

FACTORS AFFECTING RETIREMENT



EXECUTIVE SUMMARY



The populations of OECD countries are set to age markedly in the next 30 years. Population ageing coupled with concerns about the increasing costs of social welfare have led to major shifts in policy in recent years away from early retirement as a means of reducing youth unemployment to policies aimed at the active participation of older workers in the labour force.

This study focused on the interface between paid employment and non-participation in the labour force. The literature in the following countries was reviewed in order to gain a better understanding of factors affecting retirement behaviour:

- Australia
- Canada
- France
- Germany
- Greece
- The Netherlands
- The Nordic Countries
- United Kingdom
- USA

The study involved exploration of the following issues:

- The role of 'push' and 'pull' factors in early retirement
- The incentive and disincentive effects of social welfare and pension arrangements in determining early exit
- The role of active labour market policies in reducing early exit
- The extent of different experiences depending on occupational group, gender, ethnicity and age group
- The role of human resource management policies in encouraging early exit and discouraging more flexible retirement.

The review examined the quality of the literature, including gaps in knowledge and its relevance to the UK context. It focused primarily on literature published in the last 10 years. Emerging findings from research in progress were accessed along with unpublished working papers.

Policy trends in the countries surveyed are summarised in the following section.

United Kingdom

Globalisation of markets, intensified competition and the drive for increased productivity and efficiency savings have often resulted in workforce reduction exercises which have had a disproportionate impact on older workers. Over the past 20 years older men have taken a disproportionate share of the falls in male employment. With low levels of unemployment during the late 1990s and skills shortages in certain sectors labour force participation among those aged in their 50s increased slightly, but for those aged in their 60s participation rates continued to decline.

The widening gap between the age at which people exit the labour force and life expectancy means that there is a growing period of dependency on pensions and thus growth in their cost. There is a growing awareness that mechanisms such as welfare, pensions and employer policies need to be explored to stimulate the economic and social inclusion of older people.

Australia

In recent years a diverse range of policy measures tackling mature age employment issues at State and Federal levels have been introduced. This has included measures to encourage later retirement. However, it is too early to gauge their effectiveness. Legislation proscribing age discrimination has also been implemented, although again its relative newness makes an assessment of its impact impossible.

Canada

In Canada there has been a moderate fall in labour force participation among older people. Unlike some of the other countries surveyed, where exit pathways have been funded by the State, in the Canadian case 'private' means of early exit have predominated. Government has had a limited role in protecting older workers and promoting employment good practice. Pension reform is currently underway and public debate about the employment of older workers is just beginning.

France

Early retirement has been an important feature of the labour market for three decades. Since the early 1990s the focus of public policy has shifted from early exit to the retention of older workers as the costs of early exit and the effects of population ageing on the funding of public pensions have been recognised. Later retirement has been encouraged through a series of measures making it more difficult to obtain an old-age pension, making gradual retirement more attractive and increasing labour market flexibility. Nevertheless, employees and firms are receiving mixed messages, with support at firm and sector level for early retirement and the implementation of early exit schemes funded by the social partners.

Germany

Early exit has been a long-term feature of the economy, and the special circumstances surrounding reunification have meant that programmes aimed at supporting unemployed older workers before retirement remained in operation until 1997. However, policy making now appears to be moving in the direction of encouraging later exit. The introduction of gradual retirement appears to have had a marginal impact on retirement behaviour among older workers so far. Labour market programmes are mainly youth oriented, although a Federal education campaign on older workers was launched recently. There appears to be growing awareness of the issue of age and employment among trade unions and employer associations.

Greece

A growing fiscal crisis in the Greek pension system means that policy makers are looking to extend working life by reducing early exit and targeting measures at maintaining the employability of older workers. There is growing awareness of the problems facing older workers in the Greek labour market and there has been a limited shift towards public policy measures favouring this group. However, the option of early exit still seems to be available to many.

