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Issues and Policy Implications

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The Employment of Older Workers in Poland: Issues and Policy Implications

Piotr Zientara

The aim of this paper is to discuss barriers to the employment of older workers in Poland, where, due to various structural weaknesses and institutional arrangements, this problem has taken on a particularly acute seriousness. After analysing the causes of inactivity amongst older workers, the paper concludes by making policy recommendations.

Introduction

Labour-force participation of the older population is decreasing in many economies all over the world (Armstrong-Sassen, 2008). For example, only two-fifths of 55-to-64-year olds are still working in western Europe (Economist, 2008, p. 14). Generally, in most European countries, several (public-sector) professional groups are entitled to early retirement schemes such as Régimes Speciaux in France or Avtalefestet Pensjon in Norway. As a result, a growing proportion of employees retire in their 50s. And the predominance of pay-as-you-go pension schemes (Gruber and Wise, 1999) – together with a declining retirement age, rising life expectancies and falling birth rates – means that the employed are bound to shoulder an increasingly heavy tax burden. It follows that, in the not-so-distant future, rich-country governments might not only be confronted with mounting budget deficits, but also see economic growth slow down. The European Commission (2004) regards the low employment rate of older people as a waste of individual life opportunities and societal potential and argues that increasing the labour-force participation of those aged 55-64 is critical to sustaining growth-driven tax revenues and social-protection systems.

In addition, European business is currently having to cope with serious labour shortages. In particular, highly-qualified engineers, IT specialists, competent hospitality employees and high-skilled manual workers are in short supply. In this context, drawing on the potential of older people might constitute an alternative for many an employer. For this reason, much attention has recently been paid to such related issues as age management and post-retirement employment (see, for instance, Andrews, 1992; Warr, 1996; Walker, 1998; Walker and Taylor, 1998; Davis, 2003; Magd, 2003; Furunes and Mykletun, 2005; Schellenberg et al., 2005; Loretto and White, 2006, Armstrong-Sassen, 2008). These studies – albeit focusing on slightly different aspects of senior employment – take as their premise that it is in the
interest of governments and organisations to persuade older workers to continue their professional careers and/or, crucially, to encourage retirees to return to work. For this to happen, however, a re-orientation of governmental polices and organisational human resource (HR) practices is required. Thus, while organisations might have to adjust their human resource management (HRM) systems to respond to the needs and expectations of those aged 55+, governments will need to ease labour-market regulation, to facilitate flexible forms of employment, to modify early-retirement arrangements and, possibly, to finance training. The idea would be, on the one hand, to remove supply-side obstacles to the employment of older people and, on the other, to enhance their employability. All that is of pertinence to Poland, where, due to various structural and institutional weaknesses, the problems under consideration have assumed a particular acuteness. The employment rate of workers aged 55 to 64 – at 28.1 per cent (which is 15 percentage points below the EU-27 average (Eurostat, 2008) – is the lowest in the EU. Compared with Scandinavian countries as Iceland (84.3 per cent), Sweden (69.6 per cent) and Norway (67.4 per cent), Poland fares particularly badly.

It is against such a background that this present article sets out to discuss the challenges related to the employment of older workers. Although it concentrates on Poland – which serves as a kind of case study illustrating, among much else, the negative consequences of mistaken policy choices – the paper aims to provide insights relevant well beyond the Polish context. While its chief focus is on government policy, it does underscore the role that HR practices play in responding to the needs and expectations of employees aged 55+. Indeed, it argues that, to increase the labour-force participation of older people, it is necessary to adopt a holistic approach and hence to coordinate organisational attempts to accommodate senior employees with government-led efforts in the area of regulation and training.

The article is structured in the following manner. The initial part provides a theoretical background and reviews the literature addressing issues associated with age management and senior employment. We then move on to present the situation in Poland, highlighting the insidious impact of the country’s hostile business climate and inflexible labour-market regulation; this is situated in the context of HRM as practised in Polish organisations. Building on that analysis, the article makes a number of policy recommendations. In conclusion, we summarise the argument and point to implementation difficulties.

