

Chapter 15

Czech Republic



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Abstract Ever-extending lifespans and low birth-rates (about 1.5 child per woman) contribute to the ageing of Czech society. By 2060, it is expected that just over one third of the Czech population will be aged 65 or over. By the 2060s, Czechs will be expected to retire at age 69 or later. Even with later retirement, the percentage of people entitled to an old-age pension will increase so that by the 2050s, approximately 28% of people may qualify for an old-age pension, compared with today's 20%. Changes in demographic composition will also influence other indicators: the average age around 2050 might be between 48–50 years, about ten years more than now. Politicians, managers and society leaders aim to find ways to successfully face this demographic challenge and enable everybody to have a sufficient level of economic, social, and health care provision. Most crucial in the near future is the adaptation of employment policies and pension reform. This chapter describes the situation regarding the employment of people over 50 years in the Czech Republic, research focused on extending working life, employment policies and characteristics of the pension system, paying special attention to gender differences.

Introduction

Czech social policy after 1989 has been affected by changes in the political scene and the new institutional rules accompanying that transformation. Although the Czech Republic's economy has been heavily transformed, structural unemployment could not be improved due to the inefficiencies of public institutions and public employment services (PES). The reform of these institutions is among the priorities of the European Employment Strategy (EES). From the 'European' perspective, the contribution of EES to the structure and quality of European social policies is entirely positive. In the Czech Republic, it is so mainly for promoting and accentuating the need of reform measures towards achieving the goals set in the national action plans.

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Although this recognition has not yet been followed by the necessary measures to accomplish those goals, such as providing job opportunities for older workers, the EES or the Czech employment strategy must be credited for its proactive stance in acknowledging problems of the labour market.

In the 1990s, employment policy in the Czech Republic was determined by the economic transformation. Among the main problems were low regional and professional labour mobility, badly targeted social benefits, heavy taxes, and non-existence of lifelong education. Also, the structural inconsistency of the demand and supply of labour played its role, resulting in growing unemployment. During that period, employees aged 50+ were not directly endangered by structural unemployment, as they were not among the most disadvantaged groups because older workers could opt for early retirement. The situation became worse only after parametric changes to the pension system that included early retirements being penalised with lower benefits and retirement ages being increased. Handicapped older workers and members of other disadvantaged groups who were less qualified joined the ranks of the long term unemployed. More recently, the 50+ group has contributed substantially to the unemployment rate, despite some signals of increased employment.

In the 55–59 age bracket, the unemployment rate reached 10.5% by the end of (2013) (76,400 unemployed) and was high also in the 50–54 age group (63,700 unemployed). For comparison, in 2008, the unemployment rate for the 55–59 age group was 7.5%. Increased participation of older workers in the labour market in recent years may reflect the increasing retirement age. Another possible factor may be older Czechs' worse living conditions, resulting from the economic crisis. Individuals may face a number of other factors that undermine their ability to be employed at older ages such as lower education, health handicaps, and perceived lower adaptability to the changing conditions. Despite decreased job performance (in some instances) and the need to provide family care, older people in the labour market face an insufficient menu of flexible working arrangements, particularly part-time jobs. The position of older workers is also made more insecure by the stereotypical views of employers, who automatically assume worse performance, implying less willingness on their part to invest in the personal development of older workers (Czech Statistical Office 2013).

Research Regarding Older Employees in the Czech Republic

Quantitative research findings suggest that many in the 50–64 generation of the Czech Republic are now trying to stay in the labour market until the retirement age, mostly because of financial reasons and due to fears of difficulties in looking for new jobs (Šimandlová 2014). It is more difficult to find a new job in the 50+ age bracket. In the study by Šimandlová half of respondents aged 50–64, once unemployed, were unemployed for longer than one year; this category also included people who had been looking for jobs for over three years. In 2012, 22.7% of long-unemployed people were in the 55+ age group. Unemployment and long-term unemployment

are also among the main reasons for early retirement, chosen mostly by those who would otherwise have major difficulties finding jobs and those with hard manual jobs. While two thirds of men working aged 55–59 still work, less than one quarter of 60 and 64 years are employed. Half of women aged 55–59 are already retired. On an international scale, the Czech Republic has the third highest percentage of people aged 50–64 who are already retired. Generally, early retirements are unfavourable for many individuals because of pension cuts and limited opportunities for income alternatives, presenting no solution to the situation of older people with difficulties in finding jobs at pre-retirement ages due to insufficient income. Forty per cent of respondents of the 50–64 age bracket said being laid off was the reason for early retirement, which makes losing a job the most frequent reason for early retirement. Other reasons include early retirement with extraordinary severance packages (29%) and bad health conditions (17%). Only 4–5% of respondents said that they retired early because they wanted to enjoy life more or spend more time with their families (See Fig. 15.1). This seems to disprove the myth that people retire early to ‘tend their gardens and enjoy their grandchildren’. Usually, Czechs retire early because of being laid off and being unable to find a new job (Fig. 15.1).

