

OECD says older Australians must be encouraged to extend their working lives

Older Australians must be encouraged to work longer, according to a new OECD report. The OECD projects that unless there is a substantial increase in labour force participation, especially among older people, Australia's labour force will remain broadly stagnant over the next 50 years (Figure 1), while the proportion of the population in retirement will increase significantly. This could lead to rising labour shortages, a pronounced slowdown in economic growth and worsening public finances.

As part of its series of country reports on *Ageing and Employment Policies*, the OECD published its report on Australia on 21 June. The OECD's report contains a survey of the main barriers to employment facing older workers, an assessment of the adequacy and effectiveness of existing measures to overcome these barriers and policy recommendations for further action by the Australian government, employers, trade unions and older workers themselves.

Main findings of the report

The OECD's report acknowledges that, compared with many other OECD countries, Australia has been far from complacent in addressing the barriers to employment faced by older workers. A number of disincentives to continue working that were embedded in the social security system, such as the Mature Age Allowance, have been eliminated. Age discrimination legislation has been introduced at the Federal, State and Territory levels. In addition, opportunities for training for older people have been improved through the expansion of the TAFE system, as well as through several training initiatives for older job seekers.

Despite these measures and the sustained strong performance of the Australian economy, the OECD argues that there is still considerable scope to improve employment opportunities for older Australians. The proportion of people aged between 50 and 64 participating in the labour market is much lower in Australia than in a number of other OECD countries such as Japan, New Zealand, Sweden and the United States (Figure 2). The OECD points out that many older Australians withdraw from the labour market well before reaching the official retirement age (Figure 3). The long-term trend decline in participation rates for older men needs to be reversed but there is scope to increase the participation rate of older women too, despite a strong rise in their participation over the past 25 years.

Recommendations for reform

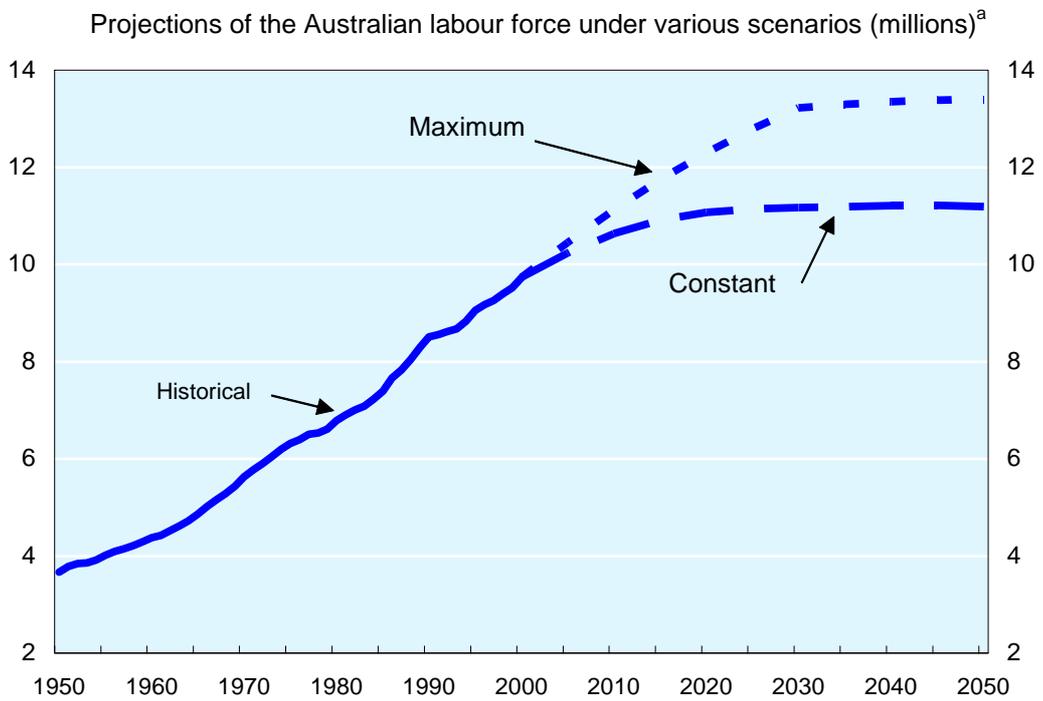
To remove the barriers that many older workers face to carry on working, the OECD calls on the Australian authorities to adopt a co-ordinated and comprehensive package of measures, including:

