

CROW

Centre for Research into the Older Workforce

Do employers need older workers?

Key Messages

Business needs people to stay in work longer. With falling birth-rates and an expanding economy, firms are suffering from skills gaps and shortages, but the working age population is not growing. Sectors with the biggest skills gaps also had the fewest older workers.

Age discrimination is common, and costs business money. One in five people over 50 have experienced age discrimination in the workplace. The result is wasted talent and unmotivated staff.

Employers can keep workers longer, and keep them productive if they make working arrangements more flexible, to allow them to manage caring responsibilities, and to phase out of work gradually.

Good management is important to retaining loyalty and motivation. Like their younger colleagues, older workers want to feel valued by their employer and colleagues; to maintain social networks; to carry out stimulating work; and to maintain work life balance. If they leave early because they do not get these, their employers are the losers.

Training older workers is a good investment. They are less likely than younger people to leave when trained, those who train stay in work longer, and are more willing to share their skills and knowledge with younger colleagues.

Extending working lives helps the economy, and reduces the costs of pensions and welfare benefits. If the proportion of 50-69 year olds in work increased by 0.25% a year it would add at least £31 billion to GDP, and could be much more.

Living with an ageing workforce

The age when young entrants to the labour market were plentiful is over. Falling birth-rates over many years mean that, over the next decade, the numbers of young people entering the labour market in the UK will fall, at the same time as the largest ever numbers of people will retire. This will intensify the skills gaps and shortages which employers are already experiencing.

When a worker retires, the firm loses experience, skills and talent, and finding a replacement takes time and money away from the business (if indeed this is possible). As a result, a growing number of employers are looking for ways to encourage staff to delay retirement.

The UK Government (like all EU Governments) is concerned about the economic and social impact of current retirement patterns, and aims to increase the number of older workers by one million by 2006 (DWP 2005). The reasons are partly economic, but there is also growing evidence that early retirement is socially damaging: work matters to people, it gives them a sense of purpose and social networks as well as income and status, and for many people early withdrawal from work leads to isolation and poverty in retirement (Performance and Innovation Unit (PIU) 2000).

People over 50 already contribute £201B through paid work to the UK economy, plus another estimated £24B through unpaid work as volunteers and caring for children, grandchildren and elderly relatives (Meadows 2004). However, if the employment rate for 50-69 year old people were to increase by 0.25% per year (without any other changes like an increase in immigration), the UK would have 300,000 more older workers by 2011 and 700,000 by 2021. Given the right skills and management, this could go a very long way to remedying the current skills gaps and shortages, and would enable the country to pay for the costs of pensions and benefits created by rising life expectancy.

Do employers need people to stay in work longer?

Employers are already facing labour shortages, particularly of skilled and experienced workers. In the UK as a whole, and particularly in the South East, low unemployment has meant that finding skilled workers is becoming more difficult. In a survey of employers for the Learning and Skills Council (Institute for Employment Research 2003), 17% of employers reported job vacancies, and almost half of these were described as “hard to fill”. The evidence is there in everyday experience: in the difficulty of finding a plumber, and in childcare costs being forced up by scarcity of qualified staff.

Employers suggested three reasons for this (fig 1):

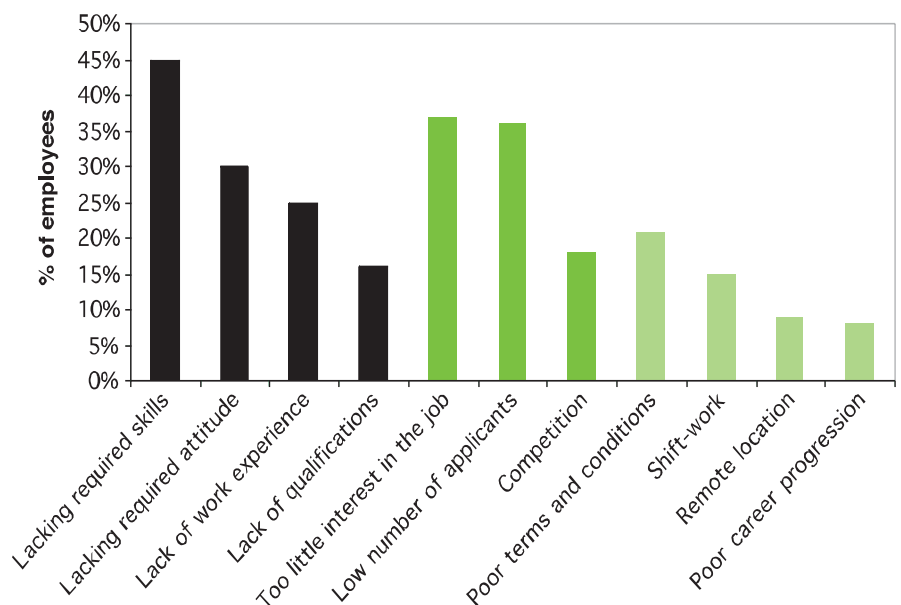
- The most frequent problem is a lack of candidates with the right skills, experience and attitudes to carry out the work.

