

Too Much to Lose



Understanding and supporting
Britain's older workers

Matthew Tinsley



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- British Household Panel Survey, Waves 1–18, 1991–2009. University of Essex. Institute for Social and Economic Research, [original data producer]. Distributed by UK Data Archive.
- Office for National Statistics. Social Survey Division and Northern Ireland Statistics and Research Agency. Central Survey Unit, Labour Force Survey. Distributed by UK Data Archive.
- Office for National Statistics (references where relevant).

Executive Summary

This report examines the position of over-50s in the UK labour market. It outlines the large barriers to work that they face and highlights that the majority of these barriers remain unaddressed by government support. It argues that without reforms to address these issues, growth in the UK economy will be lower than it might otherwise be and, on average, the population of over-50s could see a fall in living standards.

Some progress but large problems remain

Before addressing the barriers facing the over-50s in the labour market, it is important to realise that significant progress has been made over the last two decades. As well as becoming larger, the older workforce is now more educated, works in more skilled roles and is less likely to be affected by health problems than ever before. This puts older workers in a far stronger position and is likely to have been a major factor behind the rising employment that the older workforce has seen.

However, despite these apparent improvements in employment outcomes, those over-50s currently unemployed are much less likely than any other age group to find work in the next year. We cannot underestimate the scale of these problems. At the end of 2011 there were 189,000 over-50s who had been out of work for a year.¹ This means that 43% of unemployed people over the age of 50 were long-term unemployed; the equivalent figure for 18 to 24 year olds is 26%, and 35% for 25 to 49 year olds.

The over-50s figure would be even worse if we accounted for those invisible unemployed who had simply left work and fallen out of the labour market completely, either into forced early retirement or due to ill health. We estimate that, on average, fewer than 40% of all unemployed over-50s find any form of work within a year.² There are currently 428,000 over-50s out of work;³ we therefore expect that more than a quarter of a million of these will not work in the next year, and many will never work again.

As well as the short-term effects of unemployment we have also analysed the unemployment scars felt by workers of different ages, addressing the lack of research that exists in this area. Older workers may have a greater need to return to work quickly because of greater financial responsibilities from mortgages or dependent children, so wages will suffer as they may take work at relatively low levels of pay. At the same time age discrimination could significantly limit the opportunities that an older jobseeker has as they look to get back to work.

Using data from 18 years of the British Household Panel Survey and a methodology that allowed us to control for unobservable characteristics across workers of different ages, we found scars that varied significantly across different age groups. Our results indicate that there is a significant scarring effect of

1 ONS March 2011 Labour Market Statistics, Sheet 9(2).

2 Calculations using the Labour Force Survey, illustrated in Figure 14 of this paper.

3 ONS March 2011 Labour Market Statistics, Sheet 9(2).

unemployment on future wages for older workers and that this is larger than for other age group. A six month spell of unemployment is estimated to reduce an older worker's future wages by close to 8%.⁴ These findings agree with the significant effect of unemployment on wages of older workers found by Ball (2011).⁵

In order to understand this unemployment scarring we have to recognise the barriers to work facing older jobseekers. One of the most obvious obstacles for older workers is age discrimination, with employers potentially showing a bias, whether deliberately or unconsciously, toward younger workers. To measure this we undertook a major piece of original research to attempt to identify the scale of the discrimination that is faced by older workers. We applied for over 1,200 jobs as both an older and younger worker, using a randomisation process that ensured that the CVs received by potential employers were identical in every way apart from the date of birth. We then measured the number of responses that showed an interest in the applicant.⁶

The responses showed a very large bias against older workers, with the 51 year old applicant getting positive responses less than half as often as the 25 year old. These results are similar to results from other studies which also find biases against older workers in some positions.⁷ It is startling to see that this discrimination happens even though the UK has very clear laws designed to prevent it (primarily the Equalities Act 2010) and it suggests that there is a culture of bias against older workers.

Older workers are key to the UK economy

These barriers to employment are particularly concerning given that the over-50s labour market is more important than ever before. As a result of the 1950s and 1960s 'baby boom', Britain's older population is growing and the number of people over the age of 65 is expected to rise by 49% to over 16 million in the next 20 years.⁸ A key problem is that the growth in the younger population has not matched this and, as a result, Britain's ability to pay for an increasing population of pensioners has fallen.

The wider economy also depends heavily on the skills and experience of the older workforce. By 2020, significantly more jobs are expected to be created than there are entrants to the workforce. There is, therefore, significant demand for older workers to work for longer.⁹ At the same time there is a concern that skills gaps will emerge as a large number of older workers approach retirement, with sectors such as manufacturing, education and healthcare heavily reliant on older workers.^{10,11}

As well as these labour market issues, ensuring that older workers have the opportunities to work in a manner that suits their needs is also important for improving personal and social outcomes. Work plays a clear role in reducing pensioner poverty and the relationships and support that work can build are vital to ensuring wellbeing later in life.¹²

All of these factors outline that the potential effects of unemployment for older workers are large. For the economy, at a time when increasing productivity is vital for boosting economic growth, the loss of valuable experience and expertise that our older workforce possesses could be severely damaging. The human costs are equally as large: savings horizons could be severely damaged and standards of

4 A full description of this process and the results is included in Chapter 3.

5 Ball, P. 2011. Mixed Signals: to what extent does male wage scarring vary with the characteristics of the local labour market in which unemployment was experienced?

6 A full description of this process is included in Chapter 4.

7 Riach, P. and Rich, J. 2007. An experimental investigation of age discrimination in the English labour market

8 ONS, 2010 – based National Population Projections

9 UKCES Working Futures 2010–2020 Evidence Report December 2011, p22

10 Education and healthcare from Labour Force Survey, author's own calculations

11 McNair, S. and Flynn, M. 2006. Managing an ageing workforce in the manufacturing sector

12 BBC, Retire later to sop loneliness, says No 10 adviser. <http://www.bbc.co.uk/news/uk-politics-16980361>

living during retirement could fall. For these reasons, it is clear that a failure to support those older workers who are looking for work now will present a large problem for the future.

Further regulation is unlikely to help

This report outlines that discrimination against older workers is a key barrier to the employment of the over-50s and this suggests that further regulation could tackle this issue. However, any increase in regulations around discrimination has the potential to discourage businesses from employing older workers in the first place because it limits the ways that they can manage their workforce.

We therefore do not believe the government should look to increase the strictness of age discrimination law, which is already appropriate and fair. Instead the bias against older workers must be addressed by improving the position of older workers in the UK workforce. This could be done through more support when they look for work, and more positive messages regarding the value of older workers in the UK economy from both government and the media.

Better back-to-work support is needed

One way of ensuring that older workers are supported in the labour market is to ensure that unemployed over-50s receive targeted and personalised support to find work. However, in practice, this is rarely the case. Older jobseekers that we spoke to argued that the support offered to them did little to address their specific needs. While 65% of older jobseekers stated that they used Jobcentre Plus (JCP) in their job search, only 12% rated the support that they received as “Good or Excellent”.¹³

Overall, our previous research and evidence in this report bring us to the conclusion that the support offered to jobseekers is insufficient, with little identification of their barriers to work meaning that support to jobseekers is not delivered in an appropriately targeted way. For older workers this problem is made greater by the variety of barriers to work that exist because of their varied histories and experiences.

This insufficiency of, and dissatisfaction with, the available support is hardly surprising when the majority of extra government support provided to jobseekers in recent years has been focussed on younger workers.¹⁴ This approach has failed to target support on some of those who need it most and has dismissed the significant problems of older workers. This will dramatically affect the employment prospects of older workers and the chances of older jobseekers working again in the future. To tackle this, this report outlines a number of changes that could improve employment support for older jobseekers:

- **Advisor flexibility:** One way of providing the most effective support for all jobseekers is to allow advisors in Jobcentres to have flexibility to tailor the support they can provide both in-house and through the support that they procure for the jobseeker.¹⁵ We understand that, in some regions, Jobcentre Plus managers are using the flexibility in management practices already allowed to personalise and target support for jobseekers with particular disadvantages. This is positive and should be extended across the UK as a matter of urgency.

¹³ Taen: Survey of Jobseekers Aged 50+, p5

¹⁴ The Youth Contract <http://dwp.gov.uk/youth-contract/>

¹⁵ Recommendation 2 in Chapter 5

- **Volunteering opportunities:** One of the most significant possible barriers to work for older jobseekers, especially in the cases where they have become more detached from the workforce, is a lack of recent or relevant experience. In order to allow older jobseekers to develop skills in an area which they are not familiar with or gain relevant experience, *volunteering should be promoted by Jobcentre Plus advisors*.¹⁶ This policy would be particularly relevant where the volunteering is undertaken in new sectors that would allow them to develop skills and confidence. This should be a voluntary scheme that Jobcentre advisors promote in the first six months of a benefit claim for suitable older workers and JCP should actively engage with the private sector to ensure that sufficient placements are available.
- **Personal budgets:** A further way that older workers could have their opportunities enhanced and the personalisation of employment support increased is by allowing them to take the resources that are usually allocated to them through Jobcentre Plus support and the benefits received to *create individual budgets*.¹⁷ The individual could spend their individual budget in ways in which they felt necessary for helping them get back to work. Such a scheme could be particularly relevant for those older jobseekers with significant labour market skills and experience and for whom current Jobcentre support is largely unnecessary. We therefore believe that the Department for Work and Pensions should explore the potential to introduce such a scheme for more skilled individuals, who often do not benefit as much from the existing system. This should build on the existing pilots for individual budgets that are already taking place in the DWP.

Responsibilities must match rights

Whilst the support offered to help an individual into work is important, the other crucial element of this process is making sure that older jobseekers, as with all jobseekers, are doing all they can to find work. Our report *No Rights Without Responsibility* outlined that this was the key to a mutual obligation between the state and the individual.¹⁸ The state must do all it can to provide personalised support to jobseekers in order to tackle the barriers to work they face and, in return, jobseekers must do all they can to find work and take the opportunities available to them.

To ensure that jobseekers are upholding their side of the obligation, this report makes a number of recommendations:

- **Evidence of search:** We outlined above that some older workers whose experience is not suited to the current opportunities in the labour market may struggle to find work because of a lack of appropriate experience, and suggested that volunteering in new industries might provide valuable experience and new skills. To back this up we believe that JCP must be particularly stringent in enforcing the requirement that *older jobseekers must show evidence of looking for work in different sectors*.¹⁹ This would ensure that they are genuinely searching for any available work, rather than looking for a position that they may prefer.
- **Extending the work experience scheme:** One way in which older jobseekers could demonstrate this willingness to broaden their job search is by putting

16 Recommendation 5 in Chapter 5

17 Recommendation 3 in Chapter 5

18 Oakley M, Saunders P, 'No Rights Without Responsibility: Rebalancing the Welfare State', Policy Exchange 2011

19 Recommendation 4 in Chapter 5

themselves forward for the volunteering scheme outlined above. However, after six months of unemployment we believe that advisors must take a more active role in encouraging older jobseekers to extend their experience. For this reason we recommend that the government's current work experience scheme is extended to older workers who have spent over six months unemployed. This would be offered on a voluntary basis to older jobseekers who JCP advisors believe can benefit from it the most. Jobcentres should aim to recruit a greater diversity of firms in different sectors and at different skill levels in order to place a pool of potentially skilled and experienced jobseekers.

- **Use of mandatory work activity:** In the small minority of cases, where the advisor believes that the jobseeker is not making a serious attempt to move sectors or roles there will clearly have been a failure to fulfil their responsibility to look for any available work. In these circumstances we believe a mandatory element should be introduced. Such claimants would be given the option of undertaking either a *Mandatory Work Activity placement*, or *engaging in the work experience scheme*.²⁰ We envisage this being a small number of claimants aged over-50, who have not engaged in volunteering and who advisors believe are not doing all they can to move into new roles or sectors.

“This report lays out the need for a shift of emphasis in wider government policy, where older workers and jobseekers have been treated as a relatively low priority for a number of years”

Political attitudes must recognise the importance of older workers

These policies will help improve support for those over-50s struggling to find work, but this report also lays out the need for a shift of emphasis in wider government policy, where older workers and jobseekers have been treated as a relatively low priority for a number of years. This is most readily demonstrated by the focus in the media and from politicians on the plight of younger workers during and since the recession. An older jobseeker that we spoke to highlighted this as a clear problem:

It's one thing that is actually a bit depressing, every time you hear the news with the unemployment figures they're always going on about the young people out of work and how bad the job market is for young people. Trust me, it's just as bad for older people.

50 year-old from the South East of England who has been unemployed for three years.

Our research has also shown that, on average, younger workers are more likely to find work in a given period of time than older workers and suffer much smaller effects to their future wage prospects from spells of unemployment.

However, this is not to say that support should not be targeted at certain young people. It is clear that some young people have significant barriers to work and suffer extreme disadvantage when looking for work. Furthermore, the size of the youth unemployment does warrant a response from government. Our argument is that it should be on the basis of barriers to work and disadvantage that government employment support is targeted, not simply on age alone.

²⁰ Recommendation 6 in Chapter 5

We believe that a significant change in the attitude of government would be needed to deliver such balanced and targeted support. This is made obvious by the announcement and launch of the £1 billion Youth Contract for 18 to 24 year olds.²¹ Over the three years from April 2012 this will: introduce 160,000 £2,275 wage subsidies for employers who employ young workers through the Work Programme; create 250,000 work experience placements of between two and eight weeks; and increase the number of incentive payments for young apprentices by 20,000. This is clearly a very ambitious scheme, focussed on a very narrow group of benefit claimants, and this is only one of up to eight different support systems for under-25s.²²

As we have highlighted, the problem with these programmes is that they target support according to age, regardless of the other characteristics of individuals and the major barriers to work that they face. It places significant biases against workers of other ages who may have similar and often deeper barriers to work than the younger people it is targeting. For these reasons, this report recommends:

- **Creation of The Job Contract:** the government should extend its Youth Contract to jobseekers of all ages.²³ We believe that the available resources should be spread across a similar number of people in total, but allocated to those individuals who are furthest from the labour market in a programme known as *The Job Contract*. Those supported would be targeted on the basis of barriers to work, rather than age. While many young people would still continue to get the support that has been outlined, the significant barriers to work faced by older workers mean that some of this support would also go to older workers who are the furthest from the labour market.

Extending (flexible) working lives

One area where government policy is already explicitly supporting the opportunities of older workers is in the removal of the Default Retirement Age (DRA) of 65. However, a major concern is that the removal of DRA leaves a vacuum where there is no platform for employers to understand the plans of older workers and effectively manage their workforce.

It is also clear that if, as a country, we are to maximise the potential of our older workers, we will need to implement changes to the way we think about work and retirement. One of the key ways to do this will be by encouraging a wider variety of phased retirement systems. This would allow businesses to use the skills and experience of older workers in a more flexible manner. This will be beneficial both for individuals for whom independence and the opportunity to save are important, and for the wider economy where the skills and experience of older workers must be retained.

To facilitate the growth of such schemes and to improve communication between employers and employees around retirement this report recommends:

- **Protected conversations:** we support proposals to introduce a process of protected conversations.²⁴ This would allow older workers and their employers to communicate without the fear of their conversations being used to make accusations of discrimination against employers who wish to better

21 <http://dwp.gov.uk/youth-contract/>

22 http://www.local.gov.uk/c/document_library/get_file?uuid=fcdd201b-8f62-43fc-b586-0bb3fc0ef72d&groupId=10161

23 Recommendation 7 in Chapter 5

24 Recommendation 1 in Chapter 4

understand their older workers' plans. We also believe that these plans should be broadened to allow discussions surrounding retirement plans and the options for phased retirement. This could go a long way towards improving the options available to older workers when they are in work.

Conclusion

This report outlines the vital importance of older workers in the economy. In order to maintain living standards, promote inclusion and health in our ageing population and drive growth in the economy we need to open up opportunities for older workers to increase their working lives. The report also outlines the severe personal and economic costs that unemployment can have on older workers and the difficulties faced by older jobseekers when they try to find work. The size of impacts involved, on both the part of the individual and the wider economy, mean that failing to tackle these problems is not an option.

The reforms we outline in this report ensure that older workers and older jobseekers are properly supported and encouraged. If implemented they would lead to a step change in the debate around the targeting of support and in the value we place on our older workforce. We propose measures to ensure that those already in work can approach their employers to discuss future working plans and that those out of work can get the support they need. On the part of older jobseekers, our proposals would require them to seek any work that is available, gain more experience, consider changing roles or sectors and take on all the support that is available to them. Most of all, our reforms would push the government to ensure that employment support is targeted by need and not by age and to promote the status of older workers in the UK economy. If the government fails to do this they risk letting down older workers and the country.

Without these reforms, and by focussing all of our attention on a potential 'lost generation' of young people, we risk losing far more. Older workers are crucial to maximise UK economic capacity and hold vital experience and expertise. If we fail to support them, we might condemn a generation of older workers to far greater risks of poverty and declining living standards.

Introduction

At the beginning of 2012 the number of over-50s employed in the UK was close to 8.3 million; over 1.4 million higher than it was just a decade before. Older workers are therefore playing a much larger role in the UK labour market than they ever have before (over-50s now make up 28.5% of the workforce, compared to 24.6% ten years ago).²⁵ Recognising this fact and understanding the role that these workers play in our economy is crucial for a growing proportion of the UK population and to maintain the strength of the UK economy.

This report builds on three previous reports on welfare reform from Policy Exchange, which have set out a new model for the provision of employment support. The first report in this series, *No Rights Without Responsibility*, examined the need to challenge a culture where people often feel that they have a right to benefits in the UK.²⁶ In order to address the large number of working-age households where nobody is in work we argued that the requirements put on benefit recipients should be stricter, sanctions should be stronger for those shirking their responsibilities, and that there should be a greater link between contributions and the benefits that are received.

We then moved focus to the support that is offered to those individuals who are out of work. Our report, *Personalised Welfare: Rethinking employment support and jobcentres*, argued that the support received by jobseekers does not do enough to identify and work to remove the significant obstacles that jobseekers face when looking to get back into work.²⁷ To tackle this there should be an effort to segment jobseekers based on their specific barriers to work and apply support in a personalised way that addresses the problems that are faced, rather than the current one-size-fits-all support which fails to support the specific needs of its recipients.

