



Workshop *Delivering higher effective retirement ages*  
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# HOW WILL THE DEMAND FOR OLDER WORKERS BE INFLUENCED BY THEIR WAGES AND SKILLS?

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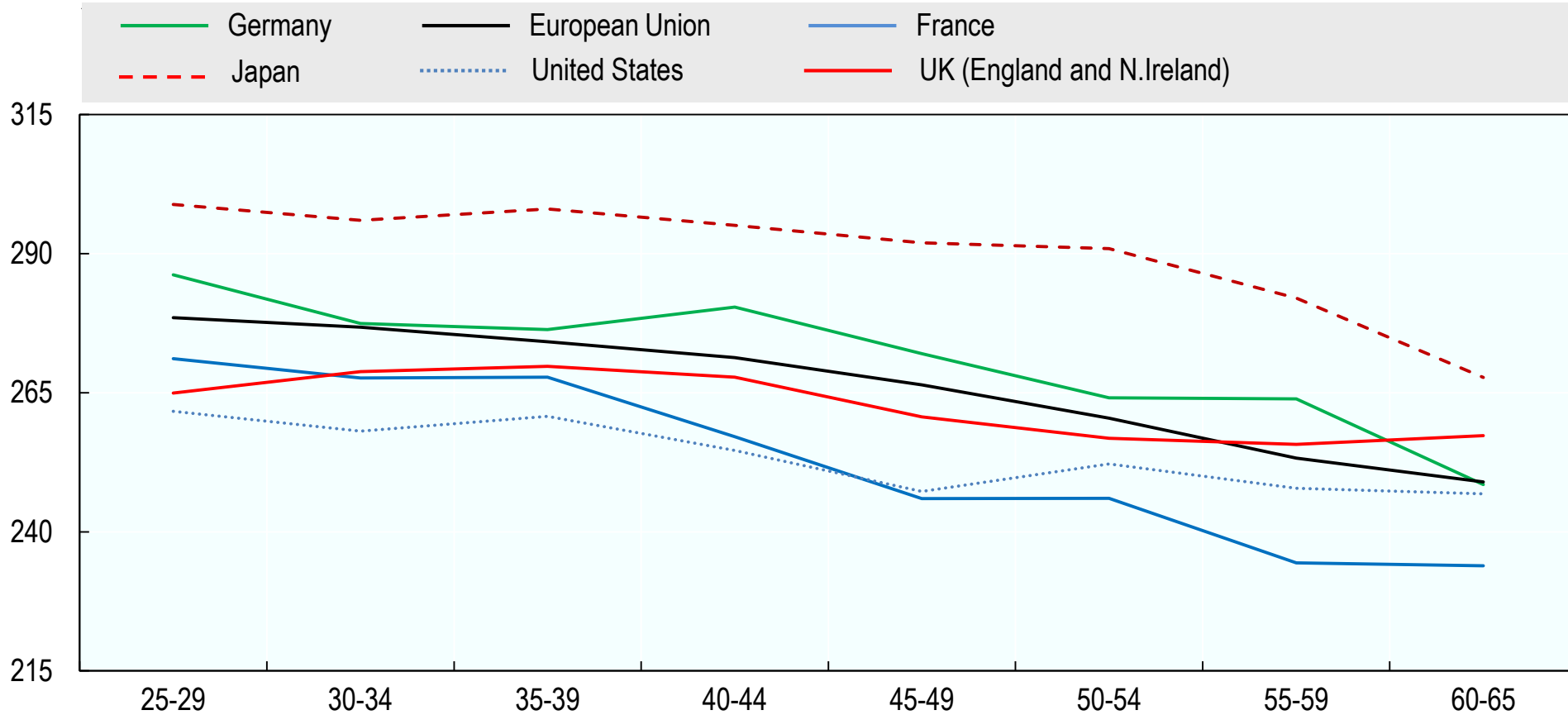
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# Do older individuals have the skills to work ?



