Impact of the recession on age management policies: United Kingdom
Labour market developments and the ageing workforce

Employment rates
Throughout the past decade, the United Kingdom (UK) labour market has maintained relatively high employment rates compared to the EU27 average (Figure 1). Until 2008, unemployment rates were lower in the UK than the EU27 average among all age groups (15–24, 25–49 and 50–64 years). However, by the third quarter of 2008, the unemployment rate for 15–24 years in the UK surpassed the EU27 average, while remaining below the EU27 average for workers aged 25–49 and 50–64 (see Figure 1). Average annual gross domestic product (GDP) growth was 2.3% between 1990 and 2008 (Department for Business, Innovation and Skills, 2010). Throughout this period, the services sector has been dominant in terms of share of UK GDP. Also, in 2005, the UK had the highest proportion of its workforce employed in the services sector among EU27 Member States (Alajääskö, 2008).\footnote{The services sector includes organisations classified within NACE Rev. 1.1 Sections G to I and K: ‘Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods’ (NACE G), ‘Hotels and restaurants’ (NACE H), ‘Transport, storage and communication’ (NACE I) and ‘Real estate, renting and business activities’ (NACE K).}

Public sector employment also accounts for a substantial share of the UK labour market; about one-fifth of the UK workforce is employed in the public sector.\footnote{The National Health Service is the main contributor to the public sector employment.} In 2010, 20.7% (6 million) of all in employment were employed in the public sector in the UK, while 79.3% (23.1 million) were employed in the private sector (ONS, 2011a).\footnote{Numbers are seasonally adjusted. Also, data refer only to the non-financial business economy.}

Figure 1: Unemployment in the UK and EU27 by age group, 2001–2010 (%)
Impact of education on employment

Within the UK, labour market experiences differ by education, age and sex. Generally, workers across all education levels have higher employment rates in the UK compared to the EU27 average (Figure 2). However, employment rates have fallen for UK workers across all education levels over the past decade. The largest drop was for those with the least education (levels 0–2 as defined by UNESCO’s International Standard Classification of Education, ISCED 1997), between 2007 and the third quarter of 2008, falling from 60.9% to 51.4% employed. In contrast, though slight, only those with education levels 5–6 experienced an increase in employment rates between 2009 and 2010, from 81.04% to 81.4% employed. As elsewhere, employment rates are higher for better educated workers (ISCED 5–6) (see Figure 2).

Figure 2: Employment in the UK and EU27 by education level, 2001–2010 (%)

Between 2001 and 2006, public spending on education increased from 4.6% to 5.4% of GDP. During this period, the UK government developed policies to support skills training and development in the UK workforce. Alongside this, the number in the workforce with high-level qualifications rose by more than 44% and the number in the workforce without any qualifications fell by 26% (UK Commission for Employment and Skills, 2010). Nevertheless, a rise in skills levels has not alleviated concerns about a skills shortage for employers in the UK. Approximately 80% of employers in the UK experience recruitment difficulties (Cranfield School of Management, 2007 in Parry, 2008). The National Employer Skills Survey for England concluded that, among employers in England specifically, the proportion with staff not fully proficient at their jobs fell between 2003 and 2007 (from 22% to 15%) but then rose from 15% to 19% in 2009 (see also Shury, Winterbotham et al, 2010).

Employment by age and gender

Labour market patterns also vary with workers’ age and sex; in the last decade, employment rates have been particularly volatile for younger workers and for men. Men’s employment rates rose between 2001 and 2007, and then fell sharply between 2007 and 2009, before appearing to stabilise between 2009 and 2010 (Figure 1). Younger workers aged 15–24 years experienced the greatest decline in employment rates between the third quarter of 2008 and the third quarter of
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2009. For example, the employment rate for workers aged 20–24 fell by 4.8 percentage points (Figure 5). There has been some recovery in employment for younger workers below 30 years from 2009 to 2010; again with the greatest change in employment rate experienced by those aged 20–24, where the employment rate rose by 2.2 percentage points.

