

The eighty per cent solution

How to keep the state pension age at 65

Section one: Introduction

This report looks at the implications of full employment for pensions. The government, employers and the pensions industry are very concerned about the worsening 'dependency ratio'. As people live longer, so there are more retired workers dependent on the output of workers in employment, and there are only a limited number of ways in which this problem can be resolved.

The TUC believes that a partial answer may lie in the government's 'aspiration' of achieving an 80% employment rate. Raising the employment rate this much over a long period - thirty years or more - will ease many of the problems we face. We do not believe that this solution can make the difficult choices we face disappear, but we do believe that it provides a good argument against precipitately adopting extreme solutions, such as the raising of the state pension age.

At the start of this year the TUC published Building a Modern Labour Market, which looked at how the UK might develop a new model of employment, combining flexibility and security. This report tries to put these ideas in a time-frame: the changes we describe are not for a single Parliament, or even a single decade, they are about how we can increase the chance that our grandchildren will lead secure and prosperous lives.

Section two: The starting point - dependency ratios

Pensions have been in the headlines recently. But there is an unusual feature to the stories about the future of public sector pensions, the plight of workers left without pensions when their employers went bust and worsening terms in surviving company pensions. Most debates about current crises have a very short time-frame, but all these stories are reported as illustrations of the worsening dependency ratio.

There is a common story about the implications for pensions of the fact that life expectancy is rising. It goes something like this :

- Any pensions system is a mechanism by which the current retired generation establishes a claim to a share of the output of the current generation of workers in employment. The current generation in employment must forgo a share of 'their' output, and the size of that share depends on how many workers and how many pensioners there are.
- More workers and fewer pensioners and the share will be smaller, fewer workers and more pensioners and the share will be larger.
- Increasing longevity means that there are more pensioners. The ratio of people over 65 to the rest of the population was 1 in 20 a century ago, is around 1 in 6 today, and will rise to 1 in 4 by 2051.¹ If we exclude children the change ahead is even more dramatic: the ratio of people over 65 to people aged 20 – 64 is currently 27% and will rise to 48% in 2050.²

As the Pensions Commission has pointed out, the implications of this for policy are that, other factors being equal, at least one of the following must happen:

¹ Opportunity Age, DWP, 2005, para 1.8.

² Pensions: Challenges and Choices, Pensions Commission, 2004, p 4.

- More pensioners will live in poverty;
- Taxes and National Insurance Contributions will rise;
- Or other public spending will be cut;
- Each generation will have to save more;
- Average retirement ages will rise.

The significance of economic growth

All this is true, and grappling with these options is probably unavoidable. The fact that difficult decisions lie ahead is sometimes presented as a matter of generational equity: is it fair for us to leave to our children the cost of paying for our pensions? They might well see it as unfair when they consider the fact that their generation is smaller than ours.

But this is not the whole picture. Population isn't the only entity that will change in the next few decades; the economy will evolve as well. And, unless there is an economic disaster, we can expect that output, wealth and living standards will all continue to grow. Or, to phrase it in terms of generational equity, we may be leaving a burden to our children, but one they will be better able to bear than us. Pensions smooth incomes over time for society as a whole, as well as for individuals. For individuals, we contribute to our pensions during the part of our life when our incomes are relatively high, and draw on them when they drop or cease. For society, pensions give each generation a call on the resources of succeeding, richer, generations. This is fair, each generation builds on the achievements of its predecessors, and the system expresses our collective commitment to the enterprise of maintaining a society that will continue to flourish long after any individual alive today is dead and gone.

Most of the leading actors in the UK, such as the Pensions Commission and the Department for Work and Pensions, are fully aware of this, and the choices outlined by the Pensions Commission are choices that are still there even after taking economic growth into effect. But some participants in the debate have ignored it, and this is a particular feature of the debate about the future of social security taking place in America.³

The composition of the dependency ratio

Debates about the dependency ratio are not just about the number of retired people and the number of workers supporting them. Workers also support those below working age, and the fertility rate in England and Wales has been below replacement level since 1973.⁴In the table below, taken from Government Actuary's Department data, we can see the population in 2003, the estimate for 2005 and a projection for 2051.

Table 1: children, people of working age and people of pension age 2003, 2005 & 2051

	2003	2005	2051
<i>Thousands</i>			
Children	11,712	11,578	10,893
Working age	36,828	37,200	38,812
Pension age	11,014	11,247	17,081
<i>Percentages</i>			
Children	19.7	19.3	16.3
Working age	61.8	62.0	58.1
Pension age	18.5	18.7	25.6

If we only look at the figures for numbers of working age people and numbers of pensioners, we can see that there will be 2 million more of the former but 6 million more of the latter, and the ratio between the two will fall from 3.31

³ In the US, pessimistic predictions of growth have been used to prove that there is a crisis facing the USA's successful system of social insurance, whilst, at the same time, optimistic assumptions about the prospects for the same economy justify privatisation as the answer to this crisis. UK media often reflect US debates, and this explains why similar arguments pop up in discussions about the UK pension system.

⁴ "Replacement Fertility, What Has it Been and What Does it Mean?", Steve Smallwood and Jessica Chamberlain, Population Trends, 119 [Spring 2005], ONS, p 19.

to 2.27. But there were also be nearly 700,000 fewer children, and the proportion of the population who are of working age will fall by 4 percentage points – a much more manageable number than some descriptions of what lies in store.

But it will fall, so the message we should pick up from these figures is that we should not panic, but we do need to act. This message is confirmed by the GAD predictions for the overall dependency ratio:

Table 2: dependants per 1,000 persons of working age⁵

	2003	2005	2051
Children	318	311	281
Pension age	299	302	440
Total	617	614	721

In addition, some “don’t panic” messages have been unintentionally misleading because they make the point that the overall dependency ratio is not going to deteriorate as badly as the working age/pension age ratio, and fail to mention that the two ratios have very different impacts on public spending:

- “Expenditure directed at children” accounts for about 13% of social security and tax credit expenditure, while “expenditure directed at people over working age” accounts for 57%.⁶
- It is a similar, though less extreme, story in the NHS; both groups are heavy users of health services, but people aged over 65 accounted for 39% of hospital and community health services expenditure in 2001/2, while the equivalent figure for children under 16 was 12%.⁷
- Education is, of course the mirror image of health and benefits, with the estimated outturn for 2003/4 showing current and capital spending on schools at £32,391 million, compared with £13,910 for everything else, including higher and further education, adult learning and administration.⁸
- Education, at £68bn, is a large item in the public accounts, still smaller than social protection (£146bn) and health (£90bn).⁹

Even if there were no deterioration in the dependency ratio, this substantial shift in the nature of dependency would have substantial implications for public spending. One of the choices outlined by the Pensions Commission – a cut in non-pension public spending – is therefore inevitable, at least in relative terms. Decisions about workforce planning have to be made that will have vital implications for public spending and for the careers of people now entering the labour market.

