TUC

Postponing the pension: are we all working longer?

Trades Union Congress analysis of issues being considered by the Independent Review of State Pension age

Introduction

Two contrasting stories are told about older people and the workplace. One goes like this: people are living longer; they should therefore be working longer; the State Pension is becoming too much of a burden. And, besides, younger people are receiving a raw deal from the current settlement. This can be reset by reducing the generosity of pensioner entitlements, including requiring people to work for longer.

Another version emphasises the barriers to change. It highlights the stark variations in life expectancy with a 65 year-old man in Harrow likely to live an additional 20.9 years, six years more than his equivalent in Glasgow City. It notes that we cannot assume that future improvements in lifespan will lead to improvements in health. While the life expectancy of women at birth increased by 1.3 years between 2005 and 2010, the number of years spent without disability only increased by around a month. These figures are given a human face by the high profile concerns voiced by women affected by equalisation of State Pension age. They report being unable to work, being forced to either draw on limited savings or face the limited support and demanding conditions of claiming working age benefits.

This report shows that both narratives are missing the whole picture. The face of the labour market *is* changing, with older workers (which we define as those aged over 50) playing an increasingly important role in the workplace. But around half of all workers still leave the workforce before State Pension age, often many several years before. This suggests that public policy needs to address twin challenges. Firstly, enabling those older workers who want to work to do so. And secondly, ensuring that those who cannot work are provided for. Seeking to use an increased State Pension age as a crude tool to encourage longer working is likely both to be ineffective and risk increasing hardship among older people.

The backdrop to this debate is the implementation of longstanding plans to raise State Pension age. Women's State Pension age is gradually being raised to reach 65 by November 2018. From December 2018 the State Pension age for both men and women will start to increase to reach 66 by October 2020. It will increase again to 67 between 2026 and 2028. A key aim of this policy has been to improve the public finances.

The Independent Review of State Pension Age led by John Cridland will consider what should happen to State Pension age after 2028, and could set in train another set of reforms.

Potential changes to State Pension Age have implications for how long older people are expected to spend in the labour market. So an analysis of the experience of older people in the workforce should be at the centre of policymakers' thinking. This means understanding labour market patterns and how these vary across the population, whether by gender, occupation or region.

And if an aim of public policy is facilitating people staying in the labour market for longer, then policies that allow them to do so, and provision made for those who may be unable to work into their later years, are both crucial.

This paper examines the rise of the older worker in detail and interrogates the extent to which this trend is widespread. For we need to understand how older workers are faring now to assess whether and how to encourage older people to stay economically active for longer. It pays particular attention to the role that illness and disability plays in older people's detachment from the labour market.

We find that:

- Over the last 15 years the ranks of older workers – those aged over 50 – has increased by nearly three million or 44 per cent to 9.6 million.
- There remains an enormous drop in participation in the labour market from well before State Pension age. Barely half of 60-64 year olds are economically active.
- There are nearly half a million people within five years of State Pension age who are too ill or disabled to work, this is one in eight.
- Up to a third of older people from manual occupations who are economically inactive ahead of retirement cite sickness or disability as the reason. This is twice the rate of those in some white collar categories.

The TUC believes there is a good case for seeking to increase further the number of older people in work while defending the right to retirement. As an economy, we have the challenge of maintaining a stable dependency ratio – the number of workers compared to non-workers - as the large babyboomer generation retires. We can benefit from retaining skills and experience built over decades.

Often it is argued that to keep the dependency ratio in check, the State Pension age must continue to rise. But dependency ratios depend on people's ages when they actually leave work. As we show in this report, nearly half of people leave the workplace by State Pension age, many a long time before. This is often due to illness or disability, particularly for those in manual occupations.

If policymakers want to ensure that people stay in the labour market for longer, this will require policy interventions to overcome the barriers and discrimination that many face. Simply pushing up State Pension age risks leaving older people in hardship while many will continue to draw on state resource through the working age benefits system.

We have made a number of suggestions, including:

- Strengthening opportunities for flexible working from day one of employment to accommodate the needs and choices of the worker.
- Developing mid-life career reviews so that they become effective vehicles for ensuring older workers receive the support to continue their careers.
- A right to retrain for older workers.

However, it is clear that further major initiatives are also needed in the arena of public health and in reducing inequality more generally if we are to reduce vast disparities in health and therefore the ability of people to work into their later years.

