Conference summaries

CHANGING LABOUR MARKETS, LIFE-COURSE AND PENSIONS

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Susan Kuivalainen, Kati Kuitto, Kathrin Komp,
Tuukka Niemi, Tuomo Honkanen

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In which ways does labour market flexibilisation and subsequent life-course effects challenge pension provision and how do pension systems respond to such challenges? The Finnish Centre for Pensions organized an international conference on 19 May 2017, which brought together top researchers and professionals to debate this highly topical issue. This summary draws together the main points of the keynote presentations and the ensuing discussions.

Keynote speakers:
Anna d'Addio (Senior Policy Analyst)
Joakim Palme (University of Uppsala)
Traute Meyer (University of Southampton)
Dirk Hofäcker (University of Duisburg-Essen)
Kathrin Komp (University of Helsinki)

Commentators:
Katja Veirto (The Confederation of Unions for Professional and Managerial Staff AKAVA)
Jaakko Kiander (Ilmarinen Mutual Pension Insurance Company)
Roope Uusitalo (University of Jyväskylä)
Noora Järnefelt (Finnish Centre for Pensions)

The conference was organized in co-operation with The European Network for Social Policy Analysis, The Research Network on Ageing in Europe, The Social Policy Association in Finland, the University of Helsinki and the Finnish Centre for Pensions. The conference was supported by a grant from the Federation of Finnish Learned Societies. The presentations as well as further material of the conference is available at:

www.etk.fi/conference2017

SESSION 1:

Changing Labour Markets and Old-age Security

Anna d'Addio, Senior Policy Analyst

Life-course, career breaks and pensions

Successful pension schemes should accommodate the lives we lead. This was the key argument by **Anna d'Addio**. When our lives change, pension schemes need to change with them. Therefore, we need to have a closer look at our lives to judge the suitability of pension schemes and the need for pension reforms. d'Addio explained that population ageing and the 2008 economic crisis has drawn attention to the financial sustainability of pension schemes. However, while these reforms may solve the problems of pension schemes, they may not be sufficient. According to d'Addio, the reforms should also ensure pension adequacy, meaning they should make sure that people do not slip into poverty when retiring on an old-age pension.

Pension adequacy can only be achieved if pension regulations correspond to the life courses of citizens. The biggest challenge in reaching this goal is that pension regulations are usually designed with an uninterrupted full-time working career in mind, d'Addio explained. For workers who have such a complete working career, the pension replacement rate is usually sufficient.

However, for people who work part-time or who interrupt their working careers, pension benefits are lower. d'Addio pointed out that reduced workforce participation is common among women. Women tend to work less so that they can look after children and elderly or sick relatives, which reduces the pension rights they accumulate. Combined with the lower wages women typically receive, their risk for old-age poverty increases, exceeding that of men.

That is why pension regulations should pay special attention to the situation of women when striving for pension adequacy. Considering the situation of women becomes even more important as populations age. The demographic shift increases the demand on women to look after their elderly parents and grandparents, thereby pulling them out of the labour market. If caregiving is not treated as a contribution period to pension schemes, then women face an increasing risk of old-age poverty as populations continue to age, d'Addio argued.

Dirk Hofäcker, Professor of Quantitative Social Research Methods, University of Duisburg-Essen

Push, pull and retention factors lead from an early labour market exit to active ageing

Dirk Hofäcker explained that the timing of retirement decisions depends on many factors. People may retire because their workplace is no longer attractive to them, because being retired is an attractive option for them, or because there simply is no reason for them to keep on working.

Hofäcker pointed out that an unattractive workplace is one of the "push factors" that can push people out of the labour market and into retirement. Characteristics of the workplace that can push people into retirement are, for example, outdated skills in a changing work environment or an unpleasant atmosphere at the workplace.

The perception of how attractive older people find the idea of being a retiree also influences their retirement decision. This is one of the "pull-factors", setting incentives to pull people out of the labour force and into retirement. Aspects that can make people want to retire are, for example, generous pension benefits, the amount of spare time gained, or the presence of grandchildren that need looking after.

Hofäcker added that a third factor influencing retirement is whether people have a reason to keep on working. These factors are called "retention factors", leading people to retain their workforce participation.

Drawing from his recent research, Hofäcker explicated that the timing of retirement depends on the interplay of push, pull and retention factors. From the 1970s until 1995, governments encouraged early retirement to counter high unemployment rates. They did this by strengthened the pull-factors that made retirement more financially rewarding. In the mid-1990s, however, governments started to initiate a reversed trend to delay retirement. Pull factors that promoted early retirement were eliminated and health measures were promoted in order to encounter push factors.

