

# Introductory Module to Economics of Ageing

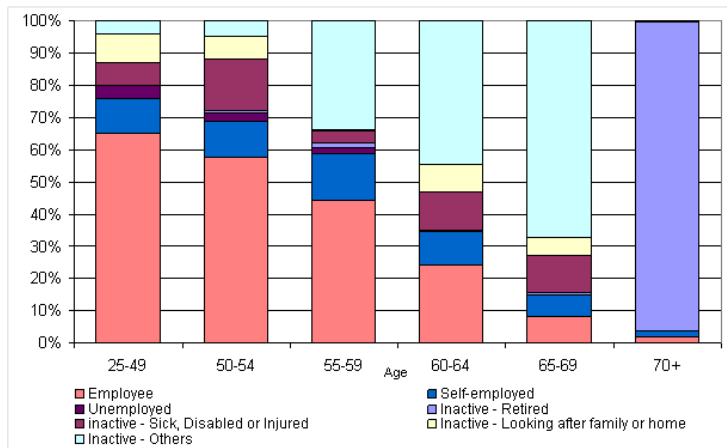
## Gentle Introduction to Labour Economics and Ageing

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# Labour Market and Age

## Economic activity by age, Northern Ireland, 1 Quarter 2009

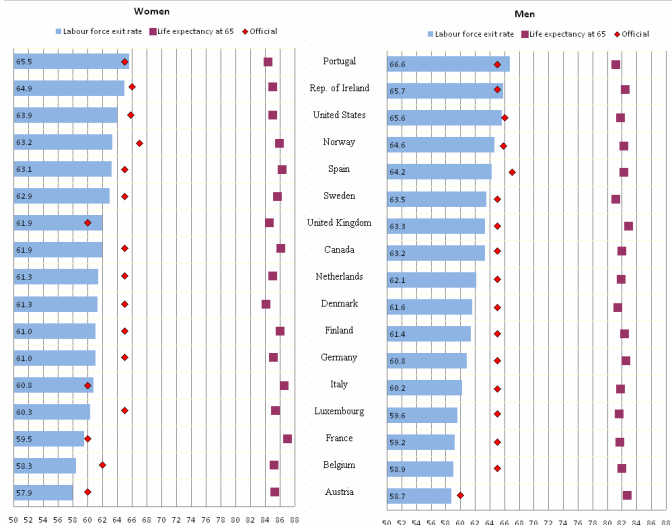


# Labour Market and Age



# Labour Market, Pensions and Life Expectancy

## Labour Force Exit Rates and Life Expectancy Rates



# Labour Market, Pensions and Life Expectancy

In 2006, the UK Government set the target to increase the number of people aged over 50 in employment by 2020 by 1 million.

*Source: A new deal for welfare: Empowering people to work. Department for Work and Pensions, 2006*

The aim is to increase the length of working life although not the proportion of life spent in work.

	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%

Source: Purcell and Flynn, 2010

# Labour Market, Pensions and Life Expectancy

However, according to ONS projections, only due to population dynamics and the extended pensionable age for women and by assuming that women over 60 present the same activity rates as men over 60, the active population aged 50 and over will increase by between 1.6 million to 1.8 million between 2010 and 2020.

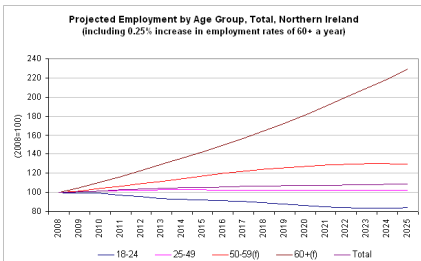
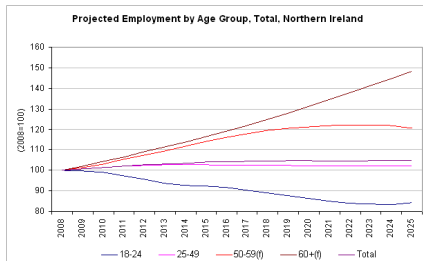
*Source: Own estimates from Labour Force Projections 2006-2020  
Office for National Statistics, 2006*