- *Numeracy (here) & literacy tested – workers & unemployed*
- *PIAAC data cross-sectional (one wave per country, 2011-15)*



# Demand for older workers: Skills & Wages

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## 1. Skills across ages

- *... and by education, working and not employed*

## 2. Skills at work & adaptation

- *Occupational choice and evolving job content*

## 3. Are seniority wages a problem ?

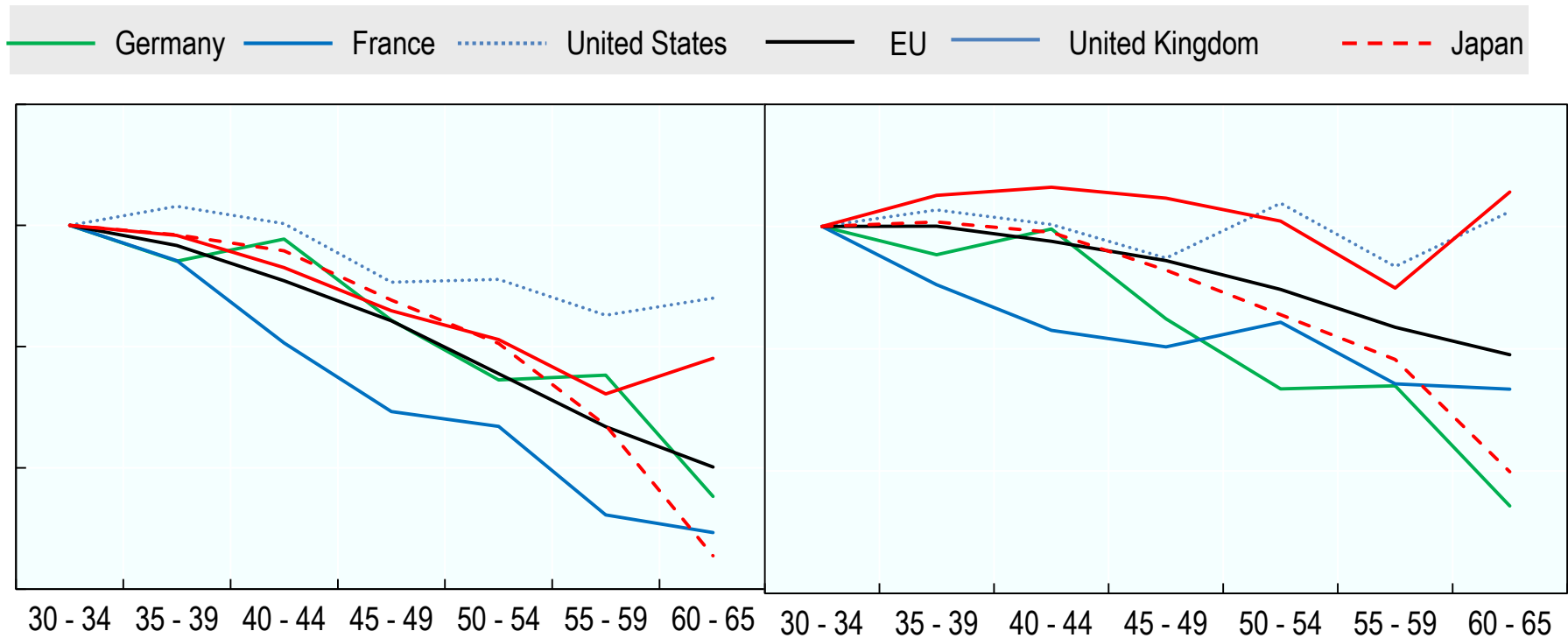
- *Contrasting tenure pay & labour market outcomes*



