

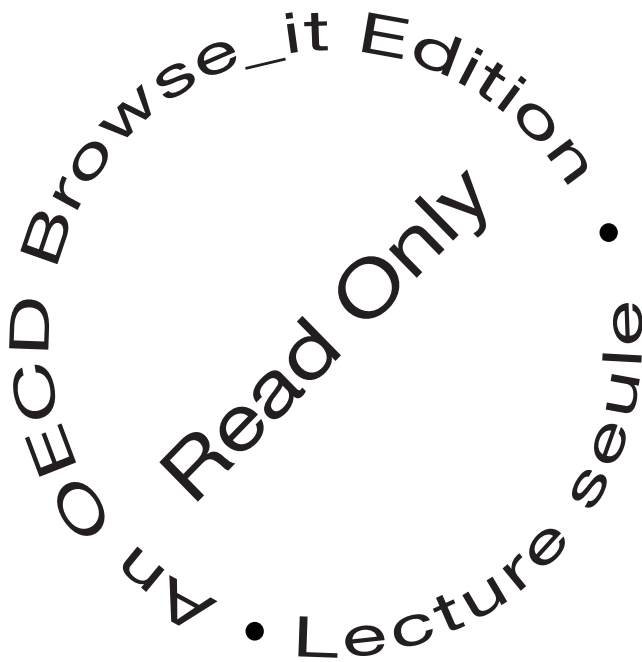


Ageing and Employment Policies

Czech Republic

*Vieillessement et politiques
de l'emploi*





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Ageing and Employment Policies
(Vieillesse et politiques de l'emploi)

Czech Republic



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FOREWORD

Older people offer tremendous potential value to businesses, the economy and society. Unfortunately, they often represent an untapped and discriminated-against resource, as many public policy measures and private workplace practices pose serious barriers to work, both paid and unpaid. Many of these policies and practices are relics from a bygone era. There is a need to look beyond traditional stereotypes about ageing in order to benefit from the growing numbers of older citizens, many of whom would, in fact, choose to work for longer given appropriate policies and workplace practices.

The OECD has reported extensively on public pension and early retirement systems and the need for reforms of these systems to cope with some of the challenges posed by population ageing. However, these reforms will not be enough to encourage later retirement and to reduce the risk of future labour shortages. Measures are also required to adapt wage-setting practices to greying workforces, to tackle age discrimination and negative attitudes to working at an older age, to improve job skills of older people and their working conditions, and to better “activate” older job-seekers. Relatively little is known about what countries have been, or should be doing, in these areas. Therefore, in Spring 2001, the OECD Employment, Labour and Social Affairs Committee decided to carry out a thematic review of policies to improve labour market prospects for older workers covering both supply-side and demand-side aspects.

For the purpose of this thematic review, it was decided to define older workers as all workers aged 50 and over. The age of 50 is not meant to be a watershed in and of itself in terms of defining who is old and who is not. Perceptions about being old are inherently subjective and only loosely connected with chronological age. However, in many countries, the age of 50 marks the beginning of a decline in participation rates by age. Moreover, to facilitate international comparisons, it is preferable to refer to the same age group for all countries. Thus, all references to “older workers” in this report should be taken as shorthand for workers aged 50 and over (or in some cases,

because of data constraints, workers aged 50 to 64), and should not be seen as implying that all workers in this group are “old” *per se*.

This report on the Czech Republic is one in a series of around 20 OECD country reports that will be published as part of the older workers’ thematic review, which has been developed by Raymond Torres. This report has been prepared by Steven Tobin, Sylvain Côté, Ondřej Schneider, and Jiří Večerník. Technical and statistical assistance was provided by Sylvie Cimper, Alexandra Geroyannis, Clarisse Legendre and Judy Zinnemann. A draft of the report was discussed at a seminar on “Policies to Improve Labour Market Outcomes for Older Workers” in Prague on 5 December 2003, which was organised by the Ministry of Labour and Social Affairs. Discussants at the seminar included representatives of the national authorities, the social partners and non-governmental organisations, as well as academics. The final report, which incorporates the comments received at the seminar, is published in this volume on the responsibility of the Secretary-General of the OECD.

* * *

This report is based on the proceedings of a seminar and is published in English only. However, a French translation of the Executive Summary and Recommendations has been included in this volume (see p. 17).

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EXECUTIVE SUMMARY AND RECOMMENDATIONS

The challenges ahead: a rapid ageing process and early labour market exit

The process of population ageing is far more pronounced in the Czech Republic than in most other OECD countries. Since the early 1990s, fertility rates have declined spectacularly and, today, are among the lowest in the world. At the same time, average life expectancy has continued to increase. By 2025, the old-age dependency ratio (number of individuals aged 65 and over as a proportion of population aged 20-64) will reach almost 40%, twice as high as in 2000. And the ratio will be two-thirds by 2050, the highest in OECD next to Japan.

Exacerbating this problem is the tendency of older workers to exit the labour market early. In 2002, more than 54% of men of age 60 had retired, and this was the case for almost 60% of women of age 56. Early labour market exits combined with rapid population ageing has raised concern regarding how to support the swelling pool of retirees. More generally, the trends pose a challenge to the sustainability of the public pensions system and risk affecting economic growth significantly over the medium to longer term.

Improving the employment prospects among older workers will be essential to limiting the major socio-economic challenges arising from population ageing. This means that greater efforts to reducing the work disincentives built into the welfare system, addressing the barriers to the retention and hiring of older workers, strengthening the activation stance of employment programmes and improving skills and employability of these workers are required. More generally, attitudes and perceptions towards older workers have to change. Pushing ahead with reforms in a comprehensive manner and in close consultation with the various actors concerned, notably the social partners, will be an important element of success.

Recent reforms in response to the challenges

In recent years, the Czech government has taken important measures to address these major challenges both in terms of pension and labour market reforms. Among others, it has increased the statutory retirement age for men from 60 today to 62 by 2006, and for women from 53-57 today to 57-61 by 2006 (depending on the number of children). According to a recent decision, retirement age will be further raised to reach 63 by 2013 for both women and men. The system of early retirement on “temporarily” reduced pensions has been phased out since January 2004. A range of other measures intended to change indexation rules for pension benefits and abolish almost all privileged retirement schemes have also been adopted. Finally, incentives to postpone retirement have been strengthened somewhat. Despite the unpopularity of some of the measures, the government is trying to further reform the pension system in order to restore its long-term viability.

Moreover, a National Programme of Preparation for Ageing has been introduced. The Programme encourages social partners to develop the necessary conditions to respond to the challenges of ageing in all areas of society, and includes government support to improve the employability of older workers.

To the extent that there will be fewer opportunities to retire early, some of those older workers who lose their job will become openly unemployed. This is why “activating” employment programmes and reforming public employment services will become increasingly important. The government has taken some first steps, notably by introducing individual action plans intended to facilitate re-employment of individuals who have been on registered unemployment for at least four months.

While these reforms and initiatives are a step in the right direction, more needs to be done to improve the employment prospects of older workers. A comprehensive strategy should encompass not only measures to enhance the work incentives that are embedded in the welfare system, but also action on the demand-side. Therefore, the following policy recommendations are put forward as possible elements of this strategy.

Further reforming pensions and income-support arrangements

There is room for further reducing work disincentives available in the social protection system. Reforms should aim more specifically at removing financial incentives to early retirement while also making later retirement more

attractive. However, reforms to the old-age pension system will not be enough. There is, indeed, some evidence that sickness and disability benefits play a key role in the decision to retire early. Therefore, if reforms of the welfare system focus entirely on the old-age pension system, there is a risk that disability will be increasingly used as a pathway to early exit from the labour market.

Recommendations for reform

- *Make early retirement less attractive.* Under the current rules, it is possible for older workers with 25 years of service to retire up to three years before the official retirement age. Pension benefits during early retirement are reduced on the basis of a relatively low coefficient, which makes early retirement a relatively attractive option. This explains the spectacular fall in employment rates for male workers before age 60 (from over 80% at age 57, to 60% at age 59) and for female workers before age 57 (from over 80% at age 52 to 43% at age 56).
- *Strengthen incentives to continue working beyond statutory retirement age.* Few individuals are currently working beyond the normal retirement age. In order to extend the working life of individuals beyond the normal retirement age, available financial incentives – currently the pension basis for calculating pension benefits is increased by 6% for each year worked beyond the official retirement age – should be increased.
- *Review the period of calculation of pension benefits.* Pension benefits are based on earnings over a 30-year period, which is relatively short by international comparison and reduces the incentive to stay longer in employment.
- *Reform sickness benefits.* The incidence of sick leave is high in the Czech Republic. On average, 6% of Czech workers are on sickness benefits and the figure is larger for older workers. Moreover, sickness benefits are sometimes the first step to get into disability benefits and thus withdraw from the labour market altogether. It is important that government plans to make firms pay for benefit costs be approved – this would reduce abuse of the system. Likewise, control mechanisms by health insurance companies, which are not financially responsible for the system, are not adequate and should be strengthened.

- *Better control entitlement to disability benefits and enhance re-employment chances for beneficiaries who can work.* To the extent that the pension system is reformed so as to increase incentives to work longer, disability benefits may become a more important pathway to early exits from the labour market. The risk is all the greater because the level of disability benefits is generally higher than is the case for old-age pensions. Also, individuals eligible for full disability pension can currently choose to draw the disability pension even after they qualify for the – typically lower – old-age pension and face no restriction on additional income. Already now, about 15% of individuals aged 50-64 receive a disability benefit. The government should also consider introducing rehabilitation programmes in a very early stage, *i.e.* during the sickness period.
- *Reform the tax-benefit system so that work pays relative to benefit receipt.* In certain family circumstances, individuals on social benefits who accept a low-paid job are financially penalised. Authorities should examine ways to increase the incentives to work by reducing the implicit tax on employment and, in certain cases, introduce in-work benefits. This would also contribute to facilitate transitions to formal employment and declared work.
- *Increase the effectiveness of the voluntary pension funds.* As it stands, the supplementary pension scheme in the Czech Republic is widely used but the level of savings is far from adequate to significantly complement public pensions. Reforms must address the generally low confidence of the Czech public *vis-à-vis* financial markets. This would not only help alleviate the current fiscal situation, but it would also encourage risk-diversification. However, the government should ensure that the reformed system does not act as a mere tax haven for high income earners.

Removing barriers faced by employers in hiring and retaining older people

Reforms of pensions, unemployment and other social benefits need to be accompanied by actions to remove demand-side obstacles. Indeed, employers' perceptions appear to be particularly important in determining the employment patterns of older workers. According to a survey, almost 10% of older workers have experienced some form of age discrimination. Moreover, it is important to change a commonly-held view that older workers leaving the labour market will automatically make room for employment among the youth.

In addition, it is possible to make it more attractive to employers to hire and retain older workers. While wage-setting institutions are less of a problem than in other countries, there is scope for adopting employment regulations to the challenges of population ageing and for reducing non-wage labour costs. Finally, better working conditions would help older workers stay in employment.

Recommendations for reform

- *Further modernise employment protection legislation.* While strict employment protection may reduce the risk that older workers are used as a buffer in the face of change, it also reduces re-employment chances for older unemployed persons. Moreover, regulations should not inhibit labour mobility, which is very important in a country where some industries are still undergoing profound economic restructuring. In this context, there is room for further reforming the Labour Code so as to simplify dismissal procedures. Moreover, less onerous dismissal costs could be applied to small businesses, as is the case in some other OECD countries.
- *Reduce social security contributions on low-wage employment.* Non-wage labour costs are among the highest in OECD and they affect disproportionately unskilled older workers. A targeted reduction in employers' social security contributions on low-wage earners is clearly called for. This would be funded partly by savings arising from the reform of welfare systems such as those advocated above.
- *Better enforce legislation on anti-age discrimination in employment.* Anti-age discrimination legislation appears to be poorly enforced in the Czech Republic. Very few cases are taken to court compared to the share of workers that report occurrences of age discrimination. A first step would be to better enforce the current anti-age discrimination legislation in order to send a clear signal that age discrimination will not be tolerated.
- *Improve working conditions.* The work environment should be better tailored towards individual needs. Many older workers have been subjected to health and safety hazards through their exposure to heavy industry, notably mining and metallurgy. More flexible working hours, part-time job opportunities and less incidence of night work for older workers may reduce sick-leave among older workers and increase the chances they stay in the labour market. In order to be

successful, initiatives of this nature must actively encourage employer participation and programmes must establish measurable goals that are easy to follow-up and evaluate.

- *Promote age information campaigns.* In order to influence employer attitudes towards older workers and overall hiring practices of firms, the goals stipulated in the National Programme of Preparation for Ageing for 2003-2007 could be better diffused into firms. Moreover, information campaigns may help raise the awareness and overall attitudes of the general public towards older workers.

Improving the employability of older workers in the labour market

Efforts to reform pensions as well as the tax/transfer system should go hand-in-hand with renewed emphasis on activation policies. To the extent that older workers who leave their job will no longer automatically get into early retirement, they will become openly unemployed. Therefore, it is essential that effective re-employment services become available. In this context, recent decisions to reduce spending on employment services are preoccupying and do not improve policy coherence.

Moreover, education and skills are important elements affecting employment prospects. In the Czech Republic, however, the skill level of older workers is hampered by low levels of educational attainment relative to younger cohorts. In addition, older workers have often developed their competencies in sectors which have undergone considerable economic restructuring as part of the transition to a market economy. The Czech authorities have acknowledged this challenge and have started to respond, *inter alia*, by the creation of a National Training Fund so as to help maintain the skills of workers who have a job. These efforts, important as they are, not yet up to the challenge.

Recommendations for reform

- *Increase resources of public employment offices.* The Czech Republic devotes only about 0.07% of GDP on public employment services and administration – well below the OECD average and the lowest in Europe. The lack of resources has limited the capacity of labour offices and, in turn, hindered the effective delivery of active labour market programmes. Creating performance incentives within the PES for the successful job placement of hard-to-place unemployed

individuals (notably older workers who are long-term unemployed) could improve effectiveness of programmes.

- *Adopt an effective “activation” strategy.* In 2002, only about 36 000 people participated in activation programmes which represents less than 10% of all unemployed persons. Moreover, job-seekers over the age of 50 comprise less than 7% of all participants though they make up more than 17% of all unemployed. More generally, well-targeted active employment programmes, counselling and guidance support, and effective job-search requirements should be made available to all unemployed individuals, including older ones.
- *Review the measures for older workers with “modified work ability”.* At the end of 2003, some 72 000 unemployed individuals aged 15-59 were categorized as having a so-called “modified work ability” (ZPS) with more than 50% of these aged 45-59. The current system that requires employers having more than 25 employees to employ a certain quota of workers with ZPS is ineffective. Instead, “activation” programmes for these individuals (many of whom suffer from low motivation) seem a more promising avenue.
- *Introduce in-work benefits for non-employed individuals who accept a job.* This could be done by introducing wage subsidies for older workers or by allowing older unemployed workers who accept a job to keep the benefits for a certain period. And though the effectiveness of wage subsidies needs to be carefully monitored, the consensus is that existing schemes do yield worthwhile employment gains and are likely to be more effective and cost-efficient when specifically targeted.
- *Strengthen training provisions.* The National Training Fund supports firms’ efforts to upgrade workers’ skills, notably for disadvantaged groups. Despite the fact that the system was set up in 1994, participation in training programmes remains very low in general. And it is even lower for older workers: only 3% of these workers participate in a training programme. Targeting truly disadvantaged groups should be emphasised. At the same time, training courses should better respond to the requirements of labour markets. And financial incentives to improve performance of the programmes should be strengthened.
- *Develop systems to recognise, certify and validate professional competencies.* To develop the professional competencies of workers,

notably the unskilled (many of whom are older workers), it is vital to establish systems to recognise and validate professional skills acquired on the job.

RÉSUMÉ ET PRINCIPALES RECOMMANDATIONS

Les défis à relever: vieillissement rapide et sortie anticipée du marché du travail

Le vieillissement de la population est beaucoup plus marqué en République tchèque que dans la plupart des autres pays de l'OCDE. Les taux de fécondité y ont diminué de façon spectaculaire depuis le début des années 90, et ils figurent aujourd'hui parmi les plus bas du monde. En même temps, l'espérance de vie moyenne a continué de progresser. D'ici à 2025, le ratio de dépendance économique des personnes âgées (nombre de personnes de 65 ans et plus en pourcentage de la population de 20 à 64 ans) passera à près de 40 %, soit le double du chiffre enregistré en 2000. Et il atteindra deux tiers avant 2050, c'est-à-dire le niveau le plus élevé de la zone de l'OCDE après celui du Japon.

Ce problème est aggravé par le fait que, bien souvent, les travailleurs âgés quittent tôt la vie active. En 2002, plus de 54 % des hommes de 60 ans étaient à la retraite, de même que près de 60 % des femmes de 56 ans. Cette sortie précoce du marché du travail, conjuguée au vieillissement rapide de la population, suscite des inquiétudes quant aux moyens d'assurer la prise en charge de la masse grandissante des retraités. D'une manière plus générale, ces tendances risquent de compromettre la viabilité du système public de retraite, ainsi que d'influer sensiblement sur la croissance économique à moyen ou long terme.

Pour limiter les conséquences socioéconomiques considérables du vieillissement de la population, il sera essentiel d'améliorer les possibilités d'emploi des travailleurs âgés. A cette fin, il faudra déployer davantage d'efforts pour réduire les éléments du système de protection sociale qui découragent le travail, s'attaquer aux obstacles qui empêchent d'embaucher des travailleurs âgés ou de les garder, faire plus de place aux mesures actives dans les dispositifs en faveur de l'emploi, ainsi qu'améliorer les compétences et

l'employabilité de ces travailleurs. Plus généralement, les attitudes et les conceptions dont ceux-ci sont l'objet doivent changer. L'application rapide de réformes de portée globale, avec une consultation approfondie des divers acteurs concernés, notamment les partenaires sociaux, constituera un important facteur de réussite.

Réformes récemment mises en œuvre pour relever ces défis

Afin de faire face à ces problèmes majeurs, le gouvernement tchèque a pris, au cours de ces dernières années, d'importantes mesures de réforme concernant aussi bien le système de retraite que le marché du travail. En particulier, l'âge légal du départ à la retraite passera de 60 ans aujourd'hui à 62 ans avant 2006 pour les hommes, et de 53-57 ans actuellement à 57-61 ans d'ici à 2006 pour les femmes (selon le nombre d'enfants). Il a en outre été récemment décidé de relever encore l'âge de la retraite pour le porter à 63 ans avant 2013 tant pour les femmes que pour les hommes. Le système de préretraite qui permet de percevoir une pension réduite "à titre temporaire" est en cours de suppression depuis janvier 2004. Diverses autres mesures ont été adoptées en vue de modifier les règles d'indexation des pensions et de mettre fin à la quasi-totalité des régimes de retraite "privilégiés". Enfin, les incitations à différer le départ à la retraite ont été quelque peu renforcées. Bien que certaines de ces mesures soient impopulaires, les pouvoirs publics s'efforcent de réformer plus avant le système de retraite afin de rétablir les conditions de sa pérennité.

Par ailleurs, un Programme national de préparation au vieillissement a été mis en place. Il encourage les partenaires sociaux à créer les conditions requises pour faire face aux problèmes posés par le vieillissement de la population dans tous les domaines de la vie sociale, et prévoit une aide des pouvoirs publics pour l'amélioration de l'employabilité des travailleurs âgés.

Étant donné que les possibilités de départ anticipé à la retraite vont devenir moins nombreuses, certains des travailleurs âgés qui perdront leur emploi deviendront des chômeurs déclarés. Accroître la place des mesures actives dans les dispositifs destinés à promouvoir l'emploi et réformer les services publics de l'emploi deviendront de plus en plus importants. Le gouvernement tchèque a déjà pris les premières dispositions dans ce sens, notamment avec la mise en place de plans d'action individuels destinés à faciliter le retour à l'emploi des personnes inscrites au chômage depuis au moins quatre mois.

Ces réformes et autres initiatives constituent certes un pas dans la bonne direction, mais davantage d'efforts s'imposent pour améliorer les possibilités d'emploi des travailleurs âgés. Une stratégie de caractère global devrait comporter des mesures qui visent non seulement à renforcer les incitations au travail intégrées dans le système de protection sociale, mais aussi à agir sur la demande. Ci-dessous sont donc exposées des recommandations pratiques qui pourraient apporter des éléments utiles à l'élaboration de cette stratégie.

Réformer plus en profondeur le système de retraite et les dispositifs de garantie de revenu

Il y a lieu de réduire encore les éléments du système de protection sociale qui dissuadent de travailler. Les mesures de réforme devraient avoir plus particulièrement pour but de supprimer les incitations financières au départ anticipé à la retraite tout en rendant la retraite tardive plus intéressante. Mais il ne suffira pas de modifier le système d'assurance vieillesse. Car certains faits montrent que les prestations de maladie et d'invalidité déterminent fortement la décision de partir tôt à la retraite. Par conséquent, si la réforme du système de protection sociale porte entièrement sur l'assurance vieillesse, l'invalidité risque d'être de plus en plus utilisée comme voie de sortie anticipée du marché du travail.

Recommandations pour les réformes

- *Rendre la retraite anticipée moins intéressante financièrement.* D'après les règles actuellement en vigueur, les travailleurs âgés ayant 25 ans d'activité ont la possibilité de prendre leur retraite jusqu'à trois ans avant l'âge légal. La pension servie pendant la période de la préretraite est réduite selon un coefficient relativement faible qui fait de cette dernière une solution assez intéressante. D'où la baisse spectaculaire qu'enregistrent le taux d'emploi des travailleurs masculins avant l'âge de 60 ans (il passe de plus de 80 % à 57 ans à 60 % à 59 ans) et celui des travailleuses avant l'âge de 57 ans (supérieur à 80 % à 52 ans, il tombe à 43 % à 56 ans).
- *Renforcer les dispositions qui incitent à poursuivre l'exercice d'une activité rémunérée au-delà de l'âge légal de la retraite.* Rares sont aujourd'hui les personnes qui continuent à travailler après l'âge normal de la retraite. Afin de prolonger la vie active au-delà de cet

âge, les incitations financières existantes – actuellement la base de calcul de la pension est majorée de 6 % par année de travail effectuée après l'âge légal de la retraite – devraient être accrues.

- *Revoir la période de référence utilisée pour le calcul de la pension.* Le montant de la pension est déterminé d'après les gains perçus sur une période de 30 ans, ce qui constitue une durée relativement courte par rapport aux autres pays et n'incite pas à rester plus longtemps en activité.
- *Réformer le système des prestations de maladie.* En République tchèque, les congés pour maladie sont très fréquents. En moyenne, 6 % des travailleurs reçoivent des indemnités de maladie, et cette proportion est plus élevée chez ceux d'entre eux qui sont âgés. De plus, ces prestations représentent parfois le premier pas vers le régime de l'invalidité et, partant, le retrait total de la vie active. Il est important que le projet du gouvernement de faire supporter aux entreprises le coût des prestations soit approuvé, afin de réduire l'utilisation abusive du système. De même, les mécanismes de contrôle dont se servent les organismes d'assurance maladie, qui ne sont pas financièrement responsables du système, sont insuffisants et devraient être renforcés.
- *Mieux contrôler l'ouverture des droits aux prestations d'invalidité et accroître les possibilités de retour à la vie active des allocataires capables de travailler.* Dans la mesure où le système de retraite sera réformé de façon à encourager davantage la prolongation de la vie active, les prestations d'invalidité risquent de devenir une voie plus importante de sortie anticipée du marché du travail. Ce risque est d'autant plus grand que le montant de ces prestations est généralement supérieur à celui de la pension de vieillesse. En outre, les personnes ayant droit à une pension d'invalidité complète peuvent actuellement choisir de la percevoir même une fois qu'elles sont susceptibles de prétendre à la pension de vieillesse, d'ordinaire plus faible, et elles ne sont soumises à aucune restriction quant aux revenus supplémentaires. Aujourd'hui, 15 % environ des personnes âgées de 50 à 64 ans reçoivent une prestation d'invalidité. Le gouvernement devrait aussi envisager d'offrir des programmes de réadaptation à un stade très précoce, c'est-à-dire dès la période de maladie.

- *Réformer le système d'imposition et de prestations de façon à rendre le travail rentable par rapport aux prestations.* Dans certaines situations familiales, les bénéficiaires de prestations sociales qui acceptent un emploi faiblement rémunéré sont pénalisés sur le plan financier. Les pouvoirs publics devraient examiner comment accroître les incitations au travail par la réduction de l'impôt implicite sur l'emploi et, dans certains cas, mettre en place des prestations liées à l'exercice d'une activité. Ces mesures faciliteraient aussi le passage à l'emploi dans le secteur formel et au travail déclaré.
- *Accroître l'efficacité des fonds de contribution volontaire pour la retraite.* Le régime de retraite supplémentaire, actuellement en vigueur en République tchèque, bien que largement répandu, est loin de permettre au niveau de l'épargne de compléter significativement les prestations de vieillesse versées par les pouvoirs publics. Les réformes devraient aller à l'encontre de la faible confiance de la population tchèque dans les marchés financiers. Non seulement cette réforme contribuerait à atténuer les difficultés budgétaires actuelles, mais elle encouragerait également la diversification des risques. Les pouvoirs publics devraient toutefois veiller à ce que cette réforme ne soit pas, pour les personnes à haut revenu, qu'un moyen d'échapper à la fiscalité.

