



Department  
for Work &  
Pensions

# Fuller Working Lives – Background Evidence

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# Executive Summary

## The issue

There are more over 50s in employment than ever before and the employment rate of older people is on the increase, but early labour market exit is still a problem, with **2.9 million people out of work aged between 50 and State Pension age**. Over half of men and women have already stopped working before they reach State Pension age (SPa), and one in six men and one in four women who had recently reached State Pension age hadn't worked since at least age 55.

**While some people can enjoy an early, planned, retirement, it is more common for people to feel forced out of work by circumstances beyond their control.** Of the 2.9 million people aged 50-SPa who are out of work, only 0.7 million see themselves as retired, yet 1.7 million think it is unlikely that they will ever work again – many of these are sick or disabled.

**Demographic change is making these problems more acute.** If employment rates of older workers don't keep increasing, the current figure of 2.9 million workless aged 50-SPa could rise due to the expansion of the working-age population, driven by demographic change and State Pension age increases. However, there is already evidence that people are starting to work longer in response to increasing State Pension age.

**Early exit from the labour force can have serious financial consequences.** 12 million people currently of working age are heading towards inadequate retirement incomes<sup>1</sup> and not spending enough time in work is contributing to the problem. Retiring ten years earlier and drawing on savings could reduce a defined contribution pension pot for an "average" person by over a third, although it could be substantially more, or less depending on the exact circumstances of the individual. The immediate financial impact of early exit from work could also be substantial: our analysis suggests that around a third of people who stopped work aged 50 to SPa between 2008 and 2010 saw their household income drop by more than half. There is also evidence that involuntary early labour market exit can be bad for health and wellbeing.

**The scale of early exit is bad for employers.** Reducing the outflow of older workers could help employers retain valuable skills and experience and reduce inefficiencies associated with filling vacancies and training new staff. The UK Commission for Employment and Skills expects significant job creation over the next decade. Over the same time period, ONS population projections forecast 700,000 fewer people aged 16-49, but 3.7 million more people aged 50-SPa. Older people are going to form an increasing proportion of the working-age population – 32 per cent by 2020 compared to 26 per cent now – so employing more older people will be crucial.

**Early exit from the labour force has damaging effects for the public finances.**

Government spends around £7 billion on out-of-work benefits for claimants aged 50-SPa. Research conducted by the National Institute for Economic and Social Research (NIESR) suggested that keeping more older people in work could lead to increased revenues from

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<sup>1</sup> This definition is based on the income that someone would need to maintain their living standards into retirement. See DWP (2013) "*Framework for the analysis of Future Pension Incomes*" for more detail.

direct and indirect taxation. Our modelling suggests that halving the employment gap between people aged 50-SPa and those in their 40s could have increased revenues from Income Tax and National Insurance by around 1 percent (£3 billion in 2013).

**Early exit can also damage prospects for economic growth.** The same NIESR analysis showed that increased employment of older workers would increase nominal GDP as well as encouraging consumer spending and reducing the accumulation of government debt. Our modelling suggests that halving the employment gap between older people and those in their 40s could have seen nominal GDP up to 1 per cent (£18 billion) higher in 2013.

## Older workers – Context and recent trends

**Over the last 10-15 years, average retirement ages have been increasing, but remain low by historical standards,** currently standing at just under 65 years for men and just over 63 years for women. However, remaining life expectancy at 65 has been increasing even more quickly meaning that the average time a man spends in retirement has increased from 20 to 22 years since the late 1990s, and for women from 25 to 26 years.

**Despite there being large numbers of older people out of work, there are more older workers in employment than ever before, and numbers are still on the increase – both above and below State Pension age.** Since the year 2000, employment rates of people aged 50-SPa have increased by five percentage points to around 72 per cent, whilst employment rates of those above State Pension age have increased by four percentage points, to around 12 per cent. Recent gains in employment before State Pension age are mainly due to reduced inactivity, particularly fewer people out of work due to a sickness or disability and fewer women staying at home to look after the family.

**The UK is in the middle of the table internationally on older people's employment, but there is significant room for improvement.** The UK employment rate for 55-64-year-olds is currently around 60 per cent but there are many countries that achieve employment rates of around 70 per cent or above. Over the past 10 years several other countries have overtaken the UK and our improvements have been behind the OECD average.

**There is no evidence that further increasing employment amongst older people would limit opportunities for younger workers.** There is a widespread assumption that further increasing employment amongst older workers would limit opportunities for younger people. While it could be true that a business can only hire a new member of staff when another leaves, the economy as a whole doesn't work like this. Based on a substantial academic literature, there is no evidence that increasing employment amongst older people increases unemployment amongst other age groups.

## What stops people working up to State Pension age?

**Reasons for early labour market exit are complex and many factors are often involved.** The most common reasons cited in research are ill-health, difficulty in returning to work after redundancy, caring responsibilities, financial circumstances and incentives to retire, and factors relating to the nature of work. Taking each of these in turn:

Ill health is the major reason for unplanned early labour market exit, particularly for those in physical or routine work and the lower-paid. There are currently over 1 million people aged

50-SPa who say they are not working due to sickness or disability. Around 1 million people aged 50-SPa are claiming Incapacity Benefit or Employment and Support Allowance – 45 per cent of all incapacity-related benefit claimants – whereas this age group makes up only 26 per cent of the working-age population. **Almost half of people aged 50-SPa have a long term health condition, a quarter have more than one long term condition and a quarter have a disability.** While the prevalence of health conditions is relatively high, the majority of people in this age group who have a long term health problem are still working.

Fifty to sixty-four is the peak age for caring, and 17 per cent of men and 24 per cent of women in this group have an **informal caring responsibility for a sick, disabled or elderly person.** Demographic change also means that demand for carers is likely to increase in future. Difficulties managing these responsibilities alongside work can lead to premature labour market exit – more commonly for women, though it is still a significant issue amongst older men. Most people with informal caring responsibilities do balance work and care, but the more intense the caring, the more difficult this becomes. Only 3 per cent of older people who are in work care for someone for more than 20 hours per week – this compares to 12 per cent of those who are economically inactive.

**Around a quarter of economically inactive people aged 50-SPa were made redundant from their last job.** Older people are not significantly more likely to be made redundant but are much less likely to find work again afterwards. Forty-seven 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. Also, unemployed people over 50 are much more likely to have become economically inactive a year later compared to 25-49-year-olds (27 per cent compared to 19 per cent).

Fewer older people engage in work-based training and they are less likely to voluntarily change jobs than younger people, with only five per cent changing jobs over the course of a year compared to eight per cent of 25-45-year-olds. This effectively leads to a “slowing down” of the labour market for older workers, and can leave those who do find themselves out of a job at a disadvantage.

**Financial security and incentives** provided by the benefit and pensions systems have been shown to be a major driver of labour market participation in later life, and it is important that they reward continued employment and don't provide undue incentives to stop work before State Pension age. Over half of workless people aged 50-SPa have some income from private pensions, and over half have some income from benefits. Other assets, partners' earnings and State Pensions also play a role.

The UK tax, benefit and pensions systems already have many positive features, such as the ability to work whilst drawing state and private pensions, no employee National Insurance contributions after State Pension age, and fair terms for deferral of State Pensions. Current and planned reforms should see further improvements, but there is a need to consistently monitor the effects that incentives are having, and act if necessary.

## **The importance of employers**

Many of the factors that can lead to early labour market exit (pension arrangements, organisational culture, occupational pressures and the level of physical and mental challenge) are unique to particular occupations and industries.

There is a high concentration of older workers in certain sectors, and addressing barriers to working longer in these sectors will play a key role in helping to reduce early labour market exit. Half of workless older men had previously worked in one of just four sectors: Manufacturing, Construction, Transport, and Wholesale/Retail. Two thirds of workless older women had previously worked in Education, Health/Social Care, Wholesale/Retail, and Public Administration.

## **There is no easy solution to stop people leaving the labour market early**

As we have shown, the problem of early labour market exit does not have one clear cause. As a consequence there is no easy solution, but, rather a wide range of measures are appropriate to address the complex set of problems. Although there is some evidence of what interventions work, there are gaps in hard evidence as to what works best and is most cost effective. This presents a challenge to establish principles for obtaining evidence, by testing the impact of interventions and trialling new approaches. Actions that can be taken include:

- Health-focused measures such as preventative action for common work-related conditions, condition management and occupational health provision, flexible employment opportunities and job redesign/reassignment.
- Ensuring financial incentives inherent in the tax and benefit systems clearly make work pay and disincentives to remain in work are minimised.
- Promoting a dynamic labour market for older workers, widening access to work-based training, active career planning and effective back-to-work support.
- Support for working carers through care and carers' support services, workplace support and flexibility, and assistive technology.
- Setting the right legislative framework and promoting positive attitudes towards older workers (both amongst employers, and employees themselves).
- Ensuring people have an adequate understanding of the long-term financial implications of early retirement.

## **Likely future developments**

**We should expect that employment of older workers will continue to increase** due to improving economic conditions, as well as:

- **Pressures on private savers:** Such as the decline of defined benefit pension schemes in the private sector, increased longevity reflected in the long-term decline in annuity rates, and public sector pension reform.
- **State Pension age increases:** The early stages of increasing women's State Pension age to 65 have already more women, and their partners staying in work (27,000 women aged 60 and 8,000 of their husbands by the time female SPa had increased by one year, this is equivalent to increases of 7 and 4 percentage points

respectively). Further SPa increases should lead to even higher employment levels among older people, particularly women in the short-term.

- **Welfare reforms:** Disability benefit reform, Universal Credit, and the increase in Pension Credit qualifying age will create better incentives for older people under State Pension age to continue working.
- **Supportive legislation** such as the removal of the Default Retirement age, age discrimination legislation, and the extension of the right to request flexible working.

**But there is still more to do to ensure those already at risk of stopping work before SPa are not further disadvantaged.** Many people will be able to respond to the need to work longer with little additional support, but we need to ensure that an aggregate increase in the employment of older workers does not leave people who are already at risk of early labour market exit even further behind.

In the document “Fuller Working Lives – A Framework for Action”, the Government has outlined measures intended to:

- Offer more support to help keep people in work, particularly people with health-conditions, disabilities, or who are caring for a loved-one.
- Help us to make better use of back to work support for older people.
- Build the evidence base on what can help older people stay in work.

It also sets out how ongoing work in this area will be governed. Following on from the work in this background evidence summary, starting in autumn 2015 **we intend to publish annual data that will allow us to monitor developments in the employment of older workers.** Specifically we will monitor our progress in relation to that of other countries in the OECD group of nations, and assess the position of specific groups who are already at increased risk of falling out of work before State Pension age.

# 1: Introduction

This document presents an overview of the evidence base that has informed the development of **Fuller Working Lives – A Framework for Action**. All of the research and statistics that are cited in that publication are also contained here with additional context for the interested reader. Of course, there is a very broad base of evidence relating to the employment of older people. The analysis presented here is not exhaustive, but points to the major issues that the UK faces if we are to help everyone to work long enough to provide themselves with a secure retirement.

This document begins in **Section 2** by setting out the damaging effects that can be associated with people stopping work significantly before they reach the State Pension age. These effects are felt by individuals themselves, employers, the public finances and the wider economy. We also set out the further challenge that is posed by increasing longevity and our ageing population.

In **Section 3** we present some key data relating to the labour market position of older people, starting by focussing on long term trends and moving on to consider developments over the last 10-15 years. We then look at how the UK compares internationally to show what potential there is for increasing the employment of older workers in the UK.

In **Section 4** we look in more depth at the factors that can lead to people withdrawing from the labour market before State Pension age: health problems, caring responsibilities, difficulties returning to work following redundancy, financial security, and the role of employers.

We conclude in **Section 5** by looking at the likely future developments in the employment of older workers.

## Data sources

Throughout this document we present new statistics that are derived from a variety of data sources including the UK Labour Force Survey, the Annual Population Survey, the Family Resources Survey, the English Longitudinal Study of Ageing, DWP benefit data, and DWP pensions models. We also refer to statistics that are quoted in other research reports. Details of the main data sources and methodologies used can be found in the Annex. Due to the wide variety of sources that have been used, data may cover different time periods, and related estimates may vary slightly.

In addition, further details and the supporting data, including sample sizes for all new, previously unpublished analysis included in this document can be found in the spreadsheet that accompanies this publication.

## Note on State Pension age

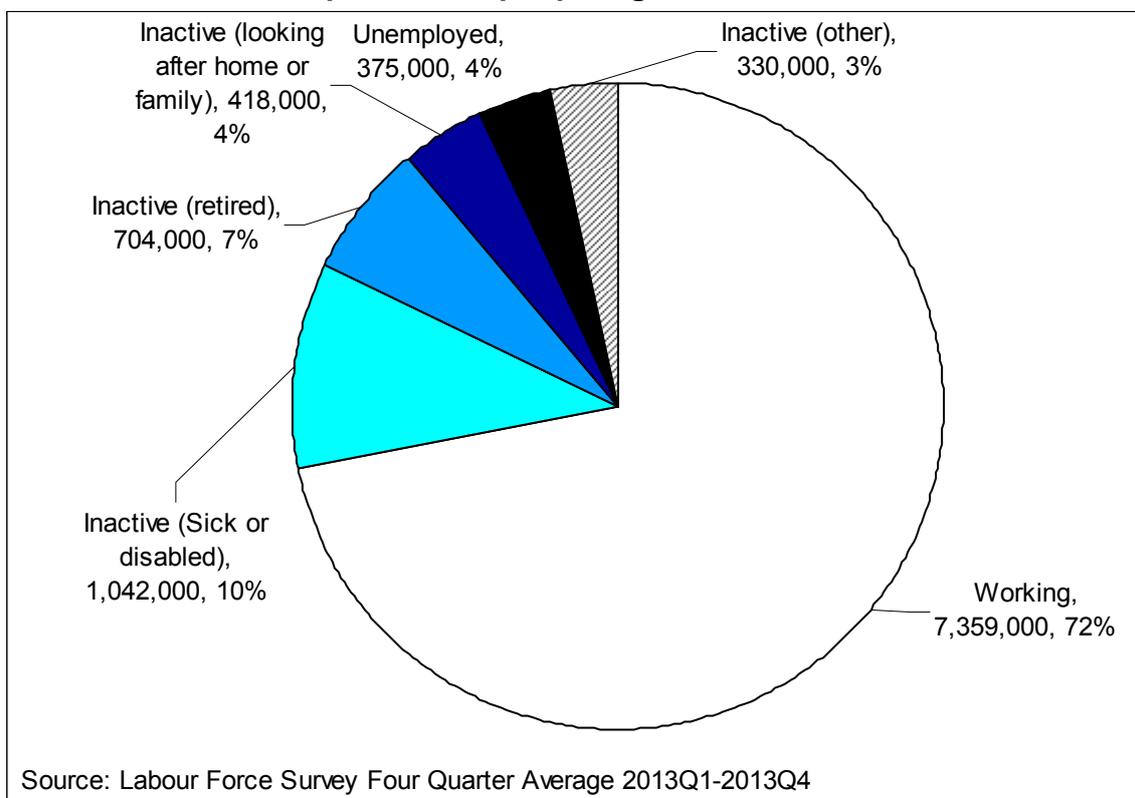
Much of the focus of this report is on people who are out of work before the State Pension age. The female State Pension age is currently in the process of increasing from 60 to 65 between 2010 and 2018. Depending on the time period used for statistics presented in this document, the female State Pension age may vary from 60 to around 62 years.

## 2: What is the problem?

### 2a: The scale of early withdrawal from the labour market

1. Most focus on the extending working lives debate centres on increases to the State Pension age (SPa), and the need for people to work an extra one or two years. This hides the fact that retirement already happens at different times for different people. **Out of 10.2 million people aged 50-SPa in 2013, 2.9 million (28 per cent) were out of work.** Chart 2.1 below shows a detailed breakdown of the labour market position of people in this age group.

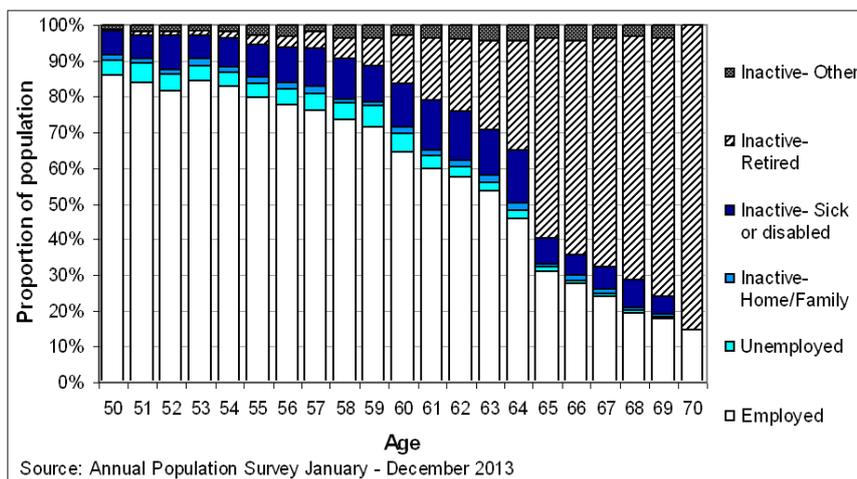
**Chart 2.1: Labour market position of people aged 50-SPa**



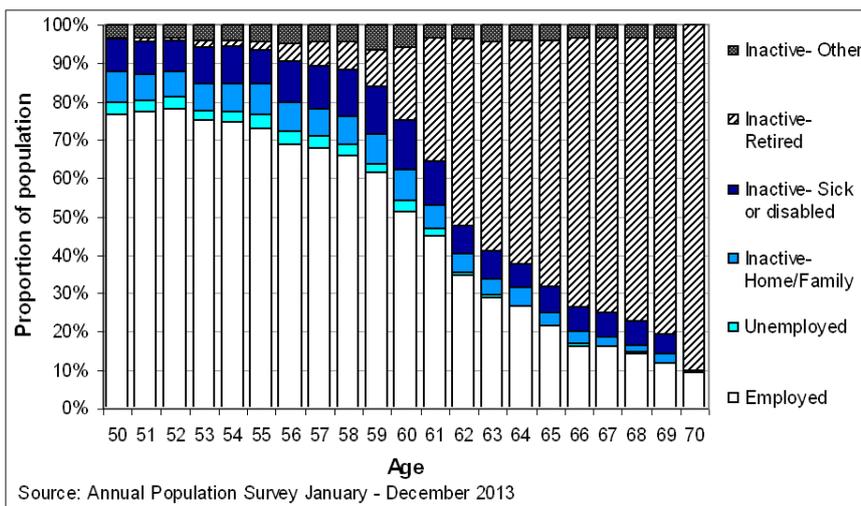
2. Most workless people aged 50-SPa aren't actively seeking employment. Of the 2.9 million people out of work, only 370,000 are actively seeking work and classed as unemployed. This can lead people to the false impression that worklessness amongst older people is not a problem, as it masks a deeper problem with economic inactivity.
3. Around 2.5 million people aged 50-SPa are economically inactive (i.e. they are out of work but not actively seeking employment), but only a relative minority (700,000) see themselves as fully retired from the labour market. Most economically inactive people (1.7 million) think they probably or definitely won't work again (see chart 4.1 later in this report), suggesting that economic inactivity is de-facto retirement for many older people. This includes people who aren't working for health reasons, who are carers, or who were unable to find work again following redundancy.