# 1. Skills reflect education of older people

Normalized scores of numeracy

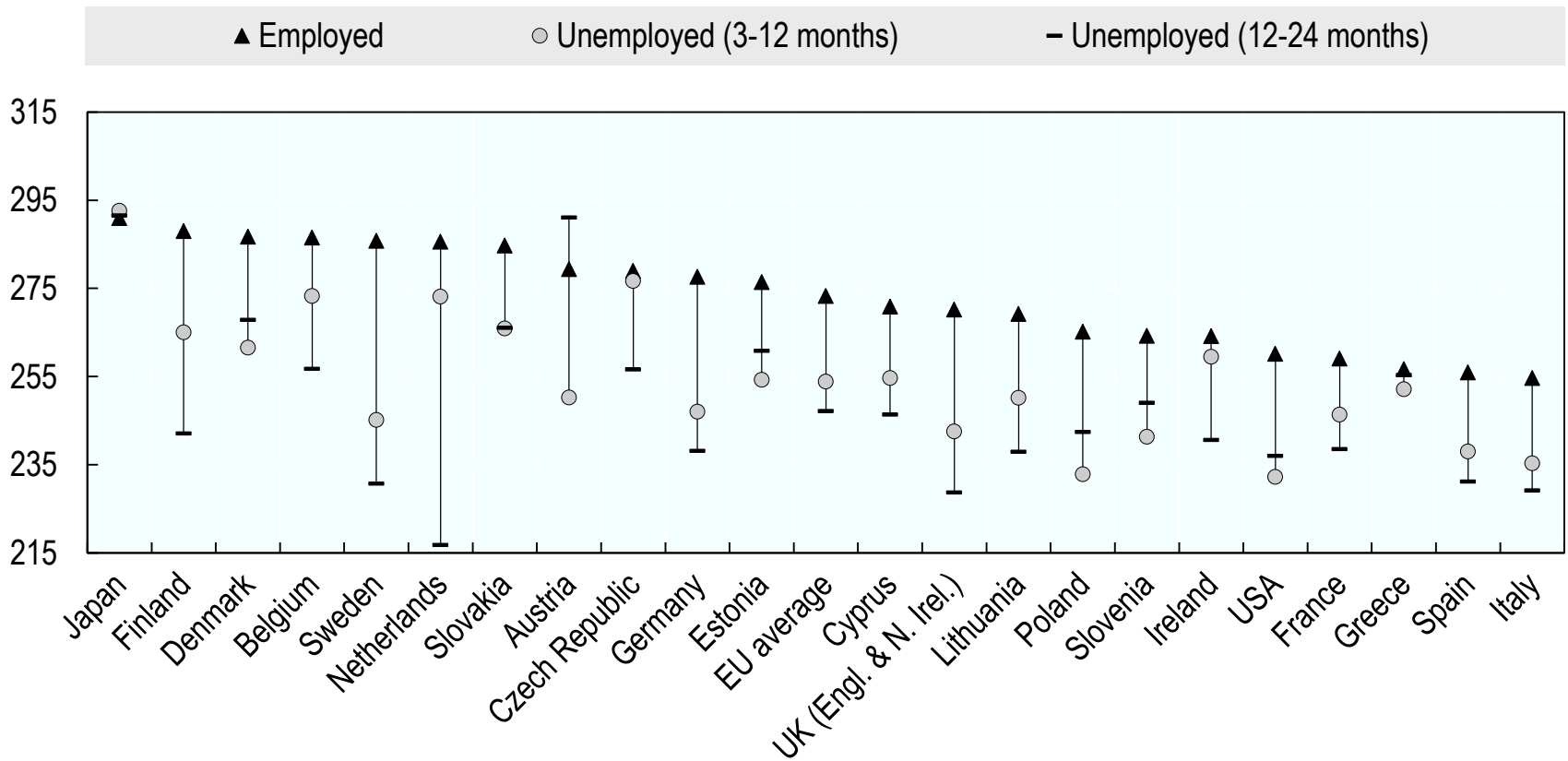
...conditional on own and parents' education



- *Skill differences across ages stronger in EU than US*
- *Differences in education explain ca. 50% of age gradient*



