



THESES

for Ph.D. dissertation of

Judit Monostori

titled

Active population on pension.

**Reasons for early retirement
in the years just after the change of regime in Hungary.**

Supervisor:

Zsolt Spéder, Ph.D.

Budapest, 2009

Institute for Sociology and Social Policy

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1. Research topic

Human life paths may be divided along various considerations. One possible approach is to divide life into the following major life phases: academic years, participation in the labour market, and retirement from the world of labour. With few exceptions, all members of society live through these phases, however there may be significant individual differences in terms of the lengths of these periods, the distinctiveness of the turning points between them, and the other possible alternative phases that may be wedged in between the above life chapters with regards to historical time and in the various social strata.

Focusing on historical timeframe, the changes of recent times can be summed up as follows: academic or the learning years have been extended in time partly overlapping with the employment years; as for labour market participation, a steadily increasing social stratum lives through periodic exclusion through becoming unemployed; women may find it difficult to return to the labour market after mother's leave; and older generations tend to leave the realm of labour in increasing numbers before reaching pensionable age. As a result, the human life paths have shrunk as a whole while the phase of participation in the formal labour market is partially narrowed down and partially fragmented. (*Brugiavini, A. – Peracchi., 2005*) Strangely, this takes place in Europe at a time when life expectancy is on a steady rise and people live longer. The distance between the time of leaving the labour market and life expectancy has – as a result – expanded, years on pension have been extended (*OECD, 2002*). While in recent decades and largely owing to EU expectations, there have been changes in the employment of the older generations, the fundamental trends have not changed even today.

With regards to the exodus of older generations from the labour market, it has been found in many countries that the labour market position and the termination of the labour market careers of employees near their pensionable age show a much more varied picture than ever before. Some of the people concerned leave the labour market at the time of reaching the pensionable age limit as active bread-winners become pensioners. Others however, abandon their active status already before the pensionable age and become early retirees, disabled pensioners, unemployed or join other inactive groups. Other groups reach pensionable age after years of repeatedly exiting and re-entering the labour market or make their gradual exit through various stages of part-time employment. Moreover, the number of people who continue to actively participate in the labour market in their pension years is steadily falling. (*Reimers, C. – Honig, M., 1989; Doeringer, P, 1990; Kohli, M. – Rein, M. 1991; Henretta, J. 1992; Guillemard A.M. – Rein,M., 1993; Boulin, J.Y. – Hoffmann, R.*

1999; O'Reilly, J.-Cebrian, I. - Lallement, M. , 2000; Naegele, G.C. – Barkholdt, B. – de Vroom, J. – Andersen, J.G. – Krämer, K. 2003, Dalen, H. – Henkens, K. – Henderikse, W. – Schippers, J., 2006; Börsch-Supan, A. – Brugiavini, A. – Croda, E. 2008)

The phases of human life paths in the twentieth century have become driven by social institutions. (Anderson, M., 1985; Kohli, M., 1987; Mayer, K.U. – Schoepflin, 1989) As far as the older generations are concerned, the most important preconditions for institutionalisation were the development and establishment of pension systems. Before that people kept working until they could, until their physical well-being allowed them to do so. If they had not managed to collect sufficient “provisions” for their future years during their active live phase or the family economy could not afford to look after them, many were facing harsh times as there was no social protective net to fall back onto, no social benefits to make up for the lack of previous incomes to some at least. The establishment of pensions systems and their extension over the entire population have made it possible for us to talk about early retirement as a social phenomenon today. Early departure is construed as exit from the labour market prior to reaching pensionable age.

In the majority of European countries, the pension systems are based either exclusively or dominantly on the pay-as-you-go principle. This means that pension insurance scheme is based not on individual contracts but on a social contract. The very essence of the social contract is that the earnings of the active-age generations are used to pay pensions. And this is the point where changes in individual lives influence the whole of society including the pension systems, and from then on play a decisive role in shaping the lives of pensioners and the level of pension payments. If the period of employment in the life of the active age population is shortened or the period when social insurance contribution is paid on their behalf – which is not necessarily same as the former – is shortened, less income is being generated, which may lead pension sustainability problems. Individuals leaving the labour market and entering the pension system do not generate an income but use up pension allowance instead. When the system dependency rate – used to express the number of pensioners against the number of contributors – rises, the balance between the incomes generated on the labour market and the pensions is upset. (Hamar, 2004; Augusztinovic M. 2005)

It is therefore pivotal to enable older generations to remain in the labour market for as long as possible, at least until they reach pensionable age. Why have we failed at this so far? What were the intentions and measures that had set this a target?

