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EXECUTIVE SUMMARY

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The unemployment and unemployment routes of the ageing population

– a review of the most recent development

The employment rate of the ageing has risen significantly during the last two decades but is still clearly lower than that of the remaining population. The population and workforce are rapidly ageing, and public economy expenditure for pensions and healthcare will prove difficult to finance in the future unless the employment rate of the ageing does not improve. The extending of careers has been one of the most important topics of public debate as of late.

The purpose of the research is to support the public debate by offering current information on the unemployment of the ageing and the use of the unemployment route. The research describes the unemployment of different age cohorts and especially that of the ageing, with the help of labour market flows and in light of register data leading up to 2009. Special focus is placed on the implications of lowering the age limit of the unemployment route in connection with the 2005 pension reform. Recent research data also allows for a depiction of unemployment among the ageing during the 2009 recession. In previous research, the use of the unemployment route has been evaluated mainly in light of the development taking place in the 1990s, to which this research adds information on the more recent development.

The aim of the unemployment route is to secure the income of the ageing, long-term unemployed, but the arrangement is also in conflict with employment aims. The unemployment route has also been suspected of raising the costs of unemployment security. At the moment approximately 12 per cent of those in the 55–64 age bracket, almost 110,000 people, are outside of working life as a result of unemployment – they are either unemployed or receiving an unemployment pension. A majority of these are on the unemployment route, from where they will transfer to old-age retirement.

Simply put, the unemployment route refers to an arrangement that begins with a 500-day period of unemployment allowance and continues with additional unemployment security allowance days until the transfer to old-age pension. An unemployed person can, at his own choice, transfer to old-age pension between the ages of 62–65. The old-age pension is granted without reductions. The unemployment pension was previously part of the unemployment route, but for those born in 1950 or later, the unemployment route is formed from daily allowance and additional days tied to earnings. The right to additional unemployment security allowance and pension without reductions at 62 applies to wage earners only.

The lower age limit of the unemployment route can be defined in two ways: the 500-day period of unemployment allowance is calculated as part of the unemployment route, or the unemployment route begins only once the additional days of unemployment allowance begin. This research applies the first definition, in other words, the 500-day period of unemployment is counted as part of the unemployment route. The current lower age limit for the unemployment route is 57 years, and is applied to those born between 1950 and 1954. The age limit is determined through additional days of unemployment security. Access to these requires that the applicant is at least 59 years old before the 500 days of unemployment allowance have come to an end, which in practice means a two-year period of unemployment before transferring to additional days.

During the years 1995–2009, the lower age limit of the unemployment route has been raised twice. In 1997, the age limit rose from 53 years to 55 years, and in connection with the 2005 pension reform the age limit for the unemployment route rose from 55 to the current 57 years. Based on an agreement between labour market organisations, the age limit will rise to 58 years. In this research, the unemployment route has been defined based on age and unemployment, but there are also other conditions for the unemployment route.

This research describes the unemployment of the ageing population and the use of the unemployment route in the years 1995–2009 with the help of transitional shares. The transitional share is the share of those transferring to a certain labour market state from the labour market state of the previous year, for example the share of employed becoming unemployed in the next year. The transitional shares can be calculated for different age cohorts or separately for each age. From the perspective of this research, the transfer from work to unemployment is a central focus of interest.

With the help of simple simulations, the research also evaluates the impact that the economic situation and the age limit of the unemployment route have on the employment and unemployment of the ageing. The idea is to calculate the labour market careers of those born between 1955 and 1961 – one year at a time up until 2017, when they are between 55 and 61 years old – with the help of labour market statuses at the end of the last decade and transfers between these. By varying the starting year of the simulation and the labour market transition shares, a picture emerges of how much the employment of the ageing population changes when assumptions of economic conditions or age limits for the unemployment route are changed. The year 2017 has been selected as the last year of calculation, since those born

between 1955 and 1961 will then be entirely covered by the unemployment route age limit of the current legislation.

The research data is based on the 2005–2009 register data of the Finnish Centre for Pensions that covers the entire population. The register data is at the individual level. Included is also a 10 per cent population sample data from the labour force statistics of Statistics Finland from the years 1995–2005. Since both sources of data contain information on an individual's labour market status at the end of each calendar year, assessing changes in the labour market statuses of the ageing is possible in greater detail than before.

Based on the results, the share of people transferring from work to unemployment rose at the lower age limit of the unemployment route during the years under review. Along with increases in the age limit, a drop in transition shares has also been noted for those who have not been entitled to the unemployment route following the increase. Similar discoveries have been made in previous research. The share of the newly unemployed increased, and the share of those who remained at work dropped in all age groups during the 2009 recession. The recession especially caused an increase in the unemployment of the young.

The significance that age limits in the unemployment route have on the employment and unemployment of the ageing in 2017 was reviewed through four simulations. The first two were retrospective, as age limits of the unemployment route were assumed to already be in accordance with either the rules of the 2005 pension reform (age limit 57 years) or the previous rules (age limit 55 years). In the third simulation, the starting point is the current legislation; until 2011 the age limit was 57 years and hereafter it is 58. In the fourth simulation, the unemployment route is not expected to exist from the start of 2012.

The higher the age limit of the unemployment route, the higher the employment and the lower the unemployment. For example, the increase of the age limit from 57 to 58, agreed in the general incomes policy settlement, lowers the share of unemployed between the ages of 57–61 in the population with approximately 0.8 percentage units and raises the share of the employed by approximately 0.7 percentage units. The impact of removing the unemployment route is as large as that of the general incomes policy settlement. By the age of 61, variations between simulations grow slimmer since people of this age may retire on an old-age pension following the end of the 500-day unemployment allowance period.

The significance of changes in the economic conditions is reviewed through four simulations. In the first simulation, the 2009 recession was assumed to be over, in the second it was assumed to continue for two years and in the third for four years. In the fourth simulation there was no recession. The difference in population shares between the unemployed and employed in these calculations is not very large. The simulation that produced the most varying result was the one in which the recession is not assumed to end until four years from now. This result is understandable, since the rate of the newly unemployed remains high for the longest time in this calculation, and this applies to all age cohorts. In the simulation where the recession is assumed to be over, the share of working 55–61-year-olds in the population was 70 per cent in 2017, and the population share of the unemployed was 8.5 per cent.

The most important result of the research is that the unemployment of the ageing is generally decreasing, along with the use of the unemployment route. The number of ageing persons that have become unemployed has decreased clearly between 1995 and 2009. In addition to increasing the age limit of the unemployment route, another factor may be improved economic conditions, which have increased the demand for ageing employees.

Based on the simulations we can ascertain that raising the age limit of the unemployment route from the current 57 to 58 years affects the employment and unemployment of the ageing in the same direction as previous increases, but the effect is less. Age limits have been raised a number of times, and although the impact of a single increase is relatively small, the increases have been effective on the whole. The simulations also show that it is no longer possible to decrease unemployment and increase employment by raising the age limit of the unemployment route, to the extent that it was before. As the unemployment of the ageing has decreased, the overall significance of the unemployment route has diminished.

The publication is available only in Finnish:

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