Theoretical background

The ageing of the population, albeit a global phenomenon, is particularly manifest in European countries. According to the UN Population Division’s predictions, by 2025, the median age in Europe will be higher than in America (44 compared with 38); likewise, a larger proportion of its population will be 65 (21 per cent compared with 18 per cent) (Wooldridge, 2008, p. 16). A combination of high per capita incomes, healthy lifestyles and medical advancement constantly drives up life expectancy. For instance, in France – which counts about 20,000 centenarians – the average life expectancy for women is 84 years, while for men – 78. This coincides with a decline

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3 They then become so-called ‘working retired’.
in the labour-force participation of older population as the number of workers who retire in their 50s is on the increase (OECD, 2006). The prevalence of pay-as-you-go pension schemes in Europe (Gruber and Wise, 1999) and falling birth rates further aggravate things.

Confronted with this state of affairs, the European Commission (2004) highlights the need to increase the labour-force participation of older people. The promotion of so-called active ageing finds its reflection in the two complementary targets that the EU had set itself at the beginning of this decade. The Stockholm target aims to increase by 50 per cent the employment rate of people aged 55-64 by 2010. The Barcelona target seeks to delay by five years the age at which workers actually withdraw from the labour force into inactivity. To attain these objectives, the EC recommended that Member States – in line with the European Employment Strategy – develop holistic strategies and, accordingly, implement initiatives which: discourage early retirement by providing financial incentives and ensuring that ‘it pays to work’; provide training and development to enhance employability of older workers; and facilitate provision of flexible working arrangements and good working conditions.

However all these actions – even if successfully implemented – may not be sufficient given that ageism, as some point out, is still widespread. Dychtwald et al. (2004) suggest, for instance, that current HR practices are biased against older workers. Likewise, Lukas (1993) claims that modern-day HRM trends in the hospitality industry favour a younger workforce. But, above all, ageism manifests itself at the recruitment stage, whereby older job applicants are simply not invited to interviews or – even if invited – they are not selected. In this way, older candidates are discriminated against. Thus, if the EU’s policy is to be successful, the mentality and attitudes towards hiring those aged 55+ need to change.

Interestingly, modern medical thought holds that nowadays age-induced physical and cognitive changes take place comparatively late in life. Warr (1996), focusing upon the age-performance relationship, breaks down activities into four broad categories: (1) age-enhanced; (2) age-impaired; (3) age-counteracted; (4) age-neutral. The second category – of relevance to our line of argument – includes only continuous paced data processing, rapid learning and heavy lifting. Generally, people aged 55-67 still enjoy undiminished mental capacities and in many occupations (especially, in services) do not necessarily have to be less productive than their younger counterparts (Griffiths, 1997; Magd, 2003). They possess experience and in-depth expertise (and grown-up children for that matter). More importantly, there is evidence that older employees are self-motivated, dependable, and more committed to their organisations (Banai and Reisel, 1993; Magd, 2003). Likewise, given that older workers are far less likely to practice ‘job-hopping’ (see also Peiperl et al., 2000), hiring them is likely to translate into lower staff turnover.

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4 Poland does not stand out in this respect.
5 Yet it might be worthwhile noting that the Commission (2004) claims that, while government polices can help to establish a supportive environment, “co-operation of social partners” is also called for.
6 We have used the term “ageism” here. This may not be discrimination as such in the sense of deliberate decisions not to employ an older person who is likely to be as good at the job as a younger person. Decisions by employers not to interview older people and so on may be based on sound information about the average performance of old and young people – though the point we make directly below would seem to contradict this.
Thus employers, confronted with increasingly serious labour shortages, should consider drawing on the potential of individuals aged 55+ (Drucker, 1999). And this holds true even though older employees are sometimes seen to display such weaknesses as IT illiteracy, inflexibility, aversion to change and new technologies (Furunes and Mykletun, 2005). Arguably, given the characteristics of typical jobs offered in particular sectors, it is reasonable to expect older employees and retirees to gravitate towards services rather than manufacturing (or agriculture). Focusing on post-retirement employment, Doeringer (1990) found that retirees considering joining the active labour force prefer part-time jobs, predominantly in services. Likewise, Andrews (1992) pointed out that retirees might perceive smaller organisations as more appealing since they are more likely both to operate in the service sector and to offer part-time jobs7.