Section three: receding retirements?

The Janet and John version of the pensions debate always concludes that an increase in the state pension age is the best or only policy response. Sometimes commentators instead call for workers to be given an offer they cannot refuse, by making them choose between poverty in retirement and a longer working life.

The Pensions Commission has pointed out that closing the gap only by raising retirement ages, would require them to “rise from the current male average of 63.8 to 69.8, in addition to the current female average of 61.6 rising to equal

⁵ Source as for table 2

⁶ Benefit Expenditure Tables, DWP, 2005, table 5, outturn figures for 2002/3, accessed at <http://www.dwp.gov.uk/asd/asd4/Table5.xls> 27/05/2005 12:05.

⁷ Calculated from Departmental Report, 2004, DoH, fig 6.2, accessed at <http://www.dh.gov.uk/assetRoot/04/08/09/48/04080948.pdf> on 27/05/2005 12:12.

⁸ Taken from Departmental Report, 2004, DfES, table 2.3, accessed at <http://www.dfes.gov.uk/deptreport2004/uploads/chapter2.doc> on 27/05/2005 12:22.

⁹ Budget 2005 Summary, HMT, p 9, accessed at http://budget2005.treasury.gov.uk/page_09.html on 27/05/2005 12:28.

the male level.”¹⁰ This would be more than proportional to the expected increase in life expectancy. Average life expectancy at 65 is currently estimated at 19 years, and is projected by the Government Actuary’s Department to rise to 21.7 years by 2050 (though this would be a significant under-estimate if recent trends continue).¹¹

Raising retirement ages would result in thousands of workers never receiving a pension: in England and Wales 16.7% of the population die before they reach 65, and a further 7.1% before they turn 70.¹² It would also amount to indirect class discrimination. The expected age of death for men in social class V who reach 65 is 81, in class I it is 86.¹³ For a man of 65, a proposal that his retirement age should be raised to 70 would amount to a cut of 31% in his expected retirement if he was in Class V, but 24% if he was in Class I. And while the worker in Class I would have the resources to choose leisure over income, the worker in Class V would be much more constrained.

And an across the board policy would create retirement deserts as there are parts of the country where life expectancy is no higher than the national average in the 1950s: a boy born in Manchester can expect to die 10 years earlier than a boy born in Dorset.¹⁴

Full employment

But an increase in the state pension age is not the only – or best - way to address the dependency ratio. Life expectancy and birth rates are vitally important factors in establishing how many people of working age are available to support those not of working age, but the key figure is how many working age people are actually working and paying taxes. Every time someone moves from non-employment to employment the dependency ratio improves; if this could be done on a large scale it would make the choices we face more palatable.

And the good news is that the labour market has been moving in the right way for some time. By European standards the UK has high employment and low unemployment:

Table 3: employment and unemployment rates in the European Union, last quarter 04¹⁵

Country	Employment (%)	Unemployment (%)
Denmark	75.6	4.9
Netherlands	73.1	5.0
United Kingdom	71.8	4.7
Sweden	71.5	6.3
Cyprus	68.8	5.1
Austria	68.1	4.6
Portugal	67.8	6.9
Finland	67.1	8.3
Ireland	66.7	4.3
Germany	65.8	9.8
Slovenia	64.9	5.8
Czech Republic	64.5	8.3
Estonia	63.4	7.9
France	62.9	9.8
Latvia	62.2	9.4
Luxembourg	61.6	4.5

10 Pensions: Challenges and Choices, Pensions Commission, 2004, p 14.

11 Pensions: Challenges and Choices, Pensions Commission, 2004, p 44.

12 “Ministers Rule Out Pensions from 70”, Toby Helm, Daily Telegraph, 15-9-04.

13 How Big is the Life Expectancy Gap by Social Class?, Pensions Policy Institute, 2005, p 1, updating ONS data on a cohort basis.

14 Speech by Alan Milburn to the Faculty of Public Health Medicine, 20-11-02.

15 Labour Market Statistics, ONS, May 2005, table 19, available at <http://www.statistics.gov.uk/pdfdir/lmsuk0505.pdf>

Table sorted on employment rates. If sorted by unemployment Ireland, Luxembourg and Austria have lower rates.

Figures for Germany and EU25 are third quarter 2004.

Data here follows Eurostat in defining employment and unemployment rates as a proportion of total population aged 15 – 64.

Elsewhere figures follow ONS norm, in which working age is defined as 16 – 64 (men) and 16 – 59 (women).

Spain	61.5	10.2
Lithuania	61.4	8.6
Belgium	60.6	8.0
Greece	59.6	10.2
Italy	58.0	8.0
Slovak Republic	57.5	15.9
Hungary	57.0	6.3
Malta	54.0	6.8
Poland	52.4	18.1
EU25	63.7	8.9

The UK employment rate has been within half a percentage point of 75% since the Summer of 2002 and is over 78% in the East, South West and South East of England.¹⁶

In the past five years the number of people in employment has risen by 775,000, the number unemployed has fallen 306,000 and the number of economically inactive people who want jobs has fallen by 338,000. There are regions such as the North East and London that fall short of this performance, and there is no guarantee that it will continue, but full employment is a current reality in many parts of the country.

The government have announced that they want to build on this record, and declared that their 'aspiration' is to achieve an employment rate of 80%.¹⁷ This report looks at the implications an 80% employment rate would have for pensions.

80% employment and dependency ratios

So unions welcome the decision to seek an employment rate of 80%, not only because we believe in the virtue of paid work, but also because it will help to address a serious pension problem. And, indeed, this is one of the reasons for the government's decision:

"If we adopt the broadest measure possible – the ratio of non-workers to workers – an employment rate equivalent to 80 per cent of the working-age population would virtually fully offset the rise in the dependency ratio between now and 2050."¹⁸

The DWP's Five Year Strategy translates this target into an extra 2.5 million people in employment. Catalyst, the think tank, is rather more optimistic, calculating that 2 million extra jobs are needed to maintain the dependency ratio.¹⁹ The GAD data reported in table 2 shows that there are currently just over 37 million people of working age, but the Labour Force Survey shows that the number of them actually in employment stands at 27.56 million, about 45.9% of the total population.²⁰

The TUC calculates that both Catalyst and the government under-estimate the number of jobs needed, but the 80% aspiration is about right. The GAD expects the UK population in 2051 to be 66,787,000, 6.7 million more than at present, so we would need about 30.7 million workers to maintain the same proportion of the total population in

16 LFS data, taken from Labour Market Statistics, ONS, various editions, available at <http://www.statistics.gov.uk>

17 Opportunity and Security Throughout Life, the Department for Work and Pensions five year strategy, 2005, p 4 et seq. The 80% aspiration is mentioned 21 times in the Strategy.

