



# Ageing and Employment Policies

## Working Better with Age

### Overview





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## OVERVIEW



# Foreword

Never in history have people lived as long as they live today, mostly in good health. At the same time, people have fewer children than ever before and birth rates continue to fall or remain at low levels. As a result, region after region and country after country is facing an unprecedented shift in the age structure of its population. The timing and extent of ageing differs across countries, but the development is widespread.

Rapid population ageing requires a continuous and comprehensive policy response. To address its challenges while embracing its opportunities, policymakers across the OECD must should provide people with better incentives and choices to work at an older age. This will ensure that the benefits of longer, healthier lives are fully realised, while delivering continued improvements in living standards and the sustainability of higher public finances. Over the past decade, significant policy efforts have been made to foster employability, job mobility and labour demand, yet many older workers continue to struggle to keep their skills up to date, have limited access to good-quality jobs and risk facing an inadequate pension in old age because of short and unstable working careers.

This report summarises the main challenges and good country practices to improve the employment prospects of people at an older age, ensure that the benefits of longer life expectancy are shared more fairly and that sustainable pension systems deliver decent incomes in retirement. It draws on key lessons from nine *OECD Working Better with Age* country case studies, covering Denmark, France, Netherlands, Norway, Japan, Korea, Poland, Switzerland and United States, as well as a series of country notes prepared for other OECD countries. See <http://www.oecd.org/employment/ageingandemploymentpolicies.htm>.

The overarching conclusion of this report is that broad-based action is required across three main policy areas, involving governments, the social

partners and civil society. First, governments should improve incentives to continue working at an older age by removing penalties to later retirement and providing more flexible work/retirement options. Second, in cooperation with the social partners, job opportunities for older workers must be enhanced by removing employer disincentives and barriers to the retention and hiring of older workers and promoting good management practices for age-diverse workplaces. Finally, the employability of older workers should be strengthened through better working conditions and training opportunities throughout working careers. This life-course approach will be crucial to avoid accumulation over time of individual disadvantages that would require costly and often ineffective interventions at a later stage.

With better policies, population ageing can go hand in hand with longer, more fulfilling and prosperous lives where work at an older age in good quality jobs is both promoted and valued.



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# Executive Summary

OECD countries are ageing rapidly. If no action is taken to improve the labour market situation of older workers, this could put a brake on further improvements in living standards and lead to unsustainable increases in social expenditures. Across the OECD, the median age of the population is projected to increase from 40 years today to 45 years in the mid-2050s, and the ratio of older people aged 65 and over to people of working age (15-64) is projected to rise from 1 in 4 in 2018 to 2 in 5 in 2050.

Thanks to increases in life expectancy and policy reforms across the OECD, older people (aged 55-64) are more active in the labour market than ever before. During the past decade, their labour force participation rose by 8 percentage points to reach 64% on average in the OECD in 2018. However, there is no time for complacency: progress in participation rates remains uneven, and in virtually all countries the effective age at which people exit the labour market is still lower today than it was 30 years ago, despite higher remaining years of life.

Greater efforts are required to promote the labour market inclusion of 55-64 year-olds in countries that lag behind, but also strengthening working lives beyond the age of 65, especially where participation rates of those aged 55-64 are already high. A major challenge in most OECD countries will be to narrow gender gaps in labour-market activity, which in some cases are large and persistent. Last but not least, in some emerging economies, a key challenge will be to ensure a smooth transition of young cohorts into the labour market to prevent accumulation of disadvantages that prevent or discourage working at an older age.

Reducing incentives to retire early and rewarding employment at an older age to deliver longer working lives have been at the heart of the policy agenda in many OECD countries. Statutory retirement ages have increased in many countries where the “age 67” has become the “new 65” and

several OECD countries are going even further. But it is not sufficient just to improve the incentives for older people to continue working longer; they must also have better opportunities to do so. Thus, a key issue for more inclusive ageing and employment policies is to encourage employers to hire and retain older workers in better jobs.

In recent years, policy makers across the OECD have devoted greater attention to, and undertaken a number of, reforms to boost labour demand of older workers, but more can be done. Sadly, age discrimination and negative employer attitudes towards older workers continue to hinder longer working lives in all OECD countries. Further sustained and determined efforts are needed not only to better enforce anti-discriminatory legislation but also a move away from seniority-based practices for setting wages and age-based hiring and dismissal rules. In addition, all employers including those in small and medium-sized enterprises should be given guidance and greater encouragement to manage an age-diverse workforce in an efficient way that allows all workers to stay longer in employment and maintain or increase their productivity.