In contrast, older workers in the UK fared relatively better than the EU27 average throughout the past decade in terms of overall employment rates. The number of individuals aged 65 years and older in both full- and part-time employment, and their proportion of the total workforce, has been increasing. In the last quarter of 2010, workers 65 years and older made up 3% of all workers in the UK (870,000 workers); in the first quarter of 2001, they only made up 1.5% (412,000 workers). Older workers have also tended to stay with the same job; in the last quarter of 2010, 83% of workers aged 65 and above were continuously employed in the same job – or in their self-employed posts – for five years or more. The employment rate rose by 1.5 percentage points for those 65–69 years from 2008–2009 (Figure 5), the peak recession years, and has doubled over the last decade from 10% to 20%. According to data from the Office for National Statistics (ONS), those aged over 65 accounted for nearly half of net employment growth in the UK during 2010 (ONS, 2011d).

Employment rates also increased for those aged 55–59 years from the third quarter of 2008 to the third quarter of 2010, increasing from 70.1% to 71.1% in the UK. This rise can mostly be attributed to an increase in the female employment rate, as the employment rate for men aged 55–59 years fell during this period from 76.7% to 75.6% (Figure 3). Generally, women’s employment rates have been more stable than men’s over the past decade, particularly during the 2008–2010 period. Women’s employment rates have also tended to stay with the same job; in the last quarter of 2010, 83% of women aged 65 and above were continuously employed in the same job – or in their self-employed posts – for five years or more. The employment rate for those in the 65–69 age group actually increased in the two years since 2008. The greatest increase in employment was experienced by women in the 65–69 age group (increasing by 2.5 percentage points between the third quarters of 2008 and 2009 alone). This increase for women aged 65–69 years diverges from the EU27 average, where the employment rate rose only by 0.4 percentage points from 2008 to 2010 (Figure 4). In contrast, younger women were negatively affected in the two years since the 2008 recession; in particular, the employment rate for women aged 15–19 years fell by 5.5 percentage points between the third quarter of 2008 and 2010.

Figure 3: Men’s employment in the UK and EU27 by age group, 2001–2010 (%)

Source: Eurostat

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Figure 4: Women’s employment in the UK and EU27 by age group, 2001–2010 (%)

Source: Eurostat

Figure 5: Employment in the UK and EU27 by age group, 2001–2010 (%)

Source: Eurostat
Old-age dependency ratio
Looking to the future, employment patterns for older and younger workers in the UK are likely to be affected by a projected decline in the size of the working age population relative to the number of people above 65 years (Figure 6). The number of people above 65 years relative to the working age population has been rising since the 1970s. From 1971 to 2007, the number of people over 65 years grew by 31% (to 16% of the population, 9.7 million people) while the population below 16 years fell by 19% to 11.5 million people (to 19% of the population) (Parry, 2008). Changes in the old-age dependency ratio in the UK from 2001 to 2006 were consistent with the EU27 average. However, the scale of the projected rise in old-age dependency ratios varies considerably across the EU27, with the UK experiencing a much lower increase in the proportion of people over 65 years compared to the number in the working age population. Future labour supply will also be affected by the participation rates of older workers who are still below state pension age. Traditionally, as elsewhere, workforce participation has been low for both men and women aged between 50 years and the state pension age, relative to other age groups. In 1993, 59% of women and 65% of men in this age range participated in the workforce. However, this proportion has been increasing, rising to 67% of women and 72% of men by 2004 (ibid). Although overall employment rates for older workers are higher for men, men are also more likely than women to retire early. Retirement before state pension age is more common among men than women in the UK; only 6.6% of women aged 55–59 years were in retirement in April–June 2009 while 19.2% of men were in retirement between the ages of 60 and 64 years (ONS, 2009).