18 Opportunity and Security Throughout Life, the Department for Work and Pensions five year strategy, 2005, p 26.

19 The Challenge of Longer Life, Economic burden or social opportunity?, John Grieve Smith et al, Catalyst, 2002.

20 Calculated from Labour Market Statistics, ONS, May 2005, table 1. In the labour market statistics the figure given for the level of employment is for everyone in employment, whatever their age; the employment rate is calculated for those of working age. There is a difference of about one million between the total number in employment and the total number of people of working age in employment. Tables 5 and 6 use the total number of people in employment, but this table simplifies calculations by assuming that the ratio of employees over state pension age to those under it is maintained at a constant level.

employment. This is 3.14 million more than at present, and would amount to a working age employment rate of 78.98%.

A changing target

The GAD projections show the total population rising throughout this period, the working age population peaking in 2046, and the child population fluctuating, so the employment rate and numbers needed to maintain the same percentage of the total population in employment would change over time. If we assume that what is needed is to maintain the same proportion of the population in employment, then the number of extra workers needed is greatest in the immediate future, but the large increases in the employment rate are not needed till the mid-2020s:

Table 4: number of workers needed to maintain the same proportion of the population in employment, and resulting employment rate, 2005 - 2051²¹

Year	2010	2015	2020	2025	2031	2041	2051
Population (000s)	61,16	62,37	63,59	64,70	65,70	66,54	66,78
Population (000s)	6	0	9	7	0	3	7
Number of workers needed (000s)	28,07	28,62	29,19	29,70	30,15	30,54	30,65
Number of workers needed (000s)	5	8	2	1	6	3	5
Working age population (000s)	37,84	38,94	39,94	39,86	39,18	38,83	38,81
Working age population (000s)	4	7	2	8	6	6	2
Employment rate needed	74.2%	73.5%	73.1%	74.5%	77.0%	78.6%	79.0%

The TUC's estimates produce a somewhat higher figure than Catalyst or the DWP, but we believe that, if anything our figures under-estimate the number of extra workers needed. In para 13 we set out reasons why the changing composition of the non-working age population is significant. If about 50% more is spent on a person of pension age than a child, then by 2051 we would need an employment rate of 82% or 83%. What is more, the Pensions Commission has pointed out that the GAD projections assume that the rate of increase in longevity is about to slow down; if the recent acceleration continues, a much higher employment rate would be needed.

Section four: 80% in the regions

Some regions are already at close to 80% employment, and we can imagine what difference it might make around the country. As always, the current overall employment figures mask variation across the different regions. London currently has the lowest employment rate of any English region, while the East of England, South-East and South-West all have employment rates a fraction under 79%.

Table 5: working age employment levels and rates in the nations and regions²²

Region	Employment level	Employment rate
South East	3,893,000	78.9%
East	2,619,000	78.8%
South West	2,350,000	78.8%
East Midlands	2,006,000	76.3%
Scotland	2,374,000	75.4%
UK	27,560,000	74.9%
West Midlands	2,416,000	74.7%
Yorkshire & the Humber	2,298,000	74.6%
North West	3,067,000	73.3%
Wales	1,274,000	71.6%
North East	1,098,000	70.6%
London	3,437,000	70.0%

²¹ Source as for table 2.

²² *Labour Market Statistics*, ONS, May 2005, table 18 (1).

An important conclusion follows on from these figures: the need for strong regional institutions and really effective regional policy. Look at the disparities between the regions. An eighty per cent employment rate would mean about 30.5 million working age people in work – an increase of 6.8%. The table below sets out what an across the board 6.8% increase in the number of jobs would look like in terms of the number of extra jobs and the employment rate in each region:

Table 6: change implied by a nationwide 6.8% increase in the number of jobs²³

Region	Number of extra jobs	Employment rate
East	178,000	84.3%
South East	265,000	84.3%
South West	160,000	84.2%
East Midlands	136,000	81.5%
Scotland	161,000	80.5%
West Midlands	164,000	79.8%
Yorkshire & the Humber	156,000	79.7%
North West	209,000	78.3%
Wales	87,000	76.5%
North East	75,000	75.4%
London	234,000	74.8%

Long before these increases were achieved the economy would over-heat in the south and east of the country, forcing the Bank of England to raise interest rates and halt the expansion. And, of course, if jobs growth were concentrated in the already favoured parts of the country this would happen even sooner.

New jobs will have to be created at a much faster pace in the least favoured regions if the 80% target is to be feasible. But this is unlikely to happen by itself, and the next table illustrates why, showing what would be implied by an 80% employment rate in every region, with an average 6.8% increase in the number of working age jobs resulting from much higher increases in job poor regions, and lower increases in job rich regions.

Table 7: change needed to achieve an 80% employment rate in each region²⁴

Region	Shortfall - numbers	Percentage increase needed
South East	55,000	1.4%
South West	33,000	1.4%
East	39,000	1.5%
East Midlands	96,000	4.8%
Scotland	145,000	6.1%
West Midlands	172,000	7.1%
Yorkshire & the Humber	165,000	7.2%
North West	279,000	9.1%
Wales	149,000	11.7%
North East	146,000	13.3%
London	491,000	14.3%

Increases of the order of 10% and more require two conditions:

- They are unlikely to happen quickly, we should plan for them to be spread over a generation;
- The government must encourage growth to be concentrated in the least favoured regions; strong regional policy and powerful regional economic institutions will be needed.

²³ Source as for table 5.

²⁴ Source as for table 5.

Of course, as we have seen above, by the time an 80% rate is achieved, the working age population will have grown, and we must emphasise that these figures are not predictions. Nonetheless, taken together these tables not only show the need for effective regional policy, they can also give an idea of the range of increased employment needed in each region to make a reality of the government's aspiration. For instance, an 80% employment rate implies somewhere between 230,000 and half a million extra working age jobs in London.

These tables illustrate the fact that unemployment has not yet ceased to be an issue across the whole country – an issue that is not really picked up by regional statistics. Unemployment in London is the highest of any region in the UK, at 6.7%, but there are a number of districts with unemployment rates of over 7% (see annex).