The respondents often said continuing work became a problem due to combined reasons such as age with bad health condition added or age and gender plus other combinations. Fewer than three quarters of respondents are without health problems limiting their performance (see Fig. 15.2). Thus, it may be difficult to find a job, say, for people living on partial disability pension, who might welcome a part-time job.

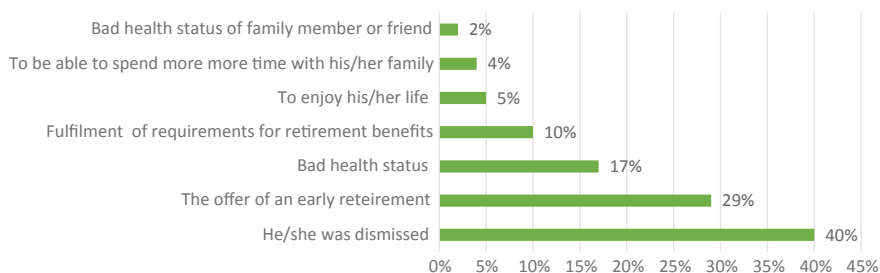


Fig. 15.1 Reasons for retirement in the Czech Republic. *Source* Šimandlová (2014)

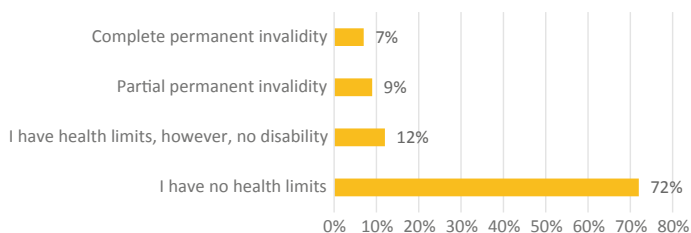


Fig. 15.2 Health reasons diminishing chances of finding a job. *Source* Šimandlová (2014)

The problem is that, generally, part-time jobs are few and poorly paid (Jouza 2017). According to the research, the potential solution of finding a part-time job is scarce for the 50–64 age bracket. Not only is there a current shortage of part-time jobs, but also wages are poorer than those of the full-time jobs, despite the same work (Jouza 2017). Additionally, the 50+ generation is sometimes dubbed the ‘sandwich generation’ because its members still have dependent children and have to care for ill parents or partners. Such carers are then in a difficult situation, finding it complicated to establish work life balance.

The loss of a job by an older person is regarded as a very negative life. Such experiences are corroborated by results from a quantitative enquiry, with 94% of the respondents seeing the loss of a job at a pre-retirement age as a major problem and 84% saying it is very difficult for people over 50 to find a new job. Further, seniors do not feel that the younger people appreciate their wisdom event (Šimandlová 2014). See Fig. 15.3.

Many employees in the Czech Republic are latently or even explicitly discriminating against older workers. According to some research in the Czech labour market (STEM 2007), this is mainly age discrimination (see Fig. 15.4). Nine out of ten

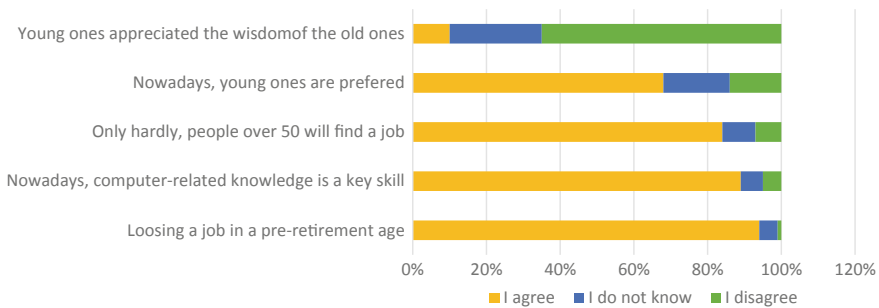


Fig. 15.3 Stereotypes and external barriers in the labour market according to Czech seniors in the age group 50–64. *Source* Šimandlová (2014)

