

Think Piece: Ageing population and older workers

The challenge of increasing employment among older workers

Demographic ageing is a major policy challenge for the UK and its regions, as well as for most other industrialised countries. In the 20 years to 2003 (Figure 1), strong population growth in the SE was recorded among 50-54 and 55-59 year olds. This matters because employment rates among people aged 50 and over are generally low (although there is a big variation between countries and regions). If employment rates among older workers do not rise, the population ageing process will lead to falling overall employment rates, a contracting workforce and labour shortages in a growing economy¹. On the one hand, the SE does relatively well in this respect (Table 1): employment rates are higher than the national average in all age groups, but especially in the age group from 50 to retirement age². On the other hand, the existing high employment rates of older workers imply less scope than in other regions for further increases, and other regions are catching up (Table 1): the difference between the SE and GB figures in the 50-plus employment rate has narrowed over the period. The key difference between the SE and the UK (Table 2) is that the lower inactivity rate among older people of working age in the SE is entirely due to the lower proportion of people who are inactive because of *long-term illness or disability* (the proportions inactive because of early retirement or other reasons are the same in the SE and the UK). This is the group whose inactivity is most susceptible to policy influence (through incapacity benefit reform, or extra support for disabled workers) and which, nationally, contains a significant proportion who would like to work. Encouragingly, however (Table 3) this group, despite their smaller share in the SE region, are significantly more likely than their counterparts nationally to be looking for work or to want work, suggesting some further potential to increase employment among this group.

The sectoral and occupational profile of older workers in employment is similar in the SE and the UK (Table 4 and Table 5). At a sectoral level, the sector that stands out as having a high dependence on younger workers, and a potential vulnerability to an ageing workforce unless recruitment practices change is *distribution, hotels and restaurants* (according to the most recent IER forecasts — Green *et al.* 2004 — this is anticipated to be a fast growing sector in employment terms in the SE over the period to 2012). Among occupations, there is more variation with *sales and customer service occupations* having the lowest proportion of older workers in the SE (again, an occupational group which is forecast to experience significant growth in employment terms, Green *et al.* 2004), and *process plant and machine operatives* (a declining occupational group over the next decade) the highest. It would seem, therefore, that those occupations and sectors with the highest current concentration of younger workers include occupations/sectors likely to experience significant growth in labour demand in the coming decade, while occupations/sectors which currently have the highest concentration of older workers include occupations/sectors which will decline in employment terms. It is clear that the current age profile of these sectors/occupations will need to change if there are not to be future mismatches (it is likely that this process will be supported by forthcoming age discrimination legislation which will reinforce the move away from age-stereotyping in particular types of jobs)³.

Dependency ratios are growing

Until recently ageing populations had little effect on the 'dependency ratio' (non-working age people, compared with the numbers of working age), because most of the growth was among people of working age⁴. In 2003 the SE's

¹ For a summary of recent trends in the labour market participation of older people, and the working patterns and characteristics of older workers in the UK as a whole, see Whitting (2005) and CROW (2004). The recent economic and econometric literature on the factors influencing the employment rate of older workers is summarised in Hotopp 2005.

² Currently defined as 50-59 for women, and 50-64 for men.

³ Recent evidence from the Centre for Research into the Older Workforce (McNair and Flynn 2005) confirms that employer practices are beginning to shift in this direction, partly in anticipation of the forthcoming age discrimination legislation, but that there is some way to go before 'age blind' recruitment and employment practices become the norm.

⁴ While dependency ratios are most relevant for policy-makers at a national level, because this is the level at which pensions, health and social security systems are funded, they are also a useful way of summarising sub-regional variations in the extent of demographic ageing in the population.

dependency ratio (Table 6) was slightly 'worse' than the Great Britain average with the SE having 59.5 non-working age people for every 100 of working age (compared with 58.3 in GB). The table also shows that the SE's neighbour, London, has by far the most favourable dependency ratio, due to its young population. There is considerable variation SE local authorities (Table 7), with the counties of E and W Sussex and the Isle of Wight having ratios close to or above 70, while some unitary authorities have much younger populations with ratios below 50.

By 2028 the dependency ratio in the SE is projected to rise significantly to 73.2 (Figure 2, which compares the SE with England as a whole in this respect). This rise is because, from now on, the big population growth is going to be in the 65-plus groups (Figure 3). In labour market terms, this implies that the region will need to be running to stand still. Much of the population growth will be among age groups beyond normal working age, which will put even greater pressure on the region to raise employment among older workers in the age range 50-retirement.

What can be done?