Éliminer les obstacles rencontrés par les employeurs pour embaucher des travailleurs âgés et les maintenir dans l'emploi

Parallèlement aux réformes des pensions, des indemnités de chômage et des autres prestations sociales, il faut prendre des mesures afin d'éliminer les obstacles du côté de la demande. En effet, les perceptions des employeurs semblent jouer un rôle particulièrement important pour la détermination des modalités de travail des travailleurs âgés. Selon une enquête, près de 10 % des travailleurs âgés ont déjà été victimes d'une discrimination par l'âge, sous une forme ou une autre. De plus, il faut lutter contre l'idée largement répandue que les travailleurs âgés qui quittent le marché du travail laisseront automatiquement des emplois vacants pour les jeunes.

Il est possible, en outre, de faire en sorte que l'embauche et le maintien dans l'emploi des travailleurs âgés soient plus attrayants pour les employeurs. Les mécanismes institutionnels de fixation des salaires posent certes moins de

problèmes que dans d'autres pays, mais il existe de nombreuses possibilités d'adopter une réglementation de l'emploi qui permette de faire face aux défis du vieillissement de la population et de réduire les coûts de main-d'œuvre non salariaux. Enfin, de meilleures conditions de travail aideraient les travailleurs âgés à rester actifs.

Recommandations pour les réformes

- *Poursuivre la modernisation de la législation sur la protection de l'emploi.* Si une stricte protection de l'emploi est susceptible de réduire le risque que les travailleurs âgés ne soient utilisés comme un moyen de régulation face au changement, elle diminue aussi les chances des chômeurs âgés de retrouver un emploi. Qui plus est, la réglementation ne devrait pas entraver la mobilité de la main-d'œuvre, qui est très importante dans un pays où certains secteurs font encore l'objet de profondes restructurations économiques. Dans ce contexte, il y aurait lieu de poursuivre la réforme du Code du travail afin de simplifier les procédures de licenciement. En outre, des coûts de licenciement moins élevés pourraient être appliqués aux petites entreprises, comme c'est le cas dans d'autres pays de l'OCDE.
- *Réduire les cotisations de sécurité sociale pour les emplois faiblement rémunérés.* Les coûts de main-d'œuvre non salariaux sont parmi les plus élevés de la zone OCDE et leur incidence pour les travailleurs âgés peu qualifiés est excessive. Une réduction ciblée des cotisations versées par les employeurs à la sécurité sociale pour les travailleurs faiblement rémunérés est manifestement nécessaire. Elle serait en partie financée par les économies réalisées grâce aux réformes des systèmes de protection sociale comme celles préconisées précédemment.
- *Mieux appliquer la législation visant à combattre la discrimination par l'âge dans l'emploi.* La législation destinée à combattre la discrimination par l'âge ne semble pas être bien appliquée en République tchèque. Les tribunaux sont saisis de peu de cas comparativement à la proportion de travailleurs qui se déclarent victimes d'une discrimination par l'âge. Dans un premier temps, il conviendrait de mieux appliquer la législation actuelle visant à combattre la discrimination par l'âge afin de faire clairement passer le message que la discrimination par l'âge ne sera pas tolérée.

- *Améliorer les conditions de travail.* L'environnement au travail devrait être mieux adapté aux besoins des individus. De nombreux travailleurs âgés ont été exposés à des risques d'accidents du travail et de maladie du fait de leur emploi dans l'industrie lourde, notamment les industries extractives et la métallurgie. Si les travailleurs âgés bénéficiaient d'horaires de travail plus souples et de possibilités de travail à temps partiel et étaient moins assujettis au travail de nuit, ils prendraient peut-être moins de congés de maladie et auraient plus de chances de rester sur le marché du travail. Pour atteindre leur objectif, des initiatives de cette nature doivent activement encourager la participation des employeurs et les programmes doivent fixer des objectifs mesurables qui sont faciles à suivre et à évaluer.
- *Promouvoir des campagnes d'information relatives à l'âge.* Afin d'influencer le comportement des employeurs à l'égard des travailleurs âgés, ainsi que les pratiques d'embauche généralement répandues dans les entreprises, les objectifs visés par le Programme national de préparation au vieillissement, pour la période 2003-2007, devraient être mieux diffusés dans les entreprises. De plus, les campagnes d'information peuvent favoriser une prise de conscience de l'opinion publique à l'égard des travailleurs âgés.

Améliorer l'employabilité des travailleurs âgés sur le marché du travail

Les efforts de réforme du régime de pensions, ainsi que du système d'imposition/transfert devraient aller de pair avec un recours délibérément accru à des mesures actives. Dans la mesure où les travailleurs âgés qui quittent leur emploi ne bénéficieront pas automatiquement d'une retraite anticipée, ils deviendront des chômeurs déclarés. Il est donc essentiel de mettre à leur disposition des services efficaces de réinsertion sur le marché du travail. Dans ce contexte, les décisions prises récemment pour réduire les dépenses consacrées aux services de placement sont préoccupantes et n'améliorent pas la cohérence des politiques.

De plus, le niveau d'instruction et les qualifications sont des éléments importants qui influent sur les chances de trouver un emploi. En République tchèque, cependant, le faible niveau d'instruction des travailleurs âgés par rapport à ceux faisant partie de cohortes plus jeunes les empêche d'améliorer leur niveau de qualification. En outre, les travailleurs âgés ont souvent acquis leurs compétences dans des secteurs qui ont connu des

restructurations économiques considérables au moment du passage à l'économie de marché. Les autorités tchèques ont reconnu ce problème et ont commencé à agir en conséquence, entre autres en créant un Fonds national pour la formation dont le but est d'aider au maintien des qualifications des travailleurs pourvus d'un emploi. Ces efforts, s'ils sont importants, ne sont pas encore à la hauteur du défi à relever.

Recommandations pour les réformes

- *Allouer davantage de ressources aux services publics de l'emploi.* La République tchèque ne consacre que 0.07 % environ de son PIB aux services publics de l'emploi et à l'administration, chiffre qui est nettement inférieur à la moyenne de l'OCDE et le plus faible des pays d'Europe. Ce manque de ressources a limité les capacités des bureaux de l'emploi, facteur qui à son tour a entravé la mise en œuvre efficace des mesures actives dans le cadre des programmes visant le marché du travail. La mise en place au sein du SPE de mesures d'incitation pour réussir l'insertion des chômeurs difficiles à placer (notamment les chômeurs âgés de longue durée) pourrait améliorer l'efficacité des programmes.
- *Adopter une stratégie « d'activation » efficace.* En 2002, seulement 36 000 personnes participaient à des programmes d'activation, ce qui représente moins de 10 % de l'ensemble des chômeurs. De plus, les demandeurs d'emploi de plus de 50 ans représentent moins de 7 % de l'ensemble des participants, alors qu'ils représentent plus de 17 % de la totalité des chômeurs. Plus généralement, des mesures actives bien ciblées en faveur de l'emploi, des services d'orientation et de conseils ainsi que des critères efficaces de recherche d'emploi devraient être mis à la disposition de tous les chômeurs, y compris les plus âgés.
- *Revoir les mesures en faveur des travailleurs âgés ayant une « capacité de travail réduite ».* Fin 2003, quelque 72 000 chômeurs âgés de 15 à 59 ans étaient reconnus comme ayant une « capacité de travail réduite », plus de 50 % d'entre eux étant âgés de 45 à 59 ans. Les dispositions actuelles, qui obligent les employeurs ayant plus de cinq salariés à recruter un certain quota de travailleurs ayant une capacité de travail réduite, sont inefficaces. L'adoption de mesures « d'activation » en faveur de ces personnes (dont beaucoup souffrent d'un manque de motivation) semble plus prometteuse.

- *Instituer des avantages liés à l'exercice d'une activité en faveur des personnes au chômage qui acceptent un emploi.* Pour ce faire, il serait possible d'instituer des subventions salariales pour les travailleurs âgés ou d'autoriser les chômeurs âgés qui acceptent un emploi à conserver le bénéfice de ces prestations pendant un certain temps. D'autre part, bien qu'il soit nécessaire de contrôler avec soin l'efficacité des subventions salariales, on s'accorde à reconnaître que les dispositifs en place se traduisent par des gains d'emplois non négligeables et qu'ils sont d'autant plus efficaces et rentables s'ils sont bien ciblés.
- *Renforcer les possibilités de formation.* Le Fonds national pour la formation soutient les initiatives lancées par les entreprises pour améliorer les compétences des travailleurs, à l'égard notamment des groupes défavorisés. Bien que la mise en place du système remonte à 1994, le taux de participation aux programmes de formation reste très faible en général. Il est d'ailleurs encore plus faible pour les travailleurs âgés : seulement 3 % d'entre eux participent à un programme de formation. Il conviendrait de souligner l'importance de cibler les programmes sur les groupes vraiment défavorisés. Simultanément, les programmes de formation devraient mieux répondre aux besoins du marché du travail. D'autre part, il conviendrait d'accroître les incitations financières visant à rendre les programmes plus performants.
- *Mettre en place des systèmes de reconnaissance, de certification et de validation des compétences professionnelles.* Pour encourager le développement des compétences professionnelles des travailleurs, notamment des personnes non qualifiées (qui pour beaucoup sont des travailleurs âgés), il est essentiel de mettre en place des systèmes de reconnaissance et de validation des compétences professionnelles acquises en cours d'emploi.

INTRODUCTION

The population in the Czech Republic is ageing rapidly, and the process is one of the fastest in the OECD area. Unless action is taken to increase participation rates of older workers, the number of workers who retire will soon exceed the number of new entrants, thereby implying a cut in the labour force and thus altering economic growth prospects. Moreover, population ageing will exert pressure on key socio-economic variables and increase public expenditures that are already high.

In order to avoid such outcomes, it is essential that labour force participation rates increase and, in particular, that older workers are retained longer in employment. Older workers should be given better incentives to continue working in terms of pension entitlements, suitable training opportunities and improved working conditions. The main purpose of this report is to assess the situation of older workers in the Czech Republic and reflect on the different avenues for reform that will need to be pursued in order to improve employment prospects of these workers.

Chapter 1 sets out the scale of the challenges ahead. It highlights the importance of improving the employment prospects of older workers as the key to meeting the ageing challenge. *Chapter 2* discusses the labour market situation for older workers, identifying areas where action is required to improve labour market outcomes for these workers. *Chapter 3* discusses the role of supply-side factors in influencing the participation rates of older people and how incentives to work are affected by benefit levels and eligibility criteria in the welfare system. But removing supply-side barriers to employment is not enough. Actions on the demand-side are also needed. Thus, *Chapter 4* examines those factors which negatively affect the attitudes of employers towards older workers. *Chapter 5* looks at barriers that workers themselves face to gaining access to better jobs and to remaining in these jobs longer. Finally, *Chapter 6* examines the possibilities to raise the overall employment rate in the future, emphasising the importance of introducing a broad range of reforms.

Chapter 1

THE CHALLENGE AHEAD

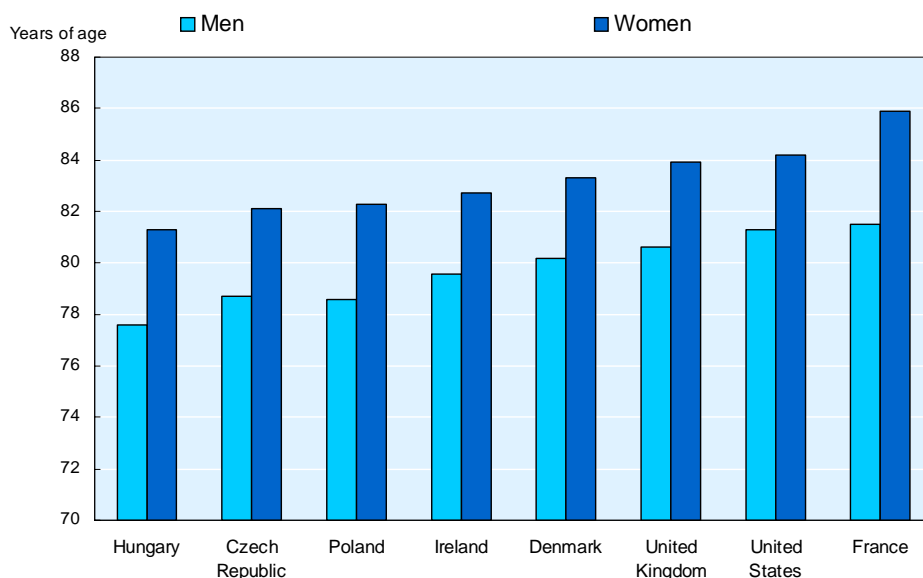
For many years now, OECD member countries have become increasingly sensitive to the changing demographic landscape. New perceptions reflect concern about the possible impact of ageing on pension systems and economic growth. In the Czech Republic, the economic and social reforms in the early 1990s associated with the transition to a market economy have had a profound impact on the labour market – an issue which should be borne in mind when discussing factors behind the present situation of older workers. Moreover, the labour market behaviour of older workers will play a key role in determining the extent to which population ageing will affect labour force and economic growth.

1. The demographic realities

The key factors behind the ageing process include increased longevity and declining fertility rates. The fertility rate in the Czech Republic started to fall as early as 1975 but in 1991 was still near 1.9. However, in the early 1990s the fertility rate set off on a spectacular downward trend and as quickly as 1996 reached 1.2. Since then, the fertility rate has more or less remained stable, declining moderately to 1.14 in 2000 – one of the lowest rates in the world.

Between 1960 and 1985, life expectancy at birth in the Czech Republic remained near 70 years. However, in the past 15 years increased longevity has been a welcome development – life expectancy increased nearly five years over this short period. Moreover, in 2000, life expectancy of men and women aged 65 was 78.6 years and 81.9 years, respectively (Figure 1.1). Though these figures trail many of the OECD countries, the increased longevity together with low fertility rates will transform the age composition of the Czech population.

Figure 1.1. Life expectancy at 65 by gender, 2000



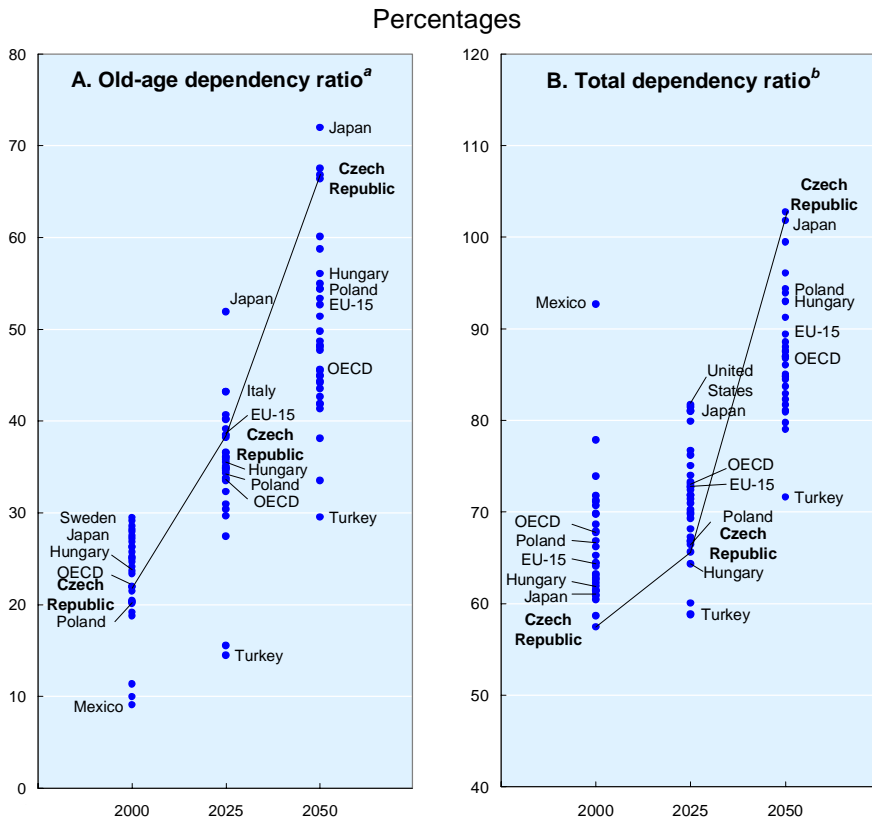
Source: OECD Health Data 2003.

The demographic dependency ratios demonstrate the severity of the demographic situation facing the Czech Republic over the next 50 years (Figure 1.2). The old-age dependency ratio is expected to more than treble from its current level to reach 66.4 by 2050 – a spectacular increase that is among the steepest in the OECD area (Panel A).¹ This means that, by 2050, there will be less than one and half persons of working-age per person of age 65 and over (compared with about five persons of working-age per person of age 65 and over in 2003). Moreover, the Czech Republic is one of only two countries in the OECD area where the total dependency ratio – which captures the overall shift in population changes relative to the working-age population – will rise above 100 by 2050 (Panel B).² In less than 50 years time, the “dependent”

1. The old-age dependency ratio is the ratio of the population aged 65 and over to the population aged 20 to 64. The working-age population is conventionally defined as individuals aged 15 to 64. However, in most OECD countries most teenagers between 15 and 19 years attend school. Hence, for the purpose of this report, it was decided to exclude this group from the standard definition.
2. The total dependency ratio is the ratio of the sum of the population aged less than 20 and the population aged more than 65 to the population aged 20 to 64 (working-age population).

population (individuals 65 and over and under the age of 20) will be greater in number than the working-age population. The demographic changes underway in the Czech Republic are significant and need to be addressed immediately to moderate the impending economic and social repercussions.

Figure 1.2. **Projected trends in dependency ratios, 2000-2050**



- a) Ratio of the population aged 65 and over to the population aged 20 to 64.
 b) Ratio of the sum of the population aged less than 20 and the population aged more than 65 to the population aged 20-64.

Source: National projections; Eurostat Population Projections (1999 Revision); and United Nations, *World Population Prospects 1950-2050 (The 2000 Revision)*, February 2001.

Immigration, through an immediate increase in the working-age population, can help to alleviate the pressures brought about by unfavourable demographic trends. It can also help address the issue of labour shortages that have emerged in certain occupations. Furthermore, the Czech Republic has

one of the lowest foreign populations in the OECD area, implying that there may be room for manoeuvre within this context. However, as will be discussed in more detail later in the report, the role immigration can play in mitigating the demographic realities is likely to be temporary and, moreover, much depends on the demographic composition and labour market behaviour of immigrants.

2. Potential economic and social repercussions

The demographic changes underway are likely to give rise to a number of socio-economic pressures. First, as illustrated by Figure 1.2, with the working-age population representing less than half of the total population, future generations of younger individuals may have to bear the brunt of any financial requirements that stem from the expected swell of retirees and elderly people. Consequently, the transition to an aged society may create intergenerational tensions and inequities.

Second, in this context it is important to establish the extent to which ageing might exacerbate public expenditures. Demographic trends of this nature often have their most immediate and visible impact on the pension scheme. This is indeed the case in the Czech Republic where public expenditures on old-age pensions are expected to nearly double from their current level to reach nearly 15% of GDP by 2050 – one of the most dramatic increases in the OECD area.³

The expected increase in total public expenditures associated with population ageing is not restricted to pension schemes. It has been argued that steady increases in the average age of a population will increase care needs and health care costs, with large impacts on health care systems. OECD estimates that in the Czech Republic, if spending by age group remains stable, population ageing could increase health and long-term care expenditures by as much as 2 percentage points of GDP over the next 50 years. Even when reductions in child and family benefit expenditures and early retirement programmes related to ageing are taken into consideration, the overall *incremental* impact of ageing on government spending in the Czech Republic between now and 2050 could be as high as 7 percentage points of GDP.⁴

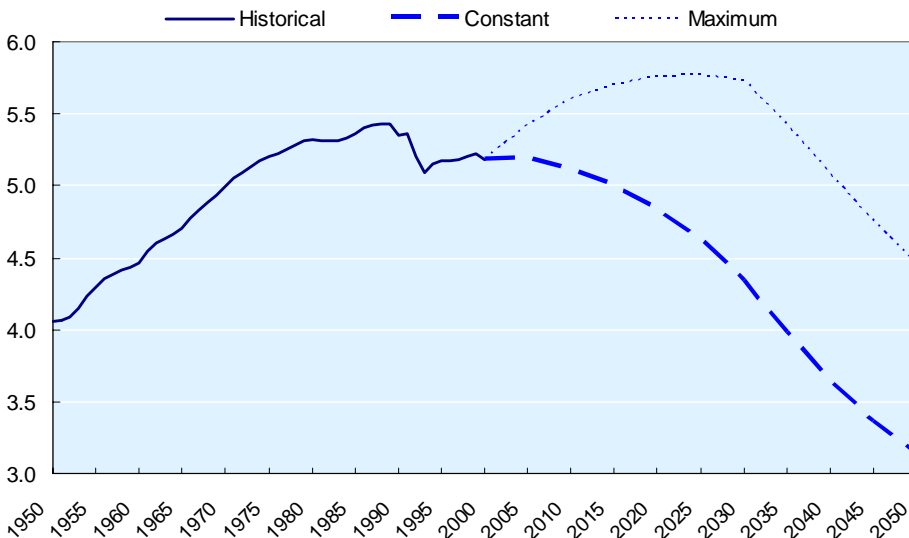
3. These OECD projections were made on the basis of similar macroeconomic and demographic assumptions in each OECD country, allowing for meaningful international comparison. For details regarding these projections, see OECD (2001a).

4. The total increase in age-related spending expected to occur between 2000 and 2050 incorporates spending changes in public old-age pensions, health and

3. Key factor behind the projections: the labour market behaviour of older workers

The future size of the labour force will depend critically on how participation rates change over time, especially among a growing number of older workers – which is not easy to predict. The sensitivity of future developments in labour force growth to changes in participation rates can be broadly illustrated using two scenarios. The first, “constant” scenario assumes that current participation rates by five-year age group and gender remain constant. The second, “maximum” scenario applies the maximum participation rates in the OECD area by five-year age group and gender from 2030 through to 2050 with a gradual adjustment from current participation rates to reach the maximum in 2030 (Figure 1.3).

Figure 1.3. **Labour force growth scenarios, 1950-2050**
Millions, projections after 2000



Source: OECD (2003), *Labour Force Statistics, 1982-2002*, and OECD estimates.

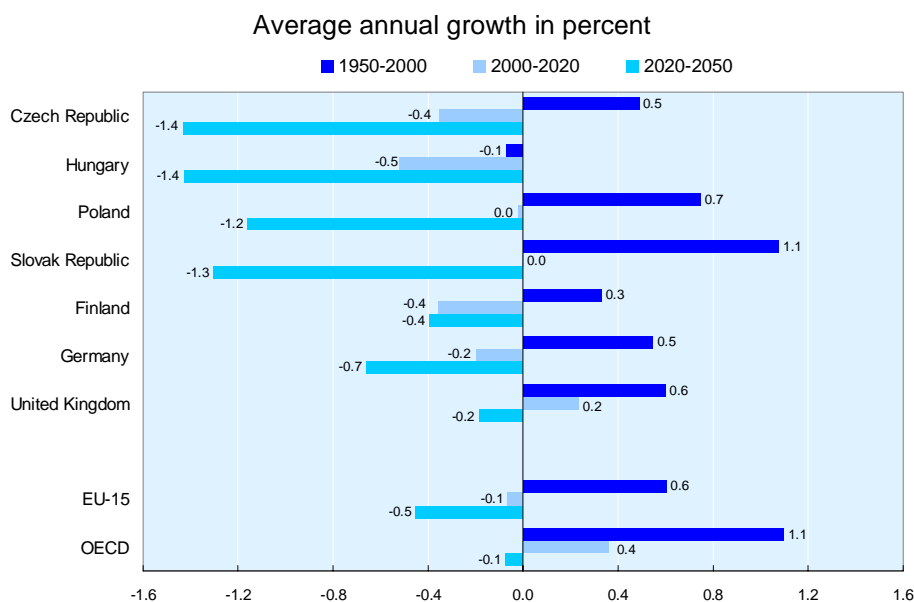
Clearly the different scenarios provide very different outcomes for labour force growth – though in the context of the Czech Republic neither is very encouraging. Both the “constant” and “maximum” scenarios point to an

long-term care, early retirement programmes and child, family benefits and education (OECD, 2001a).

eventual decline in the labour force, though the intensity of the decline is considerably moderated under the “maximum” scenario.

Under the “constant” scenario, if participation rates remain constant over the next 50 years, the labour force will be reduced by nearly 40% from its current level and more than 23% below the level experienced in 1950. The labour force would *decline*, on average, by as much as 1.6% per year between 2030 and 2050 and by as much as 1% per year over the entire 50 year period – the greatest decline in the OECD area following Hungary (Figure 1.4). Conversely, under the “maximum” scenario the labour force would continue to grow until 2025 but from 2030 onwards, the rate of decline – equivalent to the “constant” scenario – is so strong that by 2040 the labour force pool will fall below its 2000 level.

Figure 1.4. **Annual labour force growth – “constant” scenario in selected OECD member countries, 1950-2050^a**



- a) The projection of labour force growth over the period 2000-2050 assumes that the participation rates by five-year age groups and gender remain constant at their 2000 level.

Source: OECD (2003), *Labour Force Statistics, 1982-2002*, and OECD estimates.

Nonetheless, this highlights the importance of raising participation rates among older workers as a key factor to supporting labour force growth. Of course, the higher participation rates of the current younger generation should improve the labour market participation rates of future generations of older workers. However, in this context, demographic trends alone cannot be relied upon to raise participation rates, especially in light of the fact that the participation rates of prime-age cohorts is falling somewhat.⁵ Chapter 2 will review in more detail the labour market situation of older workers and identify potential areas for improvement.