Figure 6: Current and forecast old-age dependency ratio in the UK and EU27, 2001–2040

Role of the pension system
Also affecting future labour supply are employment rates among those above state pension age (in 2010, state pension age was 60 years for women, and 65 years for men) (Figures 3 and 4). The average age for labour market exit rose for women from 60.7 years in 1984 to 62.4 years in April–June 2009, rising above the state pension age for women. For men, the average age of leaving the workforce remains below state pension age; it fluctuated around 63–64 years, before appearing to stabilise at the age of 64.1 in 2008 and 2009 (Figure 7). Workers’ transition to retirement in the UK has often been accompanied by a shift from full- to part-time work. The majority of both men and women employed after state pension age are part-time workers (ONS, 2009). In the UK overall 30.4% of those aged 50 to state pension age are in part-time work, while the proportion of the total working age population in this type of work is 24.3%.

Encouraging age diversity in the workforce
Workforce ageing has been on the policy agenda in the UK throughout the 2000s. Responding to and supporting an ageing workforce was on the 1997, 2001 and 2005 Labour government’s policy agenda (Cabinet Office, 2000; House of Lords, Select Committee on Economic Affairs, 2003). A report by the Cabinet Office’s Performance and Innovation Unit in 2000 recommended developing a vision of the role/value of older people, and also suggested that each civil service department review the case for increasing its retirement age to 65 years (Taylor, 2007). The 2005 Labour government priorities included achieving higher employment rates overall and greater flexibility for over-50 year-olds in continuing careers, managing any health conditions and combining work with family (and other) commitments (HM Government, 2005, p. xv). Concerns about an ageing workforce have been taken up by the coalition government in the UK, elected in 2010. Under the coalition government, the Department for Work and Pensions (DWP) acknowledges that society is ageing, and continues to promote the ‘Age Positive’ initiative to encourage age diversity in the workforce; this includes providing employers with information and advice on recruiting, training and retaining older workers.4

Laws and regulations shaping labour market experience
All age management policies must abide by UK anti-discrimination legislation. UK age equality legislation for employment and vocational training was introduced with the Employment Equality (Age) Regulations in 2006, and became law through the Equality Act (2010) in October 2010. The Equality Act 2010, which harmonises UK anti-discrimination legislation, bans age discrimination in recruitment, promotion and training, bans unjustified retirement

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ages below 65 years, and removes the age limit for unfair dismissal and redundancy rights. Age is a protected characteristic in the act (including reference to a person of a particular age or range of ages), and differential treatment based on age is only justified and not considered direct discrimination in the act only if it is proportionate to meeting a legitimate aim. The government is still considering provisions on age discrimination in services and public functions.

Within this framework, specific policy changes have taken place in response to labour market concerns, including some of particular relevance to older workers, such as changes to the default retirement age, pension schemes, incapacity benefits and back-to-work schemes. These developments are aimed at encouraging individuals to return to work, and/or to stay in the workforce longer. The default retirement age is the legal right for employers to retire employees at a certain age (in the UK, this was 65 years) without a specific reason. A default retirement age was first provided for in 2006 with the Employment Equality (Age) Regulations, which made compulsory retirement at ages earlier than 65 years unlawful unless objectively justified and also provided a statutory right for employees to request later retirement. In January 2011, after a six-month consultation period, the government announced the default retirement age would be phased out, to encourage individuals to work longer. From 6 April 2011, employers could no longer issue notifications of retirement using the default retirement age procedure and from 1 October 2011 they can no longer compulsorily retire employees, unless objectively justified; an employer would have to demonstrate that dismissal was not unlawful in an employment tribunal. These changes do not alter state pension age and entitlements (BIS, 2011).

Reform of pension policy

Also in the 2000s, the government altered state pension policies, with a similar aim of encouraging a longer working life. The UK has a two-tier pension system: a flat rate basic pension and an earnings-related additional pension, as well as a large voluntary private pension sector. To qualify for the basic state pension, individuals must pay in, be treated as having paid social security contributions, or have credits for 90% of their potential working lives. Most employee contributors choose to contract out of the state second tier into private pensions (OECD, 2009), and have changed to defined contribution provision of pension plans. Income-related benefit (pension credit) targets extra spending on the poorest pensioners (ibid). The pension credit was introduced in 2003 as a tax-free weekly benefit to those aged 60 years and above or living on low incomes; it ensures all pensioners receive a base-level income not based on national insurance contributions. There is no option in the UK for the public pension to be paid before retirement age (ibid).

