
Executive Summary

In the face of population ageing, a new agenda for reform is urgently required to improve job prospects of older workers

Population ageing is one of the most important challenges facing OECD countries. Over the next 50 years, all OECD countries will experience a steep increase in the share of elderly persons in the population and a large decline in the share of the population of prime working-age (Chapter 1). Consequently, in most countries, the number of workers retiring each year will increase sharply and eventually exceed the number of new labour market entrants. If there is no change in work and retirement patterns, the ratio of older inactive persons per worker will almost double from around 38% in the OECD area in 2000 to just over 70% in 2050. In Europe, this ratio could rise to almost one older inactive person for every worker over the same period.

Ageing on this scale would place substantial pressures on public finances and reduce growth in living standards. For instance, on the basis of unchanged participation patterns and productivity growth, the growth of GDP per capita in the OECD area would decline to around 1.7 % per year over the next three decades, about 30% less than its rate between 1970 and 2000.

It is sometimes argued that these negative consequences of ageing could be offset by policies to encourage greater immigration, higher fertility or faster productivity growth. While these developments would all help offset the negative effects, they need to go hand-in-hand with attempts to mobilise all available labour reserves in order to sustain economic growth. One of the most significant sources of additional labour supply is older people who are currently inactive. Hence this report focuses on policies to improve the employment prospects of older workers, drawing on the lessons learned from 21 country reviews.

The report makes the case for a new agenda of reform which would not only help offset the negative potential effects of population ageing on public budgets and economic growth, but would also promote choice for older workers. More fundamentally, this new reform agenda is intended to convert the process of population and workforce ageing into an opportunity for society and older workers themselves.

Less than 60% of those aged 50-64 have a job, reflecting early exit from the labour market ...

There is substantial scope for promoting employment of older workers, although the situation varies across countries (Chapter 2). In 2004, less than 60% of the population

aged 50-64 had a job, on average in the OECD, compared with 76% for the age group 24-49. The figure varies from less than 50% in certain countries to more than 70% in others. There are numerous work disincentives and employment barriers facing older workers (Chapter 3) which often result in early exit from the labour market. It is indeed remarkable that, despite sustained increases in longevity, the effective age at which workers retire has tended to follow a downward trend in virtually all OECD countries, at least until recently. Thus, the number of years that workers can expect to spend in retirement has risen considerably – for men, from less than 11 years on average across the OECD in 1970 to just under 18 years in 2004 and, for women, from less than 14 years to just under 23 years.

The main pathways for exiting early from the labour market differ across countries. In some countries, this occurs mainly through provisions in the pension system or through formal early retirement schemes. In other countries, it is through disability and other welfare benefits. In all countries, early exit from the labour market tends to be a one-way street, with very few older workers returning to employment – in general, fewer than 5% of those inactive aged 50-64 are in jobs one year later.

... difficulties for older workers to keep their jobs...

Older workers also face a number of difficulties keeping their jobs. On the side of employers, these factors include: negative perceptions about the capacities of older workers to adapt to technological and organisational change; wages and non-wage labour costs that rise more steeply with age than productivity; and the difficulties firms may face in adjusting employment as a result of employment protection rules.

On the side of older workers themselves, they may experience a depreciation of their human capital. At the same time, they may also not get much help to upgrade their skills and may not be very motivated to take up available opportunities for training. Indeed, the incidence of training in all of the review countries declines with age, which partly reflects shorter expected pay-back periods on investments in the training of older workers as well as their lower average educational attainment.

Ill-health and difficult working conditions may also play a role – several studies report that blue-collar workers and less-qualified workers are more likely to retire earlier than white-collar workers and more highly-qualified workers. Constraints on changing working hours may also be “pushing” workers into retirement; in several countries, more than 20% of older male workers report working more than 50 hours a week.

... and poor job prospects for older job seekers

Moreover, older workers who lose their job often face considerable difficulties finding a new job and large potential wage losses. On average across the OECD, the hiring rate of workers aged 50 and over was less than half the rate for workers aged 25-49. The low re-employment rates among older job seekers partly reflect employer reluctance to hire older workers. But the weakness of job-search requirements or the limited support provided by the public employment service also contribute. Indeed, reflecting the strong focus on tackling high youth unemployment, older job seekers are under-represented in active labour market programmes in nearly all of the review countries.

