

# Chapter 17

## Estonia



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**Abstract** This chapter aims to provide a broader context to understand extended working life in Estonia by describing the socioeconomic background, employment regime, pension system and extended employment patterns. Estonia is an ageing society with a decreasing working age population. Intriguingly, despite this decreasing working age population, the number of employed people has increased over recent years due to increasing activity rates and the prolonged working careers of older people. The employment rate of older women is especially high compared to other European countries. Overall, there are diverse reasons for the readiness to work beyond retirement age. These are related to the favourable tax system for working pensioners and relatively low pensions which make working an economic necessity. Older women who face higher poverty risks and higher care obligations combined with few opportunities to work part-time are especially vulnerable.

**Keywords** Ageing · Eastern Europe · Gender · Extended working life · Estonia · Pensions

### Introduction

Estonia is an ageing society with a decreasing working age population. However, despite the decreasing working age population, the number of employed people has increased in recent years. The increase in absolute employment is boosted by economic growth and enabled by higher activity rates, especially the prolonged working careers of older people. This chapter provides a broader context for understanding extended working life in Estonia by describing the socio-economic context, employment regime, pensions system and policies designed to extend working lives.

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## Gender and Employment in Estonia

Estonia has one of the highest employment rates in the EU: 68% in 2018 among 15–74 year olds. The overall employment rate for women was 8.6% lower than for men. A crucial contributor to the work force is the high labour market activity of older workers. In 2018, the employment rate of people aged 55–64 reached 69%, putting Estonia in fourth place after Sweden (78%), Germany (71%) and Denmark (69%) in Europe for this age-group. The employment rate of women aged 55–64 (72%) was higher than that of men (66%) which is exceptional in the EU as men tend to be more active in the labour market in most countries and in all age groups. It is notable that in the age group 65–74, the employment rate considerably exceeds the EU average; 28% for men and 25% for women (Eurostat database 2020c). Thus, for the 65–74 year age group the employment rate for men is 2.1 times higher than the European average and for women 3.4 times higher (Eurostat database 2020c own calculations).

In Estonia, a high employment rate for women was the norm during the Soviet occupation in the second half of the 20th century and this continues to be the dominant model. Labour market tensions were initially solved by pushing older workers, especially working pensioners out of the labour market (Unt and Saar 2016). Consequently, during the transition to a market economy in the 1990s, the employment rate of older people fell considerably. However, from the early 2000s, there has been an overall increase in the employment of people aged 50–74 from 44% in 2000 to 53% in 2010 and 61% in 2018, despite cutbacks in employment rates during the economic recessions.

In cohorts born between 1960 and 2004, women had a greater chance of obtaining higher education as they were more likely to attend general secondary schools, in contrast to men who were more likely to attend vocational schools (Saar et al. 2015). The gendered transitions in education translate into high levels of horizontal gender segregation in the labour market. Women are strongly overrepresented in social and personal services. In vertical gender segregation, women are more likely to obtain a professional position due to their higher educational qualifications. At the same time, women have been increasingly disadvantaged in obtaining managerial positions (Saar et al. 2015). The disadvantaged position of women in the labour market is also manifested via the highest gender wage gap in Europe. Based on Eurostat data, the hourly wage of women was one quarter lower than that of men in 2018. The biggest difference in wages was between men and women employed in financial and insurance activities. The causes of the gender wage gap have not yet been analysed from a lifecourse perspective. We can only assume that it may be related among other factors to very generous parental leave policies (100% of previous earnings for 435 days) encouraging one parent to stay out of the labour market for an extended period as there is little flexibility in combining early childcare and work. As only 9% of parental leave takers are fathers (Estonian Statistical Office database 2019), this long career break is taken up mainly by mothers. All children between the ages of 1.5–7 should be guaranteed a kindergarten place by the municipality, although there

is a shortage of childcare places for children under the age of three. Kindergarten fees cannot exceed 20% of the minimum wage. Thus, in general, the childcare system is well developed and affordable, but no early childcare places are provided and there is a scarcity of places for children between 1.5 and 3 years of age. Part-time work is comparatively rare. In 2018, only 11.1% of the workforce, less than half the EU average worked part-time. Women mostly either work full-time or stay at home full-time. The likelihood of having a part-time job increases with age both for men and women, although it is still considerably lower than the EU average. Partial retirement is not a typical way to exit the labour market. The high activity of older workers in the labour market is promoted by pension reforms and low pension benefits.