# lower skills of unemployed & early retirees

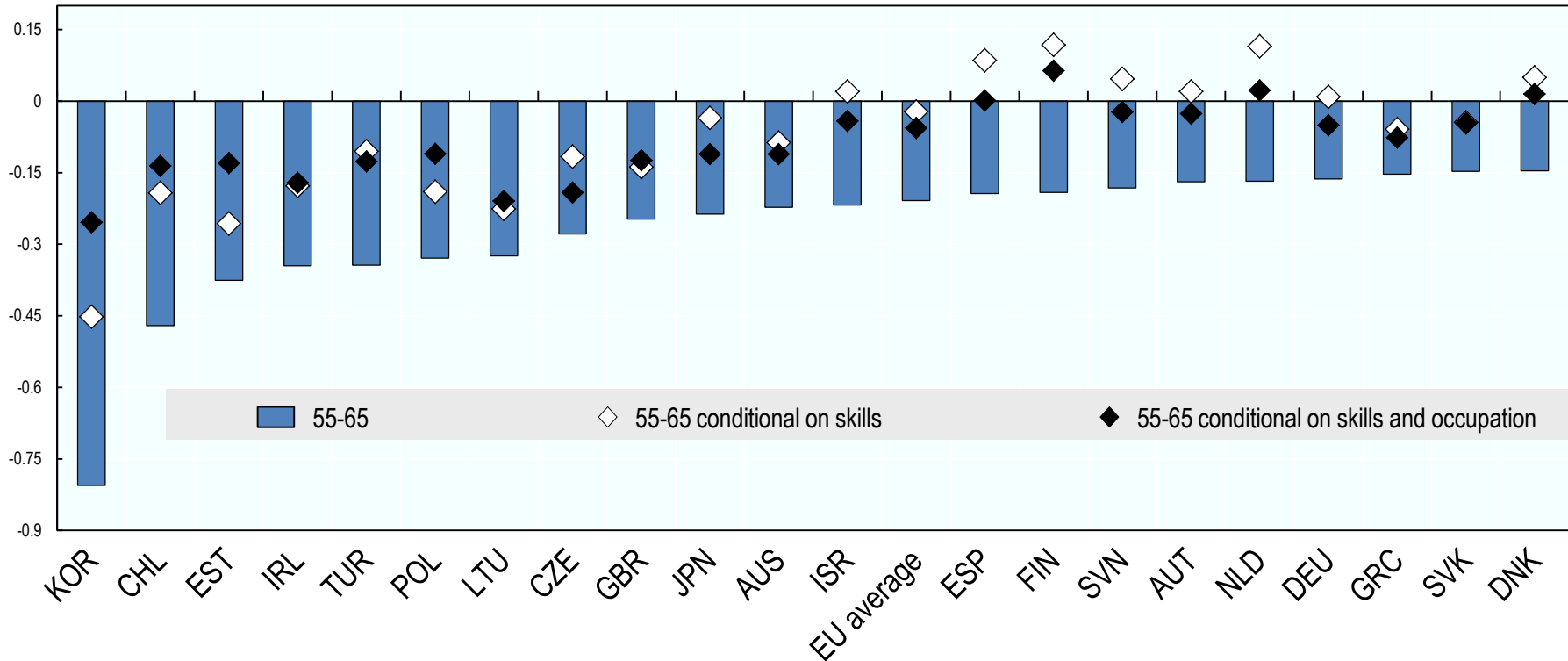


- Large differences (here numeracy) by employment status & **part of age differences**
- **Early retirees'** skills (not shown) intermediate between employed & unempl'd



## 2. In work, use of basic skills remains high

Difference in literacy skill use at work, ages 55-65 vs. 30-34, standard deviations



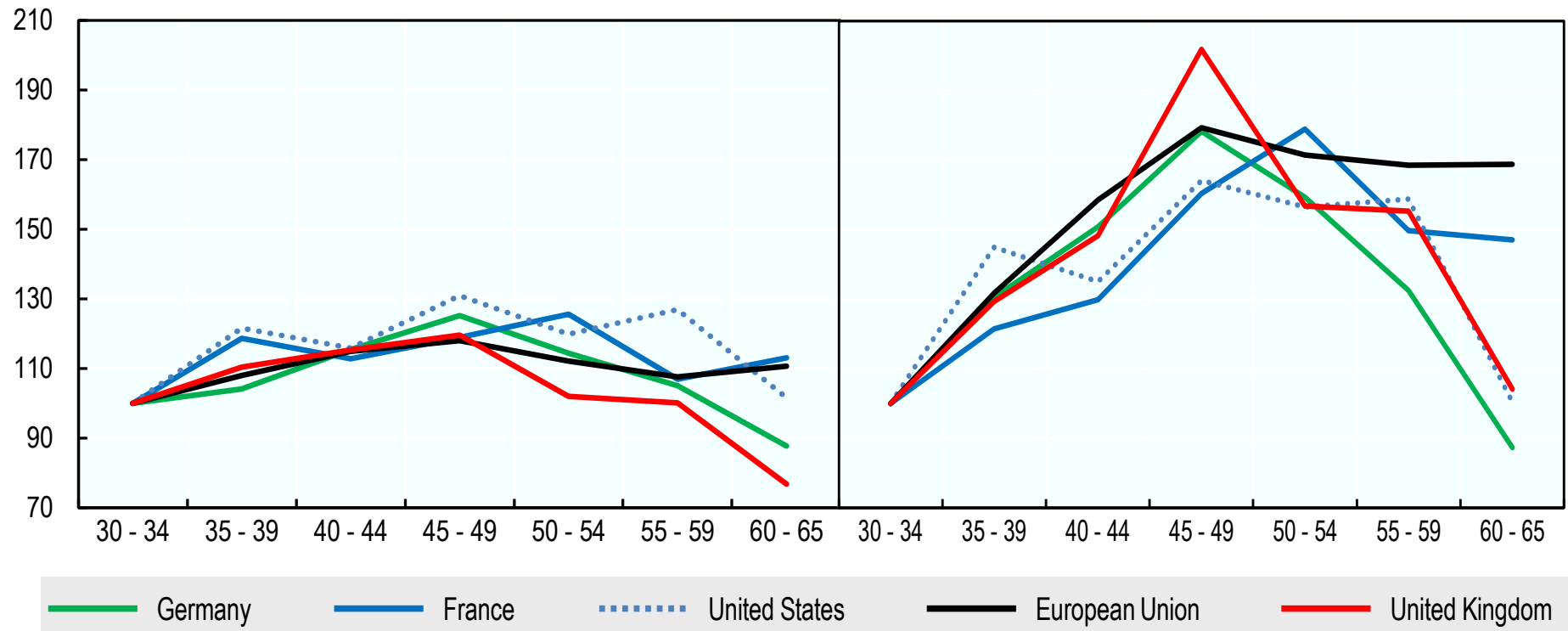
- ... amongst old workers with lower **levels** of skill
- **Occupational mobility** may help ensure skill use



# Older workers' perform more complex tasks

Supervision tasks over different age levels...