4. Many people who leave the labour market before State Pension age can enjoy a planned and comfortable retirement but **most people who stop work before State Pension age aren't voluntary retirees**. Survey evidence suggests that, of people who were fully retired before State Pension age, around half felt that their retirement had been forced rather than voluntary (see Humphrey et al 2003<sup>i</sup>).
5. As demonstrated by charts 2.2a and 2.2b below, increasing numbers of people leave work starting from their mid 50s, and the rate at which people leave the labour market increases through the mid-late 50s and early 60s. State Pension age<sup>2</sup> marks the point where many people retire, though retirement at SPa is by no means the norm.
6. **Just over half of men and women are out of work by the year before State Pension age<sup>3</sup>**. Further analysis of the Labour Force Survey suggests that one in six men and one in four women who had recently reached State Pension age hadn't worked since at least age 55 (see the 'additional figures' section of the accompanying spreadsheet for details of the calculation).

**Chart 2.2a: Main economic activity by single year of age (Men aged 50 and over)**



**Chart 2.2b: Main economic activity by single year of age (Women aged 50 and over)**



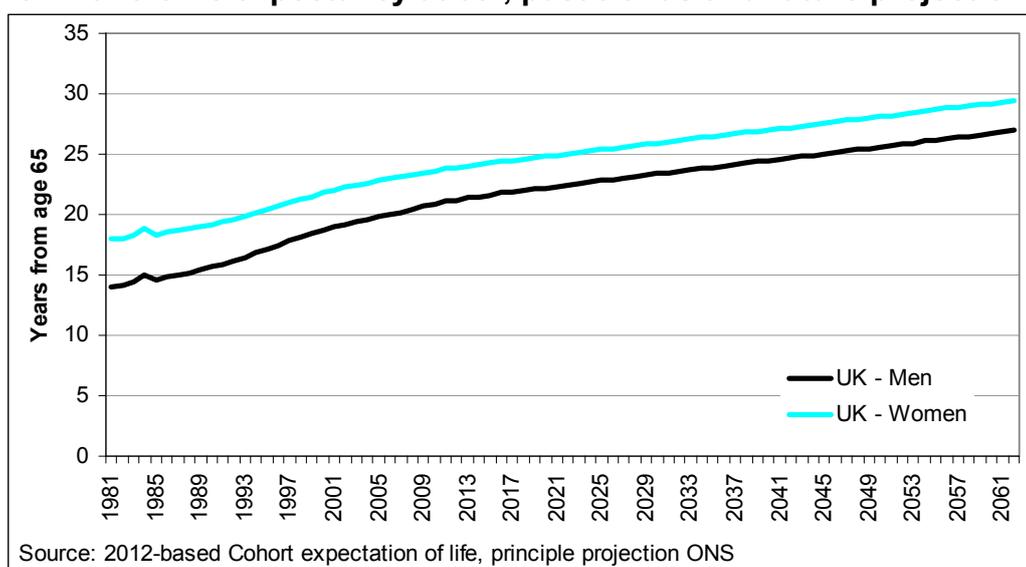
<sup>2</sup> During the period referred to in this chart, SPa was 65 for men and approximately 61½ for women, since the female SPa is currently increasing from 60 and will reach equality with men's SPa by 2018.

<sup>3</sup> For the time period referred to, this is taken to be 64 for men and 60 for women. Although women's SPa increased incrementally over the year covered by this data.

## 2b: The pressure of increasing life expectancy and demographic change

7. **People are living longer now than they ever have done.** The latest projections from the Office for National Statistics<sup>4</sup> suggest that life expectancy at 65 is due to increase significantly over the coming years. Chart 2.3 below shows that since 1980 it has risen from just under 15 years to 21 years for men and it is forecast to rise to 27 years by 2060. For women it has increased from 18 to 24 years over the same period and is forecast to reach 29 years by 2060.

**Chart 2.3: Cohort life expectancy at 65<sup>5</sup>, past trends and future projections**



8. **Increasing life expectancy means private savers will have to save more to see an adequate return on their income.** Between 2002 and 2012, defined benefit pension scheme coverage in the private sector decreased from 28 per cent to 11 per cent<sup>6</sup> as they became increasingly unsustainable for employers. Defined benefit schemes have long been associated with early retirement – due to their generosity, and normal pension ages which are often younger than State Pension age. Importantly, they offered employees certainty over the income they could expect in retirement.
9. The majority of private sector employees with a private pension are now enrolled in defined contribution schemes which place more of the investment risk with employees. Many private savers with defined contribution pensions may have to save more than they anticipated in order to achieve an adequate retirement income as their pension pot will have to be spread over a longer than expected retirement. There has been a long term decline in annuity rates going back to the early 1990s due to rising longevity and falls in long term bond yields. This decline has been particularly significant since the financial crisis in 2008, where the best level annuity rate for 65-year-old males has fallen from 7.9 per cent to 6.3 per cent in January 2014<sup>7</sup>.

<sup>4</sup> See <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-325302>

<sup>5</sup> The remaining life expectancy for the group of people who reach age 65 in a given year.

<sup>6</sup> Data from Annual Survey of Hours and Earnings (Office for National Statistics).

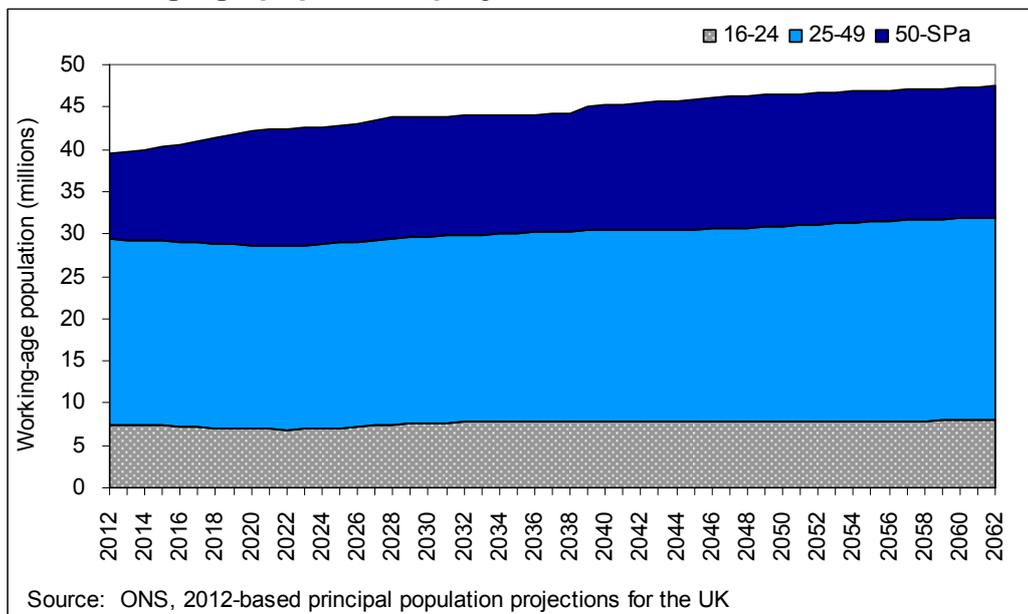
<sup>7</sup> Statistics from The Annuity Bureau.

**10. The State Pension age is also increasing in response to the life expectancy challenge.**

- Women’s State Pension age is already increasing, from 60 to 65 between 2010 and 2018.
- There will be further increases for both men and women to 66 by 2020, and 67 by 2028.
- Further to this, the Government has set out plans for an independent board to review State Pension age on a regular basis. A core principle underpinning a future State Pension age review will be that people should expect to spend only around one third of their adult life in receipt of a State Pension, so further increases in life expectancy will result in further increases to State Pension age.

11. The combined effect of demographic change and State Pension age rises will be a **much larger working-age population driven by more people aged 50 and over**. Chart 2.4 shows that the number of people aged 50-SPa is increasing. They currently make up 27 per cent of the working-age population; by 2020, according to projections from the Office for National Statistics, it is forecast to be 32 per cent.

**Chart 2.4: Working-age population projections for 2013-2033**



12. If age-specific employment rates for older workers remain the same as they are currently, the number of people aged 50-SPa who are out of work could increase from 2.9 million to over 5.4 million by 2033<sup>8</sup>. This reflects the fact that age groups being brought into “working age” have lower employment rates than the population aged 50 and over as a whole. By 2028, 66-year-olds will be under the State Pension age but currently, less than a third of 66-year-old men and less than a fifth of 66-year-old women are in work (see charts 2.2a and b).

13. Although this is an extreme scenario it illustrates the potential scale of the problem if there were no change. As we will outline later in this report, there is already evidence that people are beginning to work longer in response to increasing life expectancy and State Pension age increases.

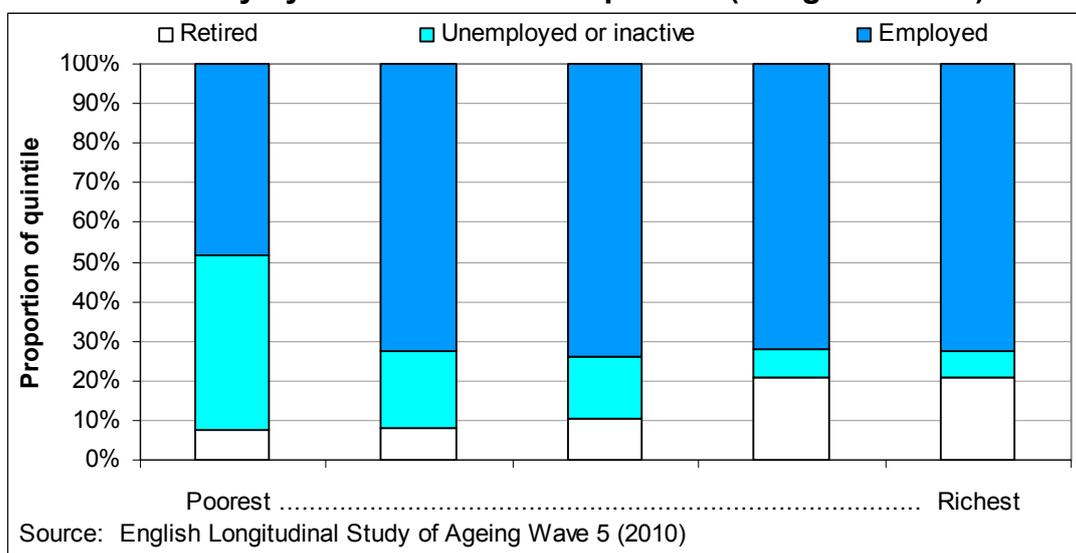
<sup>8</sup> DWP calculations assuming that employment rates remain constant for each individual year of age and applied to ONS principle population forecasts.

## 2c: The impact of early labour market exit on individuals

Those who have stopped working before State Pension age are likely to be less wealthy, and there is likely to be a severe income penalty in the short-term for leaving work before SPa.

14. While it is tempting to think that over 50s who have stopped work are all affluent early retirees, this is far from the case. Chart 2.5 below shows that people in this age group who are not working are most likely to be in the bottom fifth of the household wealth distribution. The wealthiest people are more likely to see themselves as “retired” rather than unemployed or inactive, but they are no less likely to be in work than people with more modest wealth.

**Chart 2.5: Main activity by household wealth quintile<sup>9</sup> (all aged 50-SPa)**



15. Individuals are likely to suffer a significant drop in their household income if they stop work before State Pension age. Analysis of the English Longitudinal Study of Ageing suggests that around a third of people who stopped work aged 50 to SPa between 2008 and 2010 saw their household income drop by more than half<sup>10</sup>.

Twelve million people are heading towards inadequate retirement incomes after State Pension age, and being out of work for substantial periods is a major contributor to this.

16. In addition to the immediate impact on household income, people spending less time in work in their 50s have been shown to be at higher risk of low income later on in retirement (see Bardasi and Jenkins 2002<sup>ii</sup>), and those suffering involuntary early labour market exit are also more likely to be on low incomes, or rely on means-tested benefits as pensioners (see Glaser 2009<sup>iii</sup>).

<sup>9</sup> This includes private pension wealth and non-pension wealth. For full details of the definitions used, please see the supporting spreadsheet.

<sup>10</sup> DWP analysis, based on changes in household income for those who stopped work completely before State Pension age between Waves 4 and 5 of the English Longitudinal Study of Ageing (see supporting spreadsheet for details of the calculation).

17. Recent analysis by the DWP (2013)<sup>iv</sup> showed that 12 million people who are currently of working age are likely to have an income which is inadequate for them to maintain their living standards into retirement. Around 40 per cent of these were expected to work for less than 35 years during their working life. Not working for long enough was identified as a common problem for lower earners: over three quarters of those facing inadequate retirement incomes in the lowest income quartile are expected to work for fewer than 35 years during their working life, compared with less than half of those likely to achieve adequate retirement incomes in that quartile.

18. The impact of early withdrawal from the labour market on retirement income can be driven by a number of factors:

- **Reduced entitlement to State Pension.** Individuals will need 35 years of National Insurance contributions from work or credited activity to claim a full State Pension from 2016. People leaving work and not moving to a credited activity risk having a smaller amount of State Pension.
- **Less able to build up private savings.** People who are out of work are unable to contribute to a workplace pension scheme, reducing the potential size of their pension pot. They are also less likely to accumulate other forms of wealth that could be used to fund retirement.
- **The need to draw on existing savings.** Private pension wealth can be accessed from the age of 55, and just over half of people aged 50-SPa who are out of work are drawing some income from them (see Chart 4.8).

19. The case study below shows a hypothetical example of how someone retiring before State Pension age can face a lower income in retirement from fewer years of contributions to a private pension, with an additional reduction if they need to access their pension wealth early (there is also further detail on the modelling in Annex F). Income in the years between retirement and State Pension age is also likely to be lower. Of course, this is just one example and the results could vary depending on the exact circumstances of the individual involved.

#### **Case study: Effect of early retirement on income**

David earns £28,900 a year<sup>11</sup>, working from age 25 until he retires early at 55. Each year he is in work he saves into a defined contribution private pension (at a combined contribution rate of 8 percent).

If David has no other sources of income to fund his spending between age 55 and his SPa of 65, he chooses to buy an annuity with his private pension when he leaves work at 55. In this case his average yearly pension-age income is around £13,800, which is £4,300 less per year than if he retired at age 65. This does not take into account the significantly lower income he experiences between ages 55 and 65. His private pension pot is worth around £81,000 when he annuitises at 55, 37 per cent less than the potential pot size if he retired at 65 (£128,000)<sup>12</sup>. This reduced pension wealth is also spread over an extra ten years compared to retiring at State Pension age.

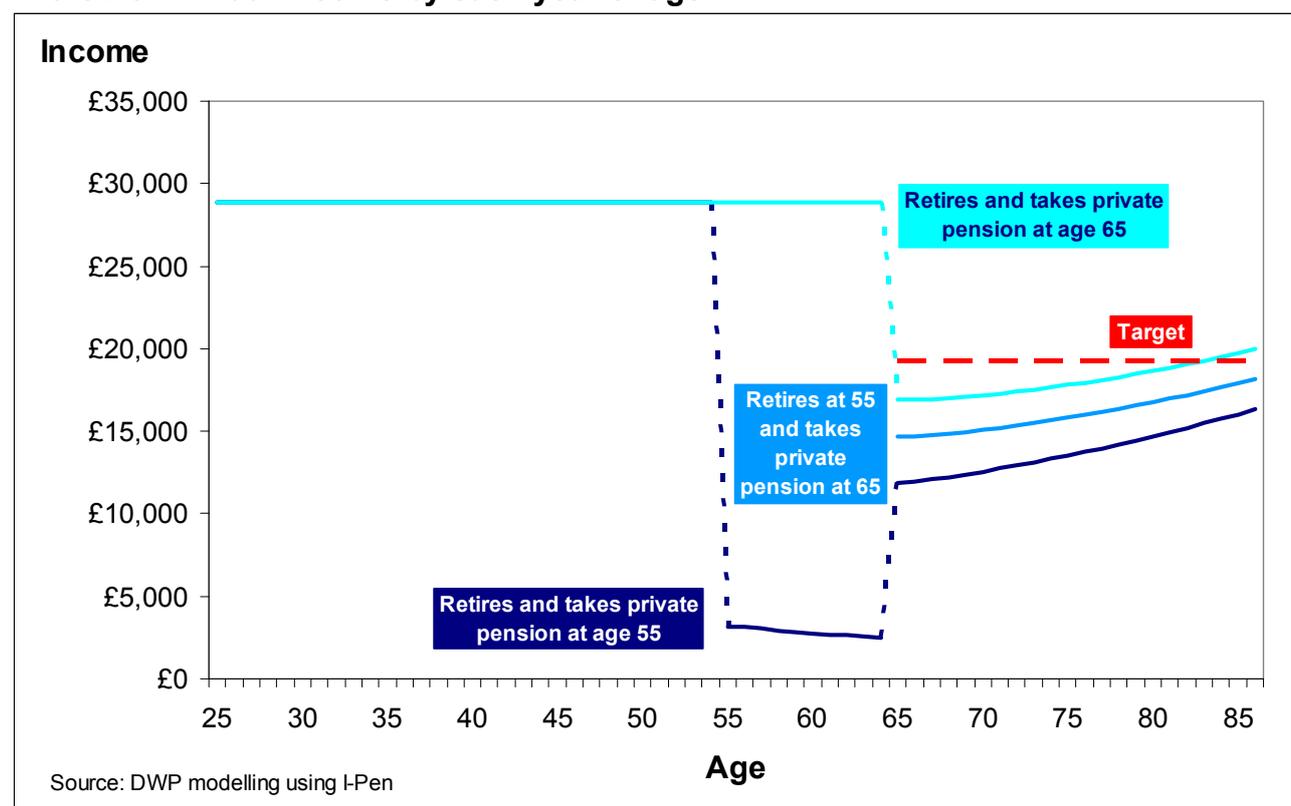
<sup>11</sup> This is the median male earnings from ASHE (2013). Presented in constant earnings terms; see *Framework for the Analysis of Future Pension Incomes* for further details of the methodology (DWP 2013).