Promoting the employability of workers throughout their working lives – with a view to enhancing employment opportunities at an older age – is also a key requirement for longer, rewarding careers. In the context of population ageing, mobilising the potential labour force more fully and sustaining high productivity at an older age are critical. This in turn requires a healthy workforce with up-to-date skills.

However, the limited training opportunities given to older workers across OECD countries make it difficult for them to stay in their existing jobs or find a new one. Currently, on average, a third of 55-to-65 year-olds have no computer skills or experience and only one in ten were assessed as having medium to good problem-solving skills in a technology-rich environment (i.e. solving problems in a simulated internet environment). Moreover, across

the OECD, older adults and the low skilled more generally participate far less in training than their younger and more skilled colleagues. Ensuring that older people maintain their employability and have access to better employment choices will help them to navigate a labour market that will increasingly involve adaptation to changes in jobs and skill requirements.

According to the OECD *Job Quality Framework*, the quality of working conditions is higher on average for older workers than for their younger counterparts. Nevertheless, more than one in four older workers experience job strain as measured by the difference between the demands of their jobs (such as tight deadlines) and the resources available to them to handle these demands (such as good supervision). Working conditions should be adapted to the capacities and changes in circumstances of older workers. Businesses together with policies and institutions can strengthen and better enforce safety-at-work regulations and promote well-being at work, in particular for older workers.

This report identifies what further measures could be taken to promote more and better jobs for older workers. This includes taking action in three key areas: i) rewarding work and later retirement; ii) encouraging employers to retain and hire older workers; and iii) promoting the employability of workers throughout their working lives.



# OVERVIEW: Better and more opportunities to work at an older age

## ABSTRACT

Populations in OECD countries are set to become significantly older over the coming decades. However with the right policies in place, these challenges can be turned into opportunities for more inclusive growth and higher well-being by extending working lives and making better use of older people's knowledge and skills.

## Population ageing is a major challenge for sustaining economic growth and well-being

Population ageing has already pushed the average median age of the population above 40 in many OECD countries, which is projected to increase still further over the next three decades to around 45 on average. Consequently, the old-age dependency ratio (the ratio of the population aged 65+ over to the population aged 15-64) for the OECD area is projected to increase from 26% in 2018 to 43% in 2050. Populations in emerging economies, that are currently relatively young, will age even more rapidly.

The fact that people are living longer is a great achievement. But demographic change on such a significant scale will require concerted policy action. If nothing is done to change existing work and retirement patterns, the average number of “retirees” per 100 workers (i.e. persons aged 50 and over who are not in the labour force) in OECD countries is projected to rise from 42 in 2018 to more than 58 in 2050, and even rise to more than 100 in some of the oldest OECD countries. This will weigh heavily on future increases in economic prosperity and put severe strain on public finances. Population ageing may also widen inequalities later in life as disparities in employment, earnings and health continue to build up over the life course.

However, nothing is pre-determined; with the right policies, it is possible to address these challenges by extending working lives and making better use of older workers’ knowledge and skills. Better utilising the talents of all people whether young or old in quality jobs remains a key engine for inclusive growth and higher well-being.

## People are working longer but progress is uneven

The good news is that almost everywhere people are finding more opportunities to work at an older age and extend their working lives. Over the decade to 2018, the labour force participation rate of 55-64 year-olds rose by nearly 8 percentage points on average in the OECD area despite the deep, and in some countries protracted, global financial crisis. Governments and policymakers across the OECD have taken steps to promote employment at an older age, contributing to a rise in the effective age at which people exit the labour market by around two and a half years on average in the OECD area over the past 10 years.

Yet progress remains uneven: participation rates for 55-64 year-olds vary from less than 50% in countries such as Poland, Slovenia, Greece and Turkey to more than 70% in Iceland, Sweden and New Zealand. While the average effective retirement age has risen in almost all OECD countries since the late 1990s, it is still below its level in 1980 in most of them. Therefore, there remains considerable scope for further improvement in many countries. But raising the participation of older people will not be sufficient to ensure that population ageing goes hand-in-hand with higher living standards. In many countries, much more needs to be done to mobilise untapped sources of employment including prime-age women, the low-skilled and migrants.

