

Does it Pay to Stay Longer in the World of Labour?

Bejaković, Predrag

Source / Izvornik: **Press releases, 2010, 3, 1 - 3**

Journal article, Published version

Rad u časopisu, Objavljena verzija rada (izdavačev PDF)

Permanent link / Trajna poveznica: <https://um.nsk.hr/um:nbn:hr:242:843159>

Rights / Prava: [Attribution-NonCommercial-NoDerivatives 4.0 International/Imenovanje-Nekomercijalno-Bez prerada 4.0 međunarodna](#)

Download date / Datum preuzimanja: **2025-03-04**



Repository / Repozitorij:

[Institute of Public Finance Repository](#)



Press Release

Institute of Public Finance • Smi iklasova 21 • 10000 Zagreb
Tel. (+385 1) 4886-444, Fax. (+385 1) 4819-365
www.ijf.hr • office@ijf.hr

No. 22

Zagreb, August 19, 2010

Does It Pay to Stay on in the World of Labour?

Predrag Bejaković, PhD.

In session on July 29, 2010, the Government of Croatia sent the Parliament the draft of a law amending the Retirement Insurance Law, to come into force on October 1, this year. The law provides for the penalisation of early retirement and for making it worthwhile to remain in the world of labour after the age of 65, depending on how much seniority a person has (no more than 15 years is required for the basic old age pension). We shall attempt to show the extent to which this is justified.

According to the proposal, the percentage of penalisation for taking early retirement would be increased from the current 1.8% p.a. to 4.08% p.a., and retirement five years earlier than the statutory retirement period would entail a pension reduced by 20.4%. At the same time, for every year of payments contributions made after the age of 65, the pension would be increased by 4.08%, for a maximum of five years, then, by 20.4%.

However severe and unpopular these measures might be, they are essential for the purpose of long-term stabilisation and the establishment of a sustainable pensions system. The current situation in the pension system is hardly sustainable because of the age of retirement, the rights from the retirement insurance, and from the point of view of the equity of the retirement system. In Croatia, the systemic dependency ratio, which expresses the relationship between the number of insured persons (1.53 million) and the number of pensioners (1.19 million), is 1.28, one of the worst in the whole of Europe. In addition, there are quite few retired persons with 40 years of payments (no more than 11.6%), while there are 23.8% with contributions payments records of from 35 to 39 years.

Probably one of the most important causes of this state of affairs is the inadequate penalisation of early retirement, in other words, of the inadequate reduction in the pension. According to the current Retirement Insurance Law of January 2008, the previous maximum diminution of a pension because of early retirement was reduced from 20.4% to 9%. This produced a very paradoxical situation: there was a very small difference in the amount of the pension of a person who had worked their whole working life and taken their retirement later and that of someone who had retired earlier, paid fewer retirement insurance contributions and would draw their pension longer. There is no wonder then that year on year there have been a far greater number of people taking early retirement: from 22,880 in 1997 to as many as 93,574 at the end of June 2010.

This has not only increased the number of retirees and, inescapably, the expenses for pensions (which in 2005-2009 came to 10.8% of GDP on average); in addition, such a state of affairs is unjust to people who have worked the whole of their working life. In other words, if there is a great difference between two persons in the contributions payments period and the amount of contributions paid, because one person has worked for five years fewer (or has drawn a pension for five years more) and yet has a pension that is more or less the same, then the system is unfair to an insured person who has worked the whole of his or her working life. Even if the pension of someone taking early retirement is a little bit smaller, this person will still, because the period in which they draw their pensions is longer, obtain almost the same amount of pension as a person who went into retirement later and has a full pension but will receive it for a shorter time. Of course it is difficult to compare things that are incommensurable – each individual person has a different employment history, various receipts and an income that has a different ratio to the average wage, different life expectancy and so on – but the simplest of mathematics will show the truth of such a statement.

We will make use here of the calculations of the Croatian Pensioners' Party (2010) "*Early retirement is not the personal choice of the working person*", concerning a male worker with average wage who gets a pension of HRK 2,334.80 and a man who goes into early retirement according to the new provisions so that his pension is reduced by five years and comes to HRK 1,626.19. Their pensions differ very considerably in monthly and annual amounts, and yet the difference is greatly diminished if one observes how much total pension they receive during the period in which they are able to claim pension rights. Table 1 gives a simple illustration of a male worker who has taken early retirement, and thanks to this has drawn a pension five years longer, according to the old law and also according to the new.

Table 1 Estimated value of retirement benefits according to the old law and the new

Retired person	Monthly amount of pension	Annual amount of person	Period in which pension is drawn	Total amount of pension in the whole of the period
Person who took early retirement five years early – the old law	1,859.95	22,319.40	17	379,429.80
Person who took early retirement five years early – new law	1,626.19	19,514.28	17	331,742.80
Person who retires after 40 years of contributions payments	2,334.80	28,071.60	12	336,211.20

Source: author's calculations according to calculations of the Croatian Pensioners' party (2010). *Early retirement is not the personal choice of the working person!* Available from: [<http://www.hsu.hr>].

Patently, according to the old law, *it paid* to take early retirement, for although the monthly and annual pension was 9% less, the pension received in total, because of the longer period in which the pension would be drawn, was greater for a pensioner who had taken early retirement, in fact, a full 42,000 kuna more, or almost 13%.

The situation is aggravated in particular for a person who has worked a full working life and paid contributions the whole of that time. For the sake of an easier calculation we will neglect current value calculations, and take the value of the average gross wage in Croatia according to the most recent available figures and give the figures for the contributions paid for a man who has worked for 35 or for 40 years. Also for simplicity, we neglect the change in the rate of retirement contributions and assume that the retirement contribution was, for the whole of the period under observation, the currently valid 20%.

Table 2 Retirement insurance contributions paid in toto

Retired person	Gross monthly wage	Annual amount of retirement contributions (gross wage*20%)	Period in which contributions are paid	Total retirement contributions paid in the whole period
Early retirement 5 years early – 35 years of work	7,662	18,388	35	643,608
Regular old age pension – 40 years of work	7,662	18,388	40	735,552

Source: author's calculation according to figures of the CBS – Average gross monthly wage per employed person in legal entities in the Republic of Croatia for May 2010. Available from: [<http://www.dzs.hr>].

Although during these five years longer in which he pays retirement insurance contributions the insured person with a complete record has paid almost HRK 92,000 (or 14.3%) more in contributions, from Table 1 it can easily be seen that according the current Retirement Insurance Law he will receive a *smaller total amount* of pension. Accordingly, the penalisation of early retirement, or rather, the rewarding of later retirement, is extremely necessary, laudable and positive. Hence numerous countries have already brought in or are bringing in greater penalties for earlier retirement, or put in another way, by enlarging their pensions, they are rewarding people who stay in work longer.

Conclusion

In the foreseeable future it will be necessary in Croatia to increase the retirement age, in line with trends in other countries, and direct efforts need to be aimed at making sure that employed people *really do work* during their working lives. We can hope that unpopular measures such as the increased penalisation of early retirement will be a clear sign that *it pays* to remain in work longer. The measures referred to for increasing the pension of a person who goes on working even after becoming eligible to draw a full old age pension are an example of a positive stimulus that insured persons are bound to recognise as such.