Logically, the growth of services should be interpreted as theoretically beneficial to senior employment. It is argued, though, that strict employment protection legislation (EPL) negatively affects the growth of the service sector (Zientara, 2006), which, in turn, might have profound implications for the employment of older people. As mentioned above, those aged 55-64 tend to prefer work in services, which implies that older people living in countries with high EPL could hypothetically stand less chance of finding work. So it seems reasonable to posit that there might be an association between (high) EPL and the (low) employment rate of older people.

By standard measures, France, Germany, Italy and Belgium all have high levels of employment protection and levels of employment of those between 55 and 64 that are below 50% (in three cases below 40%). Employment protection legislation, as well as generous early retirement benefits within social security systems, also help to make the least productive less attractive in employment by either lowering their productivity or raising the wage at which they are likely to be willing to work.

It follows that it is critical to remove barriers – mental and regulatory – to retaining and/or hiring older people. Consequently, employers might have to reconsider their attitudes towards hiring older employees and to adjust some organisational HR practices to their needs and expectations. For instance, Frank et al. (2004) argue that treating older employees fairly and valuing their effort play an important part in their retention within the organisation. Governments, on the one hand, should ease EPL, lower payroll taxes and modify early-retirement regulation, that is, address the regulatory hurdles that either discourage senior employment or encourage employees to retire in the first place. And, on the other, they could finance training (mainly in the area of IT) to older workers to enhance their employability through skill upgrading. Let us now examine the situation in Poland, where the problems under consideration have assumed a particular seriousness.

7 Loretto and White (2006) argue, therefore, that smaller organisations – due to their more flexible and less formalised modus operandi – are more likely to respond effectively to the requirements of older people than bigger entities.
Labour-force participation of older workers in Poland

First, it is worthwhile examining retirement-regulation arrangements and labour-market problems that directly bear upon the labour-force participation of older people in Poland. The Polish pension system, revamped in the late 1990s, is made up of three components (see also Palmer, 2002): (1) a pay-as-you-go scheme (run by the Social-Security Institution or ZUS); (2) a mandatory individual defined-contribution account; and (3) an optional individual account. Officially, women retire at 60 and men at 65. The average life expectancy for women is 80 and 71 for men. And every year ZUS – financed from the (high) social-security contribution paid by employer and employee – is unable to pay its pensions bill, which means that it is directly subsidised from the budget (or by the taxpayer). It is estimated that, in the worse-case scenario, its deficit might reach 98 billion euro in 2009-2013. This, in turn, thwarts attempts to reduce the budget deficit.

Equally importantly, there needs to be a recognition that the country fares badly in all competitiveness and business-friendliness rankings (World Economic Forum, 2006; World Bank, 2007). Excessive regulation, labour-market rigidities, high taxes and non-wage labour costs, underdeveloped infrastructure, among much else, have all affected the economy’s standing. Worst, Poland – occupying 72nd place in the Network Readiness Index (Forbes, 2005), which measures the propensity for countries to exploit the opportunities offered by ICT – lags far behind all other EU Member States (except Bulgaria). Specifically, the Polish labour market, marked by high employment protection legislation and high payroll taxes (social-security contributions), is regarded as inflexible (OECD, 2004).

The unemployment rate did fall from 20 per cent in January 2004 to 11.1 per cent in December 2007 and employers now increasingly complain about labour shortages. However, this was due mainly to mass emigration to the UK and Ireland rather than to any supply-side reform. Thus, not only is the country plagued with the highest unemployment rate amongst OECD members, but also, its labour-force participation rate is remarkably low, at around 54 per cent, ten percentage points below the EU-27 average (Eurostat, 2008). Symptomatically, the employment rate of workers aged 55 to 64, at 28.1 per cent and 15 percentage points below the EU-27 average, is the lowest in the entire Community. Hence Poland compares particularly unfavourably in this respect with such Nordic countries as Iceland (84.3 per cent), Sweden (69.6 per cent) and Norway (67.4 per cent). The employment rate of female workers aged 55 to 64 is even lower, at 19.0 per cent, which again stands in sharp contrast to the Scandinavian countries: Iceland (79.8 per cent), Sweden (66.9 per cent), Norway (61.6 per cent) (Eurostat, 2008).