# Labour Market, Pensions and Life Expectancy

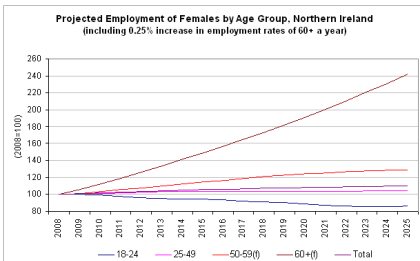
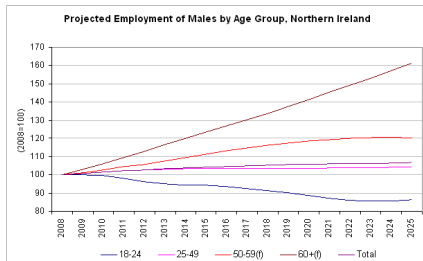
1.6 million to 1.8 million more economically active people aged over 50 represents an increase of between 17.8% and 30.4% against the 2010 economically active population aged 50-64.

Applying these percentages to the NI situation, the number of economically active people aged over 50 in NI would rise from 180,000 to between 212,000 and 235,000 by 2020.

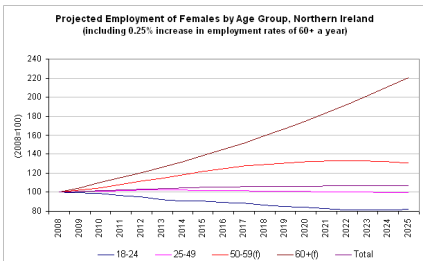
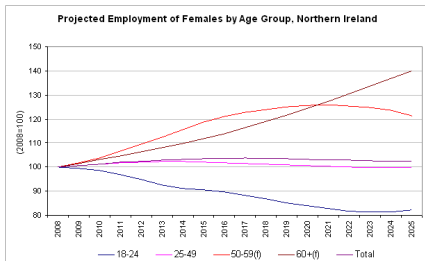
## Employment projections by age group for Northern Ireland



## Employment projections by age group for Northern Ireland - Males



## Employment projections by age group for Northern Ireland - Females

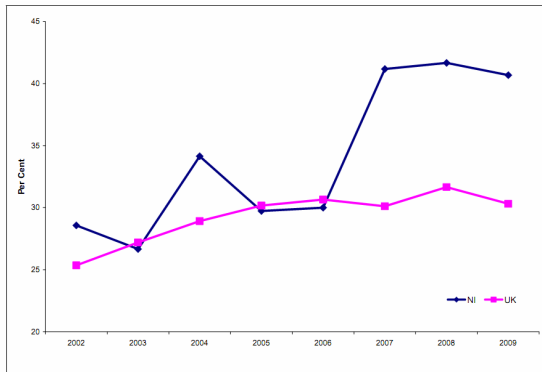


# Older vs Young workers?

## Older People Employment vs Youth Unemployment

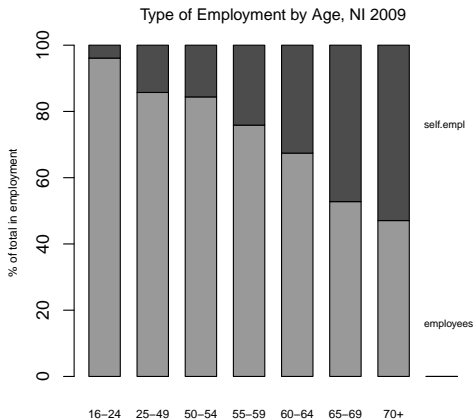
And even though not related, why increasing older people's labour supply when:

Youth Unemployment (18-24) as a Proportion of All Unemployment (16+)



# Labour Market demand and age

What sort of jobs, anyway?



