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Demographic ageing, older workers and the economy

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Summary

The European Union (EU) is facing a substantial ageing of its population. While demographic change is having a differentiated impact at both the national and sub-national levels, overall the EU is experiencing a profound shift in the structure of its population. As populations age, the contribution of the over 50s to economies and communities is being reassessed. This paper examines the implications of demographic ageing for the workforce. Using the UK as a case study, it examines the barriers and disincentives to work that the over 50s face, and identifies an example of where they have been effectively tackled.



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Introduction

The European Union (EU) is facing a substantial ageing of its population. While demographic change is having a differentiated impact at both the national and sub-national levels, overall the EU is experiencing a profound shift in the structure of its population. The EU as a whole displays a combination of high and growing life expectancy and a low fertility rate. A report by the European Commission to Member States forecasts that fertility rates in all countries are projected to remain well below the natural replacement rate.ⁱ At the same time, life expectancy at birth, having risen by some eight years since 1960, is projected to rise by a further six years in the next five decades. It is predicted that worldwide ageing will accelerate in the twenty-first century and that the proportion of older people will reach 21 per cent by 2050. By that year, the number of older people is expected to exceed the number of young people below the age of 15 for the first time.ⁱⁱ

As populations age, the contribution of the over 50s to economies and communities is being reassessed. This paper examines the implications of demographic ageing for the workforce. Using the UK as a case study, it examines the barriers and disincentives to work that the over 50s face, and identifies an example of where they have been effectively tackled.

This paper primarily focuses on the longer-term challenges of demographic ageing, but also provides some analysis of the impact of the current recession. In many European countries, previous recessions saw sharp declines in the numbers of older men in employment. Traditional occupations and industries suffered most as policies encouraging early quitting were deployed to shed labour with minimal conflict.ⁱⁱⁱ However, the situation today does not seem to be following the same pattern. There are variations from country to country, but overall older workers do not appear to be disproportionately affected.^{iv}

To ease the impact of the recession, the EU is making available €19 billion of planned European Social Fund expenditure to support people hit by the economic crisis. Together with the European Investment Bank Group and other partners, a new EU loans facility will be set up to provide micro-credits for those who would usually have difficulty accessing the necessary funds to set up a business or micro-enterprise.

Demographic and employment trends in the UK

UK population estimates for 2005 indicate that 20.5 million people are aged over 50, up 2.5 per cent since 2002.^v By 2018, it is predicted that the number of people aged over 50 will grow by 20 per cent to 4.1 million. And by 2018, it is predicted that the number will reach 6.7 million.^{vi} As the number of over 50s grows, so too does their diversity. The older population



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is becoming more ethnically diverse and the number of those with severe lifelong disabilities is rising.

In recent years there has been a steady increase in the proportion of people aged over 50 who are employed, while the overall employment rate has been static. This trend has, however, shifted since the onset of the recession.

The employment rate in the UK for people aged 16 to State Pensions Age (SPA) was 73.6 per cent in the three months to March 2009, down 1.3 percentage points from a year earlier.^{vii} The unemployment rate was 7.1 per cent in the three months to March 2009, up 1.8 percentage points from a year earlier. The unemployment rate is highest in the West Midlands, followed by the North East and then Yorkshire and the Humber.^{viii}

The overall claimant count rate in April 2009 was 4.7 per cent, up 2.2 percentage points from a year earlier.^{ix} There were 455,000 job vacancies in the three months to April 2009, down 232,000 from a year earlier. The redundancy rate in the three months to March 2009 was 11.3 per 1,000 employees, up 6.9 from a year earlier. Redundancies have been particularly pronounced in the distribution, hotel and restaurant industry as well as in construction and in finance and business services.

The employment rate in the UK for people aged 50 to SPA was 71.7 per cent in the three months to March 2009, down 0.4 percentage points from a year earlier.^x The employment rate for people aged over SPA was 11.8 per cent in the three months to March 2009, up 0.2 percentage points from a year earlier. The unemployment rate for people aged 50 and over was 4.1 per cent in the three months to March 2009, up 1.3 percentage points from a year earlier. And the claimant count for people aged 50 and over increased by 91.6 per cent from April 2008 to April 2009.

Contribution of older workers

The Comprehensive Spending Review (CSR), published in autumn 2007, will shape the UK policy framework until 2010. The CSR renewed existing Public Service Agreement (PSA) targets that are of relevance to the 50 plus population. Key targets include:

- reaching an employment rate equivalent to 80 per cent of adults aged 16 to SPA;
- reducing the disparity between the employment rate of those aged 50-69 and the overall employment rate;
- reducing the number of adults receiving out-of-work benefits; and
- increasing the proportion of adults who are qualified to at least full level 2, which is equivalent to five good GCSEs.