On the whole, there is a lack of incentives for employers to recruit and retain older workers and a lack of incentives for older workers to remain in the workforce. Companies can benefit from the acquired skills of older workers, although they run the risk of becoming increasingly obsolete when access to training is limited. High separation costs (through redundancy or early retirement) may discourage employers from employing older workers in the first place. Early retirement schemes, social security benefits and incapacity benefits have often and still are being used by both employees and their employers as exit routes from the workplace, although the UK government is committed to tackling this through reforms to the benefit system. However, the fact that some countries, especially in Scandinavia, have achieved higher employment rates for older workers suggests that something can be done. International evidence¹ shows that a strategy incorporating the following policies can increase employment rates for older workers:

1. **making early retirement unattractive** to employers, and discouraging older workers from leaving the labour market (eg by a tighter regime on the use of incapacity benefits)
2. **changing attitudes and stereotypes** about older workers, and countering discrimination by employers (forthcoming UK Age Discrimination legislation will help here, but is unlikely to be sufficient on its own); in addition, it is clear that employers need to be encouraged to **offer flexible types of work to older workers**, to assist in bridging the transition to retirement, rather than leaving the labour market altogether (Barnes *et al.* 2002; Lissenburgh and Smeaton 2003). There is also a role to be played by **encouraging self-employment** among older workers as a bridge to retirement.
3. **active labour market policies** (like the New Deal 50-plus) focused on the needs of older workers. International evidence suggests that job counselling, job search monitoring, sanctions (for those who do not search for jobs), and placement subsidies for regular jobs can all contribute to raising employment rates for older workers.
4. improving the **employability** of older workers

Most of these initiatives will be driven by the national policy framework², but of the four areas identified, the fourth, 'employability' has the most scope for being influenced and determined at the regional level. To conclude, we look at this in more detail.

The employability challenge

Employment rates among older people may be low, partly because the (actual or perceived) employability of many older people is low, due to factors such as:

- older workers may have had careers in occupations or industries vulnerable to technological and organisational change, rendering their skills and experience obsolete or inadequate (this is particularly a problem in regions which, unlike the SE, have had a tradition of employment in heavy manufacturing and extractive industries).

¹ For a good summary, see De Koning (2005).

² For an overview of the policy challenges at a UK national level, as well as a range of data comparisons between the UK and other industrialised countries, see OECD 2004, and for a summary of European evidence see European Foundation 2004.

- the relatively short pay-off period for investment in human capital of older workers reduces the rate of return on training, for both employers and employees (although for employers, this may be partly offset by higher retention rates for older workers). Employers in the SE are very similar to those at national level in that the proportion of their employees receiving training drops off markedly among those in the older age ranges (Table 8).
- in some occupations, especially those which are physically demanding, productivity may decline after a certain age (this may be reflected in higher sickness and disability rates). There is also evidence, however, showing that individual learning capacity and that the productivity and innovation capacity of older workers can be maintained, particularly where their initial base level of qualification/education is high.
- In some pay systems, pay increases with age (or length of service), and an increasing productivity-wage gap with age makes older workers less attractive employers.

The employability problem is particularly relevant for older people with a lower level of education and skills; more highly educated/skilled older workers are more likely to want to remain in work, and more likely to be able to. Employability of older workers is largely determined by investments in human capital earlier in life. Measures to reduce the numbers of younger people with low or no qualifications are, therefore, an essential part of any longer-term strategy to increase the employability of older workers. It is notable that employment rates of older workers vary dramatically with the level of qualification: in particular, the employment rates among older workers with no qualifications at all are especially low. This is true both for the UK and for the SE Region (Figure 4). Raising employment rates among this group implies a two-pronged strategy:

- An effective lifelong learning strategy to increase skill/qualification levels among existing older workers (via an effective lifelong learning strategy, which may include accreditation of prior learning);
- Securing a significant reduction in the proportion of younger workers (the older workers of the future) with no qualifications.