Working Longer

There has been a clear trend towards workers staying in the labour market for longer. This has been underpinned by two strands of government policy.

One is legislation bolstering the rights of older workers. This includes the Equality Act 2010, which protects against age discrimination at work, and the abolition of the compulsory retirement age in 2011. This meant that employers could no longer end workers' employment simply because they reached 65 years of age. It opened the way for those who wanted – or needed – to work longer to do so.

The other is equalisation of the State Pension age for men and women, a process put in train in 1995 but accelerated by the Coalition government in 2011. This has raised the State Pension age for many women, sometimes by as much as six years.

As a consequence, the face of the labour market has changed. TUC analysis of the quarterly Labour Force Survey has identified an extra three million older workers (those aged over 50) in 2015 compared to 2000. This is thanks in large part to more women staying economically active. Older workers now make up nearly a third - 30 per cent - of the UK workforce, up from less than a quarter (24 per cent) in 2000.

The change is more marked among older groups. Those aged over 65 now comprise one in 25 workers, up from one in 50, 15 years ago. The employment rate for over-65s has more than doubled from 4.9 per cent to 10.6 per cent. There are now 1.2 million over-65s in the labour market.

The economic activity rate of 60-64 year olds has soared from 37 per cent in 2000 to 51 per cent in 2015. This has been driven by women whose activity rate has risen by 16 percentage points to 43 per cent, most likely as a result of the increase in State Pension age.

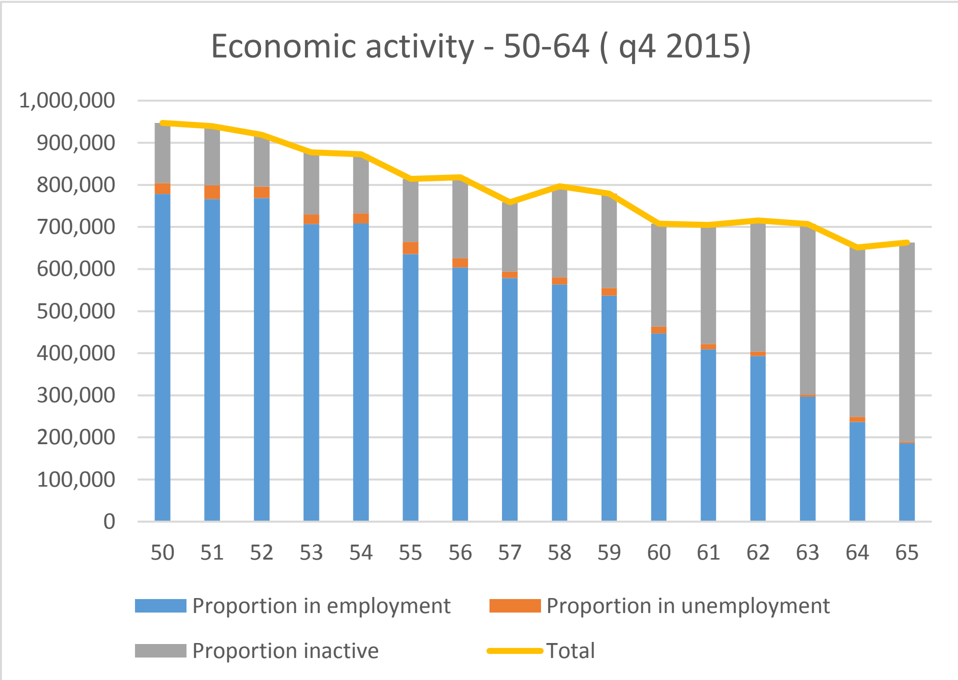
Employment rates have also risen among younger older workers, albeit not as dramatically. The percentage of 50-54 year olds who are economically active has risen from 76 to 82 per cent in the last decade and a half. For 55-59 year-olds, it is up from 64 to 74 per cent. Again, the biggest increases have been seen among women, a trend that has been accelerating although economic activity continues to be higher among men in this age bracket.

This means that there are now 8.4 million workers aged between 50 and 64. An additional 2.2 million workers in that age bracket are now economically active and contributing to the Exchequer and the country's wider economic prosperity, compared to 2000. They are bolstered by an extra 700,000 over-65s in work compared to the beginning of the century.