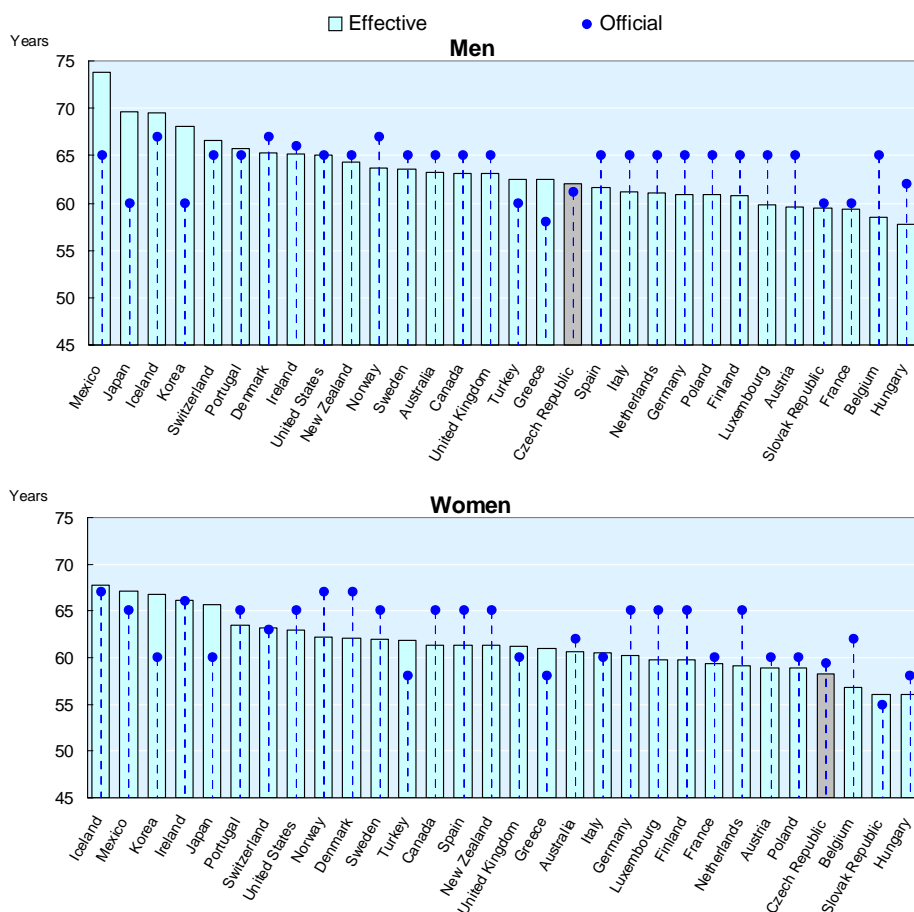
The trend towards early retirement

These projections also highlight the importance of reversing the trend towards early retirement. Early retirement is to some extent, still viewed as an effective mechanism for reducing high unemployment, especially among the youth. Over the past few years the effective retirement age of Czech men and women has remained relatively stable at 62 and 58 years of age respectively (Figure 1.5). Nonetheless, the age of withdrawal from the labour force in the Czech Republic is low compared to other OECD countries, especially among older women. Moreover, national estimates suggest that the effective retirement age of men and women is even lower at 60 and 57 years of age, respectively.⁶ The welfare system is central to the reform process in encouraging older workers to continue participating in the labour market before retiring. Chapter 3 will review the role of the welfare system and disincentives older people face to remain economically active.

5. Throughout this report, “prime-age” refers to individuals 25 to 49 years of age.

6. See Chapter 3 for further details.

Figure 1.5. **Effective and statutory retirement ages in OECD member countries, 2002^{a, b}**



- a) Estimated average age at which individuals older than 40 left the labour force during any given five-year period. The estimates are derived using pseudo-cohorts by five-year age groups for persons initially aged 40 and over. They are calculated by weighting the average age of each cohort over a given five-year period by its share of the total decline in participation rates for all cohorts between the beginning and end of the period.
- b) For women in the Czech Republic, the retirement age ranges between 57 and 61 years of age, depending on the number of children.

Source: OECD estimates.

Chapter 2

CURRENT LABOUR MARKET SITUATION OF OLDER WORKERS

Like many other OECD countries, the labour market situation in the Czech Republic has experienced some volatility in the past decade. And despite the fact that the transition to a market economy has met with some success, many challenges remain, in particular, with respect to older workers. The purpose of this chapter is to identify those areas where action to improve labour market outcomes is possible. This will not only meet social and equity objectives but should also improve labour market outcomes more generally, which will be a necessary step to help address the difficult challenges that face the Czech Republic.

1. Czech labour market – recent context

Less than 15 years ago, the Czech Republic underwent a process of political and economic transformation of sizeable magnitude. This included a programme of labour supply reduction and wage controls during the period 1990 to 1993. Between 1993 and 1996, the labour market continued to improve and service sector employment increased significantly as a result of a rebound in economic activity during this period.

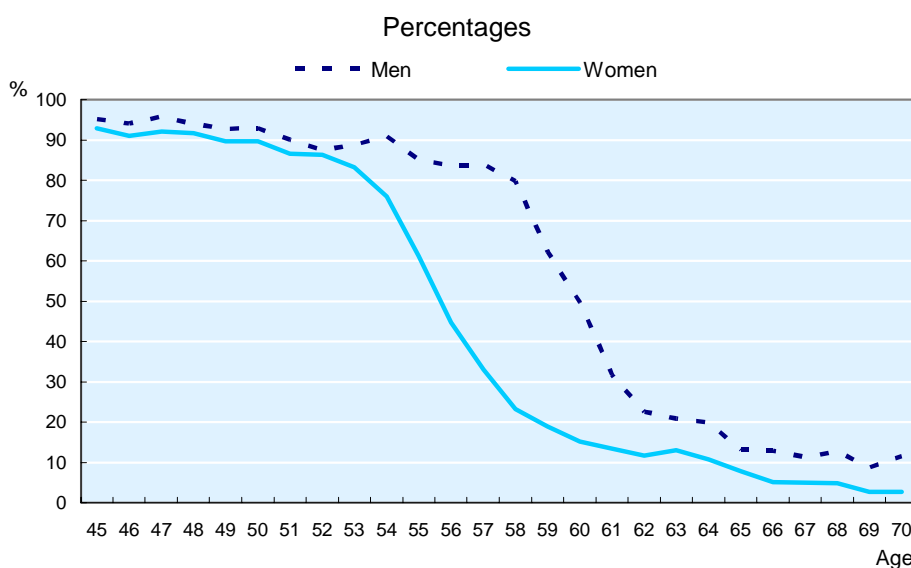
However, labour market conditions worsened in 1997 as a result of the currency crisis, subsequent economic downturn and exceptionally severe floods. The recession continued over a three-year period with the unemployment rate peaking in 2000. Since then, the unemployment rate has followed a modest downward trend and at the end of 2003 stood at 7.3%. This partly reflects modestly higher employment resulting from 2-3% economic growth. But it also reflects a shrinking labour force and lower participation rates, especially among older workers.

2. The labour market situation of older workers

A. *Participation rates fall dramatically well before official retirement age*

In the Czech Republic between the ages of 45 and 50 years, the participation rates of both men and women are relatively high – remaining close to or above 90% (Figure 2.1). However, after the age of 50, participation rates for men and women decline steadily as individuals approach the respective statutory retirement ages of 60 for men and 53-57 for women.⁷

Figure 2.1. **Participation rates by gender and age, 2002**



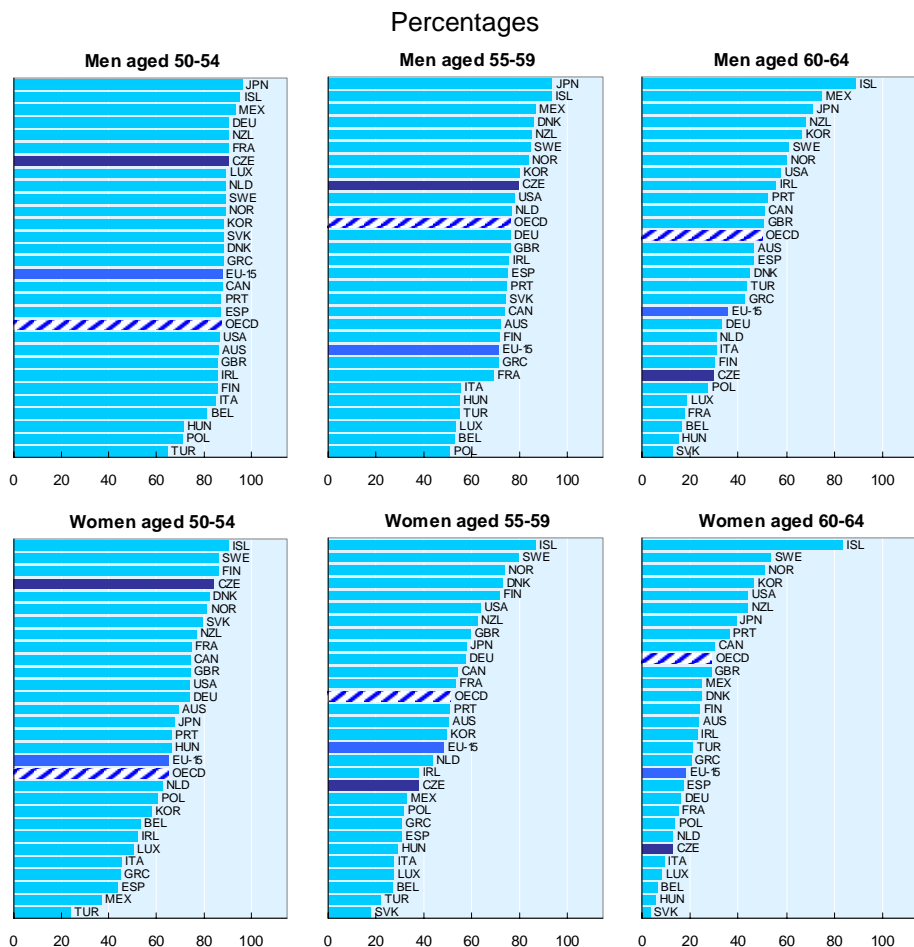
Source: Czech Republic Labour Force Survey.

Compared with the early 1990s, the situation has tended to improve somewhat: since 1993, the increase in participation rates among older workers at more than 9 percentage points is among the highest in the OECD area.⁸

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7. The statutory retirement is set to increase to 62 for men and to 57-61 for women (depending on the number of children) by 2006. According to a recent decision, retirement age will be further raised to reach 63 by 2013 for both women and men (see Chapter 3).
8. The Czech Republic is one of very few OECD countries where the participation rates of prime-age individuals have modestly declined since 1993.

However, in spite of these improvements, the participation rates of some older workers remain low by OECD standards (Figure 2.2). For men and women aged 60 to 64, participation rates hover near 30% and 18%, respectively. For women aged 55 to 59, participation rates of 38% are well below the OECD average.

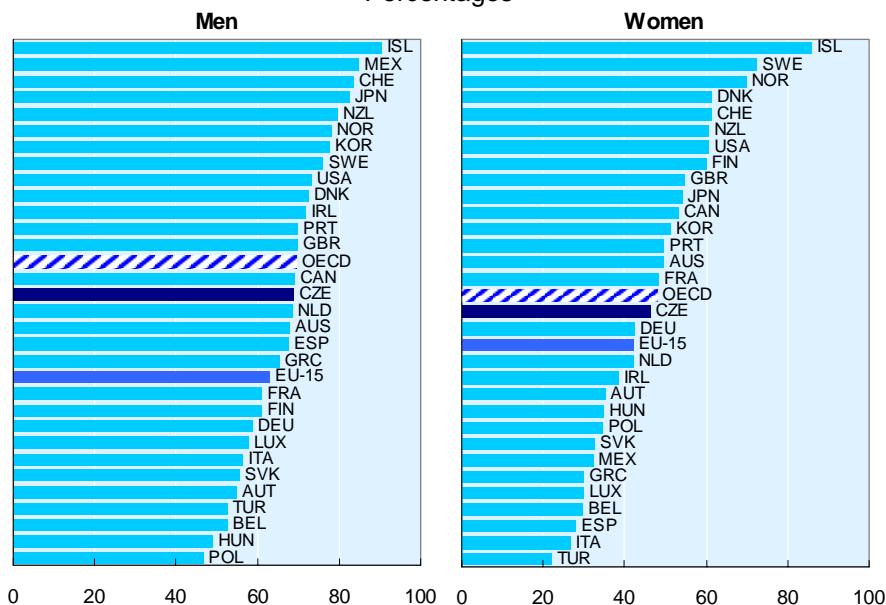
Figure 2.2. **Participation rates of older workers in selected OECD member countries, 2002**



Source: OECD (2003), *Labour Force Statistics, 1982-2002*.

A similar picture emerges when looking at employment rates. Achieving higher rates of labour force participation among older people is only part of the battle in coping with population ageing: the extent to which people who participate are actually employed will also play a fundamental role. Over the past ten years, the employment rates of older people have improved nearly 8 percentage points while over the same period, those of prime-age workers have declined more than 4 percentage points. However, the employment rates of both older men and women rank in the middle to lower range of the OECD league table (Figure 2.3).

Figure 2.3. **Employment rates of older workers (50-64) in selected OECD member countries, 2002^a**
Percentages



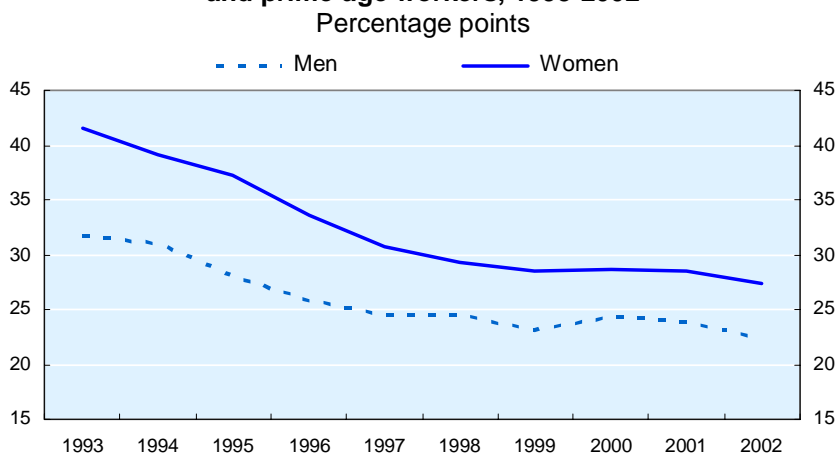
a) Data for Austria and the Netherlands refer to 2001.

Source: OECD (2003), *Labour Force Statistics, 1982-2002*.

Overall, the difference in employment rates between older and prime-age workers has been improving since 1993 (Figure 2.4). Nonetheless, for both men and women the gap remains well into the double digit area. And, the gap in employment rates within the older workers group is significant. In 2002, the gap in employment rates between the age groups 50 to 54 and 60 to 64 for women – at 66 percentage points – is the highest in the OECD area and for men, at 56 percentage points, is also one of the highest. This illustrates the rapid

decline in employment rates which occurs after age 53 for women, and after age 56 in the case of men.

Figure 2.4. **Differences in employment rates between older and prime-age workers, 1993-2002**



Source: OECD (2003), *Labour Force Statistics, 1982-2002*.

B. *The incidence of part-time employment among older workers is low*

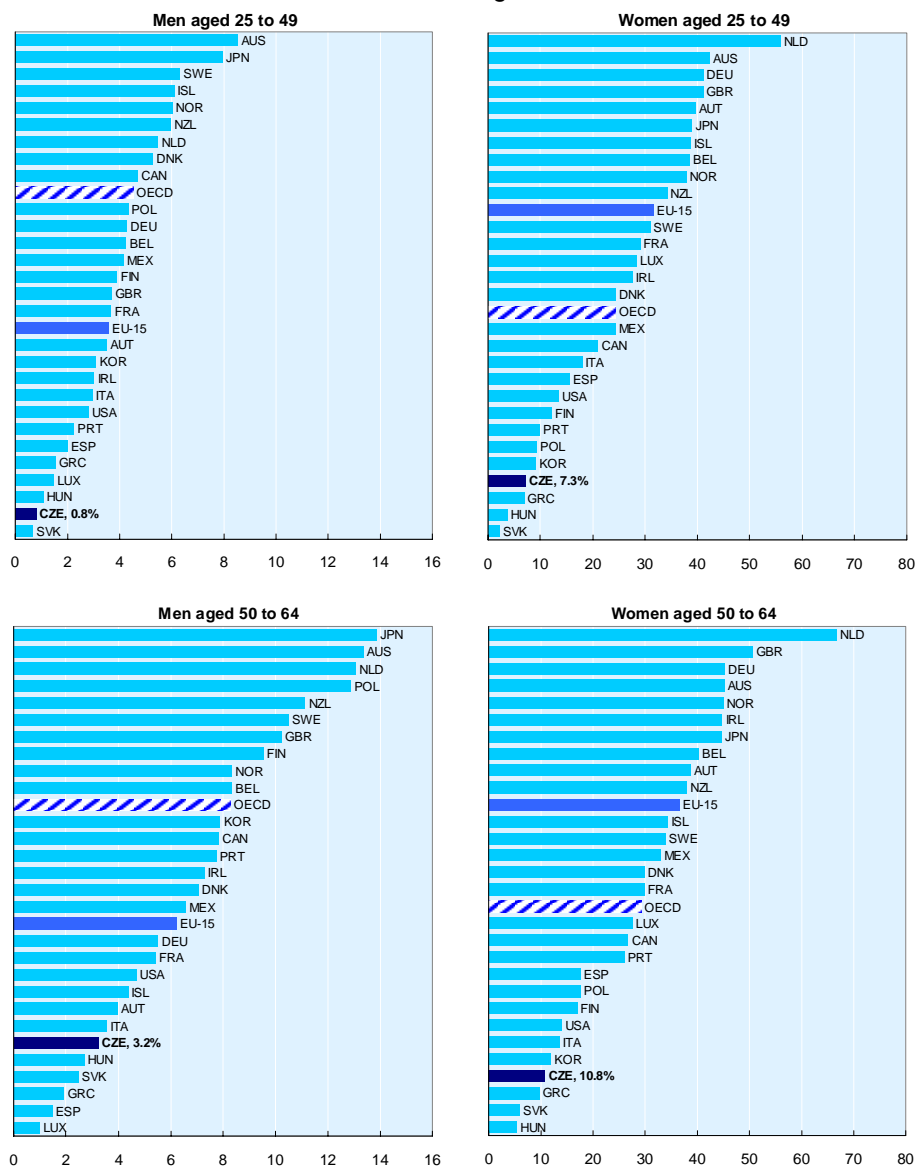
There is a delicate balance between increased labour market flexibility on the one hand and reduced job precariousness on the other. Adding to the former, via wider recourse to temporary and part-time employment, leads to an increase in the discretionary powers of employers in terms of working hours and dismissal. On the other hand, temporary and part-time work, in fact, help to accommodate work and family responsibilities and smooth work-retirement transitions.

In the Czech Republic, despite the increases in service sector employment, the rate of part-time employment is among the lowest in the OECD area (Figure 2.5).⁹ Encouraging further part-time work could be useful tool to raise the labour market participation of all workers, especially women and older workers. And, given the low incidence of part-time work in the Czech Republic, this could be achieved with little adverse affects on job precariousness.

9. Only for women aged 60 to 64 is part-time employment at over 55%, comparably high. It is also interesting to note that nearly 50% of older men and more than 20% of older women are working part-time for reasons of illness or disability – an issue to be discussed in more detail in Chapter 3.

Figure 2.5. Part-time work by gender and age, 2002

Percentages



Source: OECD (2003), *Labour Force Statistics, 1982-2002*, Czech Republic Labour Force Survey and European Union Labour Force Survey.

C. *The importance of regional disparities should not be overlooked*

Regional disparity in labour markets is a factor to consider when examining the disproportionate levels of unemployment and inactivity among older workers (Table 2.1). In the worst performing region, the participation rates of older men and women trail those prevailing in Prague by 25.2 and 23.2 percentage points, respectively. Similar disparities can be found in the employment rate where in only one region, excluding Prague, are employment rates of older women above 50%. Likewise, for older men the employment rate in Prague is higher, on average, than in the other regions by more than 15 percentage points. Unemployment among older men in the area of Prague, at 2.5%, is half the average rate witnessed in the other 13 regions. Moreover, long-term unemployment among older men is greater than 60% in nine of the 13 regions outside of Prague and for older women it is more than 70% in several regions compared to just over 28% in Prague.

Table 2.1. **Labour market status of older workers by gender and region, 2001**

Percentages

	Participation rate		Employment rate		Unemployment rate		Long-term unemployment (share)	
	Men	Women	Men	Women	Men	Women	Men	Women
Prague	83.3	65.0	81.2	62.4	2.5	4.1	55.1	28.9
Liberecký	74.0	55.5	71.0	52.1	4.1	6.2	71.9	26.0
Královéhradecký	73.7	51.6	70.8	49.1	4.0	4.7	66.4	60.1
Jihočeský	72.3	46.5	69.7	44.6	3.6	4.1	53.3	42.0
Karlovarský	71.7	49.9	69.7	47.5	2.7	5.0	68.2	54.9
Středočeský	71.5	48.8	68.6	44.4	4.0	9.0	52.4	64.1
Ústecký	70.6	47.2	65.2	43.1	7.6	8.8	63.2	77.2
Plzeňský	69.4	46.9	65.3	44.2	5.9	5.8	65.8	72.2
Olomoucký	68.1	42.3	63.0	39.8	7.5	5.8	73.6	59.7
Jihomoravský	68.0	47.2	64.6	43.6	5.1	7.7	62.4	50.7
Vysočina	67.4	41.2	64.1	39.4	5.0	4.3	68.6	60.1
Zlínský	66.6	42.6	63.6	37.4	4.5	12.1	52.3	57.7
Pardubický	65.4	42.8	62.6	40.3	4.3	6.0	54.4	41.2
Moravskoslezský	58.1	41.8	53.9	37.1	7.3	11.2	75.3	75.8

Source: Czech Republic Labour Force Survey.

Policy efforts have attempted to address the issue of regional disparity. A new legislative framework for regional policy has been developed (Regional Development Act, No. 248/2000) and regional development programmes have been established to target some of the more affected regions. However, more efforts are required in this context if the employment obstacles for older workers are to be removed.

D. The gender gap in employment has persisted over the past decade

The gaps in participation and employment rates between older men and women have remained more or less unchanged since 1993 and, in 2002, stood at more than 22 percentage points each.¹⁰ Though these gaps are in line with the OECD average, the fact that there has been no appreciable narrowing in the gender gaps in the past ten years is concerning. Indeed, among some 27 countries with available data, the decline in the gender gap in participation rates is the smallest in the OECD area and third lowest decline witnessed in employment rates during this period. In analysing the barriers older workers face to employment, it is apparent that older women face an even tougher challenge and, in this context, the issue of gender merits special consideration.

3. Non-employment among older workers: characteristics and trends

While ensuring that older workers remain employed is a major policy requirement, mobilising older individuals (of working age) into jobs, who are either unemployed or inactive, will be of utmost importance. This section examines the characteristics of these individuals and describes recent trends in unemployment, long-term unemployment and labour market inactivity among older workers.

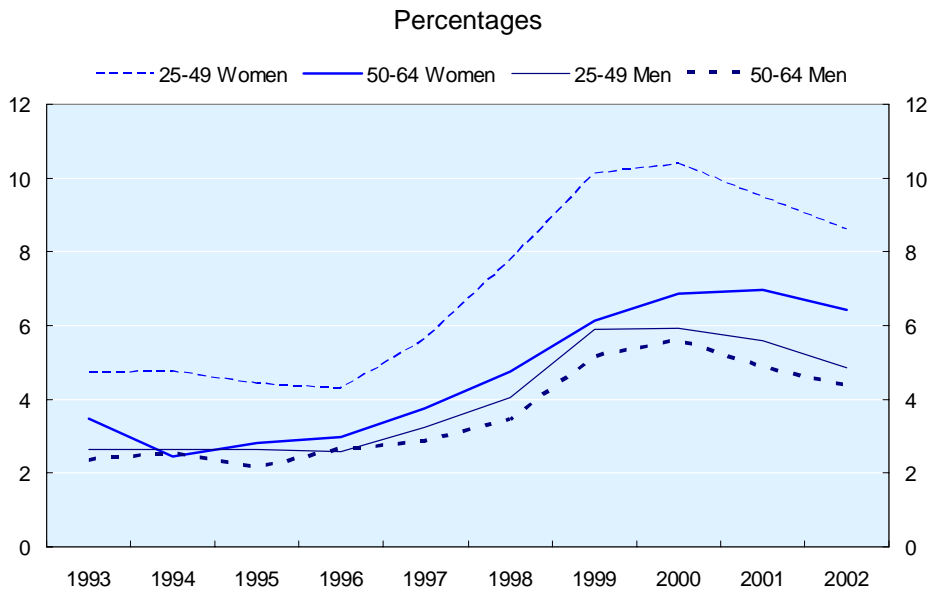
A. Unemployment has fallen recently but long-term unemployment remains high for older workers

The period of economic growth between 1993 and 1996 was accompanied by low unemployment rates for older and prime-age workers (Figure 2.6). It was not until 1997 that unemployment rates began to rise – peaking in 2000. Overall, the unemployment rate now stands at approximately 7.3%, the lowest rate since 1998. However, the recessionary period was particularly unfavourable

10. Compared to a gap of more than 23 percentage points each in 1993.

towards women, especially older women. Since 2000, the unemployment rate for women aged 50 to 64 – which reached 10.4% – dropped modestly by 2 percentage points to reach 8.4% in 2002. For prime-age women, the unemployment rate rose at a slower pace but peaked one year later and currently sits at 6.4%, down from its peak of 7% the year before.