- Some jobs are simply unattractive - offering poor conditions of service, for example anti-social hours or unattractive work locations
- Some employers are feeling the pinch of a tightening labour market -with low interest in vacancies or competition from other employers.

These problems come on top of a general problem of “skills gaps”. Nearly one firm in five had jobs filled with staff who lacked the right experience or skills to do the work at the level required.

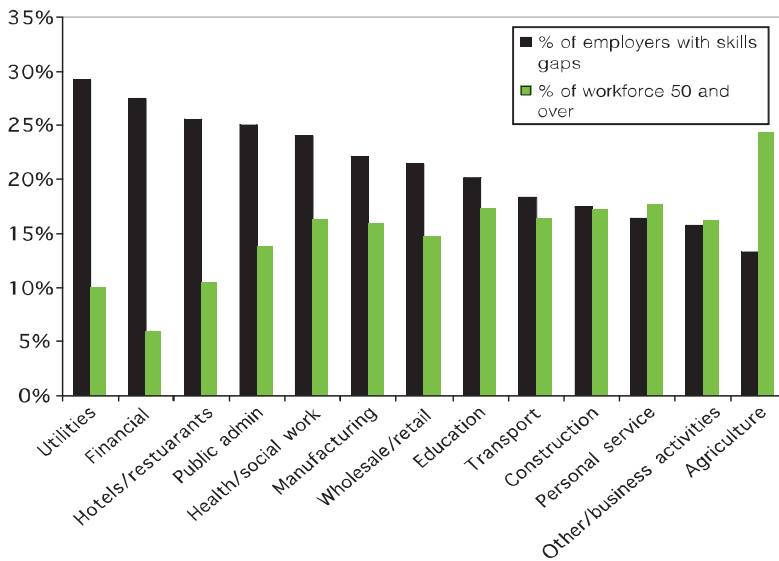
The biggest gaps are in sectors with few older workers (fig 2): because employers have been reluctant to recruit them (hotels and catering (Lucas 1995)); have encouraged them to retire early (the public sector (Vickerstaff et al. 2004)); or have lost them through restructuring and downsizing (utilities (Croucher & Mitchell 2001)). Many employers in these sectors are now trying to reverse the decline in their older workforces by reviewing recruitment practices, offering flexible working hours and changing retirement age.

Figure 1 - Reasons for hard to fill vacancies



Source - Institute for Employment Research 2003

Figure 2 - Skills gaps by sector



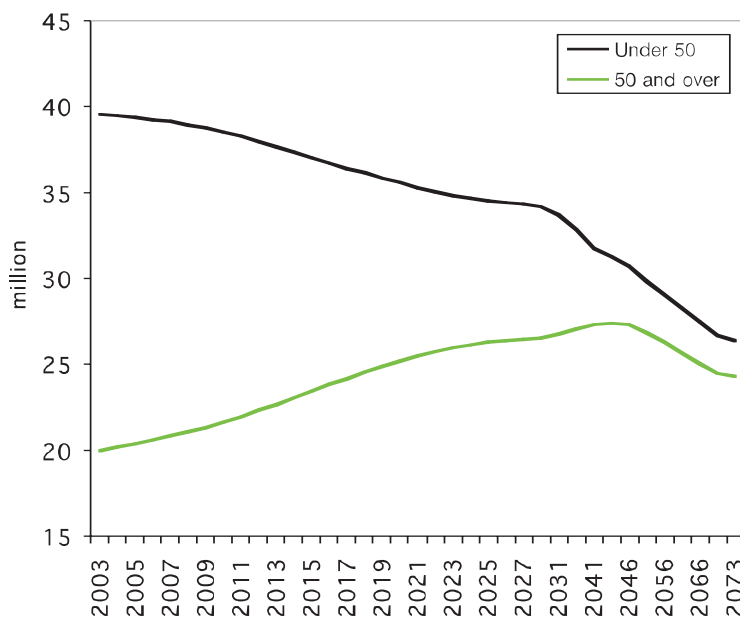
Source - Institute for Employment Research 2003

Why is the Government worried?

