

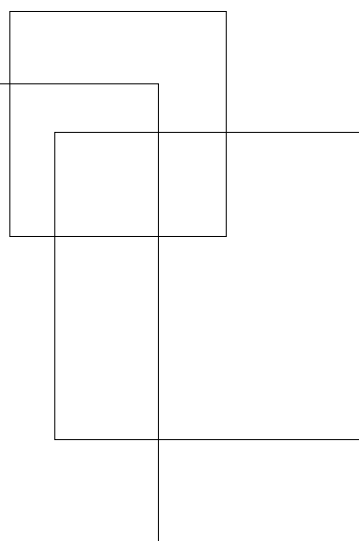


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# Ageing and labour market implications for Lithuania

RONALD BOUMAN,  
RICHARD HORNE,  
SANTO MILASI  
AND NAREN PRASAD



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for Lithuania**

*Ronald Bouman, Richard Horne, Santo Milasi  
and Naren Prasad*

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Bouman, Ronald; Horne, Richard; Milasi, Santo; Prasad, Naren

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## Abstract

Due to low fertility rates, higher life expectancies and substantial outward migration, Lithuania is one of the fastest ageing countries in Europe. As a result, the working-age population is expected to decline dramatically, giving rise to a number of economic, labour market and social challenges. In order to mitigate the effects of ageing, policies are needed to raise the participation rates of older workers. This includes placing greater emphasis on active labour market programmes and other measures to ensure older workers are given the opportunity and skills to return to work and remain attached to the job market. Social dialogue and tripartite discussion are vital to successful policy design as well as generating the public support to implement the necessary reforms. In addition, a number of complementary policy options will also be merited to fully attenuate the downside risks, notably by increasing the productive capacity of the core working-age population through enhanced labour productivity, increased participation of all groups and addressing the root causes of emigration. This working paper discusses these labour market implications in more detail and provides international policy examples on how best to address these challenges.

## Acknowledgments

The first draft of this paper was presented during a seminar organized by the ILO and the Ministry of Social Security and Labour of the Republic of Lithuania on "Older workers integration into labour markets" on 18 September 2015 in Vilnius. The main aim of the workshop was to discuss how the labour market (re)integration of older workers can help address the challenges of ageing. The authors are thankful to the Ministry of Social Security and Labour of the Republic of Lithuania for their comments on the initial draft together with the participants of the workshop, including government officials from various ministries, social partners (trade unions and employers' associations) as well as NGOs working on ageing-related issues.

The authors are also grateful for the comments provided by Raymond Torres, Director of the Research Department of the ILO, and other ILO colleagues, including Johanna Silvander and Elva López Mourelo.

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## Introduction

Many of the world's economies are confronted with the challenge of ageing. It is a phenomenon which is of keen interest to policy makers given that it will have tremendous impact on the social fabric and it entails far-reaching economic and social challenges in the coming years. In particular, the changing age structure of the population will bring several challenges related to the decline in growth, labour (and skill) shortages, productivity, pressure on public finances, heavier tax burden as well as the adequacy and sustainability of social security provisions (ILO 2012). In the case of Lithuania, the magnitude of the ageing challenge is particularly acute. It is necessary to deal with these challenges in a comprehensive and coherent manner that aims to retain older workers in the labour force.

The main focus of this paper will be on the labour market consequences in Lithuania, notably (i) the impact ageing will have on future labour force growth, and (ii) the potential policy levers for mitigating the impact by improving the labour market (re)integration of older workers.

## Overview: Economic and labour market trends

### Economic developments have been rather favourable...

Despite subdued economic performances in most of the EU countries since the onset of the crisis, Lithuania's economic growth has remained robust in recent years, averaging 3.5 per cent between 2010 and 2014. Real GDP is expected to grow by 2.8 per cent in 2015 – compared to 1.8 per cent in the EU-28. Strong domestic private demand continues to be the main driver of GDP expansion, as falling unemployment and rising wages have supported households' disposable income growth in recent years. The short-term outlook, albeit positive, is being weighed down by the recent economic downturn in the Russian Federation which has dampened export and investment growth in the first half of 2015 with respect to the same period of 2014.

Considering the relatively low level of public debt – at 40.9 per cent of GDP in 2014 – the government's fiscal stance continues to remain solid, though it has worsened slightly in 2015. Government budget deficit is expected to reach 1.5 per cent of GDP in 2015 – up from 0.7 per cent in 2014 – partly as a result of higher social expenditures.

**Table 1. Lithuanian GDP growth, deficit and debt (percentages)**

	2010	2011	2012	2013	2014	2015
<b>GDP growth</b>	1.6	6.1	3.8	3.3	2.9	2.8
<b>Government balance</b>	-6.9	-8.9	-3.1	-2.6	-0.7	-1.5
<b>Gross debt</b>	36.3	37.2	39.8	38.0	40.9	41.7

Note: Government balances and gross debt are expressed as a per cent of GDP.

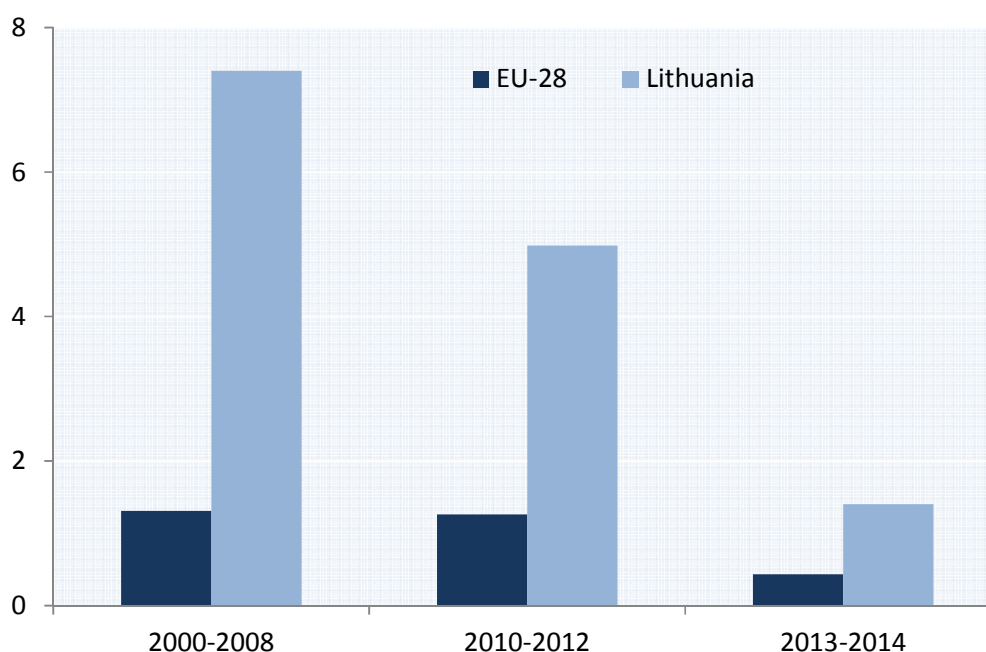
Source: ILO Research Department based on European Commission, Spring 2015 Economic Forecast.