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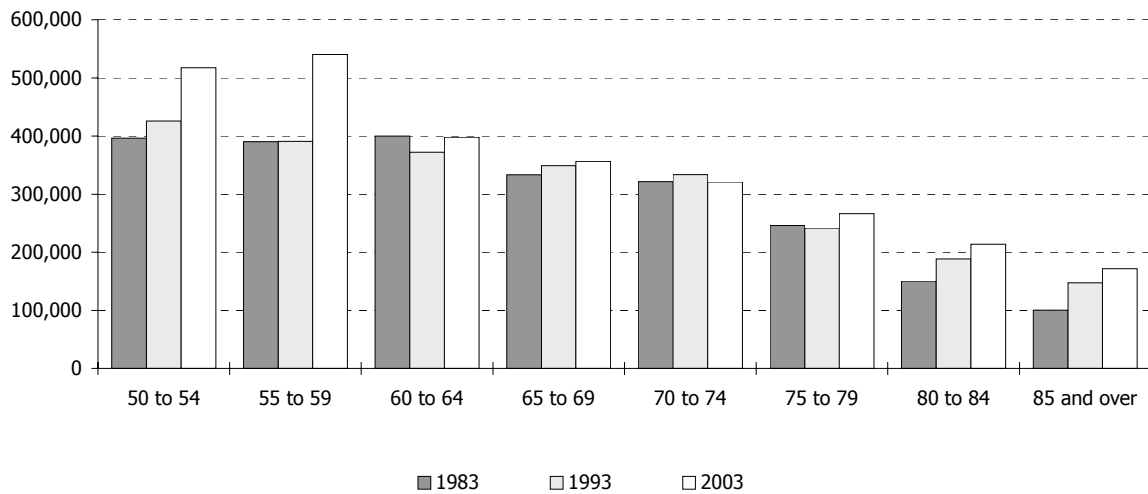
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Tables and charts

Figure 1: Population change by older age groups, South East 1983, 1993 and 2003



Source: ONS Mid-year population estimates

Table 1: Employment rates by age group

	South East		Great Britain	
	1994/95	2004/05	1994/95	2004/05
All people of Working age	75.8	78.8	71.3	74.9
Of which				
16 to 19	55.0	57.7	51.2	50.5
20 to 24	71.2	72.7	66.3	69.2
25 to 34	79.3	82.9	75.4	80.0
35 to 49	82.4	85.1	79.4	82.3
50 to retire	70.5	75.5	63.2	70.5

Source: NOMIS Labour Force Survey: Summer annualised averages 1994/5 and 2004/5

Table 2: Economic activity among older people, UK and South East, 2005

	South East %			UK %		
	50 to 59/64	60 / 65 or over	All over 16 yrs	50 to 59/64	60 / 65 or over	All over 16 yrs
Employee	61	9	54	58	7	52
Self-employed	15	3	9	13	3	8
ILO unemployed	2	0	2	2	0	3
Economically inactive	22	88	34	28	90	37
Of which						
<i>Inactive due to long term illness</i>	7	2	3	13	2	5
<i>Retired</i>	7	84	21	7	86	21
<i>Other inactivity</i>	8	2	11	8	2	12
Total	100	100	100	100	100	100

Source : Labour Force Survey, Spring 2005

Table 3: Willingness to work among inactive older workers, UK and South East, 2005

% who are seeking work but not available to start work, or would like to work but not seeking	South East		UK	
	50 to 59/64	60/ 65 or over	50 to 59/64	60 / 65 or over
All economically inactive	19	1	19	1
<i>Inactive due to long term illness</i>	34	24	23	14

Source : Labour Force Survey, Spring 2005

Table 4: Industrial profile of older workers employed in the South East and UK, 2005

	% of sector's workforce in each age group			
	SE		UK	
	50-retirement age	over retirement	50-retirement age	over retirement
Agriculture & fishing	21	9	27	11
Energy & water	27	-	22	1
Manufacturing	26	3	25	2
Construction	27	3	25	2
Distribution, hotels & restaurants	18	5	18	4
Transport & communication	25	2	26	2
Banking, finance & insurance <i>etc.</i>	21	5	20	4
Public admin, educ & health	27	5	25	4
Other services	22	7	21	6
Total	24	5	23	4

Source: Labour Force Survey, Spring 2005

Table 5: Occupational profile of older workers employed in the South East and UK, 2005

	% of occupation's workforce in each age group			
	SE		UK	
	50-retirement age	over retirement	50-retirement age	over retirement
Managers and Senior Officials	25	3	24	3
Professional occupations	27	4	26	3
Associate Professional and Technical	20	4	19	3
Administrative and Secretarial	26	7	23	5
Skilled Trades Occupations	25	4	26	3
Personal Service Occupations	21	5	20	4
Sales and Customer Service Occupations	15	3	14	4
Process, Plant and Machine Operatives	33	4	30	3
Elementary Occupations	21	7	21	6
Total	24	5	23	4

Source: Labour Force Survey, Spring 2005

Table 6: Dependency ratios, GB and regions 2003

2003	Dependency ratio (All ages)	Dependency ratio (old age)
South West	63.7	35.3
Wales	62.8	33.0
Eastern	60.5	30.9
West Midlands	60.3	30.0
North West	59.5	29.8
South East	59.5	30.2
Yorkshire and The Humber	59.5	29.9
North East	59.1	30.8
East Midlands	58.7	29.8
Great Britain	58.3	29.4
Scotland	57.0	29.7
London	47.9	20.7