Government is concerned about the implications of an ageing population. Over the next half century, the number of people who are of "prime working age" will fall by about a fifth, but the number of those who are over 50, particularly those

above 65, will rise dramatically (fig 3). Meanwhile, the under 20 population is expected to decline by around a third, and more younger people will be delaying entering the workforce in order to take part in higher education.(Moynagh & Worsley 2005)

Figure 3 - Population size by age



Source- Government Actuary's Department (2005)

Without a change in older workers' participation rates, the UK will face a large increase in its dependency ratio (the proportion of economically inactive versus active population), which will affect its economy through lost productivity, and increased costs of pensions and welfare benefits (DWP 2002). The OECD estimates that unless policies change, the UK's national income (GDP) will be reduced by as much as £30 B annually by 2050 (OECD 2004), and that over the next 50 years, the size of the 50-69 year old workforce will need to grow by 0.25% every year if the dependency ratio is to remain stable. Other European countries with lower real retirement ages and more rapidly falling birth-rates face even greater economic shocks (OECD Economics Department 2004). However, the alternative, of doubling immigration to fill the shortage of workers (Oliveira Martins et al. 2005), would be politically controversial, and might not be possible, since birth rates are falling and life expectancy rising worldwide.

Why might people stay longer?

There are four reasons to expect that older people will stay in work longer in the future:

- Economic growth: although employers' attitudes toward older workers are influenced by economic cycles (retaining older workers when there are skills shortages and releasing them when unemployment rises), prolonged economic growth has disrupted this pattern, and many employers are changing their HR policies to encourage people to stay longer.
- Changes in pension schemes mean that some workers will need to stay longer to accumulate a decent retirement income.
- Employment law (especially the age discrimination law which comes into force in 2006), and Government policy are geared towards increasing labour market participation and raising real retirement age (the current average age is around 62 (OECD 2004)). From October 2006 it will be illegal to require

anyone to retire before 65 unless there is an objective justification, and employers will have to consider requests to stay longer.

- Attitudes to, and expectations of, work and retirement are changing: as people age, they become more attached to work, and a majority say they would like to work longer if the conditions were right (McNair & Flynn 2005), while younger people expect to be retiring later than the current generation of older workers (City and Guilds Policy Group 2005).

Are more older people available to work?

There is certainly an untapped pool of older people who would like to work, but are not doing so. However, the availability of older workers depends on a number of factors, including skills, personal circumstances, health, finance, the attitudes of employers, and the jobs on offer.

Over the past quarter century, the number of working men between 50 and State Pension Age declined sharply (fig 5). Many industries went through major restructuring (Campbell 1999), and employers, unions and the Government itself used early retirement as a more

humane way of managing job losses. (Duncan, Loretto, & White 2000) However, in the last decade, prolonged economic growth has led to a tighter labour market and employers have become less keen to lose staff. This has led to the halting of the downward trend in real retirement ages shown in Figure 4. Around 7% of the 7.3 million people between 50 and State Pension Age who are not economically active, are known to be actively seeking work (ONS 2005). A further 20% say that they would like to work, but cannot, most frequently for health reasons or because they are not confident that any jobs would be available for them.

This means that almost two million people between 50 and SPA want a job, but many are not currently able to work because of limited skills or health difficulties. Age Concern estimates that around a third may have skills needs which prevent them from working, while another 15% are limited by health and 6% are limited by both skills and health (Gossage 2005). However, many of these people could be employable given appropriate support through training, flexible working or modifications to the design of the job or the workplace.

The pattern varies to some extent by region. The highest overall labour market participation rates are found in the South and East of England where the economy is strongest. The highest proportions of older people seeking work are to be found in Scotland and the North East (where unemployment is highest), and in London and the South East, where the cost of living is highest, and disposable incomes lower.