- *Facilitate later retirement while removing incentives to early retirement.* The OECD argues that the income test for an Age Pension could have adverse effects on incentives to work once eligible for the pension. Therefore, it suggests that penalties for combining a pension with income from work should be reduced. It argues further that the possibility to draw superannuation benefits as a lump-sum may lead to an increase in early retirement once the scheme becomes fully matured and should therefore be limited or at least subject to less generous taxation rules.

- *Take further steps to prevent disability benefits being used as a pathway to early retirement:* According to the OECD, the share of older Australians (especially men) obtaining a disability benefit is high relative to many other OECD countries. The report therefore recommends that disability benefits should be tied more closely to a substantial reduction in work capacity as well as expanding rehabilitation measures for (older) people applying for a disability support pension. Moreover, it suggests that the government should consider broadening the eligibility for the Workplace Modifications Scheme to cover more fully incumbent workers with special needs or injuries.
- *Enhance the effectiveness of age discrimination legislation:* Although Australia has already implemented age discrimination legislation at Federal, State and Territory levels, the effectiveness of this legislation is not clear. The OECD therefore urges the government to increase public awareness about their rights and responsibilities under existing legislation and to consider raising the penalty for engaging in age discrimination.
- *Strengthen older workers' employability:* The OECD argues that training opportunities for older low-skilled and non-regular workers need to be improved. However, for this to be effective, it is important to also address the lack of motivation among these groups to participate in training. It also suggests that the federal government should consider extending job-search assistance to unemployed or inactive persons with no income support but who want to work. At the same time, job-search requirements for older job seekers should be strengthened and aligned with those in other age groups while ensuring that assistance to older job seekers is better targeted.

For further comment, journalists are invited to contact the head of the OECD's Thematic Review of Ageing and Employment Policies, [Mark Keese](#) ([33] 1 45 24 87 94), or the report's author [Patrik Andersson](#) ([33] 1 45 24 88 51).

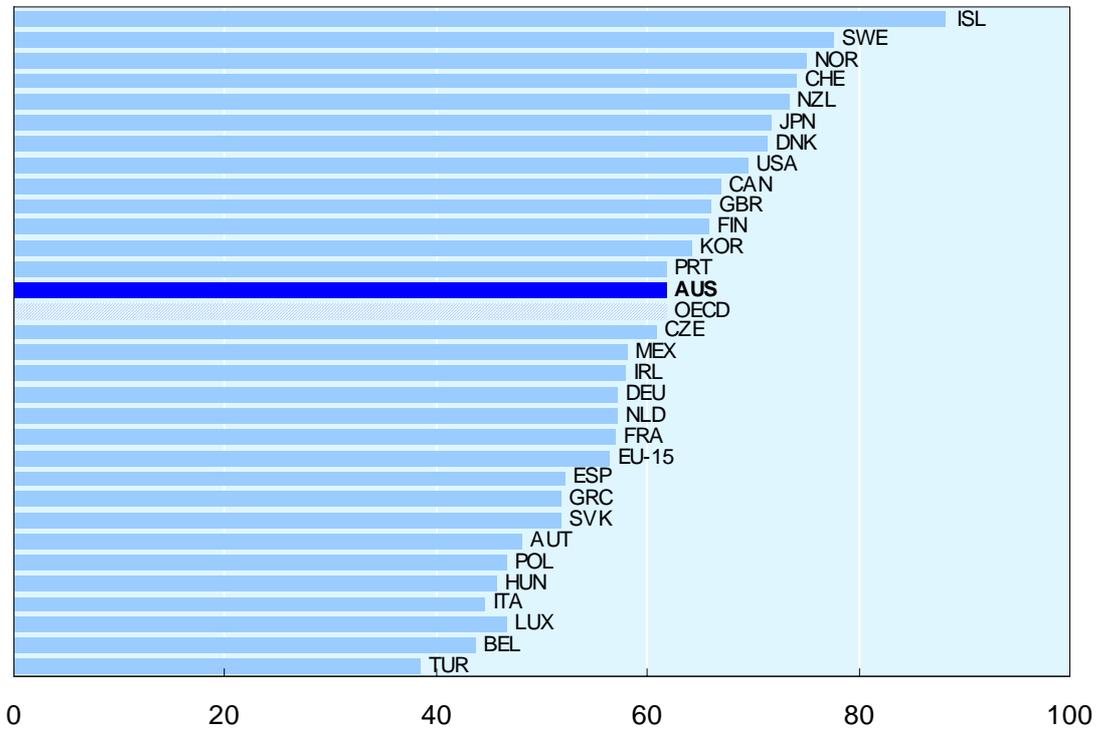
Figure 1. **If nothing is done, the Australian labour force will stop growing**



