

FACTORS DETERMINING THE DECISION TO RETIRE

Władysława Łuczka, Lidia Jabłońska-Porzuczek

University of Life Sciences in Poznań

Abstract. In the recent years, regarding to changing socio-economic and demographic conditions, the professional activity of the older persons is particularly underlined. The measures directed towards increase of share of 50+ group in labour market have been undertaken. In order to achieve this goal, the reasons for limiting the activity of people in age around retirement should be first identified. The aim of the paper is to identify factors influencing decision on retirement. The conducted inquiry research proves that responders relatively earlier exercised their right to benefits. Responders' average retirement age amounted to 58.6 years. The majority of factors determining the decision on retirement are directly related to the pension system, and first, with the entitlement rules and calculation of benefit level. As a main reason for retirement the responders indicated reaching the retirement age, and then favourable financial conditions.

Key words: retirement decision, retirement age, professional activity, pensioner

INTRODUCTION

For many years, the labour market policy has been aimed at addressing the unemployment of young people unsuccessfully looking for work. In recent years, due to changing demographic, economic and social conditions, attention is also drawn to the economic activity of the elderly. In many countries, including Poland, there are taken steps to increase the participation of older people in the labour market. For these activities to produce the desired results, there should be first identified the reasons for limiting the activities of people approaching the retirement age. It is understood that one of the main barriers to improving professional activity of older people are incentives for professional deactivation created by the pension schemes. In most OECD countries, pension systems are reformed. In order to achieve this goal, efforts are aimed at reducing the attractiveness of pensions by reducing the amount of pension benefits, remuneration of pensioners for longer working life by the use of higher pension rates and lower pension benefits for early

Corresponding author: Władysława Łuczka, University of Life Sciences in Poznań, Faculty of Economics and Social Sciences, Wojska Polskiego 28, Poland e-mail: jplidka@up.poznan.pl

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retirement and raising the retirement age [OECD 2006]. In Poland in 1999, there was also a pension reform carried out which would lead to a longer professional activity. However, in recent years, the actual age of withdrawal from the labour market differs from the nominal retirement age.

The purpose of the paper is to identify the factors affecting the retirement decision. The paper also presents the relations between the type of the pension benefits (pension, early retirement) and selected demographic variables.

MATERIAL AND RESEARCH METHODS

In 2009–2010, a survey was conducted in the Wielkopolskie region on 350 people receiving pension benefits. The main aim of the research was to identify the beneficiaries' opinion on the factors influencing the decision to retire and to determine its differentiation according to selected demographic variables, such as gender and education. The group was chosen in purposeful selection. The research included only retirees receiving benefits from the public pension system.

The research tool used for analysing the empirical data is a test of independence. In each case under consideration, which was subjected to statistical verification of the level of significance $\alpha = 0.05$ was adopted. Calculations were performed in the R statistical package using the statistical function `chisq.test()`. The decision to reject the hypothesis of independence of the studied traits in favour of the alternative hypothesis stating that there is an existing relationship, was taken on the basis of comparison of the adopted level of significance $\alpha = 0.05$ with the so-called p-value given by the program¹. Therefore the values of the test statistic, degrees of freedom and the critical value are not specified in the description of the verified issues, only the p-values are given. This uniquely allows to decide to reject the hypothesis of independence or lack of grounds for its rejection.

THE TEST RESULTS

About 60% of the respondents were women, which is due to the feminization of the population in older age groups. Over 32% of the surveyed had a vocational education and 36% – secondary education. Nearly one in seven respondents had primary education, and one in six had a university degree.

Respondents relatively early exercised their right to benefits. The average age of the respondent's retirement was 58.6 years old. The study shows that the right to early retirement exercised over 40% of respondents. On the basis of a test of independence, it was found that there is a material relationship in the statistical sense between the type of the benefit (pension, early retirement) and education (Table 1).

The early retirement took mainly people with a university (39%) and secondary education (37%). Respondents with higher education accounted for a relatively small percentage, i.e. 18%. People with lower education level earlier withdraw from the working life than those with higher education, performing intellectual work [OECD 2011]. Longer

¹p-value – the smallest significance level at which the tested hypothesis should be rejected.

