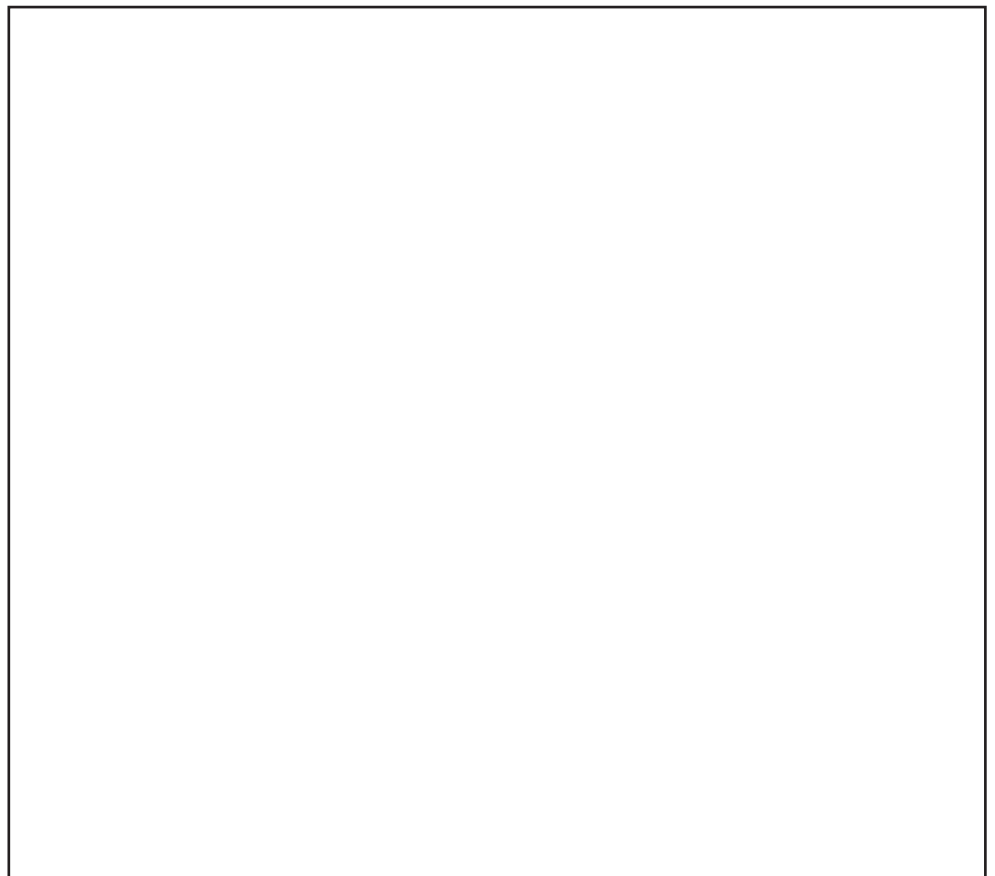




Eurofound

Impact of the recession on age management policies: Latvia

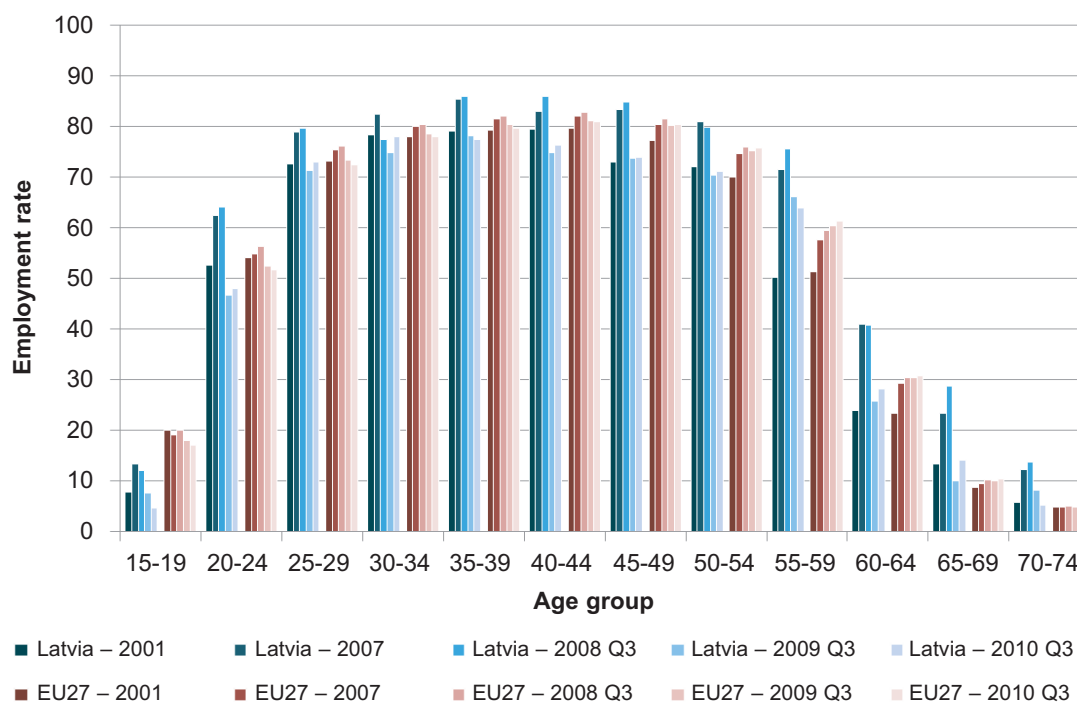


Labour market developments and the ageing workforce

Employment rates

Throughout the past decade, the employment rate of the total working population (aged 15 to 74) in Latvia remained relatively high compared with countries across the EU (the EU average was 65.3% at the end of 2010; see Figure 1). However, in 2010, as a result of the economic recession, the employment rate dropped to only 53.1%. According to the Central Statistical Bureau of Latvia (CSB), in 2010, older workers aged 55 to 64 and 65 to 74 constituted only 13.1% and 2.3% of all employees, respectively; this proportion has been gradually increasing since 2002. Similar to much of the EU, more than half of the Latvian workforce is employed in the services industry: in 2010, 22% of employees were working in public services, 20% in trade and 15% in other commercial services (Ministry of Economics, 2010). Latvia has one of the lowest rates of part-time work in the EU and has comparatively low rates of female part-time work in particular: 9.8% of men and 11.5% of women were working part time in 2010, according to the CSB.

