



An Ageing Workforce



Over the next decade, the changing age profile of the workforce will be the most significant development in the UK labour market, as a third of workers will be over 50 by 2020.¹ Employers will be expected to respond to this demographic shift by making work more attractive and feasible for older workers, enabling them to work up to and beyond State Pension Age (SPA) if they are capable. This POSTnote examines the main challenges to the participation and productivity of older people in the workforce.

Background

Within 20 years, nearly a quarter of the UK population will be aged 65 or over.² People are now spending an average of 7 years longer in retirement than in the 1970s,³ and it is unclear what proportion of these extra years will be healthy. Against a backdrop of low birth rates and increasing average life expectancies, these trends will lead to greater pressure on the working-age population to support retirees, financially and through care. One way to help to reduce this pressure would be to encourage workers to delay retirement and remain in the labour market for longer if they are able and willing to do so.

Aside from macroeconomic necessity, working later in life will also be of financial necessity for individuals. In the UK, average earners receive less than 40% of their pre-retirement income from state sources as pensioners⁴ and the Equality and Human Rights Commission has voiced concerns that rates of pensioner poverty will rise substantially in the future. The situation is especially severe for women, who receive on average less than two thirds of the retirement income of men. This problem may worsen in the future if greater participation in higher education limits

Overview

- As life expectancies in the UK increase, people will face lengthy periods of retirement with proportionally less pension provision, unless they stay economically active for longer.
- Recent UK-wide legislation ensures employers cannot dismiss older workers on grounds of age and aims to encourage workers to remain in the labour market.
- There may be health and social benefits associated with staying active through work, provided that working conditions are not in themselves a cause of ill health.
- Older people who wish to remain in employment often face practical, cultural, organisational and psychological barriers to finding and staying in work.
- Policies to extend working lives will require changes to working practices, job design and cultural attitudes if they are to succeed.

the years of potential pension contributions from younger generations.

The Trend of Early Retirement

Historically, early retirement has been used partly to create space in the labour supply for younger workers, particularly in times of recession. Such strategies assume a fixed amount of work is available within an economy. In fact, at the macroeconomic level, there is a positive correlation between older workers' labour market participation and employment rates for younger generations.⁵ Furthermore, early retirement leads to onerous pension costs and a potential skills gap in the workforce. Some countries, including Finland and Germany, actively support the retention of older workers as a means to avoid anticipated skills shortages.

Successive governments have encouraged people to stay in the labour market into later life and further reforms to UK employment and pension law are now being introduced (Box 1). Extending working lives by one year could raise real GDP by around one percent, via tax revenues and reduced pension spending.⁶

Box 1. UK Reforms Supporting Longer Working Lives

Following the implementation of the Equality Act (2010), the Default Retirement Age (DRA) is being phased out. From 6th April 2011 it is no longer legal to issue notifications of retirement using the DRA procedures, unless the employer can provide objective justifications for compulsory age-based retirement. These measures are intended to prevent age discrimination in the workplace, and to allow capable older workers the right to continue if they so choose.

The Pensions Bill (2011) sets out a timetable for increasing the SPA. It proposes that women's SPA will be equalised with men's, reaching 65 by November 2018. SPA for both men and women will then increase to 66 between 2018 and 2020. There are also planned reforms of public sector pensions, bringing the age of pension entitlement in line with SPA and increasing employees' pension contributions.

A flexible SPA, based on number of years worked, has been suggested, to reflect the fact there are wide social inequalities in working life duration and health in later life.⁷ To date, no specific policy recommendations have been made that include such an alternative to a fixed SPA.

There is consensus that jobs that are safe and allow workers a degree of control in their workplace environment are good for health, while long-term unemployment has a detrimental impact on both mental and physical wellbeing.⁸ Staying in work can maintain cognitive and physical activity, provide a sense of identity and access to social support, and create intrinsic benefits of feeling productive and valued. There are also indirect economic benefits through limiting health and social care costs, most significantly for dementia.⁹ However, it is difficult to establish extensive correlations between health benefits and working later in life, given the wide range of job types and working conditions in the labour market.