Table 1. The dependence between the type of the obtained benefit and selected demographic variables (gender, education)

Specification	Gender	Education
The type of the received benefit	0.327	0.001

Source: Authors' own research.

working lives of people with higher education are due to several reasons. Higher education contributes to the stability of employment, is associated with high professional standing and prestige, protects against volatility of income, and provides a higher income than the pension [Sztanderska 2008].

Early retirement exercised 43% of male respondents and 38% females. Longer working lives of men are due to the traditional role of the man in the family, who is responsible for the security of existence to its members. This is also connected with the terms of the entitlement to benefits, particularly the statutory retirement age and contributory and non-contributory periods. Early withdrawal from the labour market of women is due to their function in society which contributes to a worse situation on the labour market due to employment gaps resulting from raising children. Women are less mobile and flexible than men. As a rule, they will seek a less absorbing job, which is located closer to home [Klimkiwicz 2009].

Retiring soon after becoming entitled to benefits is dictated by many factors. The decision on the professional deactivation requires considering the situation on the labour market, individual financial, family and health situation. Those approaching retirement age have pre-defined plans for the time after resigning from the working life. CSO studies on retirement age show that 12.2% respondents² declare that it will be between 60 and 64 years old (11.2% men, 13.5% women), and 12.1% at 65 years old or later (18.7% of men, 2.7% women). Nearly 33% of respondents plan to work as long as possible (33.3% men, 32.2% women). Over 21% indicate precisely the age at which they intend to complete the professional activity (19.1% male, 24% women). Only 8.6% of respondents do not have specified plans for the retirement from professional activity (3.6% of men, 15.5% women).

The conducted survey shows that retirees waited until they were entitled to retirement. When asked: "What made you to retire?", over 58% of the respondents answered: "fulfilling the conditions to obtain the benefits", including "being at the retirement age" (Fig. 1). The reason is pointed out in particular by women (63%), who willingly retire early, since they face higher alternative costs of professional activity than men. This decision is also dictated by external factors, which include particularly the situation on the labour market, especially the level of unemployment and the tendencies of its changes. Those who feel concerned about the loss of employment or volatility of income are likely to take early retirement, which guarantees a constant, though usually lower income [Sztanderska 2008].

Due to becoming of the retirement age the entitlement to benefits exercised respondents who are holders of secondary education (36%) and vocational education (31%) – Figure 2. It can therefore be concluded that for the better educated the mere acquisition

²People aged 50–69 years old, who worked in the reference week.

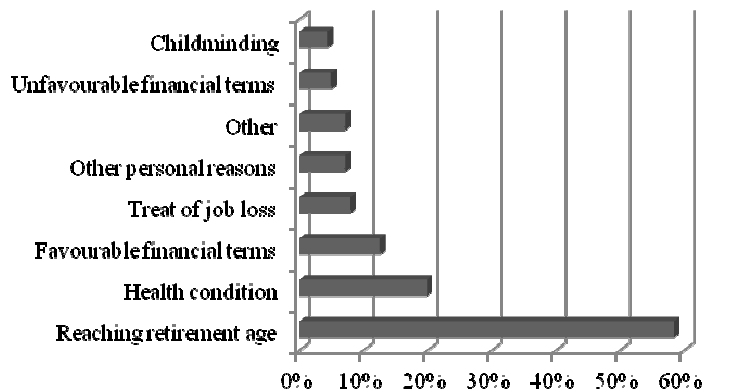


Fig. 1. Reasons for exercising the right to benefits

Source: Authors' own research.