On average, women retire at 56, while men retire two years later. The number of Polish employees able to retire in their 50s, albeit slightly falling of late, is very high (Economist, 2008, p. 37). Even though in other OECD countries the age at which

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8 Those born before 1949 receive pensions only from the pay-as-you-go scheme.
9 Note, for the sake of comparison, that the retirement age in Sweden is 65 (but the employee can choose to stay until he or she is 67, while in Norway 67 (see also Sundén, 2004).
10 As Siebert (2005, p. 6) notes, in France, where the employment rate for the 55-64 category is also low – 38.1 per cent in 2006 (Eurostat, 2008) – there is a saying ‘une seule génération travaille à la fois’ (only one generation works at a time).
people actually retire is well below the official retirement age (OECD, 2006), in Poland this phenomenon takes on worrying proportions. This is because several professional groups such as policemen, teachers, railwaymen and miners, can benefit from rather advantageous early-retirement regulation. For instance, policemen can retire after 15 years of service, while miners can retire after 25 years of work down the pit (regardless of the age). In addition, also those working in special (health-impairing) conditions in a vast array of industries (from steel-making to energy generation and construction) are entitled to early retirement. Thanks to this regulation, some workers can retire, depending on their post and branch of industry, at the age of 40 (women) and 45 (men). Thus, say, a policeman who starts his professional career upon graduating from high school at the age of 19 can become a retiree at 34.\(^{11}\)

In this context, it is worthwhile having a closer look at the financial dimension of early-retirement arrangements. The lowest pension (as well as the lowest disability pension for those totally incapable of working\(^ {12}\)) in Poland amounts to €187 gross (€120 net). An average ZUS pension accounts for 48 per cent of the average salary of €819 gross (€571 net). However, there are separate pensions system for farmers\(^ {13}\) (KRUS) and for assorted ‘uniformed’ public-sector employees, which means that an average pension actually exceeds 60 per cent of an average salary. This, some argue, acts as a disincentive to working longer (as work simply does not ‘pay’).

At the same time, it is important to realise that an early retiree who returns to paid employment can earn €597 gross (€431 euro net) without the payment of his pension being suspended but, if an early retiree’s salary exceeds €597 gross, he stops receiving his pension. If an early retiree reaches the official retirement age this regulation no longer applies – the pension continues regardless of earnings. There also exist two types of pre-retirement payments: so-called pre-retirement benefit (€209) and a pre-retirement allowance (€190). The former can be claimed by a person within five years of retirement who has lost work as a result of company liquidation or insolvency and has a job with pension entitlement and an appropriate amount of service (a woman – 20 years and a man – 25 years). This can be claimed by a person who is entitled to unemployment benefit and has a pension-entitling job tenure (as above).\(^ {14}\)

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\(^{11}\) His or her pension amounts to 40 per cent of their final salary.

\(^{12}\) Those who have never worked and are incapable of working (as result of an accident or illness) can claim so-called social disability pension, which is 84 per cent of the lowest disability pension, that is, 157 euro per month (2008).

\(^{13}\) Polish farmers are exempt from paying personal income tax and their social-security contributions – paid to a separate fund (KRUS) – are far lower than those paid by ordinary employees. KRUS, like ZUS, runs annual deficits, and hence is subsidised from the central budget, too.

