

## OECD THEMATIC FOLLOW-UP REVIEW OF POLICIES TO IMPROVE LABOUR MARKET PROSPECTS FOR OLDER WORKERS

### UNITED KINGDOM (situation mid-2012)

*In 2011, the employment rate for the population aged 50-64 in the United Kingdom was 0.5 percentage points **higher** than in 2005 and 3.7 percentage points **above** the OECD average. Further statistical information about the labour market situation for older workers in the United Kingdom is presented in the scoreboard in Table 1.*

A major multi-country OECD review of employment policies to address ageing took place during 2003-05 and was summarised in the OECD synthesis report *Live Longer, Work Longer*, published in 2006. That report put forward an agenda for reform, consisting of three broad areas where policy action was seen as necessary to encourage work at an older age:

- strengthening financial incentives to carry on working
- tackling employment barriers on the side of employers
- improving the employability of older workers

One of the main purposes of this follow-up review is to take stock of the progress OECD countries have made in implementing this reform agenda. In the third quarter of 2011, a questionnaire was sent to all member countries, seeking information on the measures and reforms carried out since 2006. For each of the 21 countries<sup>1</sup> that had participated in the original review, the questionnaire was adapted to refer to the OECD's specific policy recommendations in each corresponding country report.

The main actions taken in the United Kingdom since 2005 are described in this Note. A summary assessment of the extent to which the United Kingdom has followed the OECD's recommendations in the report *Ageing and Employment Policies: United Kingdom* is given in Table 2.

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<sup>1</sup> Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom, United States. For further information, see [www.oecd.org/els/employment/olderworkers](http://www.oecd.org/els/employment/olderworkers).

## **A. STRENGTHENING FINANCIAL INCENTIVES TO CARRY ON WORKING**

### **A.1. OECD recommendations to the United Kingdom in 2004 – action taken**

#### ***Reduce inflows to disability-related benefits***

The cross-government Health, Work and Well-being initiative is not aimed at a particular age group within the working-age population. Rather, it is designed to support all people of working-age to remain in or return to work following a health condition, or while managing a fluctuating and/or chronic condition. The programme is likely to be equally if not more relevant for older workers, as people are encouraged to work longer.

The Department for Work and Pensions (DWP) recognises the necessity for a co-ordinated approach to health and employment issues, involving employers, individuals and healthcare professionals. The DWP developed specific initiatives that target these groups:

- *Employers* – The specific focus is on providing small and medium-sized businesses with a greater capacity to deal effectively with health issues and sickness absence, through policies such as the national occupational health advice services.
- *Individuals* – The initiative aims at building local-level capacity to commission and deliver integrated services focused on supporting people to retain work when health issues arise. Policies here include the Fit for Work Service pilots and the Department of Health Improving Access to Psychological Therapies programme.
- *Healthcare professionals* – Policies such as the fit note and the programme of health and work training delivered by the Royal College of General Practitioners seek to engender cultural change within the healthcare professions. The goal is to ensure that sound back-to-work advice is embedded in good clinical practice in primary and secondary care.

Key outcomes from the Health, Work and Well-Being initiative so far include the following:

- The fit note helps doctors provide more useful advice to their patients about the effect of their condition on their fitness for work, and (where appropriate) about how a return to work could be facilitated. It also allows employers to take a much more active role in helping their employees back to work.
- Occupational health advice services provide employers and employees in small and medium-sized businesses with easy access to quality, professional, tailored advice on individual employee health issues, including mental health and well-being. An independent evaluation was published in March 2012.
- Multidisciplinary Fit for Work Service pilots provide intervention support for individuals in the early stages of sickness absence. The support brings together advisory services in areas such as healthcare, employment, skills, housing and debt. An independent evaluation was published in March 2012.
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Employment and Support Allowance (ESA) replaced Incapacity Benefit/Severe Disablement Allowance, as well as Income Support (IS) paid on grounds of incapacity, for new claimants in 2008. ESA is the principal state sickness benefit in the United Kingdom for persons unable to work because of either short-term or long-term illness. In the event of incapacity for work, and subject to fulfilling entitlement conditions, employed workers are paid Statutory Sick Pay (SSP) by their employers for the first 28 weeks of incapacity. Once entitlement to SSP has been exhausted, employees can transfer to ESA. Employees who do not qualify for SSP can claim ESA instead, from the onset of incapacity.