## A comprehensive approach is required to boost employment at an older age and dampen any negative economic impact of ageing

Tackling the labour market challenges arising from demographic change requires a comprehensive approach, involving governments, employers, labour representatives and civil society. The foundation of this approach must be to promote good quality employment opportunities for both men and women at all ages. Much of the policy focus to deliver longer working lives has been on reducing incentives to retire early and rewarding longer working lives, but sustained efforts are also needed to tackle demand-side barriers – we need workers who want to work longer, but also employers who want to employ them.

Therefore, the OECD Council recommendation on Ageing and Employment adopted in 2015 puts forward an age-friendly agenda in three broad policy areas to promote employment at an older age. This includes: 1) improving incentives to work at an older age; 2) tackling employer barriers to hiring and retaining older workers; and 3) improving the employability of older people through a lifecycle approach.

Drawing on the OECD’s nine case studies in the series *Working Better with Age*, as well as a series of country notes on ageing and employment policies<sup>1</sup>, several lessons and good practices can be identified to respond to current and looming demographic challenges.

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1. See: <http://www.oecd.org/employment/ageingandemploymentpolicies.htm>.



Starting off well in the labour market is crucial for ensuring greater labour market attachment and better employment outcomes at an older age

Rising inequalities together with the changing nature of work mean that young people (i.e. the future elderly) will experience old age in much more varied ways than previous generations. Many will live longer than those in previous generations, but with wide socio-economic disparities, due to more unstable labour market conditions and widening inequalities in the distribution of earnings and household income. These growing disparities in labour market conditions may result in higher risk

of poverty in retirement in the future and could also jeopardise the move towards longer and more productive working lives.

The combination of ageing and growing inequalities is particularly challenging for countries with younger populations but also for some countries facing persistently high rates of youth unemployment and inactivity. Pushing ahead with reforms to improve youth labour market outcomes is therefore essential. Taking a lifecycle perspective, as recommended in the new *OECD Job Strategy* (OECD, 2018) and *Preventing Ageing Unequally* (OECD, 2017) can help ensure that countries are better prepared for rapid population ageing by putting in place measures to improve the health and skills of adults throughout their working lives.

## Don't stop me now: Rewarding work and later retirement

Changing the financial incentives embedded in pension systems and other welfare benefits can play an important role in strengthening work incentives and enabling more people to work at higher ages. One trend common to many countries has been to increase the statutory retirement age in public pension systems and many countries have taken steps to align them for men and women. Despite some backtracking in recent years in some countries, there is nevertheless a growing trend in OECD countries to link the statutory retirement age to life expectancy, and the value of pension entitlements, as a means of ensuring the financial sustainability of public pension systems in the future. Thanks to rising life expectancy, men and women can still expect to spend between one-fifth and a quarter of their lives or more in retirement despite working longer.

Perhaps one of the biggest policy changes across the OECD has been the reversal of early retirement pathways that were a key driver for early labour market exit in the 1980s and 1990s. Nevertheless, countries must continue to pursue efforts to close-off early retirement pathways. In most countries, many workers still retire well before the official age of retirement. In the period 2013-2018, a quarter of men retired at 54 or below in Turkey and Luxembourg. Moreover, in several countries, older unemployed people can receive unemployment benefits for a longer period than younger ones and sometimes until the retirement age. Good practice across the OECD shows that, in general, countries should move away from entitlement criteria to non-pension welfare benefits that are explicitly based on age, as these rules can reinforce damaging stereotypes and social norms about older workers and do not reflect the diversity of labour market situations that they face.

In recognition of both financing challenges and diverse wishes among workers, more flexible forms of retirement have gained growing policy interest in many OECD countries. Some countries have made it easier to combine receipt of pensions with work income without facing punitive marginal tax rates while others introduced pension bonuses for those who opt to work beyond the statutory retirement age. However, in most countries, combining work and pensions is still uncommon, and available options are either poorly understood or unattractive. Therefore, more could be done to develop and promote *phased* retirement schemes but they should be designed with care to prevent subsidisation of

part-time work or even early withdrawal from work, which may reduce rather than raise the effective labour supply of older people. At the same time, providing transparent and reliable information on the benefits workers can expect to receive under different scenarios concerning when and how they retire (completely or partially) can help them plan ahead.