Recent Employment Trends in the UK

Labour market participation for the 50-64 age group has increased in the last 15 years, particularly among women (Fig. 1), and the percentage of workers aged 65 and over has doubled in the last decade. This potentially marks a reversal of the trend towards early retirement observed in the last quarter of the 20th century.

Average retirement ages have steadily increased over the past decade and are currently 64.5 years for men and 62.0 years for women: high by European standards.¹⁰ There are, however, geographical differences, with high unemployment among older workers in regions hit by industrial decline. Moreover, older workers - those in the labour market over 50 - are hugely diverse in attitudes, skills, aspirations, health, family duties and financial circumstances, reflecting wide variations in the capacity of different people to exercise choice over staying in work.

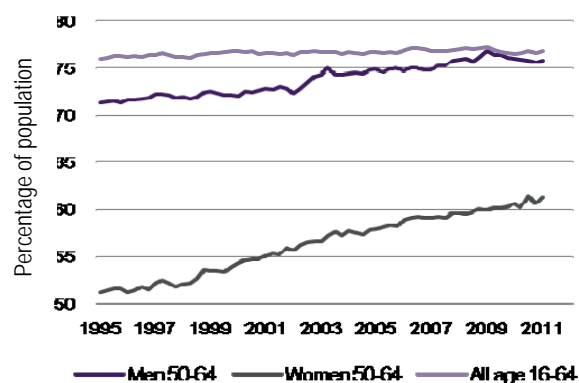
Choice in Exiting the Labour Market

Three factors strongly affect rates of early withdrawal from the labour market: wealth, health and caring duties. For all but the wealthiest, falling annuity rates, the closure of generous defined benefit pension schemes and planned pension reforms will provide strong financial reasons against early retirement.

Although around 60% of older workers remain fit, healthy and keen to work,¹¹ the major causes of economic inactivity in the age group 50-SPA are ill health or disability, primarily among men and low earners.¹² Nearly half (47.4%) of incapacity benefit claimants are in this age range.¹³

Figure 1. 50-64 Year Olds who are Economically Active

Source: ONS



Families are central to decisions about retirement. Caring responsibilities are a major cause of early exit from the labour market, especially for women; around half of the six million carers in the UK are aged 50 to 64. They will increasingly be responsible for the informal care of elderly relatives and are also a significant childcare resource. This may severely constrain their potential to continue working.

Challenges to Working Later into Life

The combination of an increasing average age of the UK workforce and the need for workers to stay in employment later into life will raise key challenges both for employers and for prospective older workers. Legislative changes and financial incentives alone will not increase participation rates of older workers if there are barriers to good employment opportunities and access to support to stay in work.

Attitudes of Employers

Many employers consider their older workers to be a valuable asset: positive aspects attributed to them include a strong work ethic, reliability, loyalty, business experience, institutional memory and specialised skills.

Nevertheless, many negative stereotypes about older workers endure. Common perceptions include that they are less productive than young workers, slower, less adaptable to technological changes, less cognitively capable and motivated, resistant to management, and prone to ill health. However, these assumptions are largely undermined by evidence about age-related changes to physical and cognitive capacities (Box 2). Age discrimination based on these perceptions is common and age-based stereotyping is particularly significant for women. It also influences workers' self-perceptions, harming confidence in their capabilities and value.

There is a robust perception that older workers are more expensive than younger recruits, but this is mainly true only in some professional roles. Average wages peak in the late 30s (women) or 40s (men),¹⁴ and decline thereafter.¹⁵

Box 2. Physical and Cognitive Capacity

The impact of age on health and productivity in work is important. Both physical and cognitive capacities change with age, but are highly variable between individuals: age is a poor predictor of performance.¹⁶

- Deterioration of visual acuity and functioning in low light levels may begin in the mid 40s.
- Hearing loss is common in those over 60, making conversations and instructions harder to distinguish from background noise.
- Aerobic and cardiovascular functions decline with age, and recovery time following exertion increases.
- Musculoskeletal changes lead to reductions in muscle and grip strength, posture and balance.

