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IMPACT OF A PENSION SYSTEM AND AN ENTERPRISE ON EMPLOYEES' RETIREMENT: AN INTERGENERATIONAL CONTEXT

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1. Introduction

The process of population ageing forces pension reforms which change intergenerational relations not only on the macro level but also on the micro one. In the case of a macro level, the issue of the relationship between pension reforms and the whole economy with special attention paid to the labour market (including the competition between different generations on the labour market) is a topic very often investigated by scholars (Barr and Diamond 2006; Chybalski and Marcinkiewicz 2015; Gruber et al. 2009; Hernaes 2013; Lefèbvre 2012). With regard to a micro level, ageing populations and changing pension systems are processes affecting intergenerational relations in both families/households as well as in enterprises. In case of a family/household, many research focus on consumption smoothing starting from a life cycle hypothesis (Ando and Modigliani 1963; Modigliani and Brumberg 1954), and continuing with its empirical tests (see for review: Bernheim et al. 2001; Campbell and Mankiw 1989; Campbell and Deaton 1989; Parker 2008; Parker 1999). Other studies address e.g. intergenerational transfers within a family in cash, time or in kind (Albertini et al. 2007; Daatland et al. 2012; Hagestad and Herlofson 2007), the coincidence of couples retirement (joint retirement) (Gustman and Steinmeier 2005), or the impact of roles played in a family/household (e.g. grandparenthood) on retirement (Hochman and Lewin-Epstein 2013; Kridahl 2017). With regard to an enterprise level, many studies tackle the problem of age management forced by ageing populations and decreasing labour supply (Brooke and Taylor 2005; Fuertes et al. 2013; Grima 2011; Muller-Camen et al. 2011; Schröder et al. 2009; Walker 2005). Other important issues are intergenerational relations and intergenerational conflicts in the workplace (Dencker et al. 2007; 2008; Lyons and Kuron 2014; Whitney Gibson et al. 2009) or intergenerational mentoring (Marcinkus Murphy 2012; Ropes 2013).

Ageing populations force many changes in the approach to the human resources management in companies. The reason behind this is mainly decreasing labour supply. Thus, the literature on age management and intergenerational workplaces is very extensive. However, there is another important issue concerning companies facing the problem of shrinking human resources. This is the relationship between a pension system, an enterprise playing the role of an employer (workplace), and an employee making a retirement decision, in which an enterprise can modify the impact of pension system's regulations on employee's retirement decision. Thus, the goal of this paper is to identify and characterize main elements of this nexus in the context of retirement decisions taking intergenerational relations into account. We focus on the pension system's impact (with its main parameter, which is a pensionable age (statutory retirement age)) on the employers' behaviour, as well as the employers' (workplace) impact on employees' retirement decisions (reflected in effective retirement age). The paper is structured as follows. First, we present a pension system in an intergenerational context. Second, we attempt to discuss a pensionable age as a determinant of an enterprise activity in the role of an employer. The subsequent section tackles the issue of the possible impact of the employer on employees' retirement decisions. The paper ends with a brief summary of issues discussed.

2. Pensions in an intergenerational context

Pensions are usually investigated in the literature, both theoretically and empirically, from an individual or economy's perspective. The former refers to a microeconomic goal of a pension system which is consumption smoothing. This approach to pensions has its roots in theories of consumption, starting from the model of intertemporal choice (Fisher 1930), through permanent income hypothesis (Friedman 1957) to life cycle hypothesis (Ando and Modigliani 1963; Modigliani and Brumberg 1954). Further developments refer to behavioural economics in the context of individual pension decisions (Benartzi and Thaler 1999; Beshears et al. 2008; Blake 2006; Kahneman and Tversky 1979; Mitchell and Utkus 2003; Thaler 1985). From an economy's point of view, including labour market, macro aspects of pensions are investigated, which results from a macroeconomic definition of a pension system. In line with this, a pension system is a tool for dividing current GDP between generations (Barr and Diamond 2006; Góra 2008). This approach is deeply embedded in overlapping generations approach (Diamond 1965; Samuelson 1958).

In a micro approach, an individual is perceived as a "traveller" across different generations defined through the prism of age groups. First, an agent participates in education (the young generation), then is economically active and works (the working-age generation) and in the last phase of the life course is a pensioner (the elderly generation receiving pension benefits). This "intergenerational journey" forces some behaviour referring to the division of current incomes. Namely, income is divided between current consumption and saving. Saving is perceived as future consumption dedicated for the retirement period. Thus, in this context, a pension system allows for distribution of consumption to the future, from the period when an agent is economically active to the period after economic activity characterized by the lack of work income.

