

OECD THEMATIC FOLLOW-UP REVIEW OF POLICIES TO IMPROVE LABOUR MARKET PROSPECTS FOR OLDER WORKERS

CZECH REPUBLIC (*situation mid-2012*)

*In 2011, the employment rate for the population aged 50-64 in the Czech Republic was 0.7 percentage points **higher than in 2005** and 2.2 percentage points **below the OECD average**. Further statistical information about the labour market situation for older workers in the Czech Republic is presented in the scoreboard in Table 1.*

A major multi-country OECD review of employment policies to address ageing took place during 2003-05 and was summarised in the OECD synthesis report *Live Longer, Work Longer*, published in 2006. That report put forward an agenda for reform, consisting of three broad areas where policy action was seen as necessary to encourage work at an older age:

- strengthening financial incentives to carry on working
- tackling employment barriers on the side of employers
- improving the employability of older workers

One of the main purposes of this follow-up review is to take stock of the progress OECD countries have made in implementing this reform agenda. In the third quarter of 2011, a questionnaire was sent to all member countries, seeking information on the measures and reforms carried out since 2006. For each of the 21 countries¹ that had participated in the original review, the questionnaire was adapted to refer to the OECD's specific policy recommendations in each corresponding country report.

The main actions taken in the Czech Republic since 2005 are described in this Note. A summary assessment of the extent to which the Czech Republic has followed the OECD's recommendations in the report *Ageing and Employment Policies: Czech Republic* is given in Table 2.

¹ Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom, United States. For further information, see www.oecd.org/els/employment/olderworkers.

A. STRENGTHENING FINANCIAL INCENTIVES TO CARRY ON WORKING

A.1. OECD recommendations to the Czech Republic in 2004 – action taken

Make early retirement less attractive

Steps are taken to make early retirement less attractive, and to increase the employment rate of older workers. The Pension Act adopted in 2008 was amended in 2011. The minimum insurance period required for a pension entitlement is gradually being increased from 25 to 35 years, the latter threshold to be reached in 2017. Early retirement is allowed for a period of five years from the age of 60 but the penalty for early retirement was tightened, to 0.9% of the assessment base for every 90 days of early retirement up to 720 days; 1.2% for every 90 days up to 1 080 days; and 1.5% for every 90 days following the 1 080 days.

Strengthen incentives to continue working beyond the statutory retirement age

Restrictions on the concurrent receipt of an old-age pension and income from work were abolished in 2008. Pensioners are no longer limited to signing one-year temporary contracts, and new rules for increases in individual pensions while the recipient is working are introduced. A pensioner can presently receive the full amount of their pension, which will then be increased by 0.4% of the assessment base each additional 360 days worked or they can receive half of their pension, and that will be increased by 1.5% of the assessment each additional 180 days worked.]

Review the period of calculation of pension benefits

A gradual extension of the reference period calculated to cover the lifelong earnings was adopted in 2011 to encourage working longer. The extension will be phased in gradually because reliable data are only available since 1986.

Reform sickness benefits

A three-day waiting period was introduced in 2008, which means that for the first three days they are ill, the employee is not entitled to any sickness insurance benefits. Moreover, to increase employer incentive to prevent and shorten sickness absence, wage compensation for the first 14 days of absence is paid by the employers; the remaining benefit is paid through the public sickness insurance scheme. In 2011 the period paid by the employers was extended to 21 days, but that extension is envisaged as a temporary measure and should be abolished in 2014.

Better control entitlement to disability benefits and enhance re-employment chances for beneficiaries who can work

A three-tier invalidity pension system was introduced in 2008, replacing the former two-tier system. In addition, the process of assessing invalidity was altered in 2009 to reflect developments in medicine and in the labour market.

An amendment to the 1991 Act on organisation and implementation of social security has been implemented in 2011 to allow the Czech Social Security Administration to recommend taking up work rehabilitation when a person, according to a series of check-ups ceases to be assessed as disabled. The persons who are not considered disabled are offered participation in specialised active employment programmes in order to be reintegrated into the labour market.

In 2009, the UN Convention on the Rights of Persons with Disabilities was adopted by the Czech Republic. The convention contains provisions promoting employment opportunities for older persons. The increase in the number of invalidity pensions has been reversed, particularly the number of new pensions called that “of the highest degree” (corresponding to the former full invalidity pension). Changes in the sickness benefit system have in fact reduced sickness absence, which also may have contributed to the reduced inflow to invalidity pension.

