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EARLY LABOUR MARKET EXIT IN POLAND: DETERMINANTS
AT MICRO- AND MACRO LEVEL

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MOTIVATION AND RESEARCH HYPOTHESES

The aim of this dissertation is to identify the determinants of early withdrawal from the Polish labour market, encompassing both the micro and the macro levels (i.e. individual and policy, respectively).

Two research hypotheses were tested: (1) Active search for early retirement opportunities is a significant and robust predictor of early retirement in Poland; other relevant factors include demographic ones, factors related to health, wealth, family and social commitments. (2) Public policy oriented at raising labour participation among the elders has evolved from the one aiming at extending the duration of being economically active to one oriented at social activities, which reduces the incentives to remain in the labour market.

Early retirement among working Poles was the motivation for this thesis. Even though the nearly 40-year long negative trend in effective retirement age was reversed, the gap between the effective and the statutory retirement age is still considerable. In addition, the short-lived reform that foresaw raising the latter gradually from 2013 on was reversed several years later. The levels restored are low compared to other European countries. Low effective retirement age favours early labour market withdrawal and, in turn, translates into a shorter period of pension wealth accumulation relative to the duration of receiving the benefits. Even if the pension system has features immunizing it against the impact of negative demographic dividend (such is the case of the system introduced in Poland in 1999), there remains the risk of old-age poverty regardless of the partial utilization of dwindling elder labour resources.

This study fits the relatively new strand of research taking up the issue of labour market withdrawal in Poland using quantitative data. Only a decade ago analysis was based on dedicated social surveys [see MPiPS 2008 & Wiśniewski 2010]. Over time, micro datasets have become more popular, incl. the Labour Force Survey [e.g. Marcinkowska et al. 2008; Chłoń-Domińczak 2009; Magda & Ruzik-Sierdzińska 2012] or the Household Budget Survey [e.g. Kula & Ruzik-Sierdzińska 2011]. Poland's inclusion into the SHARE sample is seen as a turning point, since it allows for an interdisciplinary microeconomic analysis of labour market withdrawal determinants. One of the first studies in this area was the one conducted by Myck et al. [2013], which inspired the analysis in this dissertation.

METHODOLOGY. THESIS OUTLINE

Apart from the introduction and conclusions, five main sections constitute this thesis.

Following the introduction, in section 2, two key meta-concepts – *old age* and *retirement* – were introduced. Their origin and evolution were extensively discussed, with special regard to their genesis and evolution. Individual decision regarding the labour market withdrawal was summarized from the theoretical viewpoint of economics, management and psychology.

Section 3 was devoted to the identification and systematic description of all the factors influencing the timing of retirement. Both canonical and cutting-edge studies (as long as

developed countries were covered, with special focus on Europe) on motivations of remaining economically active and terminating labour market participation were considered.

In the fourth section we analysed the situation of the elders through the lens of the abovementioned factors. We made use of quantitative sources including statistical data (Statistics Poland, Eurostat, OECD) and projections (European Commission, United Nations) and data obtained from the social surveys (including LFS, EWCS or SHARE).

In the fifth section econometric modelling (in the form of logistic regressions) was utilized in order to assess the significance of potential determinants of early retirement identified in section 3. Factors influencing retirement over a 5-year timespan were estimated. Due to the fact that search for early retirement options proved to be a significant predictor of early retirement, its determinants were also analysed. Logistic regressions were run on the micro-data from the SHARE survey, waves 2, 4, 6 (cross-sectional waves with Poland).

In the first case, being a working individual in two consecutive survey waves was the dependent variable. The analysis was repeated for waves 2-4 and 4-6. Due to limitations of the dataset, a data-driven approach to modelling was adopted. This means that models were selected on the basis of best fit, while the pre-selection of independent variables was conducted in section 3. In the second case the dependent variable was the declaration of active search for early retirement. Modelling was conducted separately for waves 2, 4 and 6. Independent variables were also chosen on the basis of literature review in section 3, while model fit was assessed using statistical tests.