Figure 2.6. **Unemployment rates by age and gender, 1993-2002**

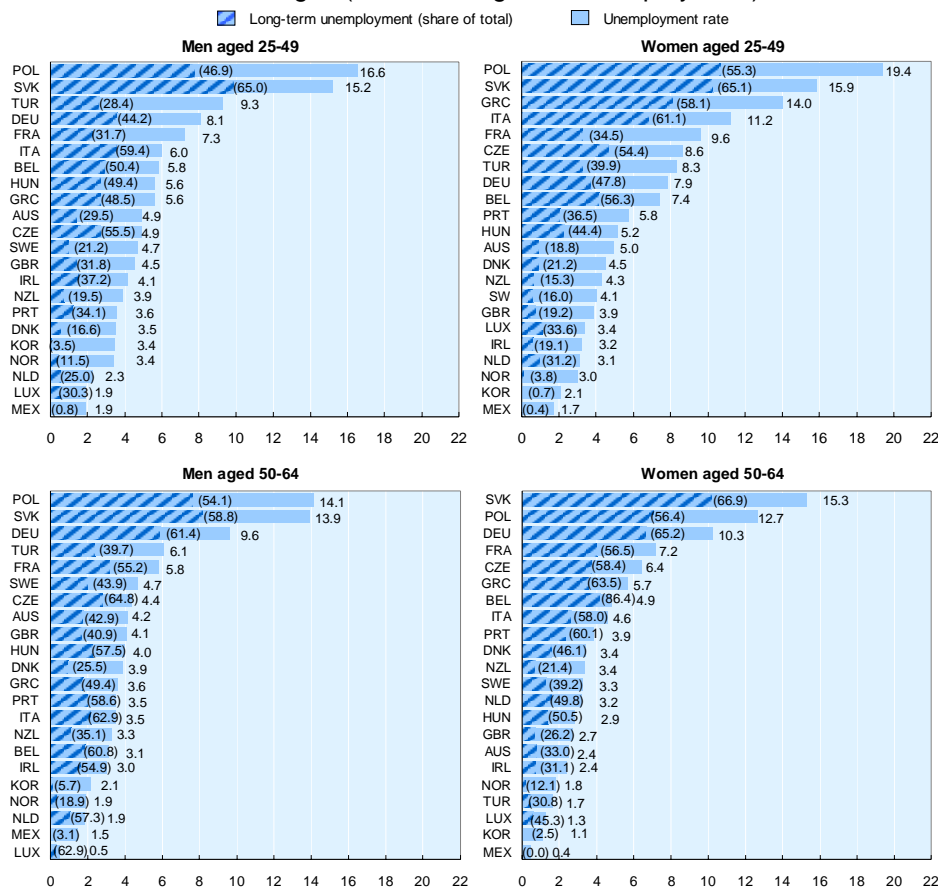


Source: OECD (2003), *Labour Force Statistics, 1982-2002*.

For prime-age and older workers, the share of long-term unemployment is above 55% (Figure 2.7). Furthermore, in the past five years alone, the share of long-term unemployment among older workers has risen by 28 percentage points for women and nearly 17 percentage points for men. Keeping out of unemployment is essential for older workers since an increasing number of them risk being unemployed for longer durations and, consequently, may eventually become marginalised from the labour market.

Figure 2.7. **Unemployment rates and duration by age and gender in selected OECD member countries, 2001^{a, b}**

Percentages (share of long-term unemployment)



- a) Long-term unemployment is defined as one year or longer (as a percentage of total declared durations).
- b) Data for Australia, Japan and the United States refer to individuals aged 25-54 and 55-64, respectively.

Source: OECD (2003), *Labour Force Statistics, 1982-2002*, and European Union Labour Force Survey.

B. *Labour market inactivity rises rapidly with age, mainly because of early retirement*

Addressing inactivity will be an important element of any strategy which attempts to raise employment of older workers. Indeed, as in most other OECD countries, the incidence of labour market inactivity increases with age (Table 2.2). As shown in Table 2.2, inactivity rises with age much faster than in the OECD area as a whole. When looking at the reasons for inactivity, retirement plays a more prominent role in the Czech Republic than in the OECD: 67.1% of men aged 60 to 64 and 80.5% of women of the same age group are retired compared to only 57.2% and 71.5%, respectively, in the OECD. This reiterates the importance of retirement in determining labour market participation. Illness and disability also play an important role in explaining the rise with age in the incidence of labour market inactivity. The role of the welfare system and the disincentives to continue working in the Czech Republic will be discussed in detail in the next chapter. It is also useful to bear in mind that up to 27% of inactive individuals of age 55-64 would in fact like to work, if the right conditions were in place (OECD, 2003a).

Table 2.2. Labour market status by age and gender, Czech Republic and OECD, 2001

Percentages

	25-49			50-54			55-59			60-64		
	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total
Czech Republic												
Labour force	95.2	79.6	87.4	89.6	81.7	85.7	75.6	32.2	53.9	23.1	13.1	18.1
Employed	89.7	71.9	80.8	85.0	75.8	80.4	72.2	30.7	51.5	22.3	12.3	17.3
Unemployed	5.5	7.7	6.6	4.6	5.9	5.3	3.4	1.5	2.5	0.8	0.8	0.8
Inactive	4.8	20.4	12.6	10.4	18.3	14.4	24.4	67.8	46.1	76.9	86.9	81.9
Discouraged	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.4	0.3	0.2	0.5	0.4
Retired	-	-	-	1.0	5.1	3.1	10.1	57.5	33.8	67.1	80.5	73.8
Illness or disability	2.6	2.6	2.6	7.7	9.2	8.5	11.9	8.1	10.0	9.2	5.2	7.2
Family responsibilities	0.2	14.5	7.4	0.2	1.7	1.0	0.2	1.1	0.7	0.1	0.5	0.3
Other	1.9	3.2	2.5	1.4	2.1	1.8	2.0	0.7	1.4	0.3	0.2	0.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
OECD^a												
Labour force	92.7	76.9	84.8	87.3	68.5	77.8	72.7	48.7	60.4	42.8	28.5	35.4
Employed	87.8	71.4	79.6	84.1	65.5	74.7	69.7	47.1	58.1	41.7	28.0	34.6
Unemployed	4.9	5.5	5.2	3.2	3.0	3.1	3.0	1.6	2.2	1.0	0.5	0.8
Inactive	7.3	23.1	15.2	12.7	31.5	22.2	27.3	51.3	39.6	57.2	71.5	64.6
Discouraged	0.3	0.5	0.4	0.6	1.1	0.8	1.0	1.3	1.2	0.8	0.6	0.7
Retired	-	-	-	3.5	3.6	3.6	13.8	18.1	16.2	44.2	40.1	42.2
Illness or disability	2.8	2.9	2.9	6.3	7.2	6.8	9.5	8.7	9.1	10.0	8.7	9.3
Family responsibilities	0.3	14.6	7.4	0.3	15.9	8.1	0.3	18.8	9.7	0.3	17.9	9.4
Other	3.9	5.1	4.5	2.1	3.7	2.9	2.6	4.4	3.5	1.9	4.1	3.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

- Data not available.

a) The OECD average excludes data from Australia, Canada, Korea, Japan, Mexico, New Zealand and Turkey.

Source: OECD (2003), *Labour Force Statistics, 1982-2002*.

Chapter 3

PROTECTING PEOPLE WHILE ENHANCING WORK INCENTIVES: THE ROLE OF THE WELFARE SYSTEM

Pensions and transfer systems are important for the actual retirement decisions of older people. The institutional environment plays an important role in creating the rules and conditions which influence both workers' and employers' behaviour. Individual decisions to work depend highly on benefit levels and eligibility criteria in public pension and other social security schemes, but also in private pension schemes. This chapter explores the Czech Republic's public and private pension systems as well as reforms undertaken during the past decade.

1. Pensions and other welfare transfers available to older workers: eligibility conditions

Social insurance in the Czech Republic has a tradition that is more than a hundred years old. The system of obligatory social insurance in the Austrian part of Austria-Hungary, *i.e.* also in the Czech Lands, was introduced in 1888-1889 (the "Taaffe Reform") according to Bismarck's model in Germany. Before 1989, pensions were, in principle, very generous, especially towards certain groups. This generosity was reflected especially in the conditions for entitlement to benefits rather than the level of benefits.¹¹

A. *The current pension system - overview*

The current pension system provides old-age, disability, and survivors' benefits and covers nearly 90% of the labour force. The system is administrated by the State and comprises: old-age, full and partial disability, and survivors' benefits. These benefits represent 72%, 14%, 4% and 10% of total pension expenditures, respectively.

11. The system was relatively unfavourable to certain groups like the self-employed.

The pension system has gone through many changes since 1990 (Box 3.1). In particular, successive governments have tightened retirement criteria, abolished almost all privileged retirement schemes, and instituted faster increases in pensions for so-called old pensioners (people already retired for more than 15 years), who had been granted extremely low pensions under communism. In the mid-1990s, a gradual increase of normal retirement age was decided and partial reductions of gender differences of retirement age are underway (see below).

Pension benefits are financed from current contributions levied on the working population – a pay-as-you-go (PAYG) system. The system is governed by the Pension Insurance Act of 1995. The key principles include compulsory participation, uniform treatment, financing on a PAYG basis, and defined benefits calculated on the basis of a mix of flat rate and earning related pensions. It is also a highly redistributive system, where benefits only loosely depend on contributions. The contribution rate for the pension system has been recently raised to 28% of payroll (from which the employer pays 21.5% and the employee 6.5%).¹²

B. *The basic State pension*

The first tier of the Czech retirement system combines an insurance element and a poverty alleviation element, and is relatively redistributive in nature. Indeed, benefit levels are calculated as the sum of the two components. First, there is a flat benefit (independent from the contribution period) of CZK 1 310 (about 12% of the average wage). The second component of the benefit depends on the number of years served (the accrual factor is 1.5% per year of insurance) and on the wage history. Earnings are assessed for the latest 30 years at current wage levels as follows: earnings below CZK 6 300 are taken into account in full, between CZK 6 300 and 14 200, 30% of earnings are considered and, 10% of earnings above CZK 14 200 are taken into account in the calculation of benefit levels. Table 3.1 shows the ratio of average pensions to average wages.

12. Total social security contribution rate is 47.5, of which 28% is for pensions, 13.5% for health care and the rest for unemployment and sickness benefits.

Box 3.1. Recent pension reforms

In the early 1990s, pension reforms centred on removing preferences and discrimination built in the old system. Subsequently, reforms have aimed at establishing a supplementary, voluntary private pension system supported by the State, as well as strengthening the finances of the public pension system. During the 1990-2003 period, pensions were adjusted a total of 17 times to compensate for inflation and correct for differences between pensions granted in different periods.

1990-92: Removal of discrimination for self-employed persons. Cancellation of preferences in the pension system.

1993: Separation of contributions from taxes.

1994: Introduction of a supplementary pension insurance scheme. Participation in this system of private pension funds is voluntary.

1995: Changes in qualifying periods and the retirement age.

1996: Establishment, as part of the state budget, of a special account of pension insurance. All contributions are credited to this account and can only be used to finance pension expenditures.

1997: Indexation rule tightened.

1999: Supplementary pensions act allowing for tax allowances for firms and employees, higher State contributions made permanent.

2001: Amendment of the Pension Insurance Act providing an actuarially fair calculation of pension benefits.

2003: Indexation timing changed to January of each year, instead of any month in which the cumulative price index reaches 5%, as was previously the case. The government increased the retirement age to 63 for both sexes (women should get a one-year bonus for each child raised).

2004: Commission on pension reform established by the five parliamentary parties.

Table 3.1. Pension income relative to gross and net average wages, 1994-2003

	Percentages									
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Pension/ net wage	57.2	56.6	56.0	58.3	59.0	58.2	57.1	56.1	56.5	55.1
Pension/ gross	44.4	43.8	43.5	45.3	45.9	45.2	44.2	43.4	43.5	42.2

Source: Czech Ministry of Labour and Social Affairs.

Retirement pension is currently payable to an insured person who has contributed at least 25 years (or 15 years of insurance if the person reaches the age of 65). The insurance period is set to increase to 30 years for both men and women under the proposed new reform. Whereas men are entitled to an old-age pension at age 60, women gain the right to retirement between the ages of 53 and 57 (still after 25 years of service and depending upon the number of children raised). The “normal” age of retirement has been rising gradually since 1996, so that by the year 2006 it will reach 62 years of age for men, and 57-61 years of age for women. More specifically, the normal retirement age increases by two months each year for men and four months each year for women. In 2003, the government increased the normal age of retirement further and beginning in 2013, it will be 63 years of age for both men and women (women will still be able to retire one year earlier for each child raised).

Pension benefits are indexed on price increases, though the government can also take wage developments into account. In fact, as from 2003, pensions are to be increased every year in January, taking into account changes in prices and wages.¹³

Table 3.2. **Redistributive role of old-age pensions, 2001**

Pension (CZK/month)	Wage (CZK/month)		Pension/ wage (%)	
	Gross	Net	Gross	Net
6 200	10 300	8 100	60	76
7 000	14 700	11 400	47	61
7 700	22 050	16 500	35	46
8 100	29 500	21 500	28	38
8 500	36 600	26 000	23	33
9 000	44 200	30 700	20	30

Source: Czech Ministry of Labour and Social Affairs, Lasagabaster *et al.* (2002).

Table 3.2 illustrates the relatively high degree of redistribution implied by the way in which benefits are calculated. A worker with a 40-year contribution history who earns the average wage of CZK 11 400 per month qualifies for a pension equal to 61% of the wage, while a worker who earns 70% of the

13. The Czech government announced recently that pensions would rise by the minimum amount required by the law in 2004 and 2005, *i.e.* consumer-price inflation. It also asserted, however, that the average pension/average wage ratio would remain at 40% in 2006. The latter means that the government also wants to adjust pensions in line with wage, not price inflation.

average wage receives a pension equal to 76% of the wage and a worker with a wage three times the average will receive a mere 30% of the wage upon retirement.

Sustainability of the public pension system

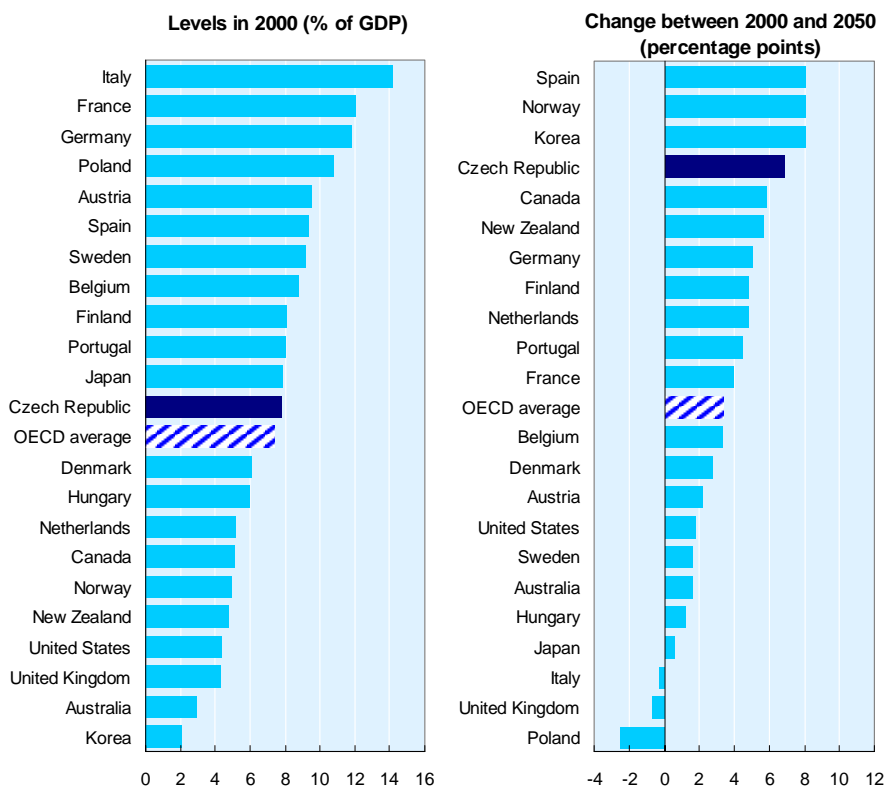
General government expenditures related to old-age pensions represent some 8% of GDP, i.e. somewhat higher than the OECD average (Figure 3.1). On current trends, the figure would reach nearly 15% of GDP by 2050.

This raises the issue of how the rise of pension expenditures can be funded. Over the past few years, the public pension system was in deficit to the tune of around 1% of GDP per year. The system will be in balance in 2004, as the government recently raised the contribution rate to 28% of the wage bill.

Looking further ahead, as the share of elderly in the entire population increases, financing the pension system from payroll taxes will become very expensive. Updated simulations performed by the Ministry of Labour and Social Affairs confirm the concerns pertaining to the long-term viability of the public pension system. For example, if future governments want to balance the pension budget, the contribution rate would have to rise to 45% of the wage bill in 2030. Such a high contribution rate would undoubtedly affect employment rates and possibly also add upward pressure on the size of the shadow economy.

The pension system could be balanced by switching to a full price indexation, instead of wage indexation, but that would reduce the replacement ratio to 34% in 2030.¹⁴ If, on the other hand, the government keeps the current parameters of the pension system, the deficit in the pension budget would reach 3% of GDP in 2030, 5% in 2040 and would peak at 8% of GDP in 2070.¹⁵ Assuming a 3% real return on investment, the system would accumulate a debt of 40% of GDP in 2020, practically 100% of GDP around the year 2040 and 180% of GDP in 2060. The sheer size of these numbers suggests that, for the system to be sustainable, it is essential to ensure that workers work longer, in line with demographic realities – which would not only reduce pension expenditures but also strengthen the contribution base.

-
14. The government maintains that the average pension must replace at least 40% of the average wage.
 15. Estimates from MLSA (2003b).

Figure 3.1. **Public expenditure on old-age pensions, 2000-2050^a**

a) For France, the estimates refer to the period 2000-2040.

Source: OECD (2001), *Economic Outlook*, No. 69.

C. *Voluntary pension funds*

It has sometimes been argued that the establishment of private pension plans may serve as a tool to raise employment rates of older workers and promote later retirement.

In 1994, the Czech government established voluntary pension funds (as substitutes for the abolished occupational preferences) that operate on a defined-contribution basis. Pension funds are strictly individual and do not grant

special treatment to any occupational group.¹⁶ The system operates as an individual savings' account. Participation is voluntary and limited to only one pension plan per participant. Pension benefits are available after five years of contributions or when reaching the retirement age which is stipulated in the pension plan (and in any case not before age 60). Although pension plans are strictly individual, contributions can be paid (or co-paid) by the employer. There is also a significant State subsidy to employee contributions (Table 3.3). Further, in 1999, the law made yearly contributions between CZK 6 000 and CZK 12 000 tax deductible, so as to motivate higher contributions to the system. However, it is unlikely that the Czech system of voluntary pension plans, important as it is, will promote later retirement.

Table 3.3. State support for private pension contributions

Private contribution (CZK monthly)	State contribution (CZK monthly)
100-199	CZK 50+40% of the amount above CZK 100
200-299	CZK 90+30% of the amount above CZK 200
300-399	CZK 120+20% of the amount above CZK 300
400-499	CZK 140+10% of the amount above CZK 400
500 and more	CZK 150

Source: Act on Supplementary Pension Insurance, 1994.

First, although participation in the system may have reached a maximum of about 50% of the labour force (Table 3.4). A significant number of people will probably not be covered by a private pension plan – which is therefore unlikely to solve the Czech pension problem. Total assets of pension funds reached CZK 75 billion on 30 June 2003, which is only about 3% of GDP, and even a lower share of its future uncovered pension liabilities.

Second, there is little evidence that participants in private pension plans work longer. Indeed, about 90% of those who qualify for a private pension withdraw their savings immediately as a lump-sum payment paid out upon the “normal” retirement age – *i.e.* the same age as in the public pension system. Moreover, the average contribution has been decreasing, in real terms, for almost all of the period.

16. This decision was particularly unpopular and met with the opposition of trade unions.

Table 3.4. **Participation in pension funds, 1994-2002**

	Number of participants (000s)	Participants as a percentage of the labour force (%)	Participants as a percentage of those insured in PAYG (%)
1994	183	3.5	3.5
1995	1 290	24.9	24.7
1996	1 564	30.2	30.0
1997	1 638	31.6	31.7
1998	1 740	33.4	35.7
1999	2 006	38.4	42.4
2000	2 298	44.3	49.6
2001	2 534	49.0	54.0
2002	2 621	51.0	55.7

Source: Czech Ministry of Labour and Social Affairs; Czech Statistical Office and Association of Pension Funds.

Third, it appears that participants tend to use these private pension plans as a tool to reduce taxation on their savings – rather than as an opportunity to save more in anticipation of retirement. Indeed, it is well possible that the current system has shifted the structure of individuals' savings, rather than the total amount of savings (see Jelínek and Schneider, 2001a). By entering the scheme, participants mainly reshuffle their savings in order to qualify for the State subsidy. Given that, as mentioned above, savings in private pension plans are subsidised (and thus are funded from taxes), it might even be argued that the whole supplementary pension funds scheme is lowering aggregate national savings.

This interpretation is confirmed by an examination of the age structure of participants in private pension plans (Table 3.5). More than 60% of participants are aged 45 and over, and the average age of the participants is about 50 years. This means that contributions to these plans will be paid over a relatively short period (often only ten years), implying that Czech pension funds have a much shorter time-horizon than is the case in other OECD countries.

Table 3.5. **Age structure of supplementary pension funds' participants, 1994-2002**

Percentages

	1994	1995	1996	1997	1998	1999	2000	2001	2002
18-29	11.9	9.8	9.5	8.4	8.1	7.8	9.9	11.6	11.5
30-44	33.6	30.7	28.9	25.0	23.1	21.7	25.4	26.7	28.0
45-59	46.1	46.9	46.7	47.2	46.1	44.7	45.1	44.3	43.0
60+	8.5	12.6	15.0	19.4	22.9	25.9	19.6	17.3	17.5
Over 50	35.7	40.3	43.6	50.9	54.6	57.4	49.9	46.6	47.4
Average age	45	46	47	49	50	51	49	48	48

Source: Czech Ministry of Labour and Social Affairs and Association of Pension Funds.

D. Other welfare benefits available to older workers

As in other countries, individuals over age 50 can sometimes withdraw from the labour market through transfer systems other than pensions. This section examines eligibility conditions to unemployment, sickness, disability and other social benefits, with special focus on any provisions that concern individuals over age 50.

Unemployment benefits

The unemployment compensation system was established in 1990 and, ever since, has undergone several changes. Initially, the benefit system was relatively generous until reforms carried out in 1992 reduced the level of benefits and made eligibility criteria more restrictive. Since 1996, benefit levels for new entrants and certain other groups have been increased somewhat, and, since 2004, the duration of benefits has been extended for older unemployed persons. Current rules are as follows:

- *The period of payment of benefits is relatively short:* benefits are available to job-seekers registered at the district Labour Office.¹⁷ Workers below age 50 are entitled to benefits for a maximum period of six months. The maximum period is of nine months for workers aged 50-55 (subject to an insurance period of at least 25 years), and 12 months for workers over age 55 (subject to an insurance period of at least 30 years). Periods of sickness, maternity leave or participation

17. A person can be registered only if available for work and cooperating with the office.

in government-subsidised job placement programmes (during which benefits are replaced by other sources of income) are not deducted from the entitlement period.

- *Benefit levels are not overly generous:* For the first three months of unemployment, benefits are equal to 50% of the wage before job loss. The rate is 45% after three months of unemployment (it was 40% until recently). The benefit is capped at 250% of the minimum living standard. There is no minimum benefit, but registered unemployed qualify for other social security benefits. Those in training programs receive 60% of their previous net average wage during the first three months of participation in the programme and 50% afterwards.

Overall, the unemployment benefit system is not very generous by international comparison and, as such, is not likely to represent a significant disincentive for older workers to stay in employment. However, unemployment benefits may serve as a gateway to other social benefits as unemployed individuals need to be registered at a Labour Office in order to qualify for social benefits. This link between unemployment benefits and other social security benefits makes it more difficult to assess the unemployment benefits' impact on the retirement decision. It also makes work more difficult for Labour Offices as they have a dual function of job-centres and social security offices.

Sickness and disability benefits

Unlike the case of unemployment benefits, there is a relatively high risk that sickness and disability benefits be used as a pathway to leave the labour market.

Sickness benefits substitute lost income during short illness. Until 2003, a worker on sick leave was entitled to the benefits from the very first day of sickness and, moreover, there was no cost-sharing by employers. It is thus no surprise that the system has often been used as a short-term buffer in the face of firms' declines in demand. On average, 6% of workers receive sickness benefits on any working day in the Czech Republic. As from 2004, the benefits in first three days will be cut significantly and the government is considering making firms share part of the benefit payments.

The benefit formula is rather complex. It derives the level of daily benefits from an income basis, as follows: while the first CZK 360 of the daily gross wages (averaged over the three months before sick leave) is fully reflected in

the income basis, only 60% of the daily gross wages in the CZK 360-540 range is incorporated in the income basis and daily gross wages above CZK 540 are not taken into account. The benefit is then equal to 69% of the income basis so calculated. Since 2004, only 25% of the income basis is provided for the first three days of sick leave.

Importantly, the control mechanism is fully vested with the health insurance companies. However this is financially inefficient in the sense that these companies are not financially motivated to reduce possible abuse of sickness benefits, which are fully funded from the State budget.