Figure 1: *Employment in Latvia and EU27 by age group, 2001–2010 (%)*



Source: Eurostat

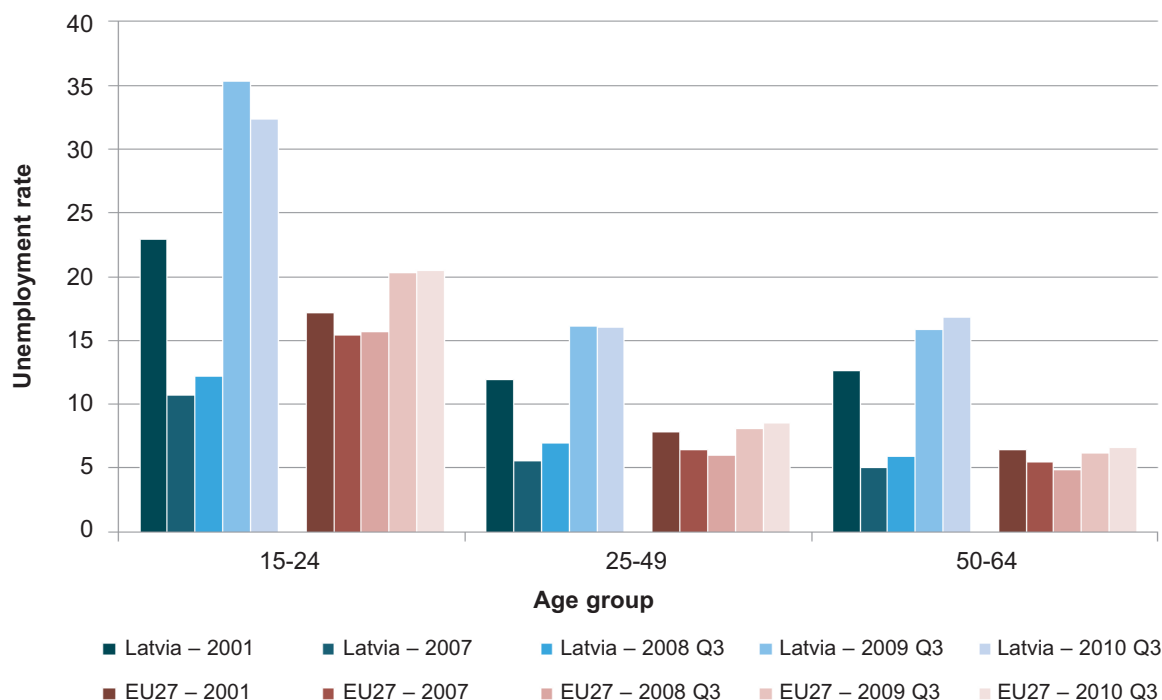
Unemployment rates

In the past decade of economic turmoil, the labour market in Latvia has experienced an extreme rollercoaster ride (Figure 2). In 2001, the unemployment level in Latvia was much higher than the EU average. During the period 2001 to 2007, Latvia had one of the highest growth rates in average annual gross domestic product (GDP) in the EU, reaching 10% in 2007 (source: CSB). In these years, there was a remarkable fall in unemployment rates across all age groups due to the demand for labour in the fast-growing services and construction sectors. Increased levels of labour emigration after Latvia joined the EU in 2004 also contributed to this (Ministry of Economics, 2007).

Between 2001 and 2007, the fall in unemployment was most pronounced in the group aged 15 to 24: this unemployment rate plummeted by 12.2 percentage points. By 2007, unemployment levels in Latvia had fallen below the EU average (Figure 2). Yet in 2008, as a result of the national and world economic crisis, the GDP growth rate in Latvia turned

negative and unemployment rates soared. This increase was particularly evident for 15- to 24-year-olds, for whom the unemployment rate rose by 23.1 percentage points from 12.2% in 2008 to 35.3% in 2009. With unemployment continuing to rise rapidly, by the end of 2009, Latvia's unemployment levels in all age groups considerably exceeded the EU average. By the end of 2010, unemployment rates had stabilised for workers aged 25 to 49 and had fallen slightly for 15- to 24-year-olds, but individuals aged 50 to 64 still experienced the adverse effects of economic recession, as unemployment continued to increase.

Figure 2: Unemployment in Latvia and EU27 by age group, 2001–2010 (%)