### ... supported by strong gains in productivity...

Labour productivity growth in Lithuania was exceptionally strong in the years leading up to the 2008 financial crisis. Between 2000 and 2008, productivity grew on average by over 7 per cent per year, against 1.3 per cent per year in the EU-28 (figure 1). The onset of the crisis led to an initial – and substantial – decline in Lithuania’s productivity (-7.7 per cent in 2009). However, unlike the majority of European countries, Lithuania was able to recover swiftly in the following years and productivity returned to levels close to the pre-crisis period – on average it grew by close to 5 per cent over the period 2010-2012.

However, this rebound came to a halt in 2013 and 2014 when productivity grew by 1.8 per cent and 0.9 per cent, respectively. This largely reflected the contraction in both FDI inflows and exports due to the economic slowdown of main trading partners, including the Russian Federation and Germany. The most recent figures indicate that productivity should remain below 2 per cent in 2015, suggesting that other more structural domestic factors may have played an important role in explaining the productivity slowdown of recent years.

**Figure 1. Average annual labour productivity growth by period (percentage)**



Note: Labour productivity is measured as output per person employed, in constant USD, PPP adjusted.  
Source: ILO Research Department based on based on the Total Economy Database (TED).

### ... and overall labour market conditions have improved, including for older workers...

In parallel to strong GDP growth, the labour market situation in Lithuania has also been improving steadily. The unemployment rate, after having declined from 17.8 per cent in 2010 to 10.9 per cent in 2014, reached 10.0 per cent in Q1 2015 (see table 1). Yet, it is important to keep in mind that part of

the decline in the unemployment rate has been the result of a shrinking labour force.<sup>1</sup> The long-term unemployment rate – i.e. the share of jobseekers having been unemployed for one year or more – remains relatively low at 42.7 per cent against 48.3 per cent in the EU-28.

Labour market conditions of older workers remain somewhat favourable by international standards. The unemployment rate of older worker (aged 55-64) stood at 8.8 per cent in the first quarter of 2015 (only 1.4 percentage points higher than the EU-28 average). Similarly, although the incidence of long-term unemployment among older workers – at 52.7 per cent – is rather elevated, it remains almost 10 percentage points below the EU-28 average. More importantly, the participation rate of older workers is considerably higher than the EU-28 average, reaching values of 64.4 per cent in the first quarter of 2015.

**Table 2. Main labour market indicators in Lithuania and EU-28 (Q1 2015, percentages)**

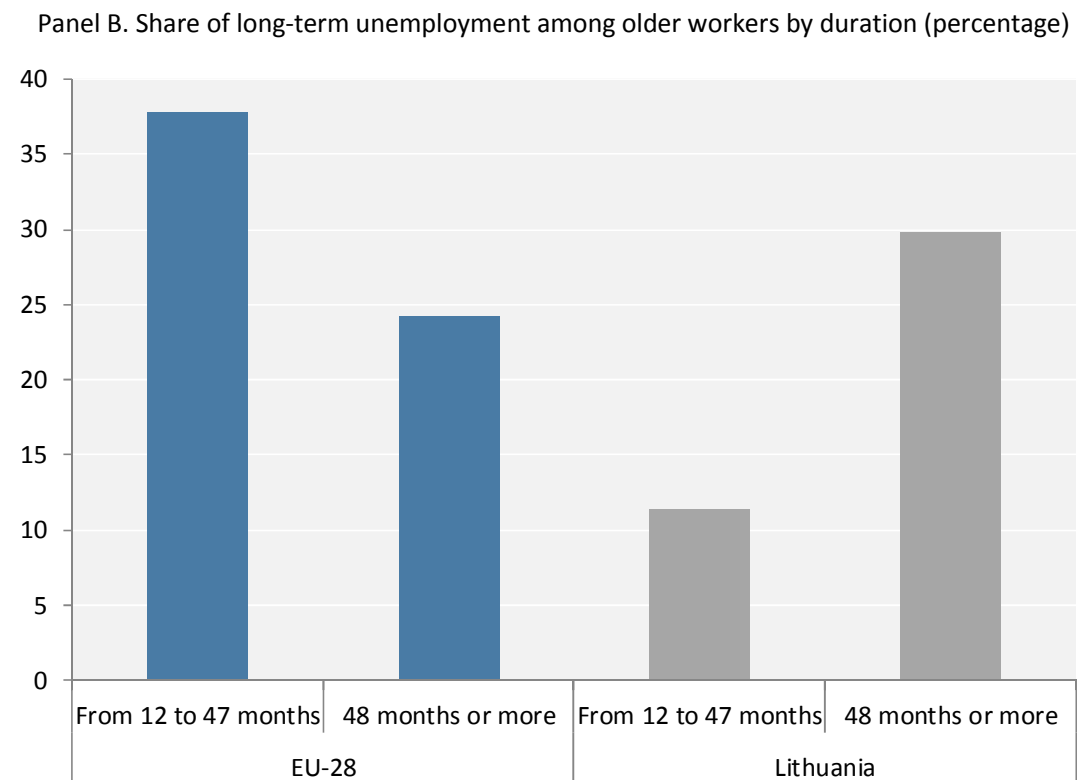
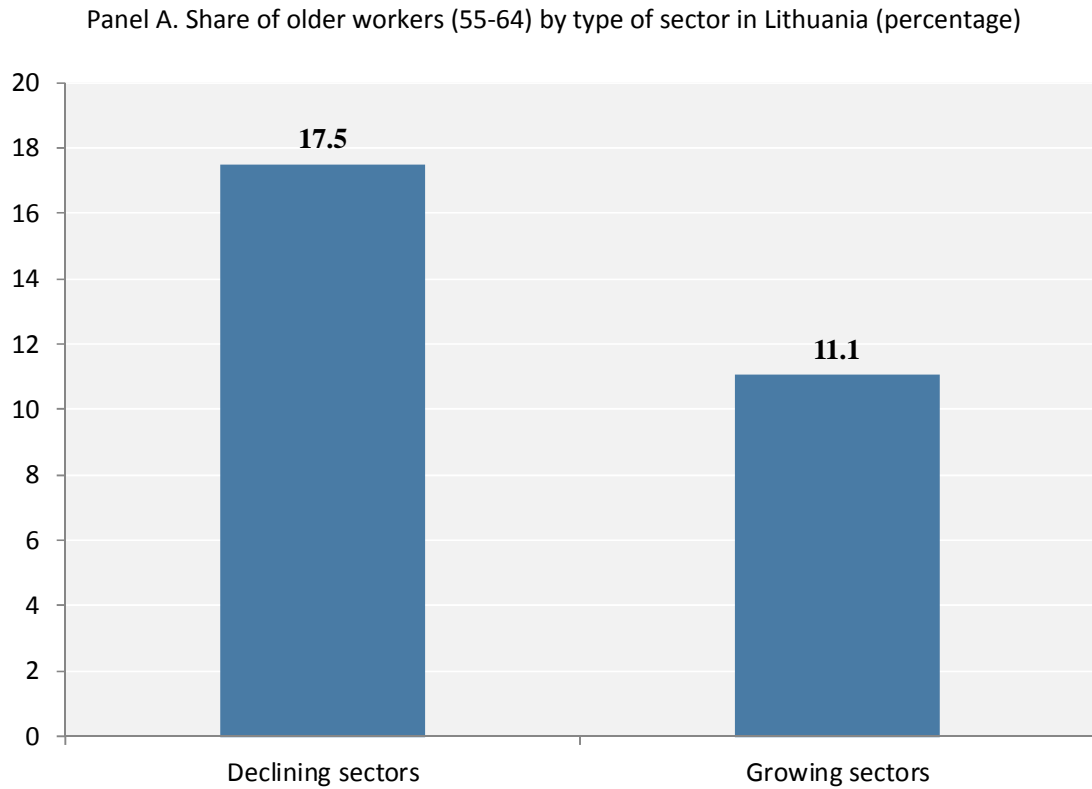
	Unemployment rate	Older workers unemployment rate	Long-term unemployment rate	Older workers long-term unemployment rate	Participation rate	Older workers participation rate
Lithuania	10.0	8.8	42.2	52.7	58.6	64.4
EU-28	10.2	7.4	48.3	62.2	57.3	56.4

