

**MUTUAL LEARNING PROGRAMME:
PEER COUNTRY COMMENTS PAPER - UNITED KINGDOM**

Extending working life: market pressures or policy initiatives?

Peer Review on “Activation of the elderly: increasing participation, enforcing employability and working age until the age of 67”

The Netherlands, 31 May- 1 June 2010

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5th May 2010



This publication is supported under the European Community Programme for Employment and Social Solidarity (2007-2013). This programme is managed by the Directorate-General for Employment, Social Affairs and Equal Opportunities of the European Commission. It was established to financially support the implementation of the objectives of the European Union in the employment and social affairs area, as set out in the Social Agenda, and thereby contribute to the achievement of the Lisbon Strategy goals in these fields.

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1 LABOUR MARKET SITUATION IN THE PEER COUNTRY

This paper has been prepared for a Peer Review within the framework of the Mutual Learning Programme. It provides information on the United Kingdom's comments on the policy example of the Host Country for the Peer Review. For information on the policy example, please refer to the Host Country Discussion Paper.

From the mid 1990s to 2008, the UK economy went through an unprecedentedly long period of economic growth. This raised labour market participation rates; reduced long term unemployment; drew in large numbers of migrants from the new Member States (following the expansion of the EU); and raised labour market participation among older people, reversing the trend to earlier retirement of the late 20th century.

The growth was heavily concentrated in the service sector, and especially in financial services, which made the UK economy particularly vulnerable to the banking crisis of 2008, which tipped the UK into recession. Although growth returned in late 2009, it remains weak. Nevertheless, the UK Commission for Employment and Skills' projections for the next decade show expanding demand for professionals, managers and health and social care workers, and a net decline in skilled trades, elementary occupations and administrative roles. Furthermore, the retirement of the 'baby boom' generation will produce a shortfall of some 5 million people of 'working age' by 2017, leading to growing demand even in sectors and occupations where net labour demand is shrinking¹ (UKCES 2009).

By comparison with EU27, the UK has very high employment rates for people over 50 (the 3rd highest for people aged 55-64, and 6th highest for people aged 65-69). The over 50s are particularly relevant to the Government's aim of preventing and tackling long-term unemployment and inactivity, since 2.3 million people aged 50 to State Pension Age (SPA)² are currently inactive not seeking work, with over 1 million of these on health related benefits (the UK's rate of inactivity due to illness and disability is nearly three times the level of EU15 and EU27). However, to date, the recession has impacted less on older people than younger ones. The number employed over 50 has continued to rise, especially among women, partly as a result of demography, and the 65+ employment rate has actually risen. Since 1997 the number of people aged 50-69 in employment has risen from 49% in 1997 to 56% in 2009, with approximately 1.4 million people now working past SPA. Research suggests that half of people retiring aged 50 – 69 would have been interested in working longer if they could have accessed part-time or flexible working³.

Despite different SPAs for men and women, retirement ages have been converging around 62-64. The level of pension depends on years of "National Insurance" contributions, although pensions are paid from general taxation, and there is no distinct "fund". In response to the EU Employment Directive of 2000, legislation was introduced in 2006 to outlaw age discrimination. Among other things, this made it illegal to compel anyone (male or female) to retire before 65 (this 'Default Retirement Age' is currently under review). Despite the legislation, age remains the most common source of complaint about unfair discrimination at work.

¹ UK Commission for Employment and Skills (2010) *Skills for Jobs: Today and Tomorrow*

² There is no official "retirement age", but entitlement to a state pension currently begins at 60 for women and 65 for men. Government intends to raise SPA for women progressively to 65, and then raise both to 68 by 2046.

³ McNair, S et al 2004 *Changing Work in Later Life*; Equal Opportunities Commission 2005 *Older Workers and Options for Flexible Work*

The older labour market is distinctive, and can be seen in two phases. Between 50 and the early 60s the top and bottom fringes of the workforce are eroded, with low paid/low skilled people 'retiring' on health grounds, and high paid people choosing to draw immediately on good occupational pensions⁴. In their 50s, people are more likely to be working in large and public sector organisations, and the latter group is likely to be vulnerable to public spending cuts in the next few years. After 60 the process reverses, leaving a large majority in relatively low skilled occupations, especially in retailing; and with a smaller group (a quarter of all employed people) in high skilled professional roles, mainly in health, education, and business services. Since 1997 the proportion of the post-SPA population in work has risen from 8% to 12%, the majority of them in part-time work. The last 20 years have also seen a change in older women's work, with rising participation, and a much larger proportion of women over 50 in high skilled and full time work.