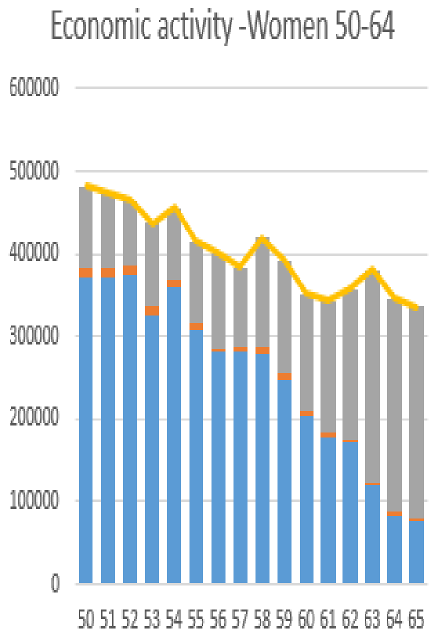
Falling from 50

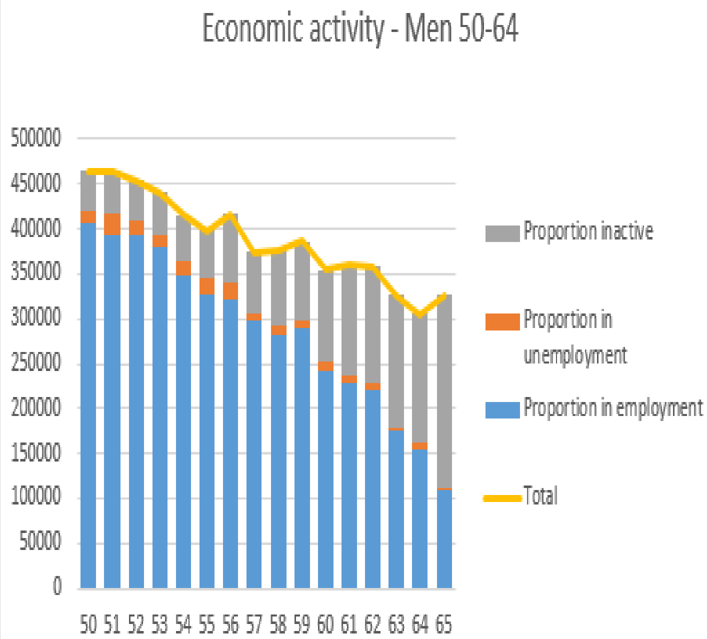
However, this increase in the number of older workers should not be seen as evidence that efforts to encourage longer working lives are universally successful – or that blanket rises in the State Pension age are the principal tools to achieve this.

There remains a very sharp decline in economic activity as people progress through their 50s and towards State pension age. For example, at the end of December 2015, just 15 per cent of 50-year olds were economically inactive (those who are not working, and are not seeking or available for work- this includes students, the long-term sick, unpaid carers and those who retire early). This proportion remains steady up the age groups, until age 56 when more than a quarter of people are economically inactive or unemployed. Among 60 year-olds, fewer than two-thirds (63 per cent) remain employed. By age 65 just 28 per cent of people are in employment.



This decline is not simply a function of the current lower state pension age for women. Figures for the end of 2015, when State Pension age for women occurred in the months after their 62nd birthday, show that just 48 per cent of 62 year-olds and 52 per cent of 61 year-olds were employed. This dropped to 32 per cent at age 63. Likewise, 51 per cent of men are in employment at age 64. This plunges to a third at age 65. In contrast, for those aged 50, 77 per cent of women and 87 per cent of men were in employment.





Therefore, we can conclude that the State Pension age almost certainly acts as a retirement trigger for some. But it is irrelevant to the many who have already left the labour market by this point.