Note: The above data refer to Q1 2015. All labour market figures refer to the population aged 15 and over, except for the figures for older workers which refer to the population aged (55-64). Long-term unemployment refers to the share out of total unemployment without work for one year or more.

Source: ILO Research Department based on Eurostat.

However, despite the good labour market prospects for older workers in Lithuania, there are many other challenges. For example the older tend to be over-represented in the declining sectors. In Lithuania, the older workers represent some 17.5% compared to only 11% in the growing sectors (Figure 2). And when unemployed, older workers are at a risk of labour market detachment: approximately 30 per cent of unemployed older workers are unemployed for more than 48 months in Lithuania. This is a relatively higher proportion compared to the EU-28 average of 24 per cent (EU 2014). This inactivity rate is mainly driven by retirement (68%) and health related issues (31%) in Lithuania.

<sup>1</sup> Between Q2 2010 and Q2 2015, employment has grown over 10 per cent, whereas the labour force has declined by nearly 2 per cent.

**Figure 2. Labour market developments among older workers**

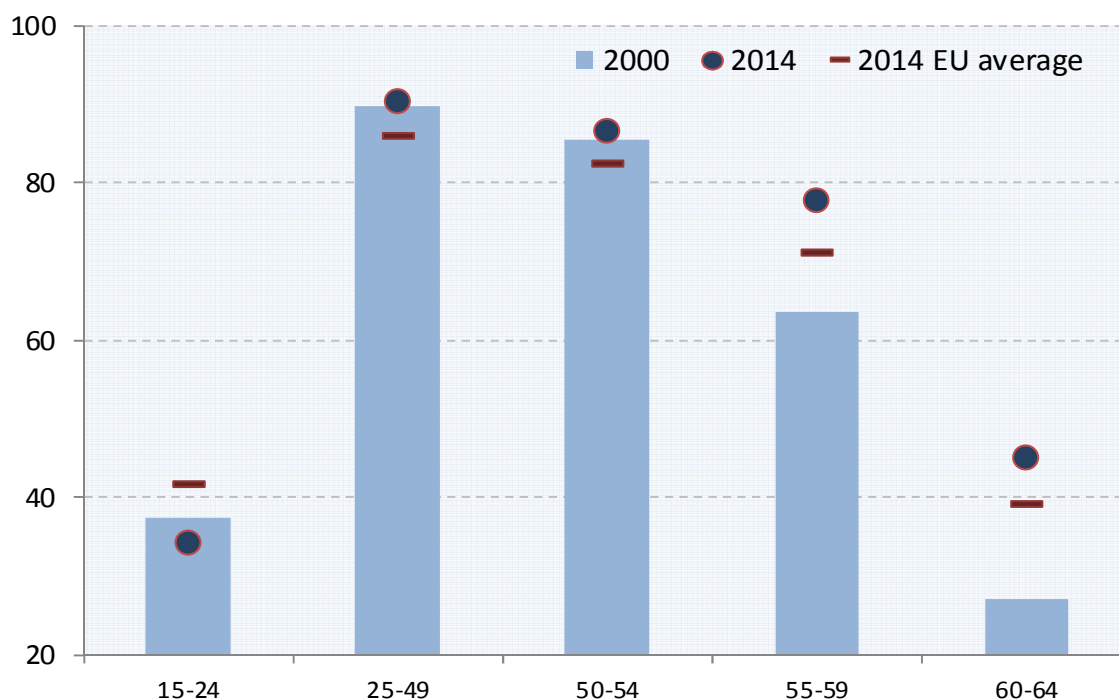
Source: ILO Research Department based on Eurostat.

### ... who have closed the gap with younger workers.

Lithuania has experienced one of the largest improvements in labour market participation of older workers across European countries over the last decade. Participation rates for workers aged 55-64 years old reached 63 per cent in 2014, up from 45.6 per cent in 2000 (figure 3). A large part of this improvement has been due to the increased participation rate of workers aged 60 to 64 (although the female rate is significantly lower than for males, see section B), which almost doubled since 2000, reaching 43 per cent in 2014. Over the same time period, the participation rate of workers aged 55-59 has also improved significantly (from 63.7 per cent in 2000 to 77.9 per cent in 2014 – against an EU-28 average of 71.2 per cent in 2014).