Reform the tax-benefit system so that work pays relative to benefit receipt

A new programme to assist those with insufficient income, called Assistance in Material Need, has been effective since 2007. Designed to motivate people actively striving to meet their living requirements, the system is one of the principal approaches applied by the Czech Republic to combat social exclusion. New legal measures give financially preferential treatment to those benefit recipients in material need who are active jobseekers or who are working; the system thus motivates people to accept a job, even one low-paying. Incomes from gainful activities are only partly counted in the appraisal of material need assistance.

A.2. OECD recommendations to the Czech Republic in 2004 – no action taken

Increase the effectiveness of voluntary pension funds

The supplementary pension scheme in the Czech Republic has many subscribers, but the level of saving is far from adequate to complement public pensions.

A.3. Other implemented measures unrelated to specific OECD recommendations

A new schedule for increasing the statutory retirement age was adopted in 2011: the retirement age for men and women (respectively, 61 and 58.7 in 2010) will be unified at 66.7 in 2041. This statutory age will then grow at the steady pace of two months per year without any specified ceiling.

B. TACKLING EMPLOYMENT BARRIERS ON THE SIDE OF EMPLOYERS

B.1. OECD recommendations to the Czech Republic in 2004 – action taken

Further modernise employment protection legislation

The flexibility of labour relations was increased by a new Labour Code in 2007, and by new measures that will enter into force from 2012. Changes are aimed at reducing the administrative burden, mainly in favour of small and medium-sized enterprises. Changes include decreasing severance pay when the term of employment is less than two years, and increasing flexibility in working arrangements and working hours.

Better enforce legislation on anti-age discrimination in employment

Czech legislation guarantees equal treatment of all employees; age discrimination is thus forbidden. Controlling activities are reorganised and resources increased to enforce the legislation and send clear signals that age discrimination will not be tolerated, In 2005 the State Inspection Office, specialising in labour-law relations and safety at work, was set up by an amendment to the Act on labour inspection. Since 1 January 2012, the inspection authority is transferred from the Public Employment Service (PES) to the State Labour Inspection Office with an aim to increase the effective enforcement of legislation including law on anti-age discrimination. The staff and technical capacity of this institution is being increased.

The Antidiscrimination Act came into force in 2009. The prohibition of discrimination on grounds of age had already been embodied in the Employment Act and in the Labour Code. These legal regulations did

not, however, enumerate specific protections against discrimination. This led to adoption of the Antidiscrimination Act.

Improve working conditions

The Czech Republic imposes standards regarding working conditions to protect employees, but more could be done. As an EU member, the Czech Republic has transposed EU legislation into the national labour law. The country is additionally bound by other international conventions in this area, in particular ILO conventions.

Through its National Programme of Preparation for Ageing (2013-17), now being prepared, the Czech Republic intends to raise companies' awareness of age management tools for creating working conditions and trends that help older workers stay in the labour market as long as possible.

B.2. OECD recommendations to the Czech Republic – no action taken

Reduce social security contributions on low-wage employment

Non-wage labour costs in the Czech Republic are among the highest in the OECD area, and affect disproportionately unskilled older workers. The OECD consequently recommended a reduction in employers' social security contributions targeted towards low-wage earners. In August 2009, in connection with the financial and economic crisis, the Czech Republic approved a law supporting employment through social insurance bonuses. The bonus is highest for lowest wages; the highest wage qualifying for the bonus application was income equal to 1.15 times the average wage. This measure intensified the fiscal imbalance of state budget and was therefore abolished from 2010 as ineffective.

B.3. Other implemented measures unrelated to specific OECD recommendations

To stimulate employers to hire older workers, a *subsidised employment programme* ("Jobs of social importance") was introduced in 2006. This programme is based on an agreement between employers and a labour office and pertains to older jobseekers who cannot find any other work. The labour office may pay an allowance for the creation of jobs for these people. The period of allowance entitlement was prolonged from six up to twelve months.

From 2006, an *on-the-job training allowance* may be paid by the labour office to an employer engaging an older jobseeker who is provided with special support by that office. The allowance is, once again, paid on the basis of an agreement between a labour office and the employer. The allowance may be paid for three months and amount to up to half the minimum wage.