Before these questions can be answered, it is prerequisite that we understand which factors play a key role in causing active age population to exit the labour market, how institutional frameworks, and, in particular, the operation of the labour market affect labour market leavers together with the opportunities and limitations presented by the regulatory measures of the pension scheme. What is the role individual resources, volunteer decisions and coercion play? What are the means that may motivate elder generations to partake in the labour market in higher numbers?

The following thesis will be looking to answer these questions. In its approach, the study will look at early departure from the labour market and early retirement from the angle of individual life paths. It will deal with people who were nearing pensionable age in the 1990s and in the first half of the 2000s but had not yet reached the specified pensionable age; those who had finished their academic studies and started their labour market career still in the decades of socialism. This predetermines their labour market position after the change of regime.

The heavy contraction of the labour market in the first two-thirds of the 1990s and the changes in the pension scheme had a severe impact on the generations in the focal point of the study, the most significant of them being the increase in pensionable age.

The study will focus on the fate of people who left the realm of labour before reaching pensionable age. Positions within the labour market and the shifts therein will only be examined as long as they contribute to our understanding of the reasons for leaving the labour market.

The thesis will seek to find out

- the factors that motivate older generations to leave employment before reaching pensionable age,
- how these factors are interrelated,
- what are the channels used for exiting the labour market,
- the differences between men and women with regards the volume and timing of the exit and the factors they are determined by,
- what changes have been made in this regard in the period since the change of regime,
- whether have the individual passages leading to pension been further diversified or homogenised.

2. Labour market activity and retirement trends in Hungary

The study will first look at the long-term trends of labour market activities of the older generations since the 1960s up to today then give a more detailed picture of the times of transition after the change of regime. Since the regulation of the pension system has a major role in when and how the elderly may retire, the thesis will present the most important components of the pension system in great detail. Most of all, the study will look at the legal frameworks that apply to forms of early retirement and disability pension.

Out of the changes in the pension schemes there are two important components to highlight in this summary. On the one hand, there are significant differences concerning the specific periods following the change of regime with regards to the risks the pension system entails. While on the other hand, in the period under review, there was a significant increase in pensionable age, which had a fundamental and major impact on the retirement trends of the older generations after 1998.

¹In the pre-1990 years, the pensions and contributions had been based on two types of risks (to use the phraseology of the ESSPROS). One of them is allowances extended to the elderly, the other to the sick and the disabled. Owing partly to deliberate and partly unintentional factors after the change of regime, a third type of risk emerged that affected pension provisions: unemployment. Deliberate components manifested themselves after the 1990s in the introduction of different forms of retirement, which were specifically designed to provide a remedy to the unemployment problem and additionally to alleviate unemployment-related tensions within society. The most important element of the unintentional factors was that going on disability living allowance became extremely popular. Qualifying for disability pension was now an alternative channel of keeping unemployment levels under control.

After the end of the 1990s, the types of risk had once again narrowed down as the allowances directly associated with unemployment were either abolished (e.g. early retirement for the unemployed), or lost their relevance (e.g. early redundancy pension packages).

Dramatic changes were witnessed in the second half of the 90s with the increase in the pensionable age. The act of 1997 increased the pensionable age to 62 years for both men and women. At the same time, the increase is designed to be gradual and the first year when both men and women will go on pension at the age of 62 will be 2009. For the period between

ESSPROS (European System of Integrated Social Protection Statistics) is an international classification system which categorises social allowances according to function.

1998 and 2009, the pensionable age is specified for each year of birth. The increase in pensionable age affected women most radically since for them it meant an increase of seven years during the transitional period.

The act not only eased the tension triggered by the increase of the age limit, by stretching it out over time, but also by introducing the institution of voluntary early retirement during the years of transition. After the second third of the 1990s, voluntary early retirement became the latest trend in early retirement.

From all this it transpires fairly clearly that the period under review was full of events and action in terms of labour market movements and the pension system. This is also reflected in the trends that shaped the employment patterns of the older generations. While the rate of employment throughout almost the entire period was far below the EU average, there were great differences among men and women in terms of employment between the periods before and after 1998.

After the contraction of the labour market, which started in 1998 and culminated in the 1990s, employment figures began to rise. The changes affected men most in the age group of 55-59 and women between 50 and 59. The main driving force behind the changes was the new pension act coming into force in 1998, which - by increasing the pensionable age - had spectacularly boosted the labour market participation of these generations. The effect was somewhat weaker among the over 60 age group, although the rise in employment figures for women still did not stop since the transition was not yet over at the time of the study for the increase in pensionable age for women.