<sup>12</sup> Comparison is in 2013 prices terms.

Alternatively if David has access to another source of income (for example from another form of wealth), he waits to annuitise his private pension at 65. In this case his average annual pension-age income is around £16,000, £2,000 less per year compared to working and saving up to State Pension age. David’s private pension pot is around £103,000 at age 65, a 20 per cent reduction compared with working and contributing to his pension until State Pension age.

The chart below shows the fall in David’s average yearly income when he retires at age 55, compared with a situation in which he had stayed in work until his State Pension age of 65. Incomes in each scenario are also compared to a ‘target retirement income’ as suggested by the Pensions Commission<sup>13</sup>.

**Chart 2.6: Annual income by each year of age**



Unplanned early labour market exit can also have a detrimental impact on health and wellbeing.

20. There is evidence that early labour force exit can have either positive or negative effects on health, with financial security, socio-economic group, and nature of work exit having a bearing on the outcome<sup>14</sup>. Importantly, involuntary labour market exit is more likely to be detrimental to overall health and wellbeing than if an individual has choice over their retirement (see Waddell and Burton 2006<sup>v</sup> and Bassanini and Caroli 2013<sup>vi</sup>).

<sup>13</sup> This analysis uses the same “replacement rate” methodology as the *Framework for the Analysis of Future Pension Incomes* (DWP, 2013). Note that pension-age incomes rise over time as incomes are inflated by the difference between earnings and prices, to indicate individuals’ purchasing power over retirement.

<sup>14</sup> Addressing the question of the impact of retirement on health and wellbeing is methodologically difficult due to the significant role that health plays in continued employment – i.e. those in better health are likely to work for longer.

21. There is a strong evidence base showing that work is generally good for physical and mental health and well-being. Overall, the beneficial effects of work outweigh the risks of work, and are greater than the harmful effects of long-term unemployment or prolonged sickness absence (Waddell and Burton 2006<sup>vii</sup>). However, the beneficial effects depend on the nature and quality of work.
22. The evidence on working around State Pension age is less clear, some evidence does show retirement leading to less stress (although mainly in samples where people have a good private pension). Recent research (Sahlgren 2013<sup>viii</sup>) shows that those who are retired are less likely to report 'very good' or 'excellent' health and are more likely to be diagnosed with a physical condition or be suffering from clinical depression. The number of years being retired was also found to have a negative effect on health, suggesting that early labour market exit can be harmful to overall well-being. In addition those who experience a decline in social interaction in retirement may see a negative impact on their health (Dave et al 2008<sup>ix</sup>).

## 2d: The impact of early labour market exit on employers

23. Older workers can have valuable knowledge and experience and employers that lose significant numbers of older workers face losing important skills from their workforce. In a survey of over 1000 members of the Chartered Institute for Personnel and Development and Chartered Institute for Management (CIPD 2010<sup>x</sup>), respondents identified the following as the top four reasons for improving their organisation's approach to managing older workers:

- Retaining knowledge and experience – 90 per cent
- Ability to mentor younger employees – 56 per cent
- To avoid skills shortages – 54 per cent
- To maintain productivity – 38 per cent

24. **Despite some outdated perceptions, there is no systematic evidence that older workers are less productive than younger workers.** Employers may not accurately perceive the productivity of older workers and believe them to be inferior to their younger counterparts. Public opinion towards older workers has been described as “positive but restricting” and employers' attitudes tend to reflect this (see McNair 2010<sup>xi</sup>).

25. A thorough review of the research on ageing and productivity by Age UK<sup>xii</sup> concluded that, overall, evidence does not show that older workers are less productive than younger colleagues. The review also highlighted that there may be some skills that increase with age; Yeomans (2011)<sup>xiii</sup> suggests this can include time management, team-working and people skills.

26. The premature loss of older workers is likely to lead to higher recruitment costs for employers. The Chartered Institute of Personnel and Development (CIPD 2013<sup>xiv</sup>) estimate the cost of advertising and agency fees at around £5,000 for senior managers and directors and £2,000 for other employees on average<sup>15</sup>. Further costs of staff turnover can include: loss of output while the vacancy is open or the cost of temporary cover staff; training for the new recruit; and, crucially, the new worker is likely to be less productive initially, potentially affecting other team members' performance as well as the direct reduction in one person's output. A study of recruitment and retention costs in the NHS (Weyman et al 2013<sup>xv</sup>) found the total cost of recruiting a replacement staff member to be around a third of average salary (around £9,000).

Keeping more older people in work is crucial to meet future labour demand.

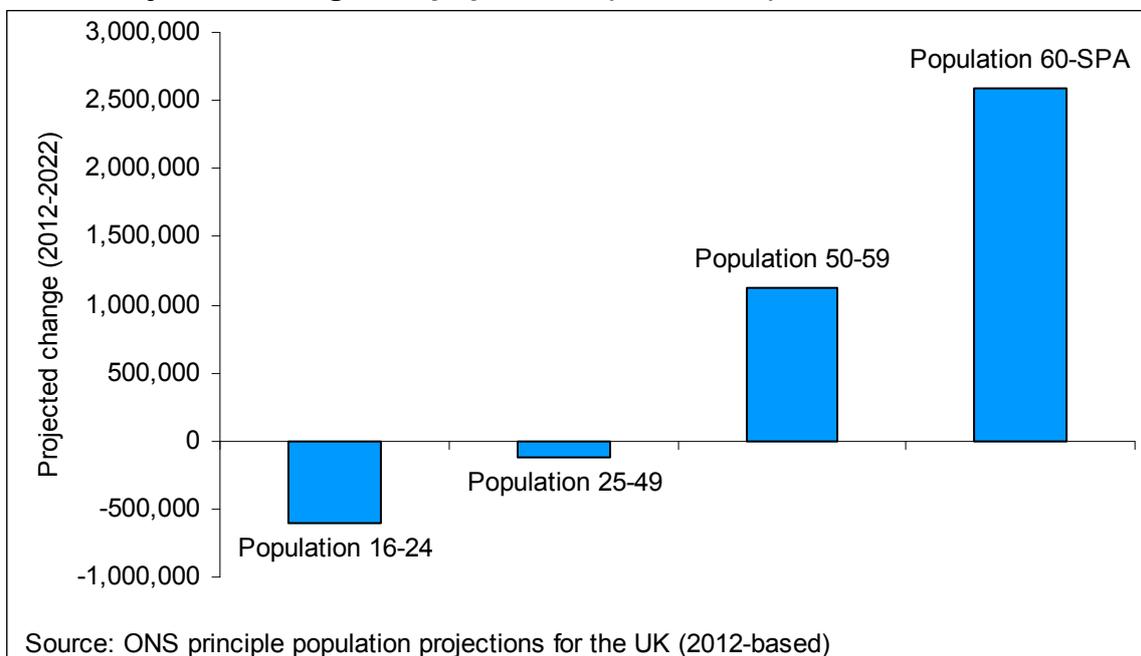
27. According to regular industrial forecasts produced by the UK Commission for Employment and Skills (UKCES, 2014<sup>xvi</sup>), in the ten year period from 2012 to 2022, there will be significant “expansion demand” with many new jobs created in the UK economy. Over the same time period, there will be a fundamental shift in the age profile of the working-age population. ONS population projections suggest there will be 600,000 fewer people aged 16-24, and 120,000 fewer people aged 25-49. However, this will be more than offset by a projected 1,100,000 more people aged 50-59, and 2,600,000 more people aged 60-SPa over the period, partly driven by the increasing State Pension age (see Chart 2.7 below).

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<sup>15</sup> Previous estimates have been much higher than this – in 2009 CIPD stated recruitment costs of up to £10,000 for a senior manager/director.

28. This means that the labour market and working practices must evolve to accommodate the combination of expanding labour demand and increasing numbers of older people; in particular, employers will need more older workers to avoid skills shortages.

**Chart 2.7: Projected changes to population (2012-2022)**



But many employers are not prepared for the challenges of an ageing workforce.

29. Results from a recent survey of HR managers by CIPD (2014)<sup>xvii</sup> show that employers are most likely to deal with issues relating to the ageing population as and when they come up (31 per cent) rather than having a particular strategy. Fifteen per cent of employers reported that they had not considered the issue.

## 2e: The impact of early labour market exit on the public finances and the wider economy

Older people leaving work before State Pension age has a damaging effect on the public finances.

30. Government incurs the cost of **spending on both working-age and pension-age benefits** for many individuals who leave work through redundancy, ill health, disability or caring responsibilities. DWP spends around £7 billion per year on the main out-of-work benefits<sup>16</sup> for people aged 50-SPa. Over 80 per cent of this is on incapacity-related benefits (£6 billion). Table 2.1 below shows the current number of claimants and estimated annual spending on different benefits for claimants aged 50 and over, and as a proportion of the total. Annex G contains more detail on the methodology used to produce these estimates.

**Table 2.1: Benefit claimants and expenditure for those aged 50-SPa (2012/13)**

Benefit	Claimants	Proportion of working age	Expenditure (£m)	Proportion of working age
Jobseeker's Allowance	246,000	16%	855	17%
Employment and Support Allowance, Incapacity Benefit, Severe Disablement Allowance	1,130,000	45%	4,822	45%
Income Support	291,000	23%	1,277	24%
- ( <i>incapacity</i> )	228,000	43%	1,044	42%
- ( <i>carer</i> )	48,000	35%	153	34%
- ( <i>lone parent, other</i> )	15,000	3%	80	3%
<b>Total out-of-work benefits</b>	<b>1,610,000</b>	<b>33%</b>	<b>6,954</b>	<b>33%</b>
Carer's Allowance	234,000	36%	653	35%
Disability Living Allowance	830,000	44%	3,401	46%

Source: DWP tabulation tool and benefit expenditure tables.

Note: claimant volumes include credit- or entitlement-only cases. Total out-of-work benefits caseload accounts for receipt of more than one benefit – see annex G. Expenditure is in cash terms. Totals may not sum due to rounding. .

31. **Leaving the labour market early increases the likelihood of claiming income-related benefits in retirement** (see Glaser 2009<sup>xviii</sup>). It is impossible to explicitly calculate how much of current expenditure on pension-age benefits can be attributed to early labour market exit, due to the numerous inter-related factors that can have a bearing on being on low income in old age. However, the total expenditure on these benefits is very large, with Government currently spending around £7.5 billion<sup>17</sup> annually on Pension Credit and £6.4 billion annually on Housing Benefit (HB) for those over State Pension age.

<sup>16</sup> Jobseeker's Allowance, Employment and Support Allowance, Incapacity Benefit, Severe Disablement Allowance and Income Support.

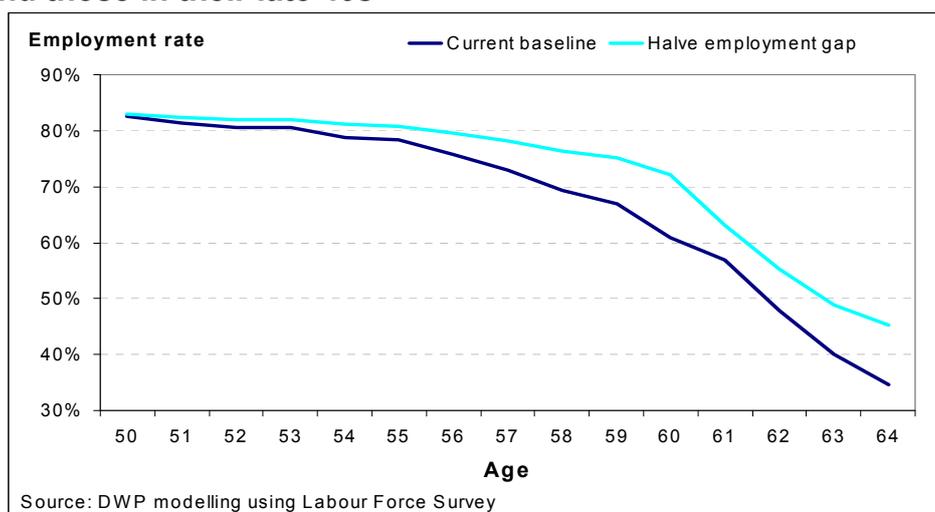
<sup>17</sup> 2012/13, in cash terms. DWP benefit expenditure and caseload tables, available at: <https://www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2013>

32. Furthermore, with large numbers of older people unemployed or inactive, the Government **loses potential tax and National Insurance (NI) contributions**. The National Institute of Economic and Social Research (NIESR, Barrell et al 2011<sup>xix</sup>) estimated that if no-one had retired early from the labour market during the 2000s<sup>18</sup>, tax revenue from income taxes, indirect taxation and corporation taxes would have been £4 billion higher in 2009.
33. Our analysis<sup>19</sup> using more up-to-date data on employment, earnings and GDP suggests that halving the “employment gap” between workers aged 50-SPa and those in their late 40s (see chart 2.8 below) could have seen income tax and National Insurance receipts one per cent (just under £3 billion) higher in 2013.

**Early exit from the labour market is bad for the economy.**

34. Early exit of older workers is also bad for the economy as reducing overall labour supply **restricts potential economic growth** in the long run. The NIESR analysis of the macroeconomic effects of extending working lives shows that increased employment of older workers would also increase overall economic output, as well as encouraging consumer spending and reducing the accumulation of government debt. They estimated that if no-one had retired early from the labour market during the 2000s<sup>20</sup>, GDP would have been almost £14 billion (1 per cent) higher in 2009.
35. We have conducted more up-to-date analysis which uses a different methodology to that previously adopted by NIESR, but which produces consistent results. This analysis suggests halving the employment gap between workers aged 50-SPa and those in their late 40s could have seen nominal GDP 1 per cent (up to £18 billion) higher in 2013. While a change of this scale is unlikely to happen quickly, this analysis serves to illustrate the potential gains to the whole economy that could be realised by even relatively modest improvements in the employment of older workers. Chart 2.8 shows the increase in employment rates for each year of age under this scenario.<sup>21</sup>

**Chart 2.8: Employment rates for older workers from halving the gap between workers aged 50-SPa and those in their late 40s**



<sup>18</sup> Note that this figure is based on early retirement, which only accounts for around a quarter of all over-50s who are out of work at any one time.

<sup>19</sup> For more detail on this modelling, please see annex H.

<sup>20</sup> Note that this figure is based on early retirement, which only accounts for around a quarter of all over-50s who are out of work at any one time.

<sup>21</sup> The scenario increases employment rates for men aged 50-64 and women aged 50-61, see annex H.

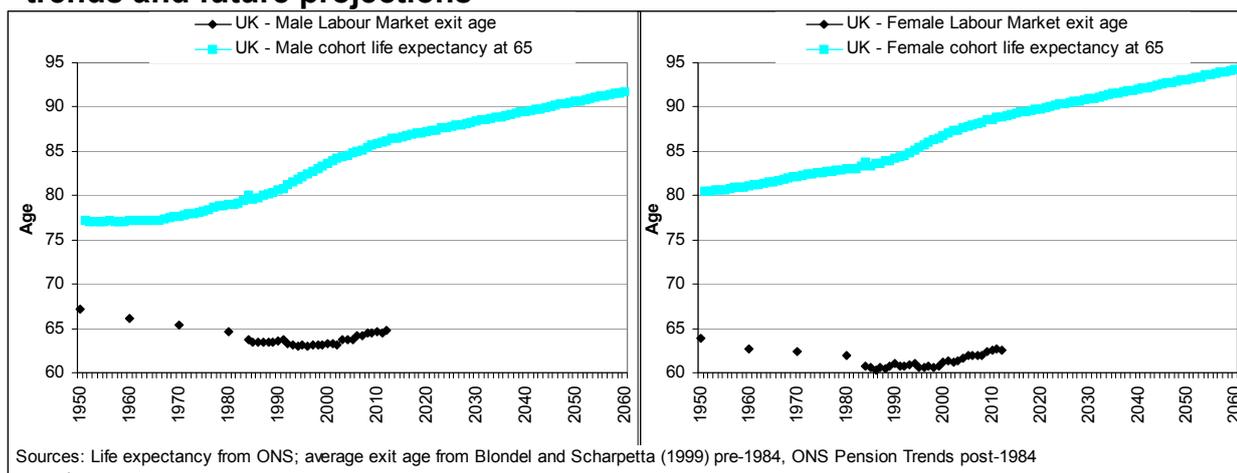
# 3: Context - Older workers in the UK economy

## 3a: Trends in retirement and the employment of older people

The average age of labour market exit has increased over the last 10-15 years, however, it is low by historical standards and the average time spent in retirement is still increasing.

36. Chart 3.1 below shows that the average time spent in retirement has increased substantially over the last 60 years, with increasing life expectancy and earlier exits from the labour market.

**Chart 3.1: Average age of labour market exit<sup>22</sup> and cohort life expectancy at 65, past trends and future projections**



37. The long-term decline in retirement ages was initially driven by the expansion of occupational pensions, increasing wealth and the emergence of retirement as a major stage in the life course (see Phillipson and Smith 2005<sup>xx</sup>). In the 1970s and 1980s, the decline of industries employing older workers, and the emergence of alternative routes out of the labour market, such as Incapacity Benefit, further reduced the average retirement age<sup>xxi</sup>.

38. In the last 10-15 years there has been an increase in average retirement ages. However, this increase has not kept pace with average life expectancy, and the average age of labour market exit is still lower than it was in the 1950s. The average time spent in retirement for a man has continued to grow, from 20 years to 22 years between the late 1990s and early 2010s<sup>23</sup>. The corresponding time for women has increased from 25 to 26

<sup>22</sup> This is a measure of the average age that people retire. For more detail on how it is calculated see ONS: Pension Trends Chapter 4, available at <http://www.ons.gov.uk/ons/rel/pensions/pension-trends/chapter-4--the-labour-market-and-retirement--2013-edition/index.html>.