For either element of ESA, a claimant must have limited capability for work resulting from a health condition or disability, usually determined by both a medical certificate supplied by the claimant's doctor and (afterward) a Work Capability Assessment (WCA) conducted by a healthcare professional contracted by the government. The WCA should be completed within 13 weeks of the claim in order for the higher rates of benefit to be paid.

ESA has two phases: an assessment phase that lasts up to 13 weeks, and a main phase once limited capability for work has been established by meeting the WCA threshold. If the WCA confirms eligibility, the claimant will automatically move to the main phase of benefit.

The government has announced plans to reassess all claimants receiving incapacity benefits through the former system by 2014. This reassessment programme is a key part of the government's reform agenda for creating and delivering a 21<sup>st</sup> century welfare system by ensuring that those people who can work are given the correct help and support to do so. Full rollout of national reassessment began in 2011.

### ***Develop "activation" measures targeted at short-term and long-term incapacity benefit claimants***

The coalition agreement published in May 2010 stated the intention to end all existing welfare-to-work programmes and create a single welfare-to-work programme (the Work Programme) to help all unemployed people get back into work. As a result, the Pathways to Work contracts ceased in 2011; support for customers on incapacity benefits is now provided by Jobcentre Plus utilising the Get Britain Working measures; for those who need more intensive support, the Work Programme is available.

In 2011, Work-Related Activity regulations were introduced. These regulations mean that for the first time, advisers may (at their discretion) require ESA claimants in the Work-Related Activity Group to undertake work-related activity as a precondition for entitlement to the full amount of ESA. In addition, changes are under way to expand the range of Work-Related Activity requirements to include work experience and work placements, where appropriate. Subject to parliamentary approval, these changes are expected to be introduced late in 2012.

The mainstream provision of the Work Programme will be complemented by specialist disability employment programmes – including Work Choice (introduced in 2010), which will continue to provide support to those disabled people who face the most complex barriers to getting and keeping a job.

Everyone receiving ESA who could benefit from the Work Programme is able to access it at a time that is right for them. In England, people receiving incapacity benefits who have not yet been reassessed for ESA and people who receive Income Support are also eligible for the Work Programme. A final decision has yet to be made on the arrangements for these groups in Scotland and Wales.

Claimants who move from Incapacity Benefit on to Jobseeker's Allowance will access the Work Programme from three months into their claim, recognising the additional challenges that may be faced by jobseekers who have been away from the labour market a long time.

Core to the design of this programme is the idea that local delivery partners are best placed to identify ways of getting people back to work. Providers are given the freedom to design and implement effective services, free from over-prescription from central government. Providers have the opportunity to deliver the right support at the right time for an individual, based on their circumstances.

### ***Consider further adjustments to the eligibility ages for retirement-related benefits***

An increase to state pension age was legislated in Pensions Act 2011, which puts into law changes to the timetable for pension eligibility. From 2016, the state pension age for women will rise faster than originally planned, equalising with that for men at 65 in 2018. Between 2018 and 2020, the state pension ages for men and women will be increased from 65 to 66. The first women affected by the changed timetable will be those born on 6 April 1953. The first men affected by the proposals will be those born on 6 December 1953. In the Autumn Statement of 2011, the Chancellor announced the government's intention to bring forward the increase to 67 by 2028. In the 2012 Budget, the government further announced plans for a more automatic review of future state pension age changes, to ensure they keep pace with increases in longevity.

The upper age limit for Universal Credit<sup>2</sup> will be the qualifying age for state pension credit, which is currently linked to the state pensions age for women and is scheduled to be (as noted above) 65 for both men and women in 2018. In the Welfare Reform Act 2012, couples with one member above pension credit qualifying age and the other below will no longer be able to choose between claiming either pension credit or Universal Credit. They will only be able to claim Universal Credit: couples will not qualify for pension credit unless both members are above the pension credit qualifying age. Restricting access to pension credit in this way will help ensure that all people of working age receiving state support are actively engaged in the labour market, irrespective of the age of their partner. The member of the couple who has reached pension credit qualifying age will not be subject to further conditions for receiving Universal Credit. This change will not apply to existing pension credit customers.