In section 6, analysis of policies oriented at extending the period of economic activity of elder workers was performed. Apart from labour market policies, policies for senior citizens in 2012-2018 period were considered. Critical literature review of political declarations, strategic and operational documents was performed and confronted with tasks implemented within the national programmes.

KEY RESULTS

The most important results of analysis carried out in the doctoral dissertation are discussed below.

1. Demographic ageing is defined as the change in the age structure of the population resulting in higher share of the elderly. Demographic shift is not a risk, but rather a certainty. Both the breadth and the pace at which it occurs lead to inevitable changes in the proportion of working and non-working cohorts. This observation has two consequences: (1) negative demographic dividend limits the extent to which the retirement age can be lowered and replacement rates raised; (2) the stock of available workers is also becoming older, which is bound to force employers to change the way this labor force is managed.

2. Pension benefit is no longer playing the traditional role of a transfer to those unable to work due to age. The extension of lifespans in the previous decades (a result of technological progress and rising living standards) has not been accompanied by changes in the statutory retirement age. In consequence, the insurance component of pension benefit was marginalized, while the duration of its eligibility was lengthened. The changes occurred in the opposite directions – as a result, they should no longer be associated with each other.
3. In light of economic theory, incl. Modigliani [1954], timing of labour market exits is an optimal solution to utility and income. Interdisciplinary empirical research suggests that factors affecting withdrawal include household structure, its financial situation, health and wellbeing, family and social commitments, age-related social norms, and incentives induced by the labour market and pension system. It should be emphasized that apart from universal factors, several determinants are country-specific. On the other hand, work fulfils the needs exceeding material ones (e.g. appreciation, prestige or generativity), difficult to replicate in other environment.
4. In Poland, elder labour market participation is not only low in comparison to European leaders, but also concentrated in some segments. In particular, the extend of elder unemployment is not a problem – despite the limited profiled support addressed to this group. Withdrawal became a strategy regardless of the business cycle phase. There is a persistent share of discouraged elders. In the light of SHARE survey data, two out of three working individuals aged 50 and above actively search for early retirement as soon as possible, which signals low understanding of the roles of work and retirement, as well as low efficiency in limiting access to early retirements and economically equivalent benefits.
5. Among potential explanations of interest in early retirement as soon as possible, there are:
 - a. satisfaction from various aspects of retirement, in particular amount of spare time available and manner of its utilization,
 - b. high variability of long-term social contract such as pension system – due to frequent changes individuals may prefer certain result over uncertain future,
 - c. low knowledge of Poles regarding mechanisms of pension system and in a broader sense: low economic literacy; it leads to preference of instant gratification, low pension savings rate and delaying accumulation, unjustified belief in own wealth (when being asset-rich and cash-poor) as well as insufficient investment in own employability (health, skills etc.). Finally, low knowledge leads to worse selection of information sources and jumping on the band wagon,
 - d. caregiving – this factor may be especially important for selected labour market segments (e.g. women 50-59).

6. Results of SHARE survey confirm existence of high share of individuals flowing from employment to inactivity long before reaching legal retirement age. Econometric analysis revealed that the list of statistically significant determinants of retirement are, apart from sex and age, the following: declaration of active search for early retirement options and subjective conviction of health problems limiting the ability to do paid work.
7. The declaration of active search for early retirement has statistically significant associations with: sex, age, family and social commitments physical and mental health status and subjective conviction that age is limiting one's activity in various spheres of life.
8. It is unclear to what extent politicians are convinced of the need to conduct policy for senior citizens. Its introduction to Poland was caused by external factors (global financial crisis of 2008-2009 and the celebration of 2012 as European Year for Active Ageing and Solidarity between Generations). Current interest is grounded in the rising voting power of the elder. There is no universal agreement on policy axioms which leads to time inconsistency. Policy ideas are influenced by ideologies. The evolution of policies, as reflected in political statements, strategic and programme documents and everyday execution, proves a marked change in social roles assigned to the elderly. In particular, the diminishing role of an elder as a worker. The relative attractiveness of paid work is declining.
9. In Poland the pension system is not respected as a long-term social contract. Frequent changes (with particular emphasis on the statutory pension age, which was changed twice between 2013 and 2017), partial dismantlement of the system and common use of ad hoc indexation are some of many examples of negative incentives influencing individual decisions.
10. Political decisions are plagued by myopia. The political cycle favors actions that bring quick results and not necessarily those oriented at the long term, such as investment in health care, economic education, lifelong learning or a network of social care institutions. Current offer of social activities includes primarily culture classes and excursions. The popularity of trainings for caregivers is low. The abovementioned examples not only do illustrate the propensity to reach for the low hanging fruit, but also reveal the presence of negative externalities, including crowding out (employment) and deadweight loss. At the same time, other forms of support do not need to promote active ageing. In addition, one should note the differences in access to services.