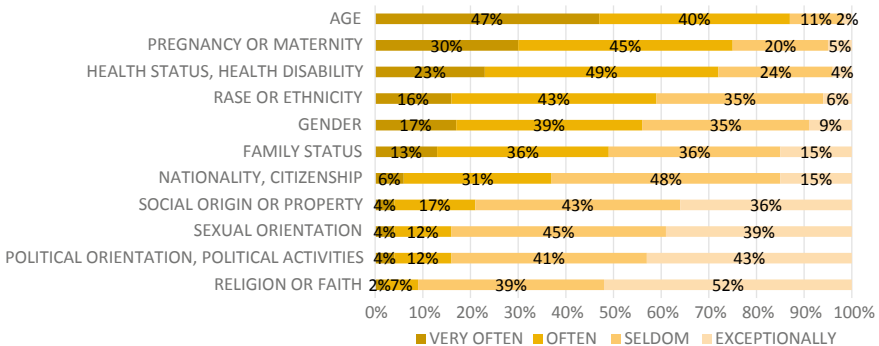


Fig. 15.4 The reasons for discrimination in the Czech Republic. *Source* STEM (2007)

citizens (87%) believe that people are often or very often put at a disadvantage on the grounds of age. According to age management researchers, age discrimination begins to be focused on the overall presence of age stereotypes and myths of age (Rosigno 2007; Rašticová and Kolářová 2015).

Age Management and Senior Education in the Czech Republic

Qualitative enquiries provided by Czech researchers from Alternative 50+ were trying to find out whether the employers work with the concept of age management (AM). Their findings showed that the majority of respondents (86%) work with AM in some way; only 14% said that they did not work with such a concept (Šimandlová 2014).

Despite age discrimination, older employees are also characterised as having more loyalty and less pay requirements (Rašticová and Kolářová 2015). Regarding intergenerational cooperation, research results showed that cooperation with an older colleague is most convenient for employees of an age-mixed team; surprisingly that is least convenient for those in older teams which consists of the majority of older employees. This result needs further qualitative inquiry to better understand the arguments for and against cooperation with older employees in teams with different age composition. In keeping with the theory of management diversity, it appears the most resilient and, potentially, the most efficient working team is an age-mixed one (Rašticová and Pohanková 2017).

Rabušic (2006) provided a study focused on participation of the older Czech population in adult education activities based on a representative survey of adult education in the Czech Republic. Adult education, including senior education, is an important feature of knowledge society and another factor aimed at making older Czechs more active in the labour market. Data from Rabušic's survey also show that 22% of older Czechs participated in courses concerning their occupations, language and computer skills courses, courses in personality development and leisure-time activities, and educational activities concerning civic life. The same share of the population planned to attend a course in the next year. The participation of older Czechs in continuing education depends on their already achieved level of education—the more educated the individual, the higher his/her contemporary participation. Whether older Czech people will participate similarly in the near future then depends significantly on whether they have already participated in the past (the correlation between past participation and intended participation in the near future is 0.69) (*ibid*).

Policies Regarding Late Employment

Development of Passive Employment Policy (PEP)

Passive employment policy in the Czech Republic focuses on reducing the consequences of unemployment through financial benefits during the unemployment period. Since 1997, the unemployment rate has increased sharply. Due to the structural imbalance, which does not take into consideration different groups of the unemployed, the long-term unemployment (lasting 6–12 months) has afflicted mostly low-qualified workers, graduates with no previous experience, single parents with children, disabled people, etc. Consequently, passive unemployment spending has been increasing, not only because of the increased average value of monthly benefits, but also due to the increasing numbers of job-seekers participating in qualification training courses (eligible for a requalification benefit). According to the Employment Act of (2004), workers till the age 50 receive unemployment compensation for five months, older workers aged 50 and above require special arrangements regarding job mediation, so the unemployed in the 50–55 age group receive unemployment compensation for eight months while those older than 55 years receive it for 11 months.