## **Pension System and Pension Policies Extending Working Life in Estonia**

The Estonian pension system underwent a paradigmatic shift beginning in 1998, when the Parliament adopted a reform programme aiming to implement a three pillar system in Estonia. The first pillar is the public pension or state pension fund administrated by the government. The second pillar is a private pension, which is mandatory for newcomers in the labour market and to all those born after 1983 and voluntary for older cohorts. The aim is that the first and second pillar will together guarantee 40% of the net replacement rate. The third pillar is a voluntary pension scheme. The second and third pillar pension funds are not included in general government accounts and are managed by banks and insurance companies (Unt and Reiska 2017).

The general statutory pension age in Estonia in 2019 is 63.75 years for both women and men and one must have at least 15 years of tenure. The pre-reform statutory retirement age was relatively low in Estonia, having been set at 55 years for women and 60 years for men in 1956. At the beginning of the 1990s together with general pension reforms, the statutory retirement age was revised. In 2012, the statutory retirement age was 63 years for men and 61.5 years for women. It was equalised to 63 in 2016 and will gradually increase to 65 years by 2026 for both women and men. At the end of 2018, it was decided to link the pension age increase closer to life expectancy at the age of 65 from 2027 (not with healthy life expectancy). The increase in retirement age has not increased the take-up of early retirement (Puur et al. 2015).

There are only few early retirement opportunities available. Early retirement is possible for up to three years before the pension age with a reduction of the pension by 0.4% for every month remaining until the pension age is reached. For instance, early retirement 3 years before pension age reduces the pension by 14.4%. It is not possible to combine working with early retirement schemes (Estonian Social Insurance board 2019). Few early retirement options are related to occupation. Only a limited number of occupations (for example, police officers, rescue workers, prison officials, civil

aviation employees, test pilots, workers in jobs that are especially hard and extremely hazardous to health and so on) may retire early on full pensions. At the beginning of 2019, about 9% of all retirees were in an early retirement pension scheme. However, entry into early retirement is highly dependent on the labour market situation, and it is one of the pathways during periods of high overall unemployment (Leppik 2018). This pathway is not offered to the employees by companies but is manifest as a survival strategy of individuals to take up early retirement in the eventuality of job loss. There is also an option for deferred pensions. In this case, the pension amount is increased by 0.9% for every month retirement is postponed after the general pension age. The number of people who have opted for a deferred old-age pension is still low, but the proportion has been increasing slightly. In 2017, four per cent of new retirees opted for a deferred pension (compared to six per cent who opted for the early retirement pension as shown above) (Leppik 2018). Thus, there are only a few opportunities for early retirement in Estonia. Another early retirement pathway has been disability pensions. However, one must note that there are strict criteria for disability benefits and their value is rather low (Unt and Saar 2016). During the 2016 reform the Estonian Unemployment Insurance Fund began to assess the level of working ability. The goal was to change people's attitudes towards those with decreased working ability and help them find and secure employment. As a result of reform the number of pensioners on disability/working ability decreased more than three times, from 97459 in 2016 to 28253 at the beginning of 2019.