Every region has at least one district listed in the charts in the annex. At the same time, a majority of districts in every region have unemployment rates below 7%. In some districts this is because a high proportion of people not in employment are economically inactive (usually because of disability). But the main reason is that, in most of Britain, we have low unemployment. Britain is a country mainly at full employment, but with a rash of districts (including many of our great former centres of manufacturing and heavy industry) where unemployment is still a major problem.

Regional data do not show these pockets of high unemployment. There are 7,217,000 people of working age in these districts – 19.6% of working age people live in high unemployment areas. If we could reduce the gap between these districts and the rest of the country by cutting the unemployment rate in these districts by one and a half percentage points (an achievement that would remove nearly two-thirds of the districts from these lists) and getting all the people helped into jobs, we would increase the number in employment by 100,000. Spread out over a decade, an extra 10,000 jobs a year in the unemployment black spots (that is, in addition to the number needed to achieve the average for the rest of the country) looks quite achievable and would contribute 10% of the increase in employment needed during that period to prevent a deterioration in the dependency ratio.

How realistic is this?

Table 4 suggests that:

- A million extra working age workers are needed by 2015;
- An extra two million by 2024; and
- An extra three million by 2042.

This is a challenging target, but by no means impossible. As we noted above, the number of people in employment has risen by more than three quarters of a million in the past five years – a similar performance over the next five would see the UK comfortably on target.

In their interim report, *Pensions: Challenges and Choices*, the Pensions Commission address this issue, pointing out (in an implied rebuke to many of those who claim that demographic change will force us to raise retirement ages) that raising the average retirement age is not the same as raising the State Pension Age. An increase in average retirement ages can be achieved without forcing people to work till they drop: a rise in employment rates before people reach State Pension Age, or more people choosing to work beyond that point would also have the effect of raising the average retirement age.

The Commission investigated the possible impact of a 'higher participation' scenario, in which the employment rates of people under state pension age are raised. The Commission concluded that this would have an impact, reducing the 2050 dependency ratio by four percentage points, but this would still be 16 points higher than today's. Three important factors lie behind the Commission's pessimism:

- They expect a significantly higher dependency ratio than the government, because they do not accept the GAD assumption that the rate of increase in longevity will slow down; this makes the mountain to be climbed much steeper.
- A certain number of people will continue to be sick or disabled and/or carers.
- Some people will always choose to retire early.

Section five: realism

Realism: what will happen to dependency ratios?

This is a difficult issue to call, but there is a strong case that suggests that the improvements of the last twenty years have resulted from the maturing of generations who have benefited from improved public health, the creation of the welfare state and the NHS and whose active careers coincided with the establishment of the European social model. To the extent that these benefits have been well-established they can no longer account for significant improvements in life expectancy; advances in medicine produce incremental improvements in mortality and morbidity, not step changes.

A further consideration is that we might expect the growth of inequality to have a negative impact on life expectancy. Despite significant recent improvements, Britain is still nearer the top of the EU poverty league than the bottom:

Table 8: European poverty rates, most recent data²⁵

Rank	Country	Date	Poverty rate (%)
1	Ireland	2001	21
2	Greece	2001	20
3	Portugal	2001	20
4	Spain	2003	19
5	Italy	2001	19
6	UK	2003	18
7	Germany	2003	15
8	Belgium	2001	13
9	France	2002	12
10	Luxembourg	2001	12
11	Netherlands	2002	12
12	Austria	2001	12
13	Finland	2003	11
14	Sweden	2002	11
15	Denmark	2001	10

Richard Wilkinson has pointed out that poorer but more egalitarian countries tend to have better numbers on life expectancy than richer but more unequal ones. Correlating OECD data for GNP per capita and World Bank data for life expectancy, he showed that they were not related. But, at the same time, analysis of a dozen different data sets showed lower mortality in more equal societies. In the last 25 years Britain has become richer but much more unequal, and from this Wilkinson has explicitly drawn conclusions for mortality:

“Important aspects of the evidence suggest that the rest of society cannot long remain insulated from the effects of high levels of relative deprivation.”²⁶

²⁵ Eurostat data, poverty rates are defined as share of persons with an equivalised disposable income below the risk-of-poverty threshold, set at 60 % of the national median equivalised disposable income (after social transfers). Downloaded from <http://epp.eurostat.cec.eu.int> on 13/06/2005 16:50.

²⁶ “Socioeconomic determinants of health: Health inequalities: relative or absolute material standards?”, Richard G Wilkinson, *BMJ*, 1997;314:591 (22 February). Available at <http://bmj.bmjournals.com>

Similar conclusions may be drawn from the UK's relatively low level of social mobility. A UNICEF paper found that, in this country, 50% of 'parental earnings advantage' is passed on to children, compared with under 20% in Canada and Scandinavia:

Table 9: proportion of parental earnings advantage passed to children²⁷

UK	0.50
USA	0.47
France	0.41
Germany	0.32
Sweden	0.27
Canada	0.19
Finland	0.18
Norway	0.17
Denmark	0.15

Realism: disability and caring

The Commission also believes that a high participation strategy is limited by the fact that a significant minority will be caring and another minority will continue to be sick and disabled. Obviously there is some truth to this, but these factors are not immutable. To take the first of these limitations, measures to enable informal carers to continue in paid employment, and flexible working arrangements that allow all workers to smooth their work and earnings over a whole career are not only worthwhile in themselves, they will also help more people enter and remain in paid employment. The peak age for unpaid caring is 50 – 59; at this age one person in five is an informal carer. A poll for the Equal Opportunities Commission found that one carer in five has given up paid work for caring, and carers and their representative organisations have been saying for some time that a right to flexible working arrangements would enable many of them to keep their jobs.²⁸

The large (and, indeed, growing) number of sick and disabled people is actually a tremendous opportunity for employment policy. One of the most striking developments of the last ten years has been the growing appreciation of the social dimension of disability. Exclusion from the labour market is not an automatic consequence of certain impairments, but the result of environmental and social factors that are not inevitable and can be altered, such as physical features of a workplace, the availability of accessible transport or an employer's beliefs about the abilities of disabled people. There is no inherent reason why most disabled people should be excluded from the labour market, and a great deal of progress has already been made in promoting the employment of disabled people. In recent years the employment rate for disabled people has risen, and the gap between that rate and the overall rate has shrunk:

Table 10: employment rates of disabled people and gap between that rate and the overall employment rate, 1998 - 2004²⁹

Year	1998	1999	2000	2001	2002	2003	2004
Employment rate	43.4%	46.1%	46.5%	47.2%	47.9%	48.9%	50.1%
Gap (percentage points)	29.8	27.6	27.8	27.3	26.4	25.7	24.6

There are grounds for optimism about the scope for further improvements. Since October 2003 the Department for Work and Pensions has been running an innovative 'Pathways to Work' pilot project, aimed at helping claimants of incapacity benefits back into employment. The main elements of these to projects are:

²⁷ *Do poor children become poor adults? Lessons for public policy from a cross country comparison of generational earnings mobility*, Miles Corak, UNICEF Innocenti Research Centre, paper prepared for presentation at the Workshop on "The Welfare State in an Intertemporal Perspective" at the University of Siena Sept 25-26, 2004. Figures are Corak's calculation, his preferred estimates are presented here.