2 ASSESSMENT OF THE POLICY MEASURE

Two policy objectives

UK Government policy on age and work has two distinct policy objectives. The Department for Work and Pensions (DWP), which is responsible for age policy, and for measures related to unemployment, is concerned to improve the dependency ratio by reducing the proportion of economically inactive people, including those over 50. Here the priority is employment of any kind, concentrating especially on unemployed people under state pension age, and on kinds of work where entry barriers are low and flexibility is easier. The Department for Business, Innovation and Skills (DBIS), on the other hand, is responsible for skills, education and training, and is concerned both to raise the skill levels of the least qualified, and to ensure a high skilled workforce to drive a knowledge economy.

Raising retirement age

Like most OECD countries, the UK aims to extend working life, by encouraging people to stay in work longer. One key measure is to raise State Pension Age (SPA), and the plan is to raise women's age progressively to match men's at 65 by 2020, and then to raise both to 68 by 2046. All parties agree about raising the age, though some wish to accelerate the timetable.

Financial incentives and structural barriers

The UK has removed many structural barriers to working longer. It is now illegal to receive a pension of any kind before 55. Pension provisions to allow early retirement have been withdrawn, and contractual retirement ages have been abolished across the Civil Service.

A major policy has been the creation of financial incentives to staying longer in work, making it legal for individuals to draw an occupational pension and continue to work for the same employer, and enhancing the State Pension for those who defer drawing it beyond 60/65. Those over 65 are not required to contribute to the National Insurance fund, and in December 2009 plans were announced for a working tax credit for people over 50.

Other measures include the reform of pensions, following the restructuring of many occupational pensions schemes, many of which have moved from a defined benefit (paying a specified proportion of final or average salary) to defined contribution basis (paying on the income earned from an invested fund). Following a major review, a new scheme will aim to raise retirement savings rates through automatic enrolment into occupational pensions. As a result of all these measures, the OECD's review of 21 countries policies concluded that the UK had effectively removed most structural barriers to extending working life⁵.

⁴ Occupational pensions are private schemes, often tied to an employer, but contributions receive tax relief.

⁵ OECD (2006) *Live longer: work longer*, Paris

HR initiatives

Since 2000, the DWP's Age Positive initiative has encouraged employers to recruit, train and retain older workers as part of a mixed age workforce. Employers have asked for advice on the effective management of an ageing workforce, and 95% of employers ordering the campaign's guidance material rated them good to excellent. The Department now plans to build on this with a programme focusing on individual sectors, helping business leaders to increase flexible working and flexible retirement for older workers. We have not tried the Dutch model of inviting organisations to bid for funds to raise awareness and would be interested to see the evaluation of the Dutch scheme.

Flexible working

UK research on older workers regularly suggests that people would stay longer if work could be more flexible, to allow for phasing out, and for people to manage caring responsibilities alongside work⁶. Like the Netherlands, the UK has a relatively high proportion of part-time working, and part-timers are a majority after 65. However, survey evidence suggests that older workers sometimes ask for unrealistic degrees of flexibility⁷, and those who are unemployed remain more likely, in practice, to be seeking full-time jobs.

Sector bodies

Employment practices and labour demand vary greatly between employment sectors, but until recently the UK has not had the strong sectoral bodies which exist in some Northern European countries, including the Netherlands. This has made it difficult to develop collective measures to develop training and employment policies. Government has now created a set of 25 national employer led Sector Skills Councils (SSCs) to encourage collaboration in planning workforce needs, training and qualifications, but to date, most have paid little attention to the ageing workforce.

VET

As in all countries, participation in training declines with age, although what used to be a steady decline from the early 20s onwards is now flatter from 20-55, after which it falls again. There are no specific VET initiatives for older workers. Overall national skills policy is heavily focused on those with lowest qualifications, through a national entitlement to funding for qualifications at ISCED level 3⁸. Older people are less likely to hold such qualifications but are not more likely to take them up, and the value of such qualifications to the employability of people over 50 has been questioned.