The strategy requires getting financial incentives right ...

Given the range of factors that prevent older people from carrying on working, pension reform alone will not be sufficient to promote employment opportunities of older workers. Nevertheless, financial incentives embedded in pension systems and other welfare benefits play an important role in work-retirement decisions and it is essential that older people do not face a large implicit tax if they chose to continue to work.

Almost all review countries have been carrying out reforms to tackle work disincentives and increase flexibility in work-retirement decisions (Chapter 4). A number of common elements to these reforms include reductions of pension replacement rates, increasing the official and earliest ages of retirement, and introducing or changing actuarial adjustments in pension benefits for early and late retirement.

But there are also some notable country differences in reform strategies. Some countries are in favour of a *neutral* framework which makes it possible to claim a pension at a relatively young age (but with the appropriate downward benefit adjustment) and to reward later retirement through an upward benefit adjustment. Other countries prefer to reduce the possibilities for taking up a pension before the official retirement age, even with a reduced benefit. This means bringing the minimum retirement age as close as possible to the official retirement age – on the grounds that individuals need to be guided in their choice. There are also important differences with respect to the treatment of workers who have been in arduous jobs or who started work at a young age.

The extent to which these reforms will effectively change retirement behaviour depends on a range of factors. First, in many instances, reforms are only being phased in over a very long transition period. Second, the speed of demographic change is such that it may necessitate further reform in the near future. In this respect, some countries have carried out major pension reforms to switch to a system that is based on notional defined-contributions with adjustments to benefits in line with increases in life expectancy – thus making the system endogenous to demographic change. Third, the parameters used to adjust pension benefits in the event of early or later retirement vary considerably across countries – though in most cases they are believed to be “neutral”. It is therefore likely that the pension systems of certain countries continue to be biased in favour of retirement, instead of work. More generally, it is difficult to find the appropriate balance between encouraging later retirement and increasing flexibility in work-retirement choices. For example, partial pensions have been introduced in several countries (and subsequently abandoned in some) but, if reductions in working time are heavily subsidised, there is a risk that they could involve reductions rather than increases in effective labour supply of older workers.

The country reviews also show that, at the same time as reforms are being made to the pension system or early retirement schemes are eliminated, it is also essential to ensure that *unemployment, disability and other welfare benefits* are not used as alternative pathways to early exit from the labour market. These welfare programmes should be used for their original purpose and not to facilitate early retirement for those still able to work. This is an increasingly difficult task. Indeed, as early retirement through the main pension system becomes less attractive, there is growing pressure to use these pathways instead. But, as the experience of disability benefit reform in some countries shows, it can be done.

... changing employment practices ...

Employers are key stakeholders in the new agenda for reform as they play a crucial role in shaping the employment prospects of older workers (Chapter 5). To counter negative employer attitudes, countries have introduced age-discrimination legislation or information campaigns. Both approaches should be pursued, but with an emphasis on the benefits of age diversity in the workplace in order to avoid stigmatising older workers.

As part of these initiatives, it is time to question the practice of *mandatory retirement* in firms. While in the past it may have been part of an efficient arrangement to encourage greater work effort by workers, mandatory retirement is incompatible with a general policy thrust towards removing age barriers to employment and to offering greater choice to workers over the work-retirement decision. In any case, it may not be sustainable as workforces age.

Countries have also been taking action to tackle the more objective factors which are preventing employers from hiring and retaining older workers. The importance of *seniority* in wage-setting has diminished significantly over time in many countries or is being gradually eroded. A number of countries have introduced wage subsidies to reduce the cost of employing older workers. To be effective, however, these subsidies need to be well targeted (age alone is not a valid target). Moreover, countries need to look closely at whether it is more appropriate to give wage subsidies to employers or to older workers themselves in the form of an earnings top-up.

