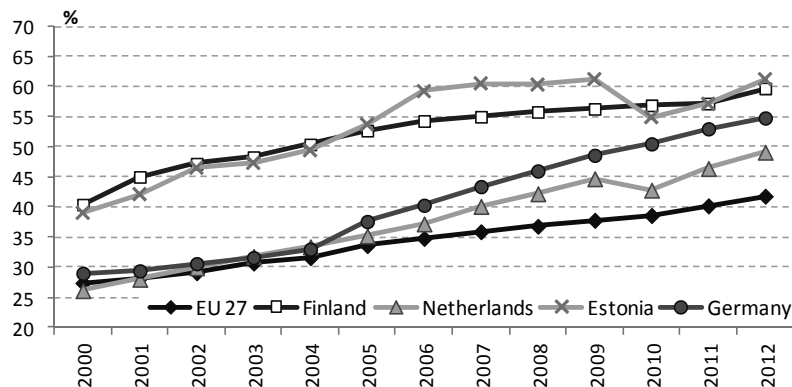


Fig. 6. The employment rate of women aged 50-64 years during 2000-2012

Source: own elaboration based on Eurostat.

In the Netherlands, in the early 90s, the criteria for granting disability benefits were tightened, including medical criteria entitling receipt of disability benefits. There were introduced special grants for employers who hire retirees returning to work, thus encouraging increased employment of people with health problems. Social security contributions for companies that employed such persons were reduced. For high growth in employment of people of the 50+ group in recent years has also contributed the elimination of favorable tax arrangements for people leaving the labor market below the statutory retirement age. There were completely eliminated all systems enabling the transition to early retirement [Milewska-Marzyńska 2013].

In Germany, the labor market has been revolutionized by so-called Hartz reforms implemented by the German government in 2003-2005 to reduce the results of high unemployment and stagnating employment rate. Reform effort has been focused on increasing labor market flexibility. New, more effective methods of activation of the unemployed were introduced. For example, they can apply to private employment agencies, for which the state paid. Employers were encouraged in hiring for a specified period of older workers. The state also introduced (temporarily) addition to the remuneration of older people and a discount rate of contribution to unemployment insurance. The social benefits system was reconstructed to hamper long-term exposure to unemployment. Significantly reduced were benefits paid to unemployed remaining unemployed for a long time. It should be noted that the Hartz reforms, including the introduction of more flexible forms of employment, have brought great success - the unemployment rate has fallen significantly. These reforms, however, enjoyed scarce popularity among the public and still arouse much controversy.

Estonia belongs to a small group of former Eastern Bloc countries (along with Latvia and Lithuania), where there has been one of the highest activity of persons aged 50-64 years. The reform of the social security system, started in the 90s in Estonia, to a great extent contributed to maintain the activity of the population at the age of retirement. There

are new rules for the granting of pensions and benefits. Early retirement can be obtained not earlier than three years before the statutory retirement age provided they have a minimum of 15 years of service. Retirement benefits for a pre-retirement pension are less than adequate. If you continue working beyond retirement age the pension amount increases depending on the number of additional months worked. In this way, the actions taken in Estonia gave the people of retirement age new opportunities to increase income. In addition, actions are taken to support the employers of people with lower qualifications, including those unemployed who lack five years to reach retirement age. In the longer term the system provides to equalize retirement ages for men and women [Belczyk 2008].

## Summary

In the context of demographic aging and the related aging of human resources in the labor market across Europe, the professional activity of society is one of the priorities of the European Union. Particular importance is given to support the activity of people in their 50+ years, who have not yet reached retirement age. In most European countries participation in professional activity among people aged 50-64 is low. In 2000, the employment rate in this age group averaged 36.9% in the EU. With activation measures taken by many countries, the employment rate in the period 2000-2012 increased to 48.9 %. It should be noted that in 2010 this indicator reached the average level of 46.3%, which means that the gap in relation to the target values assumed in the Lisbon Strategy was 3.7 pp.

Germany, the Netherlands, Finland, Estonia belong to the group of countries that have been most successful in terms of activation of people around the age of retirement. Effective government policies and actions by employers have led to a significant increase in the involvement in the labor market of people aged 50-64 years. During the twelve years the employment rate in this age group has increased in these countries by an average of 18.8 pp, while the level of the EU average increased by 12.0 pp.

Actions taken in these countries in order to prevent unfavorable developments in the labor market are an example of good practice in Europe. The basic tools to increase the employment rate of people aged 50+ was to raise the retirement age and reduce the possibility of early retirement .

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