For Official Use **SG/RE/LMP(98)6**

Organisation de Coopération et de Développement Economiques
Organisation for Economic Co-operation and Development

OLIS : 20-Feb-1998
Dist. : 24-Feb-1998

Or. Eng.

GENERAL SECRETARIAT
EXTERNAL RELATIONS DIVISION

SG/RE/LMP(98)6
For Official Use

Labour Management Programme

MEETING OF TRADE UNION EXPERTS ON 'POLICY IMPLICATIONS OF AGEING SOCIETIES'

DISCUSSION PAPER

Paris, 2 March 1998

62282

Document complet disponible sur OLIS dans son format d'origine
Complete document available on OLIS in its original format

Or. Eng.

MEETING OF TRADE UNION EXPERTS ON "POLICY IMPLICATIONS OF AGEING SOCIETIES"

Monday 2 March 1998

Participants in the meeting will find attached a discussion paper prepared by the Rapporteur, Mr. Bernard Casey. Intended only as general guidance for the meeting, the paper does not constitute a rigid agenda and experts are therefore free to raise other questions relevant to the subject under discussion. The paper should be considered in conjunction with the descriptive note and agenda circulated as document number SG/RE/LMP(98)4.

****

MEETING OF TRADE UNION EXPERTS ON
"POLICY IMPLICATIONS OF AGEING SOCIETIES"

DISCUSSION PAPER

by Bernard Casey,
European Institute,
London School of Economics[1]

INTRODUCTION

The meeting is designed to learn more of the concerns of Trade Unions about what an ageing society can mean

- for individuals -- as workers, as people seeking work, as people who will retire and as retirees; and
- for their representatives -- as negotiators in workplaces, as participants in sectoral and national social dialogue, and as members of "expert commissions".

It takes place against the background of an ongoing body of work being undertaken by the OECD Secretariat under the title, the "Horizontal Programme on Ageing", and of preparations for the forthcoming "ministerial" of social affairs ministers, where the programme's output to date will be reviewed and future directions and activities planned.

The title of "horizontal programme" reflects the involvement of a number of different directorates within the OECD, namely those concerned with:

- economics and financial markets;
- public sector management; and
- health,

as well as those concerned with

- pensions and social protection; and
- the labour market.

The OECD recognises the multi-faceted nature of the issue of ageing societies. The Secretariat is fully aware that, in coming to terms with the issue, and in formulating responses, the many dimensions of "ageing" and "society" interact with one another and, thus, that the *full* implications of policy proposals need to be examined. It is also aware that, when discussing policy and policy response, it is not only the actions of national governments that count, but also those of private law institutions, such as unions and employers associations, and that, in many areas, outcomes are the product not of formal decision making

[1] This paper reflects the personal opinion of the author and should not be taken to represent the views of the OECD, TUAC, or any other body.

processes but of “custom and practice” and “culture”. Lastly, it is aware that for every intended action there might well be an unintended consequence.

The meeting, given its participants, and given their likely interests and objectives, can be expected to concentrate more upon the last two of the five concerns listed above – namely, pensions and the labour market. This is not intended to exclude discussion of the others concerns. Indeed, awareness that developments and decisions have the first three concerns as part of their context, is an important pre-condition for the meeting’s success.

ISSUES

The extent to which societies are projected to age in the coming decades is now widely understood. On the other hand, it is also clear that the experience of Member Countries neither has been, nor will be, homogenous. Non-homogeneity holds with respect both to the magnitude, and to the timing, of ageing. If this means there are also no universal solutions, it also means that Member Countries, and the actors in them, have the opportunity to learn from one another – from one another’s mistake as well as successes – and to engage in mutually beneficial dialogue.

An ageing of society is likely to involve:

1. an increase in the number of very old people (leading to questions about the financing and form of provision of the care that they might need);
2. an increasing number of people of retirement age relative to people of working age (leading to questions being asked about the “affordability” of pensions);
3. an ageing of the workforce itself (leading to questions about the “productivity”, “trainability” and “flexibility” of older workers).

The expected emphasis on issues of pensions and employment means that it is the latter two of the above three points to which much of the discussion will be oriented. However, it is to be remembered that even the first is of importance – workers might well be paying, or called to pay, long-term care insurance; they might have elderly family members for whom they have to, or will have to, care; or they might be employed in the rapidly growing care sector.

In the meeting itself, attention will focus upon three issues falling into the broader areas of pensions and employment. These are, in turn:

1. the reform of pension provision;
2. the restructuring of the retirement process; and
3. the “employability” of older workers.