These factors may limit a person's ability to work in certain environments.

Cognitive capacities such as working memory, adaptability to new tasks and problem-solving speed deteriorate after peaking in the late 20s. By contrast, verbal fluency, general knowledge and vocabulary do not decline and may improve if exercised through work. Caution should be exercised in extrapolating laboratory data to workplace productivity. For example, reaction times increase with age, but improved accuracy can compensate for loss of speed, which can be preferable where quality or safety is paramount.

Barriers to Recruitment

While many employers value their existing older workers, recruiting unemployed over 50s back into the workforce remains a significant challenge. Jobseekers often think employers value formal qualifications or accredited training at the expense of experience and knowledge accumulated informally, which may discourage them. Opportunities are also closed-off to well-qualified older workers when companies recruit internally for senior positions.

Recruitment barriers for older jobseekers are largely a matter of attitudes and perceptions, which are slowly changing following the outlawing of age-based recruitment practices in the Employment Equality (Age) Regulations (2006). In the UK, 44% of employers claim to be attempting to recruit older workers,¹⁷ but conclusions about the effectiveness of age equality policies cannot yet be drawn as it is difficult to monitor their impact.

Increasing Training Opportunities

Training has an important role to play in extending working lives. However, there is a sharp decrease in participation in training once workers reach their mid-50s. Employers commonly believe that they will not get a good return on their investment in training for older workers. Older workers' willingness to undertake training may depend on its perceived usefulness, cost, time commitment and method of delivery, and on their level of self-confidence for acquiring new skills. It is most effective when building on existing competencies and viewed as an economically valuable investment. The "Train to Gain"¹⁸ initiative encouraged employers to provide job-specific training, with half the cost taken on by the government. It attracted a high number of older workers, suggesting there is an appetite for training but that costs may ordinarily be a barrier.

Relevant training includes broadening career horizons, life course and retirement planning, job succession, mentoring, and skills transfer to younger workers. If people are

expecting to work longer, the availability of training opportunities and rates of uptake should increase, if employers and workers recognise the need to maintain skills and employability later into life.

Challenges to Improving Employability

Older jobseekers take longer to find employment than other age groups and a disproportionately large number slide into retirement involuntarily. If redundancy occurs, lack of self-confidence and mental health issues associated with unemployment are major obstacles to finding new work.

Self employment can be a viable option not often considered by older people. Almost 18% of working over-50s are self-employed, rising to nearly 30% for men nearing retirement age.¹⁹ Business survival rates among such "Third Age entrepreneurs" are better than start-ups by younger people, and self-employment provides some scope for greater choice about working conditions and hours.

Managing Retirement

Following the abolition of the Default Retirement Age (Box 1), some businesses are concerned that they have been left with no clear legal framework in which to initiate conversations about retirement without falling foul of age discrimination legislation. Also, for individual companies, older workers staying in a position for longer may limit the promotion prospects of younger workers. One option is to create an open culture in which conversations about career plans can be had throughout working life, and retirement is discussed as a matter of course. Such strategies have aided workforce planning and increased older worker retention in companies such as Siemens (Netherlands) and BMW (Germany). In the UK, line manager relations and management skills have been identified as a target for improvement in supporting older workers and fostering this kind of culture.

Adapting Job Design for Older Workers

The UK labour market is changing, with a trend towards roles that are not necessarily bound to specific hours and locations. For many older workers, flexibility would enable them to continue working or to get back into work following unemployment, although eligibility for Jobseekers' Allowance requires being available for full-time work. Recent innovations in flexible working across different sectors include remote working; annualised hours; flexitime; job-sharing; phasing retirement; and pension draw-down.