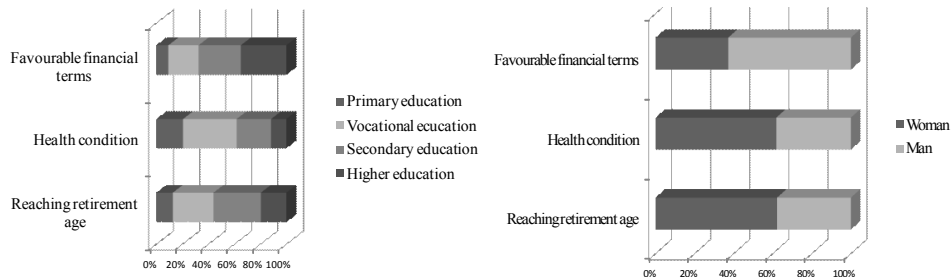


Fig. 2. The reasons for exercising the right to benefits and selected demographic variables (gender and level of education)

Source: Authors' own research.

of pension rights is less important than other factors, such as favourable retirement conditions. The decision to retire immediately after obtaining the entitlement may be due to favourable relation of the pension level to work income. This applies in particular to those with lower education levels and women, who during their working lives are paid less. Respondents with secondary and vocational education primarily assessed their salary as average. They retire in order to improve their financial position. On one hand they want to receive a relatively higher income from the benefits and on the other to combine that with work income. People with lower education levels are at greater risk of losing their jobs due to reduced adaptability to the labour market. Uncertainty may also result from low self-esteem, which increases with age due to declining physical and mental condition. These people may be fearful of the growing market qualification requirements associated with high dynamics of technological change. This phenomenon is reinforced by patterns and stereotypes about older employees' work. Fear of job loss can also be associated with the risk of losing a stable financial condition of the company.

According to the respondents, the dominant contributors to exercise their pension right were also poor health, favourable financial conditions of the retirement and the threat of job loss. Due to ill health retired nearly 20% of respondents. CSO studies show that in

recent years the health of Poles has improved significantly. In 1996, more than 46% of Poles evaluated their health as below good, in 2004, less than 39%, in 2009 – 34%. The respondents pointed to the poor health condition basing on their subjective judgments, which did not always coincide with the facts. Women assess their health condition worse than men. In 2009, almost 63% of women rated their health as very good (21.5%) and good (41.2%), and 12% as poor (10%) and very poor (2.3%). However, among men the proportion was higher in the evaluation of very good (26%) and good (43%) and lower in the case of poor ratings (7.5%) and very poor (1.7%) [GUS 2006b, GUS 2011b]. However, it should be noted that the assessment of health is very difficult and brings a lot of problems. Health condition is associated with aging, with the development of multiillnesses. Also other non-medical factors affect, which include: education, income level, lifestyle and access to medical services [Tobiasz-Adamczyk 2000, Molesztak 2008]. The study shows that poor health led to the retirement of primarily women (61.8%) and respondents with vocational education (41%) and secondary (27%). This is due to the type of work. People with lower levels of education work physically, which adversely affects their health. The positive relationship between the state of health and level of education shows that education reduces the impact of health on professional activity [Kotowska 2008].

Although there is no concrete evidence to connect the exceeding of 50 years of age with a reduction of somatic and mental capacity to work, it is widely believed that health deterioration occurs with age. Stereotypes about the health condition of older people are reflected in their evaluation by employers, who do not want to hire older workers and prefer to hire young people instead. Therefore, the retirement of older employees is to their advantage, since the very employee helps them to “get rid of” the less efficient staff. Employers should, however, strive to improve working conditions, to provide medical care for both older workers and members of their families [Makowiec-Dąbrowska 2002, Dudek, Pabich-Zrobek 2002, Szukalski 2006a,b, Zaidi, Fuchs 2006].

Favourable financial conditions contributed to the retirement of every eighth respondent, the vast majority of whom were men evaluating their pay as mediocre. These individuals during their working lives receive lower wages, and upon retirement the replacement rate is relatively high. This provides an incentive to exercise their right to a pension, which is greater in the case of combining work with receiving benefits. According to OECD data, in 2008 for men reaching an average salary (median) net replacement rate³ among European countries was the lowest in Ireland (40.8%) and the UK (48%), and the highest in Iceland (111.7%), Greece (110.3%) and the Netherlands (103.3%). The Polish pension system guarantees relatively high benefits. Net replacement rate for men was 68.2%, exceeding the rate in Sweden (53.3%), Finland (64.8%), Germany (58.4%) and France (60.8%). The lower net replacement rate for women is in Poland (50.7%) and Italy (63%) [OECD 2011].