In a macroeconomic perspective a crucial thing is an intergenerational distribution of GDP as there is no alternative way to finance pensions. The working-age generation creates GDP which is divided between all generations. To simplify, today's workers finance the education of their children as well as pensions of their parents, regardless of a pension system's model (unfunded PAYG or funded). This intergenerational transfer is based, in principle, on the intergenerational reciprocity rule. Today's working-age generation financing pensions of their parents returns an earlier debt for education (incurred when today's working-age individuals were young and their parents were in the working age). Simultaneously, the same working-age generation finances education of their children whose generation in the future will finance pension benefits of their parents on the same reciprocity rule. This intergenerational character of pensions with regard to an individual (family/household) as well as to the whole economy is obvious and natural.

Although pensions in the intergenerational context are considered mainly from perspectives mentioned above, they reflect their intergenerational character in the scale of an enterprise as well, which is much less often addressed in the literature. First, a pension system constitutes an important macro determinant of enterprise activities. Second, pension schemes are organized not only outside the companies but also within them, and companies can affect their employees' decisions regarding retirement. In the former case, both the model of a pension system indirectly as well as a pensionable age (statutory retirement age) directly can affect employees' decisions about when to retire, which influences human resources in quantitative terms. In the latter case, employers responding to state regulations in terms of pensions may organize (on the voluntary or obligatory basis) occupational pension schemes in the company as well as may take actions impacting their employees' retirement decisions. Thus, individual decisions about when to retire can be affected not only by a state but also by employers. On the one side, a state creates general rules of retirement (mainly through the indication of a pensionable age). On the other side, a company can support (reinforce) or mitigate (counteract) the impact of state regulations on individual retirement decisions through encouraging or even forcing workers to accelerate or delay retirement. Pensions may affect intergenerational relationships in an enterprise (e.g. through occupational pension schemes, retirement regulations in a company), but similarly, intergenerational relations in an enterprise as a workplace may affect retirement decisions of employees. Below, in next two sections, we discuss these issues.

3. Pensionable age as a determinant of employers' behaviour

A pensionable age can influence enterprises and employers both directly and indirectly. The direct impact is an obvious one. The government sets following general categories of a retirement age:

- Pensionable age, which according to OECD terminology is "age from which an individual is eligible for pension benefits". Barr and Diamond (2010) name it "a normal retirement age" and it allows for "a full benefit" which means a benefit not reduced due to early retirement,

- Minimum retirement age, which is the lowest age entitling to be paid pension benefit, however, this benefit is usually reduced due to early retirement (i.e. before a pensionable age).

Additionally, a mandatory retirement age, i.e. age at which an individual is forced to retire (due to legal regulations or employment contracts) may also exist. However, today such practices are said to be age discrimination. Thus, mandatory age is usually applied only with regard to some specific professions, as e.g. judges.

State regulations concerning the pensionable age affect two parameters characterizing agent's decisions about retirement. These are:

- Effective retirement age, which is an age at which an individual starts to be paid a pension benefit, i.e. it is an actual retirement age. OECD calculates it for the population (separately for males and females) as an average effective age of retirement,
- Effective age of labour market exit, which is an age at which an individual stops finally working.

Obviously, the pensionable age does not determine solely the effective retirement age or effective age of labour market exit. The world does not work in such a way that people retire (even on average) exactly at pensionable age. In majority of OECD countries people usually retire earlier, before this age. Nevertheless, pensionable age (and minimum retirement age) is an important factor influencing individuals' decisions about retirement (Manoli and Weber 2016; Staubli and Zweimüller 2013) and, thus, affecting the labour supply significantly.

This direct impact of a pensionable age on human resources is not the only one. Pensionable age can affect human resources also in an indirect manner, interacting together with other elements of a pension system. This refers mainly to the linkage between an employee's salary in the working-age period and expected pension benefit, where a type of a pension scheme really matters. There are two models of calculating pensions: defined contribution (DC) and defined benefit (DB). These models characterize the linkage between the salary of an employee and his or her pension benefit.