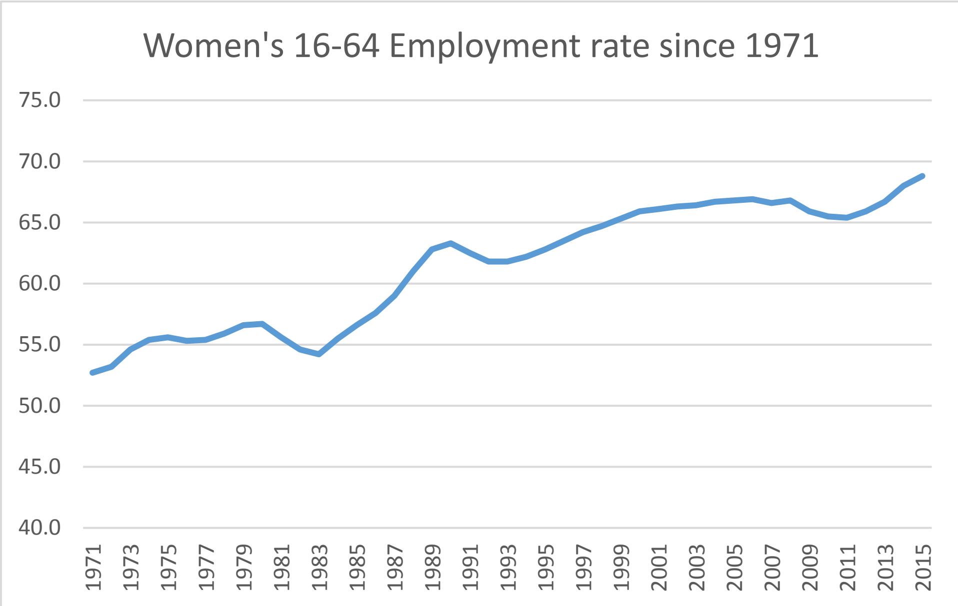
Older workers are more likely than their younger peers to be made redundant. And once out of work, they are much less likely to find work again than younger people. Analysis by the Department for Work and Pensions dating from 2013 shows that 47 per cent of unemployed older people had been out of work for a year or more compared to 40 per cent of 25-49 year olds, and only 33 per cent of unemployed 18-24 year olds.

Gender

Older women remain far less economically active than men of a similar age, despite a sharp uptick in employment in recent years.

There were just 2.7 million economically active women aged between 50 and 64 in 2000. By 2000 this had inched up to 3 million; it increased to 3.4 million in 2010; and rose again to 4 million by the end of 2015.

Women are already less likely than men to be in work as they approach their half century. At age 50, economic inactivity rates for women at 20 per cent, are twice those of men. By age 62, as the State Pension starts kicks in, fewer than half of women (48 per cent) remain employed, a number that plunges to 32 per cent at age 63. This compares to nearly two-thirds of men (62 per cent) who are in work at 62 and 54 per cent at 63. The generally lower level of economic activity is likely to be due to labour market patterns at younger ages. Just 53 per cent of women aged 16-64 were in employment in the early 1970s, compared to 69 per cent today.



However men are more likely to declare themselves retired – around 50 per cent of those who have exited the labour market do so - compared to just 37 per cent of women who are not working. This suggests that women may have exited the labour market for reasons other than retirement, such as undertaking caring duties. The ranks of the male "retired", may also include those who left work due to poor health.

This chimes with work by the Resolution Foundation which noted that people with caring responsibilities are significantly less likely than others to be in employment and that carers are disproportionately likely to be women and to be over 50. In addition to caring for elderly relatives and partners, older women often provide childcare for their grandchildren. According to polling by Ipsos Mori, nearly 2 million grandparents have given up a job, reduced their working hours or taken time off work to look after their grandchildren.

This points to two distinct challenges if the policy aim is to encourage women to spend more time in the labour market.

One is an overall lower level of economic activity by women even by the time they reach age 50. This may evolve as the increase in women's employment from the early 1970s to the early 1990s is felt. But policies aimed at keeping people in work will be ineffective for those who have left the labour market many decades before.

Another is a rapid drop in economic activity by both genders as they progress through their 50s and 60s. Our figures suggest that for a large number of men and women, the State Pension age acts as a trigger for retirement – but not for a majority of women or a large minority of men who have already exited the labour market.

Meanwhile, the ability of policymakers to encourage people to stay in work, and the solutions employed, depend to a great extent on their reasons for inactivity. What is apparent is that illness and disability play a big role in restricting economic activity, especially for those from manual occupations.