Hofäcker concluded by stating that, in light of his research results, reforming pension regulations is just as important as restructuring workplaces and improving the employability of older individuals in order to postpone retirement. Therefore, governments seeking to keep their citizens in the workforce until a later age would benefit from adopting a reform strategy that targets each of these areas.

Traute Meyer, Professor of Social Policy, University of Southampton

The income of intra-EU migrants who retire in their host country

Many of us dream about trips to exotic places and possibly even about packing our bags and moving to a different country. **Traute Meyer** started her keynote by referring to the fact that, thanks to European Union (EU) regulations, its citizens can more easily move to other EU countries and work there.

The freedom of movement also entails that national laws apply to migrant workers in their new host country. These laws give the migrants rights in the areas of, for example, employment protection, wages, taxes, social security benefits, health services, and voting. They provide migrants with full social citizenship and also with some political rights. The regulations were made with working-age migrants in mind. However, Meyer pointed out that, while working in other countries is thoughtfully supported, retiring in these countries is less so.

Meyer explained that retirees who migrate within the EU during their middle-age will find themselves in a predicament later on. The EU legislation gives them some pension rights. They can build up pension rights like the natives of their host country, they can transfer pension rights accrued in their home country, and they can be compensated if the host country's pension regulations punish short pension system memberships. However, as Meyer pointed out, the wage level in the home country is often lower than that in the host country, and the generosity of pension systems usually differs across countries. As a result, migrants tend to receive lower pensions than natives, because the pension rights they accrued in their home countries are so low.

Nevertheless, migrants to Southern European countries usually remain above the poverty line whereas migrants to Northern European countries run a bigger risk of experiencing poverty in old age, Mayer pointed out. Because migration is more common from Eastern and Southern European countries towards Northern and Western European countries, this poses a problem for old-age income security of migrant workers within the EU.

The difficulties during retirement are bigger the longer the person remained in their home country before migrating. Meyer suggests that, in times of increasing migration flows, governments will have to also consider the financial situation of older migrants when evaluating pension schemes.

Discussion

The session on "Changing labour markets and old-age security" concluded with a discussion that pinpointed the Finnish situation in an international comparison.

Katja Veirto from the Confederation of Unions for Professional and Managerial Staff in Finland assessed the Finnish situation as good in an international comparison. She explained that the high pension coverage rate allows many people to benefit from the pension system and that the tripartite decision making process creates stability even when the government changes. Moreover, she underlined that some of the changes in the labour market are welcome and positive, such as the increasing opportunities for lifelong learning.

In Veirto's opinion, the biggest challenges for pensions in Finland are the socioeconomic differences in working lives, especially regarding health: the decreasing fertility rate, which will reduce pension contributions and should be countered through family policies, and the privatization of the health care sector, which will give many current government employees a new career in the private sector. Considering the state of the Finnish pension system, Veirto was confident that Finland can successfully tackle these challenges.

Jaakko Kiander from Ilmarinen Mutual Pension Insurance Company also saw the Finnish pension system in a positive light. He underlined that the combination of a flat-rate element and an income-related element lead to comparatively small social inequalities in the pension distribution and to little old-age poverty. As a result, Finns usually do not need additional private savings for their old age. Moreover, he stressed that the tripartite decision making process gives the pension system stability over time and room for flexibility, which will allow the system to weather upcoming challenges. The main challenges he identified are the continuing demographic change driven by increasing migration and longevity and dropping fertility rates, questions about the future of economic growth and considerations about possible benefits of increasing individual savings.

SESSION 2:

Pension and Retirement from a Life-course Perspective

Kathrin Komp, Assistant Professor in Social Gerontology, University of Helsinki

Life-course influences on retirement

Kathrin Komp questioned whether retirement is an issue of old age only. According to life-course theory, events at all ages influence the timing of our retirement. Events that are important to us, such as accidents, childbirths or moving to a different country, may set off chains of events which can last for decades.

As a result, pension reforms can have only a limited impact on the effective retirement age, because part of the decision on when to retire has already been made at younger ages. For example, the work attitudes we pick up as a child can affect our preferred retirement age, the education we receive as a youth shapes our chances to work in old age, and our entrance into the labour market can influence whether we will qualify for early retirement.

Komp pointed out that such time-delayed effects are often ignored in pension reforms, which aim to influence the retirement age through measures that target older people only. Thus, these reforms strive to influence the retirement age at a time when part of the decision about the retirement age has already been made. The effect of pension reforms on the retirement age can, therefore, only be limited. More successful reform strategies would need to start influencing people at a much earlier point in time, during their childhood, youth, or when they are middle aged.