By increasing the conditionality of their benefits, our third report, *Something for Nothing: Reinstating conditionality for jobseekers*, argued that we should be making sure that people are doing all that they can to get back into work.²⁸ A personalised system of conditions for jobseekers will make sure that they are engaged with as much job search as possible and that these activities are targeted at their specific needs.

This report continues with these themes. It is essential that our welfare state asks as much as possible from all benefit claimants and, in return, that it provides personalised and targeted back to work support. However, this report takes a much more specific focus: looking just at those aged over-50.

This addresses some of the consequences of the ageing population in the UK, focussing on the role of older workers in the labour market. It is motivated by the fact that the focus of much policy and research has been on the problems facing younger workers; somewhat ignoring the needs of the older workforce. We see this as a major oversight at a time when the older population (defined as those over the age of 50) is growing rapidly; the number of people over the age of 50

25 ONS Labour Market Statistics
March 2012

26 Oakley M, Saunders P, 'No
Rights Without Responsibility:
Rebalancing the Welfare State',
Policy Exchange 2011

27 Holmes E, 'Personalised
Welfare: Rethinking employment
support and Jobcentres', Policy
Exchange 2011

28 Doctor G, Oakley M,
'Something for Nothing:
Reinstating conditionality for
jobseekers' Policy Exchange 2011

is forecasted to rise from 35% to over 39% of the population over the next two decades.²⁹ With the pivotal role these workers play in our economy, there needs to be a renewed focus on the older labour market and a better understanding of the role that it plays in keeping the UK economy strong. This report begins that dialogue.

In some respects the lack of attention paid to the older labour market can be understood: older workers have fared very well over the last few decades and, as a group, were not hit as hard by the fall-out from the financial crisis and subsequent recession. Employment of over-50s has increased significantly and seems likely to continue to do so, whilst the average employment rate in the rest of the workforce has shrunk.

In many ways the older labour market has also become much more similar to the rest of the workforce, with significant changes to the characteristics of those aged 50 and over having boosted the working potential of older workers. For instance, they have become significantly more educated, now receive more training, tend to work less often in manual professions and are considerably less likely to have to leave work because of health problems.

However, it is vital that we look past these headline statistics. This report argues that it is possible that we will see much greater employment problems for older workers in the future; older worker unemployment could rise significantly as many of those re-tested on incapacity benefits are now considered fit to work and public sector redundancies continue to affect older workers. On top of this we show that the problems facing older workers when they find themselves out of work are greater than those of other age groups. On average, older workers find it considerably harder to get back into work within a year of leaving employment and experience far higher flows into inactivity and larger scars to their future wage prospects.

This report argues that unless we shift the current debate on the labour market to consider the problems facing older workers and improve the support available to them, we face the prospect of serious long-term damage to our economy and living standards. While recognising the advances that have been made in recent years, this report outlines the problems facing older workers and makes recommendations for how we might improve their prospects in the future. Without these reforms, and by focussing all of our attention on a potential 'lost generation' of young people, we risk losing far more: economic capacity and vital experience and expertise; and, ultimately, we might condemn a generation of older workers to far greater risks of poverty and declining living standards.

29 ONS 2010 – based National
Population Projections

1

Why are Older Workers Important?

There are a number of reasons why we need to understand the role of older workers in the UK's labour market both now and in the future. The UK's ageing population is putting pressure on government finances as the number of individuals of pensionable age increases relative to the working-age population, increasing the pressure for people to have to work longer. As fiscal pressures restrict the government's spending options and with a weakened economic outlook, there is a need to utilise as much of the labour market's productive capacity as possible.

We must also consider individuals' personal welfare and their opportunities to stay financially independent and save for retirement. As we begin to expect individuals to work for longer it is essential that this expectation goes hand-in-hand with a commitment to identify their barriers to work and understand the support that they need.

The most significant focus on the older labour market came during the last Labour government. The introduction of the New Deal 50+ looked to tailor support to the needs of older workers.³⁰ This was followed by the explicit goal of increasing employment among older workers as a part of the Department for Work and Pensions' departmental strategic objectives in their 2007 spending review.³¹ The goal to “support one million additional older people into work (over and above increases from demographic change and the reduction of older people on Incapacity Benefit)” shows a clear intention to boost the role that older workers are playing in the UK economy.

Under the current government there has not been such a clear focus on older workers, with much of the extra support that has been provided being targeted at younger workers. The largest scheme, the £1 billion Youth Contract, only targets support to younger workers, regardless of the needs of workers over the age of 25.³² But this is just one of many overlapping programmes of support for young people. A recent Local Government Association report highlights the situation well:

The current offer to young people is awash with different national strategies, age boundaries and requirements. Young people between 13 and 24 years old can receive support from at least eight national organisations, funding 33 different funds and schemes, spanning 13 different age groups and – not including school funding – at a cost of over £15 billion each year.³³

No such targeted support is available for older workers. This chapter lays out the reasons for a need to refocus attention on the older labour market.

³⁰ http://webarchive.nationalarchives.gov.uk/+/www.direct.gov.uk/en/Employment/Jobseekers/programmesandservices/DG_173728

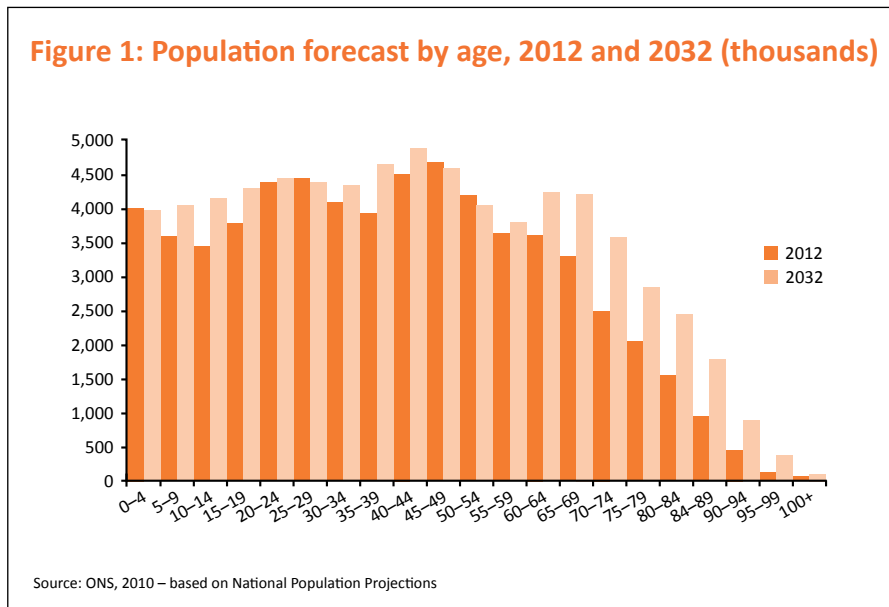
³¹ Delivering Our Public Service Agreements and Departmental Strategic Objectives, <http://www.dwp.gov.uk/docs/chapter3-22785.pdf>

³² <http://dwp.gov.uk/youth-contract/>

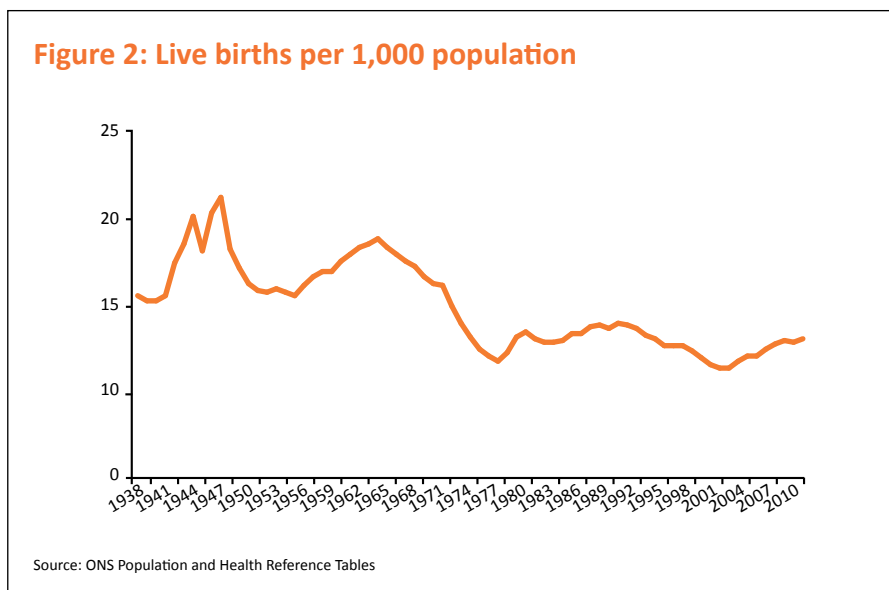
³³ http://www.local.gov.uk/c/document_library/get_file?uuid=fcd201b-8f62-43fc-b586-0bb3fc0ef72d&groupId=10161

Dependency ratio

It is widely understood that the UK workforce is ageing. Figure 1 clearly demonstrates that the most significant population growth over the next two decades will be seen among over-50s, whose population is forecast to grow by more than 40% to over 28 million by 2032.³⁴



The significant increase in the number of older people in the UK can largely be explained by rapid population growth from the Second World War to the early 1970s, widely referred to as the ‘baby-boom’ (Figure 2). This period of high birth rates was followed by a 40 year period where birth rates were significantly lower, meaning that the number of people entering the workforce has been significantly lower in recent years, compared to those born in the baby boom years.



34 ONS, 2010 – based National Population Projections

Another key influence on the increase in the number of individuals who are of pensionable age is the steady increase in life expectancy for both men and women. In the last 20 years the life expectancy of an individual aged 65 has increased by 4.3 years for men and 3 years for women.³⁵ People are living significantly longer, but the average retirement age has not increased by as much. Compared to 20 years ago, men are working about a year longer and women slightly less than two years longer.³⁶ This relatively small increase in the age people are retiring means that the average amount of time that people are expected to spend in retirement is increasing.

The natural consequence of these demographic changes is a rise in the number of individuals claiming state pension relative to the size of the working population increasing. The dependency ratio, which shows the number of individuals over the state pension age per 1,000 working age individuals, is expected to rise by over 10% over the next two decades. This trend has, and will continue to, put a significant strain on government finances as pension demands increase faster than the working population.

As a response, following the Turner Review, recent governments have increased the State Pension Age (SPA).³⁷ This will bring the female State Pension Age into line with that of men, rising from 60 in 2010 to 65 by 2019; the SPA is then set to rise from 65 to 68 for all individuals by around 2045.³⁸ This increase in the length of time where individuals will have to be financially self-sufficient will have the obvious effect of increasing the amount of time that they want to work and save. The current government have gone further to examine linking the State Pension Age to life expectancy, in order to make sure that increases in life expectancy do not dramatically increase the amount of time that people are able to claim the state pension.³⁹

These forces will naturally be pushing people to work until later in life as they need to remain financially independent for longer. This will both decrease the number of people retired and increase the number of people who are out of work.

Economic output

On a wider-economy level it is essential that we recognise how the older labour market can be used to promote economic growth and make sure that British businesses are competitive internationally.

At the most basic level, increasing the number of years individuals work will, all else being equal, lead to a larger workforce and an increase in economic output. A study by the National Institute of Economic and Social Research (NIESR) suggested that a one year increase in the SPA would lead to an increase in total labour force participation of up to 2.5% and a GDP increase of over 1.5%.⁴⁰ The large increase in the female pensionable age and the gradual increase in the SPA of the whole workforce should therefore have a significant effect on labour force participation and UK GDP.

There are also reasons to believe that keeping older workers in the workforce for longer might increase productivity: as a large number of older workers in the UK reach the age at which they consider retirement there is the potential for a large amount of experience and expertise to be lost. The UK Commission for Employment and Skills has forecasted the number of jobs rising faster than

35 Office Of National Statistics: 2010 – based period expectation of life, Principal Projection, United Kingdom

36 Office Of National Statistics: Average age of withdrawal from the labour market

37 Turner Review, chapter 6 http://news.bbc.co.uk/1/shared/bsp/hi/pdfs/30_11_05_chapter6.pdf

38 http://www.direct.gov.uk/en/Pensionsandretirementplanning/StatePension/DG_4017919

39 <http://www.thisismoney.co.uk/money/pensions/article-2118193/BUDGET-2012-Retire-70s-Government-links-state-pension-life-expectancy.html>

40 Barrell, R. Hurst, I. and Kirby, S. *Macroeconomic Implications of Pension Reform*. NIESR

the number of workers in the economy between 2010 and 2020.⁴¹ Studies also suggest that up to half of the productive capacity of older workers remains unused, compared to only 20% in Japan.⁴² There is therefore both room for the employment of older workers in the UK economy to grow and to fill the demand for labour that the UK economy, a position that is echoed by the Chartered Institute for Personnel and Development (CIPD) who cite retention of older workers as essential to meet the employment deficit and maintain the UK's competitive advantage.⁴³

The need to retain older workers is clearly demonstrated when we look at the reliance on older workers in some industries. In agriculture, forestry and fishery 53% of workers are over the age of 50, compared to 34% across the whole working population.⁴⁴ Education and health collectively employ more than 8.7 million workers but depend on older workers more than average (41% and 38% of workers respectively). There are also a disproportionate amount of older workers in manufacturing:

“The workforce is older in manufacturing than in other sectors, with a disproportionate concentration in the 35–55 age range; a very large number over 55 (598,000); and one firm in five employing someone over State Pension Age”

McNair and Flynn (2006), *Managing an ageing workforce in the manufacturing sector*

We should be concerned that as these workers begin to retire we could face losing the skills and experience that are essential in the functioning of these sectors, keeping the necessary skills in the workforce and extending those skills to younger workers will be vitally important.

There is therefore both the need and the opportunity to better utilise the older labour force in order to satisfy increasing labour demand and allow the UK economy to grow further. We should not be concerned that older workers will crowd out other age groups given that their skills and experience can boost businesses and their own income can promote further economic activity.⁴⁵

Personal wellbeing

The importance of older workers is not just confined to the impact on the macro-economy and growth. Research from the CIPD showed that “over two-fifths (42%) of individuals intend to work beyond the age of 65, with most (72%) citing financial necessity as the main reason for staying on”.⁴⁶

At the most basic level, there is becoming a greater individual need to work for longer. Falling house prices and low returns to savings have decreased the value of many peoples' savings; as will high inflation and relatively poor returns from the financial sector in recent years. This will mean that, for many individuals approaching retirement, there will be a need to work for longer in order to achieve the living standards in retirement that they had planned for. Pensioner poverty is a significant issue for a large part of the population and is politically very important; focussing on older workers should therefore be a key policy area.

We also know that work is good for more than just financial reasons. Research, recently highlighted by government adviser David Halpern, has suggested that staying engaged in the workplace for longer will be beneficial to people, citing the major health implications of isolation.⁴⁷ The motivation to work longer will

41 UKCES Working Futures 2010–2020 Evidence Report December 2011, p22

42 Gruber and Wise. 1999. Social Security and Retirement around the World

43 CIPD. Mind the gap, warns CIPD: ageing workforce will be essential to meet employment deficit and avoid organisations risking competitive edge, (2012) <http://www.cipd.co.uk/pressoffice/press-releases/ageing-workforce-essential080312.aspx>

44 Labour Force Survey, author's own calculations

45 We reject the the argument that there would be a crowding out effect from a greater number of older workers in the economy. This position wrongly assumes that there are a fixed number of jobs in the economy, a theory known as the “Lump of Labour Fallacy”

46 <http://www.cipd.co.uk/pressoffice/press-releases/end-dra-removes-smokescreen.aspx>

47 Retire later to stop loneliness, says No 10 adviser. <http://www.bbc.co.uk/news/uk-politics-16980361>, BBC

be greatest among those individuals who are at risk at becoming more socially detached should they leave work too early. There is also a concern that finding themselves out of work could be a traumatic and stressful experience. Without the suitable support this problem is likely to be exacerbated.

Conclusion

These arguments have made it clear that we need to move towards people working for longer. Doing so is good for the economy, good for individuals and good for future generations. With this in mind it is crucial to understand how this desire affects these workers personally and whether it is feasible to expect them to extend their working lives.

It may not be practical to expect older workers to work for longer if their productivity, skills and working opportunities are limited to the extent that working ceases to be an option. We must consider the potential for these older workers to work longer should they want to.

Obstacles such as health issues disproportionately affect older workers; there could be significant portions of the older labour market that have their capacity to work limited partially or entirely. There are also significant skills and technology changes in the workforce that could disadvantage older workers more, limiting their work opportunities.

We must consider whether it is reasonable to expect older workers to work for longer given their limitations and barriers to work. Government can look to help older workers by identifying the issues that they have and expanding the opportunities that exist.

2

Closing the Gap

The previous chapter has outlined that it is likely that individuals will both need and want to be working for longer in the future. On the face of things, this certainly looks possible, particularly given the surprisingly strong performance of the over-50s over the period of the financial crisis and recession.

In many ways the older labour market in the UK has started to look much more like the rest of the working population. Employment among the older workforce has increased towards the average workforce level at the same time that older workers have become better educated, received more training and have seen a decrease in health and sickness problems.

This chapter outlines the overall state of the over-50s labour market and the changes that it has undergone in recent decades. There are many positive signs, however Chapter 3 goes on to argue that there are equally important reasons why we should be focussing on the problems facing older workers.

Overview of the UK's older labour market

A closing gap over time

The labour market for older workers differs from that of other age groups in a number of ways. As people get older a number of factors will influence their labour market options and decisions in different ways than they do earlier in life. The employment rate of 50 to 64 year-olds has been lower than the average across working-age individuals for a number of years (Figure 3), however there is strong evidence that the nature of the older workforce has changed over recent years.

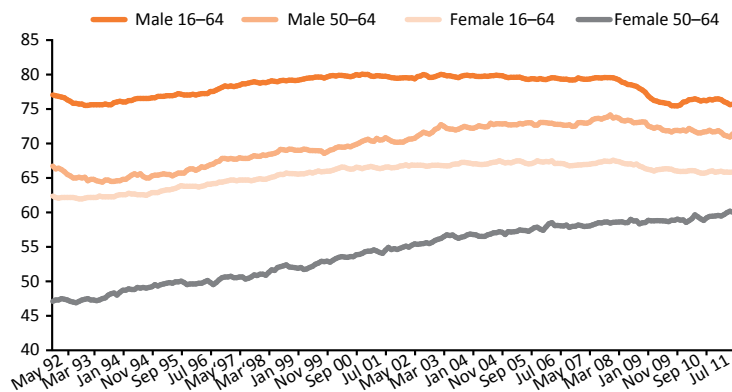
During the boom years leading up to the late-2000s recession the employment rate of older workers converged significantly on the working-age population average (Figure 3). Whilst the average working-age employment rate rose by around 4.4 percentage points in the 14 years to 2008 the employment rate of older workers rose by more than 9.5 percentage points. During this time there was some government focus on helping older workers back to work. The previous government had an explicit aim of increasing employment within the over-50s group and the New Deal 50+ aimed to support older workers.^{48, 49} However it is likely that that most of these changes have been driven by demographic change, rather than by government policy.