Sickness and disability

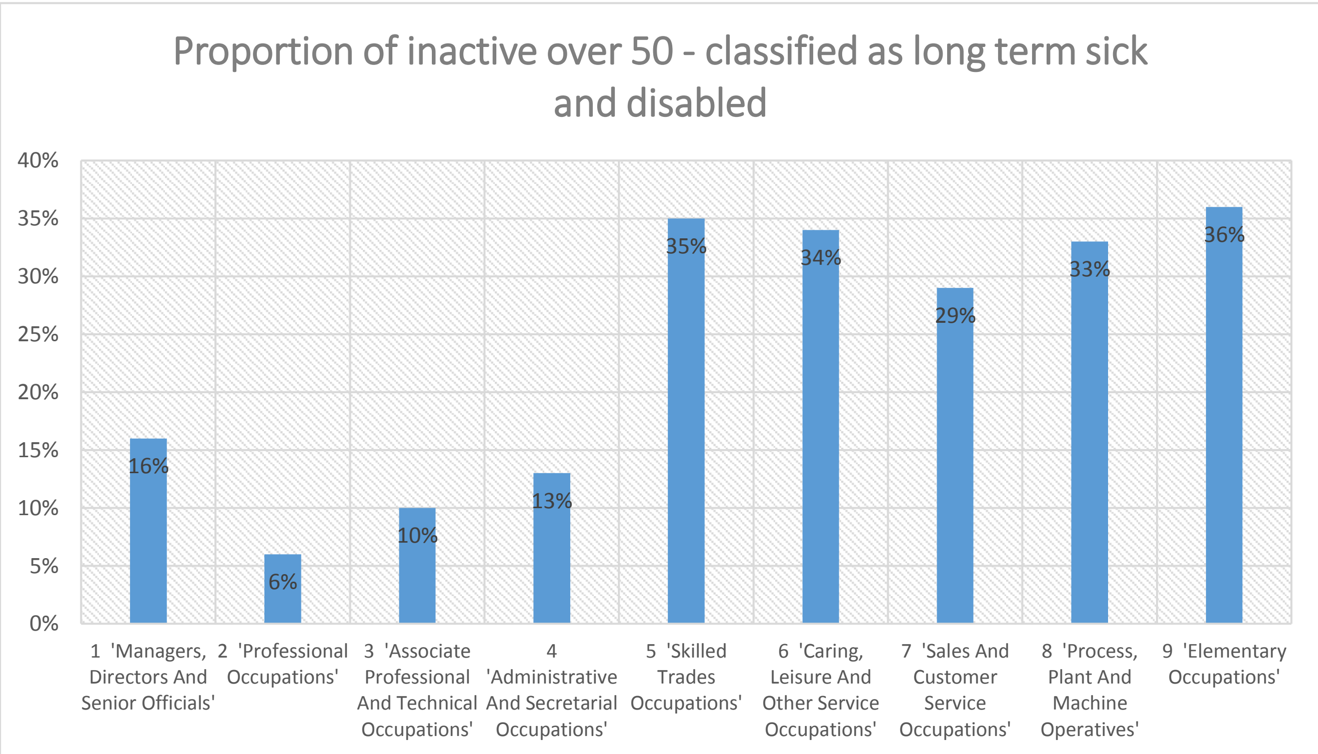
TUC analysis shows clearly that sickness and disability play major roles in preventing older people from remaining economically active – and that those who had worked in manual occupations are particularly badly affected.

Our research has found that there are 436,000 people in the five years before state pension age – 60-64 years-old for men and 58-62 for women - who are economically inactive due to reasons of sickness or disability. This includes 234,000 women and 201,000 men.

While those with a range of very different conditions will be economically inactive due to sickness and disability, it does suggest that large numbers of those exiting the labour market ahead of retirement are unable to work.

It is also important to note that ill health varies dramatically between occupational groups and regions of the United Kingdom, thereby underpinning inequality.

