

Live longer, work longer

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People are living longer, but what is a boon for individuals threatens to be a bane for societies. Unless OECD countries adapt their employment and social policies to demographic realities, they will face shrinking workforces and declining prosperity. The OECD has reviewed 21 countries' policies.

In OECD countries, less than 60% of people aged 50-64 have a job, on average. For prime-age people, between 25 and 49, the share in work is 75%. If nothing is done, there could be only one person employed for every retiree in European countries by 2050. As a result, the labour market could shrink by nearly 15% in the EU 15 over the next five decades. Japan faces an even more dramatic demographic challenge: the labour force could shrink by more than 30%. In contrast, the younger labour force of the United States is expected to continue to grow - albeit more slowly than in the past - through immigration and higher birth rates than in most other OECD countries.

The OECD's research shows that there are three key work disincentives or employment barriers facing older people:

First, social-protection systems, including old-age pensions, disability and unemployment benefits, often function in ways that encourage people to leave work before the official pension age. And it is often financially unrewarding to work beyond age 65. Some governments promoted early retirement in the past as a response to high and persistent unemployment in the mistaken belief that retiring older workers would encourage firms to offer more jobs to the young. For example, France has one of the highest rates of youth unemployment and one of the lowest effective retirement ages in the OECD.

Secondly, negative attitudes to older workers are still widespread, which is reflected in biased hiring and firing practices. Older workers are often thought of by employers as being less productive than the young. And rarely do they receive on-the-job training, so their skills can become obsolete. Some employers wrongly believe that older workers are not adaptable and are resistant to change. Ageism is also evident in the public employment service: older workers in several countries are exempt from job-search requirements and they are much less likely than the young to be covered by active labour-market policies.

Thirdly, working conditions are often ill-suited to the needs and capacities of older workers. Inflexible working patterns mean that many older workers face a stark choice between full-time work and full-time retirement. Older workers often cost more than younger workers in terms of either higher wages or higher non-wage labour costs, such as sickness or health insurance. In the face of overly strict employment protection rules, employers may also seek to encourage older workers to leave through early retirement schemes that are often publicly subsidised.

Policy responses

An effective approach has to address the full range of factors that are either pushing older workers out of work or pulling them into early retirement. Government has a key role in reducing the financial disincentives to carry on working by closing pathways to early retirement, raising the pension age, rewarding work at older ages and allowing flexibility in combining income from work and pensions so that the older worker is better off as a result.

Dismantling employer barriers to hiring and retaining older workers requires action by both government and the social partners. Some countries have sought to deal with negative employer attitudes through age discrimination legislation. Others have preferred to rely on public-information campaigns and guidelines. However, both approaches should be pursued. There also needs to be a better match between the costs of employing older workers and their productivity. And the appropriate balance needs to be found between protecting jobs of older workers and enhancing their labour mobility.

Tackling weak employability requires action on three fronts: skills, job search and better working conditions. The rewards for improved skills through training can be lower for older workers than they are for the young. It is crucial that lifelong learning policies encourage constant upgrading of skills over the working life. For these policies to be effective, workers of all ages must be subject to the same job-search requirements. Public employment services may need extra resources to provide tailored help to the over 50s. Improving occupational health and safety for workers of all ages will also assist future generations of older workers to remain in employment longer.