

## Helping older workers



## Chapter 4

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- 1 By 2024, an estimated 50 per cent of the adult population will be over the age of 50, due to the combination of increased life expectancy and low birth rates. But although people are living longer than ever before, they are spending a relatively lower proportion of their lives in work than previous generations. Unemployment among people over 50 is low, but inactivity is high and many people leave work early due to ill health. Those out of work tend to face greater barriers in returning to work than other age groups.
- 2 The overall effect is that employment rates among those aged between 50 and State Pension age are lower than in the population as a whole. The consequences of this are far-reaching, both for the economy and for the ability of individuals to make provision for later life.
- 3 Many people want to carry on working into their 60s. Indeed, around 1 million people already work past State Pension age. For those who want to work longer there remain structural, personal and cultural barriers. The culture of early retirement persists, as does discrimination against older people. We need to increase the average age of retirement by providing incentives and support to help people to return to work more quickly and to stay in work for longer.
- 4 We have already made good progress and intend to build on this. Employment rates among the over-50s have steadily improved, and the gap between the overall rate and the rate for older workers has reduced. We are considering a variety of options in light of the Pensions Commission's report and will set out our proposals for reform in spring 2006. More immediately we wish to boost support for people returning to work and provide better information to people about the work and retirement options available to them. To do this we will:
  - align our additional employment support for the long-term unemployed with that for younger age groups by requiring people aged between 50 and 59 to take up additional jobseeking support through New Deal 25 plus;
  - improve back-to-work support for Jobseeker's Allowance claimants and their dependent partners who are over 50;
  - pilot face-to-face guidance sessions with people approaching or over 50, to deliver tailored and relevant information on working, training and planning for retirement; and
  - work with employers to extend flexible working opportunities to older workers.

## The challenge

- 5 The ageing population presents us with two major challenges:
  - how to support the growing numbers of pensioners in retirement, given the decreasing proportion of workers in the population in future, while maintaining a strong and competitive economy; and
  - how to enable individuals to build the income they need to meet their aspirations for retirement.
- 6 Our aim to support and encourage people over 50 to stay in work addresses both of these issues by:
  - increasing the proportion of the population in work, which will improve the affordability of pensions and generate growth in the economy;
  - increasing the length of working life, although not the proportion of life spent in work; and
- 7 The last 50 years have brought dramatic and welcome increases in life expectancy. Paradoxically, the same period has also seen a steady decrease in the average age at which people stop working, a trend which has only recently reversed. The result is that the average percentage of life spent in retirement by adult men has increased from 18 per cent in 1950 to 31 per cent in 2005.
- 8 These changes pose large challenges for society and for the individual. Early withdrawal from the labour market means that the economy loses skills and productivity.<sup>27</sup> For the individual, his or her ability to save enough for a long, comfortable retirement – both through National Insurance contributions and private pensions – is limited. Many leave the workforce without planning for their later life. Of those people retiring voluntarily before State Pension age, we know that only a third consider the full financial effects of that decision.

### Percentage of male adult life spent in retirement

Due to rising life expectancy, today's average male who works to 64 will spend the same proportion of his life in work and in retirement as someone retiring at 67 in 2050. In 1950 the average male retired at 67 and spent a much lower proportion of his life in retirement.