Much of this convergence between older and younger workers has come from the large increase in the participation of older women, whose employment has converged significantly on that of their male counterparts. This is, in part, a consequence of the way in which the gender differences in economic activity have diminished over time.

48 Delivering Our Public Service Agreements and Departmental Strategic Objectives, <http://www.dwp.gov.uk/docs/chapter3-22785.pdf>

49 http://webarchive.nationalarchives.gov.uk/+/www.direct.gov.uk/en/Employment/Jobseekers/programmesandservices/DG_173728

Figure 3: Employment rate for older workers and all working age by gender

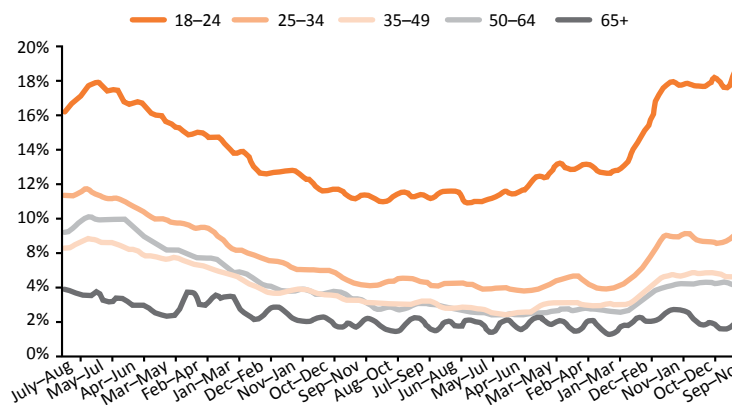


Source: ONS Labour Market Statistics

Lower unemployment

Among the clearest characteristics of the older workforce is its persistently low unemployment. As we can see from Figure 4 the unemployment among over-50s is considerably lower than it is for other age groups; this trend is especially noticeable among people over the pension age. By far the greatest unemployment increase has been for people under the age of 25; whilst other age groups have seen a smaller increase in unemployment than was seen in the early-nineties.

Figure 4: Unemployment rate by age



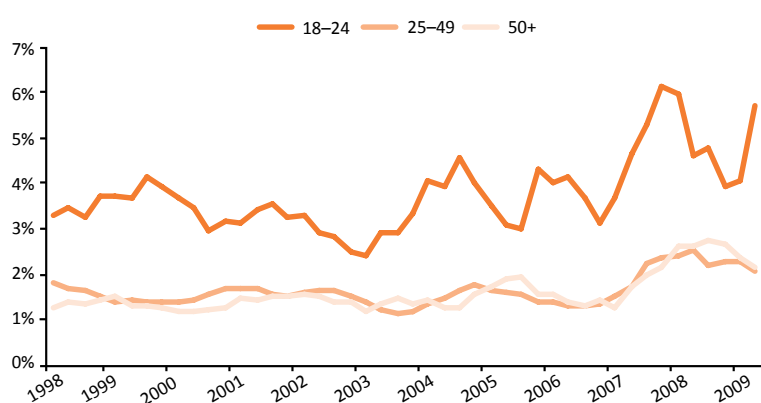
Source: ONS Labour Market Statistics

These trends strongly suggest that older workers are significantly less likely to find themselves unemployed and therefore hold a strong position in the labour market. It is however important to consider the other factors affecting older workers who find themselves out of work. There could be a significant number of older workers who become inactive after a period of unemployment (a problem

considered in Chapter 3), often because they become retired. The nature of unemployment should therefore be seen as different for older workers, meaning that such basic comparisons between unemployment rates of different age groups can often be misleading.

We can also see that the probability of an employed older worker being out of work a year later is very similar to that of the middle aged workforce but significantly lower than that of younger workers. There is therefore no specific reason to believe that older workers are especially likely to find themselves out of work within the next year, during recent years the percentage of workers over the age of 50 leaving work for unemployment peaked at 2.8%, compared to 2.6% for 25 to 49 year olds.

Figure 5: Flows from employment to unemployment in 12 months



Source: Labour Force Survey – author's own calculations

It therefore does not appear that, on average, older workers face more significant threats to their jobs while they are in work than other age groups do.

Better performance during the recession

Traditionally during recessions we have seen disproportionate numbers of older workers lose their jobs. In some ways these older workers, along with students and married mothers with young children, were seen as a 'contingent workforce'.⁵⁰ These workers were often low-skilled and worked in loosely specialised roles, meaning that they were seen as expendable and easily replaceable when economic conditions recovered.

During this recession the experience of older workers has been different to the recessions of the 80s and 90s. The number of employed workers over the age of 50 has risen whilst the total employment level in the economy has fallen.⁵¹ The reason for this will likely be a combination of the robustness of the current older labour market to falls in labour demand and an increased supply as individuals have to work for longer.

On the supply side, the current economic conditions in the UK will have made dropping out of the labour force a much less attractive option for many older

50 McNair S, 2011. Older people and skills in a changing economy, UK Commission for Employment and Skills.

51 ONS March 2011 Labour Market Statistics

workers. Higher proportions of older workers have outstanding mortgages and returns on investments, specifically potential annuity rates, are low. On top of this, house prices have fallen and inflation is high. This may have reduced the current and future value of their savings. The financial outlook of workers approaching retirement has therefore worsened in recent years. This provides a strong motivation to delay retirement, as seen in the 60% of respondents to a survey by The Age and Employment Network (TAEN) who believed that the recession would mean that they would have to work longer than the originally planned to.⁵²

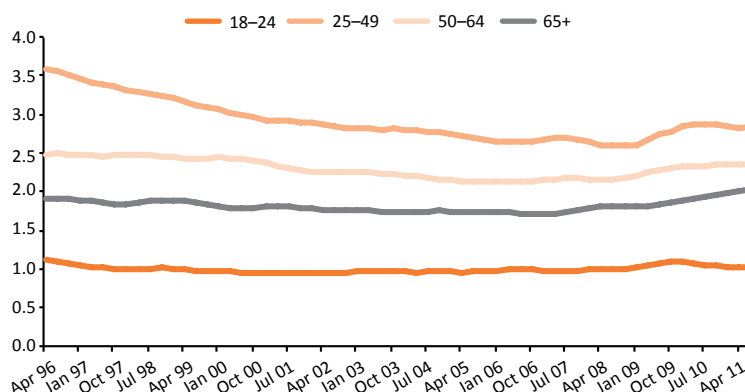
There are also signs that the demand for skilled and experienced workers is as high as ever. The CIPD highlight this, saying that “even in today’s tough economic times, employers report serious problems in recruiting good people with the right skills”. Older workers will have benefitted from this as their skills and experience will have been in demand, despite the recent recession.⁵³

As the economic activity rate among older female workers in the economy converges on that of their male counterparts, and a tough economic climate puts pressures on the finances of older workers, it seems likely that the labour force participation of older workers is likely to continue to rise in the coming years.

Smaller difference in redundancies than expected

As firms look to make redundancies it will often be easier for them to offer attractive early retirement packages to some of their employees who are at an age where they consider retiring, because they may already be considering retirement. We would therefore expect to see significant increases in the number of older workers leaving work. During the recession we have seen increases in redundancies across all age groups (Figure 6). The most significant increase has been seen among over-65s, for whom the number of redundancies has risen by around 17% from 2007 levels.⁵⁴ This is a clear sign of the imbalance between older and younger workers. However, for those below state pension age there is very little difference in redundancy rates. The number of 50 to 64 year olds leaving work due to redundancy has increased by around 10% since 2007, compared to an increase of approximately 9% for the whole adult population.

Figure 6: Number leaving work by age, four-quarter moving average (millions)



Source: Labour Force Survey – author’s own calculations

52 TAEN: The Impact of the Recession on Older Workers (2009).

53 CIPD: Managing A Healthy Ageing Workforce, A National Perspective, p4 (2012).

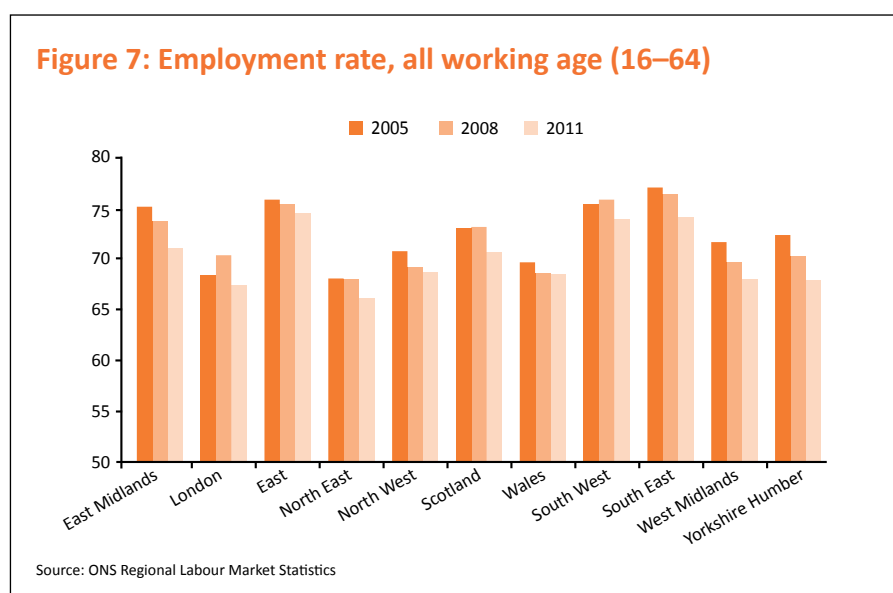
54 Labour Force Survey, author’s own calculations.

It appears that, while workers over pension age have been hit harder by redundancies, increases in redundancies below state pension age are relatively evenly spread.

Regional variation

We have so far considered aggregate statistics from across Great Britain, however there is a significant variation in employment rates across different regions. Some areas, notably the East, South East and South West, are used to having relatively high employment rates of working-age individuals, whilst London, the North of England and Wales have significantly lower employment (Figure 7).

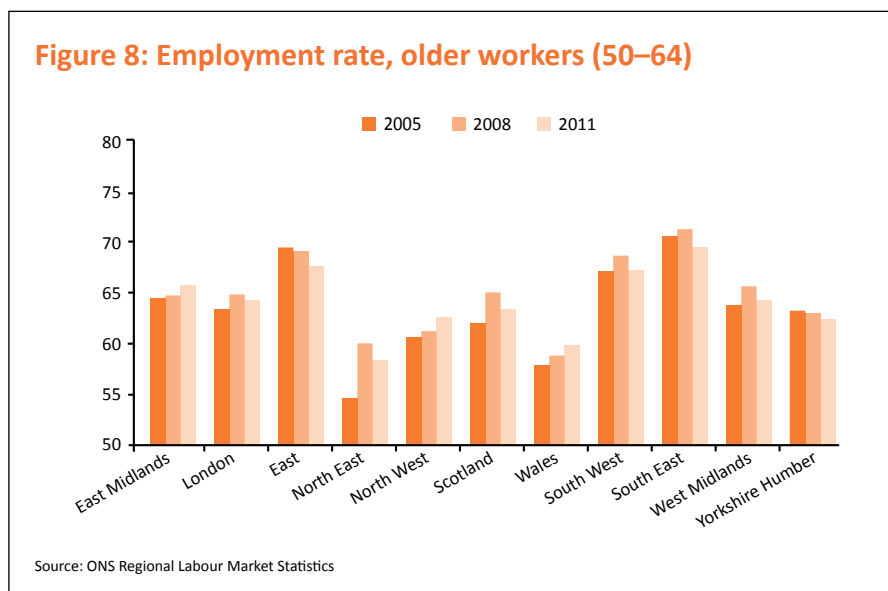
The employment of working-age individuals has fallen across all regions of the UK over recent years, with the largest falls seen in the East Midlands, West Midlands, and Yorkshire and Humber. Much of the fall has come in the last few years; in London and the South West employment was rising up to 2008 but has fallen significantly since, probably as a result of the financial crisis.



With such large regional variations in employment experiences, it is sensible to consider whether the experiences of older workers are greatly differentiated by region. In fact, older workers see a similar pattern to the wider labour market over recent years, with the South and East of England experiencing the highest employment; while the North East and Wales are again significantly lower (Figure 8). We have however seen an increase in employment in a number of regions, especially between 2005 and 2008. In the North East employment rose by 5.4 percentage points before falling by 1.6 percentage points by late 2011.

An interesting feature of these regional variations is that, relative to the overall population, the regional employment variation is greater for older workers. In 2011 the employment rate of older workers was 11 percentage points higher in the South East of England than it was in the North East, compared to a range of 8.4 percentage points between the East and North East for the general population. This suggests that there may be greater regional attachment for older workers

because they have greater commitments such as mortgages, children and other family commitments. This will make them less able to respond to different labour markets around the country in their search for work.



However, this larger spread of employment rates has declined over time: as older workers in areas such as the North East and Wales have seen their employment rise significantly there have also been declines in the high employment areas in the South and East of England. This has led to a significant narrowing in regional employment variation of older workers in recent years. The recession may have played some role in this by reducing employment in those areas with highest employment of older workers. However there was a pre-recession trend that saw the gap closing.

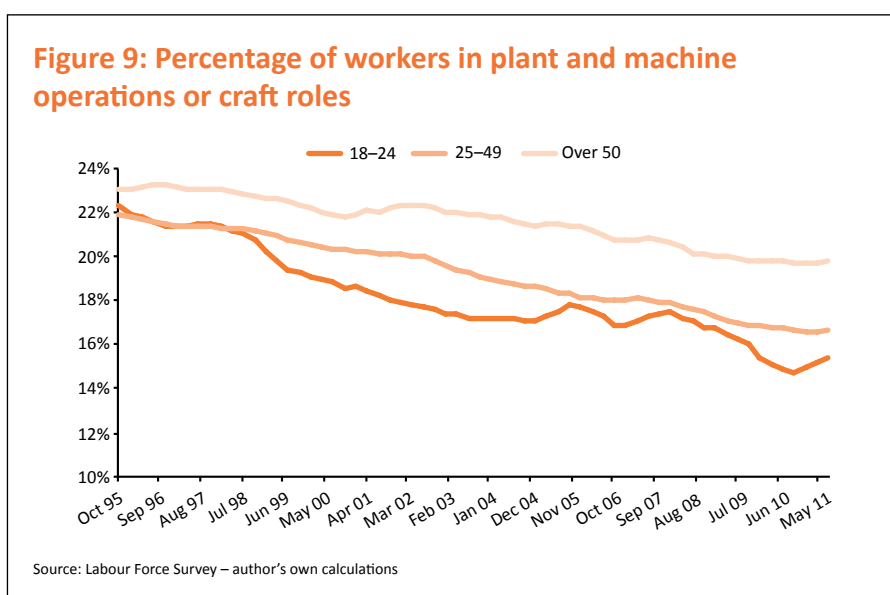
The most significant employment growth that we have seen has come from the regions whose older workers have been further behind, whilst the higher-employment regions such as the East and South East have shrunk in a similar way to the employment of the wider population. This suggests that in some (primarily Southern) areas older workers have become far more like the rest of the workforce, whilst in others such as the North East, North West and Wales they are still in the process of catching up.

It is a positive sign that these gaps are closing, but we should still be concerned by the higher regional employment variation that we see among older workers as it suggests that there may be some trouble-spots where employment of older workers is still a considerable distance behind that of the rest of the workforce.

Changes in the Older Workforce

The previous section has outlined the fact that today's older labour market in the UK is different to the one that existed in the past. Higher employment rates and the experience of the current recession indicate that it is no longer being seen as a more expendable part of the workforce and that, instead, UK employers are seeing older workers as valuable and necessary. Regional variation in unemployment rates are also beginning to close for older workers.

One of the most significant and well documented changes to the UK economy over recent years has been the movement away from manufacturing towards serviced-based industries. Across all age groups the proportion of the workforce working in plant operations, machine operations or craft-based roles has fallen over the last 15 years (Figure 9). For younger and middle-aged workers the trend away from such roles has been largest; this should be expected given that many younger workers will have entered the workforce in service or IT based roles, with the skills needed for those positions. It will have taken longer for the composition of older workers to change, however this change is evident and with it the role taken by older workers in the economy will have changed.



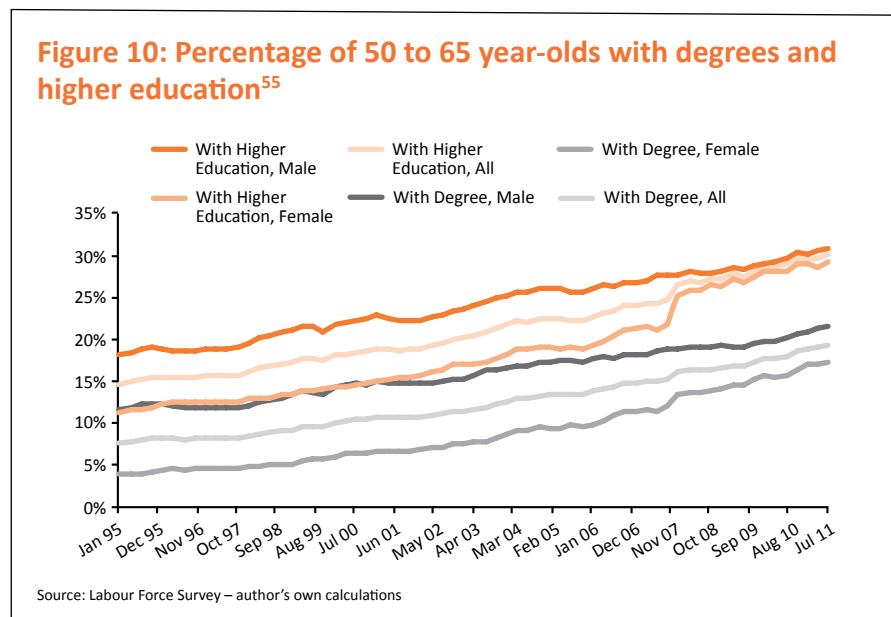
This movement towards less physically demanding roles will have had various causes and consequences. The key effect that it will have had is a significant fall in work-related health risks as jobs get less dangerous and physically demanding. Also there is evidence to suggest a greater depreciation of skills exists in manual professions, limiting the time that workers can spend economically active. These factors mean that it is becoming more likely that older workers will be able to continue working for longer.