...comparing individuals with same education and parental education



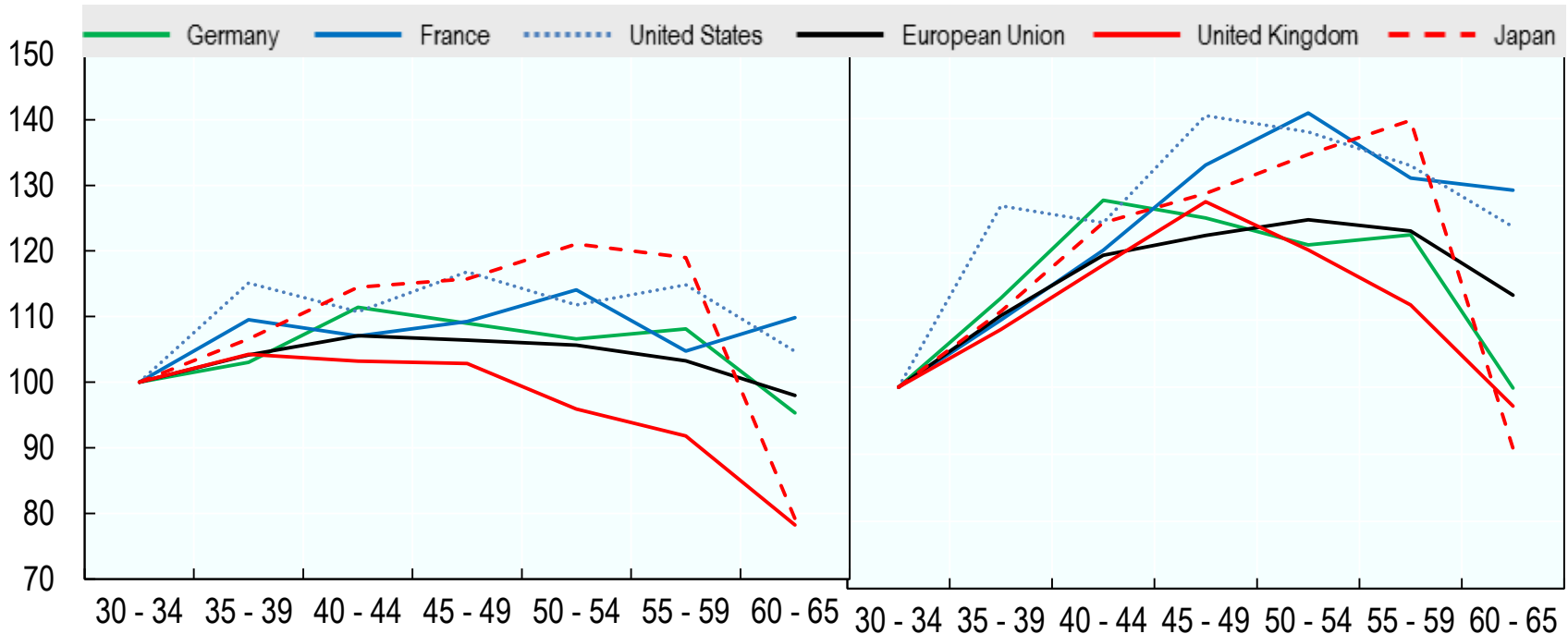
- Higher levels in **supervisory** tasks and **task discretion**
- Also, no age gradient in **influence** and **planning**



### 3. Are wages of older workers too high?

Monthly wages across ages (age 30-34=100)