²⁸ *Support for Working Carers*, Marilyn Howard, JRF, 2005, pp 6 – 7.

²⁹ *Opportunity for All*, DWP, 2004, indicator 19.

- Mandatory Work Focused Interviews for Incapacity Benefit beneficiaries;
- A £40 per week Return to Work Credit for up to a year for IB beneficiaries who get jobs;
- New specialist IB Personal Advisers, focused on helping people back to employment;
- A set of 'Condition management' programmes, much better than ordinary rehabilitation provision;
- A 'Choices' package of extra support.

Many politicians and media commentators have been calling for a 'crackdown' on Incapacity Benefit, but this supportive approach is achieving substantial results. Over 10,000 people have been helped into jobs in the pilot areas, the number of people getting jobs doubled compared with the previous year, the 'benefit off-flow rate' is up to ten percentage points higher in pilot areas and the number of people volunteering for programmes like the New Deal for Disabled People grew sixfold.³⁰ This suggested that, if rolled out nationally, an extra 100,000 people a year would return to employment. The chart below, copied from the DWP's *Five Year Strategy*, shows the impressive increase in the number of people getting jobs in the pilot areas:

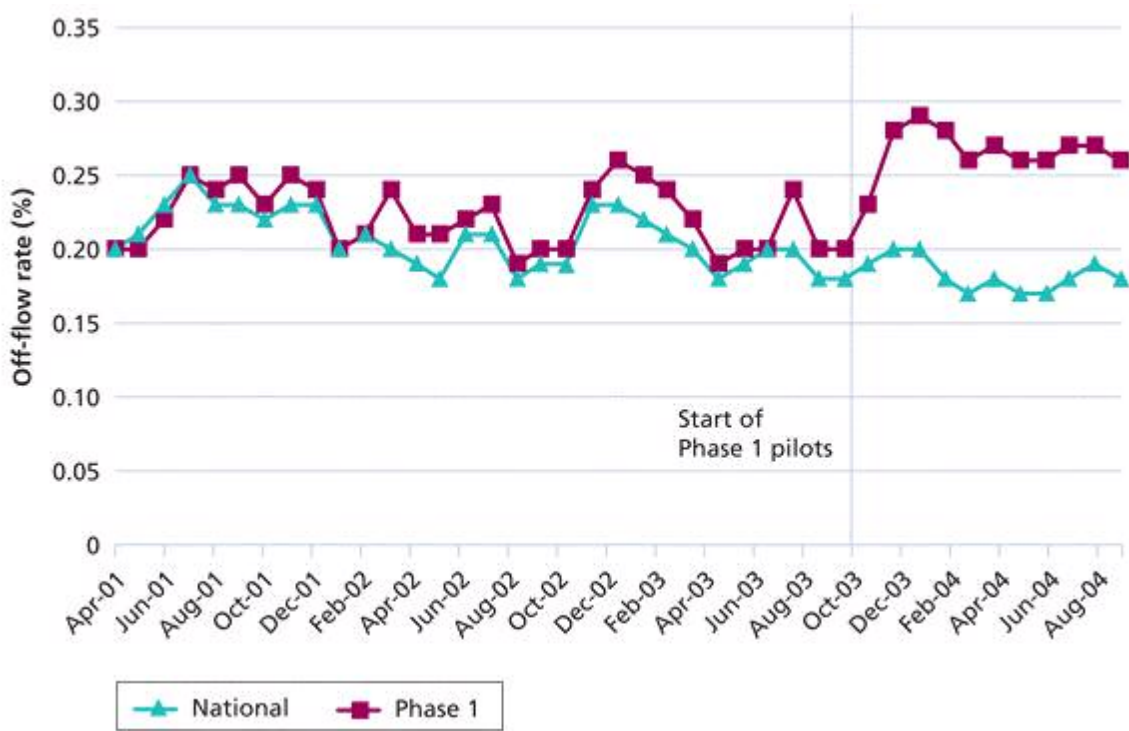


Chart 1: Incapacity Benefit off-flow rates nationally and in the pilot areas³¹

Realism: early retirement

The Pensions Commission argues that one of the limitations on the impact of higher participation is the fact that “a minority of people will always have the resources and will choose to retire early”.³² A great deal therefore hangs on the extent to which current early retirement is actually chosen. If early retirement is genuinely voluntary, planned for and enjoyed, then it would be challenging to persuade people to work on, unless the work they are offered as an alternative can be made more enjoyable and fulfilling, and working arrangements more flexible.

30 Commons *Hansard*, 15 Mar 2005, col 16WS
 31 Opportunity and Security Throughout Life, the Department for Work and Pensions five-year strategy, 2005, p 46.
 32 *Pensions: Challenges and Choices*, Pensions Commission, 2004, p 42.

DWP research that looked at working age people aged over 50 who were not in employment³³ found that only 8% were 'actively seeking' employment. But, taking into account the 50% not seeking work because of their health and the 2% who had become discouraged, altogether 60% could be categorised as 'involuntarily out of work.'³⁴ Only 22% said they were financially secure and did not want a job. For this group, state pensions and other benefits only accounted for 12% of their income, whilst for those who were not working because of their health, these accounted for 66% of their income.