Education

A key component of any change towards a more skilled and competitive workforce is an improvement in how educated workers are. A dramatic increase in the education of older workers has seen them become much more similar to the rest of the workforce. This will have helped them to compete for a wider range of jobs and goes some way to explaining their convergence in economic activity.

This increase in education is illustrated by looking at the proportion of 50 to 65 year olds with at least higher education or with a degree (Figure 10). An individual between the ages of 50 and 65 was two-and-a-half times as likely to have a degree in the third quarter of 2011 as they were in 1995. This current cohort of 50 to 65 year-olds therefore received significantly better education than

previous generations because of the improvements in access to education that have been seen over time and also because their childhood and early working lives were less affected by the World Wars during the first half of the 20th century.



As with many economic changes, the strongest growth in educational attainment has come among older women, who are now more than four times as likely to have a degree as they were in 1995. Among women, more education and employment is likely to be as a result of the improvement in their opportunities in society generally. This will have seen their educational and employment prospects improve, increasing the likelihood of being economically active later in life. Regardless of the exact relationship at play it is clear that the improved economic position of women has been a driving force behind the convergence of older workers towards middle-aged workers’ economic activities.

A more educated and skilled workforce will also have made employees more valuable to firms because of their increased productivity and specialisation. In a similar fashion, they will also have become more costly to let go given the human capital loss that comes with releasing skilled workers. This is likely to have dissuaded firms from releasing older workers in the same way as they have done in previous recessions.

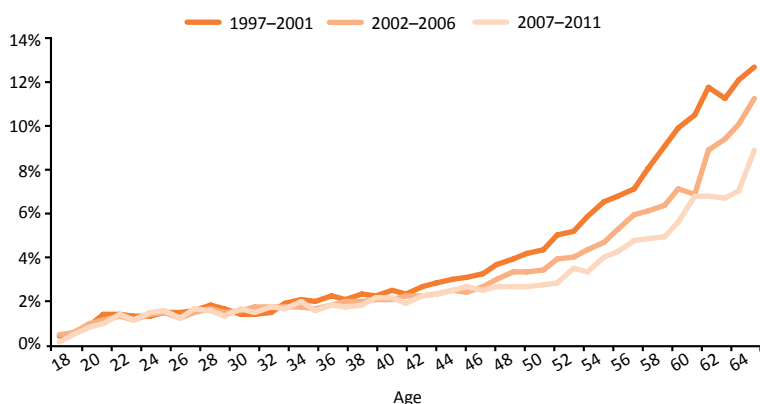
Education is clearly a significant part of the changing role of older workers in the economy and the ways in which they have become more similar to the middle-aged workforce.

Health and sickness issues

A major concern for workers as they get older is how their health will influence their ability to live the lifestyle that they would like and whether it might limit their ability to work. Over time there is a clear trend: the proportion of individuals leaving employment because of health related reasons is falling for all age groups; this is especially clear for individuals over the age of 50 (Figure 11). A worker in their late 50s was 40% less likely to leave work because of health reasons in the period from 2007 to 2011 than they were a decade earlier.

⁵⁵ We recognise that there is an unusually large rise between the first and second quarter of 2008, especially among women; we believe this is an inconsistency in the data which we could not account for.

Figure 11: Percentage of workforce leaving work for health reasons by age

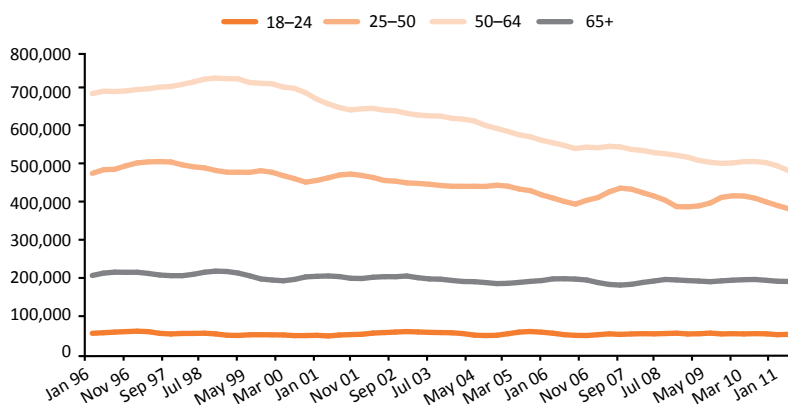


Source: Labour Force Survey – author’s own calculations

There could be various reasons for the decrease in people leaving work for health reasons. The decline of the manufacturing sectors and growth of service sectors mean that workers are generally in less physically demanding jobs and therefore are less vulnerable to injuries. In turn, a reduced likelihood of injury or work-related sickness will have meant a fall in the likelihood of older workers being forced to stop working entirely or change their career in some way.

Workplace health and safety practices have also improved dramatically in recent years, largely as a result of legislation that has looked to improve working conditions. This has increased regulatory burdens on employers but will have benefited employees by reducing the chance of them having work-related health issues. The quality of healthcare has also got better over time, improving individuals’ general health, reducing the risk of any injuries outside of work and limiting the long-run effects of any at-work injuries.⁵⁶

Figure 12: Number of individuals leaving work for health reasons per quarter (four-quarter moving average)



Labour Force Survey – author’s own calculations

⁵⁶ Sutherland and Coyle (2009) analyse the progress of UK healthcare, describing it as “comparing the UK as a whole against other countries there is still significant room for improvement on clinical performance, despite impressive gains”.

The recent recession does not appear to have had much influence on the number of individuals leaving work for health reasons, especially for 50–64 year-olds who have seen a smooth decrease since the late 1990s (Figure 12).

The decline in the number of older workers having to leave work because of health reasons should be seen as an opportunity for older workers who wish to work for longer. Furthermore it suggests that the health-related pressure that older workers receive during work has fallen so working longer has become more viable.

Skills and training

One of the crucial considerations when looking at the prospect of workers working until later in life is whether it is in fact practical for workers to carry on working until later in life; if older workers are not productive enough there is little incentive for firms, or benefit to the economy, from keeping older workers employed.

Various studies have looked to identify the age-productivity profile. However it is difficult to identify how skills vary over time given that they may vary greatly by the nature of the skills, job sector and the individual in question. The nature of productivity therefore makes it hard to gather unbiased estimates that are suitable for analysis of the whole labour market.⁵⁷

One of the most recent studies into this problem looked at French workers in the 1990s.⁵⁸ The authors of this study found that productivity increases significantly up to when an individual is in their late-30s before remaining

constant. Productivity between the ages of 55 and 60 is found to be 1–5% lower than it is in the five years before, but the estimate was not statistically significant. The authors state that “it is therefore difficult to conclude that there is a decrease of productivity after age 55, rather than a stability”.

“It is clear that training can play a significant role in increasing the value of older workers to their employers as well as supporting them as they look to stay in work for longer”

It is clear that some skills, such as finger dexterity, deteriorate more quickly, whereas verbal aptitude takes longer to decline.⁵⁹ This means that individuals working in manual professions may find that their ability to maintain high productivity deteriorates more rapidly than it does for others. The decline in the number of workers in manual positions should limit the number that see such a sharp decrease in their ability to work as they age.

Another concern is that the skills of older workers may not keep pace with changing technologies and working practices. This makes training, and re-training, an important feature of the labour market for older workers. Historically, training has been considerably lower for older workers than for younger workers and it is therefore an important area where older workers are treated differently than the rest of the workforce. This is an understandable trend because employers see much longer employment horizons for younger workers, allowing larger returns to training investments.

Despite the training bias against older workers, as with many of the areas outlined here, over the last 15 years we have seen a narrowing of the gap between the amounts of training received by older workers and groups of younger workers (Figure 13). Whilst training for all other age categories has fallen since

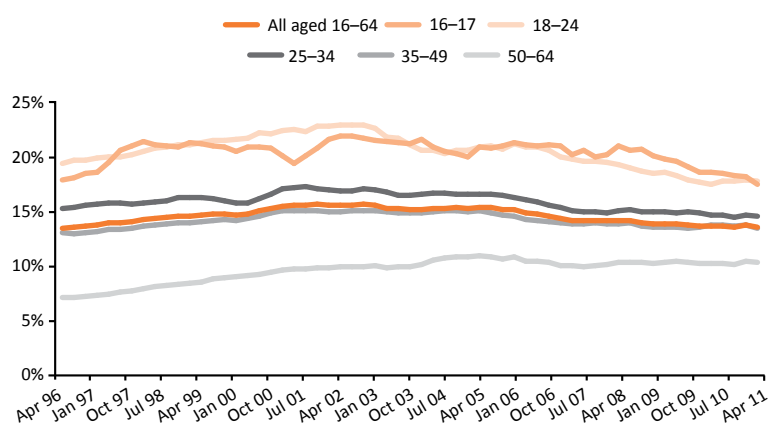
57 Skirbekk, V., 2003. Age and Individual Productivity: A Literature Survey.

58 Aubert, P. and Crépon, B., 2007. Are older Workers Less Productive? Firm-Level Evidence on Age-Productivity and Age-Wage Profiles.

59 Avolio, B. J. and Waldman, D. A. 1994. “Variations in Cognitive, Perceptual, and Psychomotor Abilities Across the Working Life Span: Examining the Effects of Race, Sex, Experience, Education, and Occupational Type.”

the early 2000s, it has remained stable for older workers. One of the clearest consequences of this is that, because firms have invested much more in older workers, the human capital loss from losing these workers is higher than it was in previous recessions.

Figure 13: Percentage receiving work-related training in last three months (four-quarter moving average)



Source: ONS Labour Market Statistics

This chimes with recent analysis of the influence of training on future employability in the Netherlands.⁶⁰ The authors found that providing training to older workers leads to them having a greater chance of finding work in the future and remaining employed in their current position. Keeping workers in their current position is clearly very important for older workers, for whom leaving work may result in them never working again.

Despite this evidence of the gains that older workers receive from training and the fact that training of older workers has increased significantly in recent years, there are questions over the extent to which this is enough to help deliver further increases in working lives. A study by the Centre for European Economic Research suggests one reason for this concern by highlighting that one of the key differences between the training received by younger as opposed to older workers is its goals.⁶¹

It suggests that younger workers tend to look for training that will promote productivity, promotion, pay rises and job security. On the other hand, older workers tend to receive training that delivers immediately relevant knowledge to them, meaning that they do not gain the same long-term productivity returns. Their explanation for this is that employers do not tend to offer older workers the training necessary for them to maximise their output. This suggests that we may still have some distance to go before closing the true gap between the training opportunities offered to younger and older workers.

Overall, it is clear that training can play a significant role in increasing the value of older workers to their employers as well as supporting them as they look to stay in work for longer. For older workers it is very important that they receive support which looks to provide long-term payoffs, as we look to utilise older

60 Impact of training on people's employability, European Foundation for the Improvement of Living and Working Conditions, 2007. <http://www.eurofound.europa.eu/ewco/reports/TN0506TR01/TN0506TR01.pdf>

61 Zwick (2011). Why Training for Older Employees is Less Effective, Centre for European Economic Research.

workers more these older workers will need to receive more training that looks to promote their productivity in the long-term. One would expect this to happen naturally as firms look to use the skills and experience of their older workers for longer.

Conclusion

There are many reasons to believe that the older workforce has gradually become more similar to the rest of the labour market. Indeed, in some respects we might consider it to be in a stronger position than other parts of the workforce. The employment rate of older workers increased at a faster rate than the rest of the labour force before the recession and was less badly affected during and after the recession. The unemployment rate of older workers is also still lower than the rest of the labour force.

These trends are to be expected given the other changes we have seen in the older labour market: older workers' education has increased dramatically from its low base at the same time as the extent to which they are focussed on low-skilled work has fallen. They are also less susceptible to health problems and are being trained in a more similar way to the younger workforce, allowing them to work for longer and at a high level. The skills older workers have accumulated, combined with an increased willingness and ability to remain in work, will make them more and more valuable to their employers, especially in a climate where the most skilled workers are very valuable.⁶² The modern, more skilled and better trained older workforce can therefore be seen as less vulnerable to the unemployment that comes during cyclical downturns or through any redundancies employers look to make.

62 CIPD: Managing A Healthy Ageing Workforce, A National Perspective, p4 (2012).

3

The Future: Not So Bright?

The previous chapter shows that there are clear reasons to be positive about the role of older workers in the UK economy. The skills and experience of the older workforce in the UK can, and is, providing more value to the UK economy than ever before. At the same time the opportunities available to older workers have increased as their education level and training have improved, and the risk of health-related work problems has decreased.

Despite these improvements, there are still significant threats to them both when they are in work and when they find themselves out of work. This section outlines the threats to older workers' employment in the next few years, the difficulty that unemployed older jobseekers have when trying to get back into work and the costs that will come from failing to support this group.

Public sector redundancies

It is possible that over the coming years there will be increased job losses for older workers as a result of public sector cuts; which are expected to result in 700,000 job losses by 2017.⁶³ In education and healthcare there are a disproportionate amount of older workers (as outlined in Chapter 1). Whilst we recognise and agree with the need for these cuts, it must be recognised that they could affect older workers significantly.

This suggests that the ability of the older workforce to maintain the strong employment position it held during and since the recession is likely to be tested as public sector redundancies increase. This also means that the support available to older workers will be tested by the increasing number of older workers who might require assistance as they look to get back to work after being made redundant.

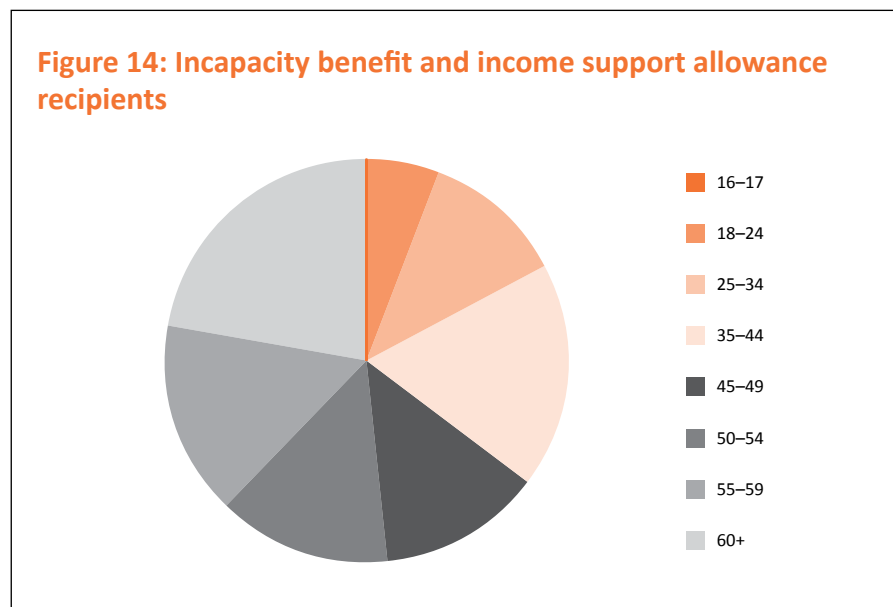
Incapacity benefits

With health problems disproportionately affecting older workers (Figure 11), the re-testing of Incapacity Benefit (IB) recipients is likely to result in significantly more workers being considered fit to work and using Jobcentre Plus or the Work Programme. The current stock of IB or Employment Support Allowance (ESA) claimants is dominated by older people, with more than half of claimants being over the age of 50 (Figure 14).

Successive governments have recognised the need to reassess people who are out of work on Incapacity Benefits in order to identify those who can work now or might be expected to return to work in some capacity at some point in the future. The government is aiming to retest all applicable IB recipients by 2014

63 The Daily Telegraph: Public Sector Job Losses to Hit 710,000. <http://www.telegraph.co.uk/finance/budget/8923696/Public-sector-job-losses-to-hit-710000.html>

using the Work Capability Assessment (WCA) in order to identify who is capable of going back into work rather than staying on benefits. This re-testing should ensure that employment support is provided to those individuals who need it and that any changes in individuals' conditions are accounted for.



Failure to identify those benefit recipients who are capable of working risks leaving a number of individuals who could work stranded, without support and reliant on benefits for the rest of their lives. From an individual perspective this can clearly be damaging. It will limit opportunities to have an active role in the labour market, could push older workers away from mainstream society and their social networks. Many reports have also shown the negative impacts on health and family life that can lead from prolonged periods out of work, as outlined in Chapter 1.

Dependency on benefits will also limit an older individual's opportunity to save more and control their own financial future. Without having their work capabilities reassessed a number of individuals could find themselves simply moving from IB onto the state pension when they reach the state pension age, leaving no opportunity to re-enter work. This is an issue for workers of all ages, however the number of older workers on these benefits implies that there could be a larger number of older people who could return to the workforce as a result of retesting.

It is also important to note that the re-testing process will not include those workers who will reach the SPA before retesting was scheduled to be completed in 2014. This potentially leaves a small number of individuals, who may have been capable of working, to flow from IB onto retirement benefits without reassessment. However all new recipients will be tested, meaning that the number of older workers who are put onto Employment and Support Allowance (ESA, the benefit that has replaced IB) despite being capable of work should be limited.

There is however a significant challenge resulting from a large number of older people potentially coming off incapacity benefits and beginning to look for work.

We can expect to see a significant rise in older jobseekers as they are deemed capable of working in some capacity. This could create a cohort of older workers who are no longer inactive but face significant barriers to work and are therefore rather different than the rest of the older workforce.

A large number of these individuals will be put into the Work Programme if they are found to be fully or partially capable of working. This will put a significant strain on the Work Programme and other back to work support services. Given that the Work Programme is still a new scheme and there is little information regarding its success in getting clients into work. It is unclear how successfully these older jobseekers will be in their efforts to find work, given their potentially significant barriers to work.