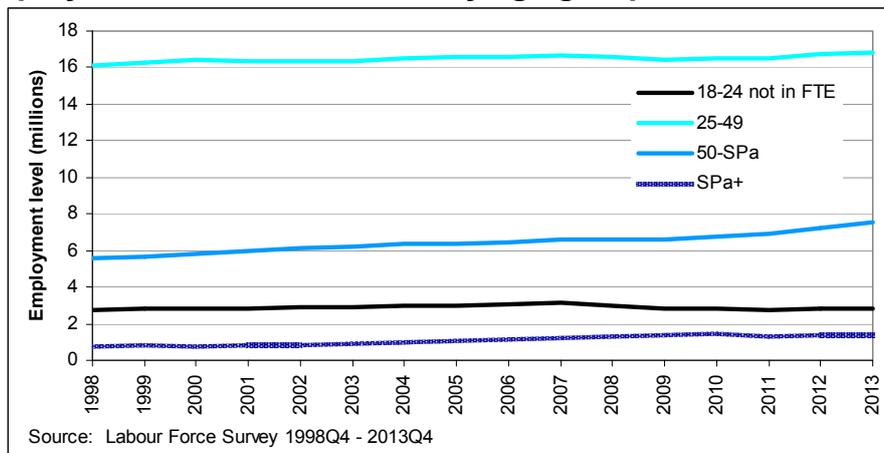
<sup>23</sup> The average time in retirement is calculated as the difference between cohort life expectancy at 65, and the average age of labour market exit.

years. In Quarter 4 2013, the average age of labour market exit was 64.9 years for men, around the State Pension age, and 63.3 for women, which is after the State Pension age<sup>24</sup>.

Despite the large numbers of older people who are out of work before State Pension age there have been considerable improvements in the last 10-15 years. There are more older workers in employment than ever before, and numbers are still on the increase – both above and below State Pension age.

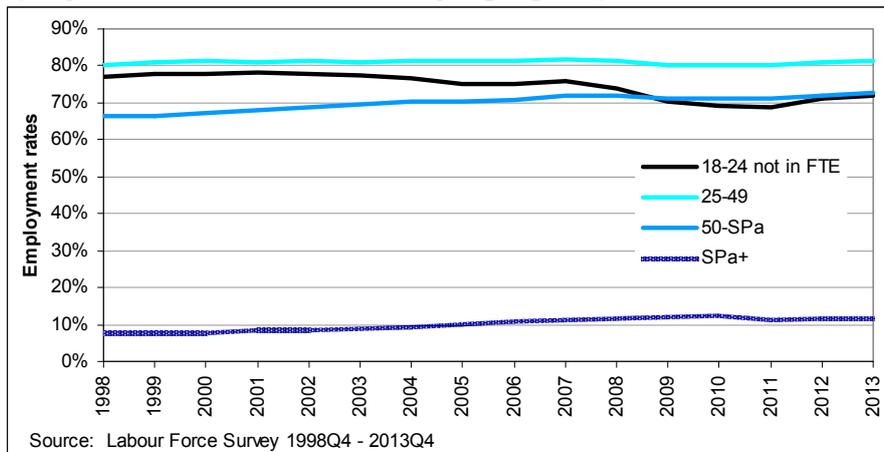
39. Due to the increasing population of older people in the UK, and increasing employment rates of older workers over the last 10-15 years, there are now more people aged 50 and over in employment than ever before, and the numbers are still increasing (see Chart 3.2).

**Chart 3.2: Employment levels time-series by age group**



40. Over the last 10-15 years employment rates for over 50s have been increasing; at the same time rates for 25-49-year-olds have been broadly constant with a 1-2 percentage dip during the recession followed by recent improvement back to previous levels; rates for 18-24s (excluding those in full-time education) saw a decline, slightly steeper during the recession, followed by a recent improvement.

**Chart 3.3: Employment rate time-series by age group**



<sup>24</sup> The quarterly update for average age of labour market exit can be found in DWP business transparency measure, available at <https://www.gov.uk/government/publications/dwp-business-plan-transparency-measures/dwp-business-plan-transparency-measures#average-age-people-stop-working>

41. Since 2010, women's State Pension age has been increasing from age 60, and is due to reach 65 in 2018. By the time it had increased to 61, it had already led to an extra 27,000 60-year-old women remaining in work (an increase of 7 percentage points). However, it had also led to an extra 8,000 men remaining in work, equivalent to a 4 percentage point increase amongst the partners of affected women (see Cribb et al 2013<sup>xxii</sup>). This adds weight to the argument that couples tend to make decisions about retirement jointly. Further State Pension age increases should lead to yet-higher employment levels among older people, particularly for women in the short term.

Recent gains in employment of older workers come mainly from reductions in economic inactivity.

42. Amongst men aged 50-SPa, there has been a dramatic decline in the number who report they are inactive due to sickness or disability, from 16 per cent in 2000, down to just 10 per cent in 2013 (see Chart 3.4). This can potentially be attributed to a combination of factors: a real underlying improvement in health (see DWP 2013, *Fulfilling Potential*<sup>xxiii</sup>), changes in the nature of work and improvements in employment retention following the onset of health conditions, fewer job losses associated with industrial decline than in the 1970s and 1980s, and reforms implemented by successive governments to limit the numbers claiming incapacity benefits. Since 1995, the over 55 age group has seen a reduction of more than 200,000 people claiming out of work disability benefits<sup>25</sup> – equivalent to almost four per cent of the population between 55 and SPa.

43. Engagement in the labour force amongst older women has also been strongly driven by reductions in health-related inactivity, with the proportion who are out of work due to ill health down from 14 per cent in 2000, to just over 10 per cent in 2013 (see chart 3.4). However, there are also fewer women who say they are looking after the home or family, down from 10 per cent to just over 7 per cent over the same period.

44. While inactivity overall has decreased, the number of people aged 50-SPa who see themselves as retired has actually increased since the year 2000<sup>26</sup>. Charts 3.4 below show trends in the proportion of the 50-SPa population who were out of work, and their main reason. Since the 2008 recession the proportion of men and women over 50 who are unemployed has increased, although it remains relatively low compared to other age groups, and is decreasing for men<sup>xxiv</sup>.

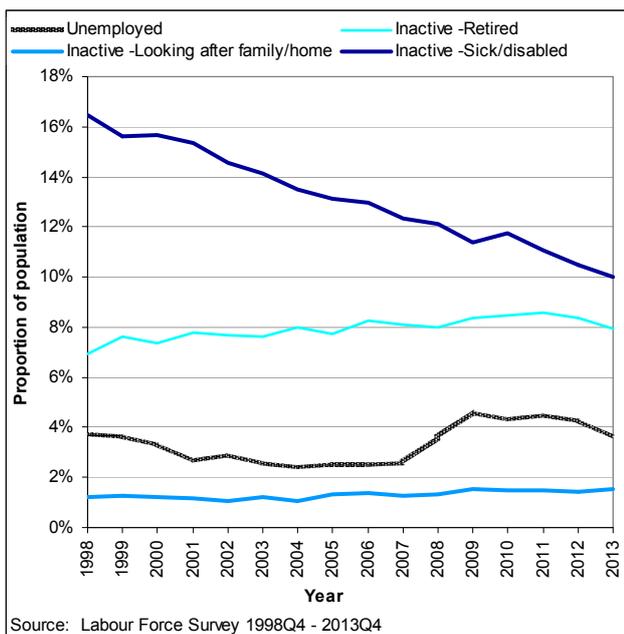
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<sup>25</sup> Incapacity Benefit, Employment Support Allowance, or Severe Disablement Allowance. Data from DWP tabulation tool, available online at <http://tabulation-tool.dwp.gov.uk/100pc/tabtool.html>

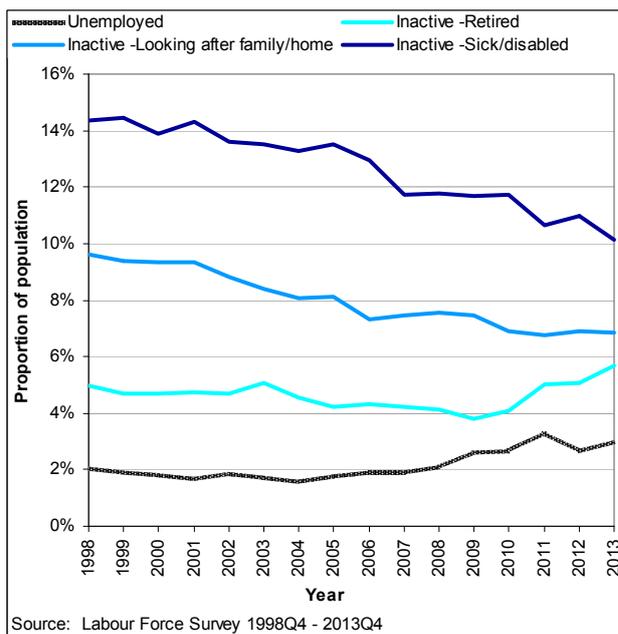
<sup>26</sup> This may, to some extent, reflect an offsetting between people who would otherwise have considered themselves to be "sick or disabled" given that many people who are retired are also in poor health. Since 2010, the increase in women aged 50-SPa who say they are retired has largely been driven by SPa equalisation.

**Chart 3.4: Trends in worklessness for people aged 50-SPa**

Men



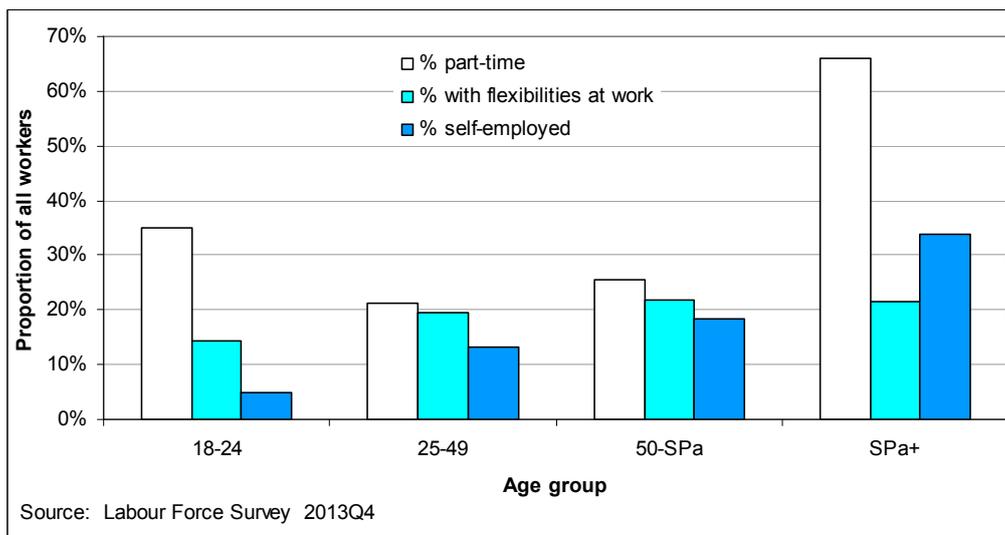
Women



The increasing numbers of older workers will have implications for the type of work being done in the UK labour market.

45. Chart 3.5 below shows, older people who are in work are more likely to work part-time<sup>27</sup> or flexibly<sup>28</sup>, or be self-employed. This is especially true of people who are in work after the State Pension age. There is also a high level of unmet demand for flexible working and reduced hours amongst older people<sup>xxv</sup>. An increasing number of older people in work will mean that there is increased demand for flexible working opportunities.

**Chart 3.5: Percentage of people working part-time, flexibly or self-employed, by age group**



<sup>27</sup> Part-time employees and part-time self-employed people are included in working part-time. Part-time is self-reported (rather than based on a specific hours threshold).

<sup>28</sup> Flexible working arrangements include flexible working hours (flexitime), annualised hours contract, term-time working, job sharing, nine day fortnight, four-and-a-half day week, zero hours contract and on-call working.

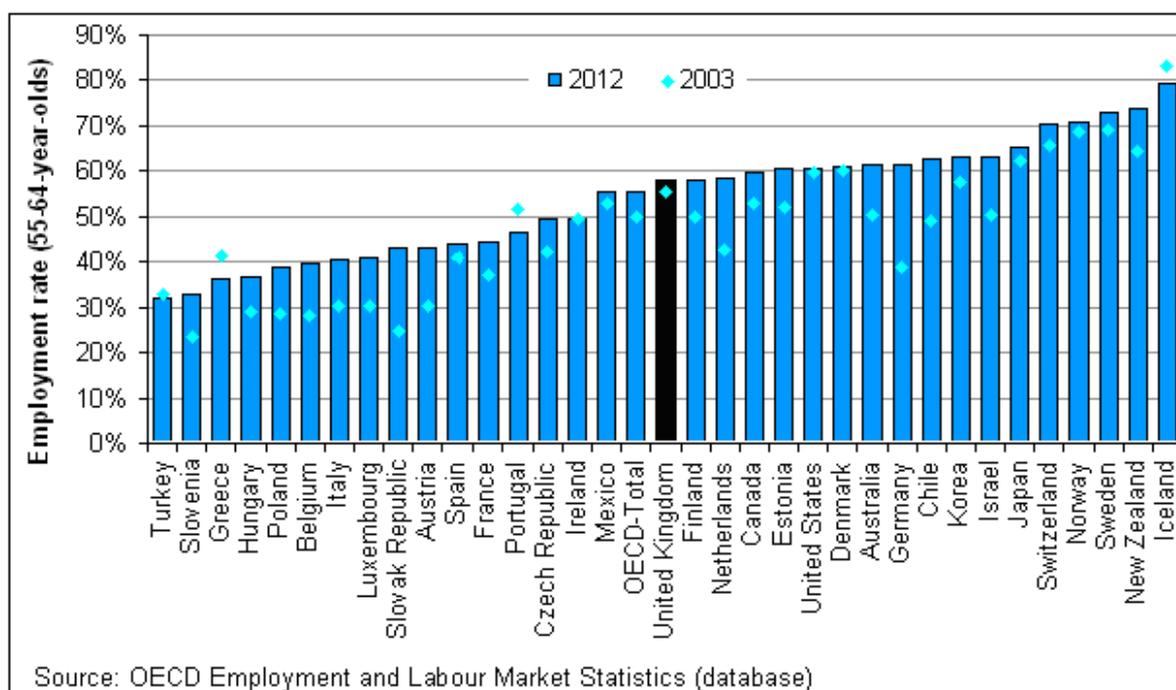
### 3b: How does the UK fare internationally?

The UK is in the middle of the league table internationally, but there is still clear room for improvement, and we shouldn't allow ourselves to be left behind.

46. As the chart below shows, compared to other members of the OECD group of nations, the employment rates of older people aged 55-64 in the UK are in the middle of the range, at just below 60 per cent. However, there is clear room for improvement to reach the employment rates achieved by the likes of Norway, Sweden, Switzerland and New Zealand who all achieve employment rates of around 70 per cent and Iceland with an employment rate of just under 80 per cent.

47. While employment rates of older workers have increased in the UK over the last 10 years, the improvement has been relatively modest compared to many other nations, and without further change we run the risk of being left behind. Out of 17 nations with a higher employment rate for 55-64-year-olds in 2012, 8 had significantly lower employment rates than the UK in 2003.

**Chart 3.6: International comparison of employment rates for 55-64-year-olds**



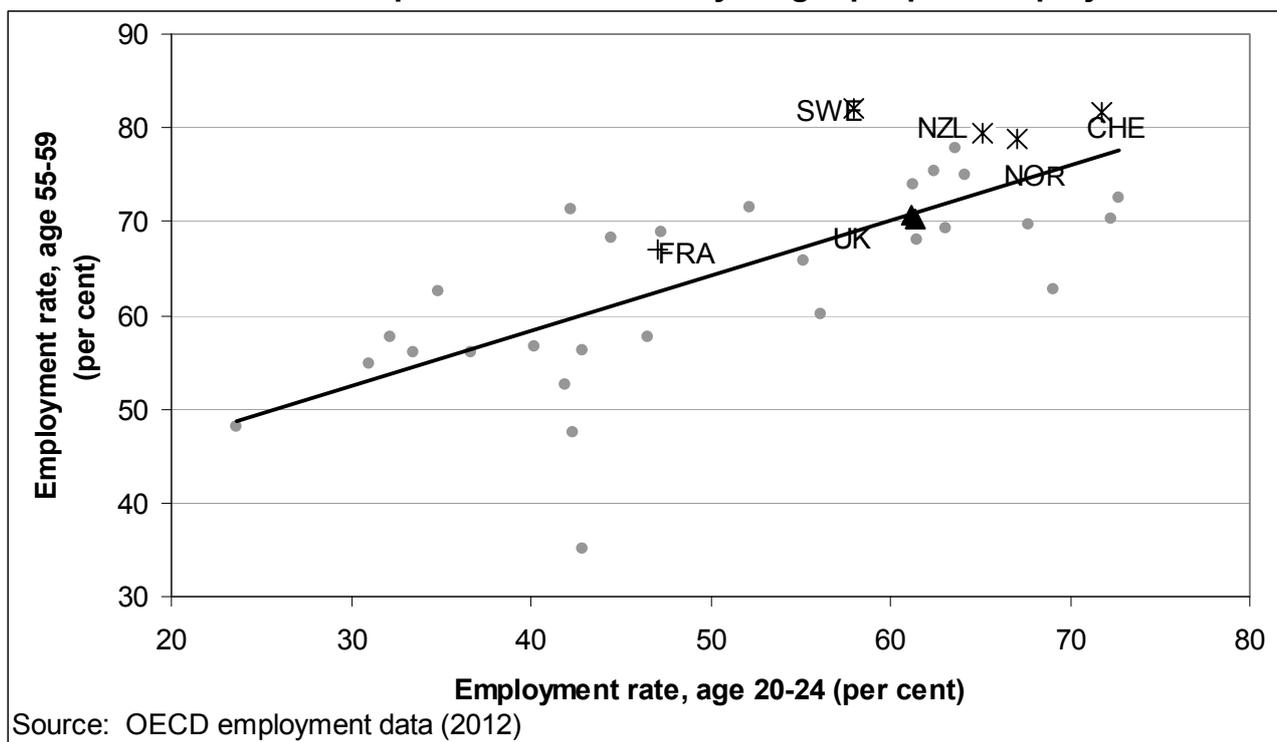
48. The differences in the employment rates of older workers between countries can be driven by a wide variety of factors such as economic performance, structure of the welfare and pension systems, age of pension receipt, different workplace practices, employment regulation and culture towards older workers. The factors that can lead to high levels of employment in one country can not necessarily be replicated elsewhere. What the analysis does show, however, is that improved performance on the employment of older workers is possible in the UK as it has been demonstrated elsewhere.