There are two ways in which the numbers of older people in work might be increased:

- Reducing age discrimination in recruitment, and freeing up of the older labour market would make it easier for people to change jobs (including both promotions and downscaling). At present this is difficult: for an individual made redundant at 55, the chances of finding a way back into a role of comparable status are slim, and the range of jobs available for older people tends to be restricted to relatively low paid and low status roles in areas like retailing and call centres, or very high paid, high status roles in consultancy.
- Employers supporting older workers to stay longer in their existing firms, though possibly not in their existing roles.

Figure 4 - Employment rate of people 50 to State Pension Age



Source: Hirsch (2003) and ONS Spring 2005

Although the first strategy is important to ensure that people who experience redundancy, or career breaks for health or caring reasons, can get back in easily, the second is the most likely to produce significant change. For this reason it is important that employers look carefully at how best to manage their older workforce.

Tackling the myths about older workers

Although employers are beginning to recognise the value of older workers, many employers, and older people themselves, hold beliefs about older workers which are not true, and act as barriers to expanding the older workforce. These prejudices are not only unfair to the employee, but costly to the employer in wasted talent. From October 2006, it will also be illegal to discriminate against people in the workplace on grounds of age, and employers will need to eradicate unjustified age biases from their HR practices. Some myths include:

“Older workers are too expensive”

Older workers are often paid more than younger colleagues, and this has sometimes been used to justify compulsory retirement ages (Lazear 1981) However this is usually based on length of service rather than age itself. Research into employers' approach to pay suggests that they do this because they believe that there are economic benefits (including relevant experience and knowledge, and lower turnover) which outweigh the costs (Neumark & Stock 1999) Such patterns are not universal, and many employers who have incremental pay scales are reviewing their systems to remove any unfair indirect age discrimination. Furthermore, falling birth-rates mean that the days when a firm could recruit two young people for the price of one old one are rapidly fading.

“Older workers don't have the skills”

Many employers believe older workers have outdated skills and are unwilling to update them (Itzin, Phillipson, & Laczko 1993). In one survey 37% of employers said that older workers “lack of appropriate qualifications” was an important reason for not recruiting them. However, 49% said that they were dissuaded from training older workers because they were not confident of getting a sufficient payback on the investment before the employee retired

(Casey 1997). These two attitudes, of course, reinforce each other, since people who are not trained are less likely to have the relevant skills. However, it is not at all clear that the fault lies with the employees. While it is true that older people are less likely than younger people to take part in training funded by their employer (Urwin 2004), the fact that they are as likely as their younger colleagues to go out and find training for themselves (Age Concern 2004) suggests that the problem may be as much on the employers' side.

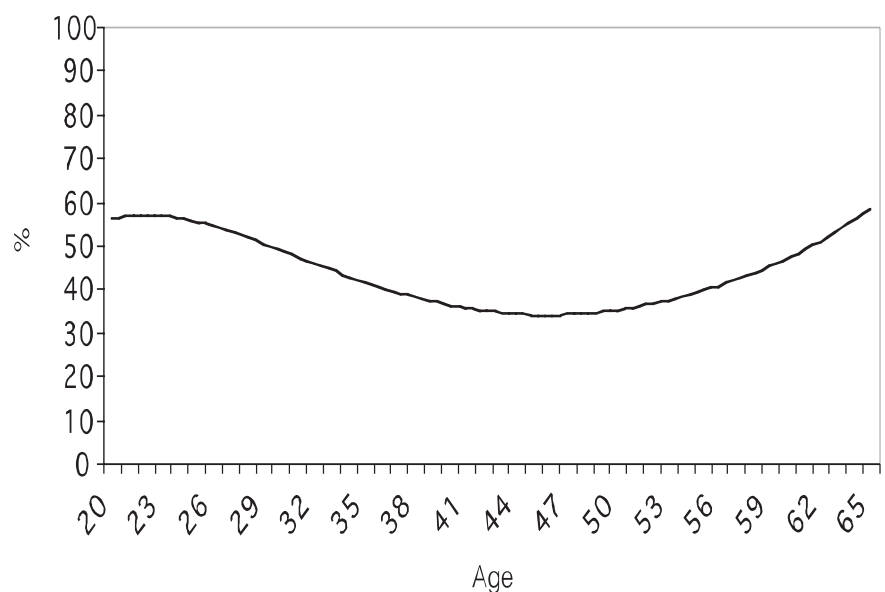
Furthermore, training older workers can have a real payback for employers. Those who have participated in training are more likely to stay in work longer and say that they feel more loyal to their employer (NIACE 2000). Further, CROW research in the European motor industry suggests that older workers who have been offered training by their employers are more willing to share their skills and experience with younger colleagues. By investing in new skills, employers are able to build on

