

## AGEING POPULATION AND THE ROOM FOR ADJUSTMENT IN SLOVENIAN LABOUR MARKET

### Introduction

Ageing population is a fact, which policy maker should take in to account immediately. The share of population aged over 65 years will increase substantially by 2050 in almost all EU countries. This brings economic and financial consequences: increase of age-related public expenditures and decline of potential GDP growth rate. The Institute of Macroeconomic Analysis and Development<sup>1</sup> identified the following challenges of a long-living society: (i) creation of a comprehensive family policy and social strategy, which will increase fertility, (ii) changes in social security systems, (iii) changes in health care (iv) changes in pension system, and (v) labor market adjustments (Javornik, ed, 2006).

The projections of age-related expenditure<sup>2</sup> show that long-term public finance sustainability is jeopardize in many EU countries. Labor market adjustment can substantially contribute to diminish increase of pension expenditures.

The Slovenian population is ageing and Slovenia still has to deal with challenges of ageing population. The paper presents the consequences of ageing population and challenges for labor market to adjust the ageing population. The first part of the paper presents demographic situation and projections and estimated consequences of ageing population in Slovenia. The second part shows labor market development and situation in Slovenia and we conclude with identification of »reserves« in Slovenian labor market to increase employment rate and the room for labor market adjustment to ageing population.

### 1. Demographic projections and estimated consequences of ageing population in Slovenia

The demographic situation in Slovenia is characterized by a low birth rate and increasing life expectancy. As a result of the falling number of births and the slowing down of mortality, the age structure of the population has also changed. The proportion of children has decreased and the proportion of the working-age and old population has widened. So far, this process has been slow because of the relatively huge demographic losses in both world wars, and Slovenia still lags behind the EU average in terms of its share of the old population. This may, however, become critical already in the coming decade and later, when the more numerous generations born after World War II enter the ranks of the old population and the contingents of children and working age population start to shrink (owing to the low birth rates in the period after 1980). The ratio between the working-age (15-64 years) and old population (65 years and over) is projected to deteriorate from the current 5: 1 to 4: 1 by 2013. After 2020, it may drop to below 3: 1 and after 2040 to below 2: 1.

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<sup>1</sup> In 2006 special publication Social Overview (Javornik, ed.2006), which deals with challenges of long-living society, was published by IMAD.

<sup>2</sup> The preparation of projections of age related public expenditure was initiated by European commission. Pension expenditures were prepared by the member states themselves using their own models. They were presented to a working group during the testing procedure (open method of co-ordination).

Table 1: Main demographic characteristics and projections of the Slovenian population

	1985	1995	2005	2010	2020	2050
Population (June,30, thousands)	1973,2	1987,5	2001,1	2016,2	2016,5	1897,1
Structure in %.						
0-14 years	22,2	18,4	14,3	13,5	13,5	12,9
15-64 years	67,8	69,3	70,4	70,0	65,8	55,9
65 years or more	10,1	12,3	15,5	16,5	20,6	31,2
Old age dependency ratio	14,9	17,8	22,0	23,5	31,4	55,8
Fertility rate	1,72	1,29	1,26	1,27	1,46	1,50
Life expectancy: - men	67,9	70,8	74,1	73,9	76,1	79,8
- women	75,9	78,3	81,3	81,2	82,8	85,2
Net migration (thousands)	3,5	2,5	6,4	5,9	5,3	6,7
Infant mortality rate	13,0	5,5	4,1	4,4	3,7	2,7

Source: Statistical Office of the Republic of Slovenia:

[http://www.stat.si/pxweb/Database/Dem\\_soc/05\\_prebivalstvo/07\\_05197\\_projekcije/07\\_05197\\_projekcije.asp](http://www.stat.si/pxweb/Database/Dem_soc/05_prebivalstvo/07_05197_projekcije/07_05197_projekcije.asp)

Ageing of population will cause substantial increase in age-related public expenditure for pensions, health and long-care in Slovenia. Age related public expenditure is expected to increase from 18, 8 % of GDP in 2005 to from 25 % to 29 % of GDP by 2050 (table 2). The estimations of increase depends on variations in demographic projections and expectations about increase of employment rate of older workers. Projections of age related expenditure, presented in table 2, assume substantial increase of employment rates of elderly population. For example, employment rate of population aged 60-64 years is assumed to more than double by 2020. Such a substantial increase in employment rate of elderly workers can not be easily achieved. Slovenia will have to conduct active ageing policy.