Note: All age dependency ratio is no. of people not of working age for every 100 people of working age; old age dependency ratio is no. of people older than working age for every 100 people of working age

Source: ONS Mid-year population estimates 2003

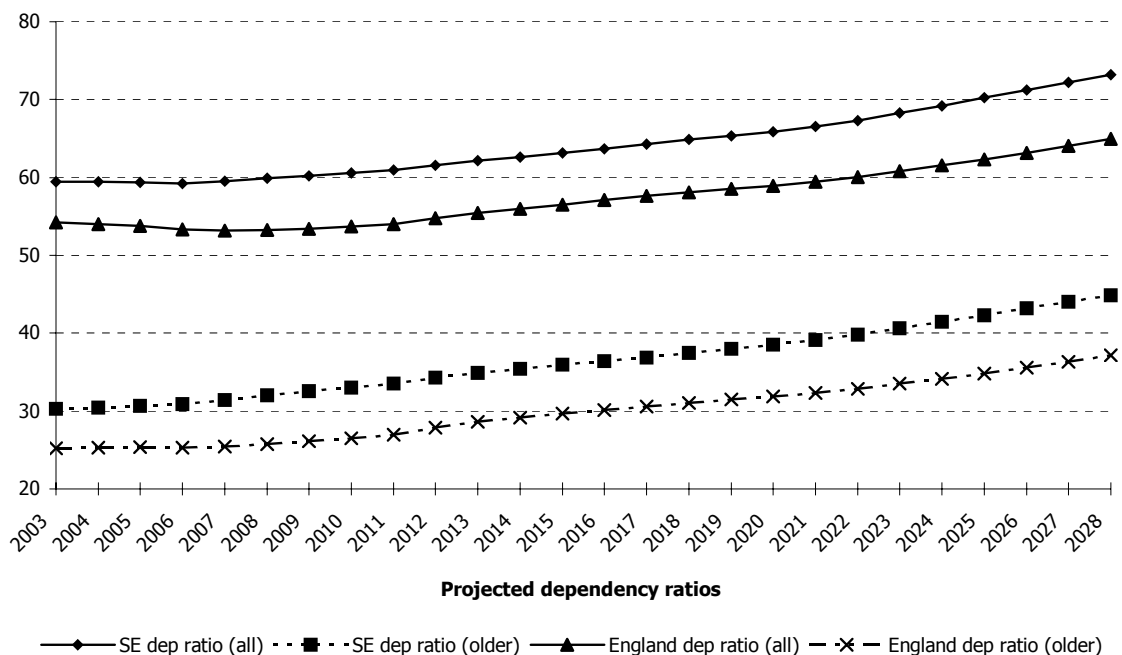
Table 7: Dependency ratios, SE Local Authority areas, 2003

2003	Dependency ratio (All ages)	Dependency ratio (old age)
East Sussex	75.9	45.3
Isle of Wight	71.1	43.2
West Sussex	68.9	38.9
Kent	63.4	32.6
Hampshire	60.2	30.8
South East	59.5	30.2
Buckinghamshire	59.1	28.0
Surrey	58.9	30.0
Windsor and Maidenhead	57.1	28.1
Medway	55.2	23.5
West Berkshire	54.9	25.0
Oxfordshire	53.9	26.2
Portsmouth	51.6	25.6
Wokingham	51.2	22.4
Slough	50.6	20.2
Bracknell Forest	50.0	19.5
Brighton and Hove	49.1	26.3
Milton Keynes	48.6	17.9
Southampton	48.2	23.8
Reading	45.8	20.7

Note: All age dependency ratio is no. of people not of working age for every 100 people of working age; old age dependency ratio is no. of people older than working age for every 100 people of working age