In contrast, the participation rate among adult workers (aged 25-54) has remained almost unchanged since 2000. The participation rate has even declined among young workers (aged 15-24) – from 37.3 per cent in 2000 to 34.2 per cent in 2014 – though this largely reflects a common downward trend in youth participation rates across most of the European countries as more youth engage in educational pursuits.

**Figure 3. Labour force participation rates by age group, 2000 and 2014 (percentages)**



Source: ILO Research Department based on Eurostat.

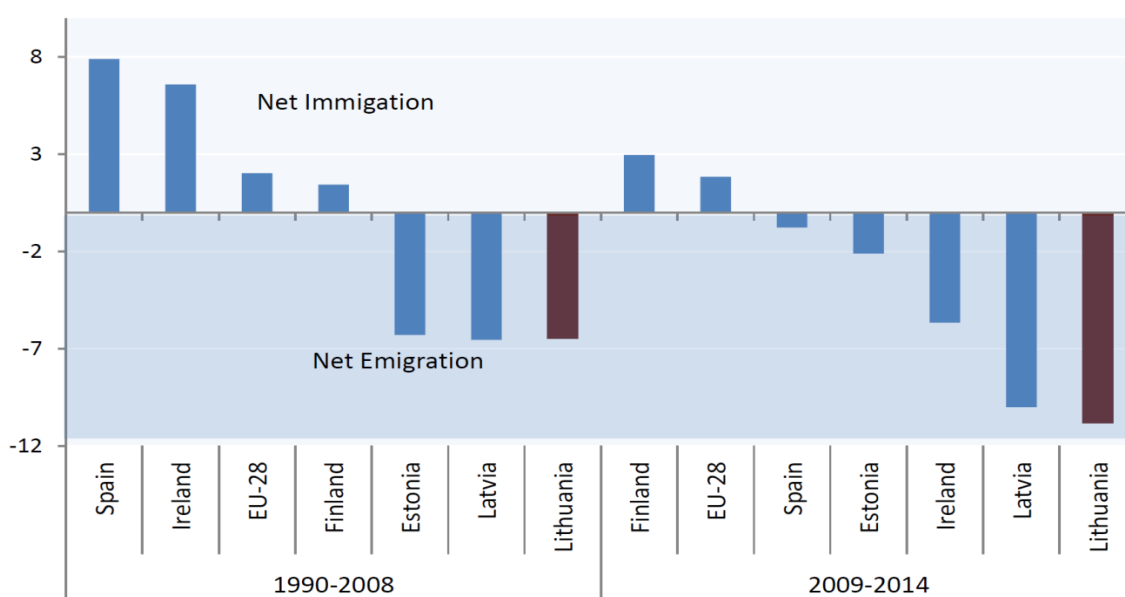
### Yet, the challenge of ageing will be particularly acute in Lithuania...

Higher life expectancy and declining fertility rates are typically regarded as the main forces driving this phenomenon worldwide. Thanks to rising global living standards, eradication of several diseases and improvements in health-care coverage, life expectancy at birth is constantly increasing and it is projected to increase globally, on average, a further 3.5 years between 2025 and 2050. At the same time, increased prosperity and social economic development have contributed to reducing average fertility rates. Among developed countries, fertility rates are already below the minimum rate needed

to maintain the population at its current level; whereas fertility rates among developing countries are expected to decline by around 20 per cent by 2050.

Within this context, Lithuania is no exception: the median age of its population has increased from 38 in 2005 to over 42 in 2014. In line with global trends, this is partly explained by increasing life expectancy along with comparatively low fertility rates (at approximately 1.6 children per woman on average). However, addressing the challenge of population ageing in Lithuania also needs to consider that the country has experienced significant emigration flows over the past decades. Between 1990 and 2014, the net migration rate in Lithuania has on average been more than three times higher than the EU-28 average (figure 4). Overall, more than half million people have emigrated from Lithuania over this period, with young people (aged 20-29) accounting for around one-third of the total.