### 3c: Does increasing employment of older people limit options for younger people?

49. The previous analysis showed that there is room to improve the UK position on older worker employment. However, it is often argued in the media that older workers staying in jobs prevent younger workers from entering employment. This is a fundamental misunderstanding, and it is very important that employers, key business leaders, and employees themselves understand that there is no contradiction in aiming to increase employment levels across all age groups.

50. **While retirement can “free up” jobs in a particular business, economies work differently.** On a micro (firm) level, it may be true that a business can hire a new employee only when one of its current employees leaves. However, this argument does not extend to the macro (economy wide) level. Over the long term, increasing employment can lead to an increased number of jobs throughout the economy, driven by economic growth and increased demand. One piece of evidence is the relationship between employment rates of older and younger people across the member states of the OECD, shown in the chart below. On average, those countries that do well on employment of older people, also maintain higher employment rates for younger workers.

**Chart 3.7: The relationship between older and younger people’s employment<sup>29</sup>**



<sup>29</sup> The full results for each country are available in the accompanying spreadsheet (Chart 3.7 sheet).

- 51. There is no evidence that older workers take jobs from younger people.** A large number of studies have found no evidence to support the theory that keeping older workers in jobs limits opportunities for younger people. To take two examples, first, a recent report for the European Parliament (Eichhorst et al 2013<sup>xxvi</sup>) examined employment trends of older and younger workers in EU Member States and found no trade-off between the aim of higher employment of older workers and containing youth unemployment. A second study by the Institute for Fiscal Studies (Banks et al 2008<sup>xxvii</sup>) looked at the UK context in detail, concluding: “When looking at the entire 1968-2005 period, labour force participation of the old is positively associated with employment of the young. ... Overall we find no evidence of long-term crowding-out of younger individuals from the labour market by older workers.”
- 52. Schemes intending to reduce unemployment by encouraging early retirement have proved unsuccessful.** There have been examples in the past of early retirement being encouraged in order to reduce overall levels of unemployment. Notably the UK’s Job Release Scheme in the late 1970s and early 1980s. Banks et al studied the effect of the Job Release Scheme and found the expected effect of reduced employment amongst older people but no evidence of a corresponding increase in youth employment.
- 53. Increasing employment of older workers could eventually lead to more opportunities for younger people.** Some research has suggested that older and younger workers may even be complements; in other words, firms may look to hire both younger and older workers because they have different qualities that work well together. Kalwij et al (2009)<sup>xxviii</sup> found that changes in employment of older people aged 55-64 have small but positive effects on employment of younger people aged 16-24 and on ‘prime age’ people aged 25-54. This result, the authors argue, is likely to be caused by different age groups having different levels and types of skills.

## 4: What stops people working up to State Pension age?

### 4a: Is early retirement “voluntary” or “involuntary”?

54. Some who leave the labour market before State Pension age can enjoy a planned and comfortable retirement **but most aren't voluntary retirees**. There are 2.5 million people aged 50-SPa who are economically inactive, but only a relative minority (700,000) see themselves as fully retired from the labour market. However, most economically inactive people (1.7 million) think they probably or definitely won't work again, suggesting that economic activity is de-facto retirement for many older people (see chart 4.1 below).

### The push and pull factors associated with leaving work before State Pension age

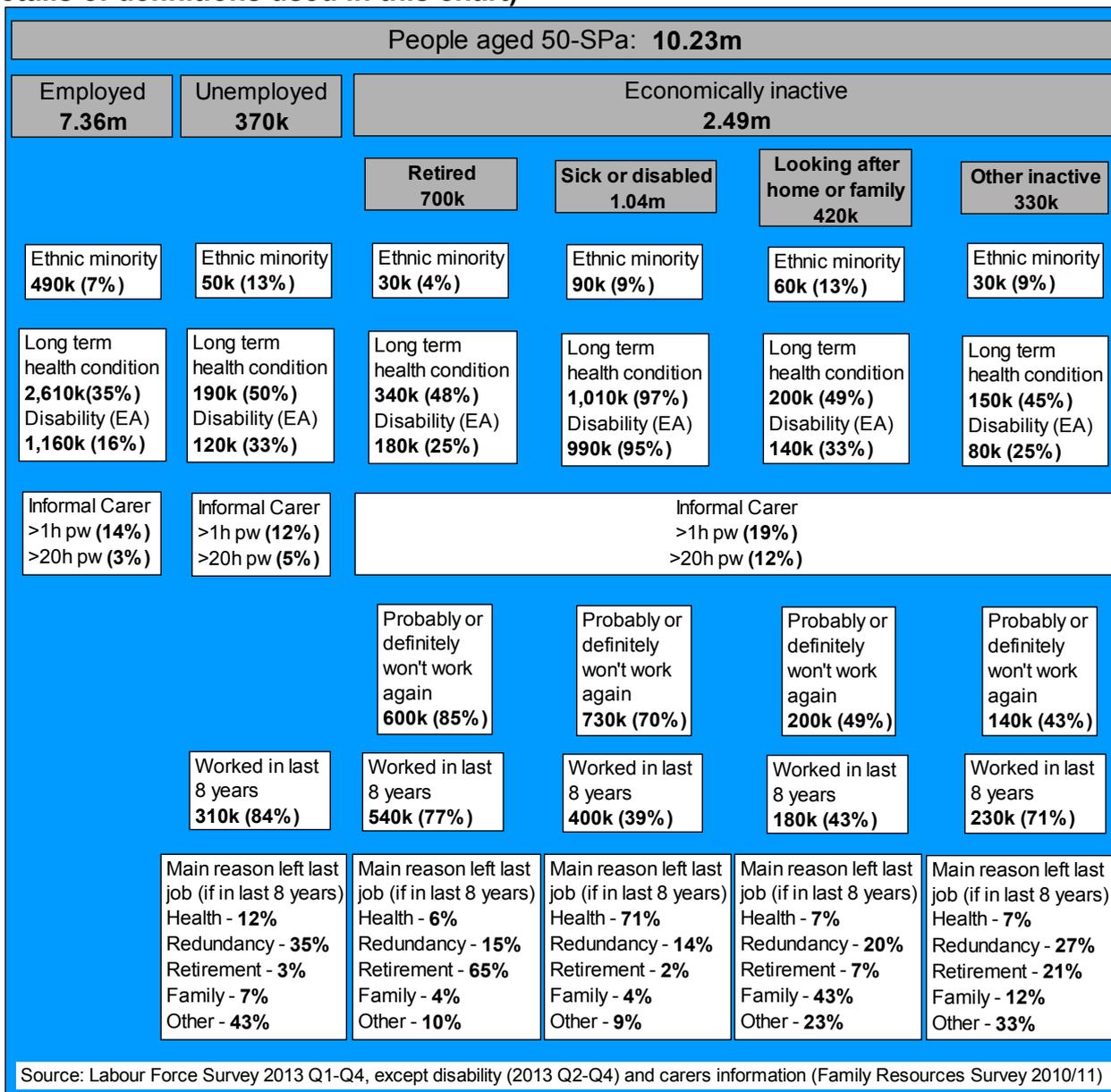
55. There are numerous, often inter-related reasons for early labour market exit. Often, these are explained in terms of interacting “push” (or involuntary) and “pull” (or voluntary) factors. The major drivers typically suggested by research (see for example, Irving et al 2005<sup>xxix</sup>) are:

- **Ill health or disability.** These consistently emerge as the most significant drivers of unplanned early labour market exit. They are often the sole reasons for people stopping work but are also associated with other reasons such as redundancy, a change in role or work itself, reduced job satisfaction, financial security or caring responsibilities.
- **Caring responsibilities for sick, disabled or elderly people.** Qualitative research suggests that caring can be both a ‘push’ and ‘pull’ factor in relation to continued employment, with difficulties in remaining in work compounded by the carer’s commitment to the care recipient, and the desire to spend more time with them.
- **Redundancy.** Qualitative research with older workers who had left the labour market suggests that redundancy can sometimes provide the sole push that leads to permanent labour market exit, but is frequently combined with the perception of financial security, dislike of work and deteriorating health. Importantly, redundancy often comes with generous financial terms which can be viewed positively by employees and provide an incentive to take up an offer of voluntary redundancy.
- **Financial security.** An individual’s financial situation isn’t typically the main motivation for stopping work before State Pension age, i.e. people don’t just retire early because they can afford to. However, the perception of security can justify the decision not to work, and in late middle age people often feel more financially secure than they have at any point in their life. As such, financial incentives play a key part in retirement decision making. Notably, decisions are based on people’s *perception* of financial security, and not always on extended planning or a full understanding of the consequences.

- **Other factors related to work** such as reorganisation and technological shocks, occupational stress, repetitive or boring work, lack of autonomy, high or low challenge, physically demanding work, shift work and lack of flexibility in terms and conditions also play a major role (See Meadows, 2003<sup>xxx</sup>).

56. In the following sections we present more information on these themes – using some of the statistics presented in Chart 4.1 below.

**Chart 4.1: Detailed labour market status of population aged 50-SPa (see Annex B for details of definitions used in this chart)<sup>30</sup>**



57. While chart 4.1 highlights certain sub-groups of older people who have low employment rates, such as ethnic minorities, people with disabilities or long term health conditions, and carers, it is also important to remember that younger people with these characteristics tend to have lower employment rates too. The following section will expand in more detail on how some factors can be more acute for older people.

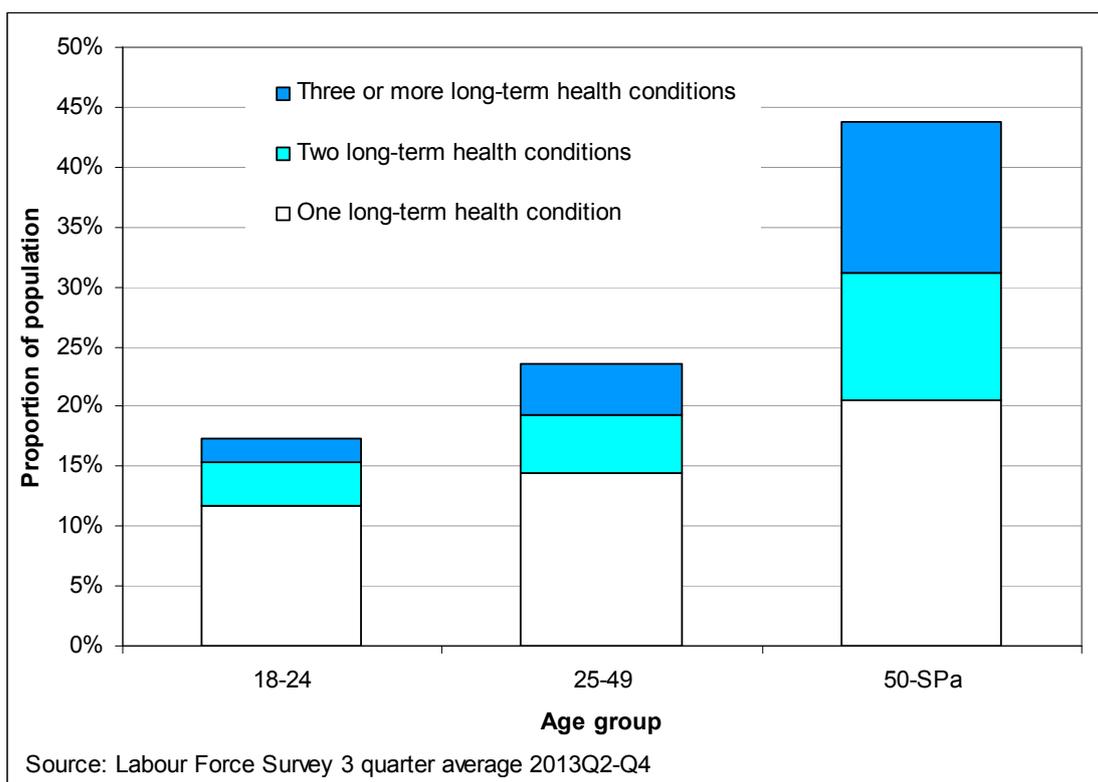
<sup>30</sup> Note: abbreviations used in the chart are “m” for million, “k” for thousand and “h pw” for hours per week.

## 4b: Health conditions and disabilities

### The relationship between age and health

58. **Ageing is often associated with deteriorating health**, and for people over 50, managing long term health conditions alongside work is very common. Almost half of people aged 50-SPa are managing at least one long-term health condition, with over a quarter having two or more, as shown in Chart 4.2 below.

**Chart 4.2: Proportion of people in age group by number of long-term health conditions<sup>31</sup>**



59. A recent DWP publication<sup>xxxii</sup> presented a detailed analysis of how health conditions can impact over the course of an individual’s life. It showed that only around 2-3 percent of disabled people are born with their impairment. Some will acquire impairments in childhood (or be diagnosed with an impairment in childhood), but most acquire impairments later in life. For example, **79 percent of disabled people over State Pension age reported that they acquired their impairment after the age of 50.**

60. While many health conditions and disabilities are just as likely to be experienced by younger people as old, some health conditions are increasingly common as people age. Table 4.1 below shows the prevalence of a selection of common health conditions by age group. In particular there is increasing prevalence of musculoskeletal problems, circulatory problems, depression and diabetes.

<sup>31</sup> Due to a definition change for disability from April 2013, a 3 quarter average is used for the period 2013 Q2 to Q4.

**Table 4.1: Prevalence of selected long-term health conditions by age group**

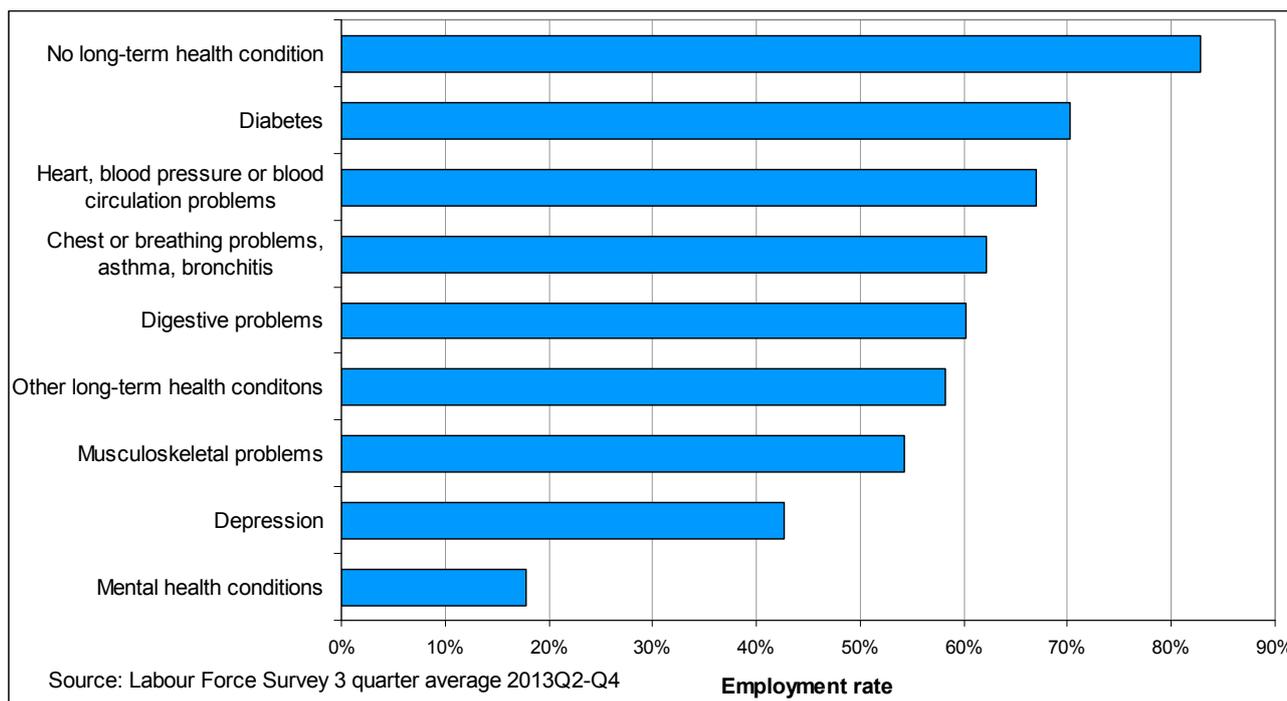
	18-24	25-49	50-SPa
Musculoskeletal problems	3%	9%	21%
Chest or breathing problems, asthma, bronchitis	5%	5%	8%
Heart, blood pressure or blood circulation problems	1%	4%	17%
Stomach, liver kidney or digestive problems	2%	3%	7%
Diabetes	1%	2%	7%
Depression, bad nerves or anxiety	3%	6%	8%
Other health conditions	7%	9%	17%

Source: Labour Force Survey Q2 2013 – Q4 2013.

### The role of health and disability in continued labour force participation

61. Research has found that the onset of new major health conditions or disabilities is important in explaining work exit in people aged 50 and over (Banks and Tetlow 2008<sup>xxxii</sup>). If already working, pre-existing conditions are less important, but they are associated with increased likelihood of onset of “work limiting” disability.
62. Chart 4.1 suggests that over **1 million people aged 50-SPa are not working primarily because of a health condition or disability** – this is 42 per cent of economically inactive people in this age group. Many people who don’t primarily see themselves as sick or disabled, actually left their last job for health reasons, suggesting the true impact of health on continued participation could be even larger. As Chart 4.1 shows, just over a third of people aged 50-SPa who are still working have a long-term health condition compared with around half of those who are unemployed, retired, or looking after the home or family. Overall, 70 per cent of economically inactive people in this age group have a long-term condition, and 55 per cent have a disability.
63. However, acquiring a health condition or disability need not be an absolute barrier to staying in employment. **There are more people aged 50-SPa with health conditions in work than out of work** (2.6 million, or 58 per cent). Also, Labour Force Survey data shows that the chances of older people staying in work upon acquiring an impairment are improving. The number of people in employment aged over 50, who acquired a disability and remained in employment in 2011 was 1.7 million, up by 55 percent when compared with 2001 (1.1 million)<sup>xxxiii</sup>.
64. Most common health problems are associated with lower employment rates as shown by Chart 4.3 below, but **musculoskeletal issues and depression or anxiety are particular problems amongst older workers** - a combination of their high employment penalty, and higher prevalence amongst older workers. Recent research into common health predictors of early retirement (Rice et al 2010<sup>xxxiv</sup>) using the English Longitudinal Study of Ageing confirmed this, finding that older workers who reported depressive symptoms or impaired physical mobility, especially with lower limb pain and shortness of breath, are at increased risk of early transition out of work.