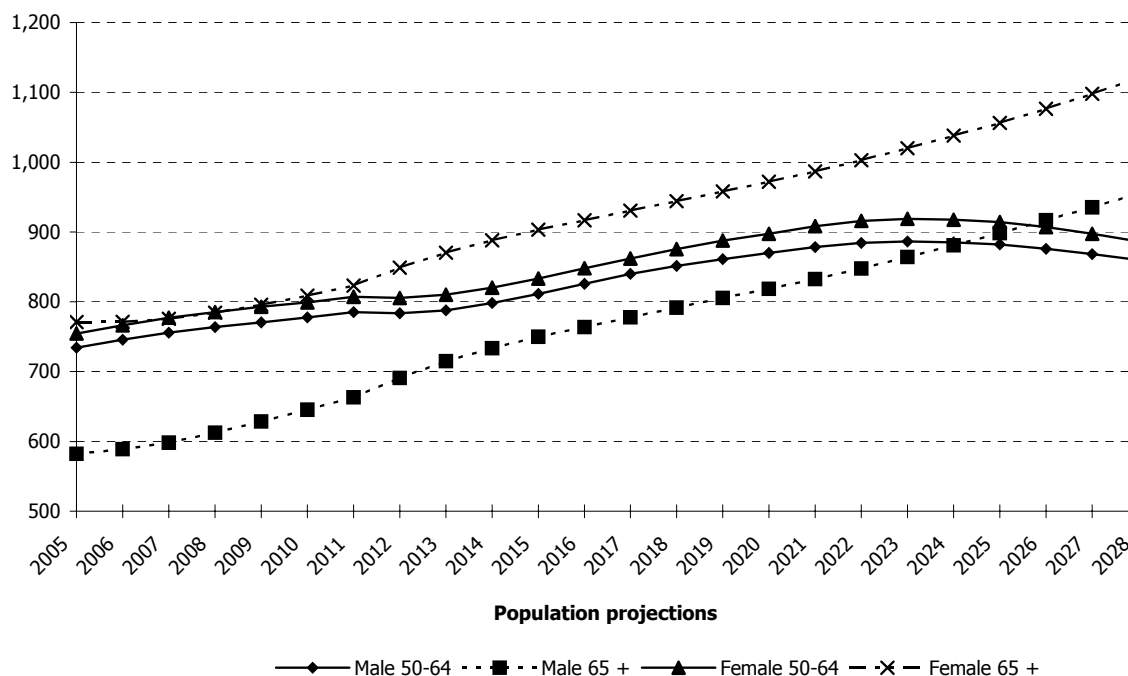
Source: NOMIS, ONS Mid-year population estimates 2003

Figure 2: Projected dependency ratios: SE Region and England (2003-2008)



Source: ONS

Figure 3 Population projections (in 1,000s) of older people in the South East by sex, 2005-2028



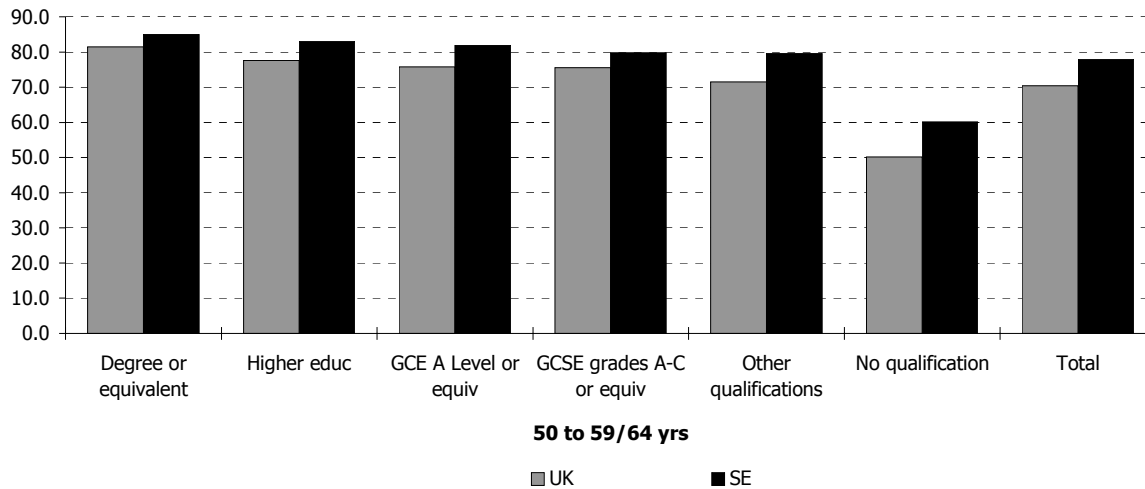
Source: ONS

Table 8: percentage of employees receiving training in the last 13 weeks, SE and UK, 2005

	South East	UK
Age group	%	%
16 to 19	34.3	40.7
20 to 24	36.2	35.1
25 to 34	32.9	31.5
35 to 49	27.8	28.7
50 to retirement	24.2	23.3
over retirement age	13.0	13.7
Total	28.3	28.6

Source: Labour Force Survey, Spring 2005

Figure 4 Employment rate of older people (50 to 59/64) by highest qualification held, South East and UK (2005)



Source: Labour Force Survey, Spring 2005