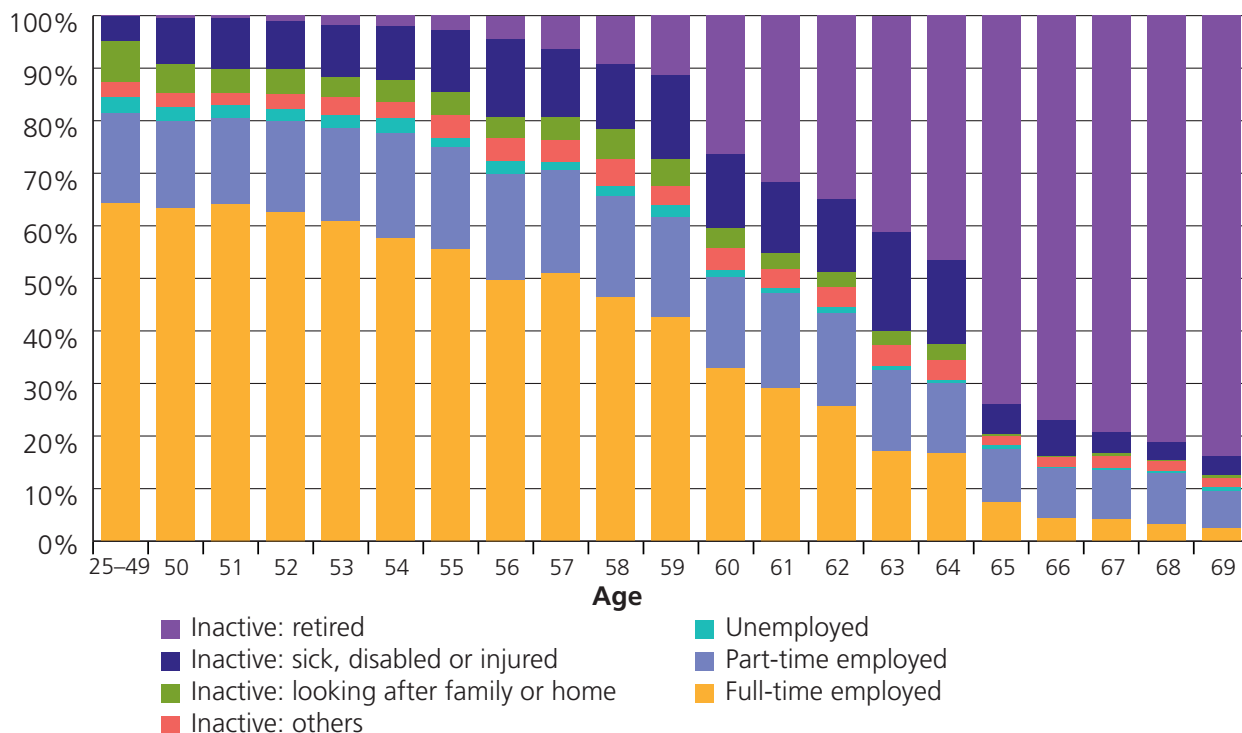
	1950	2005	2020	2050
Retirement age	67	64	65	67
Years of life expectancy at retirement age	10.8	20.4	20.9	21.8
Percentage of adult life (18+) spent in retirement	18%	30.7%	30.8%	30.8%

- 9 The trend for people to spend longer in education and start work later means that time spent in work will be further reduced if we do not reverse the trend of early retirement.
- 10 There are 8.8 million people aged between 50 and the State Pension age (60 for women and 65 for men) in private households in Britain. Of these, nearly 30 per cent (2.6 million) are not working, 1.4 million are claiming sickness and disability benefits, and just over 140,000 are claiming Jobseeker's Allowance. Additionally, over 250,000 are dependent partners of benefit claimants, many of whom are women.
- 11 Looking below these figures shows a more complex picture with different features for different age groups. More people aged 50–59 are economically

inactive due to ill health than due to retirement or unemployment. Employment levels are high among people in their early 50s (around 80 per cent), but there is a steep shift from employment to inactivity from age 59 onwards. The most common time for the change from employment to retirement to occur is between the ages of 60 and 65. As people approach 65 part-time work becomes as common as full-time work, which indicates the importance of opportunities for flexible working during the transition to retirement.

- 12 We know that people who work up to the State Pension age are much more likely to continue in work beyond that age. Around 1 million people are working beyond the State Pension age today, many in part-time work and self-employment. Our policies need to

Figure 4.1: Economic activity by age in Great Britain



Source: Office for National Statistics, Labour Force Survey, autumn 2004

reflect the different circumstances and features of these age groups.

## A million older workers

- 13 Having an additional 1 million older people in work is a challenging but achievable aim, but it cannot be accomplished overnight. This is an aspiration for the long term, for beyond 2020. The timescale takes into account the fact that the equalisation of women's State Pension age with that of men at age 65 (rising gradually between 2010 and 2020) will be critical in securing more older people in work, and it also corresponds with the period when the ratio of pensioners to those below the State Pension age is projected to start rising.
- 14 The signs for the future are good, with the next generations of older people likely to benefit from improving health, higher levels of qualifications and greater flexibility in the workplace. With proportionally fewer younger people in the labour market, demand for older workers should grow. But growth will depend on the continuation of a stable economic environment and good labour market conditions, and could be constrained by employers and individuals not responding to demographic changes. If employment rates were to remain constant from 2004 to 2025, the change in the age structure of the population alone could decrease the proportion of 16 to 69-year-olds in work from 69.2 per cent in 2004 to 67.5 per cent in 2025.<sup>28</sup>
- 15 As unemployment among the over-50s is low, future long-term increases in employment will need to come from

retaining people in work for longer and from the economically inactive. The inactive are the furthest from the labour market and so can be the hardest to help. For those who are unemployed, more effort will be needed to ensure access to jobseeking support. Older people in employment will need the flexibility to work in a way that suits their personal circumstances.