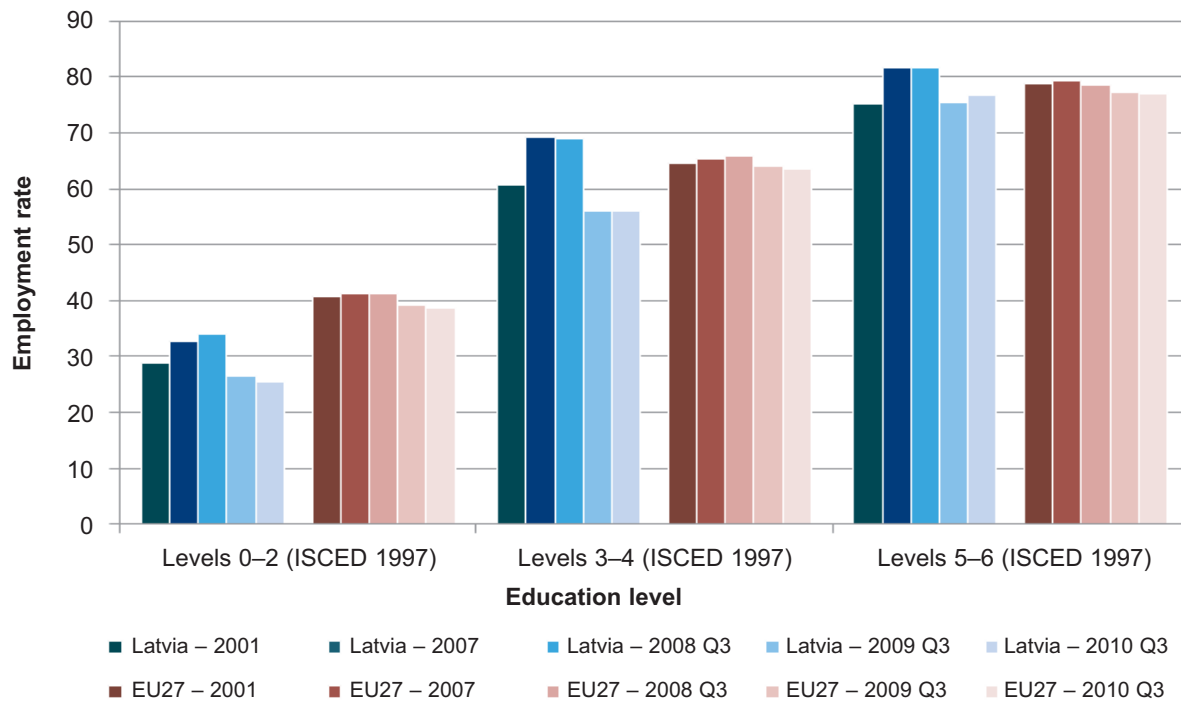


Source: Eurostat

Impact of education on employment

Although economic growth, especially the expansion of the construction sector, stimulated the increase in the employment of workers with the lowest levels of educational attainment (levels 0–2 using ISCED 1997 classification), over the last decade they have had consistently lower rates of employment than the EU average for the same age group, even when they had higher levels of education in some cases (Figure 3). Workers in Latvia with education levels 3–4 and 5–6 had lower employment rates than the EU average in 2001, 2009 and 2010, but their employment rates exceeded this average in 2007 and 2008. The economic changes had the biggest effect on workers with education levels 3–4: they had the highest growth in employment rate (8.5 percentage points) between 2001 and 2007 and the largest decline (13.2 percentage points) between 2007 and the third quarter of 2009. Individuals with the highest levels of education (levels 5–6) were least affected by economic changes in Latvia.

Figure 3: Employment in Latvia and EU27 by education level, 2001–2010 (%)

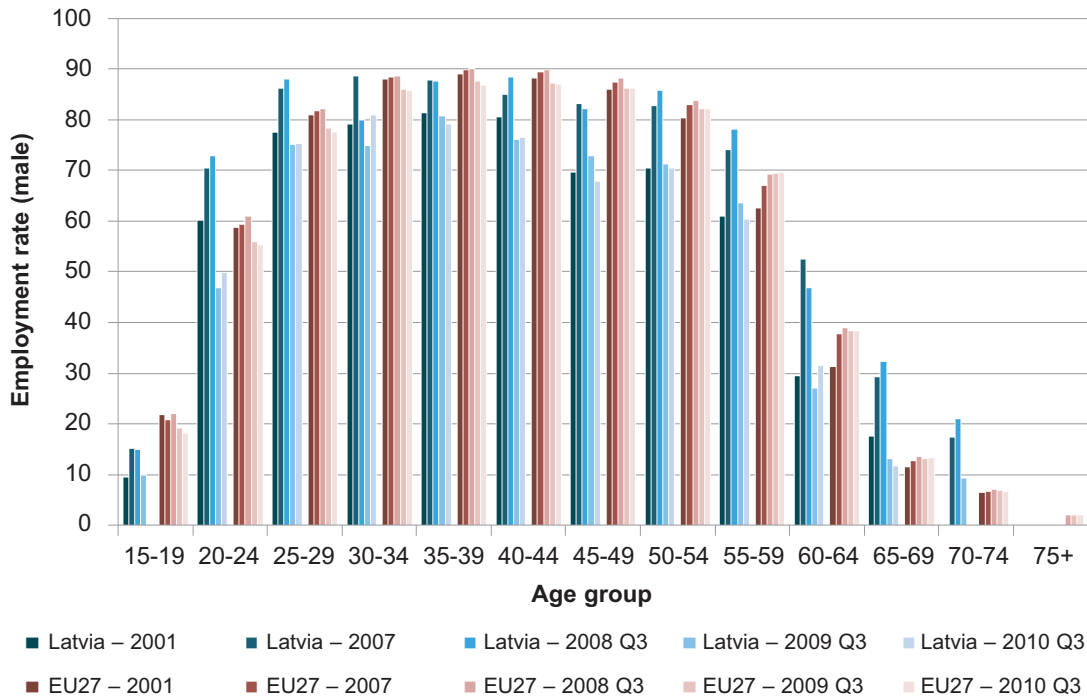


Note: Educational levels are as defined by UNESCO’s International Standard Classification of Education (ISCED 1997).
Source: Eurostat

Employment by age and gender

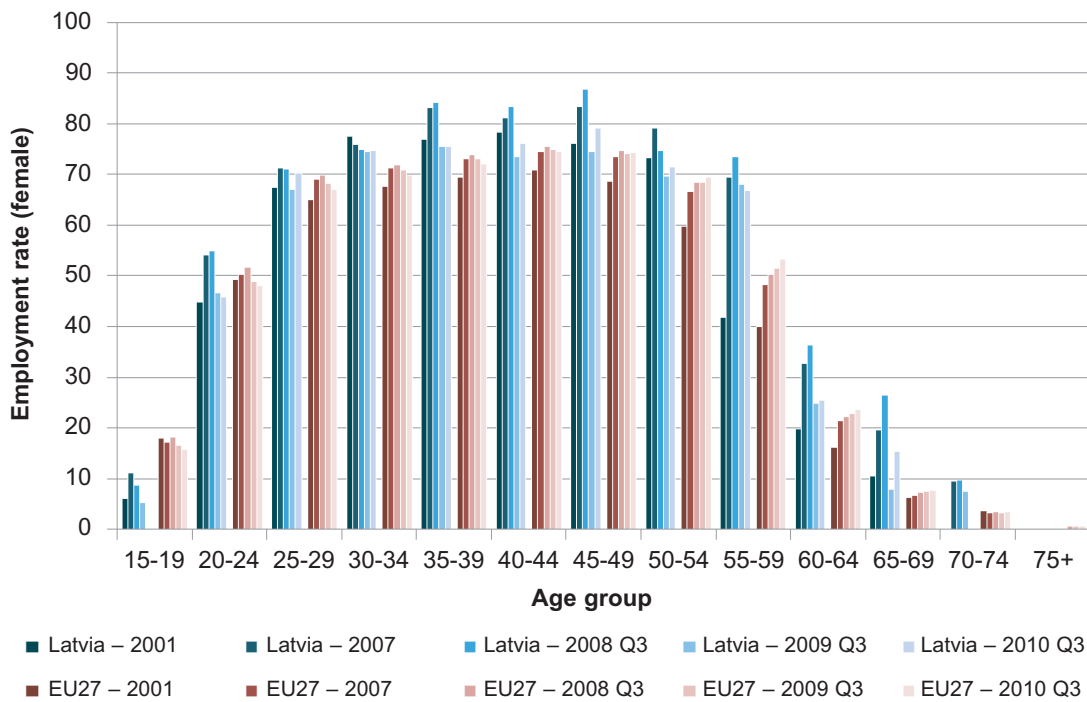
As can be seen in Figures 4 and 5, labour market patterns also vary with a worker’s age and gender. Before and during the economic recession, employment rates in Latvia for individuals older than 60 continuously exceeded the EU average employment rates (see Figure 1). The high levels of employment of older people in Latvia are related to two factors: an economic necessity to continue to work and legislation that permits a retired individual to be employed and receive both a state pension and salary simultaneously with no limitations on the number of hours and salary level that a retired worker can receive. However, the recession has left a particularly negative effect on pre-retirement age (55 to 59) employment among men, as shown in Figure 4. Employment rates of pre-retirement individuals aged 55 to 59 in Latvia have been relatively high in comparison to the EU average up to 2008. However, in 2009 and 2010, the employment rate for men dropped below the EU average.