...comparing individuals with same own and parental education



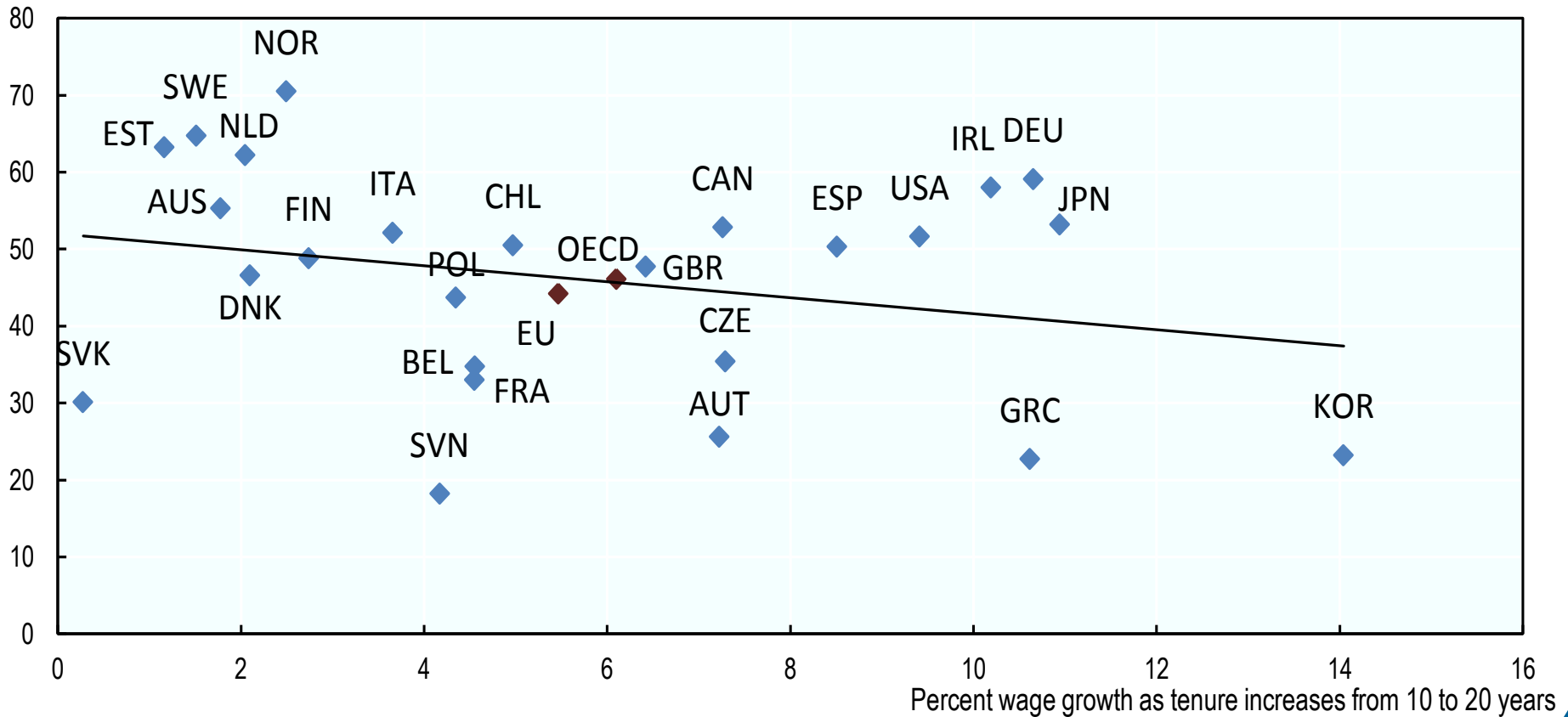
- *Controlling for education, skills, complexity, experience, selection into employment,...*  
*wages of workers w. more firm seniority higher*