**Figure 4. Average annual net migration, 1990-2014 (per 1000 persons)**

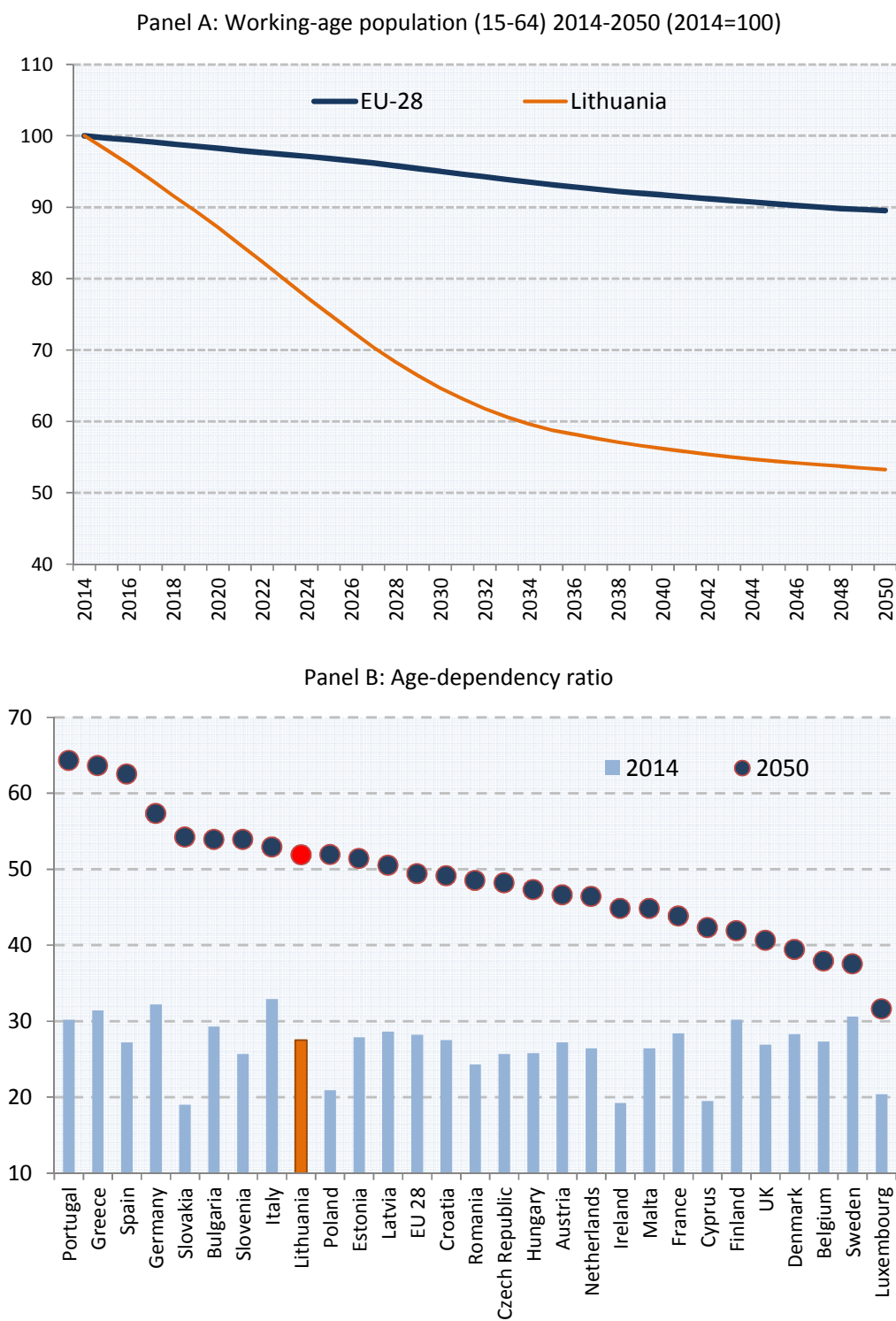


Source: ILO Research Department based on Eurostat.

### ...placing downward pressure on the working-age population...

As a result of relatively low fertility rates combined with significant emigration rates, especially among youth, Lithuania is expected to face important challenges in terms of population ageing over the next decades. Indeed, based on the current population forecasts, the core working-age population (aged 15-64) is expected to decline rapidly over the next few decades – declining 34 per cent over the next 15 years alone and more than 45 per cent by 2050 (figure 5, panel A). This compares to a modest 5 and 10 per cent decline among the group of 28 European countries over the same period, respectively.

At the same time, the share of the population aged 65 and over is projected to double, reaching 32.7 per cent of the total population by 2050. This will place greater pressure on the shrinking working-age population. In fact, Lithuania's age dependency ratio – that is, the population aged 65 and over

**Figure 5. Demographic developments in Lithuania and the EU-28**

Note: The age dependency ratio refers to the ratio between the projected number of persons aged 65 and over to the projected number of persons aged between 15 and 64. The value is expressed per 100 persons of working age (15-64).

Source: ILO Research Department based on Eurostat.

measured as a proportion of the core working-age population (aged 15 to 64) – currently stands at 27.5 per cent, slightly below the EU-28 average of 28.2 (figure 5, panel B). However, Lithuania is projected to register one of the largest increases in the age-dependency ratio among European countries, reaching values close to 52 by 2050.

These developments are expected to bring about a number of labour market and economic challenges. First, in addition to public pension expenditures, it will be important to monitor other age-related public expenditures such as health and long term care spending. Second, and more fundamentally, the most significant risk associated with a high dependency ratio lies in its drag on GDP growth, driven mainly by the impending slowdown in labour force growth that would be associated with the fall in the working-age population. Indeed, a pronounced slowdown in labour force growth would make it difficult to sustain past growth rates and further improvements in living standards.

### **...but older workers can play a critical role in addressing the challenge of ageing.**

Given the anticipated decline in the working-age population, if participation rates remain constant, the labour force is expected to decline by a similar magnitude, i.e. close to 50 per cent between 2015 and 2050 (baseline scenario). Yet, as the older age cohorts grow in magnitude as a share of the working-age population – for instance, in Lithuania the share of the working-age population aged 55-64 between 2015 and 2030 will rise from 18 per cent to 25 per cent – it will be important to capitalise further on the potential of older workers. In this regard, several different scenarios have been developed with respect to older workers in an effort to investigate the impact of raising their participation on the labour force (ILO 2009).

In particular, the scenarios presented below assess the change in comparison to a baseline (constant participation rates), of various gradual changes in the labour market participation of different age groups over the period 2015 to 2030. The scenarios illustrated are as follows (an additional scenario related to emigration is briefly discussed in section B):

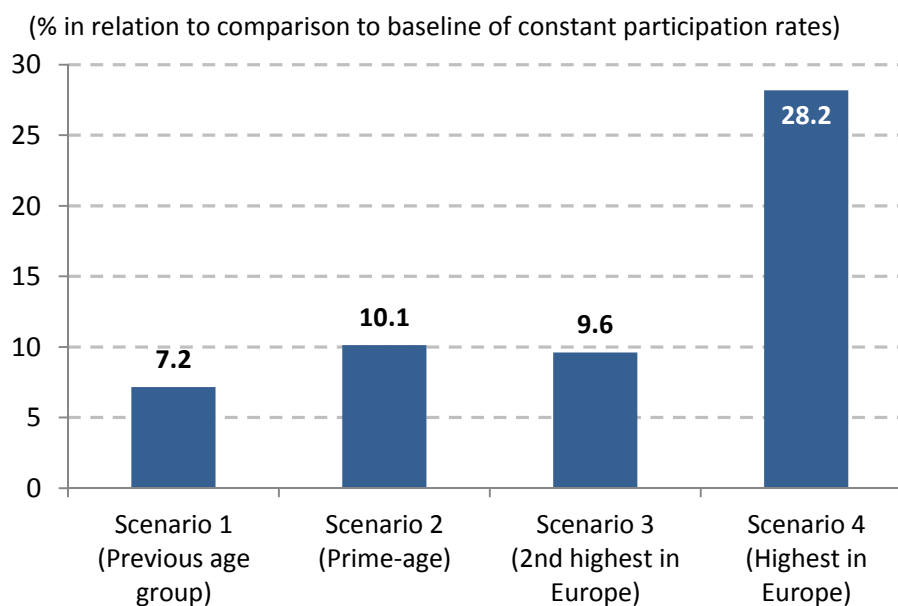
- *Scenario 1:* Assumes that the participation rate of the 60-64 cohort increases gradually to the 2014 level of the current 55-59 cohort and the 55-59 age group will increase at a similar pace to the current level of the 50-54 cohort.
- *Scenario 2:* Simulates an increase in the labour force participation rate of older people (aged 55-64). In this scenario, their participation rates gradually increase until they reach the rate of workers aged 30-49.
- *Scenario 3 and 4:* Assumes that each of the 5 year cohorts, i.e. 55-59, 60-64 and 65 and over increase to the second highest and highest participation rates among these age groups in the European countries (including Nordic countries), respectively.