**Chart 4.3: Employment rate by main long-term health condition (all aged 50-SPa)**



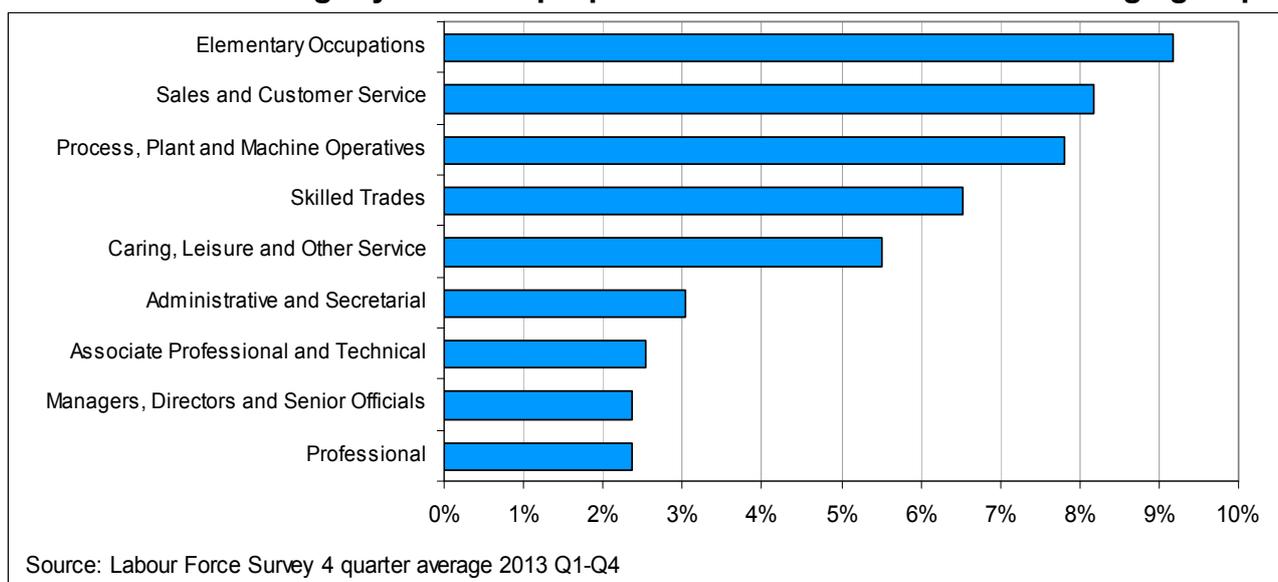
**The role of work in causing or exacerbating health conditions**

65. In a 2011 survey of employees (Young and Bhaumik 2011<sup>xxxv</sup>), 36 per cent of people with depression, bad nerves or anxiety believed their condition was caused by work, and 55 per cent believed that work made their symptoms worse. Thirty five per cent of people with disabilities or problems associated with their back or neck believed they were caused by work, and 57 per cent felt that work made their symptoms worse.

66. A recent survey of Employment and Support Allowance claimants (Sissons et al 2011<sup>xxxvi</sup>) suggested that, of people aged 55 and over who were in work before making a claim for ESA, 19 per cent said that their condition was caused by a work-related disease or illness, and 14 per cent said it was caused by a work-related accident or injury.

67. **Those in lower paid and physical jobs are at a higher risk of health-related work exit.** Chart 4.4 clearly demonstrates this by showing the number of economically inactive people aged 50-SPa who had left work due to health problems or disabilities in the last eight years as a percentage of all current and recent employees in that occupational grouping.

**Chart 4.4: Economically inactive former workers aged 50-SPa who left through ill health<sup>32</sup> in the last eight years as a proportion of current workers in that age group**



### What can prevent early labour market exit due to health conditions and disabilities?

68. **Employers play an important role.** A literature review of vocational rehabilitation (Waddell et al 2009<sup>xxxvii</sup>) found that: “Healthcare has a key role, but vocational rehabilitation is not a matter of healthcare alone...Employers also have a key role – there is strong evidence that proactive company approaches to sickness, together with temporary provision of modified work are effective and cost-effective.”

69. **A range of measures are already used by employers to help people stay in or return to work.** Young and Bhaumik (2011)<sup>xxxviii</sup> found that the most commonly used measures to keep employees who had experienced more than five day’s continuous sick leave in work, were:

- reduced or different hours
- different duties at work
- different equipment to help with their work
- different chairs or desks
- extra breaks
- changes to the work area to improve access

70. **Early intervention in periods of sickness absence is very important.** The independent review of sickness absence in Great Britain led by Dame Carol Black and David Frost CBE<sup>xxxix</sup> highlighted the importance of intervention to stop sickness absence leading to labour market exit. Older workers take more days off sick than their younger counterparts, and survey evidence suggests that a large increase in the likelihood of sickness absence becoming long-term is the main driver of the difference<sup>xl</sup>. Recent DWP statistics on long-term sickness absence<sup>xli</sup> suggest that 42 per cent of long-term sickness absence in the UK can be attributed to 50-64-year-olds.

<sup>32</sup> This covers people who cited ill health as the main reason for leaving their last job. It should be noted that this analysis does not necessarily imply a causal relationship: the last job they were in is not necessarily the one that caused their condition.

71. Employers pay an estimated £9 billion per year in sick pay and associated costs, and each year, sickness absence costs the economy around £15 billion in lost economic output. Despite this, coverage of occupational health services is low. Only 13 per cent of employers (covering 59 per cent of employees) offer their employees occupational health services, and coverage is lower in small organisations and in the private sector<sup>xlii</sup>.

**72. There is still a gap in the evidence on what works specifically for older workers.**

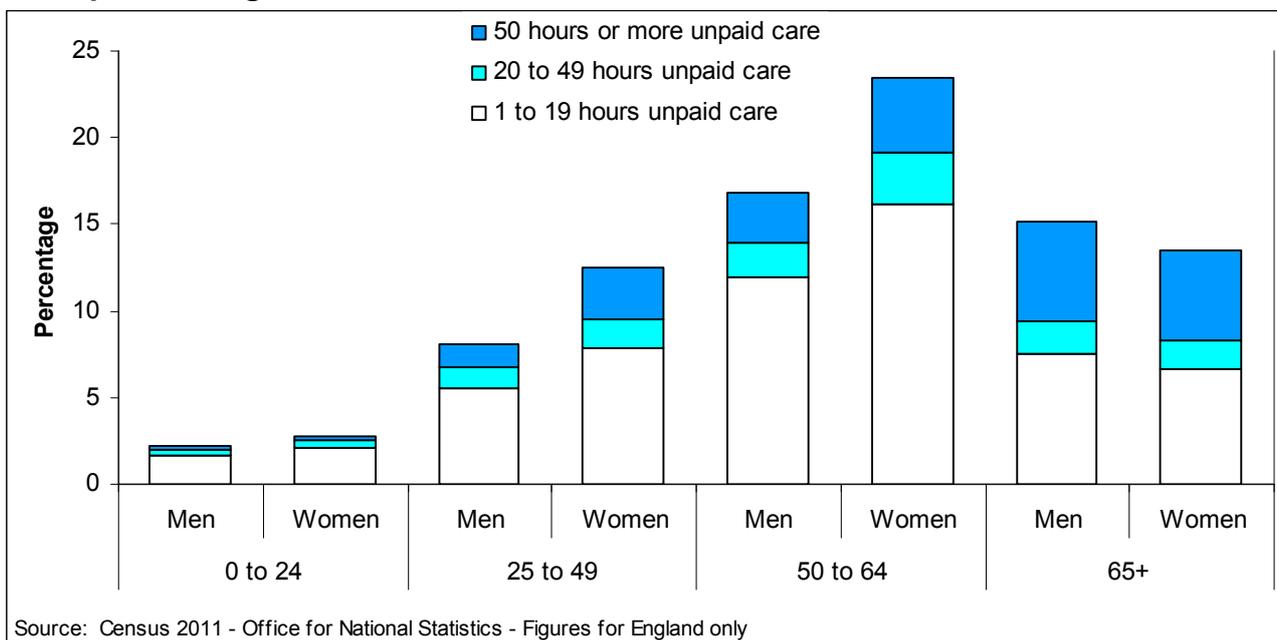
In their recent literature review of vocational rehabilitation initiatives, Waddell et al (2009)<sup>xliii</sup> pointed to a gap in the understanding of the effectiveness of interventions for older workers: “Older workers may differ in their socio-economic situation, health, workability, and response to rehabilitation. Furthermore, selection bias may exclude older workers from rehabilitation programmes... Many of the principles of vocational rehabilitation are likely to be the same for older workers, but further evidence is required”.

## 4c: Caring responsibilities

### Caring responsibilities and age

73. **50-64 is the peak age for caring responsibilities.** Many older people have an informal caring responsibility for someone who is elderly or sick or disabled. Data from the 2011 census suggests that the likelihood of being a carer increases significantly with age, with the peak occurring in late middle age. Currently, 17 per cent of men and 24 per cent of women aged 50-64 in England are providing informal care for at least one hour per week (see Chart 4.5 below).

**Chart 4.5: Prevalence of informal caring responsibility by age, gender, and weekly time spent caring**



74. The table below shows the relationships of informal carers aged 55-64 to the people they care for. Just over half of carers aged 55-64 are caring for a parent or in-law, while a quarter care for their spouse or partner. The remainder mainly care for friends or neighbours or other relatives.

**Table 4.2: Relationship of care recipient to carer (informal carers aged 55-64)**

Relationship	Percentage of informal carers
Parent	41
Spouse/partner	23
Child	6
Friend or neighbour	10
Parent in-law	12
Other relative	7
Other	1

Source: Reproduced from Survey of Carers in Households in England (2009/10)

75. People in late middle age are often caught in the middle of different generations of family members requiring care: parents and in-laws, children and grandchildren. People with dual caring responsibilities are often referred to as “sandwich carers”. While the number is relatively small, there is increasing incidence of people having dual caring responsibilities for both older and younger people (either parents and spouses, or parents and children) (see Ben-Galim and Silim 2013<sup>xliv</sup>).

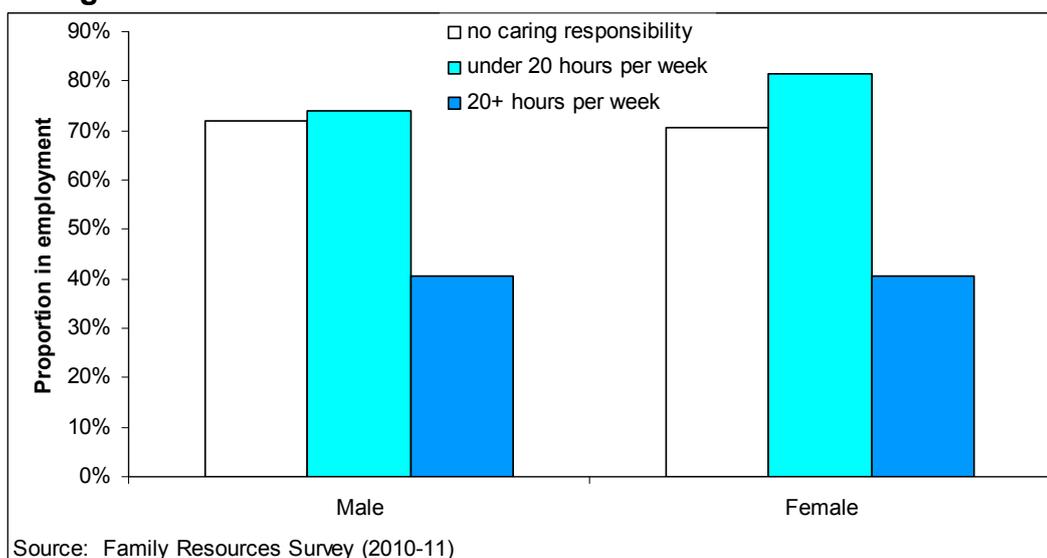
76. A recent report compiled by the Carers in Employment Task and Finish group<sup>xlv</sup> highlighted that the ageing population of the UK means that demand for informal carers is likely to increase in the future, with the burden likely to continue falling on people in late middle age.

### The role of caring responsibilities in continued labour force participation

77. **Many carers can balance caring responsibilities alongside work, but the more intense the caring, the higher the risk of labour market exit.** The report by the Carers in Employment Task and Finish group highlighted the significant problems that can be faced by working carers looking to continue in employment and estimated that around 315,000 people aged 16-64 were currently out of work, having left work to care for someone, at an annual cost of around £1.3 billion to the taxpayer. Data from the Family Resources survey in 2010/11 suggests that around **12 per cent of economically inactive people aged 50-SPa are caring for a sick/disabled or elderly person for 20 or more hours per week, compared to only 3 per cent of workers in this age group.**

78. The chart below further demonstrates this ‘employment penalty’. People who care for someone for less than 20 hours a week are about as likely to be in work as people without caring responsibilities. However, for people with more time-consuming caring responsibilities, there is a significant employment penalty, with only 40 per cent of those caring for 20 hours or more per week still in work<sup>33</sup>.

**Chart 4.6: Proportion of people aged 50-SPa in employment by sex and time spent caring**



<sup>33</sup> Causality is difficult to prove here, as individuals may increase the hours that they spend caring if they leave work.

79. There may still be problems for people who care for someone for fewer than 20 hours per week. Recent evidence from the English Longitudinal Study of Ageing<sup>xlvi</sup> has suggested that, for older people in particular, taking on caring responsibilities for as little as 10 hours per week can lead to exit from work.
80. Formal support for carers is available for those who spend longer hours caring. For example, Carer's Allowance and most Local Authority support for carers is only available for those caring for 35 hours or more per week, whilst Carers Credits towards State Pension are available at 20 hours or more per week. This can mean that while people caring for fewer hours per week are still at risk of work exit, they can be invisible to services, and often they do not raise the issue with their employer.
81. It is important to remember that maximising employment amongst carers isn't just about balancing work and care, but re-engaging with the labour market once caring responsibilities change or come to an end. People caring for ill children are most likely to be caring for a long time (10 years or more). For people looking after ill parents, the durations tend to be shorter<sup>34</sup>. Long periods away from the labour market can make returning to work a daunting prospect.

### What can help carers stay in employment?

82. There are numerous factors that have been found to influence a carer's decision to remain in or leave work. The following were identified in a report by Arksey et al (2005)<sup>xlvii</sup>:
- **Financial factors** - household incomes and mortgages; availability of pensions or welfare benefits
  - **Health and well-being** - many carers are in poor health themselves, and caring can take a toll on health of the carer
  - **Personal factors** - identity; freedom and independence; commitment to career
  - **Work-related issues** - supportive employers; finding the right job; flexibility; reliability; working hours; retirement/redundancy packages
  - **Care and support services** - general service provision; and care provision; charging
  - **Factors related to the care recipient** - commitment to the care recipient; the care recipients' wishes and needs
  - **Distance and travelling times** – the need to respond to unexpected demands from the care recipient
83. The recent Carers in Employment Task and Finish Group<sup>xlviii</sup> report concluded that the following can help carers stay in employment:
84. **Quality, trusted care provision and support services.** Many carers find that the care and support services they and their families need are inadequate, unaffordable or hard to access, and that information about them is difficult to find or navigate. One of the main reasons carers give for stopping working or reducing their hours is a lack of suitable practical support. Care and support services are often perceived to be of poor quality, or are not shaped around the needs of the carer.

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<sup>34</sup> Survey of Carers in households in England (2009/10).

**85. Workplace support.** Caring is often a hidden issue in the workplace and subsequently carers can be poorly supported. In Carers UK's 2013 State of Caring Survey<sup>xlix</sup>, nearly 22 per cent of working carers said that their employer was not supportive of their caring role and 25 per cent said that, although their employer was sympathetic, they did not offer support. Access to flexible working opportunities, unpaid leave, and flexibility to respond to unexpected demands are all deemed important.

**86. Assistive Technology.** Working carers can benefit from the use of assistive technology products and services, but many carers are not aware of these solutions or how to access them. Effective assistive technology solutions do not necessarily need to be complex, IT-based systems. For instance, pill dispensers that remind people to take their pills can play an important role in assuring carers that the person they care for is taking their medication, and can therefore give carers the peace of mind they need to be able to continue working. Similarly, fall alarms that alert the carer if the person they care for suffers a fall can also play an important role in helping carers to feel comfortable leaving the home to go to work.

## 4d: Skills and back to work support

### The risk of redundancy for older people

87. **Redundancy can provide the push into early retirement for older workers.** Around one in five people out of work aged 50-SPa who had stopped working in the last 8 years said that redundancy was the main reason that they left work<sup>35</sup>.

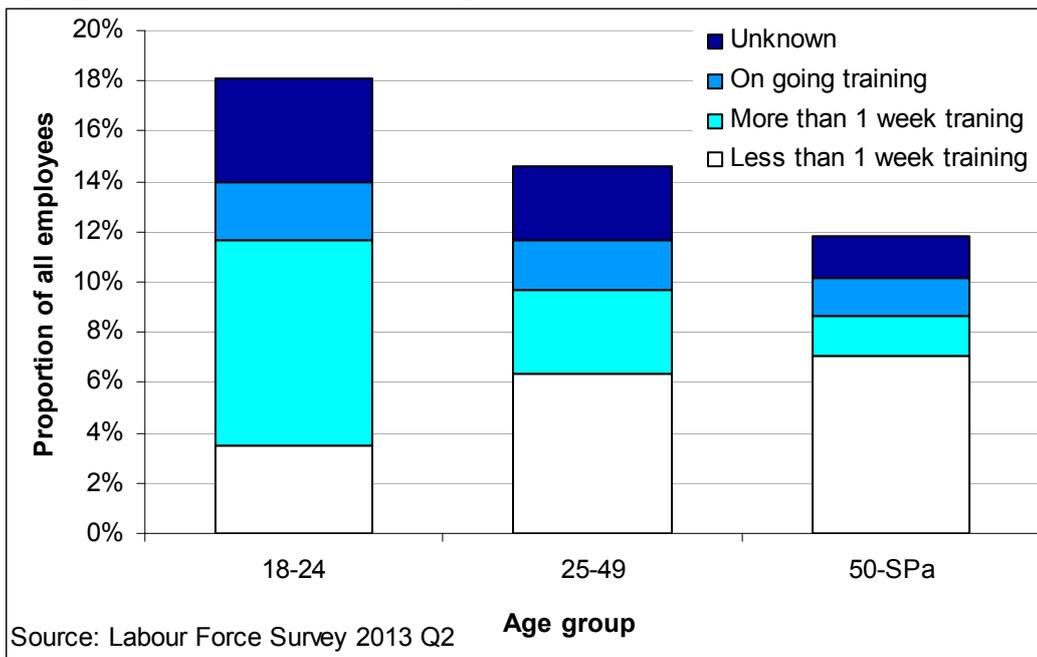
88. **Once unemployed, older people are more likely to become long-term unemployed.** Forty seven per cent of unemployed people aged 50-64 had been out of work for a year or more compared to 40 per cent of 25-49-year-olds and only 33 per cent of unemployed 18-24-year-olds (DWP Older Workers Statistical Information Booklet 2013<sup>l</sup>).