In DC model pension benefit is directly determined by contributions paid to the pension scheme during the working period and the rate of return in this scheme (these both create pension wealth) as well as by the life expectancy after effective retirement age. Thus, since pension contribution is calculated as a percentage of a salary, a pension benefit is actually a derivative of salaries in the whole working life. Moreover, the pension wealth is transformed into annuity taking the life expectancy after retirement into account. This means that effective retirement age is crucial for the calculation of a pension benefit in DC model. Besides, as contributions paid earlier (in the younger age) are indexed over the longer period than those paid later (especially directly before retirement), a higher salary at the end of working period does not affect the amount of pension benefit significantly (a higher salary in the earlier phase of working life would affect a pension benefit stronger due to a greater number of indexation periods of the contribution paid from this salary). Therefore, DC model generally motivates to delay retirement and, therefore, increases human resources in an enterprise, due to two reasons: longer accumulation period of pension wealth (however, earlier savings play more important role than later ones) and shorter decumulation period.

In case of DB model the impact of a pensionable age on retirement decisions is more complex as a design of defined benefit scheme plays an important role. Blake (2006) discusses three main ways of pensions' perception with regard to enterprises and human resources management: pensions as altruism, pensions as a deferred pay and pensions as a contingent claim. Altruism of pensions results from a care of employers about their employees as the former assume that the latter are not aware of possible financial shortages after retirement. With this in mind companies organize pension schemes. Pension as a deferred pay (i.e. pension benefit) is a tool of HRM aiming to motivate employees to stay loyal to the employer. Pension as a contingent claim can be perceived through the prism of a reward or insurance. The former refers to the distribution of benefits created in an enterprise between employers and employees, whereas the latter to the risk shared between them. The role played by pensions in HRM together with the design of a pension scheme affects employees' decisions about when to retire. Moreover, this role is very often determined by state regulations in terms of pensions (in some countries occupational pension schemes are obligatory, in other countries they are voluntary).

As Barr and Diamond (2006) indicate, DB schemes based on a final salary (final salary schemes), in case of which pension benefits are linked mainly to salaries in the final phase of working life, are especially problematic in the context of human resources supply. This motivates employees to stay with the same company instead of considering the change of workplace as they see advantages referring to a deferred pay. However, such schemes may determine significant differences in attitudes to the work across different generations in the workplace. Namely, final salary schemes encourage older workers to take activities aiming at increasing their salaries. They can achieve these goals working overtime. A quite different situation is in case of younger workers who do not see the linkage between present salaries and a deferred pay, i.e. future pension benefit. Therefore, a pension scheme does not motivate them to work extra hours, however, there are other factors which can do it, e.g. a prospect of increasing salary or a possible promotion (Blake 2006). Thus, regardless of a pensionable age, final salary schemes may motivate older employees to delay retirement, since salaries directly before retirement have the greatest impact on their pension benefit perceived as a deferred pay. Simultaneously, such schemes may stimulate intergenerational conflicts in the workplace as older workers are especially motivated to insist on a salary increase in the final stage of their working life. They can achieve this goal with the support of unions. As van Ours and Stoeldraijer (2011) indicate, salary can correlate with the age of employees instead of their productivity, which is caused by unions' activity aiming at supporting older workers and discriminating younger ones.

The last issue addressed in this section is the impact of a pensionable age on enterprises' decisions about the investment in human capital (of their employees). Both, individuals as well as companies take decisions on the basis of expectations. This refers to human resources management and spending on trainings, education or mentoring as well. State regulations in terms of pensions and retirement age affect these expectations as an employer develops a forecast concerning the further expected duration of working life of a given employee. This forecast is useful for the decision how much to invest in this employee. One can expect that investment in older workers, i.e. at age directly before pensionable age, can be perceived by employers as risky since the possible return period is short, whereas investment in human capital requires time to become profitable. The same refers to employees whose motivation to participate in trainings and education depends on the expected distance to retirement. People are not willing to learn directly before quitting the labour market. Thus, from both enterprises' as well as employees' perspectives, pensionable age affects their decisions about investment in human capital. Therefore, the factor of decreasing productivity of older workers is not their age (at least not directly) but low or even lack of investment in their knowledge and skills. Moreover, an increase in a pensionable age stimulates such investments (Bauer and Eichenberger 2016; Boeri and Ours 2008). A different pensionable age for males and females also matters in the context of HRM as it may cause a discrimination of females in terms of participation in trainings and education. In case of a male and female of the same age (e.g. 58 years), an employer will probably be more eager to finance the development of the former due to a longer expected return period on this investment in human capital as compared to the latter.