Estonia also has one of the lowest net theoretical replacement rates in the European Union. In 2018, the average old-age monthly pension was €441 and the average monthly disability pension was €269. In cases where there is 100% loss of workability, the monthly disability pension was €382 (Estonian Social Insurance board 2019). The aggregate replacement ratio for pensions excluding other social benefits has been in the range of 45–55% over the last decade, which is at the lower end in Europe. Thus, in Estonia, transition into retirement increases the risk of poverty. In fact, Estonia has the highest at risk of poverty (AROP) rates (cut-off point 60% of medium equalised income after social transfers) of older persons (65 and over) in Europe. In 2018, the AROP rate for persons aged 65 and over was 46%, while the AROP rate for older women (52%) is significantly higher than for men (35%) (Eurostat 2020a). The poverty risk for single older persons, the majority of whom are women is particularly high. A high proportion of retirees have an income level very close to the at risk of poverty threshold implying that relatively small changes in the ratio of pensions to work income may have an impact on the large proportion of pensioners falling below the AROP threshold. Material deprivation is much less widespread and only slightly higher than the EU average. In 2018, 12% of over 65 year olds were unable to carry out three items or more from the following list: to pay unexpected expenses, afford a one-week annual holiday away from home, a meal involving meat, chicken or fish every second day, the adequate heating of a dwelling, durable goods such as a washing machine, colour television, telephone or car, being confronted with payment arrears. There is a clear gender gap concerning material deprivation; older women (13%) were more likely to experience economic hardship than men (9%) (Eurostat database 2020b).

Currently both the value of pensions and inequalities in pension income are rather low. However, pension inequality has increased and will continue to rise in the future as a larger part of the pension of each successive generation will depend less on the length of employment and more on the level of salary. The outcomes will be especially harmful for women's income in old age as the pension income will reflect the consequences of the high gender wage gap.

## Extended Working Life Employment Policies

In Estonia, older age groups are among some of the most educated in the EU, and there is not a notable educational gap compared to younger cohorts. 29% of people aged 65–75 years old and 36% of people aged 55–64 have tertiary education (Saar and Unt 2016). At the same time, research shows that older people have lower general skills. The gap between 20–24 and 60–65 year olds is especially large in the domain of problem solving in technology rich environments (Halapuu and Valk 2013). Furthermore, although older age groups are defined as a risk group by public employment office regulations, policies relating to the promotion of the employability of older workers are mostly underdeveloped and (re)training is seldom offered to older workers (Saar et al. 2011).

Both the readiness and the ability of older workers to remain in employment may depend not only on opportunities created through structural institutional characteristics, but also on the 'age culture' prevalent in a country. Overall, the majority of people believe in Estonia that older people are perceived positively. The share is very close to the average level of EU-28 (59% believe that persons over 55 have a positive image vs 61% in EU-28), and Estonia is considerably more 'older people friendly' than most other Central Eastern European countries (European Commission 2018). In Estonia, approximately one third of the population believe that age discrimination is widespread, which is even less than the EU-28 average (42%) (Lindemann and Unt 2016).

In this context, the Estonian Active Ageing Development Plan 2013–2020 has set as one of its key policy goals the extension of working lives and maintenance of economic activity and employability, while reducing unemployment and inactivity in older age groups (*Sotsiaalministeerium* 2013 via Leppik 2018). To support policy initiatives, the ministries have commissioned several analytical reports focusing on different aspects of policies to extend working lives (Aksen 2013; Nurmela et al. 2014, Puur et al. 2015).

## Health Policies

The crucial resource needed for prolonging working life is good health. In Estonia, life expectancy at birth is considerably lower than the EU average, on average 2.5 years lower. The gap between men and women is notably larger than the EU average; life expectancy is 73.8 years for men and 82.6 years for women in Estonia (Eurostat database 2019c). Given a faster rate of increase in the past decade, life expectancy is slowly catching up to the EU average. In addition, the gender gap has decreased as male life expectancy has risen faster, by 5.8 years compared to the increase of female life expectancy by 3.3 years.