89. **They are also more likely to stop actively seeking work and become economically inactive.** Tracking cohorts of unemployed people over the course of a year showed that 27 per cent of unemployed people aged 50-SPa were economically inactive a year later compared to only 19 per cent of people aged 25-49<sup>36</sup>.

### The importance of keeping skills up to date

90. As shown in the chart below, **participation in work-related training is lower amongst older workers**, and any training undertaken tends to be of relatively short duration. Research has also shown that it tends to be more narrowly focussed towards the employee’s current role rather than wider career development (McNair 2011<sup>ll</sup>).

**Chart 4.7: Proportion of employees participating in a training course in the last 4 weeks by age and duration of training**



<sup>35</sup> DWP calculations using Labour Force Survey (derived from chart 4.1).

<sup>36</sup> DWP calculations using 5 quarter longitudinal Labour Force Survey (2010-2011).

91. **Older people are also less likely to regularly change jobs**<sup>lii</sup> The proportion of people aged 50-SPa who had changed jobs in the last 12 months was five per cent, compared to eight per cent of workers aged 25-49, and those in work aged 50-64 have an average job tenure of 13 years compared to only 7 years for people aged 25-49<sup>liii</sup>. Reasons for this decline in labour market mobility can include familiarity and reluctance to change, perceived security, and the “pensions trap” i.e. a worry about what a change of job might mean for pensions entitlements (McNair 2011<sup>liv</sup>).
92. The decline in labour market mobility and training plays a part in reducing the flexibility of older workers who may be forced to change jobs and puts them at risk of not finding alternative employment.

### Older people and back to work support

93. Evidence from the evaluation of the Jobcentre Plus offer (Coulter et al 2012<sup>lv</sup>) suggests that **older jobseekers are less confident that their skills are up to date**. Twenty nine per cent of claimants aged 50 and over said they were not confident their skills were up-to-date compared to just 14 per cent of 18-24-year-olds. While older jobseekers are no less confident that they would perform well in an interview, **they are less confident that an employer would offer them an interview in the first place**. Only 16 per cent of 18-24-year-olds said they were not confident employers would offer them an interview compared to 25 per cent of 25-49-year-olds and 41 per cent of those claimants aged 50 and over.
94. A DWP research report (Kirkpatrick 2012<sup>lvi</sup>) looking specifically at the barriers faced by older jobseekers found that the most common factor across groups of older jobseekers was a lack of modern job search skills. These include IT skills, searching and applying for jobs online, and writing modern CVs or competency-based application forms. The report found that: “Nearly 80 per cent of [Jobcentre Plus] Advisers responding to the online survey mentioned that a lack of these linked skills and a limited knowledge of modern recruitment practices act as key barrier to older claimants securing interviews and ultimately finding employment.” (Kirkpatrick 2012, p.16)
95. The same report found that some older jobseekers had a mentality of “winding down” to retirement, commonly from age 60 despite actual and planned increases in State Pension age.

### What can help older people to find work following redundancy?

96. **Active career planning and continual skills refreshment while in work** are viewed by many as important for older workers. Most training needs are unrelated to age; however, there are a number of areas where age plays a particular part (see Felstead 2011<sup>lvii</sup>). They include:
- **Updating skills** to prepare for new processes, technologies and ways of working;
  - **Basic education**, since older people are more likely to have basic skills needs, and this is likely to be a significant barrier in applying for jobs;
  - **Lifecourse planning** to help people make informed decisions about career changes, self-employment, flexible working and the timing of retirement;
  - **Succession and mentoring**, where training provides a means for older workers to transfer their skills and knowledge to younger colleagues.

97. Historically, “careers services” have concentrated largely on young people, although where services are offered to older workers there is evidence that the results have been positive for employers and employees (McNair, 2008<sup>lviii</sup>). Although most careers guidance is not age-specific, older people do have a set of distinctive needs, including advice on the retirement decision and strategies for remaining employable after 50, both of which require an integrated understanding of skills and training, finance (including implications for pensions) and health (Ford et al 2006<sup>lix</sup>).

**98. Availability of part-time, flexible and self employment opportunities is important.**

As we saw in section 3 of this document, of the older people who are still in employment, much higher proportions are in part-time employment or are self-employed.

99. There are a number of measures designed to help older people back to work, these include:

- **Work Programme** supports people who are long term unemployed or at risk of long term unemployment into sustainable employment. Providers are paid primarily for the results they achieve and they are paid more for supporting people who are harder to help. Since it was launched in June 2011 to end of December 2013 257,000 people aged 50 and over have participated (18 per cent of all participants) and of those, 29,000 have achieved job outcomes (12 per cent of all job outcomes)<sup>lx</sup>. Of the 257,000 people, 187,000 had been on JSA (16 per cent of all JSA participants) and 70,000 had been on IB/ESA – this represents a high proportion (30 per cent) of all IB/ESA participants.
- **New Enterprise Allowance** supports those looking to start their own business by providing access to finance and support from local business mentors. Since the start of the scheme to the end of December 2013, 23 per cent out of over 40,000 starting the allowance have been people aged 50 and over<sup>lxi</sup>. Nearly four fifths of the first cohort of participants remained continuously off out-of work benefits for 12 months following the start of their allowance claim<sup>lxii</sup>; this is a good result given that the first participants in the scheme had been on JSA for more than 6 months prior to starting.
- **Sector-based work academies** offer pre-employment training, work experience placements and a guaranteed job interview in England and Scotland. Since the start of the scheme to end of November 2013, there have been 8,960 starts by people aged 50 and over on sector-based work academy pre-employment training<sup>lxiii</sup>.
- **Help to Work** is a new scheme to support long term unemployed Jobseeker’s Allowance claimants returning from the Work Programme back to work. Advisers refer jobseekers to one of the following based on the individual claimant’s circumstances: intensive coaching, a requirement to meet with the Jobcentre Plus adviser every day, or taking part in a community work placement for up to 6 months. Key to the development of Help to Work was evidence from the Support for the Very Long Term Unemployed Trailblazer Randomised Control Trial which tested forms of intensive coaching and community work placements against standard Jobcentre Plus activity. The trailblazer showed positive results with claimants having increased motivation, ambition and confidence, and spending less time in benefit and more time in work when compared to the control group<sup>lxiv</sup>. In addition, the highest benefit

and employment impact was for claimants aged 50 and over – so it will be important to give close attention to see how effective Help to Work can be for older people.

- **More intensive Jobcentre Plus adviser support:** The 2013 Spending Review announced a series of conditionality measures to increase support to Jobseeker's Allowance claimants from the start of their claim. This includes the introduction of new "day one" conditionality measures, weekly signing for around half of all claimants, quarterly review interviews for all, and screening for English language skills. This package will help deliver additional support to those who need it, including older jobseekers who may need more focused help to get back into work.
- **Local tailored support:** Provision and support is also being developed and implemented in local areas by Jobcentre Plus tailored to the needs of older claimants in the area. This is helping us learn more about what works most effectively for supporting older claimants back to work.

## 4e: Personal finances and incentives

### The importance of incentives

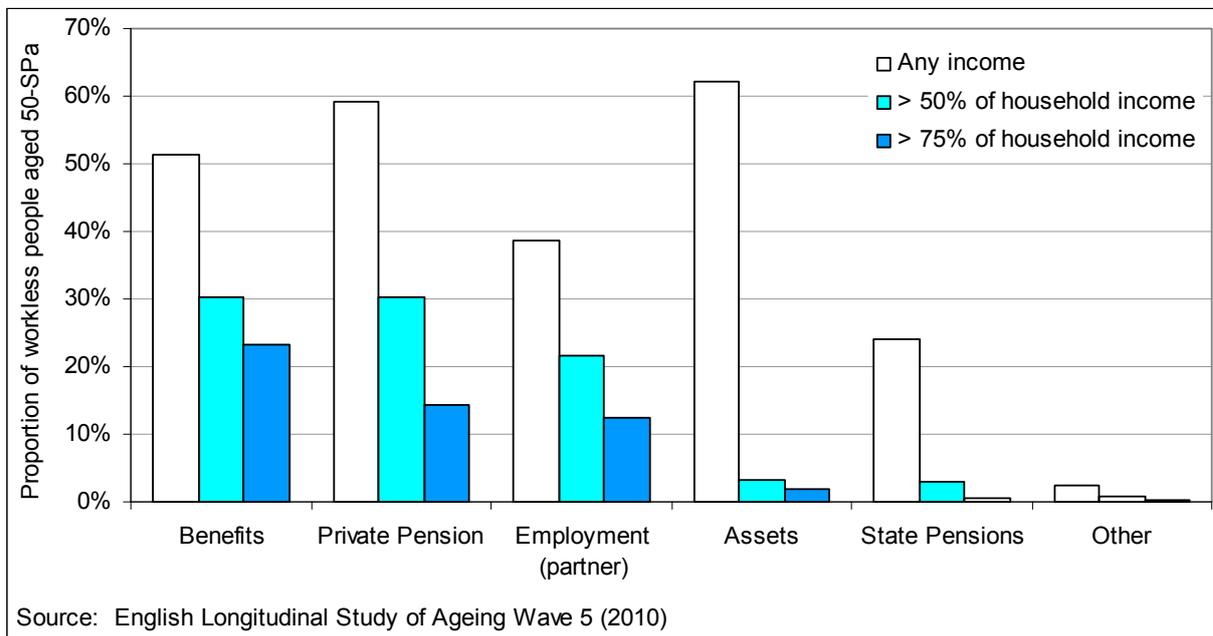
100. Research has shown that the financial incentives or disincentives to carry on in work play a large part in explaining overall patterns of retirement. Work by Gruber and Wise (2004)<sup>lxv</sup> shows that differences in financial incentives between countries are highly correlated to levels of worklessness amongst older men in that country.

101. It is important to remember that the financial implications of retirement are a factor for people across the income distribution. Recent research (Banks et al 2014<sup>lxvi</sup>) shows that for higher earners, the availability of private pensions is important, while for a smaller number of people on the lowest incomes, disability benefits and other means-tested benefits can be an important consideration. State Pensions and a partners' situation including their earnings are also important as couples tend to make decisions about work and retirement jointly.

### Where do people who are out of work between 50 and SPa get their income?

102. Chart 4.8 below shows the main sources of household income for people aged 50-SPa who are not in work.

**Chart 4.8: Constituents of household income for workless people aged 50-SPa**



- For workless people aged 50-SPa, over half get some income from **working-age benefits** and for around three out of ten people these benefits make up more than half of household income. Several studies have cited the importance of benefits, particularly disability benefits, as a route into early exit from the labour market (see OECD 2006<sup>lxvii</sup>). The research by Banks et al (2014)<sup>lxviii</sup> suggests that the level of income provided by disability benefits and other working-age benefits is low compared to what most people could earn in work, so they only act as a strong financial incentive for those on the very lowest incomes.

- Almost 60 per cent of workless people are drawing some income from a **private pension**, and, for around 30 per cent they make up over half of total household income. The financial incentives provided by private pensions are very important in determining overall patterns of retirement, although their effect varies:
  - **Generous defined benefit occupational pension schemes have historically been associated with early retirement** (see Banks and Tetlow, 2008), as there is often little incentive to work past the normal retirement age for the scheme, and normal pension ages have often been before State Pension age.
  - **Defined contribution scheme members tend to work longer** – possibly a combination of them typically being less generous than defined benefit schemes, and a much clearer link between working longer and building up a larger pension pot which over a shorter retirement provides a higher income (see Banks and Tetlow 2008<sup>lxix</sup>).
- Having a **partner who is working** is an important factor for many people. Just under 40 per cent of workless people aged 50-SPa live in a household with some employment income from their partner, and just over 20 per cent get more than half of their household income from a working partner.
- **Other assets** such as investment income and properties are also used to provide an income for people who aren't working. Over 80 per cent of workless people have some income from assets, but mostly the amounts are very small (interest from savings for example). They make up more than half of income for only around 3 per cent, suggesting that while many people draw on them, few use their assets and non-pension wealth as their primary means of providing a regular income to fund an early retirement.
- **State pensions** are also a factor for some. While people under State Pension age are not eligible themselves, a large number have a partner who is above the SPa. Our analysis suggests around a quarter of workless people aged 50-SPa have a partner who is in receipt of State Pension, but it makes up over half of household income for only a small number of people (around 3 per cent) so is probably not a major financial factor in early retirement decisions. However, it is well known that couples often time their retirement to coincide, and also that State Pension age can act as an “anchor” for people’s expectations about retirement, so the older partner reaching State Pension age may still be an important determinant of early retirement.

103. **Debt is also an important factor in retirement decisions.** People with mortgage debt have been shown to retire later than those who own their home outright (see Banks and Tetlow 2008<sup>lxx</sup>), and being debt free has been cited in qualitative research as an enabler of early retirement (Irving et al 2005<sup>lxxi</sup>).

### **How can financial incentives including the pension and benefit systems support working longer?**

104. **Ensure that it pays to work.** To ensure people have an incentive to continue working it is important that they are able to improve their financial situation by staying in work. Historically, unlike the UK, the pension systems of several European countries have made receipt of a state pension conditional on leaving work, and have not

adequately rewarded those who defer receipt of their pension and carry on in employment. Internationally, many pension systems which contain these perverse incentives have been, or are being reformed.

105. Disincentives to work can also be found in the tax and benefit systems. Universal Credit which is being introduced by this Government to replace the majority of working-age benefits is an attempt to simplify the existing complex system, and provide a clearer incentive to work. In the current benefit and tax credit system, there are a number of benefit rules which have seen benefits or tax credits completely withdrawn when someone works over a threshold number of hours per week, or being withdrawn sharply as earnings increase. This has led to large numbers of people feeling better off out of work, or constrained to working a particular number of hours for fear of losing their benefits<sup>lxxii</sup>.
106. **Ensure people have sufficient information and guidance to make good decisions about retirement.** We know that many people have a limited understanding of their finances and don't actively plan for the future, and the analysis presented here has shown that an early retirement often comes as a "shock" rather than being a planned event. Nonetheless, considering the financial consequences of retirement is especially important, particularly as successive generations are likely to live longer than their predecessors. The new freedom to access defined contribution pension pots in full from the age of 55 announced in the 2014 Budget will offer savers unprecedented flexibility in how to use their retirement savings, which will also provide the opportunity to retire more flexibly. However, it also makes it crucial that people understand the financial implications of leaving work, and what benefits working longer could bring.

## **How does the UK system currently look in terms of financial incentives?**

107. While a thorough review of the financial incentives in the UK tax, benefit and pension systems is beyond the scope of this report, we can point to some of the main features:
108. **There are many positive features that ensure older people have an incentive to continue in work:**
- It is possible to combine the receipt of both private and state pensions with earnings from employment.
  - People who choose to defer the receipt of their State Pension while working will get an actuarially fair increase in their payments when they do choose to claim it.
  - People who stay in work past State Pension age pay no National Insurance on their earnings.
  - Defined contribution pensions offer a clear financial gain to workers who choose to delay receipt while continuing to save.
109. **But the incentives to work longer still aren't perfect:**
- Many working-age and pensioner benefits contain rules that limit availability to those working under a certain number of hours, or withdraw benefits sharply as earnings increase. For example the working hours rules in Jobseekers Allowance and Working Tax Credits, and a 100 per cent withdrawal rate in the Guarantee Credit element of Pension Credit.

- Depending on specific scheme rules, defined benefit occupational pensions can often contain little financial reward for people who delay receipt past their normal pension age.
- The Guarantee Credit element of Pension Credit, which is available to many people before they reach their State Pension age, can be more generous than working-age benefits, and has no work-related conditionality.

**However, much is already being done that will improve the incentives for people to work longer**

110. While most of the following are not being introduced primarily with the objective of increasing work incentives (with the exception of Universal Credit), there are a number of changes planned and underway which should improve the financial incentives for older people to remain in work. For example:

- State Pension ages are increasing, with women's State Pension age due to reach equality with men's at 65 in 2018, and further increases for both men and women, to 66 by 2020, and 67 by 2028.
- The minimum age at which the Guarantee Credit element of Pension Credit is available is increasing at the same rate as women's State Pension age.
- The Government's welfare reform programme is focussed on making work pay. This includes the replacement of Incapacity Benefit with Employment Support Allowance, but above all, Universal Credit which will replace most working-age out-of-work benefits and provide a clearer incentive to continue in employment. Furthermore, in the future it is anticipated that mixed age couples (where one partner is below the Pension Credit qualifying age and one is above it) will claim Universal Credit rather than Pension Credit. As a result the younger partner will retain their link to the labour market and, should the older partner be in paid employment, he or she will see improve returns on earned income.
- Automatic enrolment in a workplace pension will widen access to defined-contribution pensions and ensure that more employees will receive a better retirement income if they stay in work.
- Public sector pension reform, where benefits will be changed to career average as opposed to final salary and accrual past Normal Retirement age will increase work incentives for public sector workers.

## 4f: The importance of employers

111. As the analysis in this chapter has shown, the problem of early labour market exit does not have one clear cause. A range of solutions are appropriate to reflect the complex set of problems. There are roles for both Government and employers in affecting change and helping people to work longer. Actions that can be taken include:

- Health-focused measures such as preventative action for common work-related conditions, condition management and occupational health provision, flexible employment opportunities and job redesign/reassignment.
- Ensuring financial incentives inherent in the tax and benefit systems clearly make work pay, and that disincentives to remaining in work are minimised.
- Promoting a dynamic labour market for older workers, widening access to work-based training, active career planning and appropriate out-of-work support.
- Support for working carers through care and carers' support services, workplace support and flexibility, and assistive technology.
- Setting the right legislative framework, promoting positive attitudes towards older workers (both amongst employers and employees themselves).
- Ensuring people have an adequate understanding of the long-term financial implications of early retirement.