# Does higher seniority pay prevent retention?

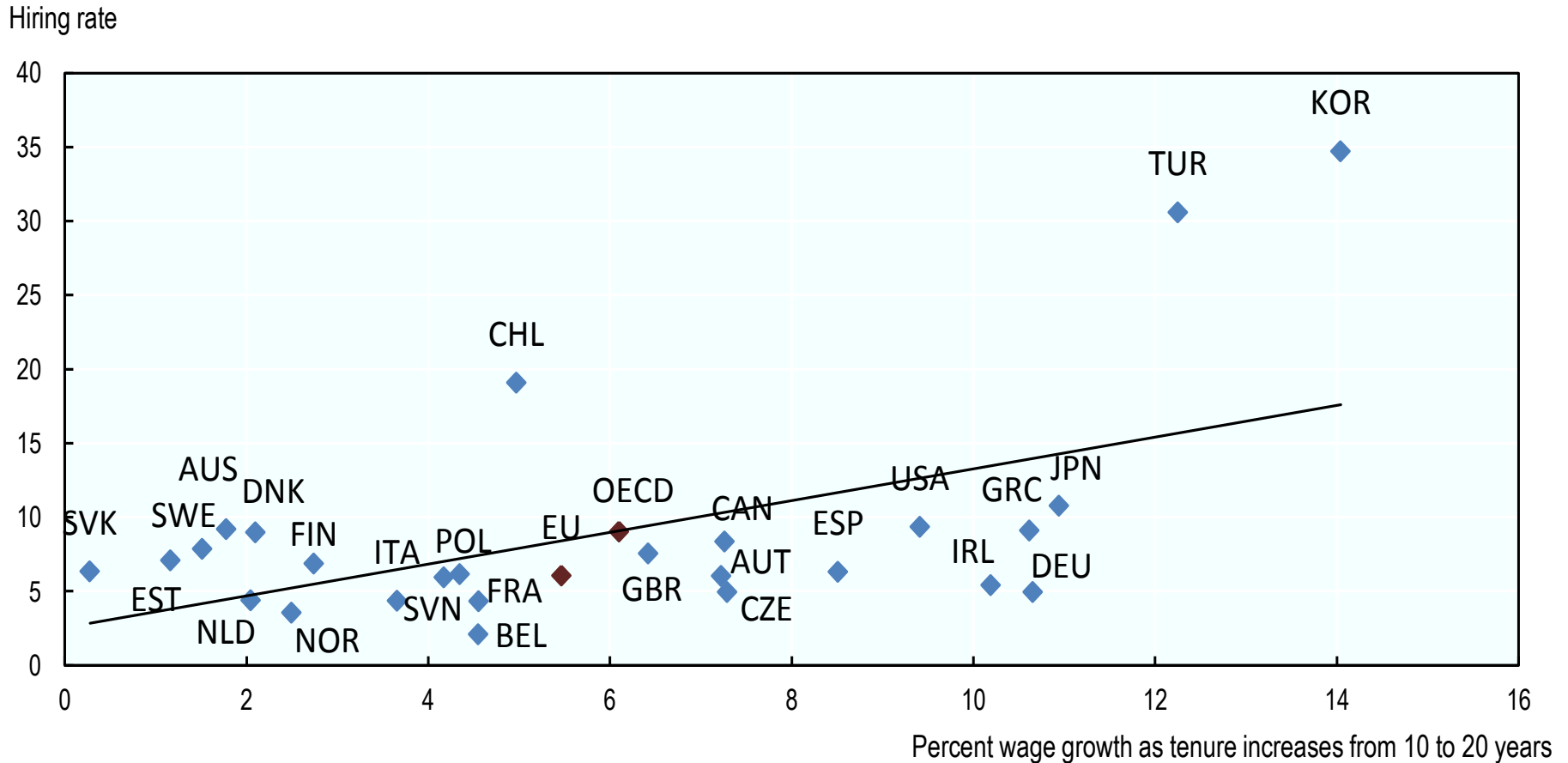
Retention rate



- *Little evidence of seniority pay preventing retention*



# Does higher seniority pay incite hiring?



- *Seniority pay not associated with low hiring rates in EU*



# Workers & jobs adapt to lower basic skills

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## 1. Older individuals have lower basic skills

- *Differences in skill levels partly due to education*
- *...partly due to unemployment & early retirement*

## 2. Older workers use skills intensely

- *With help of occupational mobility & evolving job tasks*

## 3. Seniority wages are not barriers for employment

- *Hiring & retention rates vary widely*

**Outlook: Country outcomes & role of institutions**



# **PROMOTING THE EMPLOYABILITY OF OLDER WORKERS THROUGH SKILLS MEASURES AND EMPLOYMENT SUBSIDIES**



# Promoting skill development throughout working careers



# Why to promote further education and training of mature and older workers?

## *Tackling market imperfections*

- **Return on investments:**
  - Return on investments are likely to be higher for the better skilled; widening **inequalities** over the life cycle
  - They are *expected* to be lower when the remaining working life is shorter.
    - Risk for low-skilled mature and older workers of being trapped in low productivity jobs
    - Risk for mature and older workers of labour market exclusion → societal costs.
- **Access to information** on skills demand and supply varies by type of employer, and skills level of the employee.
- **Reduced visibility and tradability** of skills acquired through non-formal learning: a problem mainly for mature and older workers.
- **Risk of underinvestment** in further training

## *Key policy challenges*

- How to ensure that an ageing workforce will make most efficient use of their skills *and* remain flexible and mobile?
- How to share the costs of adapting skills of an ageing workforce?
- How to upskill low-skilled older workers?