The impact on the overall labour force in 2030 in comparison to the baseline is presented in figure 6. Even under the most modest scenario where participation rates align with workers of close proximity in age (scenario 1), the labour force would be over 7 per cent higher in 2030 than in the baseline scenario. If, on the other hand, participation rates of older workers in Lithuania would increase gradually to workers aged 30-49 (scenario 2) or to the second highest older worker participation rates in Europe (scenario 3), the increase would be approximately 10 per cent. The most significant impact could be achieved if the participation rates of older people, including those aged 65 and over, were aligned to those of the top performing European country (Scenario 4). Under such a scenario, by 2030 the labour force would be nearly 30 per cent higher than the baseline (driven principally by the fact



that in Iceland, the participation rates of workers 65 and over stands at over 36 per cent compared to 6 per cent in Lithuania).

**Figure 6. Labour force growth scenarios, 2030**



Note: Increases presented here are in comparison to the baseline of constant participation rates. In this respect, it is important to consider that all scenarios point to an overall decline in the labour force between 2015 and 2030.

Source: ILO Research Department.

In this regard, there is a need to further increase participation rates of this cohort of the population. Conscious of the many labour market challenges the country is facing, policy makers are debating new policies in relation to ageing and the labour market. Already, the government has to put in place a number of policies in an effort to mitigate the negatives effects of ageing and the declining labour force. For example, government and social partners are seeking agreement to reform the labour code within the “new social model” (box 1). The new labour code is part of this action plan which aims at

### Box 1. Proposed new Lithuanian Labour Code

#### Main objectives

The Lithuanian Government has approved the Draft Labour Code in July 2015, which is the principal part of the new social model. It is often argued that the current labour code is outdated and poorly applied. The new social model will be introduced by the government in an effort to improve the competitiveness of the Lithuanian labour market. The new labour code aims to increase labour market flexibility and to rebalance the interests of employers and employees and create jobs. However, adoption remains uncertain as there are still some contentions by some workers group.

The new labour code includes some changes to employer’s protection legislation, overtime, facilitating the creation of SMEs, better conditions for family and working life, notice periods. Furthermore, severance pay and notification periods will be decreased in many cases, with the exception of older workers who will receive longer notification periods as they approach the statutory pension age. There have been no essential changes to the law on collective dismissals.

making flexible employment relations and further increasing employment rates of older workers. There are on-going reforms of the education system to equip the labour force with new skills that are needed. In addition, Lithuania has prepared a National Strategy of Overcoming Ageing Consequences 2014–2015.

The purpose of the following section is to discuss some possible areas where further policy action to facilitate and encourage the labour market integration of older workers could be considered.

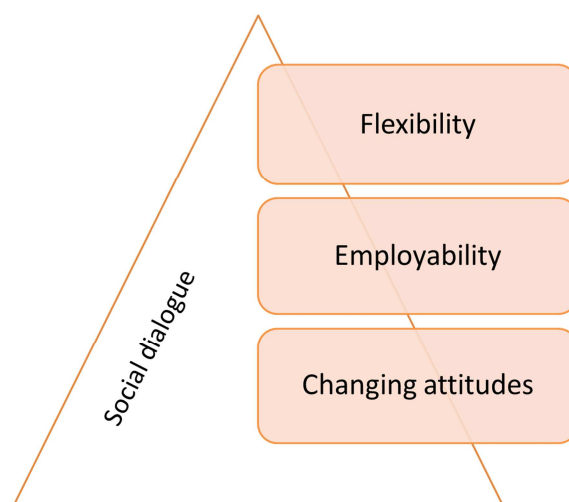
## Policy framework and areas for action

As outlined in previous sections, in Lithuania the working-age population and labour force growth are expected to decline dramatically. In addition, while older workers in Lithuania have been performing relatively well in recent years, their participation rates continue to trail other cohorts and maximizing the potential of this age group should be a central strategy for going forward.

Removing the barriers that older workers often face to extending their working lives will not only help the aggregate economic situation, it can also help to improve individual welfare. Indeed, international evidence suggests that many older workers would choose to remain in paid employment for longer if the appropriate policies and workplace practices were in place.

As discussed briefly above, Lithuania has already undertaken a number of recent reforms and initiatives which will most likely address some of the issues of ageing. In the case of older workers, however, success in this area will require action on a number of fronts, including access to training and lifelong learning, improved health, appropriate working conditions as well as flexibility in the realm of the pension-work nexus. In this respect, not one single policy will be enough. This draws attention to the need for ensuring complementarity and coherency in the measures undertaken in order to help limit some of the inherent trade-offs which may arise from different efforts while trying to make reform measures mutually-reinforcing (figure 8).

**Figure 7. Key policy considerations for older workers**



Source: ILO Research Department

### **First, this entails a multi-pronged strategy for social security systems adjustment to facilitate the attachment of older workers to the labour market...**

Gradual adjustments to the retirement age in Lithuania (with the retirement age increasing by four months per calendar year for women and two months per calendar year for men, and will continue to do so until both reach 65 years in 2026) have been made as of 2012. And, as mentioned above, labour market legislation and regulation in Lithuania are being further reformed. For instance, in the case of older workers who will reach retirement age in less than five years, the notice period is doubled for employees (tripled for those employees who will reach retirement age in less than two years).

Additional considerations may be merited in this policy domain, particularly to investigate the adequacy of the pensions system as well as its interactions with overall work incentives. This includes assessing the likelihood to which older workers would extend their working lives if the flexibility for combining pensions with work income was enhanced (OECD 2006). In addition, flexibility to allow older workers to continue to contribute to the pension system and work simultaneously may be merited. For this to happen, government and employers need to consider how to foster flexibility in the type of work arrangements for pre-retirement workers such as part-time employment and job sharing agreements (while being mindful of the overall net effect on employment intensity). Government and social partners should also explore the possibility of encouraging workers to participate in voluntary pension saving schemes and creation of occupational pension schemes in a view to reducing risks associated with pension adequacy in the future. Some gradual retirement policy examples include:

- In 2011, Norway introduced flexibility with regards to pension and work for individuals aged between 62 and 75; i.e. work and pension benefits can be freely combined. An important consideration in this regard is that the individual is not obliged to stop working in order to begin to receive the pension. Preliminary policy evaluation that the reform entails strong financial incentive to delay retirement and stimulated workers aged between 62 and 66 to continue working (OECD 2014).
- In Finland, workers aged 61-67 may be granted a part-time pension, subject to the condition that they transfer from full-time work to part-time work and not receive any other pension benefits (Salonen & Takala 2011).