Beyond a certain period, beneficiaries of sickness benefits may claim disability benefits. Such cases are examined by the Czech social insurance administration which employs doctors who issue the invalidity status. This is done in cooperation with the doctors of health insurance companies. In 2002, the social insurance administration issued 29 218 new certificates of full invalidity, and 25 680 in the case of partial invalidity – that is over 1% of total employment. It rejected 9 015 requests for invalidity benefits: in other words, only one out of seven requests is rejected by the social insurance administration.

The full invalidity pension consists of the flat benefit (CZK 1 310 monthly) plus an earnings-related portion (1.5% of the pension basis for each year of insurance). For some low income earners, invalidity benefits are relatively generous (see below).

Reflecting the problems to contain the inflows into sickness and invalidity benefits, beneficiaries of a full invalidity pension represented 7.4% of the labour force in 2003, and the figure was 3.4% in the case of beneficiaries of partial invalidity. At the end of 2003, the average pension was CZK 6 911 for the full disability pension and CZK 4 243 for the partial disability pension. Therefore, the average full disability pension was only marginally lower than the average old-age pension. This makes disability pension highly attractive for people close to the retirement age, as it provides them with the possibility to cumulate their benefit with a labour income and can also be topped up with the old-age pension, once it becomes available.

Consequently, the Czech Republic has a relatively higher share of inactivity because of illness or disability compared to most other countries. The incidence of invalidity pensions among individuals over age 50 is relatively high by OECD comparison (Figure 3.2). For men, it is in the top ten countries in the 50-54 and 55-59 age groups. For women, the country is close to the OECD average.

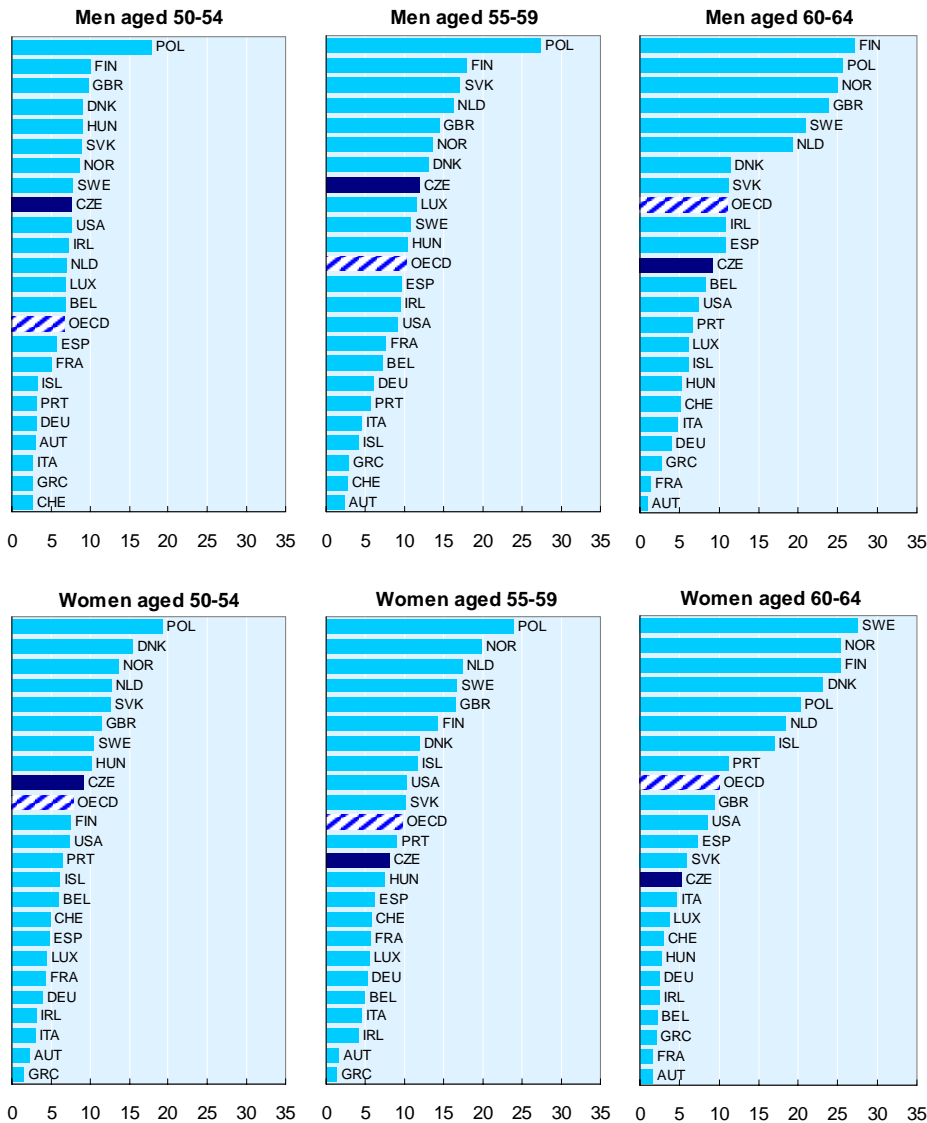
There is also an important regional dimension to the problem. Despite economic improvements since the mid-1990s, the incidence of recipients of invalidity benefits remains high in some regions. Dislocation from the labour market because of industrial restructuring and recession is an important factor. The highest proportion of invalidity pensions is indeed to be found in the most depressed regions. For example, in the Ostrava region (Northern Moravia), there are 43 500 invalidity pensioners and 72 000 old-age pensioners, *i.e.* a ratio of more than 60%. In another hard hit region, Usti region (Northern Bohemia), the share of invalidity pensions to old-age pensioners is 51%. On the other hand, the share in Prague is only 29%.

Other social benefits

In addition to these above benefits, it is possible to receive other social assistance benefits. Some of them are family centred (child allowances, parental allowances, maternity allowance, other care allowance) while others are focused on particular needs (housing allowance, funeral benefit). While none of the benefits are particularly targeted at old or pre-retirement people, they nevertheless shape work incentives for low-income families, including those with older workers (an issue which will be addressed in detail below).

Figure 3.2. **Inactivity because of illness or disability in selected OECD member countries, 2001^a**

Percentage of the population in each age group



a) Data for Germany and Sweden refer to 2000.

Source: European Union Labour Force Survey.

2. Impact of pensions and other welfare benefits on work incentives

The decision to retire can differ widely between workers mainly due to different preferences, income opportunities, health and family situations. Nevertheless, pensions and transfer systems may play a role as well.

A. *Early and late retirement through the pension system*

Any person with 25 years of service may retire up to three years before the normal retirement age, *i.e.* 60 for men and between 53 and 57 for women. However, the basis for calculation of the pension is reduced by 0.9% for each 90 days of early retirement (approximately 3.6% per year of early retirement).¹⁸ According to the government, this rate of reduction is actuarially fair. Given the rapid ageing process, however, it seems clear that the actuarial adjustment of pensions will need to be increased soon.

When reaching retirement age, workers may continue in employment without claiming a pension. In such a case, the calculation base of future pension benefit increases by 1.5% for each 90 days of extra work. Alternatively, a worker reaching retirement age may apply for pension benefits and continue to work.

As such, large and increasing pension wealth accruals may be necessary to provide the financial incentives to continue working and offset the increased disutility of work, especially if wage growth also declines with age. For example, in Sweden, the replacement rate at age 61 is 57% and it reaches 90% at the age of 70 (Box 3.2). In the United States, the replacement rate is 43% at age 62 and reaches 76% at the age of 70. Not only do such systems give more choice to individuals, but empirical evidence also shows that they may promote later retirement (Gruber and Wise, 2002).

18. For a while, a temporarily reduced early pension was available for workers retiring two years earlier at most. The scheme was abolished in 2004.

Box 3.2. Sweden: bringing more flexibility into the old-age pension system

In 1999, Sweden introduced a new public old-age pension system. To cope with pressure on public expenditures, incentives to work had to be improved and thus the link between lifetime earnings and pension entitlements had to be strengthened. A closer link between contributions and pension entitlements was a way to ensure greater fairness between individuals such that a person with a longer work record would receive a correspondingly higher pension entitlement than a person with a shorter work record, all else equal.

From the age of 61 onwards, it is possible to work and draw a pension at the same time. The pension can be drawn at 100% or partially in steps at 75%, 50% or 25% and combined with full-time or part-time work. Since there is no longer a stipulated retirement age, pension entitlements can be earned for an indefinite period. However, the guaranteed pension benefit cannot, in contrast to the earnings-related pension, be drawn before the age of 65.

By switching to a new formula based on lifelong earnings instead of the 15 best years out of 30, incentives to work and to maximise earnings while in work have increased. New pension entitlements will always be accrued on any pensionable income. Therefore, if a person carries on working or re-enters employment after retirement, the pension will increase.

B. *Pathways of early withdrawal from the labour market*

Until recently, early retirement was permitted for up to two years prior to normal retirement age with a “temporarily” reduced pension only. The condition was that an insured person had accumulated 25 years of insurance, and had been at least 180 days on the register of a Labour Office as a job applicant. The calculation of the pension was reduced in such cases by 1.3% of the calculation basis per every, even incomplete, 90 days of pension taken prior to retirement age. After reaching the official retirement age, an unreduced pension was granted. As Table 3.6 illustrates, the scheme was very popular and has since been terminated.

The share of people retiring early increased dramatically from 18% in 1996 to 59.2% in 2000 (Table 3.6). This measure has lowered the average pension by 5% for a person retiring one year earlier and almost 15% for a person retiring three years earlier. Since then, the number of early retirees, as a percentage of total retirements, fell to 43% in 2003. As noted earlier, from 2002, the penalty for retiring 90 days early was raised to 0.9%.

A detailed microeconomic analysis shows that the law that made early retirement pensions widely available and prohibited pensioners to work in the first two years of retirement (the law became effective since 1996) did influence retirement decisions of older workers. Galuščák (2001) shows that male workers (he did not analyse female workers) reacted to these changes by lowering their participation on the labour market by 3.3% in 1996.

Table 3.6. **Retirement patterns in the Czech Republic, 1996-2003**

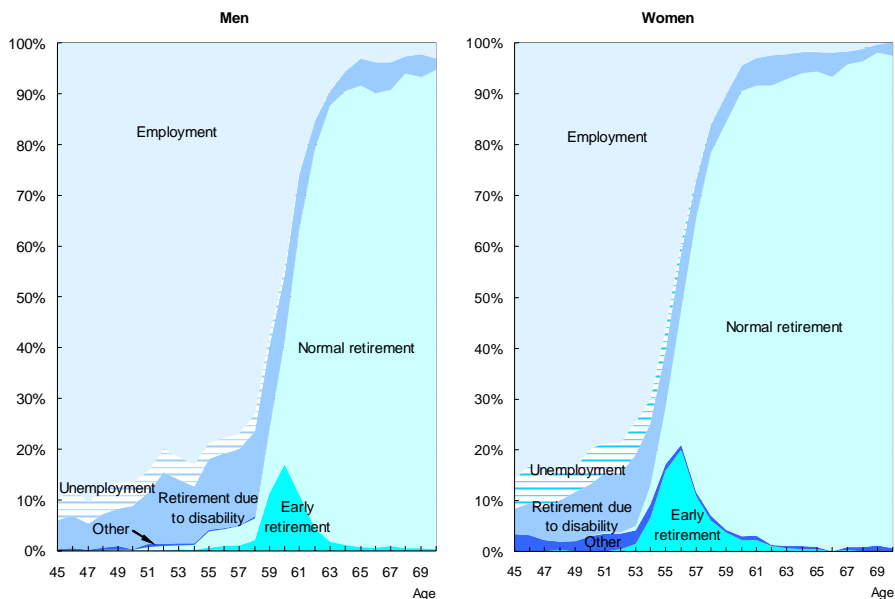
	Old-age pensions awarded	Early retirement (%)		Regular retirement (%)	Late retirement (%)
		Permanent	Temporary		
1996	59 714	12.2	6.0	68.0	13.8
1997	80 832	20.2	9.8	53.2	16.7
1998	114 834	37.6	10.7	38.5	13.1
1999	109 537	41.9	11.0	35.1	12.0
2000	96 348	48.7	10.5	28.3	12.5
2001	88 260	50.7	7.5	28.5	13.3
2002	59 835	21.9	11.9	43.0	23.2
2003	88 470	19.7	23.5	37.8	18.9

Source: Czech Ministry of Labour and Social Affairs.

There are also three wide-scale programmes that facilitate early retirement of older workers in specific sectors. In 2000, the government granted special benefits to workers in the steel industry and in 2001 the same preferences were given to miners in brown-coal mines. While these two programmes are not specifically targeted at older workers, they do encourage early retirement and therefore, adversely affect workers of a certain age. In addition, the state-owned Czech Railway secured an even more beneficial system, whereby redundant workers are given a special early retirement benefit.

Figure 3.3 shows the different pathways for withdrawal from the labour market before the age of entitlement to a public pension (60 years for men and 53 to 57 years for women). Withdrawal due to invalidity and so-called early retirement are the two main pathways. In 2002, nearly 15% of men aged 57 had retired due to disability and more than 17% had exited at age 60 through the early retirement scheme. With respect to women, more than 14% at age 53 had retired due to disability and by age 55, 16% had exited through early retirement.

Figure 3.3. **Main status by gender and single year of age, 2002**

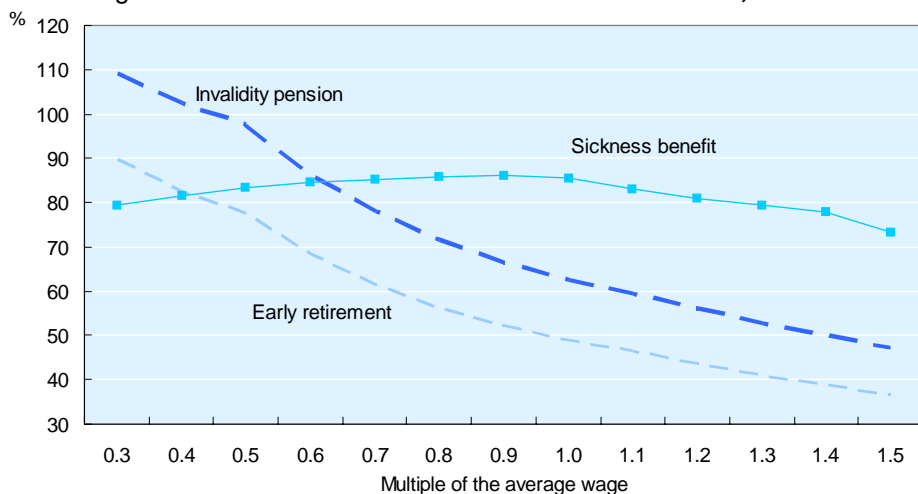


Source: Czech Labour Force Survey.

C. *Replacement rates can be high for workers on low incomes*

A high replacement rate can affect retirement behaviour. If the replacement rate is high enough, the worker will have an incentive to withdraw from the labour force and collect benefits. However, if the replacement rate is too low, it could lead to poverty for some categories of pensioners.

Figure 3.4 shows that low-income workers may indeed have relatively high incentives to withdraw from the labour market. In some cases, the replacement rate on low incomes is close to or even above 100%. As illustrated in the chart, sickness, invalidity and early retirement benefits are likely to be financially attractive options for low-income workers to withdraw from the labour market.

Figure 3.4. Selected social benefits and their level, 2001^{a, b}

- a) Early retirement refers to permanently reduced early retirement, *i.e.* the basis for calculation of the pension is reduced by 0.9% for each 90 days of early retirement.
- b) Since the invalidity pension consists of a flat benefit and an earning-related portion, the replacement rate can extend beyond 100% for low income workers.

Source: Czech Ministry of Labour and Social Affairs.

Certain features of social benefits also entail perverse work incentives. Raising the family income above certain thresholds eliminates some social benefits. Ninety percent of families in the Czech Republic qualify for some social benefits. Some of them may be eligible for as many as seven benefits. Each of these benefits has its own withdrawal scale, but their combination may severely impact labour market participation decisions. For example, until the family's income reaches 50% of the family minimum living standard (MLS), labour income is "compensated" by withdrawals of various social benefits on a *pro bona* basis (*i.e.*, the marginal "withdrawal" rate is 100%).¹⁹ Thus, for low incomes, it doesn't pay to work (Figure 3.5).

Only after this threshold is reached, will labour income permit an increase in family income (which is why the average withdrawal rate is less than 100% for wages above half the average wage).²⁰ The average "withdrawal rate"

19. The minimum living standard for a family of four (two adults, one child less than six years of age and one child between seven and ten years of age) is CZK 11 100.
20. The wage is calculated in net terms, *i.e.* after income tax and social contributions were paid.

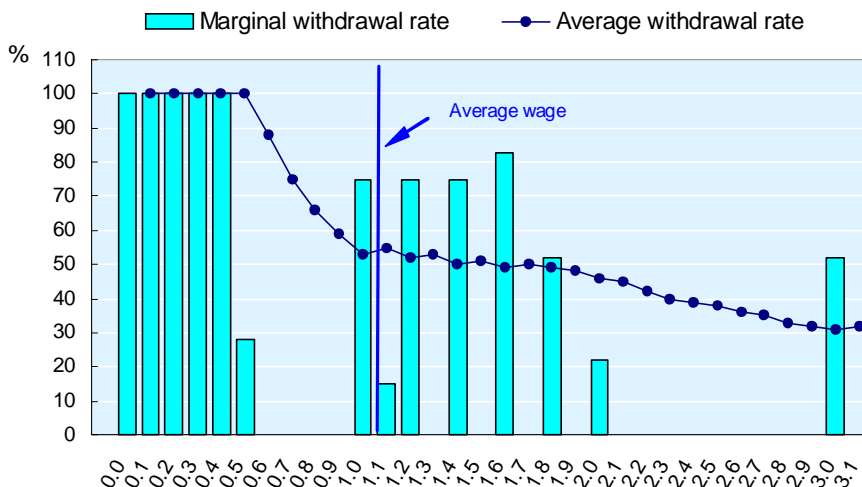
remains high, however, and still reaches 50% when labour income reaches the MLS. Then, various benefits are withdrawn at 1.2, 1.4, 1.6, 1.8, 2.0 and finally three multiples of the MLS, with the marginal rate sometimes as high as 80%. The average “withdrawal rate” hovers around 50% well until the work income reaches two times the MLS. Thus, it seems that the income test applied to social assistance and social support benefits can strongly reduce work incentives, especially for workers with large families.

3. The current policy debate

Faced with the challenges of an ageing population, the Czech government has been active in attempting to reform the pension system. Among others, it has increased mandatory retirement age and tightened up sickness schemes.

To complement these reforms, the government has embarked on an extensive consultation process aimed at introducing further reforms to the pension system (Box 3.3). Indeed, the government is considering a “notional defined contribution” system inspired by the Swedish pension reform. There is currently no consensus among the Czech politicians as to future reforms of the pension system. A broad political and expert consensus is, however, the most important condition for further development of the scheme.

Figure 3.5. **Withdrawal “tax” rates for a family of four, 2001^a**
 Percentage for multiples of MLS



a) For an explanation of the chart, please see text.

Source: Estimates based on Czech Ministry of Labour and Social Affairs.

In sum, one of the most important issues in the current policy debate is how various changes in the pension and transfer system affect retirement behaviour. A key dimension of this debate is how to ensure adequate income support for low income workers while, at the same time, maintaining the right incentives to permit them to work longer. However, issues of retaining older workers in employment and activation strategies for those who lose their job also need to be addressed. The next two chapters examine barriers to retaining and hiring older workers.

Box 3.3. Recent reform proposals

The dominant government party – Social Democrats – plans to introduce the Notional Defined Contribution system (NDC). This system has been implemented in Sweden, Poland, Italy, and Latvia. The main attraction of the NDC system lies in its inbuilt stabilisers that automatically adjust pension expenditures as demographic and economic conditions change. A properly designed NDC tightens links between contributions and benefits, while also stimulating labour supply in the official sector (as opposed to the shadow economy).

The main idea of the NDC model, that contributions are recorded in individual accounts and a notional interest rate is credited to the accumulated balances, does not affect cash-flow of the system as benefits remain to be paid from current revenues. As life expectancy increases, the estimated entry pension is automatically adjusted downward, making the system more resilient to longevity changes. These automatic adjustments introduce flexibility and greater financial stability, also avoiding the political costs of repeated amendments to legislation.

The NDC model establishes a strong link benefits and contributions. This link is of crucial importance, as it is supposed to increase contribute incentives of employees and thus to boost official labour force participation. However, the link between contributions and benefits in the NDC remains indirect. Contributions are “indexed” by an arbitrary coefficient every year and given the long-term horizon of the pension system, this “indexation” plays a crucial role in determining the final pension. Moreover, NDC systems have a “minimum pension” which is not calculated actuarially, but is set according to political and social preferences. Still, such a system would lead to wider dispersion of pension benefits than is presently the case.

Chapter 4

REMOVING BARRIERS FACING EMPLOYERS

While improving incentives for older workers to remain in the labour market is important, factors influencing employers' decisions to hire or retain workers are equally crucial. In general, employers' hiring and firing decisions with respect to older people depend on factors such as perceptions about the adaptability and productivity of older people, and the wages they have to pay for older workers relative to younger ones. Hiring and firing decisions will also be influenced by existing employment protection legislation and labour laws. The purpose of this chapter is to examine these issues and identify areas where further reform may be needed.

1. Employment practices of firms

A. *Attitudes towards older people*

Some of the barriers to retaining or hiring older workers may be found in employer practices. In general, negative attitudes towards older people can have an impact on hiring and retention decisions as well as the time and money spent on training, which, in turn, influences labour market outcomes. As such, the role of government measures to change these practices is limited and any changes in this area will necessarily take time.

During the 1990s, in the face of the economic transition and the emerging information and computer technology, a belief that older people could cope less well with change than younger ones gained momentum. During this period, a view developed that workers over the age of 50 leaving the labour market was an effective mechanism for reducing unemployment, especially among the youth. It appears that, despite growing awareness of the counterproductive effects of early retirement, such perceptions persist today in the Czech

Republic.²¹ Attitudes of this nature can lead to age discrimination which can make it difficult for older workers to remain or rejoin the labour market.

B. The presence of age discrimination

Age discrimination can be defined as a situation where age is used as a basis for prejudice against a person. Typically, however, discrimination is neither overt nor easily measured. Nonetheless, in a survey of general attitudes, 17% of individuals aged 18-24 and 11% of those aged 35-54 felt that old people are unproductive and economically costly (Table 4.1). In general, young people are more likely to consider older people to be unproductive and economically costly.

Table 4.1. General attitudes towards people aged 65 and over by age cohorts, 2001

Percentages of positive answers

Opinions about old people	18-34	35-54	55 and over
Are a barrier to economic development	8	5	7
Are a burden to society	8	5	8
Are unproductive and absorb economic resources	17	11	13
Guarantee the maintenance of traditional values	61	70	85
Are useful for society because of their rich experience	69	84	93
Society shall take into account problems of old people	86	91	94
Society shall take into account rights of old people	88	89	99

Source: Life in the old age, 2001 – survey analysed in Vidovicova and Rabusic (2003).

This perception appears to be prevalent among employers as well. Indeed, Czech labour offices often report that employers perceive older employees as having bad working habits, inherited from the country's communist past. In a survey, employers reported to be concerned by older people's low flexibility, ability to adapt to new job requirements and work conditions, as well as their lack of knowledge of foreign languages. Interestingly, employers seem to share similar negative perceptions towards school-leavers.²²

21. For example, of the five hundred Skoda-Volkswagen employees laid-off recently, two-thirds involved retirement (October, 2003).

22. Many small entrepreneurs, in particular, do not perceive young people as especially flexible and reliable workers and claim to prefer middle-aged employees instead. Indeed, they tend to be reluctant to hire school-leavers

In addition, the *Survey on Working conditions in the acceding and candidate countries* shows that a significant number of older workers experience age discrimination on the workplace (Table 4.2). Among workers 50 years and over, 11% of men and 9% of women claim having experienced age discrimination at work, as compared with 3% of men and 5% of women in prime-age. Such experiences appear to take place predominately in small and medium-sized firms. Moreover, nearly 20% of older men and 14% of older women say that age discrimination is taking place in their company or organisation. In a separate survey, one-third of people in pre-retirement age seeking employment declared that they had encountered some form of age discrimination at least once.²³

Table 4.2. **Personal experience of age discrimination on the workplace by gender, age and firm size, 2000**
Percentages

Size of the firm	Experienced age discrimination himself/herself				Is aware of age discrimination in the firm where she/he works			
	Men		Women		Men		Women	
	24-49	50-64	24-49	50-64	24-49	50-64	24-49	50-64
< 50	2.2	13.9	5.2	11.9	5.1	22.2	6.9	19.0
50-500	3.1	10.9	3.6	6.1	9.4	19.6	10.7	12.1
500 +	4.2	6.7	4.7	8.3	8.3	13.3	16.3	-
Total	2.8	11.3	4.7	9.0	7.1	19.6	9.3	13.8

- Data not available.

Source: Secretariat estimates based on microdata from the Survey on Working conditions in the acceding and candidate countries, collected by the European Foundation for the Improvement of Living and Working Conditions.

C. *Combating age discrimination*

Equality of treatment is guaranteed by the Constitution and is part of the National Programme of Preparation for Ageing (Box 4.1). Indeed, the Czech Republic is one of the four accession countries having anti-discriminatory labour legislation (Fortuny, Nesporova and Popova, 2003). An amendment to the Labour Code was adopted in 2001 to include a ban on any discrimination, in conformity with EU legislation. It prohibits any form of discrimination in terms of access to job, reward, training and job promotion, and in labour legal relations.

because of their combined lack of skills and experience, bad attitude at work as well as their high demands in terms of earnings, fringe benefits and work conditions.