- 16 There are a number of potential barriers to employment growth which will need to be considered and addressed. These barriers fall into three groups: structural, personal and cultural.

### Structural barriers

- 17 Decisions about work and retirement can be influenced by the availability of different sources of income and their associated conditions and rules. Individuals may also respond to financial incentives or barriers. These include the structure of the tax and benefits system, the role of employment programmes and the rules of pension schemes.

### Personal barriers

- 18 Many factors affect the decision to retire, but surprisingly few people consider the financial implications. Key factors include:
  - health and disability issues – the main reason for people leaving work before State Pension age. Half of people claiming incapacity benefits are over 50, and reforms are therefore particularly relevant to this group;
  - caring responsibilities, which peak between the ages of 45 and 65;

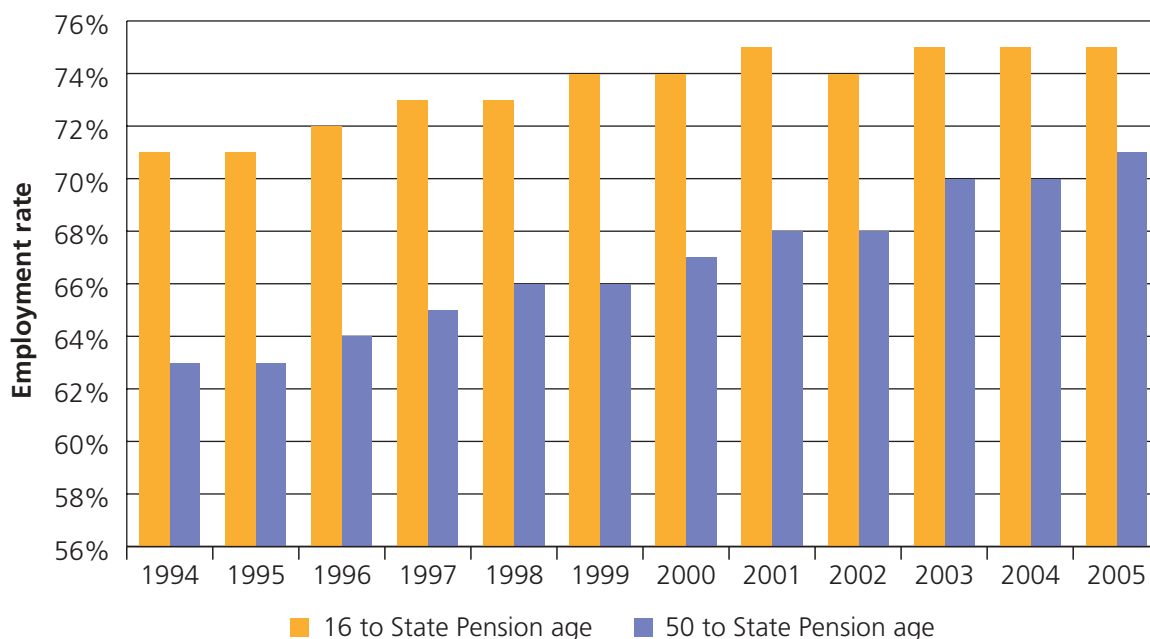
- a lack of flexible working opportunities, which makes retirement a 'cliff edge', with a dramatic shift from full-time work to full-time economic inactivity; and
- lower levels of formal qualification and less propensity to train (employment rates are lower among those with no qualifications).
- individuals have unrealistic aspirations for early retirement, which are unlikely to be realised without sensible planning and significant saving, and they also worry that healthy time in retirement will be lost to work;
- some employers have outdated prejudices about the capabilities of people over 50, which can lead to discriminatory or inflexible employment practices and to people feeling forced out of work;
- many employers and individuals mistakenly believe that older people must leave the workforce to ensure that there are enough jobs for younger workers. In fact, more people working means more growth in the economy, resulting in more jobs for workers of all ages.

**Cultural barriers**

19 Individuals' and employers' attitudes to and decisions about work and retirement are influenced by a number of cultural factors. We find, for example, that:

- people assume that their own life expectancy will be lower than official estimates. The average man reaching 50 today can expect to live for another 33 years to age 83, and the average woman another 36 years to around 86;

Figure 4.2: Difference in employment rates between the working-age population and people aged between 50 and State Pension age (spring of each year, Great Britain)