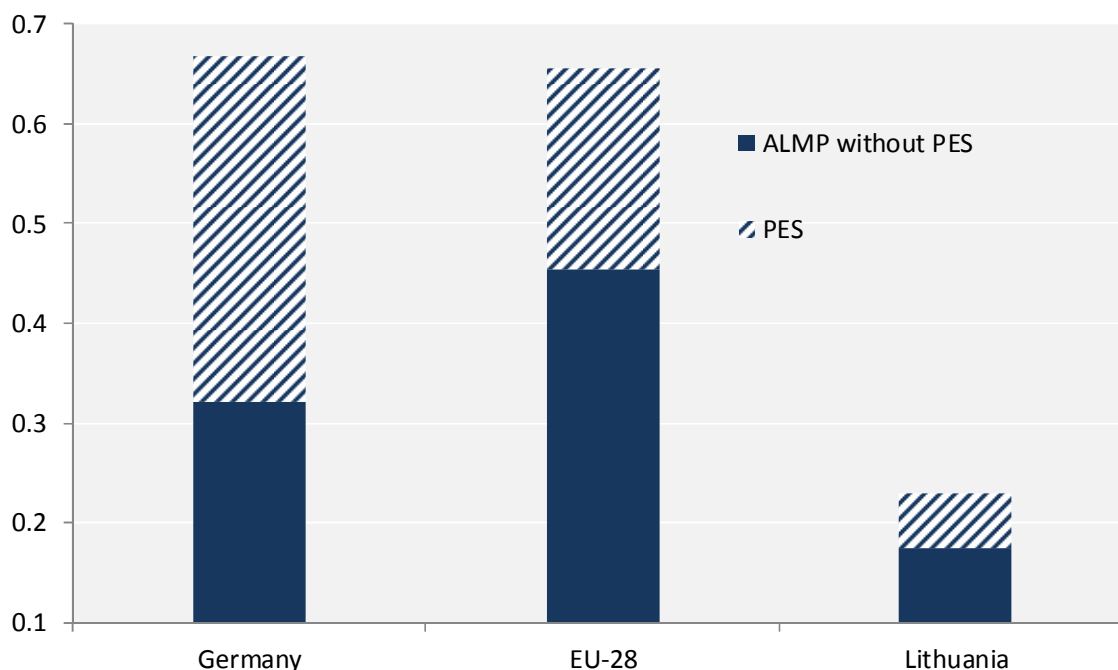
### **...second, employability of older workers could be enhanced, particularly to respond to changing labour demand...**

Responding to changes in labour demand is highly relevant for older workers, particularly as the rapid pace of technological change means that new job growth is increasingly skill-biased. In addition, as described above older workers who lose their jobs are often more likely to be working in declining industries, may take longer to obtain a new job, and can experience skill challenges and wage reductions once re-employed.

Consequently, a sound foundation of active labour market policies (ALMPs) must be a key element to improving the employability of older workers, particularly for those who are vulnerable due to job displacement. This includes strengthening of the public employment services (PES). These ALMPs should encourage older workers to remain in the labour market, foster hiring, support job-search assistance and improve matching. To meet such ends, PES need be adequately resourced. This is particularly relevant given ALMP spending in Lithuania, at just over 0.2 per cent as a share of GDP,

is significantly less than the EU-28 average at nearly 0.7 per cent (figure 8). Within this, PES spending accounts for a sizable share, accounting for around a third of ALMP spending in the EU-28 on average, while in the case of Germany it accounts for over half.

**Figure 8. Labour market policies expenditure (% of GDP)**



Source: ILO Research Department based on Eurostat.

In addition, early interventions can increase the likelihood of re-employment, such as through job search assistance (which is often relatively cost-effective). In any case, this requires a balance of active and passive support to the unemployed which can facilitate re-employment with better outcomes and skills upgrading.

Adult learning is one such means by which to help sustain and increase employability and, in doing so, plays a fundamental role in addressing any initial inequalities in formal education qualifications among the adult working-population. Adult learning can address skill deficiencies but individuals need to be given the opportunity and motivation to upgrade skills throughout the life course. One Lithuanian measure in this regard is the Active Ageing programme – due to commence in 2016. This includes a focus on keeping older workers engaged in the labour market, with an eye towards adult learning and increased opportunities to adopt and learn information technologies. While training should be tailored as much as possible to the different needs and skills of each individual, special attention is needed to target older cohorts. Other (re)training and lifelong learning policy examples include:

- Activation in Denmark such as vocational guidance, practical training, job search assistance, individual job-oriented action plans, private and public job training, special education courses have helped increase incentive to seek employment and reduction of unemployment benefits. Since 2007, older workers are not exempt from activation measures and since 2011 the

government introduced reforms in order to postpone early retirement. The maximum unemployment benefit period was cut from 4 to 24 months which limits the options to leave the labour market early. At the same time, employability of older workers was increased through ALMP and sanctions were applied for not complying with activation programmes (such job search obligation and assistance, accepting job offers even if wage is lower than expected, vocational training and education opportunities which focuses on each person's particular situation (Bengtsson 2014).

- Canada's Individual Learning Account (ILA) is another example of active labour market measure consisting of training programs for the older unemployed workers. This helps upgrade skills for older workers and stay in the labour market. This allows older workers to share the cost of job-related training with their employer. The ILA is also part of the employment insurance program which is mandatory for employees and employers, and voluntary for self-employed workers (CEDEFOP 2009).
- In Italy, the PARI (Action Programme for Re-employment of Disadvantaged Workers) program provides support for re-employment in which special employment benefits are granted and the worker spends time actively engaged in training, re-qualification and job search. Furthermore, programme participants benefit from specific support such as counselling, certification of skills and training according to the workers' needs<sup>2</sup>.

Any such policies require rigorous and systematic evaluation throughout in order to gauge and assess impact effectiveness. In doing so, particular attention must be made as to the macroeconomic and wider context in which these policies took place and should go beyond just mere monitoring of cost-effectiveness of program implementation. Evaluations in this manner allow for policies to be designed, altered and re-shaped according to the circumstances. Moreover, they provide valuable information for other countries to gauge what works in terms of focusing on particular groups or in different settings.

### **...third, a change of attitudes towards older workers is essential...**

Older workers are often subject to prejudice and discrimination in the workplace, particularly with respect to training and recruitment. Here, older workers may often be side-lined, with preference instead given to younger workers who are assumed will stay longer in the job. All too often, however, these perceptions are misguided. In this respect, it will be important to gather information and data on employer perceptions of older workers. This would also entail gathering information about the extent to which older people feel discriminated against or what they see as the key barriers to extending their working lives. This can only help to better shape policy responses. For instance, a study in the Netherlands suggests that while absenteeism is not higher for older workers, its duration is usually longer. As a result, one of the recommendations by the Netherlands' bipartite Foundation of Labour (STAR) was for improved usage of periodic health checks for older workers.

