Low employment among the 50+ population in Hungary

The role of incentives, health and cognitive capacities

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Motivation

- Employment rate in Hungary among the 50+ population is among the lowest in the OECD. Why?

Employment to population ratio, 55 to 64 old, in 2010
Contribution

- This is an exploratory analysis
  - Searching for potentially important factors
  - Establishing causal relationships is beyond our scope
- Three major factors considered
  1. Financial incentives (earnings vs. pension incomes)
  2. Cognitive skills
  3. Health
- Comparisons across countries
  - If factors are different in Hungary from other countries
  - Decomposition of employment gap between Hungary and other countries
SHARE offers the best data

- When searching for explanations, one needs data that combines measures in many domains
  - Employment, earnings, pension income, skills, health
- SHARE combines these measures
  - It is designed to answer complex questions of this sort
- SHARE allows for direct cross-country comparisons

- We use wave 4 data
  - Hungary joined SHARE in wave 4
    - Age 50 to 75; sample size 2,500 for Hungary, 45,000 total
- Further waves would be helpful for longitudinal analysis
  - Analyzing the transitions from employment
Earnings in Hungary are very close to retirement income, creating incentives to retire early
- Substantially closer than in most other European countries
- This may be an important factor in explaining low employment in Hungary in comparison with the other European countries

The figure on next slide shows median earnings of employed respondents together with median income of retired respondents
- By age and country
Evidence on financial (dis-)incentives

Relative median earnings/income; median earnings in age 55-59 = 100

- Austria
- Belgium
- Czech Republic
- Denmark
- Estonia
- France
- Germany
- Hungary
- Italy
- Netherlands
- Poland
- Portugal
- Slovenia
- Spain
- Sweden
- Switzerland

Diamonds: Median yearly earnings
Circles: Median yearly income in retirement

Age range: 50 to 75
Evidence on skills and health

- Earnings are close to retirement income for two reasons
  - Pension incomes are set relatively high
  - Attainable earnings are low in this age group

- Attainable earnings and employment prospects may be low because of low skills
  - Not supported by data: skills of Hungarians in this age group is in middle range of other European countries

- Attainable earnings and employment prospects may be low because of bad health
  - Supported by data: Hungarians are in significantly worse health than the people in most other European countries
  - See graph on next page
Evidence on health

self assessed general health

longterm illness

ADL

IADL

EURO-D

number of chronic diseases

BMI

peak flow

right grip strength

Hungary other, 1st and 3rd quartile
Employment of people with comparable skills and health

- Health differences explain one third of the employment gap between Hungary and Europe
  - If Hungarians were of similar skills and health, their employment rate would be closer to the employment rate of other Europeans by a third of the current gap on average
- Skill differences explain nothing of the employment gap
- If we compare people with similar skills and health the employment gap between Hungary and Europe varies
- The gap between Hungary and Europe is largest among people with bad health and low skills
  - See figure next page
Employment rate by 5x5 categories of synthetic health and cognitive variables, 50–69-year-old men; Hungary and the other European countries in SHARE Wave 4

Notes: x-axis: health; z-axis: cognitive capacity; y-axis: employment rate
Conclusions

- Research and policy should focus on the employment of less healthy and less skilled Hungarians of older age
  - Address the role of health in low employment
  - And the role of incentives for the less healthy and less skilled groups

- The multidisciplinary and multi-country data of SHARE is the best source for analyses of this kind
  - Larger samples, longitudinal data and more measures on health and attainable pension incomes would be especially helpful