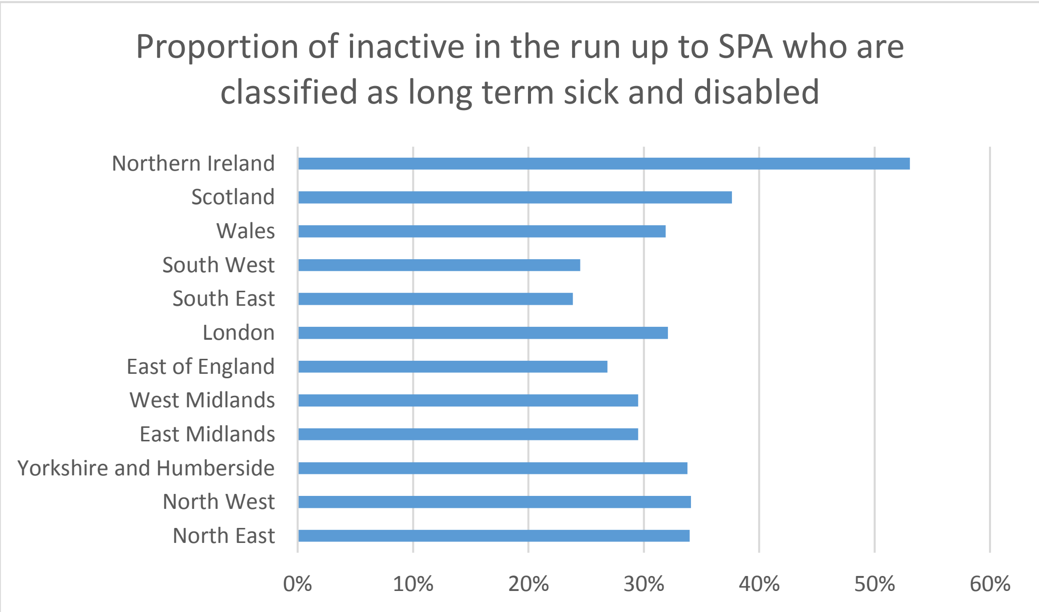
More than a third (36 per cent) of older workers within five years of retirement who are already inactive, and whose last major job was in an elementary occupations, are inactive due to ill health or disability. This compares to 16 per cent who were previously managers and six per cent of professionals. A similar relatively high level of ill health is seen among those who were skilled workers or bracketed as caring, leisure and other service occupations.



However, we should also note that the data could underplay the degree to which those in professional or managerial occupations face issues of sickness or disability. They may have more scope, given higher levels of savings and pension entitlement, to retire from the workforce.

There are stark regional differences in illness rates among older people approaching State Pension age.

There is a sign of a North/South divide with jobless older people in the North more likely to report ill health. Nationally, of men and women within five years of State Pension age who are economically inactive, 31 per cent report that this is due to sickness or disability. This rises to 53 per cent in Northern Ireland, 38 per cent in Scotland and 34 per cent in North East England, North West England and Yorkshire and the Humber. In the South East and South West England, sickness and disability are cited by just 24 per cent of those jobless in the run-up to State Pension age.



Our findings tally with official data showing that, on average, men and women already have an onset of activity limitation by age 65. The Government Office for Science also found that in the North East of England every single local authority has a disability-free life expectancy of less than 65 years. It is the same for the overwhelming majority of councils in North West England and Yorkshire and the Humber.

The implication is that many workers will simply be unable to work even to their mid-60s. This means that a punitive response, including restricting access to benefits, should be resisted. Instead, a more sophisticated understanding of the nature of illness and disability preventing some workers from remaining in the labour market is needed if we want to break down the barriers preventing those who want to work from doing so. This is likely to include action to ensure that employers understand their legal duty to make reasonable adjustments to enable a disabled worker to remain in work. This includes adjustments to their working hours, job tasks, work equipment, as well as ensuring that redundancy policies and sickness absence procedures do not unfairly penalise disabled workers. Employers also need to consult workers and trade unions to look at what can be done to prevent work resulting in a disability later in life. This is likely to include interventions early in workers' lives to adapt jobs and the work environment to help workers age better.

Mechanistic approach to State Pension age

Our findings cast doubt on a mechanistic approach to setting State Pension age. A guide to future changes to State Pension age, set out alongside the Autumn Statement in 2013, established the principle that a person should spend a third of their adult life (from age 20) in retirement. This implies that if life expectancy rises by a year, then State Pension age should also increase by four months. It also places the need to protect the public finances from the expense of an ageing population at the forefront of policymaking.

This approach has the merit of a degree of transparency and of simplicity. But it struggles to deliver even on its own terms. The Office for Budget Responsibility, in a key paper on population projections published in July 2016 noted that the latest Office for National Statistics' principal population projection has been revised down. Life expectancy at birth in 2039 is projected to be 0.2 years lower for men (at 84.1 years) and 0.6 years lower for women (at 86.9). This is due to higher recent mortality rates, especially for the over-80s.

This led it to cut the anticipated the old-age dependency ratio to 46.3 per cent in 2065, down from 47.1 per cent previously due to a larger than expected working-age population and smaller retired population.

But rather than provide a fillip to public finances, counter-intuitively, on the OBR's 50-year view, this leads to increased public spending. The body anticipates a slower than expected rise in State Pension age, while the increased mortality is not captured within its 50 year timeframe.

On top of this, our analysis shows that it cannot be assumed that a rise in State Pension age will lead to longer working lives. Many already leave the workforce long before State Pension age, for reasons including ill health and disability.