Figure 4: Men's employment in Latvia and EU27 by age group, 2001–2010 (%)



Source: Eurostat

Figure 5: Women's employment in Latvia and EU27 by age group, 2001–2010 (%)



Source: Eurostat

While the economic boom years in Latvia generated a steady rise in employment for both men and women, when the economic downturn began, men were hardest hit by the contraction in the job market. Between 2001 and 2007, men's employment in Latvia increased by 10.8 percentage points while the rise for women was slightly lower, at 8 percentage points. In contrast, while men experienced an average 13.4% decline in their employment rates between 2007 and 2010, this decline was only 4.9% for women. This difference in the decline can be attributed to the shrinking of the construction industry, which employed mostly men, and to the higher levels of education among women. There were 1.6 times more women than men with an educational level corresponding to ISCED 5–6 in 2007 (Central Statistical Bureau of Latvia, 2008).

Some groups of older employees experienced the highest increase in their employment rates between 2001 and 2007. This increase was the most pronounced among 55- to 59-year-old women (27.6%) and 60- to 64-year-old men (23.1%) (Figures 4 and 5). Along with the increasing demand for labour stimulated by rapid economic growth, the employment rates of older people were affected by a gradual increase in the state pension age to 62. The state pension age of 62 for men was put in place in 2003 but not for women until 2008.

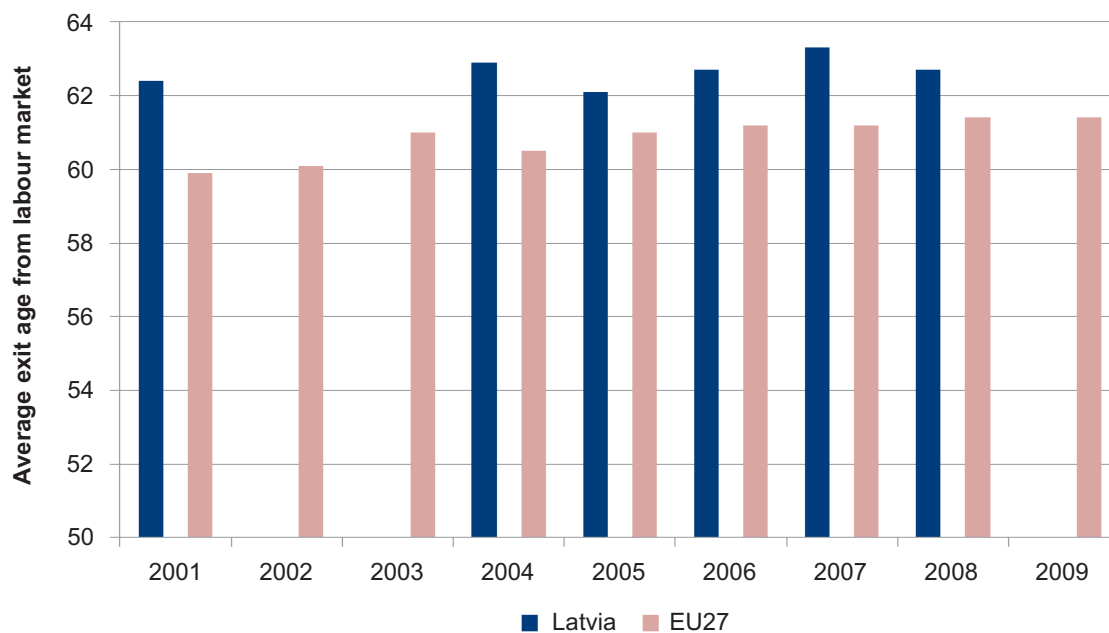
Employment rates continued to rise up to the third quarter of 2008 for many age groups. The exceptions were 30- to 34-year-old and 60- to 64-year-old men and 15- to 19-year-old and 50- to 54-year-old women, who were the first to experience the adverse effects of the recession. Their employment rates began to decline after 2007. The worst affected group were 30- to 34-year-old men, whose employment rate dropped 8.7 percentage points from 88.6% in 2007 to 79.9% in the third quarter of 2008. Men aged 60 to 64 experienced a slightly lower decline of 5.7 percentage points in the employment rates. These changes in men's employment are attributable in large part to the rapid shrinking of the construction industry.

Employment rates began to decline in 2009 for other age groups. In general, during the period 2007 to 2010, the steepest decline in employment rates were among 60- to 64-year-old men (21-percentage point decline from 52.6% to 31.6%) and men aged 20 to 24 (20.5-percentage point decline from 70.4% to 49.9%). Among women, the decline in employment rates was less pronounced. The worst hit were those aged 20 to 24 (8.2-percentage point decline from 54.1% to 45.9%), 50 to 54 (7.7-percentage point decline from 79.2% to 71.5%) and 60 to 64 (7.3-percentage point decline from 32.8% to 25.5%). The decline in employment rates among 60- to 64-year-old men and women may be attributed to two factors: changes in the pension law introduced in June 2009 (see below for more detail) and a reduction in demand for labour due to the economic crisis. By the third quarter of 2010, employment rates had stabilised or had started to slowly recover for many groups of employees. Notable exceptions to this trend were men aged 45 to 49 and 55 to 59, whose employment level still fell by 5.5 percentage points and 3.3 percentage points, respectively, between 2009 and 2010. This trend raises concerns about the possibility of many of these workers extending their economic activity beyond the current state pension age of 62.