## Getting employers on board

A major challenge facing all OECD countries is to enhance job mobility of older workers who lose their jobs or wish to change jobs. While employers across the OECD have shown greater willingness to retain older workers, their willingness to hire older workers has hardly changed in the last decade.

Several factors discourage employers from hiring and retaining older workers, especially the most vulnerable among them. First, older workers tend to be more expensive for employers. On average in the OECD, ten additional years of job tenure with the current employer increase wages by nearly 6%. Tenure effects are particularly large in countries such as Korea, Turkey and Japan. Levers for action available to public authorities in terms of fixing wages that match better the costs of employing (older) workers with their productivity are limited, as wage policy is determined primarily by the social partners. However, in some countries such as Finland and Hungary, public authorities have served as role models to limit automatic rises in salary with tenure. Countries have also sought to reduce other seniority-based entitlements that raise the non-wage costs of older workers (e.g. the number of holidays, exemptions for arduous work or shift-work, etc.). The social partners have also been active in some countries in promoting wage setting policies linked more closely to performance.

Second, policies that penalise firms for laying-off older workers can reduce hiring rates of older workers. In this regard, special, age-specific, employment protection rules can be counterproductive. Firms may also seek to avoid these penalties through various early retirement arrangements. Nowadays, very few OECD countries have explicit age-specific employment protection measures but in many, laying off older workers can be administratively more complex (e.g. because notice periods increase with tenure) or create significant additional costs for employers in the form of higher severance pay. Easing employment protection legislation for permanent contracts while seeking to strengthen income and (re-)employment support for workers who do become unemployed have shown to be the most effective ways to



safeguard the interests of workers without hurting their employment prospects.

Finally, concerns around productivity of older workers may also fuel age discrimination and negative employer attitudes in hiring decisions. Age discrimination is banned by legislation in virtually all OECD countries. Yet, perceptions of age discrimination remain very common. In general, in OECD countries, laws against age discrimination have only a limited impact on changing deeply-rooted workplace culture linked to age, as legal action remains costly, complex and time-consuming. Technological advancement may offer hope in this context. For example, the French *Public Employment service (Pôle emploi)* is now using aptitude test as a way of selecting candidates for employer interviews to help overcome the *ageism* bias in hiring.

It is also crucial that legal rules are complemented by other initiatives to promote age diversity that can help improve worker productivity. A number of promising initiatives have flourished in this area, but their implementation remains low, particularly in Small and Medium-sized Enterprises (SMEs). In particular, there is still room for improvement in sharing information on good practices and tools designed to support the development of age-management strategies. However, general guidelines for age management have their limitations because of the heterogeneity of older workers as well as the more limited strategic human resources management capacities of SMEs. Guidelines and specialist help should, therefore, to take into account the different management styles and conditions of companies of different size.

## Investing in lifelong learning

The digital transformation is generating deep and rapid changes in the labour market. Many existing jobs will be overhauled and new ones will be created. Adapting to changing skills needs requires a massive effort to skill and re-skilling workers, which in turn requires well-adapted and well-funded adult learning systems. Older workers may be potentially more exposed to the risk of skills obsolescence and therefore maintaining their employability requires a special focus to help them navigate a labour market that will increasingly require adaptation of skills and job changes.

Unfortunately, many older people exhibit lower levels of digital readiness than their children and grandchildren, and they participate less in job-related training than younger workers. The large training gap between older and younger people continues to persist even in some of the top performing OECD

countries, including Germany Canada and France where they exceed 25 percentage points. They are the lowest in Italy and the United States, where they are below 17 percentage points.

To encourage employers to invest in training for older employees, some countries have embarked on initiatives to reduce the cost of training older workers relative to other employees. Evaluations of the *WeGebAU* programme in Germany, which targets to support the training of low-skilled and older workers show that such programmes can keep older workers at work for longer. At the same time, countries are increasingly doing more to increase the interest and motivation of older adults to invest in their own skills. In this regard, several countries (e.g. Australia and Korea) offer targeted career advice and guidance services to help older adults understand the benefits of learning and make informed decisions about their investment in further skill development. Finally, many countries are deploying programmes that recognise existing skills through validation and certification to boost participation of older workers in training.