\(^{14}\) To see things in proportion, it might be instructive to contrast this with basic welfare benefits. Unemployment benefit, which can be claimed for up to six months, stands at €158 (it varies slightly across different categories of employee), while family allowance, which can be claimed by a household in which net income per head is lower than €148 per month, equals €13 (for first and second child), €16 (for third child) and €19 (for fourth child).
Employability of older Poles

One result of this is that retiring early can be an attractive option for many Poles. This is facilitated by the above-mentioned sophisticated system of early-retirement schemes, which, being the legacy of the communist times, effectively contributes to lowering the average exit age from the labour market. Clearly, on average, individuals lose money if they retire early, as the replacement ratio of earnings in the pension system is about 50-60 per cent. However, individuals who lose their job may well have a very limited incentive to enter lower-paid employment because of the combination of high early-retirement pensions and the withdrawal of that pension once earnings have reached a certain point. In this sense, the system contradicts the rationale of the Stockholm and Barcelona targets. And, indeed, when unemployment was mounting prior to Poland’s EU entry, it was highly desirable to be entitled to early retirement: it – not unlike (dishonestly-claimed) disability benefits – offered a relatively low but secure income and protection from the vagaries the labour market. But this also meant a waste of human potential and a burden on the taxpayer.

Indeed older workers were encouraged to retire early ‘to vacate posts’ for younger (unemployed) people. Of course, such a reasoning was basically flawed, based on “lump of labour” fallacy. A truly flexible and dynamic economy (deep recessions aside) is capable of generating enough jobs for younger and older people alike. In Poland a hostile business climate in general and high payroll taxes and restrictive hire-and-fire procedures in particular discouraged much-needed job creation. Looking from the HRM perspective, the resulting high joblessness rate implicitly reinforced ageism. This is because, when labour supply exceeds demand by so much, recruiters tend to be liable to discriminate against older and less skilled or less productive candidates (see also Siebert, 2005, p. 6).

In the event, at that time the Polish jobless aged 45+ – often, admittedly, without sought-after skills – were thought of as unemployable. Having started their education and professional careers under the old regime, they were seen not only to lack competence, but also to have a socialist work ethos characterised by insufficient organisational commitment, feeble work involvement, shirking or absenteeism. As old habits die hard, the argument ran, it was simply rational to hire younger individuals whose tabula rasa-like workplace mindset was not marred by communist thinking. In other words, rather than eradicating or modifying older employees’ socialism-shaped mentality, a more reasonable policy was to instil new organisational norms and values in younger people. Accordingly, those aged 45+ found themselves at a clear disadvantage and, feeling discriminated against, despaired of finding employment – whilst lacking the incentive to do so.

The three aspects – perceptions of firms about the employability of older people, regulation and non-wage labour costs which make the employment of people who are perceived to be less productive more difficult, and the lack of incentives due to the social security and pensions system reinforce each other in lowering the employment of older people. They also prevent older people from obtaining newer skills that might enable them to be perceived as more productive after a short period in a different occupation from their traditional one. It is worth mentioning that there is evidence that many retirees do return to paid employment in the black economy. Again this seems rational for both parties as the worker’s take-home pay is higher.
and he does not risk having the pension suspended; to an employer, such a post costs less and he is not burdened with onerous labour-code regulations.

Moreover, the position of older Poles is enfeebled by a comparatively small service sector (about 50 per cent of the working population is still employed in manufacturing and agriculture). In line with what has been argued in the previous section, if services grew more dynamically, there would potentially be more job opportunities for those aged 55+. And high joblessness, especially in poorer eastern regions, still makes it easier to employers to discriminate against (less productive) older candidates. And it is in the periphery where those aged 50+ are most likely to lack sought-after skills and to be IT illiterate.

