

Are Leisure Time Activities Boosting the Popularity of Early Retirement?



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The ageing of the population is one of the biggest challenges facing present social policy makers in Finland. The population is ageing faster in Finland than in any other OECD country. Currently, there are more than four persons of working age for every person of pensionable age, but by the year 2035 this old-age dependency ratio is expected to be no more than two to one. The rest of Europe will face this situation only 15 years later on average. In Finland, the problems caused by population ageing are also more pronounced because older workers withdraw from the labour market relatively early. The effective retirement age in Finland is 59. Thus, 80 percent of the 60-64 age group is already drawing some kind of pension.

According to Table 1 above, the majority of retirees (70 percent) in the age group 55-59 comprise disability pensioners. Correspondingly, disability pensioners in the age group 60-64 account for 30 percent of the retirees. Individual early retirees and unemployment pensioners together represent 40 percent of the retirees in the age group 60-64. The popularity of part-time pension has been growing during the last few years, with almost 30,000 individuals currently on a part-time pension.

Huovinen and Piekkola (2001) show that factors related to labour demand, in addition to personal financial incentives and health, are very important in determining the number of early retirees. Changes in how leisure time is valued also offer an explanation for the high

level of early withdrawal from the labour market. For instance, the decision to retire on a part-time pension can result from demand for active leisure. The part-time pension is one form of early retirement, whose subsidy element is rather substantial. It is clear that the part-time pension, in particular, should not be 'marketed' only as a means for preventing workplace stress and fatigue or merely for health reasons. In many industrial countries, governments have already taken steps to make the monetary incentives less attractive for those who retire early or even at the age of 65. Such schemes may not be successful in deterring retirement if changes in demand for non-pecuniary goods, such as leisure, effectively offset these pecuniary disincentives.

In the pension reform currently being planned in Finland the unemployment pension will be removed, but it will be substituted by extended unemployment benefits for unemployed individuals 60 years of age or older. At the same time, the accrual of old-age pension rights for unemployed persons older than 59 years will not necessarily be changed markedly. A more significant part of the planned reform will be the removal of individual early retirement. Furthermore, the part-time pension age limit will be increased from 55 to 58 years.

How will Finns react to the planned pension reform? The increase in age limits will reduce the amount of early retirees. Labour-force withdrawals will also decrease if the expected labour shortage boosts demand for elderly workers.

Table 1. The Shares of Pensioners and Unemployed and the Division of Pensioners by Type of Pension, 1998

	Age 55-59	Age 60-64 % of population (in the age group)	Age 65+	
Employed	50.8	19.4	2.0	
Unemployed	9.3	1.3	0.0	
Receiving a pension	24.1	78.3	98.0	
Total	84.2	99.0	100.0	
Pensions	% of pensioners (in the age group)			% of all pensioners
Old age	6.8	16.3	91.8	63.6
Early old age	0.2	6.9	5.3	4.7
Disability	71.9	30.1	0.0	19.8
Individual early retirement	6.8	16.9	0.0	3.6
Unemployment pension	0.0	21.7	0.0	4.0
Part-time pension	6.7	2.5	0.0	0.9
Special pension for farmers	7.7	5.6	2.9	3.4
Total	100.0	100.0	100.0	100.0

Source: OECD, 2000.

On the other hand, growth in demand for leisure will increase the willingness to retire early.