existing knowledge which their older workers have built up over the years. Finally, apart from those in the very last stages before retirement, most older workers are less likely to use their newly acquired skills and knowledge to leave the firm than their younger colleagues.

“As soon as you recruit or train an older worker, he retires”

The evidence does not support this. Up until the age of 65, turnover rates remain relatively constant. In a 2003 study on job transitions, CROW asked people whether they had left their employers within the previous five years due to changing jobs, redundancy, dismissal or retirement (McNair et al. 2004). The likelihood of an employee leaving in a five year period is about the same for people in their 50s as for those in their 20s (fig 5): a twenty-something worker who is trained by his employer is just as likely to leave for a better job as a colleague in his fifties is to retire.

Figure 5 - Proportion of people leaving their employers over a 5 year period - all reasons



Source: CROW (2004)

“Work performance declines with age”

The evidence does not support this belief, except in very special situations. While it is true that some physically demanding tasks become more difficult with age, in a modern economy, there are relatively few jobs which require employees to work to their maximum physical capacity for long periods of time, and many industries have a tradition that older workers take on more managerial and training roles, which are less physically demanding, as they get older. Mental abilities, on the other hand, do change as people age, but not necessarily for the worse (Warr 1994) One study of typists between 19 and 72 found that, younger typists were able to process information faster than older ones, but the older typists were able to think further ahead and use larger chunks of material, thereby working just as fast. A study of bus drivers found that those in their sixties had lower collision rates than any other age group. This was true even with bus drivers who had the same level of experience. It has also been found in studies of factory workers that older workers are slower but produce higher output.

“Older workers are less able to cope with pressures in the workplace”

There is little evidence that stress alone increases with age, and in fact some of the indicators, such as short-term absenteeism, decline as people age (Warr 1994). However, early retirement has often been used by employers to deal with stress related problems encountered by individual older workers, when perhaps other measures could have been taken to help them reduce work pressure. What is clear is that older workers in general do receive less support from their employers in managing factors which may cause stress, such as balancing family and work-responsibilities (Mooney & Stratham 2002), but that good management and flexible working arrangements can remedy this. This is why the Government has proposed to extend the right to request flexible working to people with caring responsibilities for elderly relatives. (DTI 2005)

“Older people don't want to work”

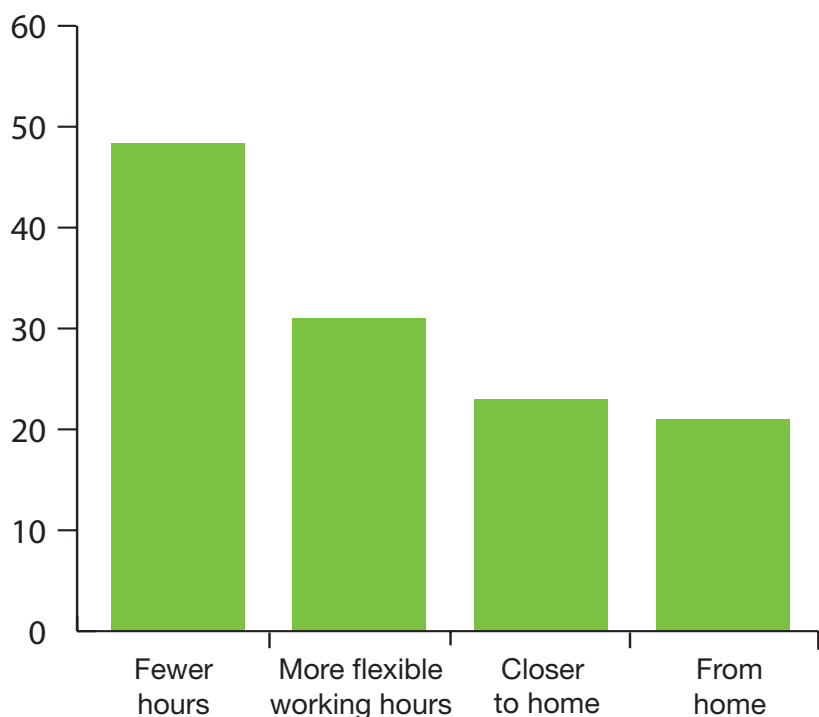
For most people between 50 and 65 this is not true. In a recent CROW survey over half of all workers between 50 and 69 said that they would like to continue in work after they formally retire (McNair & Flynn 2005). A further 23% said that they would consider extending working life “if the right job came along.” However, few wanted to continue to work full-time, preferring part-time or occasional work. A similar study by City and Guilds (2005) found that two-thirds of respondents over 50 would consider delaying retirement if they could work part-time, and a further third would work longer if they could take on less pressurised roles.