### ***Ensure good governance of occupational and private pension schemes***

Since 2005, trustees and managers of occupational pension schemes are required to establish and operate adequate internal controls in relation to their scheme. Internal controls are systems, arrangements and procedures to help give trustees and managers reasonable assurance that their scheme is being run efficiently and effectively in accordance with the rules of the scheme and the law.

The Pensions Regulator has conducted a number of governance surveys broadly and on an annual basis since 2006. Key findings of the 2011 survey included the following:

- Schemes believed that their trustee boards are governing effectively overall, although small and defined contribution (DC) schemes are somewhat less confident about their governance.
- Tools provided by the regulator for trustee learning were considered important, and awareness of the regulator's record-keeping guidance has risen.
- Areas for improvement within schemes were trustee knowledge about DC scheme charges and their perceived value for money, and communications to members.

Beginning in 2012 the government will introduce a new obligation on employers to automatically enrol their eligible workers into a qualifying workplace pension scheme. This means that instead of choosing to join a workplace pension scheme, individuals will have to actively decide that pension saving is not for them and opt out. To increase the incentive to remain in a pension scheme there will be a mandatory employer contribution.

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<sup>2</sup> Universal Credit is a new single payment for people who are looking for work or on a low income. It will be launched in 2013 and will replace: income-based Jobseeker's Allowance; income-related Employment and Support Allowance; Income Support; Child Tax Credits; Working Tax Credits; and Housing Benefit.

The National Employment Savings Trust (NEST), a trust-based occupational pension scheme, has been introduced to support automatic enrolment. It will offer low-cost pension provision to individuals on low to moderate earnings and their employers. NEST must accept any employer who wishes to use it to meet their employer duty.

The UK government wants to ensure that the regulatory regime for pension provision is fit for purpose post-automatic enrolment. Work is ongoing in a number of areas to get the balance right between protecting member interests and reducing burdens for business. This includes efforts to improve pension transfers between DC schemes and determining what levers government can use to support low charges across DC schemes used for automatic enrolment. Simplification measures are in the pipeline.

A debt may occur when an employer ceases to participate in a defined benefit (DB) scheme. Employers' organisations have said that this can restrict employers' flexibility to restructure. A consultation on draft regulations that will provide greater flexibility ended in 2011 and new regulations have come into force as a result.

Following a recommendation from the Pensions Commission, legislation has been introduced to abolish contracting out in DC schemes. Abolition will help simplify the pension system and decisions about retirement savings. The UK government is working to ensure that scheme members, scheme providers, employers and trustees are made aware of the changes and the action required. Abolition of contracting out for DC schemes will take effect from 2012.

## **A.2. OECD recommendations to the United Kingdom in 2004 – no action taken**

### ***Develop programmes to help women remain in employment***

In view of the faster rise of the state pension age for women from 60 to 65, support programmes should be developed to help women remain in employment. In this respect, early intervention and prevention should be the key approach used. This will require helping younger women as well, *i.e.* the age group 50-60; otherwise it may be too late for intervention.

## **A.3. Other implemented measures unrelated to specific OECD recommendations**

### ***A Green Paper on State Pension reform***

The Green Paper *A State Pension for the 21<sup>st</sup> Century* was published in 2011. The government consulted on two alternative options for reform to deliver a simpler, fairer flat-rate pension to better support saving for retirement:

- Option 1: accelerated transition to a flat-rate two-tier pension by phasing out the earnings-related element of the state second pension more quickly than under current plans; or
- Option 2: radical reform to a single-tier flat-rate pension set above the basic level of the means test (estimated at around GBP 140 a week in 2010/11 earning terms).