The avenue most often pursued by generations over fifty after leaving the labour market was leading to retirement. The vast majority of job leavers applied for the various forms of disability pension and early retirement². In the period under review, the number and rate of employment-age pensioners significantly increased. They accounted for 4% of the employment age population in 1990, 8% in 1995, 9% in 2001 and 11% in 2006. Early retirement was particularly popular and frequent among people over 50 years of age.

Also, the composition of pensioners under the pensionable age limit has also changed. Almost all the early retirees in 1990 were disability pensioners. In the 1990s however, new alternative forms of early retirement had surfaced, which - on the whole - provided benefits to app. 100 thousand people each year. In the 2000s, the number of people on disability pensions

For the purposes of this study all forms of retirement allowance that may be applied for prior to reaching pensionable age will be called early retirement.

had stabilised and other forms of early retirement began to take up popularity which caused the rate of disability pensioners to drop among other early retirees.

3. Theoretical frameworks

The thesis will look at the theories that may be relevant in helping to understand the factors that determine the time when individuals exit the labour market, when they retire, and the factors that explain early retirement, i.e. leaving the labour market still in active age. The theories are grouped into two main categories: the first group includes approaches that attempt to understand the labour market changes affecting the older generations and the process of their exclusion from the labour market at the level of social groups. These theories are trying to identify the differences between the key factors motivating the exit of younger, middle-aged and the older generations from the labour market. Some of the theories under this heading consider the repulsive forces of the labour market, while others see the attractive forces of the pension scheme dominant, and finally, there is a third approach that places the emphasis on the interrelationship between the labour market, the pension system, and the labour market actors. The theories highlighting the impacts of the institutional systems argue that if the key to retirement was not a social construction, it would be impossible to understand why early retirement happens to enjoy extreme popularity in the very period when life expectancy is steadily increasing and people live longer than ever before. Without taking into account the effect of the institutional system, it would be impossible to explain why in certain periods more people retire early than in others; after all, in all periods the elderly include a wide range of people such as qualified and less qualified, healthy and ill, high- and low-earners, as well as people who seek to get away from the labour market and others who wish to participate as long as possible.

3.1 Macro-level theories

3.1.1 The spillover effect of the pension scheme

The premise of the approaches that enlarge upon the role of the social net is that the social welfare system impacts on the operation of the labour market through the ways it extends benefits, including the specific group of people entitled to benefits, how long

entitlement lasts, and the quality of the benefits. People most protected by the social net are always most likely to leave the labour market.

As for social factors, institutional impacts, literature on the subject emphasises the impact of the pension systems since the older generations tend to retire when leaving the labour market hence the regulation thereof will define the number of people, the timing and the manner of departure from the labour market.

The wide penetration of the pension systems, the relatively high rate of substitution against other provisions, the permanence of entitlement, and the positive context of the retirement years have all added a little to make retirement an attractive alternative to active labour market participation for the older generations. (*Gordon, R.H.- Blinder, A.S., 1980; Burtless, G. – Moffitt, R.A., 1984; Blöndal, S. – Scarpetta, S. 1999*) The spillover effect of the pension systems does not stop at old-age pension, but extends to even the most diverse forms of early retirement. The employment policy pensions and disability pensions present a more attractive alternative to many rather than the uncertainty of unemployment, or living on unemployment or other benefits offered to people unable to return to the labour market.

One group of theories argue that the pension system standardises the exitways since the specific forms of provision are generally associated with to age limits and specific number of years of service. (*M. Kohli, 1987*) Other authors argue that the mere existence of pension systems does not necessarily draw a borderline between employment and the world outside employment; life paths are individual, there is no clear-cut transition between full-time work and complete exit from the labour market. The phases between two life cycles are filled with bridge jobs as many make a gradual exit from the realm of employment. (*Reimers, C. – Honig, M. 1989; Doeringer P., 1990; Bluestone, I. et al, 1990; Ruhm, C. 1995*) Pension systems also differentiate life paths by being built on a number of risks (unemployment, illness, old age), which impact on social groups at different times and with different weight. At times when the pension schemes have a number of different integrated risk component, life paths on the labour market are much more varied, the timing of leaving the labour market is more differentiated, the subsequent phases are different in length and structure for most people.