Table 2: Estimates of age related public expenditures in Slovenia (as a share of GDP in %)

	2005	2010	2020	2030	2040	2050
Age-related expenditures	18,8	17,4	17,6	20,3	23,4	25,5
Pensions	10,9	10,3	10,2	11,9	14,0	15,4
Health care	6,3	6,2	6,4	7,2	7,9	9,4
Long- term care	0,9	1,0	1,1	1,4	1,7	2,0

Source: Stability Programme 2006

The ageing of population will also effect the potential GDP growth. Carone et al. (2006) presents the results of long-run labor productivity and GDP growth rates projections (until 2050) for each of 25 EU member states by using a production function methodology. Despite the fact that projections reflect assumption of "no policy change" they are a good indication of likely developments if past trends will persist in the future. The projections indicate the significant slowdown in potential GDP growth rates(see table 3).

Table 3: Estimations of potential growth rate in Slovenia and EU

	2011-2020	2021-2030	2031-2040	2041-2050
Slovenija	2,8	2,1	1,3	1,0
EU-25	2,2	1,5	1,2	1,7
EU-15	2,1	1,4	1,2	1,3

Source: Carone et al. (2006), p. 39

## 2. Labor market developments and situation in Slovenia

The overview of labor market developments in the last ten years shows that the labor market situation in Slovenia has improved over the last ten years (Kajzer et. al 2006). The unemployment rate was reduced in the 1996-2006 period. The employment rate of the population aged 15-64 rose by 6 p.p. in 1996-2006. At the same time, the youth employment rate (population aged 15-24) almost stayed at the same level on account of the higher rate of participation of young people in education. Employment rates of other age groups rose. The most notable increase was recorded for the employment rate of older people, thanks to the pension reform.

The structure of employment has recorded an increase of share of the service sector in the last ten years. However, Slovenia still significantly lags behind the EU average in terms of the share of people employed in those services with the potential to offer employment to older and less educated people – notably health care, social work and home work services. The proportion of people employed in manufacturing remains relatively high, particularly in low-tech industries.

The increase in the employment rate for highly skilled people seen in 1996-2006 and its high level compared to the EU average indicate that education is a significant determinant of the situation in the labor market. Education is also an important underlying factor in the differences in earnings observed. Calculations of relative wages depending on the level of attained education show that the relative earnings of high-skilled workers rose in 1998-2002 regardless of the sector of employment. Vodopivec (2004, p. 306) put out the change in returns to education as the most dramatic change in labor market in the transition in Slovenia. The returns to more educated workers increased monotonously for all groups, with the highest increases belonging to graduates.

The labor market situation in Slovenia is now relatively favorable. Slovenia ranks among the countries with a below-average unemployment rate in the EU and an above-average employment rate. The employment rate rose while unemployment declined in the last ten years. However, several problems persist: the proportion of the long-term unemployed remains large, as does the proportion of unskilled unemployed people, unemployment among young people and the very low employment rate of elderly workers.

Table 4: Main labor market indicators

	1996	2000	2006
Unemployment rate	6,9	6,7	6,0
Youth unemployment rate	17,5	16,3	13,9
Share of long-term unemployed in number of unemployed	49,7	61,4	49,1
Employment rate (15-64)	61,6	62,8	66,6
Employment rate of elderly 55-64	19,1	22,3	32,6

Source: Eurostat

### 3. Room for improvement of labor market performance in Slovenia

Employment rate of population aged 15-64 in Slovenia amounted 66, 6 % in 2006. This ranks Slovenia ranked above the EU-15 average (66, 0 %). However, employment rate in Slovenia is substantially below the employment rate in Denmark (77, 4 %) and Netherland (74, 3 %), countries with flexicurity model, or United Kingdom (71, 5 %).

Detail analysis of Slovenian labor market shows that Slovenia has a room to increase employment rate within older and young population. In 2006 youth unemployment rate (age 15-24 years) amounted 13, 9 % and was substantially higher than average unemployment rate. Active labor market programme should be more oriented towards youth and intensive employment counseling at the public employment office should be provided to the registered unemployed youth to decrease youth unemployment in Slovenia. Measures within education system to decrease drop-outs should be also created. Since Slovenia has relatively strong employment protection: According to Vodopivec (2005) the Employment protection legislation index (OECD methodology) for Slovenia is 2,7. This could also have negative effect on employment prospects of youth in Slovenia and should be reconsidered..

#### 3.1. Low employment rate of older workers

Employment rate of older workers (aged 55-64) amounted 32,6 % in 2006 and it is among the lowest in EU. The low employment rate of those aged over 55 largely results from relatively early retirement and high structural unemployment, which particularly affects older unemployed persons, and partly from the early retirement wave seen in the early 1990s.