While those who are still in work are keen to stay, those who think of themselves as “retired” are much less likely to want to return, although some do want to (and often encounter real age discrimination when they try). Once retired, most people say they are happy, and in the CROW survey only 13% of retired people said

that they would like to return to work in some form. However, this does not mean that this is the situation they would have preferred: a majority said that they would have liked to work longer, had it been possible to do so on a part time basis or by working closer to home.

The evidence is strong that many people would prefer to retire gradually, by reducing hours or moving to less responsible roles, but in reality, few people do so. A major reason for this is because people's decisions on work and retirement are largely governed by decisions made by their employers (Vickerstaff 2004) Job status also matters (Lissenburgh & Smeaton 2003), and many older workers simply do not feel that they have the leverage to request changes to work routine. This may change as a result of the age discrimination regulations which will require employers to consider requests from older workers to extend working life past retirement or to reduce working hours to care for elderly relatives.

Figure 6 - Preferred alternatives to retirement



Source- CROW 2005 postal survey

Final Thoughts - Overcoming Preconceptions

A major barrier to using the full talents of older workers is their own preconceptions about age and ability. Almost one in five older workers say that they have experienced age discrimination in work, and for many more, it probably affects how they perceive their labour market position. In a culture where age discrimination is common, it is not surprising that many older people share the common belief that their capacities must be declining. Even if they would like to stay longer, they may be less confident in arguing the case with their employers, in asking for training to keep up their skills, or for part-time work to allow for caring responsibilities.

An important factor in this is the expectation of "retirement". Although

many HR professionals argue that most people leave planning for retirement too late, most people do begin to make mental adjustments in the years before the date when they expect to retire. During that period, they may begin to be more aware of difficulties which they would have taken in their stride when younger, and become more sensitive to signals from colleagues and managers that they are no longer seen as performing at their peak. As a result, they begin to lower their expectations of themselves. In this way, declining performance becomes a self-fulfilling prophecy, and they enter a phase of "running down" to retirement.

However, this process is not inevitable. When older workers feel valued by their employers, and see themselves as

continuing to make a contribution, they can remain motivated and effective, and the CROW study of job change found people in their 70s still talking in terms of "career moves" and "new challenges" at work. Sensible measures, like recognising the career development needs of all staff, extending flexible working, and jettisoning unjustified age biases can contribute to better run organisations.

As organisations like the Employers Forum on Age, and the Chartered Institute of Personnel Development have demonstrated, good age management practices are good for business, as well as for the individuals.

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Can CROW help your firm?

Many employers are now reviewing their HR practices to look for ways of making better use of their older workers and encouraging them to stay longer. Through our work for Government and employers, CROW has built up an extensive knowledge base on managing older workers which could help your firm improve its age management.

The consultancy service we offer employers, can include:

- independent confidential surveys of older staff to find what changes might encourage them to stay in work longer, or become more flexible;
- one to one, or small group, briefings for your managers on good practice in managing an older workforce;
- an audit of the firm's policy and strategy documents in the light of the pending age discrimination legislation;
- a confidential independent review of how far your HR policies for age discrimination are being implemented in practice.

We are also looking for employers interested in taking part in research into the behaviour and management of the older workforce.

Contact CROW by phone (01483 683137) or email (crow@surrey.ac.uk) for further information.

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