Special *employment protection* rules to protect employment of older workers can be counterproductive. Policies that penalise firms for laying-off older workers can have a negative impact on reducing hiring rates of older workers or may lead to substitution between workers of different ages. Firms may also seek to avoid these penalties through various early retirement arrangements and schemes. Ultimately, the best form of employment protection for older workers is to improve their employability and increase the range of job opportunities more generally.

... promoting employability of older workers ...

As larger cohorts of workers move into the older age groups, it will become increasingly important to ensure that older workers have up-to-date skills, good access to employment services and better working conditions (Chapter 6).

This is a challenging task. It has proved particularly difficult to reduce inequalities in training participation by age and skill. Three approaches need to be pursued together. First, there should be increased investment in *lifelong learning at mid-career*. Second, the attractiveness of training and its potential returns for older workers can be improved by *adapting teaching methods and content to their needs*, by the provision of short, modular courses and through the recognition of prior learning and experience. Third, *promoting later retirement will itself encourage greater investment in training of older workers* by raising the potential return on this investment through longer expected pay-off times.

Providing greater employment assistance to older people has not always been a priority for *private and public employment agencies*. But this is beginning to change. Some countries have introduced dedicated programmes for older workers. Other countries have been experimenting with a range of pilot projects to determine what works best for older workers and job seekers. Another approach has been to give special incentives for

private employment agencies to place older job seekers in jobs. One issue that is likely to become increasingly important is to develop measures for targeting and encouraging older inactive people, including those who are not on any form of income support, to move (back) into the workforce. There is also an increasing need to help older workers be better prepared for greater job mobility at the end of their careers. These transitions may require greater resources being devoted to public and private employment agencies to provide career counselling, job-search assistance and, if necessary, help for older people to set up their own business.

Improving *working conditions* for older workers is the other key area where countries have begun to take measures. Facilitating access to part-time jobs and developing flexible work arrangements are ways to give older workers greater choice and smooth work-retirement transitions. Information campaigns and the dissemination of good practice regarding working conditions at the workplace have also been undertaken in some countries. These efforts should be placed within a more global strategy to improve workplace safety and health and to improve the quality of jobs more generally. And unions and employers need to be involved in this task.

*... and removing resistance to reform
by challenging a number of myths*

It is important to dispel a number of myths in this area, as these may be hampering reform efforts and the adoption of age-friendly employment practices. For example, the claim that fewer jobs for older workers results in more jobs for younger workers, though unfounded, is proving especially stubborn.

There is also scepticism regarding the ability and willingness of older workers to stay in the labour market. Thus, some argue that working capacity systematically deteriorates with age. However, many studies of employers and older workers cited in the country reviews show that older and younger workers each have relative strengths and weaknesses and that they can contribute to the workforce. Likewise, there is little evidence to support the assertion that work intensification in existing jobs is exerting pressure to retire early, or that older workers are just “too tired” to carry on working. Many older workers are in fact capable and willing to carry on working if given more flexible working-time options and suitable opportunities to change jobs.

Finally, there is concern that reforms will be forcing older workers to continue working and will de facto result in major cuts in pension and other welfare benefits. Instead, it is past arrangements that have given workers little choice about when to retire. More fundamentally, it is the lack of reforms which will threaten the sustainability of public budgets, eventually forcing a drastic downsizing in social protection.

Taking the agenda forward

The recommendations for each of the 21 countries that were reviewed shows that more needs to be done to remove age-barriers to employment and to encourage greater participation after the age of 50. This will mean taking well co-ordinated action on many fronts (Chapter 7). Thus, some countries have found it useful to undertake these reforms as part of a broader strategy for responding to the challenges of population ageing. More generally, strong macroeconomic conditions, well-functioning labour markets and policies to encourage greater labour force attachment over the lifecycle are especially important for underpinning higher participation rates among older people.

From challenges to opportunities

The bottom line is that population ageing is both a challenge and an opportunity. It will put upward pressure on public expenditures while dragging down economic growth. But it is also a tremendous opportunity for all of us to spend more rewarding years at work and in retirement. Seizing this opportunity will require the co-operation of government, employers, trade unions and civil society to adopt and implement a new agenda of age-friendly employment policies and practices.