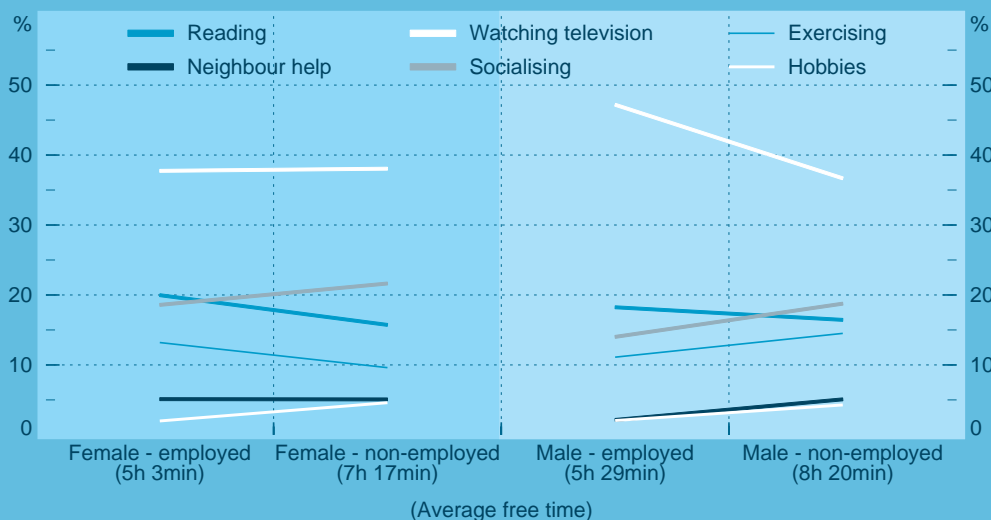
Leisure Time Activities

Our study, entitled "Time is right? Early Retirement and Use of Time by Older Finns" (2002, ETLA publication series B No. 177), suggests that leisure allocation is a highly significant factor explaining retirement decisions. Gary Becker (1965) is the pioneer in examining labor supply and its relation to consumption of time and money-intensive goods. His theory of time allocation can also be applied to the retirement decision. The results from our study are in line with this theory. Leisure time use is an important determinant of early retirement. This is especially true for active leisure time. In other words, it is not only the overall increase in leisure time, which makes retirement attractive, but also the way this increased leisure is allocated.

The study utilises time-use data collected by Statistics Finland during 1979, 1988 and 2000. The 2000 survey consists of 10,561 diaries containing broad background information. The respondents held a diary during two randomly selected weekdays and weekend days registering their daily activities in 10-minute time slots. There were 652 respondents for the age group 55-64. Figure 1 presents the shares of different leisure time activities in total leisure time.

The numbers on the horizontal axis show that non-employed persons in the age group 55-64 have 2½ hours more leisure time, on average, than employed persons (this figure is higher for men than for women). Leisure time consists of time left over from paid work (incl. time spent studying), domestic work (cooking, caring for children, shopping) or taking care of basic needs (sleeping, eating excl. restaurant meals, hygiene) (Gershuny 2000). It can be seen that the share of passive leisure, which mainly includes watching television, is smaller among the

Figure 1. Aged 55-64 -years: Allocation of Leisure Time in 2000



Source: Huovinen & Piekkola, 2002.

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non-employed than it is for those employed. Respectively, the share of more active activities is higher amongst the non-employed, especially amongst men. This suggests that it is the actively used leisure time that works as a substitute for decreased income from work. The shares of different active activities, such as neighbourhood help and active sports (excl., for example, walking) are high, and, interestingly, it is early retired men who use their leisure time in activities which require a high level of involvement. By neighbourhood help we mean domestic work that benefits a household other than the individual's own household. One important component of neighbourhood help is elderly care. A simple probit model was estimated to test these findings statistically, and the linkage between leisure time use and withdrawals was proven to be very significant.

Factors Behind Leisure Time Allocation and Early Retirement

In the more detailed analysis of leisure time, we found that leisure time activities, which are relevant in explaining withdrawals from employ-

ment, differ between educated (at least 3 years vocational education) and uneducated. The relationship between different leisure activities is presented in Table 2. Table 2 shows, for example that creative hobbies (e.g. art, music) are popular amongst the more educated retirees. Neighbourhood help (see definition above) is the significant factor of the uneducated.