# Quality of employment

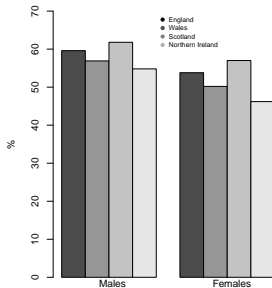


Source: Purcell and Flynn, 2010

# Labour Market demand and age

## And for whom?

Percentage of life expected to be spent free from Disability at 65 by UK Constituent Country and Gender, 2004-2006



*With the levels of disability shown, more than three-quarters of the population do have disability-free life expectancy as far as the age of 68. If society wishes to have a healthy population, working until 68 years, it is essential to take action to both raise the general level of health and flatten the social gradient (The Marmot Review, 2009, p. 18)*

## Labour Supply and Demand and Age

*If working longer is to be an attractive and rewarding proposition for older workers, action on both the demand side and supply side will need to be taken in cooperation by government, employers, trade unions and civil society. First, there must be strong financial incentives to carry on working, and existing, subsidised pathways to early retirement have to be eliminated. Second, wage-setting and employment practices of firms must be adapted to ensure that employers have stronger incentives to both hire and retain older workers. Third, older workers must be given appropriate help and encouragement to improve their employability. Finally, a major shift in attitudes to working at an older age will be required on the part of both employers and older workers themselves.*

Source: *Live Longer, Work Longer*. Organisation for Economic Co-operation and Development. Paris. 2006. Foreword

# Labour Supply and Demand and Age

Key factors driving work and retirement decisions

- Pull factors
- Push factors

**Pull factors:** financial incentives that 'pull' workers into retirement

- Access to early retirement benefits
- Generosity of replacement rates
- Implicit tax on continuing to work (changes in the present value of net pension wealth from working an additional year).
- Unemployment benefits
- Long-term sickness and disability benefits
- Private pension arrangements
- Joint retirement decisions among couples

# Labour Supply and Demand and Age

**Push factors:** restrictions on the available set of attractive job opportunities open to older workers, which 'push' them into retirement.

- On the side of employers, negative perceptions about:
  - the capacities of older workers
  - the age profile of labour costs relative to productivity
  - employment protection rules
- On the side of older workers:
  - depreciation in human capital and skills
  - lack of on-the-job training
  - constraints on changing working hours
  - health

## Older vs Young workers?

*Over time, older workers are becoming closer skill substitutes for younger workers raising demand for older workers, particularly in jobs where the productivity return to experience is high. For example, in 1990 a retiring 65-year old had on average 10.9 years of schooling, while an entering 25-year old in that year had 13.5 years of schooling, a gap of 2.6 years. In 2010, a retiring 65-year old will have on average 12.6 years of schooling, while an entering 25-year old will have about 13.9 years, dramatically narrowing the education gap to just 1.3 years. By 2030, a retiring 65-year old will have 13.5 years of schooling, while, if current trends continue, an entering 25-year old might have around 14.0 years, further closing the education gap of just half a year.*

*The slowdown in growth of educational attainment implies that for the first time in history, new labor force entrants are not substantially more educated than those retiring from the labor force.*

*Source: Maestas and Zissimopoulos (2009)*

# Older vs Young workers?

*Over time, older workers are becoming closer skill substitutes for younger workers raising demand for older workers*

- A worker supplies labour. - An employer demands labour
- This quote reflect the 'accepted' view in labour economics that workers are but another factor of production. Hence, they can be substituted by more efficient factors (not necessarily, people).
- 'Efficiency' is defined in terms of productivity and cost
- Productivity = output / input

# Older vs Young workers?

*... in jobs where the productivity return to experience is high.*

- In economics, we tend to think in terms of changes.
- Returns, for example, are measured with regards to how much a certain investment adds to a given amount.
- The 'productivity return to experience' is how much experience adds to the productivity (of a firm, etc).
- Mainstream economic theory suggests a worker's salary depends on their productivity.