Option 1 – An accelerated transition to a flat-rate state second pension (S2P) would involve the following:

- 30 qualifying years for full entitlement to the basic state pension
- 49/50 qualifying years maximum for state second pension (from 16 to 65/66)
- basic state pension value as now, uprated by triple guarantee
- state second pension GBP 1.60 a week for each qualifying year (in 2010/11 earnings terms), revalued by earnings until state pension age and uprated by Consumer Price Index in payment (as now)
- earnings-related component to be withdrawn more quickly than under Pensions Act 2007, over period 2013-20.

Option 2 – A single-tier pension above the pension credit standard minimum guarantee would involve the following:

- everyone with 30 years of contributions or credits reaching state pension age would receive a weekly flat-rate payment set at a level above the pension credit standard minimum guarantee
- everyone would qualify individually – whether single, married, divorced or widowed, with no special rules for marriage, bereavement or divorce
- for the self-employed as well as employees (subject to National Insurance considerations)
- uprated by the higher of earnings, prices, or 2.5%
- minimum qualification of seven years of National Insurance contributions or credits.

The consultation indicated broad support in principle for the single-tier option (from around three-quarters of organisations responding). In Budget 2012 the Chancellor confirmed that the government will introduce a single-tier pension for future pensioners, set above the basic level of the means test. The reforms will be introduced early in the next Parliament. The government will set out further details in a white paper later this year.

## **B. TACKLING EMPLOYMENT BARRIERS ON THE SIDE OF EMPLOYERS**

### **B.1. OECD recommendations to the United Kingdom in 2004 – action taken**

#### *Move ahead with implementing anti-age discrimination legislation*

In 2000, a new European Employment Directive (2000/78/EC) introduced three new equality strands: sexual orientation, religion or belief, and age. These were transposed into UK law by way of three separate pieces of legislation. Of those, the age regulations were introduced in 2006. These regulations made discrimination in the workplace on the grounds of age generally unlawful. An age-based approach in respect of other employment practices will be lawful only if the employer can satisfy the stiff test of objective justification.

The default retirement age (DRA) was removed from legislation in April 2011. Employers can no longer force employees to retire simply because they have reached the arbitrary age limit of 65 – most people can now retire at a time that is right for them.

The DRA now removed, employers can only set retirement ages where doing so can be objectively justified in their particular circumstances, but their action is open to challenge at tribunal. Justification must meet the principle that the discriminatory effect of the policy is a proportionate means of meeting a legitimate aim. Legitimate aims can include economic factors, such as the needs and efficiency of running a business, and the particular training requirements of a job.

#### *Continue to promote age diversity in employment*

Older workers' employment differs markedly across the main business sectors. This arises from traditional approaches to recruitment, working practices, culture and assumptions about training, health and performance. The Age Positive Initiative is designed to maximise the impact of removing the default retirement age (DRA); it works in partnership with leading business organisations to drive forward sustained change in employer practices towards increasing the employment and retention of older workers. It is supporting the development of employer guidance on:

- operating without the default retirement age (DRA)
- flexible working and phased retirement
- the sector business case for employing older workers.

The initiative has secured the active commitment of over 80 leading business organisations in the largest nine sectors – manufacturing, transport, construction, health and social care, retail, hospitality, local authorities, education and financial services. The specific actions being undertaken vary by sector and stakeholder; each sector as well as stakeholder is using its usual channels of influence to get information and help to employers.

### ***Promote a better and more flexible environment***

One of the main factors influencing the decision to stay in work was family and caring pressures; the government therefore focussed on the “right to request flexible working” for parents and carers in 2002, 2003 and 2009.

The government has committed to extending the right to request flexible working to all employees. The proposals were published in the Modern Workplaces Consultation on 16 May 2011. The consultation period ran for 12 weeks and closed on 8 August 2011. The government response will be published in the summer 2012 and the extension will be introduced by 2014. The government believes that by extending the right to request flexible working to all employees, the benefits of flexible working will spread to all parts of society and the economy. Business will be able to benefit by keeping skilled and experienced staff, which will maintain quality and contain costs while increasing the commitment and loyalty of staff members.