Leisure time activities also appear to play a different role for men and women. Retired men allocate more of their leisure time to active time use than women. Women's leisure time use is better described as continuous; the leisure time activities enjoyed while employed are typically the same as those during retirement. On the other hand, some studies emphasize that the time allocation of women can also be described by the 'dual burden of employment' (see Gershuny, 2000). This means that women's total working time (domestic and paid work) exceeds men's. This is particularly evident for households with young children. The time stress experienced during earlier parts of life might affect willingness to enjoy leisure regardless of what the 'leisure time mix' includes. Finally, the retirement decisions of each spouse

Table 2. Factors Behind Leisure Time Allocation and Early Retirement

	Men	Women
Spouse employed	-50 %	-40 % educated
Wage income	-	-
<i>Leisure time activities</i>		
Voluntary work, creative hobbies, non-educated	-	
Voluntary work, creative hobbies, educated	+	
Neighbourhood help, non-educated	+	+
Neighbourhood help, educated		-
Organised physical exercise	+ educated	
Social activities	+ educated	
Passive time use		

+ (-) increases (lowers) profitability for early retirement.

are heavily positively dependent on each other. A wife no longer working raises the probability of her husband retiring by 50 per cent.

For the statistical analysis, four different variables were constructed to indicate individuals' possession of economic capital, cultural capital, physical capital and time intensive time-use (social and passive) following Bordieu's (1998) division of human capital. It is assumed, for instance, that a person possessing more cultural capital favours creative hobbies (e.g. art, music), organised voluntary work and neighbourhood help in his or her leisure time use. The economic capital variable was constructed from the income statistics linked with the diary data.

Figure 2 shows that the time devoted to cultural activities is roughly the same for the employed and non-employed, albeit retired men do somewhat more cultural activities. The most important form of social capital is meeting friends. Women seem to increase the amount of time spent in social activities after retirement. However, social contacts are rarely the primary reason for withdrawal from work. Social activities had a positive effect on retirement probability only for educated men. A lot of social contact occurs at work, and retirees seemingly want to replace the social gap, resulting from retirement, with greater dedication to out-of-

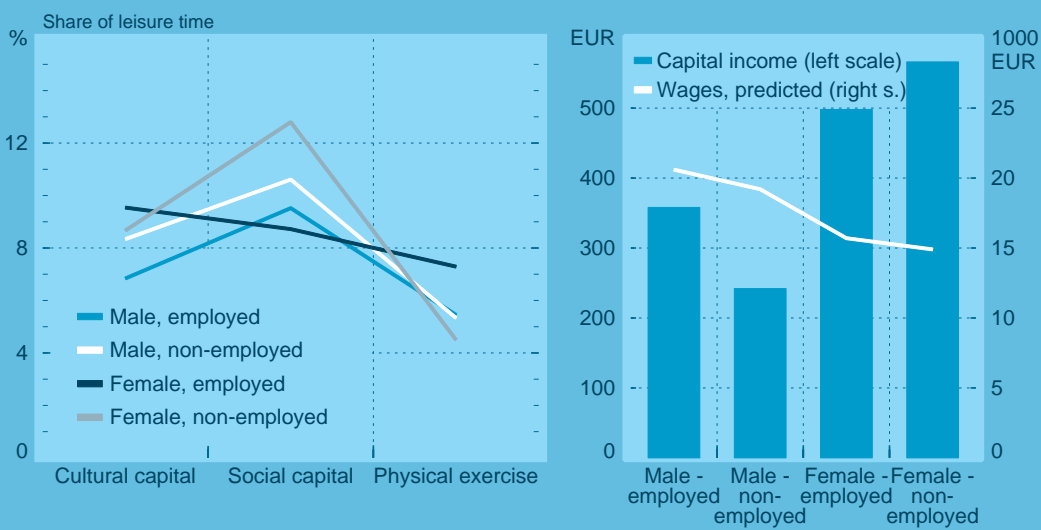
work relations after they have left their jobs. Thus, having social contacts in the working place is among those important factors encouraging older workers to remain at their jobs. Perhaps one could establish ways to create and maintain social contacts in working life - one way to do this could be by arranging group activities like voluntary work already during working life.

Women still in working life do more physical exercise than those who have already retired. The opposite holds for men. Early retired persons have, on average, a lower socio-economic status than the employed. However, Figure 2 indicates that non-employed women do not have lower wealth on average, in fact the opposite holds.

Labour Demand Factors in Early Retirement

In Finland, as elsewhere, earnings increase with age. The productivity of workers, however, does not necessarily rise with age, particularly amongst workers over 50 years of age. In addition to wages, social security contributions paid by firms normally increase with worker age. This has a clearly negative impact on the employment of older workers. From a marketing point of view, in times of economic downturn, it

Figure 2. Cultural and Economic Capital for Workers and Early Retirees



Source: Huovinen & Piekkola, 2002.