Potential subjects for discussion with respect to each of these issues are outlined below.

1. The reform of pension provision

This was the theme of a major conference organised by the OECD and the ILO, with the participation of the World Bank, which was held in Paris in December 1997. Recurrent issues of the conference were the form and level of provision and the age of entitlement. The last of these will be considered further under issue 2. Here consideration is given primarily to the first two.

Much energy has been expended on the discussion of the merits of "funding" versus "pay-as-you-go" as a principle of organisation. Consensus is increasingly that, at least in one critical dimension, this distinction is unreal, in that both forms of organisation involve a transfer of resources from those producing to those consuming. The virtue of funding -- at least in the advanced economies of the OECD, if not across the world as a whole – is that it more closely links benefits to contributions and thus encourages people to save, and that, because it implies the paying contributions to a savings plan, rather than the paying of taxes to the state, the existence of a funded scheme has a less distortionary affect upon how much labour is supplied and demanded.

The counter argument to funding, which implies an individualisation of pension accounts, is that it undermines inter-generational solidarity, and might ultimately undermine support for a pension system at all. Related to this, it is pointed out that individual accounts, without any underpin from the wage earning community or society as a whole, might well fail to provide adequately for people whose life-time earnings have been low or who have encountered a significant period of their working age life without a job -- either because of unemployment, ill health, or caring responsibilities.

Awareness of this leads most concerned with pensions policy to accept a role for a basic pension paid irrespective of contributions record. The debate then becomes one of the size and coverage of this basic pension relative to a second-tier, insurance based and possibly funded, pension.

Funding does not, of itself, imply privatisation – a state pension, as much as a personal pension, can be funded, and some private schemes operate on an effectively pay-as you-go basis. Privatisation is advocated as a means of improving consumer choice, but also as a way of taking pensions "off budget" and , thus, of reducing pressure on public expenditure.

Private pensions are, however, criticised for having much higher costs of administration than state systems; of imposing high costs on consumers who need to acquire information to compare them and to calculate their needs; of being subject to mal-administration and mis-selling; and even of being open to theft and fraud.

It is for these reasons that private systems are usually, and increasingly, heavily regulated. Regulation is designed not only to minimise "failure of process" – i.e., to ensure sound management -- but also "failure of outcome" – i.e., to ensure that an adequate pension is earned. The latter means that workers are required to participate in them and to participate at least at a minimum level.

Whether public or private, pension systems which relate benefits to earnings produce a degree of certainty for the pensioner. In the first instance, it is the tax-payer, or the employer who bears the economic risk. On the other hand, where the pension system operates on the basis of bequeathing the pensioner the wealth accumulated by his or her savings, it is the future pensioner who takes the risk – the risk of fluctuations in equities markets and annuities markets. Prudential investment requirements can reduce, but not remove, some of this risk. A further risk of certain schemes is that associated with job change. Schemes which are linked to individual employing organisations – occupational or company schemes –

tend to disadvantage the more mobile employee, especially if the scheme is a salary related one. However, even those with personal pensions can still suffer from change, since by no means *all* employers will contribute to *all* personal plans, and transferring between plans is, itself, costly. Only schemes which cover all employees, as do state schemes, do away with the risks associated with job change.

Questions for discussion might, therefore, be:

- the relative importance of contribution principal versus redistribution;
- the extent to which saving for old age should be compulsory rather than voluntary;
- the appropriate locus of organisation of pensions;
- the role of employees and their representatives in the overview of pension schemes.

2. The restructuring of the retirement process

A major component of most strategies to reassert the financial viability of state pension schemes is a raising of the age of retirement. In its own right, this leads to the question of whether, if people were required to wait longer before they could draw their pensions, employers would be prepared to employ them. This last is dealt with under issue 3. Here, attention is focused upon actual retirement ages, their determinants, and the process of, and form which, retirement takes.

It can scarcely have escaped any observer's notice that, at a time when there are calls for later retirement, the effective retirement age in all Member Countries stands well below the state pension age, and is still falling. Early exit is pervasive: the last two decades have seen the establishment of a new social group – those too old to work but too young to retire.

Both "supply side" and "demand side" explanations have been offered for this phenomenon. On the supply side, commentators have pointed to the availability of benefits from personal and company pension schemes, either without any reduction at all, or with a less than actuarially fair reduction, at a relatively early age. In addition, and outside pension systems, people have grown richer and have accumulated savings. As a consequence, they have the resources to withdraw from work, and to bridge the years until they can also draw state benefits. State schemes, themselves, have also become more generous. Some, in the interests of spreading societal wealth, lowered the full pension age for people with long service, others made possible the exit of people deemed to have lost the ability to work. Those who were eligible, exercised their option.