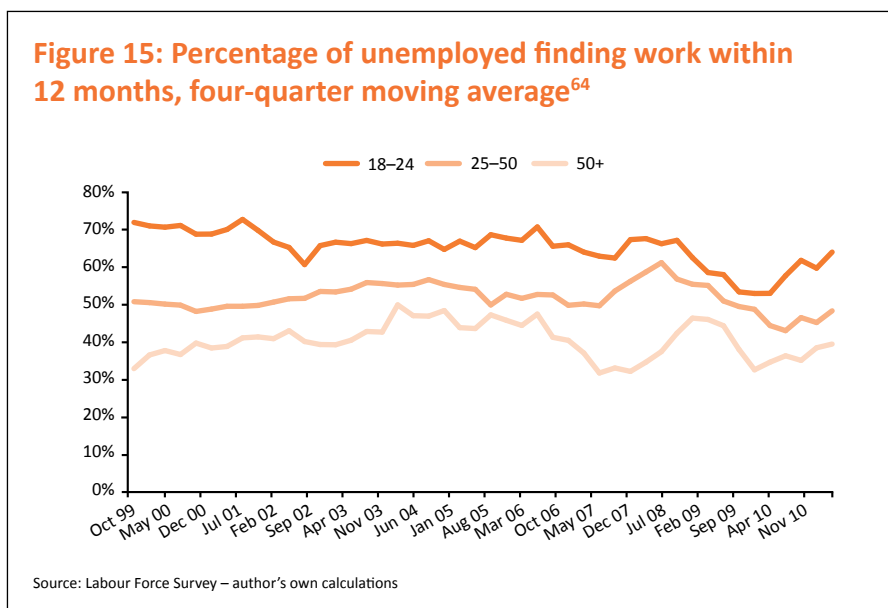
The cost of unemployment

A key metric in determining the strength of the overall labour market, or a particular sub-group within it, is the speed at which individuals who find themselves unemployed are able to re-enter work. Closely linked to this is the long-term impact that spells of unemployment might have on them in terms of their future chances of employment and wage levels should they find employment.

Ease of leaving unemployment

To assess the ease with which different groups of workers move back into work when they are unemployed, we can use the Labour Force Survey to look at the number of unemployed workers who find work at some point within a year.

Figure 15 shows that older jobseekers have considerably more trouble finding work than young or middle-aged workers. Less than 40% of older workers who were out of work in the first quarter of 2010 had found any work in the next year, compared to 63% of young workers (aged 18 to 24) and nearly 48% of 25 to 49 year-olds. This demonstrates that there are barriers to work that disproportionately affect those older workers who wish to work.



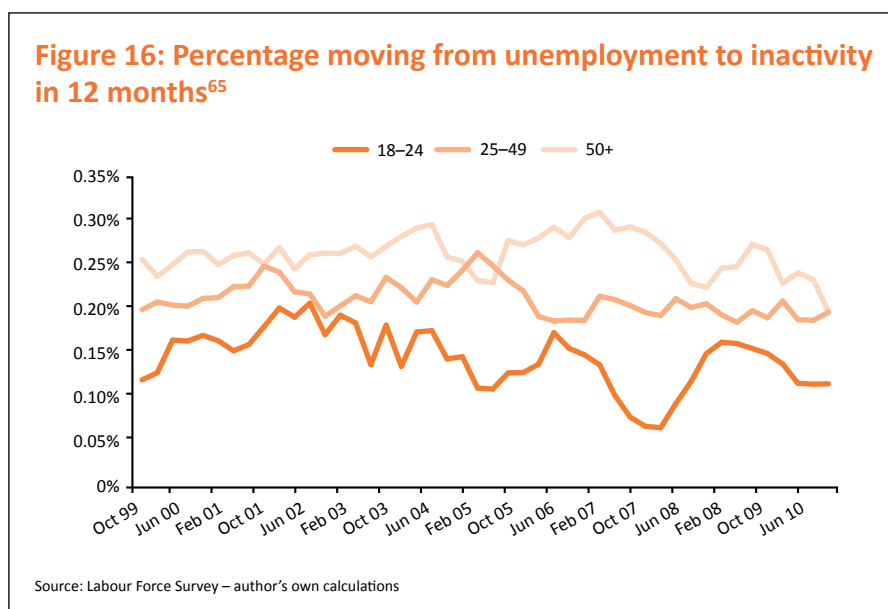
⁶⁴ These estimates differ from the percentage of unemployed who have been unemployed for 12 months or more (as represented in ONS labour market statistics releases), because we compare the proportion of individuals out of work for over 12 months relative to the unemployment 12 months before, rather than current unemployment.

A drift to inactivity

Another issue faced by older workers is the chance that they drop out of the workforce after becoming unemployed. This may mean that they have chosen to retire from work, look after their home and family or they have given up on seeking work because of a sickness or disability. The commonly used ILO measure of unemployment will not record this form of underemployment and so these statistics rarely features in analysis of the labour market.

Figure 16 demonstrates the vital importance of consideration of this for older workers, since the probability of an unemployed individual moving into inactivity increases significantly with age. Over the last decade the rate of movement into inactivity from unemployment is around 25% for older workers, compared to around 20% for middle-aged workers and 15% for younger workers, meaning that older workers who are looking for work are more likely to drop out of the workforce entirely if they do not find work.

Another interesting feature of Figure 16 is that the flow rate from unemployment to inactivity fell during the recent recession. This chimes with earlier evidence of increasing economic activity in older workers that suggests that older workers need and want to work for longer, because of factors such as worsening financial positions creating an *income effect*, encouraging them to stay in work. As with other observations, here the characteristics of older workers have become much more similar to the rest of the age distribution. Rather than acting as a separate part of the workforce, their reaction to the current economic climate has seen them acting more like young and middle aged workers.



⁶⁵ This definition of inactivity excludes education so that we measure those individuals who are totally disengaged from work and training.

⁶⁶ Labour Force Survey, author’s own calculations.

Despite a recent improvement, the situation is still unsettling, with more than a quarter of a million older workers moving from unemployment to inactivity each year.⁶⁶ The problem here is that movements from unemployment into inactivity have the potential to cause a significant loss in the productive capacity of the economy. Many older workers who become unemployed will have significant

levels of accumulated skills and human capital that is related to their previous industry or sector, as well as many general skills and experience.

If we allow a significant number of individuals to become economically inactive these skills and experience are likely to be permanently lost to the economy. In this regard becoming unemployed can be seen as a one-way-street for a number of older workers whose barriers to work are significant enough that they easily fall into inactivity. It also suggests that the impact on economy-wide productivity and output from unemployment of older workers can be severe.

Unemployment scarring

Even when older workers do not move into inactivity, the impact of their spells of unemployment can be significant. Much of the modern research into the effects that unemployment has on people has looked to measure the *scarring* that it causes. These scars identify the short and long-term costs of periods of unemployment on individuals' futures, usually focussing on specific economic outcomes.

Clearly any depreciation in an individuals' future employability or their earnings will affect them greatly, especially if their opportunities to save for retirement are as limited as they are for older workers. The financial effect of unemployment is therefore not simply a short-run problem caused by a fall in income. There is also a long-run cost through a loss of future earnings as they work less often and for lower wages in the future.

There are also concerns about individuals' wellbeing. Poorer financial outcomes will affect people and their families and there is also evidence that the social connections that are made through work can support individuals later in life.⁶⁷ Unemployment scarring can therefore undermine the financial and personal opportunities that people have later in life, meaning that it is very important that we understand these long-run effects of unemployment for workers of different ages.

Various studies have looked at the effect of unemployment scarring. Possibly because of the limited availability of quality datasets following older workers from birth, much focus has been on the unemployment scars felt by younger workers, rather than considering which age groups are most affected by this problem. As well as the difficulty finding work that comes as a result of unemployment that we have seen before (Figure 16), another key consideration is the effects of unemployment on the wage prospects that those individuals who do find work receive.

There are many reasons why spells of unemployment might be expected to lead to poorer employment and wages in the future. On one hand, employers with less than perfect knowledge of the applicants to the same job may use employment histories as a tool to sift out applicants as they believe that past unemployment is a 'signal' of other characteristics such as lower productivity or a poor work ethic, which otherwise are not visible to prospective employers.⁶⁸

Another consequence of spending significant amounts of time out of work is a loss of human capital. Over time, skills and abilities will fade if they are not practiced or become out-of-date. Firm or sector specific skills will become less valuable as the worker moves to another company when they get back to work or have to look for roles that are significantly different from the positions that they have experience of. This process will be detrimental to workers' prospects as they

⁶⁷ Retire later to stop loneliness, says No 10 adviser.
<http://www.bbc.co.uk/news/uk-politics-16980361>, BBC

⁶⁸ The Signal effect of unemployment has been considered in much of the literature, for example in Gregg (2001)

look to re-enter the workforce, decreasing their chances of finding work and the wage that they can expect to find when they do find work.

Another source of scarring may come if spending time out of work affects workers' attitudes and decisions when looking for work. Becoming discouraged after spending a long period of time out of work may reduce their effort when looking for work in the future because of a belief that there is no suitable work available, reducing their employment prospects further. They may also be forced to adjust their wage demands in order to find work, creating a *wage scar* as spending longer out of work decreases the wage that they expect or demand.

Whatever the cause, much of this literature and evidence has been used to argue that government's intervention in the labour market should be focussed on young people. However, given the lack of evidence surrounding the impacts on older workers, the assumption that older workers are less affected by these issues is, perhaps, unwarranted. This is particularly true when we consider that older workers are far more likely to have firm or industry specific skills which risk being lost if unemployment has a scarring effect on them.

The few studies which do consider this issue suggest that scarring is a particular problem for older workers. For instance, Ball (2011) suggests that the effect on wages may be greatest for older workers because their greater financial commitments mean that they cannot afford the luxury of spending more time looking for the best available position:

*"Whilst skilled workers are prone to engage in wider job search, the over 45s are more likely to be mortgaged home owners and thus are more likely to accept lower reservation wage jobs locally in order to maintain mortgage payments than those without these financial constraints. The impact of accepting 'low quality' employment, rather than waiting for a higher quality match, may have far reaching consequences for future human capital accumulation and subsequent wage growth."*⁶⁹

This shows that older workers can face significantly greater wage scars than under-45s, a position echoed by Gregory and Jukes (2001) who found that "These wage penalties are least for young men and the low paid – those most at risk of unemployment – and greatest for prime age and highly paid men".⁷⁰

An interview with an older jobseeker highlighted exactly these concerns:

It's one thing that is actually a bit depressing, every time you hear the news with the unemployment figures they're always going on about the young people out of work and how bad the job market is for young people. Trust me, it's just as bad for the older people.

I think another problem with older people when you're looking for work is that, if I was a young person and it is a 6 month contract if it's on minimum wage but they're still with mum and dad, it's fine they can keep them going work a little while.

[Older workers] are having to look at the job market in a slightly different light because by the time that you reach 50 you've got commitments, baggage if you like, and you need stability. The things that you can look at tend to be slightly different for someone of my age group. That's not to say that I'm going to turn anything down, I haven't had that opportunity, but you have to bear in mind when you're a little bit older, something that's going to last me three months is not really any good.

50 year-old from the South East of England who has been unemployed for three years

69 Ball, P. 2011. Mixed Signals: to what extent does male wage scarring vary with the characteristics of the local labour market in which unemployment was experienced?

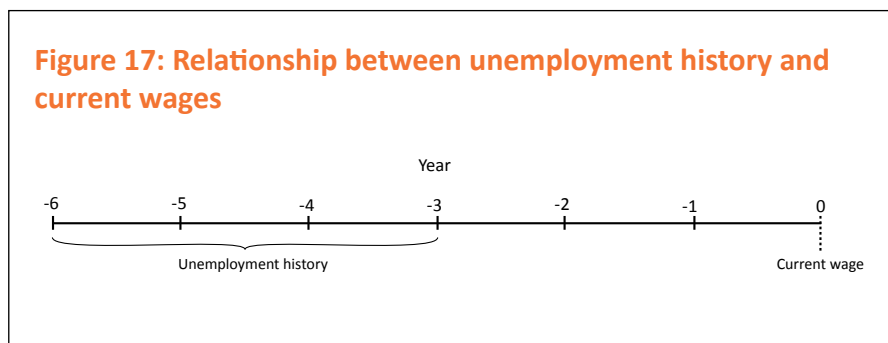
70 Gregory, M. and Jukes, R. (2001). Unemployment and Subsequent Earnings: Estimating Scarring Among British Men 1984–94

The non-economic effects of unemployment can also be significant and influence the livelihoods of older workers. Time out of work is associated with higher mortality rates, poorer mental and general health and higher hospital admission rates.⁷¹ A lack of suitable support for older workers will therefore not only hurt their chances of getting back into work, it will affect a wide range of areas in their lives.

Econometric analysis

Despite the two reports cited above that focus on the impacts on older workers, there are still relatively few comparative studies which assess the difference in scars across different age groups. To tackle this issue, we extend these findings by looking for the effects of being unemployed on workers of different ages, identifying the effect that it has on future wages.

Our analysis uses the British Household Panel Survey (BHPS), giving us detailed information about a representative panel of around 5,500 households of all ages over each of the 18 years since 1991. Using the BHPS we can assess the effect on employment chances and wages of unemployment in a three year spell up to 6 years ago. We leave a 3-year gap so that, instead of looking at short-term relationships between unemployment and outcomes, we are able to identify the longer-term scars that periods of unemployment leave (Figure 17).



We consider the influence that these periods of unemployment have on individuals when they are at the beginning, in the middle and the end of their working lives. Younger workers are defined as those below the age of 30 so that we measure the effect of their time spent unemployed out of work before the age of 27.⁷² Older workers are those over the age of 50 and middle-age workers those from 30 to 50 years of age. As with most academic literature in this field, we restrict the sample to men to ensure that any complications from inactivity caused by pregnancy or raising their children is minimised.⁷³

We account for a number of observable characteristics which might lead to different individuals having different wage outcomes. Basic characteristics such as age, the year that the result was measured and region account for a great deal of the predictable variation. Personal variables; marital status, disability, education level and type of residence are also included. We are also able to include information about the individual's partner using BHPS, allowing us to account for any effect that partner's employment status, hours worked or wages has on their

71 Waddell, G and Burton, A. (2006). "Is Work Good for Your Health and Wellbeing?". Department for Work and Pensions

72 Whereas in much of the rest of the report we consider young as under the age of 25, here we have increased it to allow us to increase sample size in an effort to get a more significant result.

73 The results for women were very similar, both in the size of the marginal effects and the differences between different age groups.

circumstances. Because we measure weekly wages we also have to account for the number of hours worked.

Of course, we might also be worried that there are a number of factors that the BHPS does not observe that could bias our results. For instance, we cannot directly measure motivation and we cannot accurately account for labour market experiences before the individual is observed in the survey. As these factors vary between individuals and groups, and are likely to be correlated with our observed measure of length of time unemployed, it could lead us to overestimate the size of the impact of unemployment on wages.⁷⁴ However, using the BHPS allows us to remove this potential by using a technique known as fixed effects estimation.⁷⁵ We use this in the estimate of wage scarring to remove any bias that might have arisen from factors like past experience and motivation which would otherwise have distorted our results.

Here we used a fixed effects model, which looks at the variation in wages that individuals see as a function of the unemployment that they experience through their lives. This models the difference between their current wage and their average wage as a function of various inputs. Crucially we can account for their personal characteristics which will affect individuals' wages. If we are not able to do this we would be at risk of bias in our estimate of the effect that unemployment has on wages; for example if individuals with a higher propensity for unemployment also tend to earn lower wages we risk inferring causality where there may not be.

What our results (Table 1) therefore show is the estimated effect that an individual's unemployment history has on their current wage, after accounting for the average wage level that they experienced through their life, by looking at the deviation in their wage from its average.

Table 1: Fixed effects regression of log real weekly wages by age (selected explanatory variables)

	18–29	30–49	50–64
Unemployment history	-.00005	-.00086*	-.00301***
Hours per week	.00903***	.00810***	.01220***
Age	.04975*	.01033	-.01219
Year	.02386	.01584	-.02023
Number of children	-.04089	.02349***	-.02138
Number of individuals	1,121	2264	1200
Number of observations	4,328	14,000	6,569
R-squared ⁷⁶	0.1688	0.1262	0.0463

Also conditioning for maximum education level, region of residence, type of household, marital status, partner's employment status, partner's earnings, whether they have a disability and the extent to which it affects their work. *** indicates statistical significance at the 1% level, ** at the 5% level, * at the 10% level.

74 Technically this is a form of omitted variable bias, which the interested reader can find explanations of in any econometrics text.

75 The interested reader can find an explanation in slightly more advanced econometrics text.

76 This is the proportion of the variation in outcomes that our model explains, which the interested reader can find explanations of in any econometrics text.

We measure wages using the natural logarithm of the real wage of the individual in each wave that we observe both their wage and their employment history. Real wages are necessary to account for inflationary changes in that year and the logarithm allows us to remove any element of scale from the calculations, simply getting marginal effects as the percentage change that they cause.

We see an effect of unemployment on wages when previously unemployed individuals do find work which is greatest for older workers. Our results suggest that young workers do not experience any statistically significant wage scar, with 50 to 64 year olds experiencing larger wage scars than middle aged workers. In simple terms these figures imply that one extra week of unemployment up to 6 years ago reduces wages by an estimated 0.3% compared to 0.09% for middle-aged workers.

These results clearly show that unemployment has a much more significant medium-term scar for older workers' wages. Combined with the longer durations of time spent out of work, increased difficulty getting into work in a given period of time and the significant flows into inactivity from unemployment experienced by older workers, this shows that the cost of becoming unemployed can be significantly larger for older workers than for workers under the age of 50. This indicates that there are significant barriers to work for older workers; if we fail to identify and address these obstacles then we face the prospect of significant numbers of older workers who find themselves out of work remaining unemployed or leaving the labour market entirely.

The economy could face losing significant amounts of productive capacity as the human capital available is dramatically reduced. Furthermore, from an individual perspective, providing insufficient support to older workers will damage their prospects when looking to work longer, their potential for future savings and the living standards that they can expect in later life.

Conclusion

While we have shown that the labour market 'gap' between older workers and the rest of the workforce has been closing in recent years, there are still significant concerns for older workers. Once unemployed, older workers are less likely to move back into work and are more likely to move into inactivity.

These broad conclusions are further illustrated by the findings presented above that clearly show that unemployment has a greater effect on the economic outcomes of older workers than it does for other age groups.