As of January 2011, the pension age in the UK was 60 years for women born on or before April 1950 and 65 years for men. This is to be gradually equalised over the period 2010–2020. The 2007 Pension Act provided for an increase in the state pension age for men and women to 66 years between 2024 and 2028, to 67 years between 2034 and 2036, and to 68 years between 2044 and 2046. In 2011, further changes to the pension age require that from 2018 women must be 65 years to receive a pension, equal to men; in 2020, the pension age will then increase to 66 years for both men and women.

Also to encourage later working, policies introduced in the 2000s have encouraged workers to defer receipt of the state pension. Until April 2005, individuals could defer the state pension for up to five years after state pension age, earning an increment of 7.4% for each year earned. The time limit on deferring the pension was removed in April 2005; from then, the increment increased to 10.4% approximately for each year deferred. Individuals can also receive a taxable lump


The default retirement age is not linked to the state pension age. State pension age is the age that individuals can start to receive a state pension. Until April 2010, it was 60 years for women, and 65 years for men, while the default retirement age was 65 years for both women and men (UK central government, 2011).
sum if the deferral has been for at least 12 consecutive months (OECD, 2009). Finally, the 2011 Pensions Bill suggests further implications for revising the pension system in the UK by moving forward the increase in state pension age to 66 years, reviewing automatic enrolment into workplace pensions, measures of inflation and contributions to public sector pensions (DWP, 2011b).

**Reform of employment and support allowance**

Incapacity benefits and back-to-work schemes have also been relevant to employment opportunities and experiences for older workers in the UK. Though not specifically aimed at a particular age group, incapacity benefits can have particular implications for the employment status and possibilities for older workers. The Office of National Statistics in the UK finds that 48.5% of individuals claiming Incapacity Benefit (IB) or Severe Disablement Allowance in the UK are aged 50 or above (DWP, 2011a). From October 2008, the Employment and Support Allowance (ESA) was put in place to address incapacity. Its aim was to consider individuals’ ability to work rather than determine entitlement for incapacity. When the ESA was introduced, half of IB claimants were over 50 years. Unlike previous IB benefits, after the assessment phase, the ESA pays the same rate to everybody regardless of age. The only difference in payments for older workers is gender based, linked to the different state pension age for men and women. The ESA cannot be claimed after an individual reaches state pension age; thus women above 60 years cannot claim benefits, while men can claim until 65 years. This difference will be gradually eliminated with state pension age reforms. In 2010, the ESA reform was subject to independent review by Professor Malcolm Harrington, completed in November 2010; this review recommended making the process more understandable and transparent.

**Social partner role**

Social partners, particularly those representing trade unions and employers have focused on two key policy areas with relation to an ageing workforce and managing older workers: pensions and a default retirement age. Trade unions have been particularly active in discussing changes to the pension system, and implications for older workers. The Trades Union Congress (TUC) in the UK, representing 58 unions and about 6.5 million workers, is one of the nationally representative organisations of trade unions in the UK. Its priority for older workers has been to promote the opportunity for workers to be able to retire and maintain an adequate standard of living following retirement (interview with TUC representative). Also, with this, the TUC promotes employees choice to retire or stay in work. Within this context, the pensions system in the UK has been a primary concern for the TUC. Concerns about the pensions system culminated in the 2000s with the Pensions Commission, whose 2005 report suggested that without reform the UK pension system would become increasingly inadequate and unequal in the distribution of pensioner income due to a lack of growth of private pensions to mitigate an anticipated reduced state role. In response, the first report of the Pensions Commission suggested reducing costs through a system of nationally administered individual accounts, and/or through automatic enrolment to national and individual employer-level pension schemes (Pensions Commission, 2005). Since then, discussions about the pension system have continued the debate on the structure and long-term sustainability of the pensions system.

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7 Trade union’s statutory right to collective bargaining is provided by the Employer Relations Act of 1999; this ensures trade unions fulfilling specific criteria are recognised for collective bargaining. However, collective bargaining remains decentralised and there is little multi-employer bargaining in the private sector. Also, the 2004 Workplace Employee Relations Survey found that only 3% of workplaces report negotiations over staffing plans, 12% reported consultations and 11% provision of information (Jefferys and Clark, 2009).