The Netherlands

The cost of early exit has risen dramatically in the last 20 years. Few individuals remain in employment beyond the age of 60. The primary exit pathway has been pay-as-you-go early retirement schemes which are based on collective agreements at the firm/sector level. This crisis has forced the Government and the social partners to address the issue and to consider radical solutions. The social partners are being encouraged to move towards the use of funded early retirement schemes and disability and unemployment pathways to early exit are being closed off. A limited amount of gradual and flexible retirement is emerging in some firms and sectors.

Nordic Countries (Denmark, Finland, Norway and Sweden)

There are marked differences in labour force participation rates among older workers in the countries studied. Governments in each country are making early exit less attractive and are trying to promote employment among older workers. Both Sweden and Norway have been successful in retaining older workers in the labour market. Sweden has emphasised its active labour market policies while Norway has never had a strong policy of early exit. Sweden's gradual retirement scheme appears to have been successful, although numbers of participants are now declining. On the other hand, a gradual retirement scheme in Finland has had a small effect on exit patterns. Denmark, Norway and, in particular, Finland have targeted a number of initiatives aimed at the employment and retention of older workers. In Denmark for example, the Government recently launched a programme whereby it subsidises schemes in the public or private sector aimed at recruiting or retaining older workers. In Finland there have been various research and development programmes.

The USA

Labour force participation rates among older men have declined, while among older women they have increased over the past 20 years. Although changes have been made to the social security system to encourage older workers to remain in the labour force, pensions policies may have a greater effect on retirement decisions than social security. With few exceptions, private pension plans have not adapted to the move towards later retirement by including incentives to encourage workers to remain in the labour force. A key weapon in the fight against age discrimination - the Age Discrimination in Employment Act (ADEA) - may not have benefited the groups it was intended to target.

Employer behaviour and attitudes

The literature reviewed points to the key role played by line managers and co-workers in determining the experiences of older workers. Studies frequently find mixed attitudes towards older workers among managers. For example, older workers are seen as being more reliable but less interested in technological change. The relationship between attitudes towards older workers and employer behaviour has yet to be clearly elucidated. However, it would seem to be complex. Also, this review has not identified any studies that have examined the attitudes and practices of local trade union officials, even though they may play an important role in determining the experiences of older workers.

This review has found no clear evidence of changing attitudes towards the management of older workers among trade unions and employers. While cases such as Tesco and B&Q are frequently referred to in the literature there is no evidence of an overall shift in policies in favour of older workers among employers. However, longitudinal research studies would be useful.

Also, there would appear to be limited evidence concerning the impact of age-aware personnel policies which have been implemented by firms. However, such research is required if other employers are to be convinced of the merits of recruiting and retaining older workers.

Orientations to work and retirement

A significant number of studies have identified factors associated with retirement, the decision to retire and factors which would appear to be associated with the likelihood of an older individual exiting the labour force early. There is conflicting evidence from the studies reviewed both within and between countries, which make interpretation of the literature problematic.

These factors are:

Psycho-social

- Educational level (conflicting evidence on the direction of the relationship with retirement behaviour)
- Low skill level (conflicting evidence on the direction of the relationship with retirement behaviour)
- Retirement of one spouse is associated with retirement of the other
- Ethnic group (an under-researched area with some evidence, for example, from Germany that immigrant status is associated with earlier exit but some US research which suggests that people from ethnic minority groups may be forced to work on, often when they are in poor health)
- Dependants in the household (there is evidence of gender differences in the effect of dependants on retirement behaviour but much of it is conflicting)
- Men and women with older children are likely to retire earlier than those with younger children
- Marital status (single people tend to exit later than married people)
- Employment status (self-employed men retire later and self-employed women retire earlier than employees, although there is evidence of occupational variation in the case of women; while those on part-time contracts exit later, although again, there is conflicting evidence)
- Individuals are more likely to retire early if they perceive the financial consequences of doing so to be positive
- Individuals expecting a higher income replacement rate are more likely to retire early than those expecting lower income replacement
- No perceived threat to self-esteem encourages retirement
- Less concern about loss of social contacts/colleagues (more of an issue for single people)
- Fewer anticipated problems filling leisure time
- To spend time on leisure activities
- Having shared leisure activities with spouse
- Spousal support/pressure to retire (spouses less supportive if dependants involved)
- Perceived negative consequences of retirement less if friends have already retired
- Feeling that early retirement is the 'normal' thing to do
- Lower likelihood of people in their social network still being in employment
- Feeling that one has worked long enough.