A failure to support older workers in their efforts to get back into work can, and will, have major wage costs. These results are similar to the findings of Ball (2011) who sees older workers as more affected by time out of work. In this respect, unemployment for older people can be a one-way street, resulting in higher worklessness and the poorer personal and financial outcomes that come with it, as well as lost productivity and output for the economy. The next chapter outlines what needs to be done to make sure this terrible loss of potential is stopped.

4

Supporting Older Workers

We have seen how older workers have become a larger and more important part of the UK economy over recent years, as they have become more similar to the middle-aged workers who have traditionally made up the core of the labour market. A significant part of this process has involved people working for longer as the State Pension Age increases and the employment rate between the ages of 50 and 64 has increased, closing on that of the wider working population.

Despite these improvements there are still significant barriers affecting older workers when they find themselves out of work. The costs of these barriers to both individuals and families and the state can be large. It is therefore crucial to explore why the impacts of unemployment can be so large for older workers and make a stronger attempt to tackle the significant difficulties older workers face in the labour market and, in particular, when looking for work. There are various roles of policy in addressing barriers to work and promoting the opportunities of older workers in the labour market.

In this section we outline the major barriers that may be limiting the success of older workers in the UK economy and look at the role that government support plays in enhancing their opportunities. We consider a variety of support mechanisms including curbing age discrimination and providing a framework that will allow more flexible working solutions. The following chapter considers the direct support available to older jobseekers through Jobcentre Plus and how to adjust the political focus in order to provide both older workers and older jobseekers the support that the need.

Age discrimination

One of the most obvious barriers to work that can disproportionately affect older workers is age discrimination. This can come in a variety of forms and affect workers in a variety of circumstances.

In recruitment, treating or judging a candidate differently because of their age would be classified as age discrimination. An older candidate may find that they are handled differently because a firm does not wish to invest in them or take a risk on a candidate who could potentially have a shorter career with the organisation. There may also be the perception that they will not fit in.

Despite such practices being illegal, studies have found evidence for age discrimination in recruitment, testing the different responses to job applications and a number of older workers we spoke to suggested that discrimination was a real problem. One of the people we interviewed suggested that:

“[On the lack of jobs] I think it is probably a problem for all workers but I think for older workers it has to be worse. I know that, because I was in a position that I used to employ a lot of people, and if you’ve got 40–50 CVs for a job, the one that’s over 50 is seen as worse. If you’ve got somebody younger who you think is fitter, easier to train, you’re liable to get more years service out of; everything would lead you towards the younger person, unfortunately.”

50 year-old from the South East of England who has been unemployed for three years

Within work there are various areas in which older workers could be discriminated against. As with recruitment; when considering training a firm will consider the length of time over which they will get returns from the investment. This may mean that they offer more training to younger workers. Older workers may also face similar discrimination when looking for a promotion, pay rise or other form of career progression.

Older workers could also face the prospect of their employer trying to make them redundant on age grounds or pressuring them to retire. Both of these would be an example of an employer acting differently towards a worker because of their age and they are therefore examples of age discrimination.

Research has also shown that employers may find themselves using stereotypes of how well individuals can perform or how they will fit into the workforce as they age. A recent DWP study found the older workers seen as less competent than younger workers:

“Generally, older people are likely to be stereotyped ‘benevolently’ as warm (positive) but incompetent (negative), whereas the reverse is true for younger people.”

Sweiry and Willitts, 2012. Attitudes to Age in Britain 2010/11

Older workers may therefore receive less favourable treatment; not because they are less productive but because this is what prospective employers perceive. Other stereotypes may consider how a worker would fit into a role. Employers may think that older workers would not fit into certain environments and would therefore be less likely to be productive.

The problems facing older people when they are unemployed is in contrast to the high employment rate. This suggests that the largest problems are for older people when they are looking for work, perhaps when their skills are less visible and prospective employers are more likely to resort to the assumptions and stereotypes about older workers that make up age discrimination. This would explain how we have seen a relatively low number of job-losses compared to other age categories during the recent recession, at the same time as older workers have been less likely to leave unemployment for work within a given period of time.

Identifying age discrimination

In order to understand the role of age discrimination we undertook a major piece of original research to identify whether older workers are treated differently to younger ones when looking for work. This built on previous reports that have identified discrimination by applying for jobs with otherwise identical CVs or applications that differ in one key way. Measuring the differences between these

responses allows us to isolate discrimination and has been used to do so in a number of areas including ethnicity, postcode and age.

One of the most well-known versions of this research was a study of racial discrimination in the USA⁷⁷ highlighted in Stephen Levitt and Steven Dubner's book, *Freakonomics*.⁷⁸ The study applied to jobs using names which are overwhelmingly given to white or black people and therefore would be treated by employers as such. The responses showed a significant difference in the response rate received for white and black applicants, showing discrimination against black individuals applying for jobs.

In the UK a Department for Work and Pensions report also used this approach to look for racial discrimination among white, black African, black Caribbean, Chinese, Indian and Pakistani or Bangladeshi individuals.⁷⁹ They applied for nine different positions in seven cities, applying to a total of 987 jobs with three different applications per job.

This study found that white applicants received responses 10.7% of the time compared to 6.2% for names that are typically given to individuals from an ethnic minority. The authors found no statistically significant difference between the response rates of different ethnic minorities. There was also evidence of lower discrimination among higher-skilled jobs, and less discrimination when the form filled in was the employers' own, indicating that more advanced recruitment processes can remove personal information and therefore reduce discrimination in at least the first stage of the recruitment process.

Riach and Rich (2007) used a similar methodology to look for age discrimination.⁸⁰ They applied for a graduate chartered accountancy training position with a 21 and a 39 year-old female applicants, a 27 and 47 year-old for waiters, and a 27 and 47 year-old for assistant manager positions in female clothing shops. They made sure that the CVs had the same experience, their skills were up-to-date and they had had recent training where relevant, and their interests were modern but age-neutral. The study found significant discrimination against the older worker for the graduate accountancy and waiter jobs, whereas the assistant manager position showed a bias in favour of the older worker.

Our research has expanded these findings by looking at the responses to applications sent for older and younger workers. In order to do this we applied for jobs with two CVs with different dates of birth, one from an older worker and one from a younger worker (a fuller explanation of the process is available in the Annex).

We applied for two different roles in order to account for any differences among positions that required different skills levels:

- Personal Assistant – Applied for 250 London-based positions advertised on online jobs listing websites with female applicants aged 24 and 50. Both CVs had all of their skills up-to-date with recent qualifications where necessary; both CVs showed around five years of relevant experience.
- Bar Work – Speculative applications made for 977 positions around England with female applicants aged 25 and 51. Both CVs had around four years of experience with relevant skills.

Given that different CVs were needed to apply for the same position twice we sent two different CVs for each type of job. Each application had characteristics,

77 Bertrand, M. and Mullainathan, S. 2003 "Are Emily and Greg More Employable than Lakisha and Jamal? A Field Experiment Evidence on Labor Market Discrimination," National Bureau of Economic Research working paper.

78 Levitt, S. and Dubner, S. 2005. *Freakonomics* Chapter 6

79 Wood et al. 2009. A test for racial discrimination in recruitment practices in British cities.

80 Riach, P. and Rich, J. 2007. An experimental investigation of age discrimination in the English labour market.

such as job histories, that did not vary according to age, allowing us to randomise between the different ages and the different CVs in order to remove all potential bias that might have come from the quality of the CVs. All CVs outline interests that are largely age-neutral and education that is not relevant to when it was attained. This has allowed us to ensure that there are no obvious differences between the applications made by older and younger workers, other than the date of birth.

A positive response was measured if the prospective employer showed interest in the applicant such as a job offer, invitation to interview or request for further information. This allows us to draw a clear analysis of the interest that is shown in the applicants and analyse whether there is any difference in the responses to the applicants.

The number of positive responses to both studies shows a bias against older workers. The clearest bias can be seen from the applications for jobs in pubs with a response rate of 16.4% for the 25 year-old applicant but only 7.3% for the 51 year old, meaning that a younger worker was 2.25 times as likely to get a response as the older applicant, a difference that is statistically significant. For personal assistant applications older workers again showed a bias against older workers, this time with a response rate of 6.4% for the younger worker and 4.4% for the 50 year old, indicating a greater chance of a response for the younger worker, however these results lacked statistical significance.

Table 2: Age discrimination applications results

Position	Number of applications	Younger worker		Older workers		Bias against older worker* (percentage)
		Positive responses	Positive response rate	Positive responses	Positive response rate	
Bar work	977	160	16.38%	71	7.27%	89*** (125.4%)
Personal assistant	250	16	6.40%	11	4.40%	5 (45.5%)

Measured as the extra responses the younger worker received relative to the older worker. Chi-squared tests conducted in column 7, *** Indicates difference in responses are statistically significant at the 1% level.

The results agree with some of the findings of the previous study on age discrimination by Riach and Rich (2007), which found discrimination against older workers in two of the three roles that they applied to.

We therefore conclude that there is significant age discrimination against older workers. Age clearly plays a very large role in determining whether an employer is interested in an applicant, this is happening even in the absence of any significant difference between the two applicants and provides a significant barrier for older workers looking for work.

Tackling discrimination

Given that both our study and previous evidence have found evidence of discrimination, there is clearly the question of what can be done to tackle the problem. Anti discrimination law currently makes up a major part of the policy that supports older workers in the UK. The Equalities Act 2010 came into force in October 2010, replacing the Employment Equality (Age) Regulations 2006, and is the most recent in a series of legislative changes that have looked to protect older workers from any discrimination in or around the workplace.⁸¹

The principal aim of this legislation has been to prevent workers from being treated differently to the rest of the workforce because of their age. For all aspects of employment including recruitment, training, redundancies, and pay, workers cannot be discriminated against because of age (except for in the rare exception that there are justifiable reasons, such as in extreme cases where age may affect their ability to comply with health and safety rules).⁸² As well as its application to employment, the Act also makes it illegal for education and training providers to discriminate according to age for further education, higher education, adult learning and any other work-related training.

On top of making discriminatory practices illegal, the Equalities Act also removes the age limit of 65 which existed for claims of unfair dismissal, redundancy pay and eligibility for statutory sick pay. These changes put the rights of older workers in line with those of the rest of the workforce and in doing so remove barriers that come into play around the same time as the individual becomes eligible for the state pension.

Older workers who want to work will be supported by these measures but we have clearly highlighted the persistence of age discrimination in the face of very clear regulations that make such discrimination illegal. One problem is the extent to which discrimination is visible. The difficulty in monitoring discrimination makes it very hard to police any infringements that occur and any attempt to do so would likely be very invasive.

A legitimate concern is that increasing job security of workers through stricter discrimination law increases the cost of hiring for employers, because the potential costs of firing increase. Firms will be far more reluctant to employ older workers if they could face higher redundancy costs or be more vulnerable to claims of discrimination and the prospect of unfair dismissal tribunals. Furthermore, increasing regulation on the hiring practices will put administrative pressures on businesses given the introduction of rules which they must ensure that they adhere to. These pressures are likely to affect smaller businesses more given that they will often not have specialist legal or human resources departments to manage these extra demands.

It is essential that firms are still able to recruit the most suitable worker and conduct their usual performance management techniques when managing all of their workers. In order to allow this it is important to protect firms against the potentially high cost of speculative or unfounded claims of discrimination.

Age discrimination law has been a major force behind the improved opportunities of older workers, and had achieved this within a clear legal framework. There is value in the clarity of the current law, with regulations clear to employers, minimising the cost that these regulations can have. Any increased strictness of these laws may only serve to increase burdens on employers; we therefore do not see it as productive to do so.

⁸¹ Equalities Act 2010 <http://www.legislation.gov.uk/ukpga/2010/15/contents>

⁸² http://www.direct.gov.uk/en/Employment/ResolvingWorkplaceDisputes/DiscriminationAtWork/DG_10026429

We do however believe that the government can make significant inroads into the perceptions that firms hold over older workers and start to build a more positive debate around the importance of the older labour market. We believe this would go a long way towards tackling some of these problems and we outline distinct policies for this later in this chapter and in Chapter 5.

Default Retirement Age

An area closely linked to the discussion of discrimination is the Default Retirement Age (DRA). The removal of the DRA is perhaps the most significant legal change made by the current Government to support the employment of older workers. Before its removal in October 2011, DRA allowed firms to make employees aged 65 or over redundant, conditional on giving 6 months notice and allowing the employee to make a formal request to continue working, which may have been accepted or rejected. It is now illegal for a firm to force an employee to retire at any age, except if it can be shown that an individual is no longer able to do their job as a result of reaching a specific age; as with age discrimination laws these exceptions are very rare and could require significant legal proceedings.

In a similar fashion to age discrimination legislation, a number of groups argue that the removal of DRA has put unfair burdens on firms or has damaged other parts of the labour market. One of the key arguments in support of maintaining a default retirement age is that preventing firms from letting go of older workers will make it harder for younger workers looking to enter the labour market. Some have hinted that it may be more important to provide opportunities for younger workers looking to enter the workforce than it is to allow older workers to continue for a few more years. However, these sorts of argument seem completely unfounded in the evidence. Looking for a mechanism through which older workers inhibit the employment of younger workers, Bia, Messe and Leombruni (2010) found that there is no strong relationship, saying that “a slowdown in the exits of older workers does not exert a significant [sic] effect on hirings of young workers [sic]” in the Italian labour market.⁸³ These results are supported by a multi-national study by Gruber, Milligan and Wise (2009) who conclude that:

“We find no evidence that increasing the employment of older persons will reduce the employment opportunities of youth and no evidence that increasing the employment of older persons will increase the unemployment of youth”.⁸⁴

This position was echoed by the Prime Minister, David Cameron, when answering a question on the effect of increasing the state pension age on younger workers:

“If we’re going to retire later doesn’t that mean there are fewer jobs available? I don’t think that’s right, I don’t think the right way to think about an economy is that there is just a fixed number of jobs, and it is a question of how you carve them up between young people, middle aged people and old people.”⁸⁵

“We believe that the government can make significant inroads into the perceptions that firms hold over older workers and start to build a more positive debate around the importance of the older labour market”

83 Bia, M. Messe, P. and Leombruni, R. 2010. Young-in Old-out: A new evaluation.

84 Gruber, J. Milligan, K. and Wise, D. 2009. Social Security Programs and Retirement Around the World: The Relationship to Youth Employment. NBER working paper series.

85 David Cameron: Older workers not in way of youth jobs. <http://www.bbc.co.uk/news/uk-politics-16687953>

That so many older workers are managing to find work in this depressed economy shows the high value that older workers have for employers. In a tough economic climate it would be unwise to encourage productive workers to leave the labour market as it will decrease the productivity of firms and reduce consumption by decreasing incomes. This would be especially unwise given the lack of evidence to suggest that it would significantly benefit younger workers.

However, for employers the removal of DRA means that an easy way of decreasing the size of their workforce no longer exists and business interest groups were understandably concerned about the change. The Confederation of British Industry (CBI) highlighted their concerns over the removal of DRA, saying:

“The DRA was valued as it helped employers to plan ahead and manage changes to the workforce.”⁸⁶

However, there is also a lack of strong evidence that the removal of the DRA will put significantly greater burdens on the majority of businesses. The government reports, which considered the removal of DRA, found that only 32% of firms used default retirement ages for any of their staff.⁸⁷ Of the firms who used default retirement around a third used it for manpower planning purposes, on top of this the study found that 80% of the employee requests to stay in work were accepted. The reports also show that many firms who used default retirement did so because they had done so historically, rather than because of a genuine need to do so. This message is echoed by a survey of older individuals which said that only 6% of respondents had left work because they had reached their employer’s retirement age.⁸⁸

On the other hand, it is likely that some firms will suffer because of the removal of the planning capacity that the DRA provided them. To tackle this problem, firms will need to much better understand the plans of their older workers in order to be able to better manage their future recruitment and management practices. In some respects this might improve management and performance. Taking this view, the CIPD has welcomed the removal of DRA, saying that it will remove the ‘smokescreen’ that allows poor management of older workers to be ignored because of the availability of mandatory redundancies.⁸⁹ However, there is a legitimate concern that, in an effort to understand their workforce better and plan for the future, employers face the risk that they appear to be discriminating against older workers in their efforts to communicate. This makes it clear that, as the CBI states ‘we urgently need an effective new framework for retirement planning’.

Conscious of these issues, the government are currently running a consultation into the idea of allowing protected conversations between employers and their older workers. These would provide an environment where employers could engage in talks with their older workers without worrying that the contents of the meeting will be used as a part of a future employment tribunal. The need for such a framework is bound to increase as more workers look to work for until later in life.

Details of what this process would involve are still relatively scarce. There is clearly a need to provide an environment where firms feel that they can

86 CBI. CBI Northern Ireland comments ahead of changes to default retirement age. <http://www.cbi.org.uk/media-centre/press-releases/2011/09/cbi-northern-ireland-comments-ahead-of-changes-to-default-retirement-age/>

87 UKCES. Working Futures 2010–2020. <http://www.ukces.org.uk/publications/ers41-working-futures-2010-2020>

88 TAEN. Survey of Jobseekers Aged 50+. http://taen.org.uk/uploads/resources/24104_Taen_50_plus_survey.pdf

89 CIPD. End of DRA removes smokescreen for poor management, and should mark a step-change in effective management of older workers for the benefit of business. <http://www.cipd.co.uk/pressoffice/press-releases/end-dra-removes-smokescreen.aspx>

communicate with their employees but that employees are not compromised by being pressured to reveal information about their intentions that could potentially undermine their opportunities within their current position.

Overall, we believe that the presence of a Default Retirement Age placed an unfair and often discriminatory burden on over-65s who wanted to work. The removal of default retirement can be seen as a significant step forward for older workers given that it decreases the extent to which their retirement is dictated by government legislation or their employer. Arguments around the displacement of younger workers without older workers leaving the labour market do not appear to be significant.

There is however a risk that the lack of opportunity to plan because of poor communication with workers could put some burden on businesses. To tackle these problems we believe that both firms and employees need to be able to plan for their futures. This should be facilitated through the introduction of legislation to allow a framework within which informal discussions can take place. Allowing both parties to plan more easily will benefit employers by providing a stable platform from which to conduct employee management. Older workers should benefit from the increased stability and communication with their employer.