3.1.2 The repulsive effect of the labour market

Theories that emphasise the role of the repulsive effect of the labour market argue that the exit of the older generations from the labour market is fundamentally defined by the movements

of the labour market. (*Boaz R. F., 1988; Couch, K.H., 1998; Morrow-Howell N.- Leon J., 1988; Kohli, M. – Rein, M. 1991*) Now as to what these movements and changes that generate extensive departure are, a number of explanations have been provided. These may include large scale unemployment, sectoral restructuring, and modernisation. Individual theories are built up accordingly and they try to identify a correlation between general characteristics of the labour market, and early retirement. The study at hand will highlight two of these theoretical approaches: the first one argues that the extent of early retirement really depends on how much the representation of older generations in the sectors differ from the entire structure of the labour market (*Jacobs, K. – Kohli, M. – Rein, M., 1991*). The second approach links early retirement to unemployment. According to the theory, the wide-scale early retirement is a result of rising unemployment. The early retirement of older generations, in fact, prevents the further rise of unemployment figures; it relieves the tension caused by unemployment. This solution of the labour market is based on a kind of social consensus between the employees, employers and the state (*Boaz R. F., 1988; Couch, K.H., 1998; Morrow-Howell N.- Leon J., 1988; Kohli, M. – Rein, M. 1991*).

3.2 Micro-level theories

The other major group of theories place the emphasis on the role of individual factors. These are fundamentally underpinned by the presumption that the labour market activity or exclusion of a potential labour market participant is largely defined by the individual's own resources. They may include academic qualifications, state of health, previous work experience, etc. Lack of the above, or any disadvantages in this regard will exclude young ones from the labour market as it would any old person. In the theories that place individual characteristics into the focal point, information pertaining to the family background, the immediate environment of the individual play an important part as they may have an impact on the shaping of one's labour market participation albeit indirectly. These theories emphasise the importance of subjective factors such as labour market fears, satisfaction with work, and ideas about the retirement years.

The theories do not typically provide a coherent picture about how the explanatory factors defining early retirement are interlinked, which of the various dimensions have the stronger impact on the various forms of retirement. Typical examples include approaches enlarging upon the correlation of financial status and retirement. The majority of these theories, approach the issue from the angle of individual employee decision: individual

decisions are seen and interpreted within the triad of income, pension, and freetime. According to this, individuals decide for or against retirement depending on their perception of work and freetime, and the difference between current earnings and expected pension. (*Dilnot, A. – Walker, I., 1989*) Others argue that individuals decide about retirement depending on their state of health. (*Lumsdaine, R. – Mitchell, O. , 1999*) A number of theories are centred around the notion that retirement in the majority of cases takes place within the family environment, therefore the activities of couples, their position on the labour market, the financial circumstances of the family may all be important considerations when making a decision to retire. (*Blau, D.M., 1997; 1998; Blau,D.M.-Riphahn, R.,1999*) The thesis will detail all the theories that may be solid starting points with regards to individual resources, dispositions, and family surroundings which may be used to formulate hypotheses concerning the explanatory factors behind the retirement of individuals.

Following the description of the theoretical frameworks, a few research results will be discussed which attempt to explain the wave of early retirement in Western Europe that peaked in the 1970s and the 1980s. The examples presented provide a good illustration of how the above theories cannot be applied when removed from geographical and historic contexts. The labour market, social policies, and people's disposition to labour in different countries show so immense differences that the premises for specific empirical research projects are presented by various theories depending on historic time and location.

4. Research issues and hypotheses

The questions addressed in the theses are classed into three groups. The thesis will first attempt to answer the questions that deal with the characteristics of the labour market activities of generations nearing pensionable age and their departure from the labour market between the beginning of the 1990s and the middle of the 2000s. During this decade and a half, there were serious and heavy changes in the labour market and the pensions system as well. It would be interesting to find out how these changes affected the various birth cohorts. To what extent and in what ways is the pattern of retirement different for people that turned into their fifties towards the first half of the 1990s, which are characterised by heavy unemployment and the strong narrowing of the labour market, and for those that reached the same age only towards the second half of the 1990s or already in the 2000s? How do changes

in the pension scheme affect retirement: the introduction and the subsequent abolishment of various pension schemes, the increase in the pensionable age.

The second group of issues examined is aimed at finding out how the employment pattern of the older generations followed or differed from the general movement of the labour market. These questions are examined along three different dimensions: sectoral restructuring, changes in the proportion of manual and intellectual workers, and the restructuring of the labour market along the lines of school qualifications. The study will attempt to find out whether the intensity of exclusion from the labour market can be attributed to factors such as employees being engaged in sectors that were more vulnerable to shrinking, to the higher rate of blue-collar workers in a particular sector, or to the lower level of school qualifications of employees. These questions will be treated by monitoring the life paths of the cohorts.

The third larger set of questions will target to examine individual resources focusing on a shorter period than previously: only to 2001-2004. There are panel data available for this period to provide us with two points of observation on the lives of individuals, and with loads of information concerning the period between these two points. The available retrospective data will provide an insight into the whole life paths of individuals. The examination of individual resources will try to highlight the factors within the generations reaching the pensionable age that promote early retirement.