Workplace

- Occupational stress
- Low job satisfaction
- Poor working conditions
- Repetitive work/lack of variety in work tasks
- Physically demanding job
- Lack of autonomy
- Departmental re-organisation
- Lack of challenge in a job
- Lack of development opportunities
- Compulsory retirement.

Health

- Poor health
- If perceived health consequences of retirement felt to be beneficial may act as an incentive to retire
- Spouse in poor health more likely to support partner's retirement

Gender differences:

- Conflicting evidence on the relationship between spouse's health and the other spouse's exit patterns.

Socio-economic

- Availability of social security benefits
- Features of the social security system
- Defined benefit pension schemes
- Occupational pension coverage
- Higher unemployment levels more likely to lead to early exit of older workers
- Active labour market policies (limited evidence on impact in most countries due to the newness of most initiatives)
- Gradual retirement (the direction of the relationship between the existence of such schemes and retirement patterns is unclear with some evidence that they may encourage early exit)
- Greater household income and wealth associated with earlier exit (although there is some evidence of gender differences, with one study finding that women with higher incomes tended to retire later).

There are important differences in orientations to retirement depending on socio-economic group. For example, in one study 'positive' reasons for early retirement were more likely to be provided by professionals, those with a high educational level and those who worked for Government or in the service sector. 'Neutral' and 'negative' reasons were more likely to be given by individuals from lower occupational levels, with lower levels of education, and working in the industrial sector. Studies have also found that gender is a key variable both in terms of different orientations to work and retirement among older men and women and in terms of the role of partners of different genders in the retirement decision-making process, although the evidence is conflicting. For example, one study found that poorer health among spouses was associated with a decreased likelihood of retirement among men but an increased likelihood of retirement among women, while others have not found this to be the case.

It is important to point out that many of the factors listed above are likely to be correlated and some in the list may simply be proxies for more fundamental influences on retirement. For example, low educational level may be a proxy for income. Also, what factors predict retirement behaviour will depend on how 'retirement' is defined. For example, is it early or full retirement that is being considered and is the retirement voluntary or involuntary. A consequence is that it is difficult to disentangle the relationships among variables.

Overall assessment of the state of knowledge

There is substantial literature on factors affecting retirement behaviour and the relationship between age and employment more broadly. However, there are a number of weaknesses in the literature. UK research is particularly lacking in the following areas:

i. Studies of retirement behaviour

This review has identified several major surveys of individual older workers to determine the factors which are most important in predicting retirement behaviour and retirement intentions. However, qualitative studies are necessary in order to begin to disentangle the complex set of relationships between the many factors affecting retirement behaviour. More longitudinal studies are also required.

ii. Individual attitudes towards work and retirement

From this review it is also apparent that policy making is proceeding on the basis of an incomplete understanding of older workers' orientations to work and retirement and how these might be changing as the focus of public policy is shifting from early to later retirement. A lack of attention to factors such as gender, ethnicity, disability, socio-economic group and even age in examining orientations to work and retirement is a serious deficiency in the literature. There would be value in examining the use by older people of part-time and self employment prior to full retirement as a means of winding down and as a means of supplementing income.

iii. Developments in organisational policies

Much of the research on employer behaviour towards older workers is now dated, which means that there is little evidence on whether and how this may be changing during a period of low unemployment. Another problem with research into employers' policies is that studies have frequently been quite general in nature. Studies which examine individual sectors in detail would

be useful. Another weakness of the literature is that it has tended to focus on larger firms. Additionally, the review has uncovered little case study research in organisations, which means that the understanding of the relationship between age and employment is limited. There is also little evidence on the workplace experiences of older workers and how this impacts on their attitudes towards work and retirement.