## Ensuring job loss for older workers is not the prelude to early labour market exit

Job loss can be particularly damaging when it occurs at an older age. For older unemployed workers finding a job has remained difficult as demonstrated by their rising share in long-term unemployment. Recent evidence on the effectiveness of different types of active labour market programmes covering OECD and non-OECD countries suggests that a package of placement, training and counselling measures targeted at disadvantaged older workers may be more effective than wage subsidies alone. In particular, the results of the [OECD Faces of Joblessness studies](#) reinforce the importance of tailoring the services offered to the circumstance of individual jobseekers, rather than to, say, different age groups. In recognition of the diverse circumstances of older jobseekers, some countries are making greater use of personalised action plans together with targeted group activities for older workers.

## Better job quality and health for longer working lives

Longer working lives can only be delivered if people are in good health and fit to work at an older age. According to the *OECD Job Quality Framework*, the quality of working conditions is higher for older workers than their younger colleagues.

Nevertheless, more than one in four experience job strain as measured by the difference between job demands and job resources. In particular, long working hours may deter some older people from working longer and prevent some women, returning from child-rearing breaks, and pursuing longer work careers.

A number of policy initiatives have been taken in recent years to ensure that work-related health problems do not result in permanent withdrawal from the labour market. In many OECD countries, these concerns are addressed through toolkits and guidance materials for employers on how to deal with health issues when they emerge. While others have gone further by taking a more joined-up approach to improving health at work through a range of preventative measures such as obligatory psychosocial risk assessment of working practices (e.g. Denmark) or the use of financial incentives to improve working conditions such as experience-rating (e.g. United States). In the United Kingdom, a national occupational health advice services is set up to improve the capacity of small and medium-sized businesses to deal effectively with health issues.

Helping workers move out of arduous occupations is particularly difficult. A few countries (e.g. in Belgium and France) have shown that it can be encouraged, through retraining and providing alternative job opportunities and by ensuring that workers do not get sick or develop longer-term disabilities on the job. The Swedish government has given the Swedish Work Environment Authority a mandate to develop special measures to prevent forced early workforce exit due to heavy workload or inappropriate working postures in the health sector.

## References

OECD (2018), *Good Jobs for All in a Changing World of Work: The OECD Jobs Strategy*, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264308817-en>.

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## Policy Recommendations

In recognising, the need for action, OECD member countries adopted the Council Recommendation on Ageing and Employment in 2015. These recommendations build on countries' reform experiences and can be summarised in three broad areas, namely:

### Rewarding work and later retirement

- Enhance incentives to continue working at an older age by ensuring that: i) the old-age pension system encourages and rewards later retirement in line with increased life expectancy; and ii) by encouraging longer and more satisfying careers through more flexibility in work-retirement transitions.
- Restrict the use of publicly funded early-retirement schemes which encourage workers to leave employment while they are still in good health and able to work.
- Discourage or further restrict mandatory retirement by employers in close consultation and collaboration with employers and worker's representatives.
- Ensure access to welfare benefits, such as unemployment and disability benefits whilst reducing incentives for early retirement for those still able to work.

### Encouraging employers to retain and hire older workers

- Address age discrimination in recruitment, promotion, and retaining workers through adoption of legislation and adequate enforcement.
- Seek a better match between the labour cost and the productivity of older workers, and eliminate special employment protection and unemployment benefit rules for older workers.
- Inspire social partners by reviewing their practices in setting pay to reflect productivity and competences, not age.
- Encourage good practice by employers in managing an age-diverse workforce through public and private initiatives that provide guidance on work organisation, training, health measures, and working time policies to changing capacities of workers and their family responsibilities over their life course.

### Promoting the employability of workers throughout their working lives

- Improve access to lifelong learning, especially for low-skilled and older workers; and better recognise skills acquired throughout working lives.
- Improve working conditions and job quality at all ages through a range of measures including: i) better regulations on working-time and safety at work; ii) promotion of healthy working conditions; iii) implementation of well-designed sickness schemes; and iv) improving the role of labour inspection bodies and occupational health care services.
- Limit the impact of job loss by providing effective employment assistance via a package of counselling and training measures targeted at those most at risk of long-term joblessness.

**For more information**

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