Flexible working and phased retirement

We also believe that this system of protected discussions can be used to open up the debate around flexible working and phased retirement. As we highlighted earlier, the pressure to extend working lives will mean that we need to consider new ways of working both to suit the needs of individuals as they become older and also to maximise the productivity of our workforce. This is particularly important since “28% of individuals say the offer of more flexible working arrangements by their employer would encourage them to work on beyond the current retirement age”.⁹⁰

Phased retirement where workers gradually reduce the amount that they work or the nature of their work could deliver this flexibility while meeting the needs of business. The Turner Pensions Report also considered flexible retirement an important approach as people look to retire later.⁹¹

A Department for Work and Pensions’ *Extending Working Lives* report found that phased retirement was an attractive option to a lot of the respondents to their qualitative survey, stating that:

*“Many people liked the prospect of easing into retirement, gradually withdrawing from the labour market and adapting their work to suit their changing circumstances, capabilities, needs and interests”.*⁹²

At the most basic level this makes intuitive sense since it is unlikely that there will be a sudden change in individuals’ ability to work as they grow older or significant falls in their productivity that would mean they need to retire from full-time work suddenly.

Despite the attractiveness of a gradual transition into retirement it was found that many respondents had not considered it as an option and were unsure how it would be possible for them personally.

90 <http://www.cipd.co.uk/pressoffice/press-releases/end-dra-removes-smokescreen.aspx>

91 Turner Review, chapter 8 http://news.bbc.co.uk/1/shared/bsp/hi/pdfs/30_11_05_chapter8.pdf

92 Hedges, A. and Sykes, W. 2007. *Extending working life: Changing the culture*. P24.

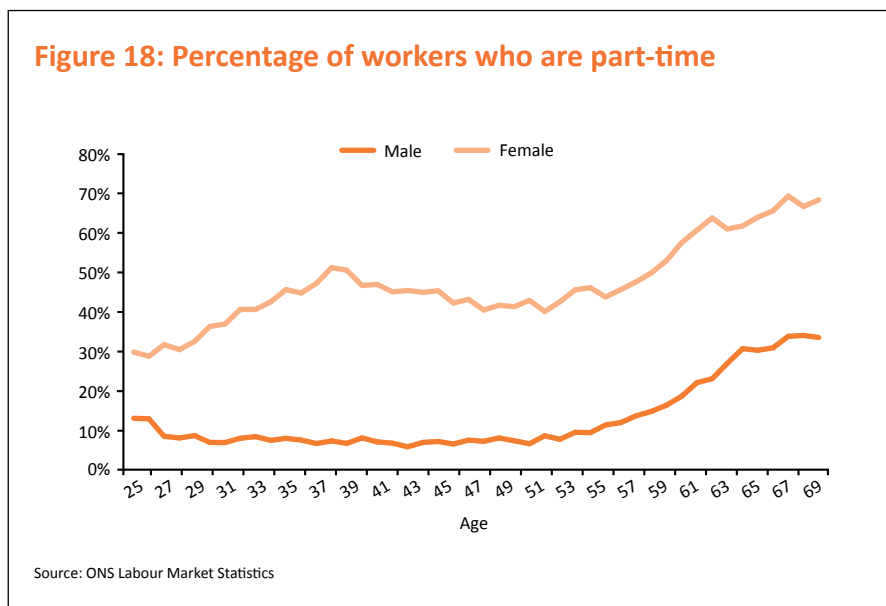
Figure 18: Percentage of workers who are part-time

Figure 18 demonstrates that there is a sharp rise in the proportion of workers who are in part-time positions from around age 50. This is particularly true among men, where part-time working is relatively unusual in earlier life. We see that there are more than twice as many men working part time in their mid-60s than in their mid-50s. This shows a clear movement towards less intense work as individuals approach retirement.

However, the opportunities for phased retirement differ significantly across different job roles and sectors because of the extent to which it requires different hours of work to be available. Some sectors such as retail pay hourly; potentially allowing more flexibility over the hours worked. For other sectors, knowledge, job-specific skills and the communication issues will create a premium for having the same person working full time, rather than multiple part-time workers doing the same job. It is also likely that some types of business have not explored the potential options and opportunities around flexible working, instead sticking to business models that have worked in the past.

This means that while the evidence shows a clear desire to work longer if flexible working patterns are available, this opportunity may not currently be available to many individuals.

This makes it important to consider why more firms are not opening up flexible working patterns or phased retirement to more workers. It is clear that encouraging flexible working practices will benefit some firms because they will be able to maintain their workforce. It is however important to recognise that the factors that will motivate firms and employees to pursue flexible working will differ. Firms' need for labour will largely depend on the nature of demand their industry. Variable demand such as in a seasonal market will see labour demand vary greatly, encouraging firms to take on workers on a flexible basis.

This means that it is not a given that employers and employees will be able to agree a solution where a flexible working solution suits both of their circumstances. Thus, while we know that older workers are valued within the workplace a desire to work more flexibly may make their current roles unsuitable

and mean that they leave the labour market. As our research on scarring earlier showed, the consequences of this can be severe for both the individual and the economy. It is therefore important to explore what more might be done to encourage phased retirement within a worker's current employer.

Current legislation

There are certain groups of workers who are eligible to apply to be considered for flexible working through their statutory right to request flexible working. This allows some workers who have been in their position for at least 26 months to request flexible working if they have one of the following:

- Parental responsibility for a child under the age of 16,
- Parental responsibility for a child under the age of 18 who receives Disability Living Allowance (DLA)
- Are the carer for an adult who is a spouse, partner, civil partner, relative, or who lives at the same address

This will clearly help a number of workers whose responsibilities mean that they wish to adjust the nature of their work but it will not be as much help for older workers whose reasons for transitioning into a flexible working arrangement are largely personal and would therefore not be covered by right to request.

This could obviously be tackled by bringing in a right to request flexible working for workers of a certain age (say over-50). However, this would put a huge administrative burden on firms who employ a significant number of older workers, especially smaller or medium sized businesses who may not have the human resources capabilities to handle a significant number of such requests. It would also be likely to reduce the demand for older workers because they will be able to make such a request. This emphasises the importance of ensuring that any measures brought in by government to support flexible working and phased retirement do not act to place extra regulatory pressures on businesses. Any further burdens would have the potential to hinder businesses' ability to operate their usual practices and their willingness to employ individuals who can use these legislative pressures.

Other measures

With further legislation having the potential to undermine employment prospects, rather than improving them, other options need to be explored. The key will be to ensure that changes are beneficial to both the employee and the firm. Box 1 highlights an example of where a large business has already taken significant steps on flexible working and demonstrates ways in which it can work effectively.

BT's extension of the right to request flexible working to its entire workforce shows that there is the potential for employers and workers to communicate in a way that promotes flexible working. It is therefore clear that, in certain businesses, a framework that promotes this can be beneficial for all parties. This would allow employees to discuss the needs and wishes they have with regards to flexible working and, with this knowledge, employers can assess whether these desires fit with business plans. They can assess whether these wishes might be built effectively into future recruitment plans and this could allow them to better prepare for the future.

Box 1: BT and flexible working

Major UK telecommunications services company BT employs around 93,000 workers across the United Kingdom. The nature of BT's business means that they employ workers in a wide variety of roles, each with different requirements in terms of the hours that they have to work.

BT took the decision to extend the right to request flexible working to their entire workforce, expanding on the employees with caring responsibilities who received the statutory right to request. This meant that all BT employees have the opportunity to ask their manager to consider them for flexible working. It is then the responsibility of managers to assess their suitability and the logistics of any transition into flexible working.

The options for flexible working will depend on the nature of the work done by the applicant. Maintenance and customer service workers may find that there are a variety of hours on offer but that managers require certain numbers of workers at certain times so some will be restricted. Project based workers will usually have their own workload which they can fit their hours around but may have to work with colleagues or contacts at certain times so are often restricted to normal working hours.

BT benefits from making flexible working available because it can allow them to attract and retain quality workers whose circumstances demand that they work on a flexible basis but would not be eligible under the current statutory framework.

Much of the administration of the scheme is done by the employee's line manager, who makes the decision what flexible working options are available and aims to find a suitable outcome.

The size of BT's workforce means that they have large human resource department and therefore can manage the costs of offering the right to request across the whole of their workforce when resolving it through their line manager is not suitable.

We believe that such a framework could increase flexible working opportunities while not over burdening employers. It would also remove the genuine concern of businesses that engaging with older workers directly when looking to promote flexible working could be perceived as discriminatory. This should also help to keep any discussions informal and prevent them from being conducted in a format that is too rigid and therefore not applicable to a lot of circumstances.

It is our belief that such a framework could be built around a similar concept to that which the government is exploring with regards to protected discussions around the time of retirement. Bringing together discussions around retirement and the opportunities for flexible working or phased retirement could help to both tackle discrimination and increase the ease with which older workers can continue working for longer.

- **Recommendation 1:** As a part of the current consultation, the government should look into legislating for a system of *protected conversations* between employers and employees. This must allow conversations around both retirement and the opportunities for flexible working and provide a platform for employers to get an understanding of the plans of their older workers regarding when they plan to retire and discuss possible flexible working arrangements.

We believe that the introduction of such a system can have dual benefits. Firstly businesses can benefit from more planning for employers of older workers after the removal of the Default Retirement Age. At the same time there is the possibility that better communication can allow for more flexible working solutions for employees.

5

Improving Back-to-Work Support for Older Workers

The previous chapter outlined the potential to improve the likelihood of older workers staying in employment for longer in a way that did not increase burdens on employers. By reducing the perceived risks around employing older workers, it could also increase the likelihood of employment for those older jobseekers already close to employment. By facilitating a better use of the skills and experience of older workers, protected discussions and the use of phased retirement could also boost productivity and growth.

However, this policy will not help those older individuals who are out of work and struggling to find further employment. Chapter 4 outlined the very large costs that can be associated with unemployment of older workers. Our analysis demonstrated that older workers can face significant difficulties finding work once they become unemployed, with an older jobseeker less likely to find work within a year. It also showed that, even if they do find work, they can face significant pay penalties as a result of spells of unemployment. These scarring effects of unemployment are more severe for older workers than younger workers and are damaging to both the individuals involved and the economy. We showed that when we consider the additional impact of unemployed older individuals moving to inactivity, for some of the older workforce, unemployment can be a one-way street to spending the rest of their life on benefits.

Box 2: The challenges facing older workers

A 55 year old worker from the South West of England. With assistance from the Prince's Initiative for Mature Enterprise, and using his experience working in IT, project management, strategy and professional services, he now runs his own business providing workplace mediation.

On the issues facing older jobseekers: *"I think they are chiefly emotional ones; fear of losing one's house, not sure who to go to for advice and the insecurity of being unable to secure work. Also belief in stereotypes and clichés, for example believing that older workers are unwanted, which is not strictly true of course, but the media is full of negative examples.*

From my experience Jobcentre Plus doesn't address emotional concerns at all. The process is a one size fits all which doesn't cater well for individual circumstances. I feel that Jobcentre Plus is overly bureaucratic, although many of the people who work for them are wonderful people who are trying to do their best amongst a myriad of obstacles. These obstacles need removing.

Over time, the long-term unemployed may lose the will to work, and lose hope. We should be doing all in our power to stop this happening. The charities are doing all they can but they would benefit from an enlightened Government approach, which sees the benefit of long-term investment v short-term returns.”

He suggests that there is a need for a one to one consultation at the beginning of the process, “*People need help at a very insecure time in their lives*”.

With this in mind, it is essential that we consider the strength of the barriers that older workers face as they look to get back to work and assess the support that is currently available to them. Box 2 demonstrates the very real barriers that some older workers face when trying to find work.

Jobcentre Plus and support for long term unemployed

When they lose their job, individuals looking for work will have various options, however the primary source of support for up to the first 12 months of unemployment is Jobcentre Plus (JCP). Around 65% of all jobseekers aged over-50 say that they used it⁹³ but, despite the availability and high awareness of support, only 14% rated the assistance that they received as “Good or excellent”, strongly indicating that the support provided to Jobseekers over the age of 50 is insufficient, inappropriate or both.

As we highlighted in our earlier report, *Personalised Welfare*, a large part of the problem with the support provided by JCP is that it is not tailored to individual needs or the barriers people face. Instead, broad-brush interventions are targeted at ill-defined groups of people.⁹⁴ JCP gathers a relatively limited amount of information about recipients: personal characteristics include information such as gender, age, single parenthood and Government Office Region; an employment history for all the last 24 months; and income information which concerns the amount of benefits received, capital and savings and other income. This information is broadly administrative and concerns the payments themselves rather than informing the support job search process.

This lack of personalised support is particularly evident for older workers, many of whom have a great deal of labour market experience. A recent roundtable hosted by the Recruitment and Employment Confederation highlighted the case of an unemployed person aged over-50 who had a long career working as a legal clerk, but despite his obviously strong English language skills was instructed to take English literacy tests among other interventions. While such interventions might fit in with a defined conditionality regime, they do not provide the personalised support and guidance that jobseekers need. For older workers, with sometimes diverse barriers to work and potentially severe problems with confidence and self esteem, they can even exacerbate the very problems they are intended to tackle. Evidence from the previous government’s New Deal 50+ demonstrated that this group faced some of the most significant barriers to work:

“The majority of New Deal 50plus participants are aged 50–55 and male, and over one quarter have some sort of health problem or disability. Almost all have prior work experience although their confidence about finding work, and particularly the kind of work they wanted was fairly low prior to their involvement with the New Deal 50plus.”⁹⁵

93 Taen: Survey of Jobseekers Aged 50+, p5.

94 Holmes E, “Personalised Welfare: Rethinking employment support and Jobcentres”, Policy Exchange 2011

95 Atkinson, J. and Dewson. 2003. S. Evaluation of the New Deal 50plus: Research with Individuals.

The situation is unlikely to be significantly different today, with a lack of personalised or targeted support before this government's new flagship scheme for the long-term unemployed, the Work Programme, meaning that eligible claimants go with little more than basic information about their needs and their distance from employment. They can also be de-motivated and depressed and a long way from the labour market or be beginning to look for work after a period of time on incapacity benefits. Given that those aged 50 and over only qualify for the Work Programme after a year of unemployment, it is hard to overestimate the size of the barriers they might face by this point.

This makes the job of advisers in the Work Programme more difficult and, crucially, it means that any contracts that the Work Programme is based on will be very crude and have little relation to claimants' distance from the workforce. The claimants that are the furthest from the labour market will clearly be the hardest for Work Programme providers to place into sustainable employment with no extra financial incentive to find them work, limiting the extent to which they receive the extra support that they require and potentially seeing them "parked" whilst the workers who are easier to place into work are prioritised.

This failure to understand the needs of individual benefit claimants means that Jobcentre Plus is not delivering suitable support to older workers. For these reasons, we believe that this support should go further to identify the best way to support all jobseekers, including older jobseekers. This must start from the first day of a benefit claim, rather than being reserved for those who have already spent a considerable length of time out of work.

Tackling poor support

Segmentation

In our previous report, *Personalised Welfare: rethinking employment support and jobcentre*, we outlined a framework through which JCP should collect considerably more information from jobseekers in order to better understand them.⁹⁶ This allows segmentation of jobseekers in order to provide personalised and targeted support that best suits their needs. For older workers this segmentation is crucial; the variety of barriers faced by older workers makes addressing their specific needs essential. It would mean that those older workers with the largest barriers would receive personalised employment support right from day one of their claim.

That is not to say that the barriers faced by younger unemployed individuals are any smaller or less diverse. Indeed, it is the very nature of the diversity of barriers to work faced by unemployed people of all ages that means that the current broad-brush approach to employment support is ineffective. Employment support should be targeted and personalised from day one of a claim for individuals of all ages.

We believe that this system would provide the best outcomes for unemployed people of all ages and that the system needs piloting to demonstrate the real opportunities for delivering better services with less costs to the taxpayer.

While we see this as the future for employment support in the UK welfare state, we also recognise that this system will take time to implement and that, given the current under-provision of support for older jobseekers, some will need greater support now in order to find their way back to work. For this reason we believe that there are targeted measures that should be introduced into the current system to improve support now.

⁹⁶ Doctor G, Oakley M, 'Something for Nothing: Reinstating conditionality for jobseekers' Policy Exchange 2011

Advisor flexibility and individual budgets

One key aspect in improving the targeting of support for all jobseekers is the use of adviser flexibility. The government is currently piloting aspects of adviser flexibility.⁹⁷ This could allow early provision of support that is usually only available after a certain period of unemployment or provisions that are usually for individuals in other customer groups.

There has been some use of adviser flexibility within certain JCP districts. This is clearly very positive and provides an opportunity to better learn where flexibility is possible and best used.

We therefore support this policy and see adviser flexibility being a key part of a segmentation process that would allow employment support to be targeted effectively at those jobseekers with the greatest barriers to work. Given the varied nature of the barriers to work experienced by older workers this would allow the tailoring of support in accordance with the jobseeker's needs.

- **Recommendation 2:** We propose that the Government pilots allowing more *adviser flexibility for older workers* across all Jobcentres, extending where there has been success so far. For some with the least barriers this could allow signing on through terminals rather than advisors, this would free up time for more intensive support for those with the greatest barriers to work. Others can get access to facilities usually given to jobseekers in other customer groups. This should also allow conditionality that is focussed on the types of job search that will most benefit the individual in question.

Another option when we are considering how to support more skilled workers in their efforts to get back to work is to allow them to spend the resources that are allocated in other areas of job search. Because Jobcentre Plus tends to provide little for more skilled workers we believe that there is the opportunity to use other resources such as private recruitment agencies or specific training that will support their needs.

This would require taking the resources already allocated to that individual and, within reason, letting them use them in a way that would support them more by addressing their specific needs. Taking all benefit payment that they receive because they are out of work (primarily Jobseeker's Allowance) plus the cost of the activities that they would receive from Jobcentre Plus would create a budget from which they could search for jobs in a way that suited their needs.

Clearly a number of older workers would benefit from this because they have the skills and experience that should allow them to look for work in areas that Jobcentre Plus fails to help them the same way. We acknowledge that this would require some administrative work on behalf of Jobcentre Plus, in order to ensure that the jobseeker is spending the budget correctly but regardless of this we believe that piloting this scheme is necessary to explore the ways in which employment support can help people in more varied circumstances.

- **Recommendation 3:** The government should pilot a scheme where more skilled older workers can take a budget for the support that they receive and use it to find support in areas that suit their specific needs. This could include private recruitment agencies that can support them in looking for more skilled work, or training that will enhance their employment opportunities.