iv. Assessing the impact of active labour market policies

A further weakness is an apparent lack of evaluations of Government initiatives and schemes targeting older workers and employers across the countries studied. A related point concerns the relative scarcity of studies examining the utilisation of pathways back into employment by older workers. Studies of the job-search behaviour of older workers, how they seek to maintain their employability and the kinds of assistance they might need would be useful. The evaluation of the UK's Code of Practice on Age Diversity in Employment is looking at representative samples of organisations and individuals aged 50 or over. Findings of the overall evaluation will be made available in 2001. The second wave of this evaluation carried out six months after the launch of the Code indicated that employers were sceptical about its likely impact and the majority had not made and did not anticipate making policy changes as a result. However, knowledge of the Code was low.

v. Occupational health and well-being

Nordic countries have carried out a range of studies and have developed a number of initiatives in this area over the last few years. In Finland for example, the FinnAge action research project aimed to identify the optimal working conditions for older workers and to promote health and well-being among this group. Our analysis suggests that health and the working environment play an important role in determining the propensity of older workers to remain in employment. A similar programme of action research in the UK would therefore be of value.

vi. Programme of research

Research into employment in the third age and retirement is limited and fragmented in the UK. The UK would benefit greatly from a co-ordinated programme of research in this area.

Main implications for policy development

Skill shortages and low levels of unemployment combined with population ageing mean that there is a need to address the structural, organisational and individual impediments to older workers' employment. The UK would appear to be unique in targeting a large-scale programme like New Deal 50+ at older workers. It would also appear that the UK is more advanced than some of the other countries surveyed in terms of the use of education campaigns targeting employers. On the other hand, some countries would appear to be more advanced than the UK, for example, in the development of policies on flexible retirement and some areas of research. There would therefore be benefits in the sharing of experiences and knowledge between countries, given that new public policies are emerging rapidly and a focus on the integration of older workers is new for many governments.

Other countries are trying different approaches to tackling early exit such as gradual retirement. The notion of gradual exit from the labour force is appealing and several countries now offer such schemes. They have had mixed success so far. A problem for gradual retirement in some of the countries surveyed is that part-time employment is unusual or seen as lower status, which has meant that individuals have been reluctant to participate. Arguably this might be less of a problem in the UK.

There is compelling evidence that increasing flexibility in retirement could help employers to retain corporate knowledge and expertise and to meet skill and labour shortages. However, at this time there would seem to be limited evidence that large number of employers are considering increasing retirement ages. Nor has this review found any evidence that early exit is any less popular as a means of managing workforce reductions than it has been in the past. Little is known about how older workers view the prospect of later retirement.

This review has shown that attitude change among employers may be important in overcoming labour market barriers to the employment of older workers. But the barriers facing older workers are the result of highly complex relationships between a number of economic, social and organisational variables. There is as yet only a very limited understanding of the complexity of these relationships. While attitude change will be important, research suggests that in many ways employers are already favourably disposed towards older workers - but they are nevertheless often disinclined to recruit or retain them. More research is required in order to disentangle these relationships.

There is a wide range of experience in the countries surveyed which could be drawn upon to assist in the development of policies in the UK. Australia, Finland, France and The Netherlands appear to have been particularly innovative in the implementation of policies targeting older workers. However, this review has uncovered little evidence concerning the impact of these policies. In the majority of cases this is a reflection of their relative newness.

A large amount of research evidence suggests that orientations towards work and retirement will be likely to differ considerably depending on work and life experiences and family circumstances. For some groups of workers, for example those in arduous jobs, extending working life will be problematic. An important lesson of the research reviewed is that, with this section of the workforce, it is essential that interventions come early in order to reduce the risk of permanent labour force withdrawal. It is also important that attempts to encourage later retirement take into account the fact that some individuals, for example those who have a disability, may be unable to do so.

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