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In 2006, there were more than 7.6 million workers aged over 50 in the UK. Age Concern estimates that they collectively contributed £290 billion to economic output (27 per cent of the total).^{xi} Age Concern also estimates that about 900,000 people over 50 are not in work and want to find jobs and that if they were all in work this would add around £29 billion to the economy.^{xii}

Calculations undertaken by Age Concern indicate that the government will not be able to meet its employment and skills targets unless there is increased focus on the over 50s. For example, to achieve an 80 per cent employment rate by 2020, Age Concern estimates that an extra three million people need to be in work and that around half of these people could come from the 50 plus population.^{xiii}

A report commissioned by the Prince's Initiative for Mature Enterprise (PRIME) estimates that the welfare costs associated with the 50 to SPA cohort amount to nearly £10 billion per annum. And that if 800,000 people aged over 50 returned to work, the savings would be more than £3 billion per annum.^{xiv}

In addition, a significant proportion of new businesses are created by people in their 40s and 50s. Older entrepreneurs account for 15 per cent of all business start ups in England and Wales. They are also responsible for 50 per cent more start ups than they were ten years ago.^{xv}

Economically inactive

Despite there being more over 50s in employment than 10 years ago, there are also more economically inactive over 50s than 10 years ago. This reflects the strength of the demographic changes taking place.

In the three months to March 2009, 2.3 million people aged 50 to SPA were economically inactive in the UK – 55 per cent were male and 45 per cent were female. There is wide regional variation in inactivity rates. In the three months to March 2009, the North East, West Midlands, Northern Ireland, London and Wales experienced the greatest inactivity rates for people aged 16 to SPA.^{xvi}

The largest group of economically inactive over 50s is those with poor health. Just under half of the 2.6 million people claiming incapacity benefits are aged over 50.^{xvii} Over 50s with low skills and caring responsibilities also make up a large proportion of those who are inactive. Around a half of inactive men aged 50 to SPA were previously employed in manufacturing and construction, while around a half of inactive women previously worked in health and social work and wholesale and retail businesses.^{xviii} One in five people in their 50s are informal carers. Around 400,000 carers aged 50 to SPA are economically inactive and one in three carers not currently in work say they'd like to return if the right alternative care was



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available.^{xix} There is also a sizeable number of people aged 50 to SPA who are affluent early retired.

Barriers and disincentives to work

Factors affecting the demand and supply of labour differ for subgroups of the inactive population. Different issues arise for the over 50s depending on their age, gender, ethnicity, health, socio-economic status and previous work experience.^{xx} Some of the barriers that the over 50s face are dispositional, while others are structural in nature. An overview of some of the key barriers and disincentives to work are detailed below.

Dispositional barriers

There are numerous classifications of older workers' motivations for and relationships with work. McNair (2006) distinguishes between choosers, jugglers and survivors, each of which face different barriers to staying in or finding work.^{xxi}

Choosers tend to be male, highly qualified, have high incomes and have professional managerial jobs. They retire by choice and are amenable to staying in work. However, they are discouraged by age discrimination in the workplace and the inflexibility of the older labour market. Low levels of autonomy mean that they chose to retire rather than deal with the constraints they face.

Jugglers tend to be women, have qualifications below degree level, work in intermediate occupations, have low incomes and work part time. Jugglers tend to have caring responsibilities, which causes many to withdraw early from the labour market. They are open to both voluntary and paid work.

Survivors tend to be male, have low or no qualifications, have routine or semi-routine jobs and have low incomes. They are most likely to leave work early through ill-health. Generally, survivors work out of financial necessity, have low motivation and are resistant to training.