Although many policy papers refer to the importance of training to help older workers to remain employable, there is very little empirical evidence. Most older people who do train do so on very short task focused programmes, or are in occupations and sectors (like medical staff in the health sector) where learning is regarded as a cultural norm. Most of those in employment after the early 60s are working in low skilled occupations where training requirements are limited. A recent report suggests that to be effective, training, and career review are needed in the 40s, to enable people to prepare for the risk of unemployment, or to change career direction before they reach 50, after which point age discrimination becomes a serious barrier to employment⁹.

⁶ Maitland, A. (2010) *Working Better: the over 50s, the new work generation* Equalities & Human Rights Commission

⁷ Loretto, W. et al (2005), *Older workers and options for flexible work*, Equal Opportunities Commission

⁸ Confusingly, this is "Level 2" in UK terminology.

⁹ McNair (2010 – in press) *A sense of a future*, NIACE, Leicester

ILAs

In the early 1990s the Government experimented with Individual Learning Accounts, which offered a Government contribution in return for a smaller individual one. The scheme was very successful in motivating traditionally under represented groups to learn, but the scale of take up rapidly exceeded the budget, and when administrative weaknesses led to fraud, the scheme was abandoned. More limited schemes, with tighter rules, still operate in Scotland, Wales and the National Health Service, and there is a small number of employer based schemes using a similar model. There are no plans to revive the idea, although a new system of "Personal Learning Accounts" is being created, as a personal record of qualifications and training entitlements under existing Government programmes.

Work Ability Index

There has been some interest in the Work Ability Index in the UK, but no significant trials, and Government has not yet pursued it. Ministers and Trades Unions have expressed concern about the implications for industrial relations of a test which might be seen as identifying weak workers, without providing appropriate support to maintain employability, or encouraging job redesign.

Occupational Health

There has been considerable concern about occupational health, and the costs of welfare benefits for those deemed unable to work past 50. Government is seeking to replace the idea of 'incapacity' (measuring what people cannot do) with 'capacity' (identifying what sort of work they could do). A major review of literature on occupational health¹⁰ showed convincingly that employment is good for health, and that many people who are deemed 'incapable' are able to undertake real jobs in other sectors or occupations. A second report (Marmot 2010) on health inequalities highlighted variations as large as 7 years in life expectancy between occupational groups¹¹.

Career advice

In addition to the public employment service ('JobCentre Plus') which helps the unemployed to find work, and pays benefits, there has been for some years a network of careers and educational guidance services for adults. In 2000 Government set up *Learndirect*, a telephone and more recently online, education and careers service. The service (now provided through Government's online portal 'DirectGov') currently deals with over 1 million individual enquiries and 11 million online searches a year. In summer 2010 this will be integrated into a comprehensive 'Adult Advancement and Careers Service', to include face to face, as well as telephone and online guidance, for anyone over 19.

Culture change and models of the lifecourse

In 2009 an independent national inquiry into the future of lifelong learning published the most comprehensive review of lifelong learning for 25 years. One of its key recommendations was that demographic change calls for a review of the way public policy and employment practice views the lifecourse, replacing the three phase model (youth/adult/retired) with a four phase one (divided at 25, 50 and 75). This would better reflect the way in which people now live, and would recognise the importance of keeping people engaged in society and the (paid or unpaid) economy during the third phase of active old age. Research for the inquiry showed the imbalance of expenditure on training across the lifecourse, with 86% of all expenditure on learning after 18 (public, employer and individual) being spent on people aged 18-25, and only 2.5% on people aged 50-75¹².

¹⁰ Black, C. (2009) *Working for a healthier tomorrow*, Department of Work and Pensions, London

¹¹ Marmot, M. (2010) *Fair Society: healthy lives*. University College London.

¹² Schuller & Watson (2009) *Learning through Life*, NIACE, Leicester,

3 ASSESSMENT OF THE SUCCESS FACTORS AND TRANSFERABILITY

Economic context

Like the Netherlands, the UK is emerging from recession, but the scale of the UK's fiscal deficit is likely to lead to major cuts in public expenditure of all kinds following the General Election on 6th May. This may well impact on the employment of older people, who are more likely to be in public sector employment. It also puts severe limits on the resources available for policy intervention, and makes it unlikely that Government will be able to fund any new initiatives unless they can be shown to reduce welfare benefit costs. Changes are more likely to be the result of market pressures on employers, aided by better information, and if current projections of labour shortages prove accurate, we might expect the current trend for employers to retain older workers to continue. Indeed it is arguable that extending working life will happen mainly through market pressures.