Given that illness and disability are also important factors in explaining why older workers leave employment, it is important that workplaces adapt to the needs of older workers. This will involve general improvements in occupational health and safety, as well as changes in job requirements, e.g. to make work less arduous (this goes hand-in-hand in measures to encourage flexible pension-work

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<sup>2</sup> [http://www.crpm.org/pub/agenda/667\\_m\\_angelo\\_irano\\_presentation.pdf](http://www.crpm.org/pub/agenda/667_m_angelo_irano_presentation.pdf)

arrangements). While legislation has a role to play in challenging age prejudice and stereotypes, it may not be sufficient on its own to change employer attitudes and employment practices that may discriminate against older workers. In addition, active collaboration with the social partners, further education in the workplace and the championing of good practice among employers could help dispel such perceptions. A number of awareness campaigns have been introduced in other countries:

- The National Programme on Ageing Workers in Finland launched a series of measures seeking to improve employment prospects for workers over age 45, including a number of workplace practice initiatives.
- The United Kingdom's Age Positive campaign and its guidelines for employers, the Code of Practice on Age Diversity in Employment has been instrumental in combating age prejudice and stereotypes.

### **...throughout which, social dialogue is imperative.**

Social dialogue is a fundamental component for both implementing and updating legislation and regulation, and for changing attitudes and perspectives. For instance, collective bargaining in the Netherlands has led to specific agreements concerning older workers, on issues including exemption of certain types of work, part-time retirement and extended career after retirement age. In Spain, tripartite dialogue led to the conclusion of the Tripartite Economic and Social Agreement for Growth, Employment and Sustainability of Pensions, whilst in Austria, the main social dialogue body – Austrian Economic and Social Council – provided a number of recommendations to the Government related to ageing, including on lifelong learning, pensions and an action plan for older workers.

In Lithuania itself, social dialogue takes place within the National Tripartite Council. Recently there have been discussions on issues relating to reforming the labour code, retirement age, increasing minimum wage, ageing among other topics. On ageing the trade unions agreed in principle with the government's proposal to increase retirement age as discussed above. Other recent steps include efforts to increase the employability of older workers, such as a law amendment in 2014 financially incentivizing employers to nominate experienced employees (aged above 50) to help train newly employed staff (aged under 29). Impacts of such measures must be assessed robustly in order to further adapt policy. In Finland, for instance, monitoring of company-level initiatives for older workers found that workers were happier, and employers noted increased work motivation and reduced days of illness, thus helping offset costs of the initiatives (Jokivuori and Perri, 2013).

### **Addressing the challenges of ageing will need to extend beyond older workers.**

In the face of a declining working-age population, policies to increase older worker participation should be just one aspect of a broader strategy. A number of complementary policy options are available to increase the productive capacity of the core working-age population including through enhanced labour productivity, increased participation of all groups and addressing the root causes of emigration:

- *Stemming emigration flows:* As detailed in the text, migration outflows have been a significant drag for Lithuania since the early 2000s. To put the impact of current flows of emigration into perspective, it is estimated that in the complete absence of emigration Lithuania's labour force would be approximately 24 per cent higher than baseline projections by 2030. Youth form a large component of the outward migration; several studies find that a

lack of opportunities is a major factor behind these youth outflows (Ranceva and Rakauskiene, 2012). This amplifies the need improving school-to-work transitions. But for students to make a successful transition from school-to-work, they need an education system that is both comprehensive and integrated. This includes helping students to establish a career vision so they have a plan for the future and a reason to study, graduate and remain in Lithuania. The private sector also plays a central role in developing the workforce through collaboration with educators and training providers and by providing opportunities for work placements, on-the-job training and career exploration. It also means enhancing active labour market policies, particularly those related to entrepreneurship facilitation including training and access to credit.

- *Female participation:* Policies that address female participation would benefit from additional attention. Already the gap in female participation for those aged 60-64 is larger than most other 5-year cohorts – albeit, this is likely to decrease with the convergence in retirement ages. Many women want to remain employed or re-enter the labour market but face a number of barriers. For instance, women often face a greater burden for caring of elderly relatives, affecting women later in their working-lives. Yet, giving them greater opportunities to remain attached to the labour market would yield significant benefits. As such, whilst measures to support temporary part-time agreements and teleworking can be used to facilitate working mothers, similar measures can also be used to assist those caring for the elderly while creating an environment for them to remain engaged in the labour market.
- *Increasing productivity:* A number of initiatives underway in Lithuania, particularly as part of strategies detailed elsewhere in this report, will increase the productive capacity of the wider population and not just older workers. The recent slowdown in productivity documented in section A is cause for some concern. While this is largely due to the slowdown of economic activity in its main trading partners, the most recent figures suggest that there is room to revive productivity growth if the gains in living standards achieved over the last decade are to be sustained. This calls for targeted policy actions to achieve a gradual shift of the economy towards higher value added activities, especially in the service sector. Meanwhile, it is crucial that this transformation process is accompanied by policy measures to improve the quality and skill profiles of employment, which is in itself one of the main drivers of sustainable long-term productivity growth.

## Conclusion

Lithuania has one of the fastest ageing populations in Europe and the working-age population is expected to decline dramatically, giving rise to a number of economic, labour market and social consequences. In order to mitigate the effects of ageing, policies are needed to raise the participation rates of older workers and to ensure older workers are given the opportunity and skills to regain employment and/or remain attached to the labour market.

This calls on policy makers and social partners to develop a comprehensive and cohesive strategy. First, there is a need to strengthen the evidence base. Information is required to identify the barriers older workers are confronted with to extending their careers and assess the extent to which they may feel discriminated against in hiring, promotion or training. In this domain, it will also be imperative to gather the views of employers and their perspectives on ageing, older workers and labour force challenges.

Second, reinforcing employment services, strengthening ALMPs and re-training efforts, including fostering of life-long learning is imperative. Currently, Lithuania spends very little on ALMPs in comparison to their European counterparts. Third, complementary policy actions should also be implemented, aimed at bolstering the productive capacity of the population. This includes policies aimed at reversing and addressing the root causes of emigration flows, increasing labour force participation of all groups including women and broad-based measures aimed at bolstering labour productivity. Fourth,

Finally, reforms efforts – supported by a culture of evaluation – are most likely to succeed when achieved through national legislation based on social partner agreements and tripartite discussion, including public support to implement the necessary reforms.

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