As for the first set of questions, the differences between the various birth cohorts are examined in the same periods of the cohorts' life paths between 40 years of age and pensionable age. The second set will examine how the studied cohorts' labour market positions relate to the particular existing labour market conditions at any given time; in what ways are their exit from the labour market different from those of the younger generations. The third group of questions will observe the individual characteristics within a given cohort that increase the likelihood of early retirement.

4.1 The timing of exit from the labour market and retirement within the life paths of the various cohorts

4.1.1 The time of retirement within life paths

The employment figures of the older generations had significantly deteriorated in the first half of the 1990s with improvement coming only in the post-1998 period. However, this improvement had affected the various age groups above fifty in different ways and showed

different degrees of dynamism among men and among women. Since the rate of employment and retirement among people over fifty are almost complementary to each other, it may be presumed that the cohorts already affected by the increase in the pensionable age limit retired at a later stage in their lives than older ones.

H1: The average age of retirees will be higher with the cohorts already affected by the increase in the pensionable age.

Although the increase in pensionable age puts off the average time of retirement, the actual age when people retire does not correspond with the pensionable age limit. This is demonstrated by the fact that the increase in pensionable age seems to have a delayed impact in the concerned cohort groups; and also in the fact that since 1998 the actual time of retirement did not increase by the same number of years that pensionable age was increased by. In other words, this means that while the time of retirement in one's life path may have been put off to a later time, but if we look at how retirement trends relate to old-age pension, it is presumed that the gap after 1998 increased.

This may be attributed to a number of different factors. One of them is that the years under review witnessed a constant and massive wave of people going into disability retirement which counteracts the effect of increase in pensionable age as the age of people on disability pension is typically very low. The other reason is that in order to alleviate the tensions caused by the increase in the pensionable age, the institution of voluntary early retirement was introduced in the transition period for people directly affected, which provides very similar conditions of retirement to those of old-age pension.

4.1.2 Standardising or diversifying retirement paths

The other question concerning retirement is to see how standardised the retirement paths are in terms of timing.

H2: According to our hypothesis, in the first two-thirds of the 1990s, retirement paths were much more diversified in terms of timing than in any other later period.

[This is explained by the strong shrinking of the labour market in the first two-thirds of the 1990s, unemployment expanded, which increased the rate of forced retirement triggered by labour market pressures. According to our hypothesis, this diversifies the time of retirement

more than ever thereafter in the post-1998 period. The people concerned had a higher number of different types of pension schemes available to them than after 1998, while the life interval of entitlement to pension was also typically longer than after the amendment of the pension act.

4.1.3 Transitional statuses between employment and retirement

Studies dealing with the European practices of retirement suggest that retirement is often not a single event, but a procedure during which the individual exits the labour market after a few years of part-time work before making a final exit from the formal world of employment to retirement. In Hungary, however, the rate of part-time employment is extremely low even among the younger generations. The alternative to final retirement here is either the continuation of the former job the retiree had before going on pension or full-time employment with another employer.

H3. According to our hypothesis, employment during retirement was more frequent after 1998 than in the first two-thirds of the 1990s.

This is supported by a number of factors: Firstly, two of the available early retirement options in the first two-thirds of the 1990s were specifically designed for the generations that were already unemployed at the time. Not only did they have poorer chances of finding employment while in retirement, but according to the conditions of entitlement, they would not have qualified for pension if employed. One of the most common forms of early retirement in the post 1998 period was voluntary retirement in the transition years available to people who would have been eligible to retire if the increase in pensionable age had not been introduced; since this social provision was widely availed of by the age groups affected, it is presumed that the composition of pensioners therein was also better as far as employment prospects were concerned.

4.2 The structural reasons for leaving the labour market

One of the sets of theories dealing with the repulsive effect of the labour market argues that the intensive departure of the older generations from the labour market is attributable to the fact that older people found themselves employment in sectors of the labour market where redundancy was more frequent or at least the expansion of jobs was not as dynamic as in other sectors. (The theory of sectoral dependence.) At the same time, other theories argue that early retirement is not determined by the structural differences between the sectors since most sectors equally want to lay off older employees as they generate higher wage costs and it is also widely believed that the energy invested in older employees will not be recovered. Early retirement is an ideal relief channel for employers to regulate staff numbers. From this it follows that the exit trends of the elderly are stronger irrelevant of the sectoral structure. Based on this, a hypothesis and a counter-hypothesis are formulated.