Active Employment Policy (AEP)

Active employment policy is a collection of measures to ensure the maximum possible employment. Active employment policies (AEP) are pursued by the Ministry and the Public Employment Office (PEO) cooperating with other entities as needed given the situation in the labour market. The PEO tools are: *qualification training courses*, *investment incentives* (financial assistance to employers), *community service*, *socially useful jobs*, *bridging allowance* (to a self-employed person who is no longer a job seeker and who has been paid an allowance, serving as compensation for the operational costs incurred and paid in the period for which the bridging allowance is given), *training allowance* (received by the employer hiring a job seeker who is under special surveillance by the PEO), *business plan change allowance* (for an employer who, due to a changing business plan, can no longer offer to employees the weekly working hours as agreed), *consultancy*, *support for the employment of disabled persons*, and *targeted programs to lower unemployment*.

Since the very beginning, the main purpose of the AEP has been to keep the unemployment rate low. However, the finances allotted to the AEP have steadily declined in favour of passive compensation for incomes.

Pension system

The Czech pension system consists of a public pension scheme and a mandatory funded private scheme with voluntary entry. The public pension scheme has a basic element and an earnings-related part calculated according to a progressive formula. Currently, the pension scheme covers all the needs of Czech retirees; the risk to sustainability from the ageing of the Czech population emerges rather in the longer

term after year 2035 (see e.g. Bezděk et al. 2003, who investigated fiscal implications of ageing in the Czech Republic), so further measures should be welcomed.

Two parts of the Czech pension system

The first pillar is the mandatory basic pension insurance, defined by benefits (DB) and funded on a running basis (pay-as-you-go = PAYGO). The system is universal and provides for all economically active individuals; the legal regulation is the same for all the insured persons, there are no industry-specific schemes except for some variations in the so-called power sectors (e.g. soldiers, police, customs officers, firefighters). The pension from the basic pension insurance is drawn by more than 99% of the Czech population whose age is higher than the retirement age (currently set at 65).

Additionally, there is a voluntary complementary additional pension based on a defined contribution plan, in which employer, employee or both make contributions on a regular basis. The additional pension can be considered, according to EU terminology, the third pillar of the pension system. The third pillar also includes products offered by commercial insurance companies—particularly life insurance. Pensions granted from the third pillar so far represent only a negligible portion of incomes of the retired. The second pillar, which is usual in EU member states (employer pension schemes), is absent in the Czech pension insurance system.

Until the end of 2012, the pension system in the Czech Republic rested upon two basic pillars: the first PAYGO pillar, with resources for the pay-out of state pensions generated from mandatory payment of pension insurance by persons and employers at a total of 28% of gross earnings; and the third pillar, voluntary individual pension insurance with state contribution, and the possibility of tax breaks and employer contributions. As of January 1 2013, pension reform has ushered in changes to the mandatory first pillar and transformation of the voluntary third pillar, in terms of taxation and state allowances.

Types of benefits and components of each pension

The following pensions are provided from the basic pension insurance: old-age (including the so-called early old-age pension), disability, widow and widower, and orphan. Components of each pension are a basic assessment (which is a fixed amount identical for all types of pensions, regardless of the insurance duration and income) and a percentage assessment based on the insurance duration and income. Both employers and employees share contributions.

Periods of earnings-related unemployment insurance are credited in the pension system. The duration of unemployment insurance entitlement varies with age: five months up to age 50, eight months from 50 to 55 and 11 months for over 55s. In addition, up to three years spent unemployed without entitlement to unemployment insurance are also credited (but only one year of unemployment without benefits before the age of 55 is credited). The unemployment period used for the pension calculation is reduced to 80%, meaning that if an individual had five years' unemployment over their career, this would count as four years for pension purposes. If the unemployment period is in the decisive (reference) period for the average assessment base calculation, this period is excluded from the calculation and only the income

from which the premium is paid is used. Unemployed are people who have no job and at the same time they are older than 15 years, actively searching for a job, ready to start working within 14 days (except students, mothers on maternity leave, parents on parental leave, etc.)

If conditions which entitle a person to several pensions of the same type have been met for payment of old-age pension or disability pension, then only one type of the pension will be paid, specifically the higher one. If conditions have been met which entitle a person to old-age or disability pension and to widow or widower pension or orphan pension, then the higher one shall be paid in the full amount and one half of the percentage assessment shall be paid from the other pensions, unless the Act on pension insurance establishes otherwise.