On the demand side, commentators have pointed to the increase in unemployment in the last two decades, and to large-scale and repeated "downsizing". Early retirement provides a "socially acceptable" way of managing workforce reductions, especially if the state, -- by offering extended unemployment benefit or access to early pensions to the older unemployed -- picks up a substantial share of the costs of firms' actions. Indeed, it is pointed out that supply side incentives cannot be viewed in isolation from the wider context of a slowdown in employment growth and an increase in unemployment: it was precisely because of such a situation that they were introduced. At their most explicit, such incentives took the form of programmes enabling early retirement where the employer agreed to replace the retiree with an unemployed person – often an unemployed young person, since youth unemployment was seen as a particular problem. At their least explicit, the granting of disability benefits was a recognition that, in a slack labour market, those with heath problems were unlikely to be recruited.

Whether older workers are "pulled" or "pushed" into early retirement, ceasing work early might have a number of consequences. It might enable non-work activities to be pursued more intensively, and it might encourage personal development and/or a contribution to the community. On the other hand, by cutting people off from an important source of contact and self-realisation, it might damage self-esteem, and it might even harm family life. Moreover, whilst early pensions or lump-sum redundancy packages might look attractive at the time, in the longer term, financial difficulties might ensue. There is little hard data, but much speculation, that some of the poorer amongst the retired population are those who retired early.

Quite apart from encouraging their early exit, both state and company pension schemes have tended to discourage people working beyond the age of pension entitlement. State schemes, through "earnings rules", tended to place a heavy tax upon those who both drew a pension and worked. Company schemes normally rule out employment within the pension providing organisation by those who have liquidated their benefits. Both types of scheme tend to place caps on the number of years for which contributions can be paid, or place a maximum age on being a contributor, and many offer less than fair actuarial appreciation of the pension to those who were longer. Employers, seeking to promote high performance, and to ensure that fixed employment costs can be amortised, might offer pensions as a means of ensuring long service, but they also use these pensions to ensure that workers exit on time, and they construct incentives to leave accordingly.

Whether early or late, retirement, when it occurs, tends to be abrupt. Although many have praised the benefits of gradual exit -- whether as a way of avoiding the "retirement shock" or of enabling people to stay longer as at least partial producers rather than as complete consumers -- its actual incidence is very limited. A number of reasons have been adduced for this. In some cases, partial pension schemes offer net incomes scarcely higher than do early retirement schemes. In many cases, difficulties of organising work to accommodate part-time work are pointed to. For some jobs, particularly those with a managerial or supervisory role, part-time working is said to be inappropriate, whilst in the eyes of some men, part-time work is felt to be inferior – mere "women's work". Lastly, pension schemes which tie pay to final salary seriously discourage switching to a part-time schedule at the end of their working life. Whilst it is not unusual for people to take a job after they have given up, or been forced out of, their career job, the jobs that they can find usually involve the acceptance of occupational downgrading.

Questions for discussion might, therefore, be:

- whether it is appropriate to structure redundancy packages to encourage early retirement;
- who should pay the costs of early retirement and how these costs can be made clear;
- whether mandatory retirement is acceptable and whether people should be able to continue working for as long as they want;
- what can be done to ease the barriers to more flexible retirement patterns, especially gradual retirement; and
- whether inflexibility in retirement ages at least offers certainty.

3. The "employability" of older workers

Critical to a strategy to relieve pressure on social security systems, or to improve the opportunities for older people to participate in paid work, is that there exists jobs for them to do and organisations willing to employ them. Thus far, mention has been made of the way in which older workers might be encouraged to leave the workforce, and of the obstacles to their being able to leave work gradually rather than abruptly. Here, attention turns to how well, per se, older people fit into the workforce.