# Older vs Young workers?

## Older People Employment vs Youth Unemployment

- Do increased employment rates amongst older workers crowd out younger individuals from the labour market thus boosting youth unemployment?

Short answer: No

- Conversely, does increased early retirement contribute release jobs for the young and thus reduce youth unemployment?

Short answer: No

- Long answers can be found in:

*Releasing Jobs for the Young? Early Retirement and Youth Unemployment in the UK.* J. Banks et al., 2008.

# Older vs Young workers?

No generational clash in NI labour market

Should people in their 60s give up work to make way for younger people?

	%					
	18-24	25-34	35-44	45-54	55-64	65+
<b>Agree strongly</b>	15	5	7	12	10	18
<b>Agree</b>	18	19	15	22	32	32
<b>Disagree slightly</b>	42	39	38	26	26	28
<b>Disagree strongly</b>	25	38	40	39	32	23
<b>Don't know</b>	0	0	0	1	0	1

# Age discrimination and Work

However, employers are not rational:

- In times of high unemployment, employers often rely on early exit of older workers as a method of avoiding compulsory redundancies (CROW, 2004).
- Only 7% of jobseekers aged over 50 in a recent survey agreed they had never experienced age discrimination in seeking employment. (TAEN, 2009)
- *A younger worker is more than 40 percent more likely to be offered an interview than is an older worker. (Lahey, 2009)*

# Age discrimination and Work

Is the contribution of older people recognized by the NI society?

	%					
	18-24	25-34	35-44	45-54	55-64	65+
<b>Agree strongly</b>	24	28	46	54	53	42
<b>Agree</b>	65	63	47	38	41	47
<b>Disagree slightly</b>	9	7	7	6	6	9
<b>Disagree strongly</b>	0	1	0	1	0	2
<b>Don't know</b>	2	1	1	0	0	0

# Age discrimination and Work

Are older workers in NI discriminated with regard to job recruitment?

	%					
	18-24	25-34	35-44	45-54	55-64	65+
Yes	69	75	78	75	76	57
No	28	22	19	22	22	35
Don't know	3	3	3	4	3	8

# Age discrimination and Work

Are older workers in NI discriminated against with regard to job promotion?

	%					
	18-24	25-34	35-44	45-54	55-64	65+
Yes	65	67	71	71	77	62
No	33	27	23	25	21	31
Don't know	2	6	6	4	3	7

# Age discrimination and Work

Are older workers in NI discriminated against with regard to their position in their organization?

	%					
	18-24	25-34	35-44	45-54	55-64	65+
Yes	40	49	56	57	60	51
No	59	44	37	37	35	40
Don't know	1	8	6	6	5	10

# Age discrimination and Work

Are older workers in NI discriminated against with regard to job training?

	%					
	18-24	25-34	35-44	45-54	55-64	65+
Yes	55	61	67	68	70	55
No	40	34	28	30	26	36
Don't know	5	5	5	3	4	9

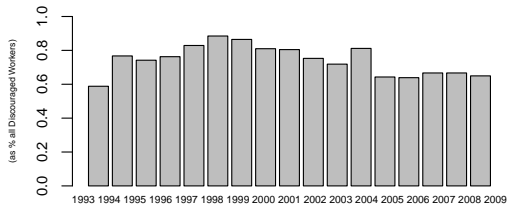
# Age discrimination and Work

It seems that in society in general, the contribution of older people is recognised but in the labour market there is extended age discrimination.