H4_1: According to our hypothesis, the higher number of older people on the labour market was fundamentally a result of the fact that elder generations were mostly overrepresented in sectors that had either shrunk or expanded at rates lower than other sectors.

H4_2: The sectoral distribution of employees falling in the age group in our focal point plays no significant role in explaining why masses of people getting closer to pensionable age exited the labour market.

As far as the structural causes are concerned, the second set of questions examine the role of the different employment structures of older employees in explaining labour market exits, i.e. is there a difference between blue-collar and white-collar workers' retirement trends?

H5: The study hypothesises that the drastic fall in the number of elderly workers is better explained by the fact that physical workers tend to leave the labour market as they reach pensionable age in higher numbers than younger ones rather than by the fact that the rate of blue-collar and white-collar workers in the various age groups is different. The other hypothesis is that physical workers tend to leave the labour market in higher numbers than white-collar workers (**H5a**) the blue collar workers leave the labour market in higher numbers than the younger blue collar workers (**H5b**).

One of the labour market processes in the period under review is that the structure of employees according to school qualification had significantly been reshaped for both men and women since the beginning of the 1990s. In 1992-2004 the rate of employees with maximum eight years of elementary education halved. At the same time, the rate of employees with higher level of education increased. The highest growth rates were registered among men with vocational school-certificates and year-twelve secondary certificates and among women with tertiary education. How did these structural processes affect the labour market participation of the older generations?

H6. Since among the older employees, the number of people with only elementary-school education is higher than with any other age group, the study hypothesises that poorer levels of education play a tangible role in early retirement.

4.3 The correlation between early retirement and individual and family characteristics

The correlation between early retirement and individual and family characteristics is examined for the 2001-2004 period. In this respect, the causes behind disability and other forms of early retirement are examined separately.

H7: As far as disability pension is concerned, it is hypothesised that the state of health and the labour market position of individuals play equally important roles. (*Schils, T. 2004; Blekesaune, M. – Solem, P.E., 2005*) People with health problems are more likely to leave employment and go on disability pension (**H7a**) if they are blue-collar workers, (**H7b**) have been unemployed before, (**H7c**) and are worried about losing their jobs. With a view to the proprietary nature of the workplace, it is expected that (**H7d**) the likelihood of going on disability is higher in the private sector.

H8: The following hypothesis also builds on the role of individual decision as it states that employees in the lower income brackets are more likely to go on disability pension since their loss of income is much lower with the element of solidarity integrated into the disability pension scheme.

The assumption that there may be a relationship between disability retirement and the nature of one's place of residence may be a justifiable one. One of the explanations may be that job

opportunities vary according to the location and character of specific places of residence. This difference is shown in the number and nature of available jobs. If that is true, then it may rightly be assumed that disability retirement owing to labour market causes shows regional differences. The other reason may be that the sectoral structure of jobs differs by settlement types and regions. The sectoral structure is associated with different types of work and as it was demonstrated earlier, the risk of disability differs by the nature of the work performed. Finally, regional differences may be put down to the fact that the type of work that can be performed when on disability pension, for example, home farming (given that disability does not prevent such work) may be different by regions.

H9: Based on this, the hypothesis is formulated that in villages and traditionally underdeveloped, lagging regions, the likelihood of disability is higher than in more developed regions and in cities.

The literature on the timing and circumstances of retirement focuses greater and greater attention on studying how individuals' immediate environments, the resources and attitudes of the household inhabitants affect retirement. (*Talaga, J.A. – Behr, T.A., 1995; Ruhm, C.J., 1996; Henretta, J.C. – O’Rand, A.M. – Chan, C.G., 1993; Peracchi, F. – Welch, F., 1994; Yabiku, S. T., 2000; Dahl, S. Å. – Nilsen, Q. A. – Vaage K. 2002*) We are of the opinion that with the other forms of early retirement (e.g. voluntary early retirement) the role of the household, being the immediate environment, may be greater, but at the same time and under certain circumstances, retirement due to invalidation may also be influenced by the type of household one lives in. One's propensity to go on disability pension may be influenced by the following factors: the people living in the household, the income of the co-habitants (is it sufficient to make up for the loss of income resulting from invalidation?), family dependants such as children or elderly people to look after, etc. One thing is certain though: the nature of the household will not solely lead to invalidation whatever it may be like. It will only have an influence on this form of departure from the labour market when coupled with weak labour market position and/or poor state of health. Taking this as a starting point, the effect of the household environment is only studied together with factors that have – based on findings so far – proved to trigger invalidation.

The most fundamental impact to expect is the compensation effect, i.e. it is believed that out of individuals having the same personal qualities, the ones with other earners in the household

(H10a), or without children to look after **(H10b)**, or whose household income situation is more favourable **(H10c)** will be more likely to go on disability pension.