In 2000, an excellent report by the Performance and Innovation Unit found a similar story. They reported that there are about 2.8 million people aged between 50 and state pension age who are not in paid work. They found that only about 12% were the "affluent early retired", and that no more than one third were people who had retired early, often "with changed expectations". 57% lived in households without occupational pensions and "almost half depend on social security benefits for most of their income." Two-thirds of early retirements are instigated by the employer, rather than the individual.³⁵

A survey of men aged 50 – 64 who are 'detached' from the labour market carried out by Sheffield Hallam university found that fewer than a third described themselves as retired:

Table 11: self-declared status of 'detached' 50 – 64 year old men, late 1990s³⁶

Status	Proportion
Long-term sick or disabled	38%
Retired from paid work altogether	31%
Unemployed	15%
In part-time employment	9%
Full-time carer	3%
Looking after family and home	1%
Other	2%

This study found "that there are actually two rather different groups of older men who have dropped out early from full-time employment. One group comprises middle class professionals and other white-collar workers, for whom detachment mostly takes the form of early retirement. They tend to leave voluntarily from jobs that they have usually held for a very long time, and in doing so begin to draw on accumulated pension rights. Nearly all no longer want a full-time job, though a few do look for work before reconciling themselves to retirement, and a sizeable minority maintain contact with the labour market through part-time work. Overall, this group draws little if at all on the benefit system. The other group includes just about all manual workers. These men are much more likely to have fallen out of work because of redundancy or ill health. Fewer of these men have a pension. Accordingly, they tend to be more dependent on the benefits system, above all on Incapacity Benefit. Many of these former manual workers would still like a job, but hardly any think there is a realistic chance of getting one."³⁷

Similarly, a Rowntree foundation study concluded that there was a huge difference between the experience of early retirement for people with some choice and control over the situation and for those with none:

"Having a choice about leaving work and control over the circumstances was closely associated with having a strong financial and occupational position. This meant that even in situations where their move out of work was not

33 *Factors Affecting the Labour Market Participation of Older Workers*, Humphrey et al, DWP Research report 200, 2003.

34 Op cit, table 7.8

35 *Winning the Generation Game*, Cabinet Office, 2000, s 3.2.

36 *Moving Older People Into Jobs*, Christina Beatty and Stephen Fothergill, Sheffield Hallam University and Third Age Employment Network, 2004, p 4.

37 Op cit, pp 6–7.

intended, people in a strong financial and occupational position were able to retain options in terms of the circumstances of their move towards retirement.”³⁸

This evidence suggests that the Pensions Commission is correct, there is a group for whom early retirement is voluntary, and who are unlikely to be encouraged into returning to employment in large enough numbers to make a difference to the dependency ratio. But this group is a minority – probably no more than a quarter of all those aged over 50 and under state pension age who are not in employment. Obviously we should concentrate on helping those who are involuntarily unemployed before we even think about forcing those over the current state pension age to work longer.

Section six: working beyond state pension age

Our concerns here are given added weight because there are indications that comparatively few people *want* to work beyond state pension age, and that those who do so tend to be low paid workers, who are likely to be working to avoid having to live on very low pensions. A TUC analysis of LFS data found³⁹ that the number of people working beyond state pension age rose between 1992 and 2003 (not surprising, given the ageing of the workforce), but that the *proportion* of people in these age groups who were working remained low and actually fell slightly:

Table 12: numbers and percentage of older workers in employment, 1992 - 2003

Age group	1992		2003	
	Numbers	Share	Numbers	Share
60 - 64	727,000	17%	931,000	16%
65 or older	253,000	6%	315,000	5%

Those working on after state pension age tend to be those with the least skilled and worst paid jobs, and this tends to be especially true for women workers. In the table below we can see that ‘managers and professionals’ account for somewhat less than a quarter of all women workers aged 50 – 54, but that this occupational group’s share of the workforce drops with each succeeding age group:

Table 13: proportion of women workers in different age groups who are managers and professionals, 2003

Age group	Share
50 - 54	22.7%
55 - 59	17.4%
60 - 64	14.1%
65 or older	13.8%

But when it comes to ‘elementary occupations’ we see precisely the opposite happening:

Table 14: proportion of women workers in different age groups who are in elementary occupations, 2003

Age group	Share
50 - 54	11.7%
55 - 59	14.6%
60 - 64	18.8%
65 or older	29.8%

38 *Money, Choice and Control: the financial circumstances of early retirement*, Sue Arthur, JRF, 2003.

39 *Flexible Retirement*, TUC, 2004.

These figures suggest that workers are already responding to the incentives created by inadequate state basic pensions, and that any further incentives to delay retirement would tend to reinforce this effect. This was certainly the message of a paper from the National Institute of Economic and Social Research, which modelled the impact of raising the state pension age to 70. They found that it is people on the lowest incomes, who have little in the way of savings or private pensions, who are most likely to work for more years. When this change is used to fund reforms that restrict the role of means-testing, as is often suggested, the effect is to transfer state pension resources to middle and higher earners, who "if anything, retire earlier."⁴⁰

Helping older non-employed people

The policy message that can be taken from the preceding paragraphs is that raising the state pension age is unnecessary. We can reduce the dependency ratio by helping older non-employed people who want to get or keep paid jobs and by meeting the government's own target of achieving an 80% employment rate.

If we want to help older people who want jobs, this would be a good idea, whether they are under or over the state pension age. But this is easier said than done. Given the importance of the issue, it should come as no surprise that this is high on the government's agenda, and that a great deal of thought has been given to the subject. The difficulty is that this is one of those problems that are simple but difficult: we know what to do, but it will take a long time, and it is difficult to measure success or failure.

- We know that health is a really important part of the problem. Humphrey et al found that 50% of their non-employed people were not seeking work because of health problems, for instance. The Pathways to Work project is showing that a mix of rehabilitation, personal advice and wage supplementation can make a difference. Every evaluation of the New Deal programmes has shown the importance of the quality of individual personal advisers, and the evaluation of the government's ONE project found that when advisers were inadequately trained this could be a significant limitation on the system's effectiveness.⁴¹

The difficulty is that this approach is not cheap, the personal advisers need high quality training, painstaking management, and the freedom to concentrate on individuals' problems one by one. At a time when the DWP is making massive efficiency savings amongst its staff there are significant questions about the organisation's ability to maintain this approach.

Wage supplementation, as offered in the Pathways to Work pilot projects, and in the working tax credit is a vital policy tool, but it is costly, and therefore vulnerable whenever cuts are needed. The employment credit that was offered by the New Deal 50 plus till 2003 (when it was replaced by the 50 plus element of the WTC) did improve claimants' motivation and confidence, which fed through to more effective job search.⁴²

And this is a strategy that will take time to achieve results, change will be achieved over the course of a generation, not a Parliament. We saw earlier that the worsening dependency ratio will play out over a similar timescale, suggesting that the Pathways to Work approach is may be an ideal fit. But, for politicians who want quick results, it is a good deal easier simply to proclaim a 'crackdown' on IB claimants.

- We know that cultural change must be part of the solution. The Performance and Innovation Unit report listed this as the first of their four solutions: "changing the culture to raise expectations of older people and stop making judgements based on their age rather than their true value and potential."⁴³ This is true and important (though almost certain to be dismissed as verbiage in some quarters) but difficult to implement.