Komp argued that life-course influences can be used to identify some future challenges for pension schemes already today. One such future challenge arises from economic crises (e.g. in the 1990s and 2008). Economic crises typically increase unemployment rates, especially among the young. Unemployment spells increase the chance of experiencing additional unemployment spells later on, they can slow down the further career progression and lower life-time earnings. As a result, unemployed youths will often accumulate fewer pension rights during their working careers and, therefore, received lower pension benefits when they retire. As a result, the contributions for pension schemes will be lower than expected for decades after economic crises. Moreover, those individuals who experienced economic crisis as youths run a bigger risk of receiving insufficient pension benefits when they are old, which increases their risk for old-age poverty.

Komp concluded that if governments want to prevent that such problems with pension schemes are manifested in the future, they would need to help today's youths and middle-aged people to integrate into the labour market. She recommended that governments supplement changes of the retirement age with general measures to facilitate successful labour market integration.

Joakim Palme, Professor of Political Science, Uppsala University

Retirement and inequality

Joakim Palme started his keynote by the notion that welfare states not only even out some social inequalities among retirees, they can just as well create new kinds of social inequalities at the same time. They have this power, because they redistribute resources between their citizens. However, the redistribution comes with side effects.

Palme highlighted that the restructuring of social inequalities follows the principle of a paradox: instruments that seem to lead to greater equality in fact create bigger inequalities.

One of these instruments are targeted benefits, which are only handed out to the poor. These benefits seem to promote equality, because they specifically improve the situation of those who are worst off. However, such targeting does not help all those who have problems but are not in the group of the worst off (who are the only ones to receive the benefits), thereby leaving them to their fate. Greater inequalities result.

Another instrument are flat-rate benefits, which provide each citizen with the same amount of transfers. Giving everybody the same amount of benefits may seem like a fair approach and an equal treatment. But while such an approach can lift the living standard of everybody, it does not change the inequalities that existed before the benefits were handed out. As a result, social inequalities persist.

According to Palme, the paradox of redistribution is also visible when it comes to pension schemes. Generally speaking, pension schemes can contain a basic security element, which provides every pensioner with the same amount of benefits, and an income security element, which provides pensioners with additional benefits reflecting their previous earnings. Pension schemes that stress income security create more inequality. In contrast, pension schemes that stress basic security elements brings more inequality and more poverty. Thus, they miss their goal of creating more equal financial situations in retirement.

It is also noteworthy that the paradox of redistribution does not extend to the health effects of pension schemes. More generous basic security pensions help older people to survive longer. In contrast, more generous earnings-related pensions do not affect the survival chances in old age. This example shows that basic income elements can have the side effect of reducing inequalities in health in old age.

To conclude, Palme suggested that governments may want to consider the intended and unintended consequences and the side-effects of their pension schemes when they decide on the optimal pension design.

Discussion

The session “Pension and retirement from a life-course perspective” was followed by a discussion that considered the situation that workers are facing today.

Noora Järnefelt from the Finnish Center for Pensions reflected on social inequalities in retirement. She pointed out that workers with a low socioeconomic status have shorter life-expectancies and consequently benefit from old-age pensions for a shorter period of time – even when considering social differences in the retirement age. However, disability pensions are more common among people with a low socioeconomic status, and if one adds up the years spent in retirement on an old-age pension and the time spent on a disability pension, the social differences disappear. People spend about the same amount of time receiving these pension benefits, the only difference being how big a role disability pensions and old-age pensions play during this time.

As a result, Järnefelt argued that disability pensions function as a balancing element in the Finnish pension system, levelling out social inequalities. Consequently, she saw problems in the international trend towards a rollback of disability pensions, fearing that it may aggravate social inequalities in old age.

Roope Uusitalo from the University of Jyväskylä called for a differentiated consideration of the situation in Finland. He explained that just like in other countries, also the Finnish labour market is changing. Labour market changes that he pointed out are the increasing use of information and communication technologies, globalization, population ageing, increasing education and improving skills, the success of women in the labour market, and the declining importance of unions.

In addition, Uusitalo stated that, in contrast to many other countries, jobs in Finland have been changing only little. The rather stable aspects of Finnish jobs include the low share of temporary work, the length of unemployment spells, the number of jobs during one’s he career, the average length of employment spells, and job satisfaction. For him, this combination of changing and stable aspects raises the question of what kind of pension reforms are necessary – and whether pension reforms are necessary at all.

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