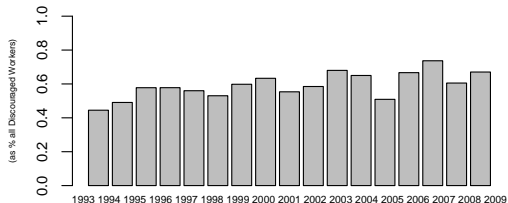
# Age discrimination and Work

## Can this explain the following?

Proportion of Discouraged Workers aged over 50, Males, UK



Proportion of Discouraged Workers aged over 50, Females, UK



# Age discrimination and Work

The impact of age discrimination on GDP is substantial:

*We have to banish the ageism in the workplace that costs an estimated up to £31 billion per year due to lost GDP.*

(Equality Minister Harriet Harman, 2010)

This represents around 2% of total UK GDP - equivalent to, for example:

- 68% of the UK Defence budget
- 54% of the UK Education budget
- 3 times the Northern Ireland's block

# Age discrimination and Work

And not just on GDP:

*We studied 11,462 participants of the Survey on Health and Ageing in Europe who were 50-64 years old.*

*Long-term illnesses such as depression, stroke, diabetes, chronic lung disease, and musculo-skeletal disease were significantly more common among those persons not having paid employment. (Alavina and Burdorf, 2008)*

# Age and Hours Worked



# Age and Hours Worked

Overworking by workers aged 50 and over can be explained to some extent (especially in NI) -but by no means completely- by self-employment:



# Default/Mandatory Retirement

- The Default Retirement Age (DRA) allows organisations to retire workers at the age of 65 without having to give a reason for doing so.
- In autumn 2008, 18 per cent of employers said they planned to use the DRA more rigorously as a way to reduce headcount, which suggests that older workers might become disproportionately affected by such redundancy programmes. (KPMG - CIPD, 2008)

# Arguments in favour of Mandatory Retirement

(Source: Age Discrimination: An Historical and Contemporary Analysis (John Macnicol, 2006))

- The Lifeboat Principle. This assumes that there are a fixed number of jobs at any one time and that young workers are more deserving of those jobs because they have families to support.
- Removes blockages to promotion. This assumes that younger workers who deserve promotion are being blocked by seniority rules protecting older workers.
- Gets rid of older workers who have become too costly to employ. This assumes that most older workers are no longer worth their costs because of their diminished productivity or higher salary or higher health care insurance costs.
- Improves job prospects for minorities and women. Because minorities and women have been discriminated against in the past, mandatory retirement opens up jobs to compensate for the past discrimination.

# Arguments in favour of Mandatory Retirement

- Serves as face-saving device. If all workers must retire at a certain age regardless of ability, the older worker avoids the stigmatization of failing a test or being judged to have diminished abilities.
- Deals with declining abilities with age. This assumes a fairly uniform and inevitable decline in abilities with age, which justifies using age as a 'proxy' for declining abilities.
- Avoids difficult, expensive, and controversial individual performance appraisals. This assumes that mandatory retirement because of age would prevent all the difficulties, expense, and controversy that would result from individual performance appraisals of older workers.
- Outlawing mandatory retirement is a 'red herring'. Because of falling voluntary retirement ages, the proposal to outlaw mandatory retirement would affect few workers. Such proposals detract from more important issues such as the adequacy of pensions, social security, and health care.
- Outlawing mandatory retirement forces old workers to keep working.

Is there are relationship?

*We find that establishment productivity increases with the share of employees until the age of 50-55 and only decreases slightly afterwards.*

...

*We do not find an indication that the ageing workforce will necessarily lead to a decline of the welfare of the industrialised economies because on average the age productivity profile is essentially flat.*

*(Source: Goebel and Zwick, 2009)*

# Women's employment history and income in later life

*The associations between women's family histories and their incomes later in life are relatively **weak, and in many cases insignificant.***

*Divorce, early widowhood and re-marriage are not associated with significant differences in older women's incomes, whilst motherhood is only associated with a small reduction in incomes later in life.*

*On the one hand, this could be seen as a positive finding in that the 'pension penalty' associated with events such as motherhood and divorce are not as severe as is often anticipated. On the other hand, the main reason for this is that **the pension returns to working longer are relatively low, especially for low-skilled women.***

*Source: Family ties: Women's work and family histories and their association with incomes in later life in the UK.*

*Sefton et al., 2008. Centre for Analysis of Social Exclusion*

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