In addition to disability pension, voluntary early retirement is the other typical channel of early retirement in the period under review. So many resort to this form of retirement that the examination of the sociological factors explaining retirement would be ineffective. Since voluntary early retirement is strongly affected by individual decisions, the study seeks to find out why so many would like to retire at all. Objective causes and reasons provided by respondents were both examined. There were three hypotheses formulated in this regard:

H11: Women are keener on early retirement since the transitional period for the cohorts of different years of birth to retire was still open at the time of the study, and many feel they are worse off than those born before them. The increase in the pensionable age for men was not so radical therefore it is presumed that their desire to retire is somewhat less urgent.

H12: With men it is more likely that decisions are driven by the repulsive factors of the labour market as well as the potential plans of engaging in work while on pension; as for women, the attractive and positive image of the pension years explain why they seek to retire before reaching pensionable age.

H13: The intent to retire early has a positive impact on actual early retirement.

5. Research resources and methods

5.1 Research resources

The research used survey studies based on household questionnaires and administrative data resources. Certain data resources are full-scale, while others are based on representative sample. In the presentation of the Hungarian trends during macro-analyses and in earlier chapters, the data of CSO Censuses, Micro-censuses and Labour Force Surveys were relied on. Out of the available administrative data sources, the Central Administration of National Pension Insurance's NYUGDMEG data files were used to make new calculations. The micro-level analysis was based on a data survey made by the Demographic Research Institute entitled the "Turning Points of Life".

5.2. Research methodology

The macro-analyses of the research project examined a specific phase in the life paths of the different cohorts, the years directly before reaching pensionable age. The examination of these life paths has helped to highlight the changes in the timing of retirement, how standardised or diversified life paths had become.

When looking at structural changes the shift-share method was used, which breaks down the changes in the staff number of a cohort to three impacts. The first one presents the changes in the entire labour market. (global effect). The second one highlights the structural impact, i.e. to what extent does the structural differences at the starting points (sector, physical vs. intellectual work, schooling) within the dimensions under review explain the special movements of the older generations, which is different from the entire labour market. And thirdly, the intensity impact that shows the extent by which exit from the labour market or, for that matter, the rise in employment becomes more intensified in a given cohort once the structural differences have been filtered out.

The micro-analyses looked at a narrower period, however the panel data used made it possible to perform causal studies that had not been possible in previous research programmes. For example, the state of health. A number of research projects have demonstrated that the state of health of disabled pensioners is much below the demographic average and even when only compared against pensioners. However, only panel studies make it possible for us to look at the state of health people were in prior to becoming disabled pensioners. The same is true of a number of subjective dimensions that cannot be assessed retrospectively.

In this part of the study, descriptive and multidimensional methodology was used. Since leaving the labour market does not necessarily lead to the pension system and even within the pension system there are many different channels, accordingly, the dependant variables may take up a number of values. The multi-variable models used were multi-nominal regressive models.

6. Research findings

First of all, the thesis looked at the characteristics of the various cohorts' life paths with regards to the timing of the retirement. The thesis hypothesis was not supported by research results namely that the cohorts that were already affected by the increase in pensionable age

typically entered the pensions system at a later time in their life paths. The deferral of the time of retirement was only evident with some delay in time. This is not only attributable to the fact that the institution of voluntary early retirement in the transition years significantly alleviated the effect of the increase in pensionable age but also to the fact that the "first" cohorts affected by the rise were strongly exposed to the waves of unemployment so typical in the first two-thirds of the 1990s, and many of them had already left the labour market earlier as a result of the employment policies in force. The different growth dynamism of pensionable age and actual age when people retire is supported by analyses that present the rate of pensioners within the cohort according to how far they are from the pensionable age, which is indicative of the actual age of exit. The difference between the dynamism of pensionable age increase and the increase in actual retirement age is particularly wide for women.

International research programmes addressing the ways of retirement suggest that the transition between full-time employment and retirement is becoming increasingly segmented; many either leave the labour market after years of part-time employment or choose to remain in full-time employment while on pension. In Hungary the transitional period of part-time employment is certainly not a viable option as the rate of part-time employment is extremely low within the entire labour market anyway. Therefore, the study at hand only looked at people who remained in employment after retirement. The number of employed old-age pensioners became insignificant in the years after the change of regime; it is yet to be examined how figures compare with early retirees. The hypothesis was that the number of pensioners in employment will be higher within the cohorts of people that are reaching or have reached the relevant pensionable age after the increase in pensionable age. Their choices are less likely to be driven by labour market factors, they are less likely to have suffered from unemployment in the years prior to retirement than those that became eligible in the first two-thirds of the 1990s. The hypothesis was supported by the research findings. The rate of pensioners still in employment was much higher within the cohorts already affected by the pensionable age increase than among other cohorts comprising of older generations of people. When the issue is observed with respect to the types of pension, it transpires that it is not the number of people on disability pension and also in employment that increased, but that the rate of people in employment and receiving other forms of early retirement benefits became higher.