To increase employment rate of older workers Slovenia should create an active ageing policy. Active ageing policy should include: (i) adjustments in pension system (increase incentives to work longer and flexible retirement) (ii) measures aimed at reducing the occurrence of occupational diseases and improving safety at work; (iii) programmes for improving work

conditions; and (iv) measures that will increase the involvement of the elderly in education and training.

The pension reform significantly affected the exit rate from the labor market and consequently the employment rate of the elderly and therefore its main features deserve to be presented here. The reform of the Slovenian pension system was enacted at the end of 1999 and became applicable in 2000.

In compulsory insurance, the conditions for retirement were tightened. The full retirement age for women was raised and the required insurance period prolonged. With a minimum of 20 years of paid insurance, men can now retire at the age of 63 and women at the age of 61 in Slovenia. The minimum retirement age was raised from 53 to 58 years by the reform. The new retirement criteria are being applied gradually.

Once the criteria for retirement are fulfilled, staying active is rewarded while early retirement results in lower pensions. Staying active beyond the full retirement age is rewarded as follows: once a person reaches the age of 63 (men) / 61 (women), the pension is raised by 3.6% for the first year of their staying active beyond this age, by 2.4% for the second year and by 1.2% for the third year. The accrual base is raised by a further 1.5% each year. The criteria for the accrual of pensions began to apply immediately while the already granted rights remained at the achieved level.

The average age of new recipients of old-age pensions rose by 2 years and 10 months for men and by 3 years and 4 month for women in the 1996-2006 period. The rising of the retirement age was sped up strongly by the enforcement of the pension reform in 2000, since this age rose by 2 years and 3 months for both men and women in the period between 1999 and 2006. The pension reform has already produced some results. However, further adjustments in pension system are needed to cope with ageing population.

The opportunity of part-time employment for older workers is still not used as frequently as in the old member states, especially in the case of part-time employment for older women. In order to increase part-time employment among older workers, options for combination of part-time employment and retirement should be changed. According to the present regulation the conditions for part-time retirement are so tight that they do not enable a graduate exit from the labor market. The Slovenian pension system is not adjusted to flexible forms of employment and work, especially not for flexible employment of aged persons.

## Conclusion

Demographic changes require changes in the labour market. In a relatively short time Slovenia will have exhausted the possibility of filling new job positions with younger persons whose unemployment is currently a big development problem. At the same time, increase of employment rate is one of the key objectives whose fulfillment will determine the economic growth and social stability of society with a fundamentally altered ratio between the active and dependent populations. In the present conditions, pensions and other financial as well as non-financial benefits for the elderly cannot remain at the attained relative level in the future. It is therefore essential to increase work activity especially among the young and the elderly (55-64 years). The state should create opportunities for and focus social regulation on providing conditions for earlier and later work activity. The normative conditions for increasing and extending the work activity of the elderly are already in place in Slovenia, but the health and work conditions necessary for its full implementation are still absent. The occasionally poorer performance of elderly workers is often a cause of the covert and overt dislodging of the elderly from their jobs. For many elderly people, retiring is a way out of

trouble at work; given different conditions and attitudes to the needs of the elderly, they could continue working. What is needed then is additional incentives (beyond the mere extension of the required years of service for retirement) and conditions to help young people enter the labor market and the elderly to stay active for longer.

Slovenia should encourage young people's earlier work activity. Young people get jobs relatively late, one of the factors being the duration of their studies. The implementation of the Bologna Declaration is expected to contribute to the shortening of studies, but it is also necessary to frame measures for increasing the efficiency of studies. Greater co-operation between educational establishments and companies and the greater influence of companies on curricula would help towards earlier employment and reducing imbalances in the labor market. The second major factor is the existence of parallel labor markets (e.g. student work). In addition to measures which have already been planned and adopted, it might make sense to reform student work with the introduction of 'mini jobs' for which lower social security contributions are paid. One measure of the active employment policy that is aimed at reducing unemployment among young people is the reimbursement of social security contributions for employers who hire young unemployed people or first-time job-seekers, but it would also be worth considering additional measures to help first-time job-seekers.

The employment of the elderly could also be raised through the greater use of part-time employment as a means of gradually leaving the labour market, and the development of certain services, especially social services. This would create employment opportunities even for less educated and older women, whose employment rate is very low. Economic policy-makers should consider encouraging the development of employment in personal household services and long-term care.

Considering the current situation in the labor market, Slovenia will not achieve the Lisbon Strategy goal for older workers (50% employment in the 55-64 age group) unless it conducts active ageing policy to fight with culture of early retirement (make people work longer) and increase participation of older workers in life-long learning.

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