Qualifying conditions with respect to gender and earnings-related

The standard retirement age is gradually being increased by two months per birth cohort without any upper limit for men (and later on for women too). The pension eligibility age for women is increased by four months and from 2019 by six months to be unified with men (fully for individuals born in 1975 at the age of 66 years and eight months). A minimum required 25 years' coverage will be gradually increased to 35 years, by one year per year from 2010. However, people with 15 years' coverage (gradually increasing to 20 years) can receive a pension from an age five years higher than standard retirement age for males the same year of birth.

The earnings-related pension gives 1.5% of earnings for each service year. The earnings measure currently averages across all years starting from 1986, but it will gradually reach lifetime average. Earlier years' earnings are indexed by the growth of economy-wide average earnings. There is a progressive benefit formula, under which income thresholds are applied to reduce average career earnings into the calculation basis.

There are credits for labour-market absences during periods caring for children up to four years old (or older in case of severe disability). These years are then ignored in the calculation of earnings for pension purposes so that these absences do not reduce the assessment base (this approach is used for all non-contributory periods).

It is possible to retire three years (increasing in the future to five years, but no earlier than age 60) before the standard retirement ages subject to 25 years' coverage, increasing in line with general qualification conditions to 35 years. In the case of early retirement, the total accrual factor (*i.e.* number of years of contributions multiplied by the accrual rate) is permanently reduced. It is also possible to defer claiming the pension beyond the normal pension age; in this case, the total accrual factor is increased. There is no additional pension accrual for deferred retirement. It is also possible to combine pension receipt while continuing to work.

Debate

The debate about the pension system is developing. In 2007, it took place between two extremes: on the one side, there was a relativist approach according to which it was enough to make merely cosmetic changes to the pension system. On the other side, there were radical proposals for privatisation of the pension system based on mandatory pension funds.

Political parties competed in presenting proposals for a change of the current system, which was generally regarded as unsatisfactory. While the Civic Democratic Party presented a concept of equal pensions (flat state pension), the Czech Social Democratic Party recommended the Swedish model.

Currently, the debate is focused on setting a fair pension insurance for all regarding their gender and other possible inequalities, which would take into consideration also different lifecourses and career opportunities of different groups of people. This debate was started in 2019 by the Czech Minister Maláčová, who is a member of the Czech Social Democratic Party, who also appointed a new 'Commission for Fair Pensions'. Members of this commission are policy makers from all parliament parties as well as researchers and academicians dealing with pension and extending working life topics. The debate includes also the discussion regarding flexible working conditions, gender pay gap and differentiation of pensions according to different job characteristics. A significant part of the debate focuses on income into the pension system, proportion of wages and pensions, and professional merit.

Conclusion

Czech social policy after 1989 was influenced by the changing political situation. Low regional and professional labour mobility, badly targeted social benefits, heavy taxes, and the lack of lifelong education were among the major problems. Also the structural imbalance of labour supply and demand played its role in shaping the potential for extended work to older ages. Initially, the 50+ workers were not directly threatened by structural unemployment, nor were they among the most disadvantaged groups, mainly due to the option of early retirement. The sustainability of the pension system started to turn for the better as a result of the changes in the pension system parameters (early retirements being penalised and retirement age increased). The growing participation of older workers in the labour market is obviously encouraged by the increasing retirement age, lower economic situation of retired Czechs, and a number of combined factors such as lower education, health handicaps, and perceived low adaptability to the changing conditions among older people.

The Czech Republic emphasises active employment policy. The AEP may result in keeping older workers in employment longer by offering qualification training courses enabling a change of profession, or by offering them a change of employment. The AEP has tools, discussed earlier, that may also support older workers' extended

employment. Unfortunately, the AEP has, so far, not taken into consideration the insufficient willingness of the employers to employ elderly workers.

However, this particular situation of an aging work force concerns almost all advanced countries, and also brings a number of positives and hopes for the future. For the first time in human history, people have a realistic chance of living a long life in relatively good health. Worries about the economic burden and disharmony of the labour market due to the ageing of population as a challenge can provide inspiration for research, enquiries, and detailed analyses of policies and practices that could address such challenges. One of the avenues of research opening up is concerned with equal opportunities, focussing on the detection and elimination of explicit and latent forms of ageism. Next a redefinition will be necessary of productivity theories with respect to the new challenges to production and individual lives affected by automation, digitisation, robotisation, and artificial intelligence. Concerning the setting of employment policies and policies related to retirement timing, a resetting will probably be required of the present redistribution system.

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