4. Enterprise and prevailing intergenerational relations as determinants of employees' retirement decisions

In this section we concentrate on how the workplace itself can determine employees' decisions about retirement. Thus, we disregard here a direct or indirect impact of macro-factors and focus on drivers existing in an enterprise, with a particular emphasis on intergenerational relations prevailing in the workplace and the role played by employers.

Currently, employers have to deal with a diversity of employees being representatives of four different generations. Starting from the oldest one, these are: Baby boomers (born between 1946 and mid-1960s), Generation X (born between mid-1960s and late 1970s), Generation Y (born between late 1970s and mid-1990s) and Generation Z (born after mid-1990s). At the time when Baby boomers began to reach retirement age (or at least approach it), the number of older people in enterprises significantly increased and the issue of intergenerational relations has become even more important. Up to late 1990s, when the retirement age was approached by generation of Veterans (born before 1946), benefiting from pension privileges such as reduced retirement age (due to job characteristics) or early retirement, was very common. This affected negatively the mentality of labour market participants, both employers and employees. The former did not have to focus on age management in their organizations nor on managing intergenerational relations as pushing older workers into early retirement was beneficial for them. The latter (mainly people from Baby Boom Generation) assumed that they would also be able to leave the labour market before reaching retirement age without major consequences (Mulders and Henkens 2019). Growing exactly in the same mentality as their predecessors but at the same time facing a completely different reality, promotes a sense of injustice and growing tension between generations. This often contributes to a growing desire among older workers to leave the labour market earlier.

Nevertheless, it is not the only problem related to intergenerational relations, which enterprises have to face nowadays and which influences employees' decision on retirement. Older workers have different skills and abilities than their younger colleagues. Technology development has never been so fast and it is progressing at a pace which is hard to accept by the elderly. Not keeping up with changes can be negatively perceived by younger generations (especially Y and Z Generations). This can lead to some intergenerational conflicts (the likelihood of potential conflict will be even greater in companies where seniority is particularly rewarded). Such conflicts can lead to an objection of younger employees and to an increasing sense of social exclusion (marginalization) among older people. This, in consequence, may contribute to the decision on early retirement. Intergenerational conflicts can also have their roots in stereotypes, which characterize each generation. They are perceived as the greatest barrier to successful intergenerational cooperation, as they focus mainly on negative beliefs or values about other age groups and consequently, deepen the gap between generations (Čič and Žižek 2017).

The age diversity of the workforce is a great challenge for an enterprise. The greater the number of generations on the labour market, the greater the challenge, as high diversity in employees' demography generally impedes the group performance (Phillips and O'Reilly 1998). Besides skills level, intergenerational differences can also refer to psychological traits, career patterns and paths, personality, motivational mechanisms, commitment, leadership styles, levels of creativity and retention (Urick et al. 2017). All of these differences affect intergenerational relations and the workplace atmosphere. Retirement decisions in multigenerational workplaces are also influenced by the attitude of younger employees towards older ones (Böckerman and Ilmakunnas 2019) and the workers' relationship with the employer (Morrell and Tennant 2010). Both factors determine the job attractiveness, the higher it is, the greater the desire to remain longer on the labour market.

Generational differentiation caused by age diversity can be on the one side risky as it may result in intergenerational conflicts, but on the other side, it can become a great opportunity for cross-generational mentoring (Knight 2014). It can take the form of both mentoring and reverse mentoring. In the former one, older workers sharing their experience with younger colleagues can feel needed, while in the latter one, they can acquire knowledge from younger generations, thus, reducing their skill gaps. In that way, a cross-generational mentoring can contribute to the well-being of older workers in the workplace, and thus, to their longer (and still productive) stay on the labour market.

In addition to intergenerational relationships prevailing in the workplace, employers are the ones, who can affect directly employees' decision on retirement. Drucker (2001) believes that it is mainly human resources managers' task to develop policies enhancing older workers to stay longer on the labour market (even after reaching a pensionable age). Their involvement can have a proactive character, when they initiate a conversation with employees about the future and potential opportunities, or a reactive character, when they respond to some suggestions or requests of their employees (Davies et al. 2018).