Favourable conditions for retirement were most often mentioned by respondents with higher (35%) and secondary education (32%). This, on the one hand, results from the fear

³Net replacement rate – an indicator showing the relationship between the amount of pension and salary levels at the end of professional activity after deduction of taxes and social security contributions.

of changing regulations on pension rights, on the other hand, the desire to obtain more revenue. Having a university degree and obtaining a higher income during the working life contribute to the accumulation of savings, which constitute income security in old age. Obtaining even a relatively high income for part of the period of professional activity causes an increase in benefits. Especially in the case of people acquiring the right to a pension under the old system, in which when calculating the level of pension there is a possibility to choose the most favourable working years in terms of remuneration. This is an encouragement to retire [OECD 2011]. Moreover, higher education and additional skills foster working at the time of retirement, and thus obtain a higher income. Favourable conditions for retirement are associated with adverse financial conditions during the working period. Unfavourable financial conditions contributed to the resignations from work of 5% of the respondents. These individuals during their working lives obtained lower wages, and at the time of retirement the replacement rate is relatively high. This group is dominated by people who with secondary and vocational education (70%). Unfavourable financial conditions at work contributed to retirement of primarily respondents assessing their salary as average and low. More than 46% of respondents rated the pay they received during their working lives as average and 19% as low. Respondents having a different level of education obtained different wages, and thus differently assessed their remuneration. Between level of education and gender and retirees opinion on the level of income achieved during their working lives there is an important statistical correlation, which is confirmed by the independence test (Table 2).

Table 2. p-values in the independence test χ^2 – the evaluation of the pay level in the period of professional activity and selected demographic variables

Specification	Gender	Education
The evaluation of the pay level in the period of professional activity	0.000	0.000

Source: Authors' own research.

The vast majority of women were satisfied with the level of income received. Almost half of the women (49.5%) assessed it as average and 24.3% as low (Fig. 3). For men, it was respectively 42 and 10%.

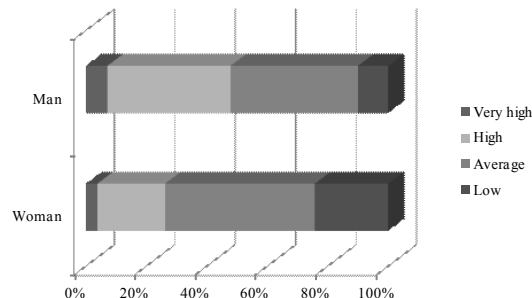


Fig. 3. The assessment of the level of remuneration by respondents

Source: Authors' own research.

Differentiated remuneration evaluation by gender results from the far more inferior position of women on the labour market. This is manifested inter alia in the relation of wages of women and men. Women, although on average better educated, are still paid less than men [Kołaczek 2009].

Qualifications, as well as a learned profession and current occupation are one of the main factors of differentiation in pay [Jacukowicz 2007]. The respondents had varying levels of education, and thus obtained different pay as reflected in its assessment. Respondents who hold a university degree most preferably assessed the income levels, nearly 19% said that it was very high, with over 40% – high (Fig. 4).

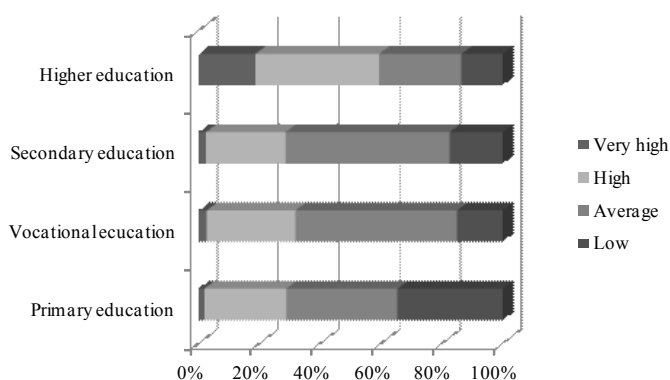


Fig. 4. The assessment of the level of income and education of the inquired

Source: Authors' own research.