Exit from the labour market

An important factor affecting the current and future labour markets in Latvia is the average age of exit from the labour market. Throughout the past decade, the average exit age for workers in Latvia has been 62.7, which is slightly higher than the EU average (Figure 6) and is also higher than the current state pension age of 62 for both men and women. As the average size of a state pension is close to the minimum living income and about 48% of individuals aged 65 or older live in poverty (Porniece, 2010), it provides an incentive for many retirement-age individuals to continue to work.

Figure 6: Average exit age from the labour market in Latvia and EU27, 2001–2009



Note: No data available for Latvia for 2002, 2003 and 2009.

Source: Eurostat

Role of the pension system

Since 1996, Latvia has had a new social security system that is based on social security contributions. The pension system in Latvia now operates at three levels:

- mandatory state non-funded pension scheme;
- mandatory state-funded pension schemes;
- private individual or company contributions to voluntary pension schemes.

The underlying principle of the system is essentially that the larger the contributions that an individual makes, the larger his or her pension will be. All persons making social insurance contributions (paying social tax) are involved in the first level. These contributions are used to pay state pensions to the current generation of pensioners. Part of the social insurance contributions of those who participate in the second-level pension schemes (this participation is compulsory for everybody who is born after 1 July 1971, but older people may join these schemes as well) are invested through an individually chosen pension fund provider. Finally, the third pension level is an opportunity for an individual or their employer to make additional contributions by investing in a private pension fund. Currently, most pensioners, with very few exceptions, receive their pensions from the state. Additional pensions, based on level-three voluntary contributions from the individuals themselves or their employers, are still somewhat rare.

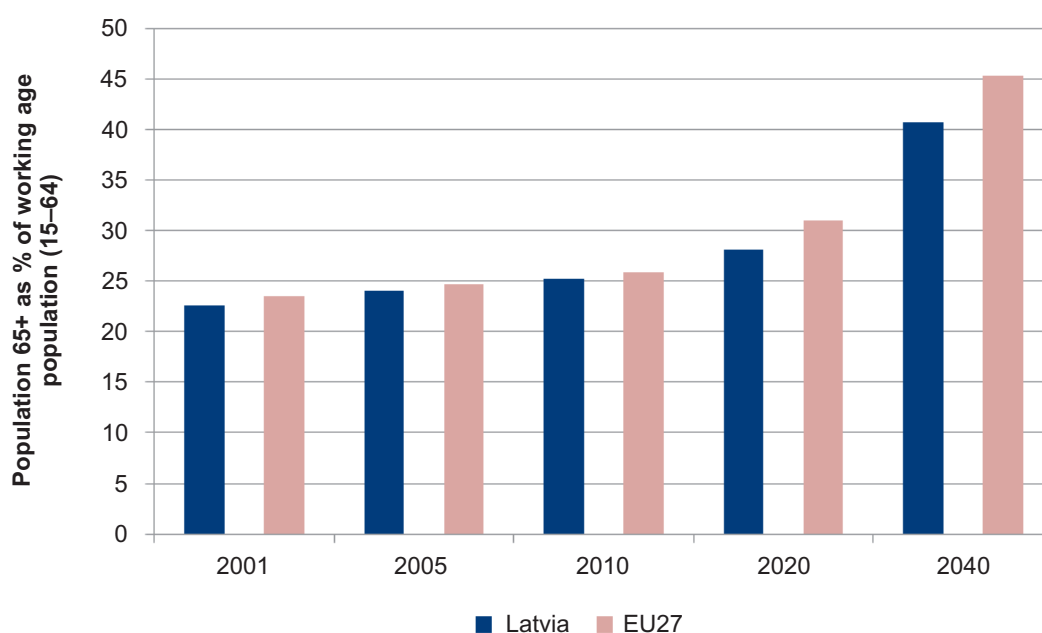
To qualify for the state pension, employees must have social insurance (social security payments or social tax) paid by the individual themselves, their employer or by the state on their behalf for at least 10 years. Current pension law in Latvia allows a retired individual to work and receive both the state pension and a wage, and as can be seen in Figures 2, 4 and 5 many individuals use this opportunity. Until 31 December 2011, employees who have been working and making social security payments for at least 30 years and have no more than two years left until their state pension age can also qualify for an early state pension (in other words, they can retire earlier), currently 50% of the full state

pension. Individuals who receive an early pension are not allowed to receive both a salary and the pension. This is because early retirement is designed as a support measure for people who have lost their job shortly before reaching the state pension age and who cannot find a new job (although to qualify for an early pension, an individual does not have to prove that they cannot find a job). As an early pension is usually small and early retirement also reduces the amount of the full state pension, individuals have a financial incentive to continue working. Therefore, it is relatively unusual for individuals taking early retirement to also apply for an early state pension. In 2010, about one-quarter (25.9%) of the newly retired were individuals who took early retirement, while individuals who receive an early pension constituted only a small proportion (4.5% in 2010) of all pensioners.

Old-age dependency ratio

The future labour market in Latvia is likely to be affected by a steady increase in the number of people over retirement age and a decline in the working age population (Figure 7). In general, the population in Latvia is ageing at a similar rate to the EU average; however, as people in Latvia have a shorter life expectancy, the old-age dependency ratio is not increasing as rapidly as in other EU Member States. Latvia has the lowest life expectancy in the EU and the lowest healthy life expectancy (58 and 65, respectively, for men; 68 and 76, respectively, for women) (Jagger et al, 2008; World Health Organization, 2008). As a result of the shorter life expectancy, as many as 48% of Latvian men die before reaching the current state retirement age of 62.

Figure 7: Current and forecast old-age dependency ratio in Latvia and EU27, 2001–2040



Source: Eurostat

In Latvia, the number of people above 65 years relative to the working-age population has been slowly increasing since 2001, although it has remained below the EU average. The projected old-age dependency ratios suggest that the difference between the old-age ratio in Latvia and the EU average ratio will widen and that the proportion of individuals aged 65 or older in Latvia will remain below the EU average. It should be noted, however, that in 2020, the number of retirement-age individuals will exceed the number of children and young people under the age of 18 (Ministry of Regional Development and Local Government, 2008).