9 See, for example, press releases and publications from the TUC, CBI, Age and Employment Network.
The Confederation of British Industry (CBI), representing employers and involved in consultations to inform recent policy changes relevant to older workers, has taken a particularly active role in cautioning against the removal of the default retirement age. The CBI’s attention with regard to older workers is focused on it. The CBI raised concerns about how employers could manage employees without a default retirement age, particularly to initiate and manage discussions about performance, future plans and possibilities for retirement (interview, CBI representatives). It was feared that its removal would lead to a ‘legal void’ with employers potentially exposed to claims of unfair dismissal by older workers.

Implementation of labour market policies

The actual experience of older workers in the UK is shaped by these policy debates about how to manage and support workers of different age groups. To begin with, equality legislation constrains how employers can approach issues with older workers (interviewees at CBI). Firms in the UK have tended to treat older workers in the same way as the rest of their workforce (interviews with CBI representatives), aiming to avoid discrimination and treat employees in an equal matter regardless of age, sex or disability, for example. Primarily, employers manage older workers through human resources (HR) policies that adapt working conditions to support individuals at different points in their life, through policies that are open to any employee, but could be particularly relevant to older workers.

In particular, flexible working became increasingly common among UK employers in the 2000s, primarily to support child carers in employment, but with the potential to be used to support new ways of working relevant to older individuals. Nevertheless, an interviewee from TUC suggests that it remains difficult for older workers to obtain flexible working arrangements based on age, and that employers tend to associate flexible working with women with children (interview with TUC representative).

Even more specific to older workers, flexible retirement has often been used in the UK as a way to manage workers nearing retirement. Approximately 80% of requests to work beyond 65 years were accepted by employers (interviewees with CBI representatives). A CBI senior policy adviser suggested that the trend in the UK has been to encourage longer working lives, through flexible retirement.

In conclusion, an ageing workforce has been a key consideration in shaping labour market policies in the UK, resulting in policies and initiatives to encourage longer working lives, with social partners engaging in the policy process to ensure a check on the impacts of such developments on employers and employees.

Crisis effects on recent policy initiatives

Government support measures

The UK government sought to respond to the 2008 recession in very different ways to previous recessions in the 1980s and 1990s, with the aim to avoid substantial increases in unemployment and long-term unemployment. Initially, the recession was accompanied by a sharp increase in unemployment in the UK. The production, retail and wholesale distribution and financial services sectors were the most affected, experiencing falls in output and employment (Jefferys and Clark, 2009), though the rise in unemployment rate was highest in the manufacturing sector (Gregg and Wadsworth, 2010). The government’s primary concern with the recession was unemployment among young people; however, initiatives were also put in place to support unemployed people aged over 50 years. Support measures for older workers implemented in 2008 included additional time and training for those unemployed; the potential to be referred to external providers for short courses tailored to specific needs; greater access to work trials; and the opportunity to be fast-tracked for support if facing significant barriers to work (DWP, 2009).

Company measures to avoid redundancies

Employers also responded to the recession very differently to previous recessions in the 1980s and 1990s (interviews with TUC and CBI representatives). Rather than institute redundancies, companies tended to seek ways to avoid redundancies through labour cost-cutting measures (interviews with CBI representatives); they tended to decrease wages and other employment-related costs in addition to implementing redundancies (Jefferys and Clark, 2009). Flexible working was used in particular to retain employees while cutting labour costs. A senior policy adviser from CBI suggests flexible working has been used increasingly across the board by employers to mitigate the impact of the recession, rather than make employees redundant. The preference has been to ‘hold’ labour and skills (interviews with CBI representatives). A TUC representative suggests that employers took this approach to avoid skills shortages during recovery from the recession (interview with TUC representative). A senior policy adviser at CBI also confirmed that employers tended to avoid redundancies where possible, with redundancies occurring predominantly in the sectors hit most suddenly and severely by reduced demand (for example, manufacturing and construction). This contrasts with previous recessions in the UK; redundancies then were more prevalent compared to flexible working.