People with a primary education assessed their remuneration worse. Almost 2% of the respondents with primary education said that the pay was very high, 27% – high, almost 37% – average and 35% – low. The level of education is therefore an important factor in determining the amount of income derived. Each additional year of school education increases the achieved revenue by 6.5% and in markets with less regulation by 9%. In turn, further training allows to achieve a 5% higher revenue [De la Fuente, Ciccione 2003, Jodkowska 2009].

One of the reasons for exercising the right to pension benefits was also the care over the grandchildren or other family members. The reason was mentioned by relatively few respondents (5%), who were mostly women (60%). A small number of people who resign from work due to care over family members shows that this is not a competitive activity to professional activity. Ensuring the care results from individual culturally conditioned preferences when needed to. Looking after children or adults acts as a substitute for professional external care, and hence limits the demand for this type of care [Kotowska 2008]. It may also result from a limited number of places in institutions providing care (crèches, kindergartens, nursing homes). The AZER study shows that the need for care of people of working age is in every third household. Care requires one in five people aged 18 to 64 years old in the household. Among people who need care outweigh children up to 14 years old (three quarters of all household members in need of care), mostly children under six years of age, and those aged 65 and over (almost one in ten people in need of

care). It can therefore be concluded that the need for care in households is a widespread phenomenon [Wóycicka 2009]. However, it should be noted that caring for grandchildren or other members is multidimensional. Studies have shown that older people heavily involved [Mendes de Leon, Berkman 2003, Kilian 2007], as well as maintaining close relationships with family members [Giles et al. 2004, Kilian 2007] have a lower disability. However, social productivity of older people is not only performing paid work, but also the actions. They (are not paid and included in GDP) cause an increase in the well-being of individuals and communities. This is among others an activity manifested in the family. It is based mainly on assisting in raising grandchildren, owing to which children can perform paid work, but these can also be other services provided to family members, which improve their welfare and well-being [Szukalski 2006].

CONCLUSIONS

The conducted study shows that the respondents exercised their right to retirement before reaching the retirement age, and the average age of respondents' retirement was 58.6 years old. Most of the factors influencing the decision to exercise the right to a pension are directly related to the pension system, and above all with the principles of acquiring the rights and calculation of the level of benefits. Respondents as the main reason for the decision to retire pointed to the retirement age, because they had long periods of contribution payment. The fulfilment of the condition to obtain a right to a pension in a way forces this decision for fear of changing legislation in this area. Other decisive factors were favourable financial conditions of retirement. Among the retired respondents, the decision to retire was determined primarily by the general structure of the pension system, in particular its generosity, which is reflected in the relatively low retirement age. Early retirement confirms the economic ineffectiveness of insurance obligation, which promotes anti-stimulogenic activities. People who are in the pre-retirement phase of the life cycle in the situation of favourable rate of substitution willingly "escape" from the pension system by reducing their professional activity. This results in a decrease of economically active people who contribute to the system and the extension of the period of retirement.

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CZYNNIKI DETERMINUJĄCE DECYZJĘ O PRZEJŚCIU NA EMERYTURĘ

Streszczenie. W ostatnich latach ze względu na zmieniające się warunki społeczno-gospodarcze i demograficzne zwraca się szczególną uwagę na aktywność zawodową osób starszych. Podejmowane są działania zmierzające do zwiększenia udziału grupy 50+ w rynku pracy, aby działania te przyniosły oczekiwane rezultaty, należy najpierw zidentyfikować przyczyny ograniczające aktywność osób w wieku okołomerytalnym. Celem publikacji jest identyfikacja czynników wpływających na podjęcie decyzji emerytalnej. Z przeprowadzonych badań ankietowych wynika, że respondenci stosunkowo wcześniej korzystali z prawa do świadczeń. Średni wiek przejścia respondenta na emeryturę wyniósł 58,6 lat. Większość czynników wpływających na decyzję o skorzystaniu z prawa do emerytury bezpośrednio związana jest z systemem emerytalnym, a w szczególności z zasadami nabywania uprawnień i obliczania poziomu świadczeń. Respondenci jako główną przyczynę przejścia na emeryturę wskazali osiągnięcie wieku emerytalnego, następnie korzystne warunki finansowe.

Słowa kluczowe: decyzja emerytalna, wiek emerytalny, aktywność zawodowa, emeryt

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