The Czech Republic has launched several *initiatives to change attitudes towards older workers*. In 2006 a campaign was run at the state, regional and local levels to enhance awareness concerning the abilities of older workers. The Government Council for Older Persons and Population Ageing was established in 2006, as a permanent advisory body to the government, to promote conditions for healthy and active ageing, dignity in old age, and the active participation of older persons in the economy and society. During the period 2007-11 the Council has adopted several basic recommendations that the government discussed and then assigned the competent ministries to implement.

The *National Programme of Preparation for Ageing 2008-12* is based on the assumption that in order to improve the quality of life in old age and to find a successful solution to the challenges related to demographic ageing, it is necessary to focus on a range of strategic areas and priorities; these should be promoted throughout all sectors and at all levels of public administration. A report on the implementation of the programme's priorities and measures is submitted annually to the Government Council for Older

Persons and Population Ageing. In 2010, a project titled Promoting Employment and Use of Leisure Time of Seniors – People of Pre-retirement Age in the Age of 50+ was made operational. Its aim is to contribute (through sharing of best practice and the exchange of foreign experience) to prolongation of economic activity and social integration, and promotion of harmony between the working and private lives of people in pre-retirement and of retirement age.

C. IMPROVING THE EMPLOYABILITY OF OLDER WORKERS

C.1. OECD recommendations to the Czech Republic – action taken

Increase the resources of public employment offices

The PES is a key element of the social reform portion of the National Reform Programme (2011-15). The aims of the reform are to simplify the social protection system, promote the effectiveness of public services, and combat undeclared work.

A new, centralised PES was established in 2011. One of the main aims of this initiative was to provide more efficient targeting of human and financial resources. All existing non-contributory social benefits are operated within the new organisational structure of the PES. Activities that previously were managed at the departmental level are now steered by the regional branches of the PES, the level to which economic responsibility has been transferred. The results of the newly established PES will be evaluated without delay.

Adopt an effective “activation” strategy

Individual action plans are mandatory for unemployed persons aged 50 and over, through an amendment of the Employment Act in 2006. These special retraining and career counselling programmes are to be taken by older persons when their unemployment registration has exceeded six months. The plans work as an activator during unemployment, increasing the co-responsibility of the unemployed persons. In the Czech Republic this is of significant importance, as a large part of the population remains convinced that the main responsibility for job placement lies with the state.

Courses for unemployed jobseekers aged 50 and over were introduced, in 2006 with the main aim of increasing motivation and activation during the job search. The target group also includes older jobseekers with handicaps. The PES can provide financial subsidies for the self-employment of older jobseekers, as one possible path to employment.

As of 1 January 2012, community service assistance with integrating the long-term unemployed, including older jobseekers, has been transferred from municipalities to the PES. Unpaid community work can be performed up to 20 hours a week; the activity is continuously monitored and evaluated and can help the jobseeker find a subsidised job, as mentioned in Section B.3.

Introduce in-work benefits for non-employed individuals who accept a job

The new programme on assistance in material need, effective since 2007, includes benefits combining both in-work and out-of-work features; for further description see Section A.1.

Strengthen training provisions

In the Czech Republic, jobseekers and employees above the age of 50 often lack knowledge of foreign languages and ICT skills, which diminishes their chances in the labour market. Recognising vocational training as one of the most effective tools of active labour market policy, labour offices in the Czech Republic support such training (or retraining) of jobseekers in order to increase their qualification to match

current labour market needs. In previous years, older jobseekers comprised as many as one-quarter of all vocational training (retraining) participants.

Training courses and further assistance for increase in employment and new labour market possibilities for older workers are mainly financed through the European Social Fund and are implemented by the PES and various NGOs.

C.2. OECD recommendations to the Czech Republic – no action taken

Review the measures for older workers with “modified work ability”

The current system requires employers with more than 25 employees to employ a certain quota of workers with modified work ability (ZPS). This measure is primarily focused on employing workers with disabilities irrespective of their age. The OECD had instead recommended “activation” programmes as a more promising avenue for older individuals, many of whom suffer from low motivation.