## **C. IMPROVING THE EMPLOYABILITY OF OLDER WORKERS**

### **C.1. OECD recommendations to the United Kingdom in 2004 – action taken**

#### ***Improve co-ordination in skill delivery and strengthen the provision of career guidance for older adults***

The Skills Funding Agency, Jobcentre Plus, the Department of Business Innovation and Skills, and the Department for Work and Pensions developed a joint strategic position including governance arrangements. These were submitted to Joint Operations Group and were approved in 2011.

The work experience programme is one of a series of Get Britain Working measures, and is part of the Jobcentre Plus flexible menu of support to help claimants seek and obtain employment prior to their eligibility for referral to the Work Programme.

#### ***Consider extending the scope of Experience Works***

The work experience programme was launched in 2011 for Jobseeker’s Allowance (JSA) claimants aged 18-24 who have been on benefit for 13 weeks. The government recognised that for some older claimants, a lack of recent work experience can be a significant barrier to finding employment. On this basis, work experience eligibility has been broadened to JSA claimants aged 25 or over who have little or no recent work history. The change allows discretion for advisers to refer JSA claimants older than 24 to work experience. In assessing suitability, advisers will take into account the claimant’s career history.

#### ***Promote self-employment among older people as viable alternative to carry on working***

The government has made it clear that more needs to be done to encourage and help unemployed people of all ages to see self-employment as a viable route off benefits and into financial independence. That is why it has introduced the New Enterprise Allowance (NEA) and supported the development of Enterprise Clubs from 2011.

NEA helps unemployed people who want to start their own business. It is available to people aged 18 and over who have been claiming JSA for three months or more, until they are required to enter the Work Programme. It provides access to business mentoring at 13 weeks and offers financial support at 26 weeks.

Enterprise Clubs are a United Kingdom-wide initiative to support unemployed people interested in becoming self-employed or starting their own business by helping them make the most of local knowledge and resources.

In addition, from day one of a person's JSA claim, Jobcentre Plus advisers are involved in promoting the benefits of self-employment and directing unemployed people interested in self-employment to available sources of local advice and support. This includes support available through the businesslink.gov website in England, Business Gateway in Scotland, and the Welsh Assembly Government in Wales.

## **C.2. OECD recommendations to the United Kingdom in 2004 – no action taken**

### ***Improve delivery and take-up of the New Deal 50 plus programme***

The programme has been replaced by the Work Programme.

### ***Consider extending the scope of Experience Works***

The programme has been replaced by the Work Programme.

### ***Consider targeting an element of the Employer Training Pilots (ETP) to older workers***

The provision no longer exists. Claimants have access to the Jobcentre Plus offers and the Work Programme.

### ***Make the Work-Based Learning for Adults (WBLA) programme available immediately to older jobseekers most in need of help and have it offered through Jobcentre Plus***

The provision no longer exists. Claimants have access to the Jobcentre Plus offers and the Work Programme.