Businesses must adapt to the changing age demographics of the workforce. Some see flexible working practices as part of broader employment policies geared towards improving access and conditions for older workers (Box 3). Small and medium enterprises often operate flexibly on a case-by-case basis, benefiting from retaining valuable staff and reducing turnover costs. Flexibility can increase job satisfaction, reduce absenteeism and strengthen the psychological contract of trust and loyalty between employer and worker.

Three in four employers claim to offer flexible working options, but flexibility means different things across the

income scale. At the upper end, skilled professionals may have a high degree of choice and control over their hours. At the lower end, flexibility means low paid and low skilled work with little control over conditions. There is little evidence from employees' own perspectives on whether the options for flexibility offered are suitable for them in practice.

Box 3. Age Positive Practices

The Employers' Forum on Age (EFA) runs an annual awards scheme that showcases innovative strategies for opening up employment access at each end of the age spectrum. Successful initiatives include:

- the removal of age barriers from apprenticeship schemes (British Gas; The Co-operative Group; McDonalds)
- active targeting of older workers in recruitment and flexible working conditions geared towards their needs (B&Q; ASDA; Centrica)
- entitlement to assessments of ergonomic and job design (BT plc).

The Age and Employment Network (TAEN) has developed a "workforce assessment tool" for employers to evaluate the suitability of their workplace for workers of all ages. It also maintains a large database of resources for employers on dealing with age issues at www.taen.org.uk.

The Department for Business, Innovation and Skills began a consultation in May 2011 on extending the right to request flexible working to all employees. Employers are not obliged to accommodate requests if there are business grounds for refusing. However, such a right could shape thinking about the routine and requirements of work across the workforce.

The Role of Workplace Design

Most aspects of age-related physical and cognitive decline are partly a function of the working environment. Workplace modifications can compensate for many changes and impairments associated with age. For example, ergonomic computer equipment and desks with adjustable heights to allow periods of work standing up can reduce musculoskeletal pain. Locally-controllable lighting enables more comfortable reading, aiding concentration. Both the physical and social environments are important for workers' productivity and wellbeing; incorporating principles of inclusive design into the workplace may provide benefits for all but could particularly advantage older workers.²⁰

Occupational Health

The government's Work Capability Assessment is intended to reflect the fact that, with appropriate support in place, illness need not be a barrier to working. However, the working environment can have a major effect on workers' health and wellbeing, and thus on productivity. Men in their 50s in unskilled or manual jobs suffer health problems that are not usually found in men in professional roles until their 70s.²¹ Improved understanding of the interaction between health status and the working environment may help to reduce rates of early retirement due to ill health.

In addition to the physical environment, psychological and social aspects are also important in understanding work-related health reasons for leaving the labour market. For example, low social support and job satisfaction are risk factors for illness absence due to back pain.²² Psychological

health tends to improve from age 50, but stress is a significant risk factor for those planning to retire before SPA.

Occupational health strategies also focus on active promotion of health and wellbeing. Health checks and mental health support are viewed positively by workers, although their impact is hard to assess. However, there may be resistance to employers intervening in personal health and lifestyle choices, particularly among older workers.

Promoting the health and wellbeing of their workforce is in employers' interests.²³ Initiatives such as stress audits show a good return on investment, reducing sickness absence, staff turnover and "presenteeism", and improving morale. In the longer term they may also reduce the likelihood of early retirement due to ill health, and ensure that the next generation of older workers will be healthier and more capable of continuing work for longer.

Policies to Support Older People in Work

Targeting employment policies on a specific age group risks perpetuating age stereotypes. Non-discriminatory policies that may nonetheless benefit older workers could focus on:

- the creation of agediverse workforces;
- a culture in which future plans are discussed throughout working life, not just at retirement;
- acknowledgment of the importance of training and transferable skills for employability;
- embedding of flexibility in job design as a norm.

The UK is in a strong position to capitalise on the skills and experience of its ageing workforce. In companies where employees over 50 form a high proportion of the workforce, attitudes towards older workers generally are more positive. This suggests that, as the presence of older workers is normalised, their value and productivity will be more positively appraised by employers and other workers alike.

Endnotes

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