⁹⁷ Employment Group – Welfare to Work Strategy. Delegated Flexibility Pilots <http://www.dwp.gov.uk/docs/delegated-flexibility-pilots.pdf>

Volunteering, conditionality and work experience

The changes to the labour market over recent years mean that the jobs that are available now will be different to those that were available in the past. This means that having relevant and recent experience in a sector with good employment prospects can sometimes be a problem for older workers.

For these individuals it is important that they have opportunities to explore work in new sectors, industries or roles and take advantage of their transferable skills. We believe that those older jobseekers who have contributed through income tax and National Insurance Contributions should remain eligible for a period of 'preferred search' where they are allowed to restrict their job search both to their previous industry and to their previous income. However, we also believe that some older jobseekers might need support in changing roles, industry or sector.

One way that this might occur is through volunteering to gain experience in areas such as in IT or other technology intensive sectors. Under the jobseekers' agreement, any amount of voluntary work is allowed as long as claimants are fulfilling their usual job seeking requirements. These requirements include looking for full-time paid work, being available to attend an interview within 48 hours and start a new job within one week. Claimants must also declare their volunteering and any expenses to Jobcentre Plus.⁹⁸ It is therefore possible for an older worker to volunteer alongside their usual job seeking responsibilities, and doing so can give them valuable experience and confidence in a sector with good employment prospects.

There will clearly be other areas in which older workers could have their specific needs addressed. Retraining will benefit some older workers who are less equipped for the available jobs in the current labour market; however this would be a very expensive approach. There is also the option of subsidies paid to Work Programme providers for those workers who will be the most difficult to get into work, however these would also be expensive and would be difficult to implement given the lack of identification individuals' distances from the labour market.

Of course, another barrier to re-training and changing sectors or roles might be that some older workers are reticent to do so. Work Programme advisors we spoke to described some older jobseekers being unaware of the opportunities available outside of their previous sector or feeling that they only had skills suited to employment in a relatively narrowly defined role. They also argued strongly that some were unwilling to change roles because of the perception that other jobs were not suited to them, or 'below them'.

Our previous reports have outlined that there must be a strong mutual contract in the welfare state. Jobseekers must do all they can to find work, while the state must do all it can to provide the personalised support needed for them to do so. We argued that after the period of 12 weeks 'preferred search' claimants must be serious about taking 'any job' available to them and that turning down such offers should not be allowed. Conditionality must reinforce the requirement that most jobseekers who have been reliant on JCP for long periods of time are willing to take any available position, rather than focussing on a narrow range of jobs. This rule must apply even if it means moving to a position which is lower-skilled or pays less than the individual previously earned.

⁹⁸ <http://www.dwp.gov.uk/docs/dwp1023.pdf>

We believe that this principle applies to older jobseekers as much as jobseekers of any other age. Indeed, it may be more relevant for older workers who might have had experience in a limited number of sectors or roles and whose experiences in their previous positions may lead them to have expectations of higher wages than are available in the current climate.

For this reason we believe that for older jobseekers reaching the 13th week of unemployment their conditionality requirements must involve them researching, considering and applying to more varied positions than they have experience working in. This would make sure that they are looking for any available work and not just the areas that they feel most comfortable in.

- **Recommendation 4:** For the potentially large number of older jobseekers whose experience is in sectors that currently lack good prospects there should be the condition to *search and/or gain experience* in other sectors as part of their mandatory job search activities. Failure to do so would make the individual liable to sanction of benefit. Advisers must make older workers aware of these requirements from day one of a claim and offer volunteering opportunities in order to help ease a potential transition into alternative sectors or roles in a way that would allow them to use their transferable skills.

We believe that these dual policies of requiring older jobseekers to consider more options along with helping them find opportunities to develop skills and experience by volunteering in the first six months of a benefit claim will ensure better support and re-employment for older jobseekers. However, we also recognise that a significant proportion might still reach the six months of unemployment. If implemented, our recommendation for introducing a better tool for targeting support for those with the greatest barriers would pick up a number of these jobseekers and give them more intensive support, delivered by private and third sector providers from day one of their unemployment claim. However, until that happens, other solutions could be needed.

For this reason we believe that the government's current scheme of work experience should be opened up and extended to workers aged over-50 who have been unemployed for over six months. We also believe that Jobcentre staff should look to recruit more employers onto the scheme, from a wider diversity of sectors and skill levels, in order to make the experience relevant and helpful to older workers who potentially have far greater experience and accumulated skills than younger workers. For most claimants aged over-50, this should continue as a voluntary scheme, targeted at those claiming for over six months and lacking in work experience or needing to pick up more skills.

However, for a minority of claimants we believe that the scheme will need to be backed up with an element of mandation. Our proposals above will mean that by the time a claimant aged over-50 has reached six months of unemployment they will have had the opportunity to try volunteering in a new sector and will have been required to look for work for at least three months in a sector, industry or role different from their previous employment. While we believe that the majority will use these opportunities and make every possible effort to gain experience in new sectors and find work there will be a minority who are not doing enough.

For the minority of individuals who are not making necessary efforts to look further we believe that a choice should be offered between a referral to the Mandatory Work Activity scheme and a work experience placement. Introducing this element of mandation after a significant period of time in these cases will both make sure that they are doing all that they can to find work and help them to gain experience in a new sector. This might, for example, be applied to claimants aged over-50 who had been unemployed for over six months, who had not taken part in a volunteering scheme earlier in their claim and who advisors believe are not actively seeking work in new sectors.

- **Recommendation 5:** Through Jobcentre Plus there should be a greater push to allow volunteering and work experience on a voluntary basis to older jobseekers who JCP advisors believe can benefit the most from it. This should be optional after six months of unemployment and Jobcentres should aim to recruit a greater diversity of firms in different sectors and at different skill levels in order to place a pool of potentially skilled and experienced jobseekers.
- **Recommendation 6:** For the minority of older jobseekers that advisors believe are not making a serious attempt to look in different sectors or roles, a mandatory element should be introduced into the scheme. Such claimants would be given the option of undertaking either a Mandatory Work Activity placement, or engaging in the work experience scheme. We envisage this being a small number of claimants aged over-50, who have not engaged in volunteering and who advisors believe are not doing all they can to move into new roles or sectors.

We believe that this is an approach that slowly increases conditionality for older jobseekers, requiring them to make more effort to search for employment outside of their previous sector or role fits with the ‘something for something’ culture that is vital in delivering a modern, efficient and fair welfare state. However, we also recognise that on the part of government, more support is likely to be needed for some jobseekers. For some, opportunities for volunteering and work experience might be enough. However, for others, more significant and intensive support is likely to be needed. The next section considers how this might be delivered and how a more general change in emphasis from government might be needed in order to boost the employment chances of older jobseekers.

Increasing support for older jobseekers and shifting political focus

Chapters 3 and 4 outlined the distinct problems that older jobseekers face when trying to move into work and the scars on their future earning potential that they can experience when they do not move back into work quickly. In line with the existing, sparse, research that compares these barriers and scars across different age groups, we found that they can be far greater for older jobseekers than for younger jobseekers. However, despite the large disadvantage many older jobseekers face, the group receives relatively little attention from the media, government policy and the business community.

We believe that too little attention is placed on the problems older workers have and the barriers they face in finding work. We also believe that the government's approach to labour market policy and, in particular, how policy is distinguished by age in the labour market, creates a number of these problems.

An immediate problem is that by focussing attention almost solely on those aged below 25, government does nothing to address the misconceptions that many firms hold over the benefits of employing older workers. Our work has highlighted the discrimination that still takes place in the labour market and the worries that some firms have when thinking of employing older workers. Some firms also clearly demonstrate the advantages that can be gained through the application of flexible working. These are not areas where Government needs to spend money to incentivise firms: the gains would be seen in the quality of their workers and their productivity. Ultimately it could lead to increased profits. However, a lack of knowledge of these issues is causing real problems; myths such as older workers being difficult to manage, lacking in skills or quick to leave the workforce still exist,⁹⁹ and the government's lack of attention on older workers is not helping this.

Secondly, firms looking to engage in their local communities as part of their corporate social responsibility programmes also face real choices over where to target their efforts. Employers will want to celebrate employing extra younger workers if the government focus on this group as a priority, at the expense of workers of other ages.

Finally, there is also a problem with Government policy itself. Of all recent developments in the provision of support given to jobseekers, the most significant has probably been the £1bn Youth Contract for 18 to 24 year olds.¹⁰⁰ Over the three years from April 2012 this will: introduce 160,000 £2,275 wage subsidies for employers who employ young workers through the Work Programme; create 250,000 work experience placements between two and eight weeks; and increase the number of incentive payments for young apprentices by 20,000. This is clearly a very ambitious scheme, focussed on a very narrow group of benefit claimants, and this is only one of up to eight different support systems for under-25s.¹⁰¹ The clear assumption is that a significant number of 18 to 24 year olds have the primary problem of lacking experience and that these measures will provide that.

The problem with this or other programmes is that it targets support according to age, regardless of the other characteristics of individuals and the significant barriers to work that they face. It places significant biases against workers of other ages who may have similar and often deeper barriers to work than the younger jobseekers that it is targeting.

We also know that, on average, younger workers are more likely to find work in a given period of time than older workers and suffer much smaller effects to their future employment prospects from spells of unemployment. Thus, on the basis of this evidence it could be argued that unemployment is, on average, a greater problem for older workers than it is for younger workers.

However, this is not to say that support should not be targeted at some young people. It is clear that some young people have significant barriers to work and suffer extreme disadvantage when looking for work. Furthermore, the scale of youth unemployment warrants a response from government. Our argument is that government support should be targeted on the basis of barriers to work and disadvantage, not simply on age alone.

99 CIPD 'Managing a healthy aging workforce'. 2012. pg 12, 15, 18

100 <http://dwp.gov.uk/youth-contract/>

101 http://www.local.gov.uk/c/document_library/get_file?uuid=fddd201b-8f62-43fc-b586-0bb3fc0ef72d&groupId=10161

This clearly brings into question the extent to which the Youth Contract will address the specific barriers to work seen by jobseekers and therefore how effective this investment will be. Our strong belief is that, while support for young unemployed people with significant barriers to employment is a vital and important policy response, the current policy is too badly targeted to tackle the true problems in the youth labour market. It also unfairly discriminates against older unemployed individuals.

“Our argument is that government support should be targeted on the basis of barriers to work and disadvantage, not simply on age alone”

It would be far more effective to use this money to provide support across the entire workforce, based on identifying the needs of individuals who are the furthest from the labour market. This would allow us to provide the most

intensive and targeted support to the individuals with the most significant barriers to work and ensure that these services reach the job seekers most in need of help.

The need for support among the older workforce means that, should this support be redistributed, older workers will be in a good position to benefit from it. If there are significant numbers of people of other age groups, such as 16 to 25 year olds, with major barriers to work then they would clearly receive much of the support.

We therefore propose that the government extends its Youth Contract. We believe the resources should be used to create The Job Contract, a similar scheme available to all ages and targeted on the basis of barriers to work, rather than age.

- **Recommendation 7:** The Government’s Youth Contract should be extended to all ages. The existing support should be distributed across broadly the same number of claimants but should be targeted at those workers with the most significant barriers to work, with no focus on their age. Much of the delivery would remain the same, but Jobcentre advisers would be given power to target support at those they believe would benefit most. Subsidies available to employers taking employees on through the Work Programme would be allocated by Work Programme providers on the basis of those claimants who would benefit most.

This step would provide a vital boost to the profile of older workers and the problems that they are facing. It would begin a dialogue that could be used to highlight the value of the older workforce and need for support to be targeted on those people of all ages with the greatest barriers to work, rather than in a broad-brush fashion on particular age groups.

6

Too Much to Lose

Older workers are a more important part of the UK workforce than ever before; they will only become more important as the population ages and people retire later. We therefore see it as essential that we understand this part of the workforce and provide appropriate support where it is needed.

We have identified that the older workforce has changed significantly over recent years. Older workers have seen their economic activity rise as they have become more similar to the middle-aged part of the workforce. Unlike previous recessions the older labour market can no longer be seen as expendable. Instead they have performed extremely well with employment rising, whilst the rest of the economy has suffered. Much of the change has seen the older labour market increasingly working in skilled roles as their dependency on manufacturing has fallen. This has happened as the older labour market has become better educated and the opportunities available to them have grown.

Whilst the trends from the perspective of older workers in work are very positive, Chapter 3 raises concerns about the trouble that older workers who are made redundant have when looking for work. On average older workers are less likely to find work in a given period of time than other age groups, often leaving the workforce entirely. They are also more vulnerable to wage scars after spending time unemployed, likely as a result of their need to settle for available positions due to their more significant responsibilities. It is essential that we provide the support that these individuals need otherwise their detachment from the labour market could become permanent, creating significant financial problems for them in their retirement.

It is clear that there are significant barriers to work for older workers. Much action has been taken in an effort to prevent age discrimination and support the opportunities of older workers in the economy. Age discrimination has a significant effect on older jobseekers as firms will have little information about them and are therefore more vulnerable to using stereotypes about older workers. This helps to explain the significant trouble that older workers have when they are made redundant, compared to the success of older workers who are in work.

We identify the main way in which policy can help older jobseekers as through the support offered by Jobcentre Plus. Here older workers are being failed by the inability of the system to identify and address the specific barriers to work that these older workers possess. Rather than prescribing specific assistance to broad and diverse groups of individuals, Jobcentre Plus should prescribe support based on their specific needs. This allows us to provide support and set the conditions of this support in a far more specialised way, making sure that jobseekers both

have all the necessary tools to get back to work and are doing all that they can to get back to work.

We also propose that the government opens up its £1bn Youth Contract to support the needs of workers of all ages, allocating these additional resources to the workers in the population that have the most significant barriers to work and are therefore the most in need of help. This approach can support the older workers who face the most extreme obstacles to their efforts to get back to work, as well as those of other ages.

We also see the need to consider how retirement will look in the future. With such a large number of people approaching retirement we must understand better how they can stay engaged in the workforce for longer, as increases in the State Pension Age and greater financial constraints on older workers mean people have to work later in life. More than just waiting until later in life to stop working this can mean a more phased retirement that suits both individuals and businesses needs.

Through better recognition of the needs of older workers in our ageing economy it is clearly possible to support older workers better. A key part of this is increasing the political awareness and focus towards the needs of older workers, rather than prioritising age groups who command a greater media focus. To not do so would risk consigning large numbers of older jobseekers to a life of reduced living standards and benefit dependency. It also risks damage to the labour market and to the productivity of the UK economy. The evidence and need for policy reform is clear: there is too much to lose not to take action.

Annex: Age Discrimination Applications Technical Note

The goal of this research was to estimate the effect of age discrimination in job applications. Following various examples we sought to do this by applying to a number of different jobs with applications that differed only in the date of birth that was put on the attached CV.^{102, 103, 104}

We made the decision not to go further than the initial CV and application because it would involve introducing a number of variables that we would have little influence over and therefore could not control for. The application processes of different employers would mean that applications would receive different amounts of information, potentially biasing responses. Also, any parts of the application process that are conducted in person will be open to so many different variables that it would no longer be possible to control for them.

When designing this study we learnt certain lessons from previous studies. It became clear that, because of the limited number of positions that were available to apply for (especially for the personal assistant positions), we would have to apply to each position as both a younger and older worker. This provides a few potential problems; primarily we needed to make sure that there was no bias because of a difference in the quality of the applications, which as done by randomising their allocation. In all of the applications the allocation of the two CVs to the older and younger worker was done by calculating a random number between 0 and 1 (a result below 0.5 meant that the older worker got CV1).

We collected positive responses as those which showed a statement of interest or an invitation to interview in person or on the phone. Because the process does not pursue the application further this meant that we counted all responses that showed an interest in the application.

The difference in the size of the bias found in the two roles and the range of outcomes measured in previous studies unsurprisingly show that the effect of discrimination varies across job type. The lower discrimination in the personal assistant could be because of various reasons, they may have stricter recruitment practices or be focused on skills and experience more given that it is a more skilled position.

The current economic climate opens up the possibility that the responses that we received may be biased or exaggerated in some way. We may have got a greater number of responses in a period of lower unemployment and, if employers had less choice over employees, there may have been lower discrimination because they were forced to focus on factors other than age. However this would still be finding discrimination, whether it is exaggerated or not. We therefore do not see this as a major concern. Another consequence of receiving fewer results overall is that the results that we receive are not necessarily statistically significant; we could hope for more significance at a time when we got a higher response rate.

102 Bertrand, M. and Mullainathan, S. 2003 "Are Emily and Greg More Employable than Lakisha and Jamal? A Field Experiment Evidence on Labor Market Discrimination," National Bureau of Economic Research working paper

103 Wood et al. 2009. A test for racial discrimination in recruitment practices in British cities.

104 Riach, P. and Rich, J. 2007. An experimental investigation of age discrimination in the English labour market.

The nature of this application process means that testing for different patterns in age discrimination is very time consuming and therefore not practical. An extension on these findings could look to better understand at what age discrimination has an effect, rather than taking extremes. It would also be interesting to get a better understanding of how discrimination varies according to the type of job being applied for. Understanding these different features of age discrimination could help to understand under which circumstances employers discriminate according to age and therefore what can be done to prevent it happening.

The UK's aging population is creating a significant need for people to work later in life. *Too Much to Lose* outlines that this, along with other trends, means that older workers will continue to play a much more significant role in the UK economy than ever before. This presents both opportunities and challenges. Today's older workers are more educated, less likely to work in physically demanding roles and are less susceptible to health problems than ever before. However, the challenges facing older jobseekers are large: a jobseeker over the age of 50 is significantly less likely to return to work within the next year, and the cost of spells of unemployment to future wages is considerably greater than it is for younger or middle-aged workers.

This report argues that the back-to-work support provided to older workers fails to meet their needs. To tackle this, it sets out a plan for support that directly addresses the needs of older workers, at the same time as demanding that jobseekers are doing all they can to get back to work. As well as this we argue that there is a need to look at retirement differently, promoting more flexible working and supporting better communication between businesses and their employees. To facilitate these changes, the government's approach must change. Up to now, the political focus has been centred on the problems of younger workers, and this has distracted attention away from the need to value and support older workers in the UK. This must change so that government focuses support on those with the greatest needs, rather than just targeting support by age.

If implemented, these recommendations will ensure that the older workforce continues to play a major role in the UK economy in the future. Failing to act now risks marginalising a whole generation of older workers and severely damaging both their welfare and the economy as a whole.

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