RESEARCH HYPOTHESES TEST

Second research hypothesis was confirmed, first hypothesis - only partially.

According to the analysis performed in section 5, *active search for early retirement option was a significant and robust predictor of early retirement in Poland*. We performed binary logistic modelling, where remaining active in both periods (separated by approx. 5 years) was the explanatory variable. Active search for retirement (as soon as possible) was among variables identified most often in the data-driven approach, and in most cases it turned out to be a statistically significant predictor. According to the logistic models, searching for retirement increases the odds of early withdrawal. However, the hypothesis that, apart from active search, *relevant factors include demographic ones, those related to health and wealth, as well as family and social commitments* could not be fully confirmed. Demographic variables were always significant predictors (both being female and age turned out to be inducing withdrawal). Among health and wellbeing predictors, depending on the model specification, severe illnesses diagnosed, existence of pain and perception of health status as limiting paid work were found statistically significant. The former turned out to be the most robust. Nevertheless, as health is deteriorating, the odds of withdrawal are increasing. Even if this is only an unfounded impression, the same rule applies. When it comes to wealth, expenditure and income were found to be significant predictors for selected specifications, the higher their level, the lower the odds of early exit. Out of a wide set of variables related to social commitments, only one (their number) was statistically significant, showing that the more activities are undertaken, the lower the odds of retirement are, while none of family commitment proxies were found significant. Last but not least, due to the limitations of SHARE questionnaire, in the area of job quality working time was reported as statistically significant: working part-time increased the odds of withdrawal: less than 20 hours impacts the odds more than working time between 20 and 39. Importantly, the result turned out to be statistically significant for the panel consisting of SHARE waves 2 and 4 (i.e. between 2006 and 2010), while for the panel consisting of SHARE waves 4 and 6 (i.e. between 2010 and 2015) the results were much less robust. As no shift happened in this period, replication of this results on future waves would be desired.

As shown in chapter 6, *the policy aimed at activity of elder Poles evolved from one oriented at extending period of economic activity to one oriented at social activity, which reduces the incentives to remain in the labour market*. As we showed, on the basis of a review of the strategic and programme documents from European, national and regional level, the initial reason for increased interest in elder citizens was the global financial crisis of 2008-2009 and the increasing awareness of the interconnectedness between population ageing and financial sustainability due to pensions and fulfilling the needs of elder population. Thus, the initial response was oriented at increasing economic activity and extending working lives (with special regard to increasing the legal retirement age). After a change in the government more emphasis was put on the social dimension, but the biggest shift took place in 2015 when Civic Platform lost power in favour of Law and Justice. The latter emphasized in their election campaign, among others, the intention to reverse the retirement age hike and more interest in social approach, under the assumption of reaping the rewards of the economic development. In fact, actions aimed at increasing labour market activity were replaced or

phased out, and its implementation in new documents was diluted. By contrast, many resources were mobilized for actions aimed at various forms of social activity, including excursions and classes, volunteering, or establishing day-care institutions whose offer does not necessarily promote active ageing in the sense it was introduced in Europe.

CONTRIBUTION

The dissertation undertakes important and up-to-date issue, namely the labour market exit of Poles in the context of population ageing. From this perspective, the diagnosis and conclusions formulated in the dissertation, apart from their learning value, also have significant applicational contribution. From the analytical viewpoint, an added value are the use of wider range of reliable data and restrictive econometric analysis.

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