Future levels of old-age dependency will depend on the participation rates of older workers who are still below state pension age. Traditionally in Latvia, as can be seen in Figures 4 and 5, the proportion of individuals continuing to work beyond their retirement age has been higher than in the EU. However, the fact that employment levels for men over 55 in Latvia have dropped below the EU average in recent years, coupled with low healthy life expectancy and life expectancy, raises concerns about the possibility of many of these workers extending their economic activity beyond the current state pension age of 62. There is less concern about prolonging economic activity among women in Latvia because they have longer healthy life and life expectancy.

Direction of policy development (2000–2008)

From 2000 to 2009, the problems of an ageing workforce were low on the list of policy priorities in Latvia for the government, trade unions and most employers. The main reasons for this were that employment rates for older employees were relatively high (and were increasing between 2001 and 2007) and the issue of an ageing population did not create any problems requiring immediate attention. The issue was therefore not part of a public discourse or particularly seen as a problem from a policy perspective. However, the issues of labour market sustainability had been discussed within the context of emigration of younger generations to other EU countries, particularly the UK and Ireland, and also in relation to pension policy since 2000 (interview with the Ministry of Welfare).

In practice, however, there were a number of factors that shaped the labour market experiences of older individuals, namely:

- different norms included in various laws and regulations;
- collective agreements between employers and trade unions;
- labour market initiatives of the State Employment Agency.

Laws and regulations shaping labour market experience

The labour market experiences of older individuals were shaped by the laws and norms that govern employment relationships in Latvia. For example, the Labour Law in Latvia, which regulates the relationships between employers and employees, makes it illegal to discriminate against an individual because of their age (and a range of other characteristics). It also forbids mention of age in job advertisements and personal specifications, unless a law determines that individuals of a certain age may not be employed in this specific job. The Labour Law also determines that older employees who have less than five years to go before reaching the state pension age should be a priority group (along with nine other categories of employees) when considering which employees to keep in work in case of collective redundancies. Older employees are also more likely to benefit from the clause in the Labour Law that determines that the amount of redundancy compensation increases with length of tenure. In general, most, especially large, organisations comply with the collective redundancy regulations in the Labour Law, while others try to bypass it by asking their employees in the pre-retirement age bracket to leave their job ‘voluntarily’ (interview with trade unions). If employees leave their job voluntarily, they do not receive redundancy compensation and have to wait two months before they receive any unemployment benefits. Nevertheless, sometimes retirement age employees volunteer to be part of collective redundancies if they are trade union members, as they tend to receive higher redundancy settlements as part of their collective agreement.

However, there are other laws in Latvia that have set legal age limits for individuals working in some sectors or professions, thus limiting opportunities available to older employees. For example, the Civil Service Law states that only individuals who have not reached the state pension age are permitted to apply for a civil service job. It also determines that a civil servant who has reached the state pension age automatically loses the status of civil servant (and their job)

unless there is special permission from the manager of their organisation or ministry for them to continue to work. However, many civil servants receive permission to continue to work beyond their retirement age. For example, in 2003, the civil service employed 371 people of retirement age and only 47 of them had their employment terminated. In 2003, the Constitutional Court (*Satversmes tiesa*) decided that the age limits included in the Civil Service Law are legitimate because they are in the public interest: they facilitate the generation change and help the civil service administration to effectively and proactively plan career succession to ensure an efficient and smooth operation of the civil service. Age restrictions for the reasons of public good also exist in the Office of the Prosecutor Law and the Military Service Law. Similarly, these restrictions state that only individuals who have not reached the state pension age are permitted to apply for or continue in a job in the Office of the Prosecutor, while the Military Service Law limits the age until which a person can continue his or her military service. Until 2003, age limits also applied to the Law on Institutions of Higher Education. However, after several retirement-age employees from higher education institutions filed a complaint, in 2003 the Constitutional Court recognised these restrictions in higher education as anti-constitutional and illegitimate.

Social partner agreements

Despite traditionally strong collaboration between government, employers and trade unions, the problems of an ageing workforce and age management were overlooked in policy terms until 2009. The various organisations and institutions overseeing workforce issues included the Ministry of Economics (responsible for employment issues), the Ministry of Welfare (responsible for social security and unemployment policy), the Employer's Confederation of Latvia and the Free Trade Union Confederation of Latvia. Their members were involved in the National Tripartite Cooperation Council, Social Security Subcouncil, Vocational Education and Employment Subcouncil, among others.

However, during the period of economic growth between 2000 and 2008, when employers began to experience a shortage of labour, many trade unions in Latvia were able to negotiate collective agreements that provided employees with additional social security and support (interview with trade unions). Some norms included in collective agreements, such as additional benefits (related to length of service) in case of redundancy and employers' contributions to private pension funds and health insurance, were especially beneficial for older employees, particularly in times of economic recession.

Implementation of labour market policies

Older employees have also benefited from some of the initiatives provided by the State Employment Agency (*Nodarbinātības Valsts Aģentūra*, SEA), which is the main institution responsible for the implementation of labour market policies. The SEA's mission is to reduce unemployment and promote employment in Latvia. Although no initiatives were introduced aimed particularly at pre-retirement individuals, they were one of seven priority groups that are usually included in vocational training, subsidised work practice programmes and other initiatives provided by the SEA (direct communication, SEA).

Crisis effects on recent policy initiatives

Since 2008, Latvia has suffered one of the deepest recessions in the world (International Monetary Fund, 2010). After the start of the world economic crisis in 2008, the GDP growth rate in Latvia turned negative (-4.2%) before plummeting in 2009 (-18%, the lowest in the EU according to the CSB. The services sector (especially commercial and trade services, hotels and restaurants), manufacturing and construction industries were hardest hit (Ministry of Economics, 2008; Berdnikovs, 2009). The economic crisis was accompanied by a sharp increase in unemployment in Latvia (see Figure 2), reaching the highest level in the EU in 2009 (Ministry of Economics, 2009). The steepest fall in employment was seen in the construction and manufacturing sectors as well as in public services. By the third quarter of 2009, the contraction in jobs in these sectors had caused a fall in employment of 50%, 25% and 12%, respectively, in comparison with the third quarter of 2008 (ibid).