23. Life in the old age, 2001 – survey analysed in Vidovicova and Rabusic (2003).

Box 4.1. The National Programme of Preparation for Ageing for 2003-2007

The National Programme of Preparation for Ageing for 2003-2007, agreed by Czech government in May 2002, promotes equal employment opportunities and the broadest possible support for employment of older persons. It summarizes and develops UN Principles for Older Persons (1991) as well as the Madrid "International Plan of Action on Ageing" (2002). The objective of retention and increase of employment of older people is to be reached through the application of the following broad principles:

- Prevent age discrimination in work and remuneration, identify and analyse categories facing discrimination for reasons of age with the aim of better targeting activation measures; labour offices should monitor and sanction employers applying such discrimination;
- Provide older people with training opportunities; labour offices have to set up special training and retraining programmes for older employees (50 years and over); the needs and experiences of older employees should be acknowledged in the training system;
- Promote adaptability and innovation at the workplace with the aim of achieving greater efficiency and competitiveness; increase flexibility and diversity of employment, support temporary and part-time forms of labour contracts; monitor reemployment of older people;
- Ensure efficient human resource management, create proper conditions at the workplace, involve older persons in advisory services, teaching and training, support voluntary work done by older people in areas where their skills can be used;
- During restructuring, cooperation between governmental bodies and social partners should be facilitated so as to reduce the risk of layoff of older workers;
- Implement and develop a system of life-long learning for all employees; set measures allowing older persons to rejoin the educational system.

The Czech Republic, along with Slovakia, is the only accession country where protection against unfair dismissal continues even if the employee is entitled to pension (European Commission, 2003b). However, age was frequently used as a criterion in selection for redundancy in the Czech Republic – unlike *e.g.* Bulgaria where such practice is unlawful. The new Employment Act, which will be in operation in 2004, harmonizes the definition of indirect discrimination with the standards of the European Union and guarantees equal treatment for all job-seekers.

Since the introduction of the 2001 anti-discriminatory labour regulation, few cases of discrimination have been reported. However, it is common place

for firms to get around legislation.²⁴ Since recruitment interviews are not documented in writing, it is difficult to prove negative attitudes at the time of hiring. This problem is exacerbated by the fact that the law applies to the employer-employee relationship only, and therefore older workers may experience discrimination from recruitment agencies. Moreover, proving the case of discrimination at recruitment is very difficult, since employers are relatively free to choose the “best person for the job”. Finally, about one third of small- to medium-sized enterprises claim to have no knowledge of the discrimination act.

Also important has been the European initiative EQUAL – *Combating Discrimination and Inequality on the Labour Market*. The Czech Republic was in fact the first candidate country to join the programme in June 2001 (Box 4.2).

Box 4.2. The initiative EQUAL in the Czech Republic

Several projects have been launched as part of the EQUAL initiative:

- Regional Development Agency of the North Bohemian region provides support to the long-term unemployed having only elementary education;
- Charita, in the city of Opava, aims to establish sheltered workshops for disadvantaged groups including unemployed persons in pre-retirement age. It cooperates with other church and charity organisations and also internationally with Austrian, Finnish and Italian agencies;
- Trexima, in the city of Zlin, promotes business creation, including by older workers, through the provision of information databases and self-service consulting services;
- Kazuist, in the city of Trinec, supports persons over 45 years of age (and other vulnerable groups) through a “Start-Business-Center”, workshops and other support activities like an interactive website (“Step by Step to Business”).

2. Labour costs

One potential reason for the negative attitude of employers towards older workers may be the perception that wages of older workers are too high relative to their marginal productivity. This could occur if, for example, wages rose in line with seniority rather than productivity.

24. Various legal tricks are also used to avoid quite complicated dismissals’ procedures. Small firms provide employers with “directives of work” on how work is to be performed. Impending dismissal, be it “voluntary” or not, is facilitated by employer’s assertion that the employee broke some of these directives. An employee can be pushed to leave by mutual agreement under the caveat of being fired because of serious breaks in work discipline.

A. *Wages for older workers are not high relative to wages of prime-age workers...*

In many countries, wages tend to increase with age – a pattern that may reflect productivity gains associated with experience. However, the age-profile of earnings may also be the result of an implicit contract between the employer and the employee. Accordingly, wages would increase with seniority in order to enhance the employee's commitment to the firm. Beyond a certain age, however, the wage might exceed the employee's productivity, which would explain the employer's incentive to encourage early retirement. If the assumption is that age-productivity profiles between countries are similar, some conclusions can be drawn from comparing these profiles across countries (Figure 4.1).

Out of the countries compared, Hungary seems to have the steepest age-earnings profiles for both men and women. In the case of the Czech Republic, age-earnings profiles for both men and women are relatively flat in comparison to other countries. Earnings appear to rise slightly after age 55 for men and age 50 for women (which may not correspond to changes in productivity) but in general, seniority wages do not appear to be a major problem in the Czech Republic.

When turning to age-earning profiles by level of education, a similar, flat pattern emerges, although there are some variations (Figure 4.2). Whereas workers with tertiary education tend to experience increases in their earnings earlier in their career, those with secondary education tend to enjoy relatively stable wage increases throughout their career. Importantly, those with elementary education experience sharp declines in their earning after age 60.

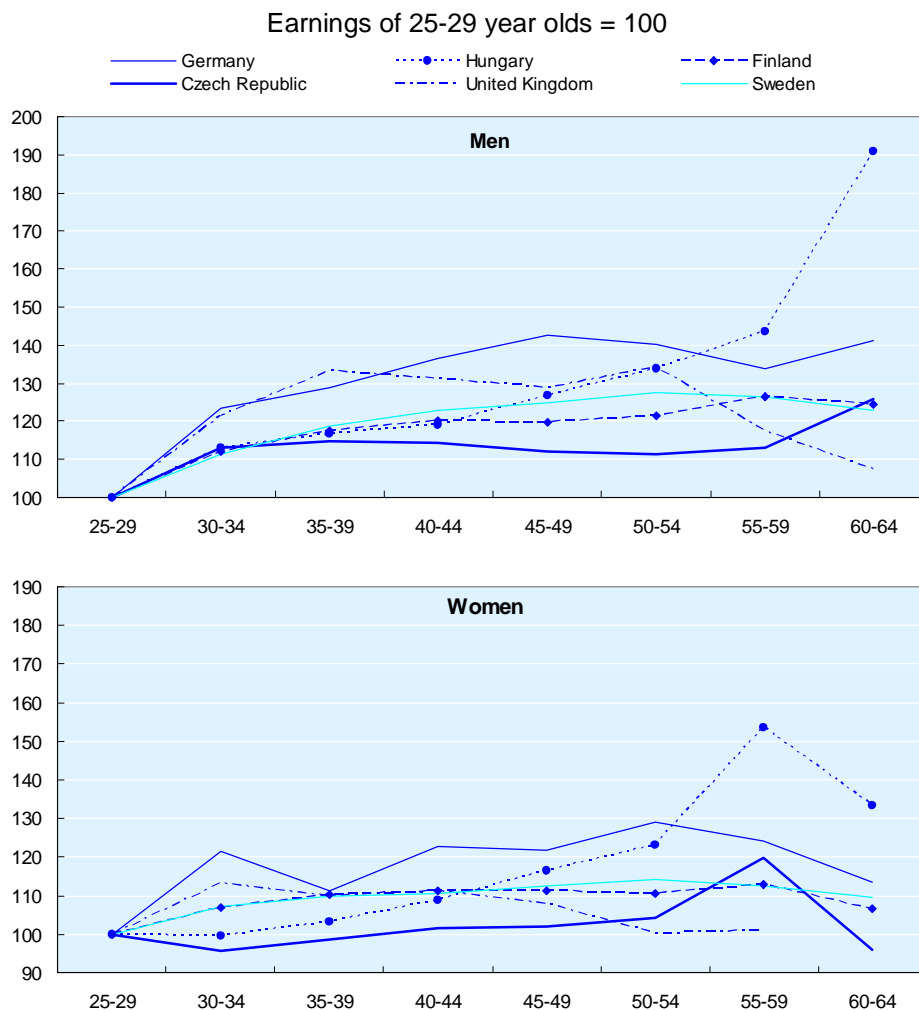
Finally, in examining the industry-specific age-earnings profiles in 2002, it emerges that, in most industries, the wage position of workers aged 50-59 is similar to that for employees aged 40-49.²⁵ However, the data confirm that earnings for the cohort of employees aged 60 and over, in all industries except hotels and restaurants, exceed the average of all age groups by approximately 12%.²⁶

25. The exceptions are public administration and education which may be explained by the retention of skilled employees often holding managerial positions.

26. This figure rises to 15% in transport, finance, public administration and health services, and 20% or more in manufacturing, construction and education.

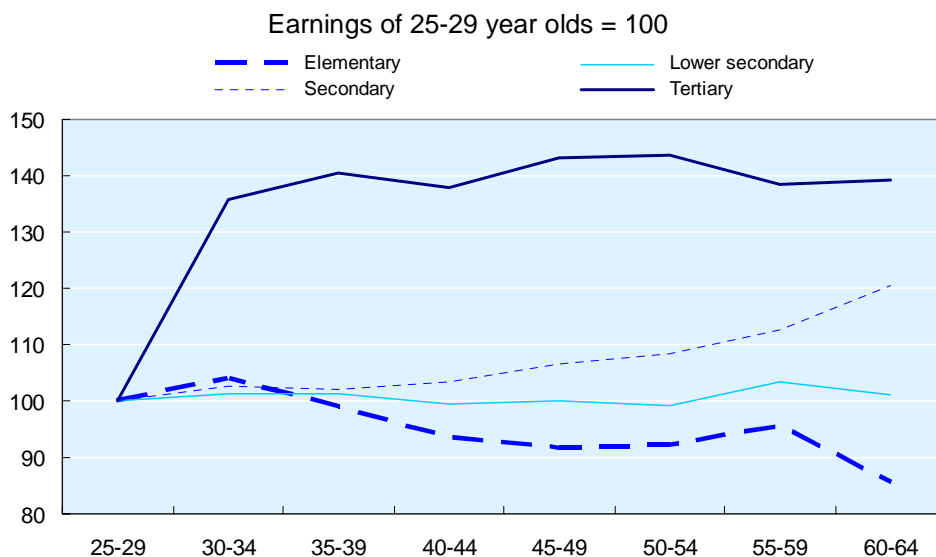
However, the apparent increase in wages for workers over age 60 may reflect compositional effects: only relatively high-wage workers stay in the labour market after that age.

Figure 4.1. **Age-earnings profiles in selected OECD countries**



Source: Wage Structure Survey for the Czech Republic; Statistics Finland, Structural Statistics on Wages and Salaries for Finland; and Blöndal, Field and Girouard (2002) for the other countries.

Figure 4.2. **Age-earnings profiles by level of education in the Czech Republic**



Source: Wage Structure Survey, 2002.

B. *But high social security contributions may be an important barrier to employment of low-skilled workers*

Social security contributions drive a wedge between labour costs borne by the employer and employees' take-home pay. The impact of these contributions on employment depends on the extent to which they are absorbed through lower take-home pay. In the presence of wage floors (created by minimum wages or other wage-setting mechanisms), high social security contributions may affect low-skill employment, and/or they may promote undeclared work.

Social security charges are very high in the Czech Republic (Table 4.3). Non-wage labour costs represent about one-third of the labour costs of low-skilled and low-income workers. Given that, as shown below, Czech older workers tend to be relatively less skilled than their prime-age counterparts, they are likely to be disproportionately affected by the high social security

contribution rates. Consideration should therefore be given to a reform of social security contribution rates.²⁷

Table 4.3. **Social security contributions in selected OECD member countries, 2003**

Percentage of labour costs^a

France	39
Poland	38
Austria	37
Slovak Republic	37
Netherlands	36
Hungary	36
Czech Republic	35
Belgium	34
Germany	34
Greece	34
Italy	32
Sweden	30
Turkey	30
Spain	28
Portugal	28
Luxembourg	24
Finland	24
Japan	22
Switzerland	20
Norway	18
United Kingdom	17
Canada	16
Ireland	15
United States	14
Mexico	14
Denmark	12
Korea	12
Australia	6

a) Figures refer to the sum of employers' and employees' social security contributions as percentage of labour costs of a single individual without children at the income level of the average production worker.

Source: OECD (2004), *Taxing Wages: 2002-2003*.

27. The Czech Republic relies more than other countries on taxing wages, with payroll taxes accounting for 17% of GDP and their contribution to total tax revenues reaching 44% (OECD, 2003b).

3. Employment protection – obstacle or security?

A. *The role of employment protection legislation*

The effect of employment protection legislation (EPL) on the employment of older workers is complex. In theory, liberal employment protection may make employers less reluctant to hire older people but it may also reduce the risk of older workers becoming unemployed. The OECD indicator of overall strictness of employment protection for regular employment, based on several different measures, ranked the Czech Republic as having one of the strictest among all OECD countries (OECD, 1999).²⁸ However, contrary to most OECD countries, the Czech dismissal legislation does not provide long-tenured workers with greater job protection. Indeed, notice and severance pay provisions do not become more generous as tenure increases. Such that, stringent legislation for regular employment combined with the fact that fixed term contracts are now limited to two years (after which a permanent contract must be provided for or the employee terminated), may perhaps restrain job creation and reduce further the re-employment chances of job-seekers, especially older ones.

The legal environment regulating employment and working hours in the Czech Republic is also important in understanding the various mechanisms and barriers to labour demand for older workers. Originating in 1965, the current Labour Code was reformed substantially – particularly after 1989. Reforms aimed primarily at adjusting the Code to the needs of the market economy. Engagement of the State in labour relations was reduced and contractual arrangements strengthened. Also, collective labour relations changed substantially, especially collective agreements. In parallel, Czech labour law was harmonised with bounding international agreements.

Employers' general stance is that labour and employment legislation is designed to favour workers – particularly with the adoption of the 2000 Labour Code amendment (Box 4.3). They also argued against the Labour Code amendment because the new provisions allegedly imply longer holidays, less overtime work and higher severance pay. In their view, the firing procedure is long, difficult and costly and in an attempt to avoid rising labour costs, may

28. On the other hand, the Czech Republic is slightly below the average of eight transition countries – the most liberal being in Hungary and Poland (Cazes and Nesporova, 2003).

lead to an increase in the demand for informal employment. However, more research is needed to shed light on the links between EPL and the employment of older workers.

Box 4.3. The 2000 Labour Code amendment

The 2000 Labour Code amendment provided, *inter alia*, the following:

- No discrimination in employment;
- Employees have information right; in the absence of a trade union, a workers' council can be established with support of the employer;
- Contracts for unlimited period of time are the norm but fixed-term contracts are possible. The most recent amendment to the labour code (Act No. 46/2004) set the maximum duration of fixed-term contracts to a period of two years;
- Compulsory severance pay is limited to two months, as before; additional severance pay can be provided by collective agreement;
- Collective dismissals and related obligations for employers have been aligned with EU legislation;
- Flexible working hours are explicitly set.

B. *Collective agreements*

Collective agreements, which cover about 35% of employees, play an important role in employment protection.²⁹ In about 80% of these agreements, stronger protection of particular categories is established, notably as regards employees within five years of retirement. In the case of dismissals, employers are also obliged to take into account employees working in a firm 20 years and more, or ten years and more in the case of workers on shift arrangements. The obligation to re-employ previously dismissed employees is often set and accomplished, *e.g.* of 364 employees of the state company Czech Post

29. Trade unions also contribute to protection of workers by hindering so called “illegal outsourcing”. This is frequent practice in wood manufacturing and, in particular, construction where self-employed are reportedly engaged as employees, but without paying payroll-tax and taking other employers' responsibilities. The situation is supposed to improve recently, due to coverage of collective agreements in these sectors. Generally, however, short-term *ad hoc* solutions prevail (Cornejova and Fassman, 2003).

dismissed in 2002, 246 ended up being re-employed by Czech Post as redundant workers were notified of any future vacancies.

4. Working arrangements

Apart from improving skills and helping workers find new jobs, it is also important that older people feel appreciated at the workplace and that the work environment is safe and flexible. The shift away from the production of goods to the production of services has tended to decrease the number of jobs with unpleasant work conditions such as jobs requiring heavy lifting and exposure to unhealthy conditions. However, to promote longer working lives more generally, it is important that working conditions improve for all age groups.

A. *Improving the availability of part-time jobs and other flexible work arrangements*

Some argue that part-time contracts, most of which involve women, lead to an increase in the discretionary powers of employers and force the employees to be more flexible in their working hours. And it is true that part-time work is not always a voluntary decision of the worker. However, there are grounds to believe that part-time work, by introducing the important element of flexibility can help to accommodate work and family responsibilities. It is often regarded as a useful tool to raise the labour market participation of women. For older workers, widening the opportunities to undertake more part-time work can be regarded as a useful tool to facilitate gradual transitions from work to retirement. Moreover, flexible work schedules can be important factors in retaining older workers. Surveys in the Czech Republic show, however, that regarding work satisfaction, training possibilities, workers' autonomy and chances of promotion, non-standard jobs are not necessarily "bad", with the exception of lower earnings (Households, Work and Flexibility, 2001). True, perceptions of job security tend to higher among workers on permanent contracts, with respect to workers on non-standard arrangements. However, non-standard jobs would tend to provide greater satisfaction in terms of working hours – which might be a very important consideration for some older workers (Social Situation of Households, 2001 – survey collected by the Czech Statistical Office in May/June 2001).

Still, the incidence of non-standard employment in the Czech Republic is low (Table 4.4). Part-time work makes for less than 3% of total employment, the second lowest rate in the OECD – and five times less than the OECD average. Among declared reasons for having a part-time job in the

Czech Republic, lack of demand represents one-fifth of respondents' cases. Most of the reasons for not working full-time seem to reflect employees' preferences – men frequently declare health reasons and continuing education, while women usually stress child care.

Table 4.4. **Working arrangements by gender, age and education, 2001**

Percentages

Type of contract	All employed				Having secondary or tertiary education			
	Men		Women		Men		Women	
	24-49	50-64	24-49	50-64	24-49	50-64	24-49	50-64
Full-time, open-ended	84.2	86.0	81.1	83.2	86.2	88.9	83.0	86.2
Part-time, Open-ended	1.0	1.4	3.7	3.5	0.9	1.4	2.8	2.8
Full-time, fixed-term	13.7	9.9	13.9	9.1	11.8	7.7	12.9	6.4
Part-time, fixed-term	0.2	1.8	1.0	3.7	0.3	1.4	1.0	4.1
Task contract	0.5	0.4	0.3	0.2	0.4	0.0	0.4	0.0
No contract	0.4	0.4	0.1	0.2	0.4	0.5	0.0	0.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Social Situation of Households, 2001 – survey collected by the Czech Statistical Office in May/June 2001.

The incidence of part-time among older workers is also very low, though somewhat higher than is the case with their prime-age counterparts. Older workers are also much more interested in working part-time than other age-groups (Table 4.5). A major consideration in making such choices is the fact that part-time work entails lower earnings, combined with the fact that earnings are relatively low by OECD comparison. A further barrier to part-time work among low-income groups is that, until 1st January 2004, it was not possible to combine part-time work with the receipt of parental or pension benefits.

Table 4.5. Reason for working part-time by gender and age, 2002

		Percentages			
		Could not find a full-time job	Did not want a full-time job	Illness or disability	Other
Men	15-24	5.8	0.8	6.9	86.6
	25-49	3.0	14.4	43.5	39.1
	50-54	4.2	3.3	81.2	11.3
	55-59	5.7	6.1	73.8	14.4
	60-64	4.6	54.3	7.4	33.8
	65+	4.3	59.1	4.5	32.0
Women	15-24	24.1	2.5	4.6	68.8
	25-49	16.4	14.1	13.9	55.6
	50-54	14.6	16.3	38.8	30.3
	55-59	5.2	45.1	16.2	33.5
	60-64	2.8	55.0	6.6	35.6
	65+	2.8	60.1	5.7	31.5

Source: Czech Labour Force Survey.

B. Programmes promoting workplace changes and work ability

The aim is that people would stay in their jobs as long as possible. For most people, the optimum is to keep their accustomed work and position. This is more feasible in non-manual occupations where physical workload is negligible. Mostly, people believe they have competencies and capacities enough to continue further in their jobs. In contrast to some doubts expressed in the early 1990s regarding skill sufficiency under new conditions, people trust their abilities more and more (Economic Attitudes and Expectations). Only 8% of men and 13% of women 50 years of age and more state that requirements of their job are higher than their skills, against 11% of men and 8% of women in prime age.³⁰

As Table 4.6 shows, the belief that one will be able to perform the same job as now is higher among managers and professionals than is the case among manual workers. Men are also more self-confident in their ability to continue in

30. Survey on Working conditions in the acceding and candidate countries, collected by the European Foundation for the Improvement of Living and Working Conditions in 2001-2002, supplement to the Third European Survey on Working Conditions 2000 extended to all the acceding and candidate countries (12 in 2001, and one in 2002).

the same job than women and interestingly, perceptions of ability to continue in the same job generally rise with age. The message is twofold here – positive in that older workers would seem to be confident about their work ability; negative in that middle-aged workers may well be pessimistic about their job prospects.

Table 4.6. **Persons thinking that “at age 60 they will be able to perform the same job” by occupation, gender and age, 2000**

Percentages

Age cohort	Managers and professionals		Clerks and sales		Manual occupations		Total	
	Men	Women	Men	Women	Men	Women	Men	Women
30-39	60.5	42.0	34.5	44.4	34.3	23.3	40.8	38.8
40-49	83.8	42.6	54.5	40.3	38.2	22.9	53.8	35.7
50-59	87.9	55.6	66.7	50.0	54.2	14.8	65.8	42.4
Total	76.9	45.9	49.3	44.1	41.6	21.0	52.5	38.5

Source: Secretariat estimates based on microdata from the Survey on Working conditions in the acceding and candidate countries, collected by the European Foundation for the Improvement of Living and Working Conditions.

5. Subsidising labour costs for older workers

A. Wage subsidies to employers

One way to facilitate the access to the labour market for older workers is by making it more attractive for employers to hire and retain these workers. This is typically achieved by providing employers with subsidies that reduce the cost of hiring or retaining older workers. These subsidies can take various forms, most typically through either a direct wage subsidy or a reduction in employers' social security contributions. A number of OECD countries have introduced wage subsidies, with varying levels of generosity and eligibility conditions, in an attempt to offset the costs of hiring or retaining older workers.³¹

In the Czech Republic, the government makes available to employers various types of subsidies. Subsidies for job creation, partial reimbursement of retraining costs and subsidies in case of restructuring which aim at helping employers create new jobs in districts affected by high unemployment. The amounts are set by governmental decrees and paid by local labour offices. These programmes are described in Box 4.4.

31. See Chapter 3 in OECD (2003a).

Box 4.4. Government subsidies for employers

One of the tools of active employment policy, set by the Employment Act, is investment incentives. Among them, the following employment subsidies are available to employers:

1. Subsidies for job creation and partial reimbursement of retraining costs

(Government Decree 134/2000 "on material subsidy of new jobs creation and retraining of employees within investment incentives"), which aim, *inter alia*, at helping employers create new jobs in high-unemployment districts.

Subsidies for job creation

In districts with unemployment rates higher, at least by 50%, than the national average, CZK 200 000 is granted to employers for each job created (CZK 120 000 if the unemployment rate is 25% higher than average, and CZK 80 000 if it is at least the average). The subsidy is provided as a one-time lump sum under the condition that the job is maintained for at least five years. If the individual is disabled or long-term unemployed, the amount of the grant increases by 10%.

Partial reimbursement of retraining costs

Concrete amounts of partial reimbursement of retraining costs are the following: 35% of summary costs in districts with the unemployment rate higher by at least 50% than the average, 35% of summary costs if the unemployment rate is higher by at least 25% and 25% of summary costs if the unemployment rate is at least at the average. If the individual undertaking retraining is disabled or long-term unemployed, the amount granted increases by 10 percentage points.

2. Subsidies in case of restructuring

In cases of restructuring and major firm changes, as a result of technological change, which temporarily and seriously limits the manufacturing activity, the employer can be assisted by the state with a special contribution (MLSA Decree 399/1992 "about conditions of procedure of setting agreements between employers and labour offices during limitation of activity caused by introduction of new entrepreneurial program").

The aim is to maintain the existing workforce and avoid payment of unemployment benefits, to the extent that the firm has good economic prospects. The State contribution can reach a maximum of 40% of the total wage of the employees affected by restructuring – 75% in the case of major limitations to manufacturing activity.

3. Subsidies for employment of disabled workers

Employers are obliged to employ a certain quota of workers with ZPS (reduced work ability). They can be compensated through a State subsidy. Since 2002, only an investment grant and returnable financial assistance are provided. At the same time, tax deductions have been doubled. More than 1 000 job-seekers have found jobs through this scheme. About another 1 000 workers on ZPS were employed in sheltered workshops over the past few years. Stricter conditions of financial grants (targeted for investment only since 2002) may have reportedly weakened motivation of employers to create jobs for disabled workers (MLSA, 2003a).

Chapter 5

HELPING OLDER WORKERS TO FIND JOBS AND TO CONTINUE WORKING

The extent to which older workers will be in a position to stay longer in the labour market depends crucially on their employability. It is therefore important that older workers have an opportunity to maintain and develop their skills. But, more generally, this is an issue of lifelong learning: workers should have an incentive to invest in their human capital at all ages, so as to avoid their skills being eroded with age. Given the process of ageing populations and skill-biased technological change, the situation for older workers may worsen in the coming years unless effective actions are taken now. Success in this area depends crucially on the availability of well functioning education, training and skill development systems.