**Policy recommendations**

In this context, the fundamental question arises of what should be done to increase the labour-force participation of older people. Cutting non-wage labour costs and easing employment protection legislation ought to be the government’s top priority (as high payroll taxes and restrictive firing procedures discourage job creation in the first place – and those who are perceived as being least productive suffer most). Likewise, considering that older workers favour part-time jobs and other non-standard forms of employment (such as e-work, on-demand work or a task-based system of work), labour-code provisions that make it difficult to introduce flexible working practices should be modified. For instance, development of task-based systems of work is hampered by the requirement that an employee has to do his work under direct supervision of his employer, in one place and during eight hours per day.¹⁵

Moreover, given that it is in poorer remote areas where the predicament of older individuals is most serious, steps should be taken to devolve more power to regions in the area of taxation and labour-market regulation. The idea would be to eliminate the barriers that prevent economic adjustment by making social-security contributions reflect regional differences in productivity and the cost of living in order to stem the process of pricing the less productive – that is, mainly those aged 55+ – out of employment. Simultaneously official retirement arrangements should be revamped. To start with, both men and women ought to retire at the same age of 65 or, ideally, 67. Early-retirement schemes for privileged professional groups should be discontinued, and the notion of special (heath-impairing) conditions redefined. The farmer-pensions system should be thoroughly reformed, too: social-security contributions paid by farmers should be brought in line with those paid by other employees.

Impediments to the growth of the service sector should also be removed. This, again, highlights the significance of easing EPL and cutting payroll taxes and, by implication, of improving the country’s hostile business climate. As is well-known, red tape and excessive taxation hit particularly hard small businesses, which – favoured by older individuals – are well-placed (due to their more flexible *modus operandi*) to respond effectively to their requirements and expectations. Of course, such a move would help all companies, but in Poland, as elsewhere in the EU, it is SMEs that generate most new jobs. This issue indirectly relates to the question of skill

¹⁵ Today an employer who wants to make use of flexible working practices often has to resort to ingenious solutions to get round onerous regulations.
upgrading. As SMEs often have to cope with financial problems, they are reluctant to invest in training and development. This may be the one area that justifies government intervention in the form of finance for training – though there is no reason to suppose that this would entail substantial government spending. It is important to concentrate co-ordinated efforts – with emphasis on re-qualification/skill-upgrading initiatives – in the periphery. Yet all this will be to little avail if new jobs are not generated quickly enough in the first place through nationwide economic liberalisation and more devolution of economic decision making.

Conclusions

Poland has the lowest employment rate of those aged 55-64 in the EU and its Social Security Institution (ZUS) finds itself in a serious financial predicament, partly as a result. It is critical, therefore, to increase the labour-force participation of older people by encouraging people to continue their professional careers and persuading retirees to return to work. We have argued that, for this to happen, a holistic approach is called for. This would involve improving Poland’s hostile business climate, eliminating labour-market rigidities and, above all, reforming early-retirement regulation. Likewise, we have made a case for government-led finance of training (skill upgrading and re-qualification) and organisational efforts by employees to accommodate older employees (flexible working hours, for instance). The idea would be, on the one hand, to remove supply-side obstacles to the employment of older people and, on the other, to enhance their employability through training.

At the beginning of 2008 the government was working on a programme –called ‘Solidarity of generations 50+’ – aiming at increasing the participation of older workers. Few concrete details are currently known. Some ideas, however, were made public. It is said, for instance, that the government intends to modify early retirement schemes, but is unlikely to ease labour-market regulation and to reduce non-wage labour costs (although those hiring workers aged 50+ will pay slightly lower payroll taxes)\textsuperscript{16}. Nonetheless, regardless of the programme’s final shape, any reform of retirement regulation is bound to be opposed by Polish trade unions which resist curtailing their privileges. Hence the implementation of the ‘Solidarity of generations 50+’ initiative will put to the test the government’s resolve to introduce even modest structural change.

Poland – a country that aspires to catch up with more affluent Member States – can ill afford to waste human potential on the current scale. It is true that the EU is famous for its well-sounding, worthy declarations, which usually remain paper pledges. This fate seems to have befallen not only the much-trumpeted Lisbon Strategy Commission, but also the Barcelona and Stockholm targets. Yet the fact remains that the European Commission’s remit is limited; it can issue guidelines and recommendations, but it is, above all, up to national governments to implement them. So far Poland has failed to do so.

\textsuperscript{16} In this context, one has to realise that a special parliamentary committee had been set up with a view to cutting red tape and unfettering entrepreneurship, but so far it has failed to achieve much.
References