Austerity measures to reduce budget deficit

The government's primary concern during the recession was to reduce the budget deficit and as a result several austerity measures were introduced. They were aimed at groups receiving social security payments: unemployed people, workers on long-term sick leave, families and children, and pensioners. Some of the measures inevitably had a negative effect on older employees.

Changes to pension law

In June 2009, to reduce the social budget deficit, the Latvian government decided to add a new clause to the Pension Law that determined that workers who had already reached the state pension age would receive only 30% of their pension (not a full pension, as before)¹ if they carried on working beyond July 2009. These changes, introduced at short notice, forced many retirement-age individuals who would have otherwise continued to work out of their jobs and thus had an extremely negative effect on labour market participation of older people in Latvia. As a result, between June and July 2009, the number of working pensioners decreased by 42.3% and their employment rate fell from 12% to 7% (Ministry of Welfare, 2009). As most of the retirement-age individuals in Latvia worked in low-paid jobs to top up their pension, it was more beneficial for them to retire and receive a full pension than continue to work and get less than a third of it (interview with trade unions). Although these changes were annulled in December 2009 by the Constitutional Court, it was impossible for many pensioners who had previously worked to go back to their former jobs or find another (interviews with trade unions and Ministry of Welfare). No studies or analyses that consider how these changes in the Pension Law have affected employment of other age groups have yet been produced. However, anecdotal evidence suggests that due to the recession, some employers did not recruit new employees for the jobs left by pensioners.

In July 2009, the government also cut pensions for people who qualified for early retirement. This reduction was from 80% to 50% of the full pension they would receive when reaching state pension age. The level of early pensions for those who have been receiving them before July 2009 remained unaffected. The apparent aim of this initiative was to extend the time individuals remained economically active and thus reduce the burden on the social security system. However, the effect has not been as expected and the proportion of individuals retiring early has increased. In 2009 and 2010, about 4.1% and 4.5% of all retired were individuals who had taken early retirement, compared with only 2.4% in 2007 (Porniece, 2010). The early retirement rate might also have increased because employers may see early retirement as a cheaper method of reducing the number of employees. During recession, the trade unions have experienced a substantial increase in 60-year-old employees seeking legal help because their employers are pressuring them into early retirement to avoid paying compensation in case of redundancy (interview with trade unions).

At the same time, around three-quarters of the 4.5% who applied for early retirement in 2010 are actually receiving their pensions. This means that around three-quarters of those who retire early do so because they have lost a job or cannot find work. Others (one-third) make an application for early retirement but then continue to work.² This pattern suggests that some individuals might be applying for early retirement because they are worried that the pension law can change again and if they had not already applied for early retirement, they might unexpectedly lose this opportunity in the future (interview with trade unions).

¹ Before these changes, an individual could continue to work beyond the state pension age and receive a full pension and salary.

² When an individual applies for early retirement status, it is possible for them to receive this 'status' but continue to work. Once an individual has early retirement status, they can decide at any time to stop working and to start receiving an early pension.

Options for early retirement curtailed

In 2009, the government also decided that due to the economic recession, the option of early retirement would only be available until 31 December 2011. However, this plan has met with resistance from the trade unions, who argue that early retirement in times of economic recession provides a social security support net for individuals who have limited choices in the labour market. Early in 2011, the Free Trade Union Confederation of Latvia organised a letter-writing campaign against the cancellation of early retirement (and other changes in the pension law), which received considerable public support (interview with trade unions). As of April 2011, the government does not plan to offer the possibility of early retirement beyond December 2011.

Supporting labour market participation of older workers

The increasing levels of unemployment among older members of the workforce further created a growing need for additional support for older individuals trying to find work. In 2008, in guidelines to an application for joint funding from the European Social Fund and Latvian government, the Ministry of Welfare included a horizontal priority, 'equal opportunities for everyone independent of age', emphasising that one of the government's priorities is to encourage the participation of older individuals in the labour market. With financial help from the European Social Fund, the Latvian Ministry for Welfare and the SEA have implemented several programmes to provide help for unemployed people, including those of pre-retirement age. Although these programmes were not exclusively focused on pre-retirement individuals aged 50+ (source: email communication, SEA), older people have remained one of the SEA's priority groups. In 2010, around half of the registered unemployed aged over 50 took part in supportive, informal, professional or vocational educational programmes offered by the SEA. The 'work experience with a stipend' programme has been the most popular among older individuals, with around 40% of unemployed people in the pre-retirement age bracket engaged in it in 2010. Within this programme, local authorities, backed by the government and European Social Fund, created new (mainly unskilled) jobs for unemployed people where they could work and receive a stipend for up to six months. Although the participation rates in this programme have been high, trade unions and some other groups argue that it will not bring long-term benefits, as it does not create permanent workplaces and individuals participating in them do not have social insurance (interview with trade unions).

Another initiative provided by the SEA for older individuals has been the subsidised workplace programme. In this programme, private employers created jobs subsidised by the SEA and offered them to unemployed people. Around 74% of individuals of pre-retirement age who took part in this programme found a job within three months of it ending (interview with Ministry of Welfare). There is strong support for subsidised workplaces from the trade unions because, in their opinion, this is the most effective way to reduce unemployment, particularly among individuals of pre-retirement age (interview with trade unions).

Restructuring of the social security system

Finally, in 2010, as the result of the budget deficit brought on by the deep economic crisis, the government proposed a restructuring of the social security system. This restructuring included significant changes in pension policy, which in turn are expected to increase older individuals' participation in the labour market and reduce the burden on the social security system created by the ageing population.

In November 2010, the Cabinet of Ministers ratified the Model of Long-term Stability of Social Security System (Ministry of Welfare and Cabinet of Ministers, 2010) proposed by the Ministry of Welfare. This model suggests restructuring the social security system to reduce the budget deficit related to economic recession and the ageing population and to ensure its sustainability. The proposed changes include:

- a gradual increase in the state pension age up to 65 years by 2021;
- an increase in the minimum number of qualifying years for the pension to 15 by 2016 and to 20 by 2026;

- a reduction in rights to an early pension for individuals working in hazardous workplaces;
- the withdrawal of state supplement payments to individuals on low pensions;
- cutting the indexation of the state pension for a certain period;
- the withdrawal of early retirement possibilities.