Mulders and Henkens (2019) state that there are three main HR strategies that employers should apply to encourage older workers to stay longer on the labour market. These are: information strategies, health strategies, and person-job fit strategies. The first one is about making employees aware of various pension solutions and their consequences (mainly financial ones). A conscious individual is supposed to make more rational decisions, nevertheless, nowadays, pension awareness and knowledge is extremely low in society (Barrett et al. 2013; Holzmann et al. 2003). Individual advice within the workplace can also build the employee's loyalty towards the employer. The second HR strategy relates to occupational health. Obviously, with age, the health tends to deteriorate. Worse well-being caused by health problems and consequently sick leaves, contribute significantly to decreasing productivity. Nevertheless, employers can promote healthy lifestyle and provide employees with a medical care. Free (paid by the employer) and easily available medical assistance can be a great tool for building loyalty among employees, especially older ones. The last human resources practice refers to proper job adjustment. Especially in case of a physical work (but not only) it can be problematic or nearly impossible to do the same job until retirement. Thus, it is employers' task to reorganize jobs or retrain older employees in order to provide them with better suited positions in the workplace.

Another HR practice, which can influence employees' decision on retirement, is a flexibility of working arrangements (Shacklock and Brunetto 2005). The possibility of switching from full-time to part-time work, taking use of home-office or being covered by phased retirement programs encourages older workers to remain on the labour market longer. Another solution applied by employers which can greatly influence employees' decision on retirement (most often used in a public sector) is a seniority wage, which is a degree of linkage of worker's remuneration with his or her age. Nevertheless, the research shows that it acts as an incentive to stay longer in the particular workplace, but at the same time results in lower employment rates among elderly (Preter et al. 2013). Reduced employment opportunities for older workers being unemployed results in a discouragement to remain on the labour market, and consequently to its leaving (Duval 2003).

The employees' loyalty towards employers can be built with another HR tool, which is already mentioned, occupational pension scheme. It is a pension product, which shows employers' concern for the future of their employees. Despite the fact that it is the state that defines the functioning of these plans in some extent, e.g. by defining the form of participation (they can be voluntary, quasi-mandatory or mandatory), employers are entities that can decide on the level of benefits arising from them, e.g. by defining the level of contributions or establishing some additional payments on their side.

It should be noted that employers can influence employees' decisions on retirement in both ways (encourage people to stay on or leave the labour market). Taking the issue of a decreasing workforce into account, caused by an aging population, it might seem that employers should do their best to keep their employees longer in the workplace. Nevertheless, one should not forget that organizations can focus more on own profits rather than their workers. Thus, they can act selectively when it comes to the application of HR practices, and try to keep employees, who are most profitable for them, and at the same time push out workers, whose maintenance would require special outlays from them.

5. Summary

A pension system's impact on the labour market seems obvious. Nevertheless, much less attention has been paid so far to analysing this impact from intergenerational relations' viewpoint. Especially, when it comes to the micro perspective, in which we focus on the impact of a pension system (with the main attention paid to a pensionable age) on enterprises operating within the labour market (as employers), and on the impact of enterprises (as employers/workplaces) on employees' decisions to retire before, just at, or after pensionable age.

In the case of the impact of a pension system on enterprises, the most significant parameter that directly and indirectly affects enterprises' behaviour is a pensionable age. The direct impact is obvious – the higher the pensionable age, the higher the effective retirement age and effective age of labour market exit. The indirect impact, on the other hand, results not only from a pensionable age but also from a pension scheme model. Defined contribution model generally motivates employees to stay longer on the labour market, as longer accumulation phase equals to higher benefits. In case of a defined benefit model, its impact on a labour market depends additionally on the way of determining a pension benefit. Defined benefit model based on a final salary motivates workers to stay longer in the workplace as well, but at the same time, it can lead to some intergenerational conflicts due to differentiated needs of each generation. The indirect impact of a pensionable age on enterprises concerns also the investment level in human capital. Higher pensionable age stimulates both financial expenditures of employers on trainings as well as the willingness of employees to participate in them.

In the case of the impact of enterprises on employees' retirement decisions, the most significant factors relate to prevailing intergenerational relations in the workplace and applied human resources strategies. In the former case, the ability to manage multigenerational relationships favours longer stay on the labour market. Nevertheless, the greater the number of generations on the labour market, the more difficult it is to develop an intergenerational cooperation instead of conflicts. In the latter case, employers and human resources managers, in particular, can use different practices to enhance employees to stay longer in the workplace. Nevertheless, one should not forget that enterprises can put their own interests above interests of their employees. In the age of decreasing workforce, organizations can search for different solutions to retain employees longer in the enterprise, but it can concern only workers with high productivity or specialization in a given field. For less productive employees or ones with lower qualifications, the employer's approach can be quite the opposite. It can be beneficial for them to pursue their earlier leave and exchange a staff for a younger one.

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