Table 1. Older workers scoreboard, 2001, 2005 and 2011

	Czech Republic			OECD ^h		
	2001	2005	2011	2001	2005	2011
Employment						
-- Employment rate, 50-64 (% of the age group)	55.6	58.3	59.0	55.6	58.4	61.2
<i>of which</i> 50-54	81.5	82.3	84.7	71.8	73.7	76.1
55-59	51.7	61.6	69.3	55.9	59.9	64.8
60-64	17.2	22.3	25.8	32.5	35.6	40.0
-- Employment rate, 55-64 (% of the age group)	37.1	44.6	47.6	44.9	49.0	52.9
-- Employment rate, 65-69 (% of the age group)	7.6	8.1	9.3	15.2	16.5	18.5
Job quality						
-- Incidence of part-time work, 55-64 (% of total employment)	12.8	5.7	5.8	17.2	17.2	18.7
-- Incidence of temporary work, 55-64 (% employees)	18.0	12.8	8.3	9.0	9.1	9.1
-- Full-time ^a earnings, 55-59 relative to 25-29 (ratio)	1.17	1.08	1.06	1.32	1.33	1.34
Dynamics						
-- Retention rate ^b , after 60 (% of employees <i>t</i> -5)	16.8	51.5	23.8	37.8	40.4	42.2
-- Hiring rate ^c , 55-64 (% of employees <i>t</i> -1)	1.5	8.0	7.4	7.8	9.2	8.5
-- Effective labour force exit age ^d (years) Men	61.9	61.5	62.6	63.1	63.3	63.9
Women	58.2	58.4	59.1	61.1	62.0	62.8
Unemployment						
-- Unemployment rate, 55-64 (% of the labour force)	4.9	5.2	5.8	4.6	4.8	5.8
-- Incidence of long-term ^e unemployment, 55+ (% of total unemployment)	57.6	58.0	45.8	46.8	47.7	45.9
Employability						
-- Share of 55-64 with tertiary education ^f (% of the age group)	9.1	10.7	11.5	15.9	19.9	22.9
-- Participation in training ^g , 55-64						
Absolute (% of all employed in the age group)	5.4	3.7	10.2	6.6	8.2	9.4
Relative to employed persons aged 25-54 (ratio)	0.76	0.55	0.66	0.44	0.52	0.57

-- unavailable.

a) Mean gross hourly earnings, 1999, 2004 and 2009.

b) All employees currently aged 60-64 with tenure of five years or more as a percentage of all employees aged 55-59 5-years previously, 2002, 2005 and 2010.

c) Percentage of employees aged 55-64 with a job tenure of less than one year, 2000, 2005 and 2010.

d) 2001, 2005 and 2011. Effective exit age over the five-year periods 1996-2001, 2000-2005 and 2006-2011. The effective exit age (also called the effective age of retirement) is calculated as a weighted average of the exit ages of each five-year age cohort, starting with the cohort aged 40-44 at the first date, using absolute changes in the labour force participation rate of each cohort as weights.

e) Unemployed for more than one year.

f) 2000, 2005, 2010.

g) Job-related training during the last month; 2002, 2005, 2011.

h) Unweighted averages for 34 OECD countries.

Source: OECD estimations from national labour force surveys and OECD Education database.

www.oecd.org/els/employment/olderworkers

Table 2. Ageing and employment policies: Czech Republic (situation mid-2012)

OECD's recommendations to the Czech Republic in 2004	Action taken
A. Strengthening financial incentives to carry on working	
<i>Make early retirement less attractive</i>	+
<i>Strengthen incentives to continue working beyond the statutory retirement age</i>	+
<i>Review the period of calculation of pension benefits</i>	+
<i>Reform sickness benefits</i>	+
<i>Better control entitlement to disability benefits and enhance re-employment chances for beneficiaries who can work</i>	+
<i>Reform the tax-benefit system so that work pays relative to benefit receipt</i>	+
<i>Increase the effectiveness of voluntary pension funds</i>	/
B. Tackling employment barriers on the side of employers	
<i>Further modernise employment protection legislation</i>	+
<i>Reduce social security contributions for low-wage employment</i>	/
<i>Better enforce legislation on anti-age discrimination in employment</i>	+
<i>Improve working conditions</i>	/
C. Improving the employability of older workers	
<i>Increase the resources of public employment offices</i>	+
<i>Adopt an effective "activation" strategy</i>	+
<i>Review the measures for older workers with "modified work ability"</i>	/
<i>Introduce in-work benefits for non-employed individuals who accept a job</i>	+
<i>Strengthen training provisions</i>	+
<p><i>Notes</i></p> <p>/ = no (relevant) action taken; + = some action taken, but more could be done; ? = some action taken, but could have negative impact and requires further assessment; ++ = substantial action has been taken.</p> <p>Source: OECD (2004), <i>Ageing and Employment Policies: Czech Republic</i> and answers to the follow-up questionnaire from the Czech Republic.</p>	