Moreover, it is important that unemployed older workers be supported in their efforts to go back to employment. This means that active labour market programmes should be made available to them in an effective manner. This chapter will analyse strategies to enhance the employability of older workers to help them confront the challenges they face with respect to employment and re-employment.

1. The role of human capital in the labour market

Education plays a key role in providing individuals with the knowledge, skills and competencies needed to access employment and participate effectively in the labour market and more generally, society. There is compelling evidence that human capital and formal education should increase productivity and foster growth in the long run. Moreover, the ongoing shift away from the production of goods to the production of services, together with technological change has increased the need for more skilled and mobile workforces. Indeed, this may be particularly important in transition economies

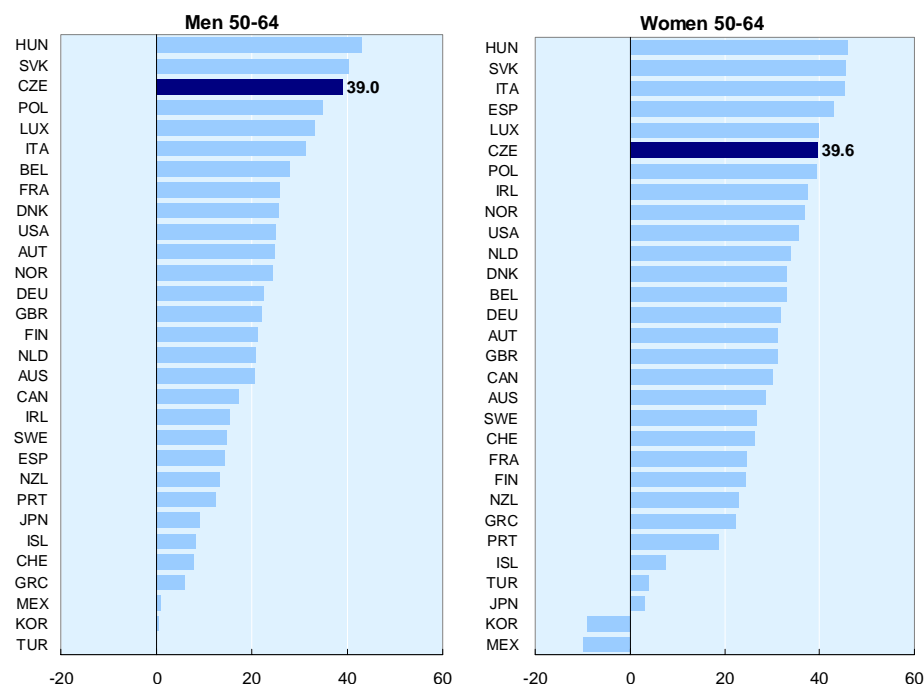
like the Czech Republic where, often, there is a significant mismatch between the types of skills that workers possess and the skill requirements.

A. *The education gap in participation rates is among the highest in OECD*

In most countries, labour market status is clearly linked to educational attainment and generally, participation rates increase with higher education levels. This is particularly the case in the Czech Republic, where the difference in participation rates between older workers with tertiary education and primary education, at 39 percentage points or more, is one of the highest in the OECD area (Figure 5.1). The situation confronting prime-age workers is less severe where the difference is only 12 percentage points for women and 14 percentage points for men – though still high among OECD countries.

Figure 5.1. Difference in participation rates by educational level among older workers, 2002

Difference between tertiary and primary participation rates (percentage points)

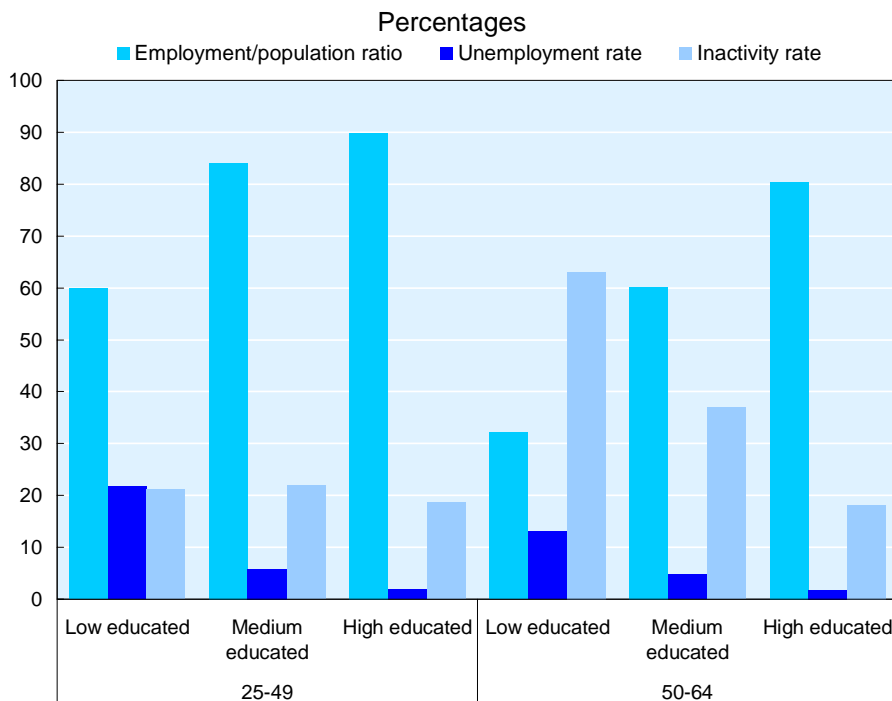


Source: OECD (2002b), *Education at a Glance – OECD Indicators*, and Czech Labour Force Survey.

Employment and unemployment are adversely affected by low educational attainment...

Employment and unemployment rates are also often strongly linked with educational levels. This is particular true of older workers in the Czech Republic where the employment rates consistently increase with educational attainment – while unemployment and inactivity decline (Figure 5.2). Indeed, at nearly 50 percentage points, the difference in employment rates between older workers with tertiary education and older workers with less than upper secondary is substantial. Moreover, the gap in the unemployment rate between these two groups is remarkable. Similar trends are also observed for prime-age workers where the difference in employment rates between high and low educated persons is nearly 30 percentage points. The unemployment rate for prime-aged individuals also falls from more 21% among low educated individuals to under 2% for those with tertiary education.

Figure 5.2. Labour market outcomes and educational attainment by age in the Czech Republic, 2002



Source: Czech Labour Force Survey.

...and educational attainment of older workers remains low

At present, only 13% of older men and 8% of older women have attained a tertiary level of education (Figure 5.3).³² In most OECD countries, since educational attainment has been generally rising among the younger generations, there is likely to be a dramatic improvement in the average education attainment of older workers in the future. However, this is not the case in the Czech Republic where the proportion of older workers with tertiary education is projected to increase only 2 percentage points to reach 15.1% in 2025. Indeed, the Czech Republic will see lower increases in the level of tertiary education compared to Hungary, Poland and the Slovak Republic. However, by 2025, the Czech Republic, along with the Slovak Republic, will have the greatest proportion of older workers with upper secondary education.

B. *Literacy skills are low and decline with age*

Despite having a significant share of individuals holding an upper secondary education, the literacy skills in the Czech Republic are low and decline with age. For example, when employers are asked about special types of skills required in the labour market today, language skills and computer skills usually rank high. However, the results of the International Adult Literacy Survey (IALS), which tested for prose reading, documentary reading and quantitative skills, revealed relatively low skills of older people in the Czech Republic (Table 5.1). In all three categories, more than 40% of older women have only Level 1 literacy – persons with very poor skills. Older men fare slightly better, especially as regards numerical and documentation literacy, but still, a significant share of older men – usually more than 50% – have literacy Level 2 or lower (individuals able to deal only with material that is simple).

32. The situation as regards prime-age individuals is equally concerning where tertiary educational attainment among men and women is a mere 14% and 11%, respectively.

Figure 5.3. **Educational levels in OECD member countries by gender and age, 2002**

Percentages of the population

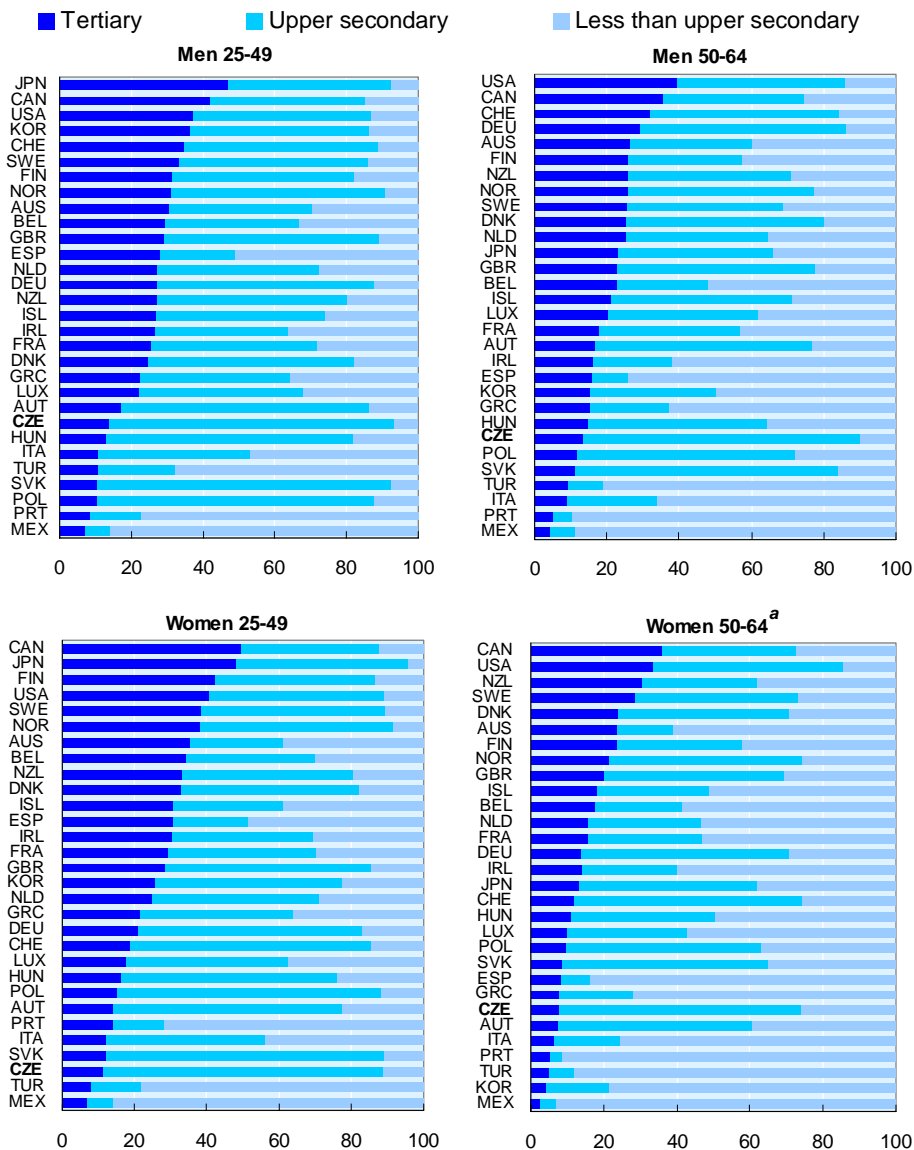


Table 5.1. **Literacy skills by gender and age, 1998**

Percentages

Literacy level	Men		Women		Men		Women	
	24-49	50-64	24-49	50-64	24-49	50-64	24-49	50-64
	Prose literacy				Documentation literacy			
1	38.7	45.5	40.2	55.1	21.9	28.6	28.4	43.1
2	24.5	23.5	24.2	20.9	22.2	25.1	28.0	23.4
3	25.5	22.5	23.1	17.9	35.4	31.5	24.6	22.8
4-5	11.3	8.5	12.5	6.1	20.4	14.7	19.0	10.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Numerical literacy				Overall literacy			
1	20.5	27.6	24.9	41.1	22.3	30.5	29.4	46.2
2	18.6	20.4	17.8	15.2	26.9	24.4	26.1	20.8
3	30.7	25.0	28.2	22.8	38.2	40.4	33.4	26.4
4-5	30.2	27.0	29.1	20.8	12.6	4.7	11.1	6.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: OECD (2000), *Literacy in the Information Age*.

Moreover, only 6% of women and 5% of men aged 50-59 believe they have a good command of English compared to 31% of women and 22% of men aged 20-29.³³ Consequently, a small share of older workers report using English in the workplace (Table 5.2). Of course, among better educated individuals, the age differences are smaller: one-third of employed older men and one-quarter of employed older women report using a foreign language in their work. With English language skills growing in importance, older workers are again at a disadvantage.

As educational attainment rises among younger cohorts, the average education level of older workers will likely rise in the future. However, demographic trends alone cannot be relied upon to raise the skill level of individuals. Efforts need to address the employability and skill requirements of the current generation of older workers and mid-career workers as well. In this context, adult learning and training can play a fundamental role.

33. Ten Years of Societal Transformation, 1999 – survey collected by the Institute of Sociology, Academy of Sciences of the Czech Republic in the fourth quarter of 1999.

Table 5.2. **Use of foreign languages in the job by education, gender and age, 2001**

Percentages

Language	All employed				Of which: having secondary or tertiary education			
	Men		Women		Men		Women	
	24-49	50-64	24-49	50-64	24-49	50-64	24-49	50-64
English	16.1	8.5	12.6	7.8	29.3	18.5	20.9	13.2
German	14.3	11.6	11.9	9.2	21.6	20.7	17.0	14.8
French	1.2	0.5	1.6	1.7	2.1	1.1	2.7	3.1
Other	5.3	3.6	4.3	3.7	9.1	6.7	6.5	6.6
<i>At least one of them</i>	25.3	16.8	21.2	15.5	41.3	31.5	32.2	25.3

Source: Social Situation of Households, 2001 – survey collected by the Czech Statistical Office in May/June 2001.

C. *Training support for older workers is limited*

Training can play a fundamental role in addressing weakness in formal education among the adult working population. In the Czech Republic there appears to be a clear recognition of the importance of training for the individual, the enterprise and society at large. However, the incidence of training, at 5% for prime-age persons and 3% for older people, is remarkably low.

Moreover, older workers who need skill upgrading the most appear to be at a greater disadvantage (Table 5.3). Concerning employed individuals, training incidence declines with age and increases with educational attainment. Among unemployed individuals, similar trends are observed: with the exception of unemployed men aged 50-54 and unemployed women aged 50-54 and 55-59 for which training incidence appears to be quite high. Nonetheless, for these individuals training is concentrated almost exclusively among older workers with tertiary education. For inactive older men training incidence is practically non-existent and for inactive older women training, albeit low, is once again concentrated among the higher educated.

Table 5.3. **Training incidence by labour market status, educational attainment, gender and age in the Czech Republic, 2002^a**

Percentages

		Employed			Unemployed			Inactive		
		Low	Med	High	Low	Med	High	Low	Med	High
Men	25-49	1.6	4.6	20.4	0.3	2.8	8.2	0.9	19.5	55.8
	50-54	0.3	2.8	15.4	0.0	1.2	30.6	0.0	0.6	0.0
	55-59	1.0	3.2	12.8	0.0	1.3	0.0	0.0	0.3	0.0
	60-64	0.0	2.3	9.8	0.0	5.7	0.0	0.0	0.7	3.7
Women	25-49	1.0	5.9	23.2	0.4	5.3	9.3	1.4	5.1	19.9
	50-54	0.4	4.0	18.5	1.2	0.5	16.2	0.0	0.4	4.2
	55-59	0.6	4.3	16.5	0.0	0.0	39.5	0.0	0.5	4.5
	60-64	0.0	5.2	6.3	0.0	2.5	0.0	0.0	0.4	3.8

a) "Low" refers to less than upper secondary, "Med" to medium upper-secondary and non-tertiary, and "High" refers to tertiary level of educational attainment.

Source: Czech Labour Force Survey.

According to the European Union Labour Force Survey, the overall incidence of training among older workers in the Czech Republic, at 3%, is among the lowest among countries for which data are available (Figure 5.4). Moreover, at a mere 0.8%, work and work/classroom combined training is negligible.

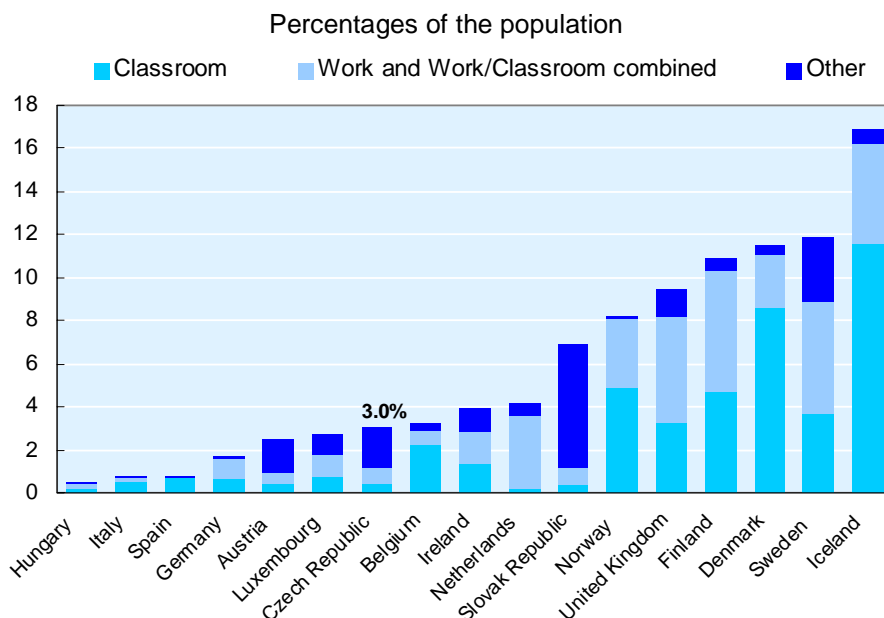
2. **Key issue: upgrading the skills of older workers**

Formal education, literacy skills and the incidence of training are particularly low among older workers. Given the process of ageing populations and changing skill requirements, upgrading the skills of the workforce in general, and older workers in particular, is of vital importance.

A. *Addressing the deficiencies of the education system – the role of adult learning*

There has been considerable pressure on the education system to adapt to new demands. After 1989, the centralized and unified school system was decentralized and diversified according to the requirements of a democratic society and market economy. Tertiary education has extended into regions (new universities were established). Still, universities have been able to admit only a half of interested young people. As a result, coverage of tertiary education remains low and is expected to increase only marginally in the near-term.

Figure 5.4. **Incidence of training among older workers by type of learning, 2001^a**



a) The relevant question was “Have you received some education or training in the past four weeks?”.

Source: European Union Labour Force Survey.

In this context, adult learning and training can play a fundamental role in addressing the lack of formal education opportunities for the adult working population. It can also promote employment stability by sustaining and increasing employability. In particular, adult learning can significantly enhance labour productivity, wages and firm profits (OECD, 2001c and 2001d).³⁴

In 2000, the government published the White Book entitled the “National Programme for the Expansion of Education in the Czech Republic”. The White

34. Continuous education and training is also associated with various non-economic objectives such as better health and wider societal benefits.

Book outlines important targets and recommendations for the future of education into three main areas: regional, tertiary, and adult education.³⁵

In 1994, the National Training Fund (NTF) was established with Phare support by the Minister of Labour and Social Affairs. Its current priority is the creation of a nation-wide strategy of human resource development. This includes, among other things, promoting skill development within enterprises, as well as contributions to the development of lifelong learning. One interesting project which now falls under the auspices of the NTF is the Pro-Active Labour Market Intervention Fund (PALMIF). The aims of the PALMIF range from integrating the long-term unemployed to supporting training and re-qualification activities. These initiatives and renewed emphasis especially as regards lifelong learning and training are welcome. However, the aim of the project, and more generally, the NTF appear to lack focus and transparency regarding co-ordination efforts and outcomes. As a result, despite the creation of the NTF ten years ago, training incidence remains low. Better use of these resources with more focus on training and skill up-grading, in particular for older workers is necessary. This should be followed up with close evaluations of programme efforts and outcomes.

B. Policy design – improving outcomes for older workers

To enhance the training opportunities for older workers, policy efforts must address the financial incentives to invest in workers' human capital but also the motivation of older workers to take-up training. Many older workers see little benefit to themselves in investing their time and effort in training (OECD, 2003a). It will be necessary to stimulate the motivation of older and prime-aged workers to invest more in training.

As regards financial incentives, fiscal policy and institutional arrangements favouring cost-sharing among private parties can increase the incentives to invest in education and training. Moreover, it can target disadvantaged groups more easily (OECD, 2003a).

OECD experience demonstrates that several mechanisms exist for encouraging training take-up while addressing economic and financial barriers.

35. Though the White Book amply reflects the needs and concerns facing the Czech education system, it provides, at this stage, little more than a set of guidelines for the development of the education system.

These include tax arrangements for enterprises, grant schemes and special funds for enterprises, pay-back clauses and apprenticeships, working time and training-time accounts, loan schemes, tax incentives for individuals, subsidies to individuals, individual learning accounts and training leaves and part-time study (OECD, 2003a). However, policy design is crucial and few empirical evaluations exist of these schemes and, those available are limited to descriptive statistics. Moreover, though these schemes encourage overall training, very little emphasis has been placed on the training needs of older workers – something that will have to change, especially in the Czech Republic.

Despite the limited scope of existing evaluations, it seems that some lessons can be learnt regarding the design and content of programmes. First of all, older workers may learn differently compared to the younger workers and therefore need different teaching methods. Indeed, if this is the case, teaching methods should be based on prior learning (formal and non formal) and should, as much as possible, be adapted to suit the needs of older workers. Traditional classroom methodology may no longer be applicable. In Norway, for example, the government is allocating money to develop new teaching methods targeted at adults. Second, recognition of non-formal competencies and informal learning can go a long way in facilitating the advancement of adult education, especially as older workers are concerned. This could, for example, lead to a shortening of course length or to exemption from particular examinations or tests. Non-formal competencies can be acquired through activities in voluntary organisations, work experience, domestic work or otherwise. Third, allowing adults the necessary study leave is, of course, another important element. In this context, the government has an important role to play. Finally, it should be stressed that success in improving skills of older workers depends on the existence of a well functioning training system which serves workers at all ages. This is the best way to ensure that skills are updated regularly.

3. The importance of active labour market programmes

Active labour market programmes (ALMPs) can help ensure that unemployed older workers remain in the labour market and find a job. This help can come in the form of retraining, facilitating the job-search process and fostering, more generally, employment growth (Box 5.1).

Within the district Labour Offices, there also exist Information and Consulting Centres which primarily assist school leavers, parents of school leavers and lastly, “other interested people”. These consulting centres collect information about jobs, education and training possibilities and professional

profiles. They also offer computer programmes to test and find a suitable profession according to the skills and other characteristics of the job-seeker – this is done on a self-service basis.

Box 5.1. **ALMPs and the public employment service in the Czech Republic**

The public employment service (PES) is responsible for monitoring labour market developments and implementing an efficient labour market policy. Regional labour offices exist in each administrative district (77) and, in addition, there are auxiliary branch labour offices in important towns and localities (182). ALMPs include the following:

- **Retraining programmes:** 36 000 participants in 2002 and 43 000 in 2003;
- **Subsidised employment:** creation of “socially effective jobs” (14 000 placed job-seekers in 2002 and 18 000 in 2003);
- **Public works:** direct creation of jobs for long-term unemployed and disadvantaged people (16 500 placed job-seekers in 2002 and 15 500 in 2003);
- **Youth training programmes:** subsidy of new jobs for school leavers (8 000 placed job-seekers in 2002 and 8 600 in 2003);
- **Sheltered workshops for disabled workers:** 1 000 employed in sheltered workshops in 2002 and 1 200 in 2003;
- **Wage and other subsidies:** job creation in the case of restructuring, for employment of disabled workers or partial reimbursement of retraining costs (see Chapter 4).

A. ***ALMPs and retraining for job-seekers***

Retraining for job-seekers include, among other things, practical training, training for specific occupations, motivational courses and preparation for self-employment courses. Progress in retraining and further education is slow but improving. Between 1995 and 2003, the number of persons in retraining almost tripled from 13 000 to approximately 43 000.

Interesting, about 70% of older job-seekers who undertook retraining in 2002 found a job within a year upon termination of the courses. The success rate is higher than for younger job-seekers (Table 5.4).³⁶ However, a limited number of older workers are participating in these programmes. Indeed, job-seekers participating in retraining over the age of 50 represent less than

36. Data are based on statistics of training, not persons. Thus one person can appear more than once, if s/he participates in more than one course.

7% of all retraining participants, though they make up more than 17% of all unemployed.

Table 5.4. **Retraining of job-seekers by outcome and age, 2002^a**

Numbers of persons

Age cohort	Total	Continued from previous year	Started	Outcome			Continue further retraining
				Successful	Not successful or early exit	Took a job before end	
Total	44 888	5 051	39 837	28 081	2 132	1 670	6 395
< 19	5 945	1 463	4 482	2 656	536	408	1 709
20-24	11 177	1 643	9 534	5 993	534	748	2 377
25-29	6 803	536	6 267	4 564	245	164	693
30-34	5 931	467	5 464	4 133	198	115	524
35-39	4 830	355	4 475	3 437	186	70	383
40-44	3 594	216	3 378	2 572	156	61	262
45-49	3 526	228	3 298	2 528	134	58	246
50-54	2 527	128	2 399	1 804	108	41	175
55-59	550	15	535	391	35	5	26
60+	5	0	5	3	0	0	0

a) Data are based on statistics of training, not persons. Thus one person can appear more than once, if she/he participates in more than one course.