112. While some of these actions can be taken directly by Government, the majority are in the hands of employers, or will rely on joint working between government and employers. Many of the factors that can influence early labour market exit are highly specific to certain employers, occupations or industries – for example, the physical and mental demands of work, availability of part-time and flexible working options, pension schemes and organisational culture.

113. **Employees are more likely to listen to messages about work and retirement from their employer than from government.** Recent research commissioned by DWP suggested that the best way to change retirement behaviour is through situational (i.e. employment) influences (Weyman et al 2012<sup>lxxiii</sup>). Using channels trusted by employers and employees is preferable to government or linked organisations making high-level messages which may not be trusted when talking about retirement and fuller working lives.

### **Are employers prepared for the needs of an ageing population?**

114. A recent survey of 480 senior executives found that over 70 per cent anticipated an increase in the proportion of their workforce aged over 60 by 2020, with the ageing population becoming one of the top three priorities on HR agendas<sup>lxxiv</sup>.

115. **HR practitioners recognise the need to do more to manage an ageing workforce.** Respondents to a 2010 survey of CIPD members<sup>lxxv</sup> identified the following

key issues for their organisations to address in order to improve the approach of their organisation to managing an ageing workforce:

- Refreshing the skills of older employees – 60 per cent
- Managing health and wellness – 51 per cent
- Reviewing the retirement process – 51 per cent
- Developing appropriate flexible working practices – 49 per cent
- Helping managers to be competent in managing older workers – 49 per cent
- Identifying the cost benefits of retaining an older workforce – 45 per cent
- Reviewing approaches to performance management – 31 per cent
- Reviewing recruitment policies and practices – 31 per cent
- Reviewing reward and recognition systems – 23 per cent
- Considering redeployment opportunities – 23 per cent

116. **However, there is still a feeling amongst HR practitioners that employers could do more.** In the same CIPD survey, only 14 per cent of respondents considered their organisation very well prepared to deal with an ageing population, and a third did not think their organisations had made any preparations.

### **Which sectors are most important for fuller working lives?**

117. There are a small number of key sectors that can play a major role in helping the Government achieve its ambitions for fuller working lives. A high proportion of older people who had recently left the labour market had previously worked in just a small number of sectors.

118. Tables 4.3 and 4.4 show the number of older people who are currently economically inactive who had left work in the last 8 years<sup>37</sup>, according to the industry they had previously worked in. It also shows separately the proportion who said that they “retired” from their last job, and who left primarily for other reasons<sup>38</sup>. While not a perfect measure, this gives a broad indication of the proportion of work exits that may be “voluntary”. For example, almost two thirds of men who left jobs in Public Administration or Education left due to “retirement”, compared with only around one third of those who had previously worked in Manufacturing, and one fifth of those who had previously worked in Construction.

119. **Half of economically inactive older men who had worked at some point in the last 8 years previously worked in one of just four sectors: Manufacturing, Construction, Transport, and Wholesale/Retail.** While this is partly due to their size and the fact that they tend to employ more older men than other sectors, there are many employees in these industries performing manual or routine work. In section 4b we saw that older people in these occupations are the most likely to stop working early due to ill health.

120. **Two thirds of workless older women who had worked in the last 8 years had previously worked in Education, Health/Social Care, Wholesale/Retail, or Public Administration.** Many had taken early retirement, but these sectors also contained the largest numbers of people who had left work due to illness or for family reasons.

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<sup>37</sup> The choice of 8 years is dictated by the design of the Labour Force survey, which only asks for details of previous employment if an individual had worked in the last 8 years.

<sup>38</sup> Here we have only shown breakdowns when the sample size is over 200 to guard against results being unreliable due to excessive sampling variability. See the supporting spreadsheet for more details.

**Table 4.3: Proportion of inactive men aged 50-SPa who had left work in last 8 years by the last industry worked in<sup>39</sup>**

Total of <b>760,000</b> inactive men aged 50-SPa who had worked in last 8 years	Proportion of inactive men from sector	Proportion of those "retired"	Proportion who left for other reasons
Manufacturing	17%	33%	67%
Construction	13%	19%	81%
Wholesale and retail trade	10%	27%	73%
Public administration and defence	10%	59%	41%
Transportation and storage	9%	25%	75%
Education	9%	63%	37%
Human health and social work activities	6%	46%	54%
Professional, scientific and technical activities	4%	56%	44%
Information and communication	4%	37%	63%
Administrative and support service activities	4%	27%	73%
Finance and Insurance	3%		
Accommodation and food service activities	3%		
Energy and Water	2%		
Agriculture and Mining	2%		
Others	4%	38%	62%

**Table 4.4: Proportion of inactive women aged 50-SPa who had left work in last 8 years by the last industry worked in**

Total of <b>574,000</b> inactive women aged 50-SPa who had worked in last 8 years	Proportion of inactive from sector	Proportion of those "retired"	Proportion who left for other reasons
Human health and social work activities	22%	24%	76%
Education	21%	35%	65%
Wholesale and retail trade	15%	13%	87%
Public administration and defence	8%	34%	66%
Manufacturing	5%	20%	80%
Administrative and support service activities	5%		
Accommodation and food service activities	5%		
Finance and Insurance	4%		
Professional, scientific and technical activities	3%		
Transportation and storage	2%		
Information and communication	2%		
Construction	1%		
Agriculture and Mining	1%		
Energy and Water	0%		
Others	6%	15%	85%

<sup>39</sup> Industrial sectors are grouped by UK Standard Industrial Classification 2007 – see Annex B for more details.

## 5: Future developments and concluding remarks

121. As we have seen, employment of older people is already on the increase, and there are record numbers of older people in work. There are numerous factors which mean we expect that this trend will continue. For example, improved performance of the economy, increased longevity, supportive legislation, a growing expectation amongst employees that they will work to an older age, welfare reforms, increases to the State Pension age, the decline of defined benefit pension schemes in the private sector, and plans to increase the normal pension age for public sector schemes.
122. However, while we can be confident that there will be an aggregate increase in employment amongst older people, there is no guarantee that the increase will be as large as required to make a real difference to the living standards of older people in retirement. There is also a risk that groups of older people highlighted in this evidence review who are already at a disadvantage are left further behind.
123. The document “Fuller Working Lives – A Framework for Action” sets out the approach that we will take to monitoring outcomes for older workers over the coming years.

# Technical annex

This technical annex presents further information on the data sources used in this document, as well as more detail on the modelling for the case study on retirement income in section 2c and for the benefit statistics and macroeconomic impact in section 2e.

## A: Sampling variability and reliability of survey estimates

Data from surveys is widely used in this report, for example from the Labour Force Survey (LFS), Annual Population Survey (APS), the Family Resources Survey (FRS), and the English Longitudinal Study of Ageing (ELSA). Sampling variability is a measure of how much survey estimates vary due to the sampling scheme. In this publication, we produce statistics which describe the characteristics of the whole population from a small sample of the population. The smaller the sample used for a particular breakdown, the less precise that estimate. Therefore, some of the estimated results in the reference data have been suppressed where the sample on which they are based is small (where un-weighted population is less than 5), and we do not quote absolute numbers or percentages where the population on which they are based is less than 200 and the estimates derived are likely to be unreliable. Sample bases for survey-based estimates are included in the linked excel spreadsheet.

We do not comment on differences between estimates unless we can be confident that they are statistically significant (i.e. not just due to random variation in the sample). None of the estimates presented here are seasonally adjusted.

In addition to sampling variability, survey data is usually self reported – meaning answers may be subject to respondents' bias (some may display a willingness to respond in a way they believe would be viewed favourably by others) and ability to recall information correctly.

More information about how these factors can affect the reliability of survey estimates can be found in the documentation for the individual surveys used in this report (e.g. LFS, APS, FRS, ELSA).

## B: Statistical definitions

**Employment** – Those in employment comprise employees, the self-employed, unpaid family workers or those on government employment and training programmes. The employment rate is the number in employment within a population as a proportion of that whole population. Employment measures the number of people in paid work and differs from the number of jobs because some people have more than one job.

**Unemployment** – ILO unemployment is the internationally agreed definition of unemployment, defined by the International Labour Organisation (ILO) – an agency of the United Nations. All people aged 16 and over can be classified into one of three states: in

employment, unemployed, or economically inactive. Unemployed people are: i) out of work, want a job and have actively sought work in the last four weeks and are available to start work in the next 2 weeks or, ii) out of work, have found a job and are waiting to start it in the next two weeks.

**Economic inactivity** – Economically inactive people include those not in employment, and either not seeking work or not available for work.

**Ethnic Minority** – For the purposes of this publication, ethnic minorities are defined as anyone who does not assign their ethnicity as “White British” or “White – Other”.

**Long Term Health Condition** – In the Labour Force Survey, a long term health condition is defined as a health condition which is expected to last for more than one year.

**Disability (Equality Act definition)** – Data covering people with a disability refers to people self-reporting a current disability consistent with the Equality Act definition. More information about disability under the Equality Act is available at:

<https://www.gov.uk/government/publications/disability-equality-act-2010-guidance-on-matters-to-be-taken-into-account-in-determining-questions-relating-to-the-definition-of-disability>

**State Pension age** – This is the age at which an individual becomes entitled to claim their State Pension. In 2013 it was 65 years for men and between 61 and 62 years for women. More information on the State Pension age timetable is available at:

<https://www.gov.uk/government/publications/state-pension-age-timetable>

**Industrial Sectors** – The industrial sector of those in employment is classified according to the UK Standard Industrial Classification 2007 (UK SIC 2007). More information about the SIC 2007 is available in the ONS guidelines on current standard industrial classifications at:

<http://www.ons.gov.uk/ons/guide-method/classifications/current-standard-classifications/standard-industrial-classification/index.html>

**Occupational Classifications** – The occupations of those in employment are also classified according with the UK Standard Occupational Classification 2010 (UK SOC 2010). More information about the SOC 2010 is available in the ONS guidelines on current standard industrial classifications at:

<http://www.ons.gov.uk/ons/guide-method/classifications/current-standard-classifications/soc2010/index.html>

## C: The Labour Force Survey and the Annual Population Survey

The Labour Force Survey (LFS) is a representative sample survey of around 45,000 private households in Great Britain & Northern Ireland conducted on a quarterly basis. As it is a household survey, people in communal establishments (e.g. hostels or medical and care institutions) are not included in results. More detailed information is available in the ONS Labour Force Survey guidance at:

<http://www.ons.gov.uk/ons/guide-method/method-quality/specific/labour-market/labour-market-statistics/index.html>

The Annual Population Survey (APS) is derived from LFS data to provide robust estimates which cover a full calendar year. The sample size is larger than the LFS, meaning that estimates can be more precise. More information on the APS is available in the ONS guidance at:

<http://www.ons.gov.uk/ons/guide-method/method-quality/quality/quality-information/labour-market/index.html>

On occasion, analysis in this report is conducted using a four quarter average of LFS data. This is done to increase the sample size only in instances where all of the relevant variables are not included in the APS. The weighted estimates from, say, four quarter average LFS data are derived from pooling together four consecutive quarterly LFS dataset and calculating weighted estimates, then dividing by four to give an average for the full year. This pooled data technique does not reflect quarterly variation and does not provide the same degree of accuracy as the APS because the observations are not independent from one another.

When producing estimates across the whole UK population we use weighting factors provided by the Office for National Statistics (ONS) along with the LFS dataset itself (see LFS guidance for more details).

## D: The Family Resources Survey

The Family Resources Survey is a major survey, sponsored by the Department for Work and Pensions (DWP). It provides facts and figures about the living conditions of people in the UK and the resources available to them. The FRS has been running since 1992. Up until 2002/03 the survey covered Great Britain. It was then extended to cover all of the UK.

The FRS does not collect information on people living in institutions and so they are not represented in estimates in this report. These institutions include, for example, nursing homes, jails, and homeless people living rough or in bed and breakfast accommodation.

Information on design and response rates of the FRS can be found in Chapter 7 at <https://www.gov.uk/government/publications/family-resources-survey-201112>

More information on the Family Resources survey is available at: <https://www.gov.uk/government/collections/family-resources-survey--2>

## E: The English Longitudinal Study of Ageing

The English Longitudinal Study of Ageing (ELSA) is a biennial longitudinal study<sup>40</sup> of the health, social and economic circumstances of an initial sample of approximately 12,000 people aged over 50 in England. ELSA started in the early 2000s and now provides longitudinal data on pensions, savings, and labour market participation.

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<sup>40</sup> Longitudinal studies observe the same participants at different points in time.

It holds information on interactions and transitions over the life courses of respondents as they grow older - sometimes extending their working life - and eventually retire. ELSA also collects both objective and subjective data, such as social participation and networks, expectations of retirement, and the extent to which those expectations are met post retirement.

More information on ELSA including sample design, uses of the data, and other research outputs is available at: <http://www.ifs.org.uk/ELSA>

## F: Detail for the case study on retirement income

The case study analysis uses the Department's I-Pen tool which is an Excel-based model predicting state and private pension income in retirement, based on hypothetical work histories for hypothetical individuals. For a given hypothetical individual at a point in time (whose characteristics the user can define), I-Pen replicates the mechanics of the pension system to show the pension outcomes for that individual. This enables analysis of the effect of an additional year in (or out of) work.

The case study modelled is a single man born in 1953, who starts work at age 25 and works uninterrupted until he retires from the labour market aged 55. This is ten years before his State Pension age of 65 (in 2018). He earns £28,900 each year in constant earnings terms – the median male earnings as found in Annual Survey of Hours and Earnings (ASHE) data for 2013. Each year he is in work, he contributes 5 per cent of his pay to a defined contribution pension scheme and his employer contributes 3 per cent.

The pension fund has an assumed growth rate of RPI plus 2.2 per cent and an Annual Management Charge of 1 per cent.

When he retires, if he has no other source of income to fund his spending he is assumed to take his tax-free lump sum (and spend it immediately) and buy a level annuity with the remainder at age 55. The alternative shown is if he has some other form of income between the ages of 55 and 65 (not modelled) and then buys a level annuity at age 65 with his pension pot.

These outcomes are compared to a scenario in which the individual stays in work and contributes to his private pension until age 65. Stopping work early therefore reduces his private pension by missing out on additional years of contributions and by spreading this smaller pot over more years in retirement.

He is contracted in to Additional Pension throughout his career (SERPS until 2001/02, followed by State Second Pension). In both retirement scenarios he receives a full single-tier pension plus a protected payment.

The measures of pension-age income follow the replacement rate methodology as used in the recent DWP study on measuring pension adequacy (see DWP, 2013<sup>lxvii</sup>). Average pension-age income is taken as mean income from State Pension age only and not the age of leaving the labour market. Income includes State Pension and private pension incomes, but does not consider any income-related benefits the individual may be eligible for.

## G: Methodology for benefit statistics

For each individual benefit, a time series of working-age benefit claimants by age is taken from DWP's tabulation tool (<http://tabulation-tool.dwp.gov.uk/100pc/tabtool.html>) along with a time series of average amount of benefit by age. These are multiplied to give the estimated expenditure for each age group for each quarter. The quarters are averaged to get caseloads and expenditure per year, and figures for those aged 50 to State Pension age are taken as a proportion of the total.

To ensure consistency with published figures for claimants and expenditure in each year, these proportions are then combined with working-age totals as published in the benefit expenditure and caseload tables for Autumn Statement 2013 (available at: <https://www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2013>).

Since it is possible for claimants to be in receipt of more than one of the out-of-work benefits shown (for example, Income Support and Incapacity Benefit), the total caseload figure shown is the average of four quarters of the working-age benefit combination statistics on the tabulation tool. Total expenditure is however the sum of spending on each benefit.

## H: Methodology for macroeconomic modelling

Modelling the macroeconomic effect of fuller working lives has the following process: employment assumptions are fed into a model of income tax and National Insurance contribution revenues, and additional employment earnings are used to give an estimate of the size of the impact on overall economic output.

### **Employment:**

Population projections of men and women by each year of age are taken from the Office for National Statistics (ONS) mid-2012 estimates. Participation, employment and unemployment rates for 50-64-year-olds (again split by gender and age) are taken from the Labour Force Survey.

The scenario shown halves the difference in employment rates (separated by gender) between each year of age and the average of 45-49-year-olds, for those aged 50-SPa (State Pension age is approximated at 61 for women in 2013). For example, the average employment rate for 45-49-year-old women used in the model was 79.1 per cent and for 50 year olds was 78.7 per cent, so the scenario assumes a new employment rate for this group of 78.9 per cent.

### **Taxation:**

In the Fiscal Sustainability Report 2013<sup>lxxvii</sup>, the Office for Budget Responsibility analysed the impact of changing participation rates for workers aged 65 and over. The modelling presented here follows the same approach: median tax rates and incomes for 50-64-year-olds (from the Survey of Personal Incomes) are combined with increased employment levels for this age group to estimate the increase in tax receipts. The same method is used for calculating National Insurance (NI) contributions, except that employees and the self-employed are separated to reflect lower level of NI contributions paid by the self-employed.

The additional individuals employed are assumed to have the same average tax rate and income as those already in work and the same likelihood of being self-employed. It is also modelling a 'partial equilibrium' effect that occurs in that year: we do not consider any knock-on impacts, for example on consumer spending (and therefore indirect tax revenues) or other effects on the fiscal budget such as lower benefit spending or interest payments on government debt. No effects occur in subsequent time periods, so there is an immediate change to a new equilibrium, all other things being equal.

**GDP:**

The estimate of the effect on GDP follows the method used by DWP in published Impact Assessments for increases to State Pension age<sup>lxxviii</sup>.

In the ONS Blue Book (which details the national accounts in each year), income from employment is shown to be around 60 per cent of Gross Value Added (which is GDP minus taxes net of subsidies). Therefore this relationship is used to approximate the increase in GDP: dividing the increase in employment income by 60 per cent to give the change in output.

It implicitly assumes that the other 40 per cent of Gross Value Added (GVA) – mainly profit – increases at the same rate as earnings in order to keep earnings and profit the same proportions of GVA as before. If we were to assume that there is no change to profit, earnings would become a greater proportion of GVA than 60 per cent.

## Contact

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Out of hours: 0203 267 5144

Website: <https://www.gov.uk>

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**Other enquiries** about these statistics should be directed to:

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