Personal Learning Budgets/ Learning Accounts

There is political concern about the ILA model, in the light of the failure of the previous scheme. The Scottish model uses accounts targeted at the lowest skilled, as a strategy for social inclusion, and none of the schemes attempt to use this individual driven model more radically as a basis for funding a large proportion of VET. Government, and institutional interests are hostile to this idea, because they fear that giving such control to learners might mean the disappearance of some economically vital programmes, and might undermine the long term viability of the public institutions which are the major providers of VET.

VET

Although many commentators suggest that more and better VET would increase the employability of older people and thus extend working life, there is little empirical evidence. Participation declines steeply after 50, and the training which older people do is generally shorter and more task focused, and likely to keep people into their present jobs, rather than improving employability. We need better evidence on precisely what kinds of VET are effective, in what sectors and occupations, for older people, and an evaluation of cost benefits, both in terms of productivity and of health and wellbeing. It is unlikely that the UK would consider legislation on reciprocal rights to VET. There is no precedent for such an approach in the UK, and in the absence of formal social partnership arrangements, no mechanism for operating such a scheme.

Stressful work

Some forms of work impose very severe physical stress, which reduces life expectancy, although the proportion of work which imposes such pressures is declining, with developing technology, some work redesign, and the shift from manufacturing to service industries. Concern has focused on the numbers in their 50s claiming health related benefits, including both physical and (growing) mental health issues arising from work pressures. Government has introduced a system of health assessments designed to find alternative work for them, but the idea of differential pension ages by occupation has not been discussed.

Preventive measures and employability

There is evidence that intervention to extend working life is more effective if it is preventive, and comes before 50, when the labour market becomes increasingly inflexible, and age discrimination makes job change difficult. The people most likely to become permanently unemployed in their 50s are those who have worked in low skilled work in a single organisation for a long time. Encouraging job change across the lifecourse, and offering a career review process in the late 40s might improve their employability.

4 QUESTIONS

1. The Host Country Paper suggests that employers have found measurable benefits from policies for sustainable employability. Can you expand on this evidence, which is clearly important in winning the argument for change in policy and practice?
2. The Netherlands have a strong system of sectoral labour market bodies. In the UK such bodies are still in their infancy. How far are they engaged in the Netherlands in initiatives on the older workforce?
3. The Host Country Paper touches on the notion of redefining the lifecourse, perhaps along in similar ways to the 'four phase' model proposed in the UK by the National Inquiry into Lifelong Learning. It would be interesting to know how far such thinking has gone in the Netherlands, and to discuss its implications for policy and practice.
4. The WAI appears to address several of the key issues in extending working life and securing sustainable employment for those most at risk of exclusion. It would be useful to know more about its implementation in the Netherlands, what difficulties have been encountered, and what benefits found.
5. The Dutch paper says little about financial incentives to work longer, which have been a feature of the UK scene. Is this because they are not believed to work?

ANNEX 1: SUMMARY TABLE

Labour market situation in the Peer Country
<ul style="list-style-type: none"> • Weak economic recovery is in progress after recession (which followed the longest period of economic growth since 1945) • Strong concentration of the UK economy in services, and especially financial services has made it vulnerable • Future labour demand is likely to be strong, with major labour shortages • Extending working life is a key Government priority, mainly to improve the dependency ratio • Real retirement ages and employment rates for people over 60 are rising
Assessment of the policy measure
<ul style="list-style-type: none"> • Common issues include raising real retirement age, preventive interventions to secure employability, improving occupational health • Differences include, lack of a social partnership model, weak sectoral bodies, no use of WAI, lack of national intervention on VET for older people (other than the unemployed)
Assessment of success factors and transferability
<ul style="list-style-type: none"> • How far is change the result of policy intervention, and how far of market pressures? • We need better information on the role and cost benefits of VET (including precisely what kinds of VET are effective) • Elements dependent on social partnership/dialogue are not transferable. This includes the notion of reciprocal legal rights to VET • UK might learn from Dutch experience of part-time working (which appeals to older workers but is difficult to secure in some sectors) • What is the role of preventive measures
Questions
<ul style="list-style-type: none"> • What evidence has been gathered of the benefits to employers of extending working life? • What is the role of sectoral bodies in relation to older workers? • What are the implications of discussions on redefining the lifecourse? • More detail on the implementation of WAI? • How important are financial incentives?