These changes, despite a relatively low healthy life expectancy and life expectancy, particularly for men in Latvia, are proposed to increase the labour market participation of older individuals and to prolong their working lives. At the time of writing, the government has prepared a Project of Changes in Pension Law, which includes changes advocated by the Model on Long-term Stability of the Social Insurance System proposed by the Ministry of Welfare, which is predicted to come into effect from January 2012. The model and the project on pension law have created an active social dialogue about changes in retirement policy.

Position of the social partners

In general, there is an agreement among social partners that the state pension age needs to be gradually increased. However, there is disagreement about how and when it should happen. Employers support a suggestion by the World Bank to increase the state pension age from January 2012, or even from July 2011. The government argues that would discriminate against individuals currently close to retirement and that the state pension age should therefore be increased by six months each year starting from 2016 to reach the state pension age of 65 for both men and women by 2021.

In principle, the trade unions support the changes suggested by the government. However, they propose that because of the short life and healthy life expectations for Latvians, the state pension age should be increased more gradually. Their suggestion is an additional three months each half year because otherwise many individuals, especially men, will never reach retirement. The unions also argue that because of the deep economic recession and ageing workforce, some changes in the pension system in Latvia were needed (for example, an increase in the state pension age and the number of qualifying years). However, other policies, like the withdrawal of state supplements for those on low pensions or a reduction in rights to an early pension for individuals working in hazardous workplaces, should be temporary rather than permanent. This would retain the trust and confidence of society, especially young people, in the stability and predictability of the social security system and thus encourage them to make contributions by paying social tax, thereby reducing the shadow economy. In addition, the unions argue that there is a need for more complex solutions that involve active employment policies, creation of new jobs and changes in tax policies. Otherwise, according to the trade unions, the currently proposed changes will have a negative effect on what they otherwise consider to be a good social security system (interview with trade unions). As of April 2011, the government has accepted these changes but they are still to be authorised by the parliament.

Summary

Despite a relatively low state pension age, Latvia has traditionally had high levels of employment among older individuals. While older individuals' employment became even higher during the rapid economic growth between 2001 and 2007, the recent recession, coupled with changes in the pension law, have had a negative effect on older individuals' participation in the labour market, especially men in the pre-retirement age bracket. Several lessons can be learned from Latvia's experience.

First, there is an urgent need for social partners to develop policies and initiatives, especially at the national level, specifically focused on workforce ageing in Latvia. A particular challenge for such policies and initiatives will be how to prolong working life when the healthy life expectancy and life expectancy are so low, especially among men. To

address this challenge, the government might need to develop coordinated public health, labour market and social security policies and initiatives.

Second, rushed and ill-considered changes in pension laws and regulations may have negative effects on the economic activity of the older workforce. Therefore, a careful impact analysis focusing not only on the possible effect of such changes on the state's social budget but also on the older workforce should be conducted before introducing change.

Third, trade unions in Latvia remain a powerful social partner that can improve the employment situation of employees, including older individuals. As described in this report, during the recession, older employees in Latvia benefited from the collective agreements that were negotiated by trade unions during the times of economic growth. Therefore, in the future, trade unions may continue to be an important channel through which the situation of older workers in the labour market could be improved.

To conclude, government, trade unions and employers in Latvia are facing an urgent need to directly and proactively address the challenges presented by workforce ageing.

List of interviewees

Ineta Tāre, head of European Affairs Division, Department of European and Legal Affairs

Irina Homko, expert on social issues, Free Trade Union Confederation of Latvia

Ruta Porniece, expert on employment and education issues, Free Trade Union Confederation of Latvia

Gundars Ignats, deputy director-manager, Service Division, Development Department, State Employment Agency

Bibliography

(All Eurofound publications are available at <http://www.eurofound.europa.eu>)

All links accessed December 2011.

Berdnikovs, A. (2009), *Tackling the recession in Latvia*, Eurofound, Dublin.

Central Statistical Bureau of Latvia (2008), *Statistika par Latvijas vīriešiem un sievietēm* [Statistics on males and females in Latvia], available online at <http://www.csb.gov.lv/notikumi/statistika-par-latvijas-viriesiem-un-sievietem-26213.html>.

Government of Latvia, *Par Valsts Pensijām* [Law on State Pensions], available online at <http://www.likumi.lv/doc.php?id=38048>.

International Monetary Fund (2010), *After severe recession, stabilization in Latvia*, available online at <http://www.imf.org/external/pubs/ft/survey/so/2010/car021810a.htm>.

Jagger, C., Gillies, C., Moscone, F., Cambois, E., Van Oyen, H., Nusselder, W. and Robine, J-M. (2008), 'Inequalities in healthy life years in the 25 countries of the European Union in 2005: A cross-national meta-regression analysis', *The Lancet*, Vol. 372, No. 9,656, pp. 2124–2131.

Ministry of Economics (2007), *Economic development of Latvia*, Riga, December 2007, available online at <http://www.em.gov.lv/images/modules/items/e2007dec.pdf>.

Ministry of Economics (2008), *Economic development of Latvia*, Riga, December 2008, available online at <http://www.em.gov.lv/images/modules/items/e2008dec.pdf>.

Ministry of Economics (2009), *Economic development of Latvia*, Riga, December 2009, available online at <http://www.em.gov.lv/images/modules/items/e2009dec.pdf>.

Ministry of Economics (2010), *Economic development of Latvia*, Riga, June 2010, available online at http://www.em.gov.lv/images/modules/items/tsdep/zin_2010_1/2010_jun_eng.pdf.

Ministry of Regional Development and Local Government, *Latvia 2030*, Latvian Sustainable Development Strategy 2030, November 2008, available at: http://www.latvija2030.lv/upload/lia_1redakcija_pilnv_final.pdf.

Ministry of Welfare (2009), *Ziņojums par realizētajiem un plānotajiem sociālās aizsardzības pasākumiem* [Report on implemented and planned social security initiatives], Riga.

Ministry of Welfare and Cabinet of Ministers (2010), *Par koncepciju par sociālās apdrošināšanas sistēmas stabilitāti ilgtermiņā* [On the model of long-term stability of the social security system], MK rīkojums Nr.674, Riga.

Porniece, R. (2010), *Vecāku cilvēku nodarbinātības mērķu sasniegšana un to ietekmējošie faktori* [Older people's employment goals and factors affecting them], Free Trade Union Confederation of Latvia, Riga.

World Health Organization (2008), *Latvia*, available online at <http://www.who.int/countries/lva/en/>.

Daige Kamerade