Source: Czech Ministry of Labour and Social Affairs.

B. *Difficulties in activating older job-seekers*

Providing unemployed individuals with retraining opportunities, counselling and guidance support is only part of the solution. Successful job-search also depends on the availability of suitable jobs, employer attitudes towards older job-seekers and the extent to which unemployment benefits are administered in an active manner or not. As well, motivation to take-up employment is a key factor and therefore, emphasis on continued effective job-search by the PES is a vital element of the strategy.

The passivity among certain older job-seekers is high

The conditions under which older workers are willing to accept the burden of re-employment vary considerably (Table 5.5). While they would accept to work more hours or take less attractive working conditions to a similar extent than prime-age workers, fewer are ready to retrain, learn a new language or migrate – key factors affecting employability. In fact, less than 50% of older

men and 40% of older women are willing to retrain while only a quarter are prepared to learn a new language.

Considerably more workers are willing to adapt if the new job offered twice the salary – here the gap between willingness of older and prime-age people is smaller. In general, the incentive (pull) effect of a better-paid job is thus much stronger than the enforcement (push) effect of unemployment.

Table 5.5. **Conditions of accepting new or better employment by gender and age, 2001^{a, b}**

Percentages of all employed

Activity	A. you had no job and could get a new one				B. you were offered a new job with twice a salary			
	Men		Women		Men		Women	
	24-49	50-64	24-49	50-64	24-49	50-64	24-49	50-64
1. Work more ^c	52.4	41.3	28.2	29.8	75.6	60.1	54.1	49.4
2. Migrate ^d	18.3	10.6	12.1	7.1	30.5	20.4	21.1	11.0
3. Worse job ^e	18.9	18.9	11.5	19.0	35.0	31.0	28.4	22.0
4. Retrain ^f	58.7	47.2	64.0	39.3	68.3	56.6	75.2	47.6
5. Language ^g	41.1	28.5	44.1	23.8	50.4	34.3	54.7	29.3
Number of activities willing to undertake	Men		Women		Men		Women	
	24-49	50-64	24-49	50-64	24-49	50-64	24-49	50-64
0	25.8	37.2	32.7	49.5	18.7	27.6	23.2	37.6
1-2	44.3	40.4	46.8	35.5	31.9	37.8	35.4	37.6
3-5	29.9	22.4	20.5	15.1	49.4	34.6	41.4	24.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Mean	1.71	1.34	1.42	1.07	2.34	1.85	2.09	1.41

a) Question: Imagine A. that you had no job; B. that you were offered a new job position with twice a salary you have now. Would you be willing to ...

b) Only answers "yes" were taken into account. The other two answers were "maybe" and "no".

c) Work more than 40 hours per week.

d) Move (migrate) to another settlement.

e) Accept less attractive working conditions.

f) Retrain for another profession.

g) Learn a new foreign language.

Source: Households, Work and Flexibility (HWF), 2001 – survey collected in 2001 in Bulgaria, the Czech Republic, Great Britain, Hungary, the Netherlands, Romania, Slovenia and Sweden.

Moreover, interviews made with officers from the national and district labour offices in the accession countries reveal scepticism regarding employability of older job-seekers because of their alleged unwillingness to

acquire new skills and general passivity in job-search (Fortuny, Nesporova and Popova, 2003). Indeed, Table 5.6 underscores the importance of the Labour Offices in activating older workers whose primary job-search method is through the PES. In addition, older people do not contact employers directly as frequently as younger people do and answer fewer paper advertisements than their younger counterparts.

Table 5.6. **Methods of job-search among unemployed by gender and age, 2001**

Type of job-search	All unemployed				Of which: unemployed one year or more			
	Men		Women		Men		Women	
	24-49	50-64	24-49	50-64	24-49	50-64	24-49	50-64
1. Labour office	59.2	63.8	62.3	65.8	65.8	68.4	65.9	65.0
2. Advertisement	33.1	34.0	31.7	36.8	33.3	27.8	29.8	35.0
3. Agency	5.6	2.1	4.5	2.7	6.7	0.0	1.2	5.0
4. Help of friends	50.3	52.2	50.3	44.7	45.3	47.4	49.4	35.0
5. Launch private firm	2.2	0.0	0.5	0.0	1.3	0.0	0.0	0.0
6. Other way	5.6	8.5	4.0	2.7	3.9	15.8	3.5	5.0
Number of simultaneous activities	Men		Women		Men		Women	
	24-49	50-64	24-49	50-64	24-49	50-64	24-49	50-64
1	66.5	67.4	63.0	63.2	65.3	72.2	61.9	70.0
2	15.6	8.7	22.5	21.1	16.0	5.6	28.6	15.0
3 and more	17.9	23.9	14.5	15.8	18.7	22.2	9.5	15.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Mean	1.55	1.58	1.54	1.53	1.56	1.59	1.50	1.45

Source: Social Situation of Households, 2001 – survey collected by the Czech Statistical Office in May/June 2001.

Passivity may have much to do with the fact that many older workers are discouraged

An appreciable proportion of older people believe that there is no work available for them. Indeed, 75% of unemployed older men and 79% of unemployed older women see their employment outlook (to find a job in next three months) as bad or very bad – compared to 62% and 69% for prime-age individuals. Moreover, 95% of older male job-seekers who have been unemployed for more than one year do not think they will find a job in the next three months, and the figure is 85% for their female counterparts (Social Situation of Households, 2001 – survey collected by the Czech Statistical Office in May/June 2001).

Older people who are unemployed or experienced unemployment in the past believe they are too old for employers (72%) or feel negative prejudices on the side of employers (52%). In addition, two-thirds of older unemployed persons (in comparison with one-half of prime-age unemployed) believe it will be very difficult to find a job that suits them (Ten Years of Societal Transformation, 1999 – survey collected by the Institute of Sociology, Academy of Sciences of the Czech Republic in the fourth quarter of 1999). This evidence underlines the importance of strengthening activation measures available through the PES.

Activation measures should be strengthened

In principle, job-seekers can attend motivational courses during the first stages of unemployment. However, it seems that participation in such courses is low. For example, of the 36 000 participants in retraining programmes, only a little more than 4 400 attended motivational courses. Only from the sixth month of unemployment, do counselling and job-search support become available. Job-seekers are then offered training courses which are shaped according to the requirements of local firms.³⁷

In an attempt to intensify activation and prevent long-term unemployment, 15 district Labour Offices have undertaken to experiment with “Individual Action Plans” (IAPs). Two “pilot” projects were carried out in 2002: “First Chance” for unemployed persons less than 25 years of age and “New Start” for the unemployed over 25 years of age. Participation in programmes was voluntary, with the participation rate ranging from between five and 30% of the relevant cohort. Early evaluations indicate some positive results: about 70% of the young and nearly 60% of the rest were prevented from becoming long-term unemployed.³⁸ In total, IAPs were offered to 40 000 job-seekers in the first half of 2003. The new Employment Act, which is to come into effect in the latter part of 2004, obliges Labour Offices to offer IAPs to persons up to 25 years of age and school leavers up to two years after completion of their studies. Labour Offices can, in cooperation with a job-seeker, elaborate such a plan for other interested persons.

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37. If a job-seeker wants other skills than demanded by the local labour market, individuals must take responsibility for financing.
38. There is, however, a certain selection bias since Labour Offices tend to prefer applicants whose motivation is higher.

The government has also launched a pilot project targeted on recent university graduates. It is based on the concept of “labour pool”, as in the Dutch model. In this model, local companies, labour administration, education and social welfare departments join resources at the service of the job-seekers. If successful, it will be implemented on a national level.

Support measures for people on disability benefits are also weak

At the end of 2003, some 72 000 unemployed individuals were categorised as having a so-called “modified work ability” (ZPS) with more than 50% of these aged 45-59. The numbers are on the rise. The low motivation of these individuals, many of who have limited work experience, is a major problem. Moreover, the income attained through employment often represents a marginal improvement over social benefits received. Employers, having more than 25 employees, are obliged to employ a certain quota of workers with ZPS. Moreover, employers hiring people with ZPS can be entitled to other grants and financial assistance. However, employers can avoid hiring these individuals by paying a penalty. In fact, despite tax allowances and financial support for establishing sheltered workshops, the organisational and other difficulties involved in hiring these workers has meant that employers rarely attempt to employ ZPS employees and calculate the alternative payment instead which is thus conceived as a hidden tax (Tomes, 2003). Only about 1 000 were employed in sheltered workshops yearly, but the number increased to 1 200 in 2003.

Increased recourse to in-work benefits and make work pay is needed

Make work pay policies refer to those financial schemes which aim at encouraging job-search on the part of benefit recipients. These policies, which effectively operate as a subsidy to low-paid work, are of two different types. Some of the schemes reduce the cost to the employer of hiring low-paid workers, *e.g.* through reduced social security contributions on low wages.³⁹ Other schemes improve the financial incentive for individuals to accept work. One prominent example of such a scheme targeted to older workers is the New Deal 50 plus programme in the United Kingdom (Box 5.2).

39. See Chapter 4.

Box 5.2. The New Deal 50 plus in the United Kingdom

Eligibility: Volunteer programme available for individuals aged 50 and over who have been receiving for the past six months, and are currently in receipt of Income Support (IS); or Job Seeker's Allowance (JSA); or Incapacity Benefit (IB); or Severe Disability Allowance (SDA) or any combination thereof.

Non-pecuniary benefits: Entrants into the programme have their own personal adviser at their local Jobcentre. Personal advisors provide individuals with a broad range of support including drawing up individual action plans, preparing CVs and letters of application, job-search and organising training courses or other volunteer activities intended to upgrade employability.

Financial incentives: Until recently, upon becoming gainfully employed, individuals were paid directly through their personal advisor, an Employment Credit of GBP 60 a week tax free or GBP 40 a week tax free for part-time work. It was payable in three stages and for up to 52 weeks. However, in April 2003, the Employment Credit was replaced and financial benefits will now fall under the umbrella of the Working Tax Credit (WTC). Individuals aged 50 and over working more than 16 hours per week will now receive the "50 plus element" of the WTC for 52 weeks. After this period, individuals (those on low incomes working 30 hours or more) will continue to receive basic WTC entitlements.

Training: A Training Grant of up to GBP 1 500 is available upon taking up employment. GBP 1 200 can be used towards improving existing skills and up to GBP 300 to learn new skills to help remain employed.

Over the past few years, several other countries have introduced schemes to make work pay. Some examples of well known schemes in OECD countries are the Wage Cost Reduction Scheme in France, the Earned Income Tax Credit (EITC) in the United States as well as the Working Tax Credit (WTC) in the United Kingdom. The schemes are not targeted at older workers in particular but could, nevertheless, serve as a model for an older worker in-work benefit scheme in the Czech Republic. Or, as in the case of the New Deal programme in the United Kingdom, marketing efforts could be directed towards older workers that make them aware of the benefits of such schemes.

It is difficult to evaluate the effects of making work pay policies on overall employment. They must be financed by increased taxes elsewhere and/or cuts in public spending, which themselves might have negative effects on employment. However, recent evaluations of wage subsidies indicate that they are likely to be more effective and cost-efficient when specifically targeted (Martin and Grubb, 2001). Making work pay policies are not a panacea. The likely effectiveness of making work pay policies depends to a great extent upon a

number of framework conditions. The interaction with the welfare system is important for assessing the effectiveness of these schemes. Finally, though these systems may improve job incentives for groups at-risk, they will not be enough to help maintain these individuals in work and give them opportunities to increase their skills and competencies. Nonetheless, the consensus is that the existing schemes do yield worthwhile employment gains for the groups that are targeted but the costs of any such in-work benefit system would have to be carefully assessed.

C. Enhancing the effectiveness of active labour market programmes

As already noted, there exist few evaluation studies. Moreover, available ones lead to conflicting results. A survey of ALMPs' efficiency sponsored by the World Bank reported very high job placement of about 90% for most programmes, with public work programmes being less effective than self-employment support (Nesporova, 1999). Moreover, as previously illustrated, the efficiency of retraining among registered job-seekers and in several recent pilot projects is high among older people – although older workers are underrepresented in active labour market programmes. On the other hand, another study based on quasi-experimental techniques, found that ALMPs do not produce significant results.⁴⁰

Creating performance incentives within the PES for the successful job placement of individuals confronting barriers to employment, such as older workers, could go a long way in improving the efficiency of ALMPs. For example, in the United Kingdom, Jobcentres are allocated points for a successful job placement. Given the large number of older people receiving incapacity benefits in the United Kingdom, Jobcentres who successfully place an older incapacity benefit recipient into employment are awarded 12 points – the highest possible. In Switzerland, financial incentives have been introduced to improve the efficiency of the active labour market policies within the cantons and have become an integral part of the PES.

Better targeting is another way of improving programme efficiency. Surveys conducted in several districts found the lowest targeting (measured as proportion of

40. The authors found that public sector job creation had no significant impact on employment or earnings and that wage subsidies for jobs in the private sector also produced employment but had negative earnings impacts (Abt Associates Inc., 1998).

the percentage of a given vulnerable category of unemployed to the percentage of training participants) among older persons, low-skilled workers, disabled workers and the long-term unemployed (Horakova and Rakoczyova, 2003). Lack of focus on older unemployed individuals may to some extent reflect attitudes of employment officers. Interviews made with officers in the national and district labour offices in the accession countries revealed their scepticism regarding employability of older workers because of their “lower and obsolete skills, health constraints, lower labour productivity, low mobility, difficulty and unwillingness to acquire new skills and new working methods, and general passivity in job-search” (Fortuny, Nesporova and Popova, 2003).

Finally, the Czech employment services seem to be under-staffed. The Czech Republic devotes only about 0.07% of its GDP on public employment services and administration – well below the OECD average and the lowest in Europe. Indeed, there is evidence that the limited resources of labour offices hinder a more qualitative improvement of ALMPs.

4. Facilitating access to self-employment

Not enough policy attention has been devoted to the fact that self-employment could greatly help older workers stay longer in employment. Since the early 1990s, the incidence of self-employment in the Czech Republic has continued to grow and in 2002, stood at more than 15%, close to the EU average. Still, while the incidence of self-employment tends to increase with age, this is not the case in the Czech Republic where the incidence of self-employment between older and prime-age individuals is quite similar (Table 5.7). This suggests that there may be scope for raising employment opportunities for older workers through self-employment activities.

Table 5.7. **Employment status by gender and age, 2002**
Percentages

	Age	Employees	Self-employed	Other
Men	25-49	77.6	21.6	0.8
	50-54	77.1	20.9	2.0
	55-59	80.4	17.6	2.0
	60-64	75.1	23.3	1.6
Women	25-49	88.3	10.1	1.7
	50-54	88.8	8.9	2.4
	55-59	86.7	11.1	2.1
	60-64	79.0	17.4	3.6

Source: Czech Labour Force Survey.

Currently, however, there are few programmes intended to encourage self-employment in the Czech Republic. Job-seekers can seek assistance through the Labour Offices but the process appears rather cumbersome.

Other countries have undertaken action in this area. For example, in the United Kingdom, a national organisation (the so-called PRIME), is dedicated specifically to helping people over age 50 to set up in business. The programme is currently operating in England and Wales with plans to expand to Scotland and Northern Ireland. PRIME offers loans of up to GBP 5 000 to individuals aged 50 and over with a viable business plan. It is important to note that in countries like Switzerland a high proportion of older workers continue working after age 60, the majority of them as self-employed or independent workers – in many cases these are second careers.

Chapter 6

CREATING GREATER EMPLOYMENT OPPORTUNITIES FOR ALL

1. Stable macroeconomic framework

Enhancing the employability of older workers, reforming the welfare system and tackling the economic impacts of ageing requires, among other things, a broad range of coherent policy actions as well as a stable environment in which to implement the necessary reforms. To this end, a stable macroeconomic framework, notably sound public finances, is an essential prerequisite for encouraging growth, sustaining overall improvements in labour market performance and providing an environment where the full benefits of reform can be achieved.

In this context, many challenges remain in the Czech Republic. Important economic reforms have been implemented since the currency crisis of 1997, and the inflow of foreign direct investment, as well as the EU accession process itself, has supported the economy in recent years.⁴¹ However, despite the fact that the transition to a market economy has met with a certain success, the Czech industry is still in need of further restructuring. It will therefore be important to respond to the challenges of structural change. Moreover, as this report argues, given the rapid and dramatic ageing process present in the Czech Republic, it will be essential to mobilise labour resources more generally.

2. Alternative ways to boost participation and employment

Available projections suggest that, even under relatively optimistic assumptions with regard to labour market participation, by 2040 the workforce may well be below its current level. This underlines the importance of promoting employment of all groups, including (but not only) older workers.

41. Growth in 2002 was also supported by a fiscal stimulus during an election year.

A. *Promoting employment of all groups*

About 35% of all persons of working age are not employed in the Czech Republic. Some of them are unemployed, while the majority are part of the so-called “inactive” working-age population. The non-employment rate comes close to the OECD average, but is well above the non-employment rates observed in the best performing OECD countries like Canada, the Netherlands, New Zealand, the United Kingdom, the United States and Scandinavian countries – in these countries, the non-employment rate is 10-15 percentage points lower than in the Czech Republic. This means that there is much scope for raising employment in this country.

Younger people are significantly under-represented in employment – and this is therefore the group which, together with older workers, offers the largest potential for labour mobilisation. Also, although the employment rate of women is somewhat above the OECD average, it has tended to fall since the early 1990s – and this is in contrast with the trend-rise in female employment rates recorded in many OECD countries.

Improving employment opportunities for all requires a comprehensive policy approach, with the aim of instilling more dynamism in labour markets, while also reducing barriers to labour market participation. The government has taken some steps in this respect, notably as part of the National Plans of Employment. The goal has been to harmonise a range of labour market, social and educational policies *vis-à-vis* EU practice and standards (Box 6.1).

B. *Working-time flexibility*

Raising actual working hours could boost output and help raise labour supply and alleviate labour shortages. However, as already noted, Czech workers are already working relatively long hours (Table 6.1). Though as age increases, the share of older employees working more than 40 hours per week declines, even at age 60-64, more than 55% of men are working between 40 and 50 hours per week and more than 16% are working more than 50 hours per week. The same sort of work intensity holds for prime-age men with nearly one-fifth working more than 50 hours per week. For women, though fewer are working more than 50 hours per week, usually more than two-thirds are working between 40 and 50 hours.

Box 6.1. National Plans of Employment (NPE)

Objectives: the NPE raises four comprehensive pillars for supporting employment:

- Better employability of human resources (increasing skills and motivation for job search, as opposed to passive benefit dependence);
- Support for business and employers (improved conditions for SMEs and revitalization of several big firms, fair competition and measures to attract investors);
- Well-functioning labour markets (flexible organisation of work, motivation of employers to enhance workers' skills);
- Removing all discrimination (by age and gender, creating conditions for affirmative action in favour of disadvantaged categories).

Measures taken: following the EU directive concerning higher employment of older persons, three measures were taken:

- The Ministry of Labour and Social Affairs, in cooperation with labour offices, increased the share of older job-seekers involved in ALMPs;
- When negotiating with other ministries and social partners regarding restructuring of individual branches and subsequent social programmes, the government will suggest solutions which prefer retention of older employees in the labour market. This would involve retraining and greater priority to their retention until retirement age;
- With the support of the Phare programme, training courses involving a change of professional orientation will become available to older employees.

Table 6.1. Share of employees by hours worked per week by gender and age, 2002

	Age	Hours			
		< 20	30-40	40-49	50+
Men	15-24	2.9	17.2	68.1	11.7
	25-49	2.7	18.7	58.9	19.7
	50-54	3.3	19.6	60.7	16.5
	55-59	3.6	19.0	63.4	14.0
	60-64	12.0	15.8	55.9	16.3
	65+	38.6	18.2	36.1	7.2
Women	15-24	5.3	20.6	68.2	5.9
	25-49	6.4	22.9	65.1	5.7
	50-54	6.0	22.7	66.3	5.0
	55-59	10.7	21.3	64.0	4.0
	60-64	45.1	17.1	35.1	2.7
	65+	58.4	12.4	26.5	2.7

Source: Czech Labour Force Survey.

It is therefore not surprising to see that only 1.2% of women and less than 2% of men would like to work more hours (Table 6.2). Consequently, mobilising more resources through increased hours worked is an unlikely avenue for reform in the Czech Republic.

Instead, as discussed in Chapter 4, it may make more sense to promote more flexibility in working conditions. Not as a means of replacing full-time work but as an option to those who would have otherwise left the labour market. Promoting part-time work as a viable means to extending working life may allow many older workers to carry on working and smooth the transitions from work to retirement as opposed to dropping out of the labour market entirely.

Table 6.2. **Persons who would like to work in current main activity less, the same or more hours, 2001**

	Percentages					
	Men			Women		
	Age					
	Total 18-64	18-49	50-64	Total 18-64	18-49	50-64
Less hours						
Czech Republic	37.5	36.8	39.3	41.5	41.7	40.8
Hungary	27.5	26.8	29.4	30.9	30.1	33.8
Sweden	40.2	38.6	44.1	32.2	32.7	31.3
United Kingdom	29.7	27.1	39.0	21.4	20.3	25.4
Same hours						
Czech Republic	60.8	61.6	58.5	57.3	57.5	56.6
Hungary	58.3	58.0	58.8	61.5	62.2	58.5
Sweden	55.6	55.9	54.6	58.6	58.2	59.3
United Kingdom	63.9	66.2	55.9	70.8	71.7	67.2
More hours						
Czech Republic	1.8	1.6	2.2	1.2	0.8	2.6
Hungary	14.2	15.2	11.8	7.6	7.6	7.7
Sweden	4.2	5.4	1.3	9.2	9.2	9.3
United Kingdom	6.4	6.8	5.1	7.9	8.0	7.5

Source: Households, Work and Flexibility (HWF), 2001 – survey collected in 2001 in Bulgaria, the Czech Republic, Great Britain, Hungary, the Netherlands, Romania, Slovenia and Sweden.

C. *Is immigration an alternative?*

Some analysts have put forward greater recourse to immigration as a viable alternative to raising employment of older workers. Immigration in the Czech Republic is a relatively recent phenomenon, with the stock of foreigners growing more or less uninterruptedly since the dissolution the former

Czechoslovakia in 1993. However, in 2002, the number of foreigners as a percentage of the labour force was a staggering 1% – one of the lowest figures in the OECD area. Moreover, in 2001, net migration was negative in the Czech Republic, with 12 900 immigrants and 21 500 emigrants.

During 2001, the Ministry of Labour and Social Affairs completed the proposal to the Employment Law to meet accession directives. Among other things, the amendment also proposed changes to the extension of work permits. In addition, in the summer of 2003, the government launched a five-year Pilot Project of the Active Selection of Qualified Foreign Workers. The aim of the project is to enable qualified foreign workers to settle and work in the Czech Republic and to integrate them fully into society.

Efforts of this nature are a step in the right direction to help combat the effects of ageing and skill shortages while addressing the needs of immigrant workers. However, greater immigration should not be regarded as a substitute for the labour market and social protection reforms outlined in this report. First, second-generation immigrants often imitate the demographic behaviour of nationals. Second, the magnitude of the impact immigration will depend highly upon the labour market behaviour of immigrants – they are sometimes lacking suitable qualifications and therefore, special efforts may be required to integrate migrant workers into employment and more generally, society. And finally, the extent to which immigration may be used as an effective mechanism is also constrained by political and social considerations.

Therefore, immigration policy must be accompanied with a set of coherent policies to improve the functioning of the labour market and social protection. Provided that is the case, an increase in immigration, accompanied with efforts to better integrate immigrants can serve as a useful complementary tool to help alleviate the pressures from ageing (OECD, 2001e).

D. Looking at the longer run: women and employment

Since the early 1990s the participation rate of all women has fallen and the fertility rate set off on a spectacular downward trend. Many women have returned to the household, perhaps out of choice, but their decisions have also been influenced by the fall in the number of childcare facilities, reductions in benefits and duration of maternity leave. True, women have greater access to education and better education tends to be associated with higher, and better, employment. But more direct efforts are required to reverse the downward trend in employment and participation rates of women in the Czech Republic.

Giving greater priority to the availability of quality child care facilities, as well as policies that help reconcile work and family life, would support female employment. This would also provide better opportunities for would-be parents who want to have children and thus also support fertility.

3. Policy coherence

In the case of older workers, it is especially important to ensure greater coherence of reforms of different types of welfare benefits. Public pensions can create disincentives and, in recent years, have tended to discourage the participation of older workers in the labour market. But ensuring that public pensions do not encourage early retirement may not be very effective if alternative paths to early exit from the labour market are available. Thus, sickness, disability and unemployment benefits have sometimes acted as pathways to an early exit from the labour market. Consequently, not only must disincentives be removed but also the risk that individuals continuously move from one welfare system to another needs to be addressed. To avoid a carousel effect between benefit systems, reforms have to be wide-ranging and coherent. This does not mean that the level of benefits should be reduced: the real issue is how to ensure that older workers who can work do not enter welfare benefit schemes and thus withdraw from the labour market.

Closer co-operation between the social partners and government bodies is essential to the reform process. Co-operation of this sort will be fundamental in adopting and enforcing the required reforms. It should also help address complex issues such the reconciliation of work and family life, reform seniority wage-setting systems, firm-training provisions, and the adoption of new work organisation in line with the changing demographic realities.

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