The government has legislated to outlaw age discrimination in employment, and plans to create a new Commission on Equality and Human Rights to give substance to all our rights to non-discrimination. When it comes to age the new Commission will have a difficult task; it will have to make a success of the new legislation,

40 *Does Mean Testing Exacerbate Early Retirement?*, James Sefton and Justin van de Ven, NIESR, 2004, p 33.

41 *Delivering a Work-Focused Service*, Osgood et al, DSS research report 167, 2002.

42 *Evaluation of the New Deal 50 plus: Summary Report*, John Atkinson, Employment Service research report 103, 2001.

43 Op cit, p 6.

and at the same time seek to have a strategic impact. The experience of other equal rights objectives suggests that new laws are only a part of the solution, and the CEHR will have to reach decision makers to change thinking as well as behaviour.

- Helping older workers to keep their jobs. There are two ways to achieve an increase in the employment rate of older working age people. One is to get new jobs for those currently not in employment, and the other is to help older workers to retain the jobs they already have. To some extent this may be the easiest part of the policy mix: occupational pension schemes have less elbow-room, and early retirement is no longer a cheap solution to firms' strategic problems. The government currently has some small scale pilot projects looking at retention, and is currently consulting on the extension of the right to work flexibly to informal carers, many of whom are in this age group. Despite this, this is an approach that has not been prioritised by the government, and it is unlikely to be given a significantly higher priority in the next few years, when the DWP will continue to face significant resource constraints.

In a Rowntree Foundation study, people in their 50s and 60s, when asked for their own views about what would help people to stay on in paid work, suggested equal rights to training, a right to work part-time or flexible hours, campaigns to encourage employers to value older workers, the abolition of compulsory retirement ages and anti-discrimination legislation.^{44 45}

Maintaining Work Ability: the Finnish example

In the 1980s and 1990s Finnish labour market policy emphasised early retirement as the preferred response to unemployment. But in the late 1990s, it was realised that demographic change was affecting Finland ahead of other European countries, and the government decided to effect a 180 degree change of direction. The Finnish Programme on Ageing Workers, which ran from 1998 to 2002, had a number of 'push' and 'pull' elements:

- Benefit reforms to increase the cost of early retirement to employers (Finnish social insurance had previously provided a substantial subsidy);
- Benefit reforms to reassure workers that their pensions would not be reduced if they took temporary jobs with lower pay than they had received previously;
- Training, lifelong learning and rehabilitation programmes for older workers;
- Work organisation reforms – such as greater rights for workers to participate in decision-making;
- Encouragement of flexible working arrangements;
- Awareness programmes to counter ageism;
- A programme to promote well-being at work, including fitness programmes and a strong emphasis on occupational health, with reforms of job design and a preventative approach.

One of the unusual features of the Finnish model has been that it targets middle-aged, as well as older workers: employed and unemployed people aged 45 – 64. This is justified on the grounds that many of the health problems experienced by older workers first appear in middle-age, and rehabilitation and treatment are more effective when applied early on. The results certainly look good:

Table 15: Finnish employment rates 1989 – 2001

Age group	1989	1994	1998	2001
15 - 24	53%	28%	35%	40%
25 - 44	89%	74%	79%	81%
45 - 49	90%	78%	82%	83%

44 *Forging a New Future: the experiences and expectations of people leaving paid work over 50*, Helen Barnes, Jane Parry and Jane Lakey, JRF, 2002.

45 Information in the box is Information taken from *The Peer Review Programme of the European Employment Strategy*, DG Employment and Social Affairs, (www.peerreview-employment.org); *Ageing*, Finnish Institute of Occupational Health, 2005 and "The Finnish Line", Chris Ball, *People Management*, 2 June 2005.

50 - 54	83%	74%	77%	80%
55 - 59	58%	49%	51%	63%
60 - 64	26%	17%	20%	25%

Section seven: any room for improvement under 50?

The Pension Commission's report is also pessimistic about what can be achieved in the way of higher employment rates is their belief that there is little room for improvement for workers aged under 50. Table 10 shows that it is certainly true that there is more room for improvement at the senior end of the working age group, but there is still the opportunity to get substantial numbers of people into jobs.

Table 16: employment rates by age, Jan-Mar 2005⁴⁶

Age group	People	Men	Women
All aged 16 & over	60.2%	67.1%	53.7%
16 - 59/64	74.9%	79.3%	70.1%
16 - 17	40.6%	39.3%	41.9%
18 - 24	66.3%	69.3%	63.2%
25 - 34	80.5%	88.1%	73.0%
35 - 49	82.2%	88.7%	75.8%
50 - 64 (m) & 50 - 59 (w)	70.4%	72.4%	67.8%
65+ (m) & 60+ (w)	9.8%	8.9%	10.3%

The employment rate for prime age men (25 – 49) is currently over 88%,⁴⁷ which does rather suggest that, for men under 50, the scope for improvement is limited. This does not mean that there is nothing that needs to be done - in 1960 men's employment rate was 95%⁴⁸ and currently it is 79.3%.⁴⁹

The employment rate for working age women is over 70%, which is an historic high, but still more could be achieved by equalising opportunities for men and women. As table 10 reveals, employment rates for women under 50 are up to 15 percentage points behind men's. If women's employment rates could be raised to men's, there would 1.6 million more people in paid employment:

- 159,000 18 – 24 year olds;
- 593,000 25 – 34 year olds;
- 857,000 35 – 49 year old.

This substantial gender gap in employment rates is a tremendous opportunity – raising women's employment rates relative to men's would address female poverty, as well as helping to improve the dependency ratio.

By European standards employment rates for both men and women are high in the UK, but such a comparison does suggest that there is room for improvement in women's employment rates.

Table 17: employment rates: women aged 15 - 64, selected countries, 2003⁵⁰

Sweden	71.5%
Denmark	70.5%
Netherlands	65.8%
Finland	65.7%

⁴⁶ *Labour Market Statistics*, ONS, May 2005, table 2.

⁴⁷ *Labour Market Statistics*, ONS, May 2005, table 1.

⁴⁸ *The Challenge of Longer Life, Economic burden or social opportunity?*, John Grieve Smith et al, Catalyst, 2002, p 13.

⁴⁹ *Labour Market Statistics*, ONS, May 2005, table 1.

⁵⁰ Eurostat, using EU Labour Force Survey, accessed at <http://epp.eurostat.cec.eu.int> on 5/30/2005 10:52 PM.