So an approach designed to capture the long-term costs of an ageing population and provide a clear guide to policymakers, fails to capture the complexity and challenges surrounding older workers' participation in the labour market. It also struggles to portray the overarching impact of changing life expectancy on the government finances.

Policy approaches

The TUC's analysis suggests that raising the State Pension age is a poor tool for encouraging longer working lives. Reaching State Pension age is a retirement trigger for only some workers. Given that a minority of women and just a small majority of men remain economically at this stage, there are already large numbers who have left the labour market and are unlikely to be impacted by changes in State Pension age. Many of these are also suffering ill health or disability which prevent or limit their ability to participate in the labour market. The TUC believes a focus on those who want to work would be the most effective way of increasing labour market participation. This would require policy interventions in a number of areas and is an agenda deserving of greater attention. A few initial proposals are outlined below.

Employment rights

Require employers to survey their employees to establish the age profile of their workforce. Then consider in consultation with older workers and trade unions what changes in policies and working conditions would enable workers to stay in employment for as long as they would want.

In June 2014, the right to request flexible working was extended to all employees who had been with an employer for 26 weeks or more. But it is relatively easy for employers to decline requests. **We believe that it must be made harder for employers to reject requests, especially from those with caring responsibilities.**

It is also very difficult for those re-entering the labour market to find good quality jobs with the required flexibility. We recommend **a day one right to request flexible working and that employers clearly state in their job adverts what reduced hours or flexible work opportunities are available.** This would allow those re-entering the workforce greater scope to develop a working pattern that suits their needs, as well as those of the employer.

The TUC has called for all workers to have **a right to a mid-life career review**. This is aimed at helping workers in the middle of their working lives reflect on where they are, take stock of their skills, knowledge and experience and consider their future options, including identifying any barriers and opportunities for future progression or a change of direction. Union Learning Representatives are well-placed to deliver such reviews as workers are likely to be more open with them than their managers about skills gaps or personal pressures. The TUC has trained ULRs to carry out mid-life reviews. They are able to signpost workers to further support on financial planning, support for carers, career guidance or specialist health and well-being advice.

Managing health

Mid-life career reviews often help identify current and potential health problems at an early stage. They should include advice about free NHS health-checks for 40 – 74 years olds and **employers should give workers time off to attend health checks and support the well-being agenda.**

A right to retraining for older workers should be introduced, with paid time off work to learn new skills. Subsidies could encourage employers to welcome this. This would go some way to undermining the all-too-frequent characterisation of older workers as inflexible and technologically illiterate.

Caring

Our analysis has shown that women are less likely than men to be economically active by the time they reach 50. We also know that much of the burden of caring for younger or older relatives falls on women. Recent research found that caring for as few as five hours a week has an impact on someone's ability to remain in work in later life. Greater ability to source flexible work could improve women's chances of staying employed.

Introducing a **statutory entitlement to carer's leave** would also give carers greater scope to balance work with care and prevent them having to give up work when faced with particularly intense periods of caring.

Workplace pensions

The right to retirement is important but has been threatened by poor workplace pension provision in recent years. Decent pensions can allow workers a phased retirement, as they draw both pension and wages. This can prolong their participation in the labour market by allowing them to continue working while managing health conditions, meeting caring responsibilities and engaging more fully in outside interests. The TUC believes **that the government needs to continue to expand its Automatic Enrolment programme**.

Automatic Enrolment has brought an additional six million people in the workplace pensions system but millions, most of them women, miss out on employer contributions because they earn less than the earnings trigger. Current minimum contribution rates are too low to give savers a good chance building a sufficient pension pot for a decent standard of living in retirement. The 2017 review of Automatic Enrolment provides an opportunity to build on the policy's early achievements and set out a long-term plan for its expansion.

Conclusion

For a healthy, functioning economy, we must capture the skills and experience of older workers for as long as possible. Older workers – especially older women – are playing an increasingly important role in the UK workforce. A voluntary higher average age of retirement is a positive goal, regardless of state pension age reform, and is compatible with the TUC’s objective of flexible retirement.

But this requires more than the crude mechanism of delaying their entitlement to the State Pension. This could leave even greater numbers of older workers facing hardship in the later years of their working lives, running down savings or relying on working-age benefits, which threatens their standard of living throughout retirement.

It means doing the hard graft of implementing policies that enable more people to continue to work in their later years.