Table 1. Older workers scoreboard, 2001, 2005 and 2011

	United Kingdom			OECD <sup>h</sup>		
	2001	2005	2011	2001	2005	2011
<b>Employment</b>						
-- Employment rate, 50-64 (% of the age group)	62.0	64.5	65.0	55.6	58.4	61.2
<i>of which</i> 50-54	77.3	79.4	79.7	71.8	73.7	76.1
55-59	64.7	68.6	69.8	55.9	59.9	64.8
60-64	37.5	41.7	44.4	32.5	35.6	40.0
-- Employment rate, 55-64 (% of the age group)	52.1	56.7	56.8	44.9	49.0	52.9
-- Employment rate, 65-69 (% of the age group)	10.6	14.4	19.6	15.2	16.5	18.5
<b>Job quality</b>						
-- Incidence of part-time work, 55-64 (% of total employment)	29.0	28.3	29.1	17.2	17.2	18.7
-- Incidence of temporary work, 55-64 (% employees)	6.6	5.4	5.1	9.0	9.1	9.1
-- Full-time <sup>a</sup> earnings, 55-59 relative to 25-29 (ratio)	1.16	1.19	1.28	1.32	1.33	1.34
<b>Dynamics</b>						
-- Retention rate <sup>b</sup> , after 60 (% of employees <i>t-5</i> )	40.9	42.0	44.1	37.8	40.4	42.2
-- Hiring rate <sup>c</sup> , 55-64 (% of employees <i>t-1</i> )	8.4	9.2	5.5	7.8	9.2	8.5
-- Effective labour force exit age <sup>d</sup> (years) Men	62.7	63.3	63.6	63.1	63.3	63.9
Women	60.8	61.4	62.3	61.1	62.0	62.8
<b>Unemployment</b>						
-- Unemployment rate, 55-64 (% of the labour force)	3.3	2.6	4.8	4.6	4.8	5.8
-- Incidence of long-term <sup>e</sup> unemployment, 55+ (% of total unemployment)	42.8	38.6	42.3	46.8	47.7	45.9
<b>Employability</b>						
-- Share of 55-64 with tertiary education <sup>f</sup> (% of the age group)	18.8	23.9	30.0	15.9	19.9	22.9
-- Participation in training <sup>g</sup> , 55-64						
Absolute (% of all employed in the age group)	15.0	23.7	11.6	6.6	8.2	9.4
Relative to employed persons aged 25-54 (ratio)	0.60	0.75	0.66	0.44	0.52	0.57

-- unavailable.

a) Mean gross hourly earnings, 2000, 2005 and 2010.

b) All employees currently aged 60-64 with tenure of five years or more as a percentage of all employees aged 55-59 5-years previously, 2000, 2005 and 2010.

c) Percentage of employees aged 55-64 with a job tenure of less than one year, 2000, 2005 and 2010.

d) 2001, 2005 and 2011. Effective exit age over the five-year periods 1996-2001, 2000-2005 and 2006-2011. The effective exit age (also called the effective age of retirement) is calculated as a weighted average of the exit ages of each five-year age cohort, starting with the cohort aged 40-44 at the first date, using absolute changes in the labour force participation rate of each cohort as weights.

e) Unemployed for more than one year.

f) 2000, 2005, 2010.

g) Job-related training during the last month.

h) Unweighted averages for 34 OECD countries.

Source: OECD estimations from national labour force surveys and OECD Education database.

[www.oecd.org/els/employment/olderworkers](http://www.oecd.org/els/employment/olderworkers)

Table 2. Ageing and employment policies: United Kingdom (situation mid-2012)

OECD's recommendations to the United Kingdom in 2004	Action taken
<b>A. Strengthening financial incentives to carry on working</b>	
<i>Reduce inflows to disability-related benefits</i>	++
<i>Develop "activation" measures targeted at short-term and long-term incapacity benefit claimants</i>	++
<i>Develop programmes to help women remain in employment</i>	/
<i>Consider further adjustments to the eligibility ages for retirement-related benefits</i>	+
<i>Ensure good governance of occupational and private pension schemes</i>	+
<b>B. Tackling employment barriers on the side of employers</b>	
<i>Move ahead with implementing anti-age discrimination legislation</i>	+
<i>Continue to promote age diversity in employment</i>	+
<i>Promote a better and more flexible environment</i>	+
<b>C. Improving the employability of older workers</b>	
<i>Improve delivery and take-up of the New Deal 50 plus programme</i>	/
<i>Improve co-ordination in skill delivery and strengthen the provision of career guidance for older adults</i>	+
<i>Consider extending the scope of Experience Works</i>	/
<i>Consider targeting an element of the Employer Training Pilots (ETP) to older workers</i>	/
<i>Make the Work-Based Learning for Adults (WBLA) programme available immediately to older jobseekers most in need of help and have it offered through Jobcentre Plus</i>	/
<i>Promote self-employment among older people as a viable alternative to carry on Working</i>	+
<p>Notes</p> <p>/ = no (relevant) action taken; + = some action taken, but more could be done; ? = some action taken, but could have negative impact and requires further assessment; ++ = substantial action has been taken.</p> <p>Source: OECD (2004), <i>Ageing and Employment Policies: United Kingdom</i> and answers to the follow-up questionnaire from the United Kingdom.</p>	