Age discrimination, flexible working and the age pay gap

Evidence suggests that age discrimination exists in the UK workplace. For example, the *Recruitment Confidence Index*, produced by Cranfield School of Management, found that a quarter of respondents were aware of a policy or practice within their organisation that could be perceived as discriminating on the basis of age.^{xxii} Even when age positive employment policies do exist, they may not be implemented effectively and can be implemented differentially within the same organisation. Where policies do exist, they tend to be more



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effective in relation to retention than recruitment.^{xxiii} Overall, policies and practices in the public sector tend to be ahead of those in the private sector.^{xxiv}

The age pay gap and lack of flexible working opportunities can also act as a barrier. The mean gross hourly earning for all employees is £10.22, but for people aged over 60 is £8.95.^{xxv} And although 31 per cent of older workers say they planned to retire flexibly, only seven per cent say they were able to do so.^{xxvi}

Employment support

Employment support is not always as effective for the over 50s as for other age groups. Evidence suggests that the over 50s may need more assistance to move off incapacity benefits than younger people and that the type of provision available is not always appropriate for older clients.^{xxvii, xxviii} In particular, older clients with low skills say they would benefit from increased one-on-one support, career guidance and help with the job application process.^{xxix} Research commissioned by Age Concern has also found that employment advisers do not necessarily have the awareness, skills and confidence to provide personalised support suited to the needs of older clients.^{xxx}

National Default Retirement Age

In October 2006, the UK government brought into force The Employment Equality (Age) Regulations. The regulations implemented a November 2000 European directive outlawing age discrimination in employment and adult education (Directive 2000/78/EC establishing a general framework for equal treatment in employment and occupation).

Regulation 30 of the Employment Equality (Age) Regulations 2006 introduces a national default retirement age as an exception to the general principle of non-discrimination on grounds of age. The default retirement age means that it is lawful for employers to operate a mandatory retirement age of 65 or over, allowing them to terminate the employment of a member of staff on the grounds of age. The government intends to review the regulations in 2011.

A national default retirement age can create a barrier to opportunities for selection, promotion, training and job mobility for people in their late 50s and early 60s. A 'fixed' point at which individuals can be asked to retire, may influence employer decisions about their personal development and opportunities in the years leading up to it.

Improving employment prospects for the over 50s





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Improving employment prospects for the over 50s involves addressing the full range of barriers that they face, from dispositional to structural. Effective programmes tend to take a holistic approach and involve multi-agency collaboration.^{xxxii} The St Helens Workwise project provides one example that has helped the over 50s back into work. An overview of the project is provided below.

Workwise project

The Workwise project in St Helens was established in 2006. At that time, according to the National Index of Multiple Deprivation St Helens was the 36th most deprived borough in the country. St Helens faced a number of major economic issues. The rapid decline of the mining industry and glass manufacturing changes left the borough with many long-term residual problems in terms of skilled employment, long-term limiting health conditions and environmental deprivation. People aged 50-75 made up approximately 28 per cent of the population of the borough. Around 30 per cent of the population aged 16 to SPA was not in work and in several parts of the borough over 20 per cent of people aged 16 to SPA were claiming incapacity benefit.

The Workwise project in St Helens is an initiative that aims to identify, influence and promote work opportunities and options for people aged 50 and over through activities involving employers, stakeholders and the over 50s themselves. The initiative is delivered through a partnership between Age Concern Training and Age Concern St Helens and is supported by Abbey, one of the UK's personal financial services companies, which provided a grant of £100,000 for the project.^{xxxiii}

The project has five activity strands, each tailored to meet the needs of individuals and businesses:

- Engagement with and recruitment of employers and people aged 50 plus.
- Influencing and supporting employer non-ageist employment practice.
- Enhancing the over 50s' individual employability skills and assisting transition into employment opportunities.
- Supporting employment retention through aftercare mentoring and support.
- Research and evaluation of policy and strategy affecting employment options of the over 50s.

The Workwise delivery model was designed to encourage alliances with local people, employers and a range of delivery partners and stakeholders, ensuring the project complemented existing services and avoided duplication in its endeavour to address gaps in local provision. Employment support was based on a flexible, person-centred approach which enabled clients to select from a wide range of bespoke activities to identify and address their individual needs at a pace that best suited their requirements.



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Engagement with the over 50s was one of the biggest challenges that the project faced. It was pursued through a range of methods, including placing media adverts, outreach activity at local venues, developing partnerships with referral agencies, and through face-to-face engagement and distributing leaflets.

Key lessons from the project include:

- Multi-agency collaboration is essential to give full support packages and a joined up approach.
- A focus on employability rather than employment is important, enabling clients who are furthest away from the labour market to take small steps back to work.
- Mentoring is particularly popular and effective in helping individuals pre-employment and during their transition into work.
- Bespoke outreach activity is important for successfully reaching, engaging and attracting 'excluded' over 50s.
- A holistic approach to individual needs analysis and signposting helps attain sustainable employment solutions.
- Entrepreneurship is attractive to unemployed over 50s.
- Employers are more willing to become involved if the benefits to them are clearly spelled out and they are involved in project development.



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