Early retirement was also not a preferred option for firms responding to the recession in the UK (interviews with TUC and CBI representatives). An interviewee from TUC suggests that this might be partially linked to the government’s attempts to extend working life (for example, through opportunities to defer pensions or the rise in the state pension age), and also more importantly, due to the pensions crisis and the lack of pension surpluses to fund early retirement policies (interviewee at TUC). However, some evidence suggests that employees have voluntarily taken early retirement. In the fourth quarter of 2010, the number of individuals aged 16–64 classified as inactive due to retirement increased by 49,000 over the quarter to 1.57 million; this was the highest recorded quarterly increase since 1993 (ONS, 2011b and 2011c).

Impact on younger and older workers

Amid these changes, younger and older workers have been affected in different ways. Thus far, in the UK, unemployment has affected younger workers to a greater degree than older workers. In particular, young people seeking their first job were disadvantaged as opportunities for first-time employment were restricted. In contrast, older workers appeared to be less affected. In the first quarter of 2008, redundancy rates were similar across the 18–24, 25–49 and 50–69 age groups; however, this diverged through 2008. Redundancy rates for 18–24 year-olds rose to more than double that for the 50–69 age group (Equality and Human Rights Commission/DWP, 2009). This contrasts with previous recessions, in which older workers were the first to be made redundant (interview with TUC representative). Nonetheless, albeit in smaller numbers than previous recessions, older workers who were made redundant have faced particular difficulties in becoming re-employed elsewhere; older workers are more likely to face multiple barriers to work (for example, health or low skills) (DWP, 2009; TAEN, 2010).

Finally, also, older workers are directly affected through recessionary impacts on private pension funds, which were heavily hit with real losses of 17.4% in 2008. Private pension funds make up a substantial part of the retirement package for individuals in the UK; the proportion of retirement income package from voluntary private pensions in the UK is highest among countries within the Organisation for Economic Co-operation and Development (OECD). In contrast, UK public pensions are projected to provide the lowest pensions relative to individual earnings of OECD countries (OECD, 2009).

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11 However, the decline in manufacturing predated the recession; with a consistent decline in the percentage of total UK employment from 17% in 1990 to 8% in 2008 (Knight et al, 2010).

12 Redundancy rate is the ratio of the redundancy level for the given quarter to the number of employees in the previous quarter, multiplied by 1,000.
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Summary

In summary, throughout the 2000s the UK has actively recognised that its workforce is ageing, and as such, concerns about how to encourage and support an older workforce have been on the policy agenda (for instance, discussions about pensions, the default retirement age). However, rather than approach this by implementing age-specific employment and labour market policies at the national and company levels, the tendency in the UK has been to address age management issues through policies and practices aimed at minimising and preventing discrimination between age groups.

Employer age management practices are not necessarily isolated from wider employee performance management procedures. A senior policy adviser with CBI suggests effectively managing an older workforce is linked to effective performance management more generally in the organisation. Regular and routine conversations with employees about employee development, aspirations and plans, irrespective of their age could help to acknowledge and address older workers’ concerns at the same time as supporting other age groups. Alongside this, training of line managers to engage in these conversations is required for effectively managing and supporting older workers. Similarly, an interviewee from TUC emphasises the importance of line managers and supervisors in the situation for older workers, suggesting the need to address prejudice and stereotypical attitudes at this level.

Finally, in addition to these indications about how to effectively integrate older workers into wider employment policy and practice, the UK’s experience with older workers through the recession suggests that alternative labour cost-cutting measures to avoid redundancies can help support employment of older workers, sustaining employment rates for older workers relative to other age groups. However, this approach has not necessarily mitigated the concerns of older workers who do become unemployed, with continued disproportionate representation of older workers among the long-term unemployed in the UK.

List of interviewees

Richard Exell, Senior Policy Officer, Trade Union Congress (TUC)

Ben Digby, Senior Policy Adviser, Employment, Confederation of British Industry (CBI)

Maxine Cahal, Policy Adviser, Employment, CBI
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