Source: Labour Force Survey

## Progress so far

- 20 Good progress has been made in recent years on improving employment rates among older people. Although we have not returned to the high employment rates of the 1970s, recent years have seen steady improvement. Since 1997, the employment rate for people aged between 50 and State Pension age has risen by six percentage points, from 64.7 per cent in spring 1997 to 70.7 per cent in spring 2005.
- 21 In recent years the gap between the employment rate of older people and the overall rate has declined. Employment rates for men aged between 50 and State Pension age are higher now than since the early to mid-1980s. The proportion of people in this age group receiving unemployment or incapacity benefits is lower now than it was in the late 1990s. There are now around a million people over the State Pension age in work.
- 22 We are also doing well in comparison with other countries. In 2004 only Sweden and Denmark among EU members had a higher proportion than the UK of people in employment aged 55–64.
- 23 The 2002 Green Paper *Simplicity, security and choice: Working and saving for retirement*<sup>29</sup> sets out a number of initiatives that we have now introduced or are in the process of introducing.
- 24 The New Deal 50 plus has supported over 150,000 job entries since April 2000. Back-to-work help is now available to people claiming Pension Credit (from age 60). Our 'Age Positive' campaign has influenced employers by promoting the business case for age-diverse workforces, and every year sees increasing demand from employers for information about adopting non-ageist employment practices.
- 25 This year will see the introduction of legislation which, for the first time, will give people the right to challenge age discrimination in the workforce and will mean that employers will have to treat their staff fairly, whatever their age. We will also be introducing a default retirement age of 65, below which employers will not be able to force people to retire (unless it can be objectively justified). Employers will also have a duty to consider requests to work beyond age 65.
- 26 We have already made it clear that, ultimately, we envisage a future in which people have complete freedom of choice over when to stop working. Indeed, many employers are already realising the benefits of operating without a retirement age. The default retirement age will be carefully monitored, and in 2011 we will undertake an evidence-based review. If this review suggests that we should abolish the default retirement age, then that is what we will do.
- 27 Alongside these measures, the Commission for Equality and Human Rights, due to be established by late 2007, will provide effective guidance to employers and individuals on good practice in employment with respect to age, and will support implementation of the legislation. The Arbitration and Conciliation Service will provide guidance in advance of the Commission

coming into being. Our 'Be Ready' campaign, launched in May 2005 and delivered in partnership with business groups and trade unions, has already begun to influence employment practices and raise awareness of the forthcoming legislation.

- 28 In April 2005, more generous options for delaying taking the State Pension were introduced. For the first time, these included the option to take a lump sum, making it more desirable to put off retirement for longer. For those wishing to work more flexibly in the transition to retirement, we will also be introducing changes to the rules on non-state pensions, so that (where schemes allow it) people can draw part of their pension while continuing to work for the same employer. This change will come in from April this year.
- 29 In the medium term, structural changes are also planned, including raising the earliest age at which a (non-state) pension can be taken, from 50 to 55 by 2010. Equalisation of the State Pension age, due to take place between 2010 and 2020, will see the State Pension age for women rise gradually to 65, in line with that for men. This will affect the 3.7 million women who will reach 60 between 2010 and 2020. As the Pension Credit entitlement age will rise simultaneously, some men will be affected too.
- 30 These initiatives offer support to individuals and employers to enable longer working among the over-50s, and provide the framework for further growth. However, to meet the long-term challenges of an ageing

population, more may need to be done to achieve even higher levels of employment. This is why we have announced our aim of having 1 million additional older people in work.

### **Pensions Commission reports**

- 31 In its first report the Pensions Commission highlighted the role that extending working life has to play in achieving a sustainable future for pensions and for our economy. The Commissioners recently published their second report, suggesting a number of actions the Government should take to secure higher employment for older people in the future. These include options to gradually raise the State Pension age above age 65 beyond 2020 and to improve awareness about a range of other issues.<sup>30</sup>
- 32 We are considering these options along with the other proposals in the report, and will be announcing our response later in the spring.

### **Next steps**

- 33 In the long term, to ensure that we achieve the cultural and behavioural changes necessary for us to meet our employment aspiration, we need to:
  - continue to identify and, where appropriate, remove any existing barriers and provide greater incentives (financial or otherwise) to stay in work;
  - continue to ensure that older benefit recipients have the same access to help and support in finding work that younger people do;