The fundamental question is whether extra years of life are spent in good or bad health. In Estonia larger differences are observed in average healthy life years compared to the European Union. People live a disability free life on average for seven years less than in the EU and this difference has changed very little in recent years. Female healthy life expectancy in Estonia was 5.2 years shorter and male healthy life expectancy 9.1 years shorter than the EU average in 2016 (Eurostat database 2019d). Healthy life expectancy at birth was only 54.4 years for men and 59 years for women.

In 2016, the Government launched a Work Ability Reform, modifying the eligibility criteria and payment conditions of incapacity benefits—now called work ability allowances—combined with additional labour market policy measures that aim at increasing labour market participation and preventing early exit from employment. Among others, such measures include occupational rehabilitation, peer support, assistive work equipment and commuting benefits.

## Debate on Extended Work-Life Policies

The most recent changes in the pension system were undertaken in December, 2018 and the legislation was discussed among policy makers, social partners, experts as well as in public debate. Also, the NGOs representing the voice of older people were engaged in the preparation of the changes in legislation, although there have been few heated debates. In 2016, there was a plan to increase the retirement age to 70, but then it was tied to average life expectancy instead. There is no systematic review of the debates available, but one may assume that this decision was on the one hand pragmatic, but on the other hand also it has made the issue of extended working life more abstract and easier to ‘sell’ to a broader audience. The life expectancy component enables future increases in retirement age into one scheme and no concrete retirement age numbers or scenarios for different social groups have been presented in most of the articles published in media. There have been proposals made to tie the retirement age also to healthy life expectancy, but these proposals were rejected.

In short, the reforms in the pension system at the end of 2018 aimed at promoting longer working lives by tying the retirement age to life expectancy and allowing

more flexibility in choosing when to retire, while later retirement means a higher pension. In order to counterbalance the increasing inequality of pensions, the amount of pension will be less dependent on previous salary in the future and more dependent on occupation (Piirits and Masso 2017; Leppik 2018).

Secondly, there has been a heated debate concerning the second pillar of the pension, which has gained a lot of media attention. One right wing party has promised to abolish or at least make the second pension pillar voluntary on their agenda. This idea is promoted in the context of the prominent public discourse in Estonia: the idea of the minimal state and greater individual freedoms to decide. In 2019, there is an ongoing debate in which most experts strongly oppose both options, but recommend several improvements in the existing system.

## **Discussion: Gender and Health Implications and Policy Recommendations**

Estonia is an ageing society with a decreasing working age population, but with very high activity rates, especially among older workers. Perceived age discrimination is also lower than the EU-28 average. We can even foresee a further increase in employment in the future due to the gradually rising pension age, an increase in healthy life years and as the result of the workability reform in 2016. The favourable tax regime encourages employment after retirement and the low pension replacement rate makes work an economic necessity. However, there is clearly limited capacity to increase the size of the labour force for demographic reasons.

There are significant differences in the employment rates of older Estonians based on social groupings. Education is one of the key factors behind the positive outcomes of employment in later life, while the main challenge is the poor health status of older age groups as measured both by subjective and objective health indicators. Therefore, future policy initiatives need to focus on supporting the employability of those groups of older workers who are in the most vulnerable situations in the labour market due to low education, health restrictions, care obligations or other factors that have led to an early exit from employment. Some measures have already partially been introduced via workability reform. However, more cooperation is needed between active labour market measures and social support measures needed to guarantee access to work in the case of health restrictions.

Overall, the willingness to continue working beyond retirement age is very high in Estonia (Lindemann and Unt 2016). However, flexible work options should be supported and gradual retirement should also be further promoted as ways to promote the activity of older people. Another important area is the low share of older people participating in lifelong learning, and there should be more opportunities for updating and developing skills in late careers. Currently, care obligations which rest disproportionately on the shoulders of female family members are not well addressed. Elder care is very expensive and the majority of families are not supported financially

by municipalities. This reduces the possibilities for family members with caring obligations to engage in paid work, especially when flexible working arrangements are not widespread.

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