a) The constant scenario assumes that current participation rates by five-year age group and gender remain constant over the period to 2050. The maximum scenario applies the maximum participation rates (for older workers 50 and above) in the OECD area by five-year age group and gender from 2030 to 2050, with a gradual adjustment over the period 2000-2030 to reach these maximum rates.
Source: OECD, *Ageing and Employment Policies: Australia*.

Figure 2. **There is much room for raising labour market participation of older Australians**

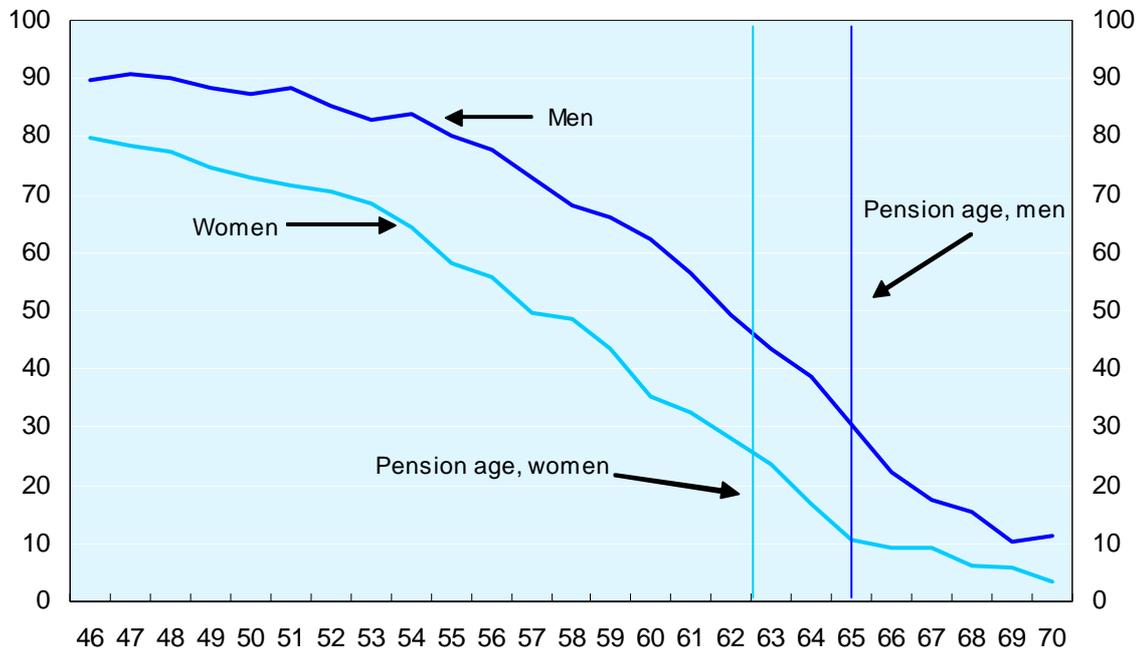
Proportion of the older population aged 50-64 in the labour force, 2003 (%)



Source: OECD, Labour Force Statistics.

Figure 3. **Australians leave employment well before pension age**

Labour force participation by single year of age in Australia, 2003 (%)



Source: OECD estimates based on unpublished data from the Australian Bureau of Statistics, Labour Force Survey.