The second set of issues addressed by the thesis looked at the extent by which the employment dynamism of the older generations differed from that of the entire 15-74 age

group and whether this difference can be attributed to structural factors such as, for example, sectoral impact, the different number of employees engaged in manual or white-collar employment, or the different patterns displayed by older generations in terms of their school qualifications. The examined period was broken down into two phases: the first phase being between 1992 and 1998, and the second between 1998 and 2004. With regards to the general state of the labour market, the first phase was characterised by shrinking, and the second by expansion. As far as the sectoral structure is concerned, it was revealed that the exodus of the older generations from the labour market cannot be explained by them being involved in sectors where even younger generations were exiting the sector in large numbers. The recognition that older generations were leaving the labour market at a fast pace in all the different sectors was pivotal.

Practically the same is true in relation to the distribution of white- and blue-collar workers among the older employees; i.e. the intensive departure of the older employees cannot be attributed to the fact that in the first few years a higher proportion of this generation was engaged in manual labour. Older people were more inclined to leave their jobs than younger ones irrespective of the type of work they did.

As for school qualifications, it seems that structural impact was more significant here: this was particularly true in the examined cohorts between 1992 and 1998 for men and older people within the group. This is fundamentally a result of the fact that the older the cohort was, the greater was the proportion of people with only elementary-school education therein, who were being strongly pushed out of the labour market during these years. The even stronger structural impact was somewhat alleviated by the fact that, for example, the proportion of diploma holders in many groups was also higher than the national average. This is due to the selection effect, i.e. the fact that as people are reaching pensionable age, those with lower education will be steadily and gradually dropping out from the labour market.

The third section of the study presents research findings based on micro-analysis looking at retirement cases between 2001 and 2004. In the examination of invalidation, the study focused on five contributing factor groups. The study details how the various groups of explanation impact upon disability retirement. In this summary only the findings of the multi-variable model was described in which the individual effects of the particular contributing factors could also be revealed. The results support that not only does the state of one's health but also disadvantages suffered on the labour market act in the favour of invalidation. Blue-collar workers were significantly more likely to be invalidated than white-collar workers. Also, a significantly higher odds ratio was calculated for entrepreneurs. It seems that this is

largely attributed to the fact that the proportion of pensioners that manage to remain on the labour market is the highest among former entrepreneurs. In other words, it is mostly among entrepreneurs where invalidation does not go hand in hand with departure from the labour market. Out of the remaining other characteristics relating to labour market positions, only the impact of the subjective variable of job security proved significant. The likelihood of being invalidated was higher among employees concerned with the security of their jobs than among those not having such worries. Personal and household incomes in the multi-variable model did not have any specific impact. The hypothesis with regards to the location and type of settlement was only partially supported. In the multi-variable model the regional impact was undetectable, only the type of settlement proved decisive. Significantly higher probability was measured in the country against the capital, but – instead of descending – the value of the odds ratio increased as we moved up the settlement hierarchy. With regards to the structure of the household or the partner's activity, the previously identified impacts vanished in the multi-variable model. Specific impact was only measured among singles, who were more likely to become invalidated.

As for the other forms of early retirement – which primarily meant voluntary early retirement in the examined period of 2001-2004 – the intensity of the desire to retire was investigated along with contributing factors and whether such desires were fulfilled or not. According to findings, the desire to retire early is extremely strong among groups closer to pensionable age. 80% of the examined population within ten years of reach of the pensionable age would be happy to retire and leave the labour market. The trend is slightly stronger among women than among men. The main reasons for this among both men and women is that they feel tired, suffer from health problems, and many would like to spend more time with their families. Men have a greater a desire to work while on pension, whereas the fear of possible unemployment plays a similarly important role for both groups in seeking ways to early retirement. Based on the findings of the multi-variable model, it can be concluded that the desire to retire early has a significant impact on actual early retirement trends; i.e. those who were planning early retirement in 2001 did in fact leave the labour market in greater numbers in 2004 before reaching pensionable age than those who were not. This impact was still tangible even if the explanatory variable was controlled according to the gender of the respondents, the type of employment, and the activity status of the partner.

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