- help employers to examine their recruitment and retention practices and encourage them to support flexibility in employees' working patterns up to and beyond the State Pension age; and
  - provide information to individuals and raise their awareness to enable informed decision making in relation to work and retirement.
- 34 We need to focus on measures that ensure people are able to return to the labour market easily after spells of unemployment, ill health or caring, but crucially we also need to focus on measures that create the right environment for retaining older people in work.
- 35 This is not about everyone having to work until the age of 70 – many would not be able to or would not want to do that. This is about providing people with support and information to enable them to make sensible choices about when and how to retire, based on their own circumstances and aspirations. For many people approaching retirement now, working even a year or so longer could have a beneficial effect, both before and after retirement. In the longer term, we need to find a sustainable balance between working life and retirement which will ensure that people have the opportunity to provide for an adequate income in later life.
- 36 We know that to achieve this we need to remove the 'cliff edge' between work and retirement, allowing people to combine work with the other important elements of their plans for later life. We will also consider how to offer incentives to overcome existing barriers and how to support people who continue to work in later life.
- 37 We recognise that our aspirations for increased employment among older people can only be achieved through a joint effort by the Government and employers working in partnership. Many employers are already leading the way with enlightened employment practices. These encourage older people to continue to make an important contribution to their workplace, and help them realise their own aspirations for a flexible or phased retirement. We want to build on this best practice and continue to support employers who still have a way to go in achieving age diversity.
- 38 In the medium term, bringing the State Pension age for women in line with that for men by 2020 will be a crucial first step towards our goal of higher employment. In the lead up to and during the change, it will be important that our back-to-work support is seen to be relevant to and effective for the over-60s. We will set out detailed plans, alongside related changes to other services and benefits that are currently linked to the State Pension age.
- 39 In the short term, we are proposing changes to support individuals further in seeking work and planning their working life.

## Improving labour market interventions

- 40 Jobseekers in their 50s should be confident of receiving at least the same level of help to get back into work as jobseekers in their 30s and 40s. We therefore want to align our employment support for older long-term unemployed people with that for younger age groups, by requiring people aged 50–59 to take up the additional jobseeking support available through New Deal 25 plus. At present, the New Deal 25 plus intensive back-to-work activity is voluntary for people aged 50–59 who have been claiming Jobseeker's Allowance for about 22 months, whereas for people aged 25–49 it is mandatory.
- 41 The pilots announced in *Simplicity, security and choice: Working and saving for retirement* are already showing that requiring people aged 50–59 to take up additional jobseeking support can effectively help more of them get back into work and away from benefit dependency. We therefore propose to extend mandatory help of this kind nationally.
- 42 For workless couples the evidence suggests that there is more chance of one or both partners finding work if both are actively seeking it. We are determined to ensure that older partners of benefit claimants are not excluded from the rights and responsibilities that other jobseekers have. Nor should they be at risk of receiving less support in their efforts to find work. At present, when a couple without dependent children is workless and one partner was born after 1957, each partner is treated as an individual jobseeker. We propose to extend this regime to include older couples as well.
- 43 Each year over 50,000 jobseekers aged 50 or over fail to access the support to which they are entitled through New Deal 50 plus, leaving many at risk of drifting into long-term worklessness and benefit dependency. We propose to improve the chances of older jobseekers finding work sooner by piloting a system to ensure that every eligible jobseeker takes advantage of the additional personal adviser support offered through this programme.
- 44 One of the core elements of New Deal 50 plus is a unique in-work training grant of up to £1,500, designed to address the skills and career development needs of older people returning to work. The grant is claimable for up to two years after an eligible customer has moved into work. Take-up has been relatively low, but evidence suggests that those who have accessed the grant have found it very useful. We propose increasing the involvement of the information, advice and guidance services in promoting the 50+ In Work Training Grant and in supporting those people over 50 interested in taking it up.

## Communicating choices on working and when to retire

- 45 Information and guidance are needed to help people understand the range of opportunities available to them and plan effectively for later life. We will pilot face-to-face guidance sessions with people approaching 50 or over 50, to deliver tailored and relevant information on working, training and planning for retirement.
- 46 With implementation of age discrimination legislation due in October 2006, individuals will have increased rights in planning when they retire, and many employers are now offering a range of working patterns to help retain or recruit older people. Together with the option to defer the State Pension, and the possibility of combining part-time work with a pension income to ensure a flexible transition into retirement, these measures offer a range of opportunities and choices for individuals. There is a lot to take in and to decide, and the guidance sessions will be flexible in offering different approaches to individuals depending on their needs.
- 47 The pilots will help us to have a better understanding of the issues that people require most help with when planning their working lives, and will enable us to identify the type of information and support that individuals will need to make sensible choices.

## Flexible working

- 48 Older people have said that they require more flexible working practices to allow them to balance work with other constraints such as health problems, caring responsibilities and outside interests. Greater flexibility also helps the transition from work to retirement and could keep people in work for longer.
- 49 Almost half of employees have access to flexible employment arrangements but others often face the stark choice between full-time work or full-time inactivity. We will build on the success of our 'Age Positive' campaign to encourage employers to realise the business benefits of adopting more flexible approaches to retirement, giving individuals more choice and more opportunities to stay in work for longer.