United States	65.7%
United Kingdom	65.3%
Germany	59.1%
France	57.2%
Japan	56.8%
Ireland	55.8%
Italy	42.7%
EU 25	55.1%

Table 18: employment rates: men aged 15 - 64, selected countries, 2003⁵¹

Netherlands	80.9%
Japan	79.8%
Denmark	79.6%
United Kingdom	78.1%
United States	76.9%
Ireland	75.0%
Sweden	74.2%
Germany	71.0%
Finland	69.7%
Italy	69.6%
France	69.4%
EU 25	70.9%

UK employment rates differ from those quoted elsewhere because the European Labour Force Survey tables are for 15 – 64, whereas the LFS uses 16 – 59 for women and 16 – 64 for men. We can see from these tables that UK men’s rates are close to the best performance in other countries, but women’s rates are five points behind Sweden and Denmark. If we could match that performance, raising the UK women’s employment rate by five percentage points, we would bring an extra 8 – 900,000 women into paid employment, and raise the overall employment rate to over 77%.

Or alternatively, instead of focusing on either men or women we could look at those economically inactive people of working age who say they want jobs, and of whom there are 1,964,000.⁵² If half of them could be helped into paid jobs the employment rate would rise to 77.6% - more than half way to the 80% aspiration.⁵³

All in all, an 80% employment rate seems achievable, especially when we bear in mind that this is an aspiration for a generation, not a target for the end of the decade. The major hike in the old age non-worker: worker ratio doesn’t come till around 2020,⁵⁴ which might be enough time for the government to succeed in changing attitudes to work across society. And the government has some claim to be taken seriously here, having achieved better results already than many critics predicted. The million people who have been helped into jobs by the various New Deal programmes are a substantial riposte to questions about their competence. Even supportive commentators have been impressed: when the New Deal for lone parents was created, for instance, many organisations welcomed it but were cautious. At the TUC, we estimated that it would be a success if it helped 50,000 lone parents into jobs; in the last seven years 300,000 lone parents have gained jobs through this programme.

Section eight: conclusion

An employment rate of eighty per cent can be achieved, but it will be a tough task. It will take a commitment from central government lasting for a generation, and this will be very difficult to sustain. It could make a significant contribution to addressing the worsening dependency ratio – but it is unlikely to make enough of a difference to

51 Eurostat, using EU Labour Force Survey, accessed at <http://epp.eurostat.cec.eu.int> on 5/30/2005 11:08 PM.

52 *Labour Market Statistics*, ONS, May 2005, table 13.

53 Calculated from *Labour Market Statistics*, ONS, May 2005, tables 1 & 13.

54 *Pensions: Challenges and Choices*, Pensions Commission, 2004, fig 2.18.

eliminate the need for other reforms. This is the sort of long-term challenge, demanding but realistic, that commentators are always demanding that governments should adopt. And the current government was not forced to adopt it – there was no chorus of campaigners insisting on an 80% employment rate. They therefore deserve our respect for having taken this step, and our support in trying to achieve it.

Annex: regional unemployment blackspots

Table A1: London boroughs with unemployment rates of over 7%⁵⁵

Borough	Unemployment rate
Southwark	13.5%
Tower Hamlets	12.1%
Lewisham	9.9%
Hackney	9.7%
Newham	9.4%
Lambeth	9.1%
Greenwich	8.7%
Harrow	8.7%
Camden	8.5%
Merton	8.4%
Waltham Forest	8.4%
Barking and Dagenham	8.3%
Hammersmith and Fulham	7.9%
Islington	7.9%
Westminster	7.8%
Brent	7.5%
Haringey	7.0%
Total working age population of these boroughs	2,535,000

Table A2: North West districts with unemployment rates of over 7%⁵⁶

Districts	Unemployment rate
Preston	8.3%
Copeland	8.2%
Liverpool	8.0%
Manchester	7.7%
Blackpool	7.1%
Total working age population of these districts	776,000

Table A3: East of England districts with unemployment rates of over 7%⁵⁷

Districts	Unemployment rate
Basildon	7.1%
Ipswich	7.2%
Total working age population of these districts	173,000

Table A4: East Midlands districts with unemployment rates of over 7%⁵⁸

Districts	Unemployment rate
Leicester	10.7%
Chesterfield	8.3%
Ashfield	8.0%
Nottingham	7.5%
Total working age population of these districts	490,000

55 London Labour Market Statistics, ONS, May 2005, table 13.

56 North West Labour Market Statistics, ONS, May 2005, table 13.

57 East Market Statistics, ONS, May 2005, table 13.

58 East Midlands Labour Market Statistics, ONS, May 2005, table 13.

Table A5: North East districts with unemployment rates of over 7%⁵⁹

Districts	Unemployment rate
Middlesborough	9.7%
Derwentside	8.9%
South Tyneside	8.6%
Hartlepool	8.3%
Easington	8.3%
Sunderland	8.0%
Redcar and Cleveland	7.5%
Newcastle-upon-Tyne	7.4%
Sedgefield	7.2%
Total working age population of these districts	822,000

Table A6: South East districts with unemployment rates of over 7%⁶⁰

Districts	Unemployment rate
Thanet	10.0%
Sevenoaks	7.8%
Canterbury	7.7%
Total working age population of these districts	220,000

59 North East Labour Market Statistics, ONS, May 2005, table 13.

60 South East Labour Market Statistics, ONS, May 2005, table 13.

Table A7: South West districts with unemployment rates of over 7%⁶¹

Districts	Unemployment rate
Penwith	7.0%
Total working age population of these districts	37,000

Table A8: West Midlands districts with unemployment rates of over 7%⁶²

Districts	Unemployment rate
Sandwell	9.1%
Birmingham	8.9%
Tamworth	8.7%
Warwick	7.5%
Wolverhampton	7.3%
Total working age population of these districts	1,053,000

Table A9: Yorkshire and Humberside districts with unemployment rates of over 7%⁶³

Districts	Unemployment rate
Kingston-upon-Hull	9.7%
Total working age population of these districts	155,000

Table A10: Scottish districts with unemployment rates of over 7%⁶⁴

Districts	Unemployment rate
North Lanarkshire	9.5%
North Ayrshire	9.2%
Dundee City	8.2%
West Dunbartonshire	8.1%
Glasgow City	8.0%
Inverclyde	7.7%
East Ayrshire	7.2%
Total working age population of these districts	930,000

Table A11: Welsh districts with unemployment rates of over 7%⁶⁵

Districts	Unemployment rate
Blaenau Gwent	7.4%
Rhondda Cynon Taff	7.0%
Total working age population of these districts	181,000

61 South West Labour Market Statistics, ONS, May 2005, table 13.

62 West Midlands Labour Market Statistics, ONS, May 2005, table 13.

63 Yorks & Humberside Labour Market Statistics, ONS, May 2005, table 13.

64 Scotland Labour Market Statistics, ONS, May 2005, table 13.

65 Wales Labour Market Statistics, ONS, May 2005, table 13.