## What works for whom?

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### Some evaluations results on the benefits of LLL:

- Rates of returns: visible also for mature learners, in particular for **women**.
- Positive effects of firm- or task-specific training of mature and older workers are likely to be higher in the **short- and medium- term**.
- **Long-term effects** if further training is repeated regularly.
- **Long-term effects** of general training are likely to be higher, in case the training leads to a vocational certificate.
- **Mixed results on long-term effects** of basic education for mature and older workers.
- Positive effects for older workers may consist in lowering **their risk of becoming unemployed** and increasing **occupational mobility**. Few evaluations take these effects into account.
- Positive effects on **workers' motivation** and well-being.
- Training for OW is likely to **postpone take up of early retirement**.



## What works for whom? (cont.)

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- Schemes built on the principle of **free choice** of training (e.g. individual learning accounts, vouchers) are
  - Less likely to be taken up by older low-skilled workers
  - Favour the acquisition of general skills over firm-specific skills
  - Their effectiveness is likely to be increased through targeting (at the price of higher administrative costs).
- **Direct subsidies and allowances for specific target groups** for training + advice and guidance: more effective for low-skilled mature and older workers.
- **Lifelong vocational guidance** help both employers and workers to identify skills needs.
- **Mid-career interviews** are important mechanisms to identify training needs and increasing commitment.





## What works for whom? *(cont.)*

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- **Training subsidies directed towards companies** increase investments in firm-specific training. This may benefit older workers.
- **Deadweight effects** of training subsidies for companies, in particular when they are not targeted.
- Employers are likely to be more sensitive to training incentives for mature and older workers when they experience skills and/or **labour shortages**.



## What works for whom? *(cont.)*

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- **Pay-back clauses** and employer-employee contracts seem to be efficient.
- **Training funds and levy schemes** may be more efficient if organized on a sector level and targeted at SMEs, although robust evaluation is missing.
- Low-skilled older workers may need to get **basic skills** in literacy and numeracy.
- Improving **digital skills** for older workers is relevant.
- **Systems for the recognition and validation of skills** are important approaches. Their effectiveness is significantly increased **when combine with education and training measures.**



# Providing effective subsidies to hire and retain older workers



## *Why subsidising employment of older workers?*

### **To remedy to market failures:**

- Wages inflexibility: compensating for a temporary lower productivity
- Lack of information and “wrong” expectations
- Social inclusion + equity reasons (e.g. health problems)
- A public interest in reducing social costs of being out of work (UB, early retirement schemes, disability benefits)
- The age structure of the workforce is penalising some companies, regions, sectors more than others.

**Risks:** deadweight, substitution effects, distortion of competition



## *Incentives / barriers to hire and/or retain older workers in employment*

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### **From the perspective of the firm:**

- Demographic factors (age structure of workers and clients)
- Human resource management strategy
- Cost-benefit relationship of recruiting and retaining older workers: information, perceptions and the time perspective play a role

### **From the perspective of the older worker:**

- Risks of job loss (risk of long-term unemployment, income replacement rates, access to early retirement).
- Mobility within the firm might be perceived as less risky
- Reservation wage.



## *What works for whom?*

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- Evaluation results of the different employer or employee-related employment incentives are **mixed**.
- **Hiring incentives** targeted at older (low-skilled) workers may be more effective and relevant than in-work benefits.
  - more effective if targeted at vulnerable groups, among whom older and older low-skilled workers.
  - Long-term employment subsidies need to be carefully designed and well targeted to avoid take-up by workers who have not a permanently reduced productivity.



## ***What works for whom? (cont.)***

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- **General social security contribution reductions** for older workers create a distorting effect and may penalize employing other age groups.
- **Start-up incentives** for older workers are likely to be highly relevant, but little evaluation evidence.
- **Counselling services** for older jobseekers have proven to be quite effective. They help to adapt **own expectations** and **the reservation wage**, **increase self-confidence** and job-search skills.



## ***What works for whom? (cont.)***

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- **Vocational rehabilitation measures** are highly relevant for older workers, but no robust impact evaluations.
- **Subsidies for workplace adaptation** are highly relevant, but no robust impact evaluation.
  - Distortive effect on competition probably low
  - But deadweight effects
  - Providing publically funded counselling, in particular for SMEs seems promising
  - Take-up is likely to be higher in a context of labour shortages.
- **Subsidies and counselling for introducing preventive health measures** are likely to be positive, in particular in the longer term.





## Conclusions

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- **More could be done to maintain** and increase employability and human capital for all skills groups and all ages.
- Countries need to find a new split for sharing costs of **measures between the State, firms and workers.**
- **Effective** public investments in lifelong learning of mature and older low-skilled workers **should prevent** labour market exclusion.
- **Subsidies** directed towards **maintaining older workers** in employment are likely to be more effective than hiring subsidies.
- Nevertheless, **hiring subsidies** are justified to reduce the high risk of **long-term unemployment** of older workers.



# Thank you

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