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might be better for a company's 'goodwill' to channel older workers to retirement (through unemployment or disability pensions) than laying off younger workers who would not be entitled to an early retirement. In Finland this was particularly evident during the recession experienced in the early 1990s, when half of the jobs held by older workers vanished in three years.

High social security contributions increase the job destruction rate of ageing workers regardless of firm size. Larger firms contribute more in social security contributions but, on the other hand, personnel costs account for a lower share of net sales.

Conclusion

In the following we present some thoughts regarding population ageing and withdrawals of Finnish workers from the labour market. In addition, we suggest measures that would help keep older workers in the labour market longer.

Increasing wealth and higher demand for leisure will likely lead to a growing number of early retirements. Early retirees use their leisure actively – they do not just spend time in front of the television. An excessive workload only makes early retirement more attractive. Future pensioner generations will be wealthier than their predecessors. Lower wage earners and women, in particular, appear eager to withdraw from the labor market if their household has a sufficient level of wealth.

The baby-boomers are substantially wealthier than the preceding generation, which, when combined with increasing demand for leisure time activities, will raise the demand for early retirement. An increase in the wealth of a spouse raises the probability of withdrawal from employment especially amongst women. Income from employment generally has the opposite effect. Hence, particularly women with low incomes and high household wealth are the most likely to withdraw from employment. It has been proposed that the minimum retire-

ment age be set at 62 with the aim of flexible retirement until the age of 68. It is likely that wealthy baby-boomers, in general, will prefer earlier retirement and will not postpone their retirement until age 68.

Part-time work contracts would be a good way to increase the employment of older workers. The popularity of part-time pensions is almost certainly due to the increase in demand for leisure. In Sweden, the labour force participation rate of older workers is two times higher than in Finland, which can partly be explained by the widespread use of part-time work contracts. Since the Finnish part-time pension program is very expensive to society, measures to substitute these pensions with part-time work should be considered. The right way to do this would be to ensure the old-age pension accrual while at the same time cutting other subsidies for part-time pensions. The present system diminishes the effect of the lower wage on pension accrual, but this part of the system is fairly complicated and may not be taken into account among individual workers. The proposed system of pension accrual based on all work months and not on the last ten years for each working relationship would be a lot simpler and would abolish workers' uncertainties regarding the pension system. Furthermore, pension accrual from customary part-time work by an ageing worker could be a little higher than from full time work – for instance 2.5 percent instead of the normal 1.5 per cent.

Alternative pension plans imposing different costs on firms must be avoided. Firms are evidently capable of affecting their workers' decisions on the various retirement channels. This was particularly clear in the first half of the 1990s. Also during the 1980s, early retirements were mostly due to the reorganisation of firms rather than workers' individual decisions. Before the year 2000, the unemployment pension was considerably cheaper than the disability pension for large firms. Therefore, the flow from employment to these two pension programs was unbalanced between large and small firms. This 'firm effect' should be smaller nowadays because the benefit scheme called "pipeline towards an unemployment pension" has been made more expensive for large firms than before. But still the firms have an incentive to let their older workers go because these workers have higher wages and lower productivity than

their younger counterparts. Should early retirement plans be made even more unattractive for employers?

As the population ages, firms are going to face increasing labour shortages. Therefore, firms should invest more in training their older workers to ascertain adequate human resources. Ten years from now there is going to be 200,000 more 55 - 64 year-old workers than presently – and the amount of younger (under 55) workers is going to decrease by almost the same amount. Training is very important since firms use 5 percent of their annual net sales to train their workers. The Finnish Ministry of Labour also has a role in training the ageing workers of smaller firms. Expenditure on part-time pensions could be used for training.

The costs imposed by older workers normally exceed those by younger workers. This is partly due to the benefit principal (contributions and benefits should match each other) and therefore has its justifications. Therefore, reforming social security contributions towards less age discrimination is very complicated. Another option could be to expand the deductions of older workers. Its effect would be similar to reducing social security contributions as a result of wage adjustment.

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