How to mitigate the consequences of population ageing in Croatia?

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PRESS RELEASE

How to mitigate the consequences of population ageing in Croatia?

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The Croatian Bureau of Statistics released the results of the 2011 Croatian Census of Population, which came as a surprise to many, particularly due to the unexpected, relatively high average age of population.[1]

The high average age of population largely represents a continuation of previous trends (Table 1). The average age of Croatia's population increased from 37.1 years in 1991 to 41.7 years (39.9 for men and 43.4 years for women) in 2011.

Table 1 *Average age of population, 1953 – 2011 censuses*

	Total	Men	Women	Increase over the previous census (total population)
1953	30.7	29.3	31.9	-
1961	32.5	30.5	33.3	1.8
1971	34.0	32.4	35.5	1.5
1981	35.4	33.8	37.1	1.4
1991	37.1	35.4	38.7	1.7
2001	39.3	37.5	41.0	2.2
2011	41.7	39.9	43.4	2.4

Source: CBS (2012)

In a relatively short period from 1953 to 2011, the average age of the total population of Croatia increased by as many as 11 years (11.5 for women). This increase was slightly slower in the 1961-81 period, but accelerated markedly after that. In 2011, the average age of the population increased by almost two and a half years from the previous census.

What we have here is *demographic ageing* (which must be distinguished from the normal individual, i.e. biological ageing), as a consequence of a reduced number of young people due to fewer births and prolonged life expectancy (Table 2).

[1] CBS, 2012. *Press Release on Issuing of the Results of the Census of Population, Households and Dwellings in the Republic of Croatia in 2011*. Zagreb: Croatian Bureau of Statistics, December 17.

Table 2 *Life expectancy in Croatia*

Gender	1953	1961	1971	1981	1991	2001	2010	Difference 2010-1953
Men	59.1	64.3	65.9	66.6	68.6	71.1	73.5	14.4
Women	63.2	69.0	72.3	74.2	75.9	78.1	79.6	16.4

Source: CBS (2012)

The average life expectancy in Croatia increased perceptibly in the period 1953-2010, especially for women. As a result of better nutrition and health care, it is prolonged each year by more than three months. Due to low fertility rates and prolonged life expectancy, the share of population over 65 years of age, represented by two indicators (Table 3) went up.

Table 3 *Ageing index and age coefficient, 1953 – 2011 censuses (%)*

	Ageing index			Age coefficient		
	Total	Men	Women	Total	Men	Women
1953	27.9	22.2	33.8	10.3	8.8	11.6
1961	34.3	27.7	41.1	11.8	10.1	13.3
1971	47.2	38.5	56.2	15.0	12.9	16.9
1981	52.6	40.4	65.3	15.0	12.1	17.6
1991	66.7	50.8	83.3	17.7	14.3	21.0
2001	90.7	71.6	110.8	21.6	18.1	24.9
2011	115.0	92.3	139.0	24.1	20.5	27.4

Source: CBS (2012)

Ageing index is the percentage of the population aged 60 and over in the population aged 0–19. The index exceeding 40% indicates that the population is in the ageing process. The share of the population over 60 years of age has grown continuously in Croatia and reached 115%, which is close to the share of old population in advanced European countries.

Age coefficient is the percentage of the population aged 60 and over in the total population. It is the basic indicator of the ageing level. When it exceeds 12%, the population is considered to have entered the ageing process. The age coefficient has more than doubled since 1953, and currently stands at 24.1% (10.3% in 1953).

The main features of changes in the age structure of population in Croatia in the post-Second World War period are the following: 1) the number and the share of young population (0-14 years) in total population was reduced to 15.2% in 2011; 2) the number and the share of working age population in the total grew slightly; 3) the fastest growth was recorded in the number and share of elderly population (men and women aged 60 and over), currently standing at 24.1%.

The above mentioned has a lot of adverse effects, primarily related to the labour market and pension expenditures. Croatia has generally had a low activity rate and a low employment/population ratio, which have been particularly low for elderly population. According to the Croatian Pension Insurance Agency[2] data, the average age of persons going to the old-age pension is slightly over 61 years and their average service period is 32 years. In the case of disability pensions, the average retirement age is as short as 53 years and the average service period 23 years. The service period for new male beneficiaries at retirement has even decreased in 2011, to 30 years and 9 months. In short, people in Croatia retire at a relatively early age. They live relatively long and enjoy their pension benefits for a relatively long time: women for almost 20 years and men for about 12 years. Despite relatively low pensions, due to a huge number of beneficiaries, pension expenditures are high and account for over 11% of GDP with a tendency to grow further. As a result of inadequate contribution revenues, there is a need for large central budget transfers, which directly worsens budget deficit.

[2] Croatian Pension Insurance Agency, 2012. *Statistical Information*, No. 4/2011. Zagreb: Croatian Pension Insurance Agency.

How to keep elderly population in the labour market?

Public pension schemes often penalise work, encouraging elderly people to leave the labour market. Early retirement is very rarely or never penalised, while later retirement is not rewarded. Changes in public pension system regulations would certainly increase the activity rates of older workers. This would significantly improve the financial condition of pension systems which should in turn comply with the requirement of „actuarial equity". Retirement decisions should depend on personal attitudes and preferences rather than on the fact that working longer is penalised. The goal should not be to make people work longer, but to stop penalising longer work.

Croatia has done a lot to increase sustainability of the pension system: the retirement age for women has been raised, the disability retirement conditions have been *tightened* and various retirement incentives and disincentives have been introduced in order to encourage longer work. The introduction of a funded pension plan should play an important role, but it is not enough in itself. It is necessary, within the public pension system (the so-called intergenerational solidarity pillar) as well, to explore the possibilities of keeping elderly people who are still able to work in activity. This should improve the future position of pensioners and reduce (or at least stop the growth of) the financial burden on employees.

It is also necessary to break false beliefs that employing the elderly would reduce opportunities for the employment of young persons. The number of vacancies in the economy is not unchangeable or fixed, but it depends on a number of factors, primarily on the price of labour. The cheaper the labour, the larger the number of employees. In simple terms, if the ironing of one load of laundry in a washing machine would cost 20 kuna, nobody would probably do that job alone. However, should it cost 50 or 100 kuna, the situation would be different. Labour is expensive in Croatia, not only due to relatively high net salaries, but also due to heavy social contributions to be paid by employers who therefore hire less people than they normally would if the total labour cost were lower. Due to the high total labour cost, there are less employment opportunities for both older and younger persons in the official economy, while the unofficial (shadow) economy is growing. After all, the old and the young do not necessarily have to do the same jobs.

Due to all the above said, it is vital to explore the possibility of co-financing the employment of the elderly and to make their earnings, as well as the earnings of all employees, more dependent on productivity. And finally, it is necessary to promote legislation that will provide for more flexible and shorter working hours than usual, and to consider a partial retirement scheme. Elderly persons must be given clear and more effective incentives and opportunities to stay in work. However, they must also make efforts themselves to improve their employability, knowledge and competence through lifelong learning and education.