Many observers have suggested that older workers tend to be more expensive than younger, or prime-age, workers. Thus, if the labour force is ageing, the only way older people will be absorbed into it is if their costs fall. Costs have many dimensions, but the most frequently cited one is the simple “age-wage profile”, which suggests that wages rise with age, until, or at least until close to, retirement age is reached. One reason for this might be that, in the same way as they use pensions to encourage tenure and effort, employers defer an element of pay, so that remuneration equals effort over the whole employment relationship rather than at any moment in time. Another reason might be that wage systems reward age, or service, in its own right. If wage rates involve deferred pay, higher wages do not disadvantage existing employees, provided they do not “overstay their welcome” – hence, mandatory retirement or retirement incentives in pension schemes. However, they might discourage the hiring of older people, for whom industrial relations considerations might make it difficult to pay a lower, young persons or “starters” wage. If wage rates are age/service related, all other things being equal, employers might well wish to dispense with older workers, and certainly will not wish to hire them. On the other hand, analysis suggest that pure age-related enhancements to wages are rare, and that increases in earnings associated with service might, to a considerable extent, merely reflect the rewarding of the enhanced productivity that experience brings with it. The pure “seniority effect” seems to be small.

Additional costs, where they occur, might lie in fringe benefits. Where employers operates a salary related pension scheme, they do have to make higher contributions for an older than for a younger employee, *for any given length of service*. This tends to lead to the pension schemes setting maximum entry ages, and these are translated into maximum recruitment ages. However, where pension schemes are “mere” savings schemes, age has no affect.

Another source of higher costs might be the higher sickness absence of older workers. On the other hand, although they tend to be off work for long periods if they are sick, casual absence amongst older people is infrequent. Casual absence amongst young people, if usually short, tends to be frequent. Such absenteeism might well be more disruptive, and thus more costly, than the sickness absence of older workers.

As well as being possibly more costly, older people are considered to be less usable than younger workers. Prima facie, they tend to be less well qualified, although this might reflect a tendency in recent years toward “certification”, rather than meaning that recent cohorts have acquired more competencies before joining the labour force. On the other hand, by having longer workforce experience, older people are likely to have more employment related human capital than have younger people – making an older workforce more productive.

Ageing has an impact upon the way in which people work, the kind of jobs they are good at, and the way in which they learn new skills. However, there is little evidence at all that older workers are less productive than younger workers. Indeed, the research findings emphasise that “within age” productivity differences are at least as great as “between age” differences. It is true that there are certain heavy, repetitive jobs which older workers find increasingly difficult, but in OECD Member Countries such jobs are, in any case, disappearing. Jobs at which older workers are intrinsically better – those requiring reflection, and/or good presentation -- are the kind of jobs the number of which is growing.

On the other hand, older workers tend not to possess the most up-to-date technical skills, and this disadvantages them relative to people fresh from education. It is frequently argued that older people cannot, or will not, learn new skills. Certainly, they appear to receive less training. Again, however, research shows that older people are as capable of learning as younger people. It is merely that the most appropriate methods for training older people, who tend to have little recent class room experience but much workplace experience, are not always the same as those for training younger people, who tend to have little work place experience but recent class-room experience. Moreover, one reason why older workers might be difficult to train, or be unwilling to train, is because they have had no training for many years. Organisations which encounter little difficulty training older workers are those which train all their employees. Older workers who react best to training are those who are used to going through training.

It has been argued that one reason why employers are reluctant to train older workers, or why older workers are reluctant to undertake training, is that they will not be employed long enough for the costs of the training investment to be amortised. Yet this seems to fly in the face of evidence that the expected duration of service of an older recruit is greater than that of a young recruit. The latter are much more likely to move on than are the former. Moreover, it flies in the face of evidence about the effective life of skills. Change is continuous and skills need to be added to and replaced. According to research, the “half life” of most workplace skills is now only some three and a half years.

Questions for discussion might, therefore, be:

- whether there needs to be greater wage or benefit flexibility to assist the absorption or retention of older people;
- whether expected changes in the nature of employment, and the kind of work to be done, will favour or disadvantage older people;
- how training practices can be adjusted to cope with a changing working population; and
- whether the attitudes toward, and treatment of, older people by employers, and by employee representatives, differs according to whether the older person is an existing employee or an applicant for employment.

MORE GENERAL POINTS

There are a number of themes cutting across the specific issues discussed so far which participants might also wish to discuss. Without wishing to prioritise them, the following might be of import:

- to what extent an ageing population, or an ageing workforce, only becomes a “problem” if economies are growing slowly or labour markets are slack;
- to what extent work patterns are changing, both as the nature of economic activity changes and as individuals face new requirements or change their orientation to work and to careers;
- why, when scientific evidence suggests that older workers are not inferior to younger workers, age appears to be a source of disadvantage on the labour market, and what the role of education/propaganda and of (anti-discrimination) legislation might be in changing attitudes and behaviour; and
- what the role of government as a major employer, and, in the context of this meeting, of unions, which are employers, too, might be.