

### 3. Labour market transitions

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The analysis in this chapter shows that:

- Nearly 15% of those in paid work aged between 50 and the state pension age in 2002–03 had left work by 2004–05. Movements out of paid work were more common among men aged 60 or over and women aged 55 or over than they were among younger individuals. Both women and (particularly) men in part-time work in 2002–03 were more likely to have left work than those in full-time work.
- Most of those who were not in paid work in 2002–03 were still not in work in 2004–05. However, 8% of those aged 50 to the state pension age who were out of work had returned to paid work by 2004–05. This was more common among those at least five years younger than the state pension age in 2002–03.
- Among 50- to 54-year-olds, those in paid work in 2002–03 in the poorest and the richest wealth quintiles were the most likely to leave work. Similarly, amongst this same age group, those not in paid work in 2002–03 in the poorest two wealth quintiles and the richest wealth quintile were the least likely to return to work.
- Men who were in paid work and contributing to a defined benefit pension in 2002–03 were much more likely to leave work than those who had been in paid work and contributing to a defined contribution pension in 2002–03. Among women, the likelihood of remaining in work did not vary by whether they had contributed to a defined benefit or a defined contribution private pension in 2002–03.
- Among those in paid work in 2002–03, those who reported that their health was only fair or poor were about twice as likely to leave work as those who had reported being in excellent or very good health. In addition, among those who were not in paid work in 2002–03, those who had reported worse health were less likely to return to work than those who had reported being in excellent or very good health in 2002–03. This difference was particularly large for men aged 50 to 54.
- A vast majority (81%) of employees whose employers have a compulsory retirement age say they would not want to work beyond this age, even if their employer allowed it. However, a greater proportion of employees feel constrained by the compulsory retirement age the lower it is.
- Almost two-thirds of men, and half of women, aged 52 to 54 who were not in paid work in 2004–05 report that they had a disability that affected the amount of work that they could do, compared with only one-in-fifteen men and women in the same group who were working full-time.

Increasing life expectancies require either lower consumption by individuals during their working life, reduced consumption during their retirement, later retirement or some combination of the three. Employment rates among both men and women aged between 50 and the state pension age (SPA) have been increasing since the mid-1990s, and this increase has occurred across all education groups (see Emmerson (2005, figure 3.1)). Despite this, the employment rates of older men are still considerably below those achieved throughout the 1970s (see Banks and Blundell (2005, figure 6)).

In an attempt to limit the extent to which annual consumption might need to fall to accommodate improvements in life expectancy, many government policies have been, and are being, implemented to try to boost retirement ages. For example, since 6 April 2006 individuals have been allowed to receive income from an occupational pension scheme while still working for the employer providing that pension, and on 6 April 2005 the deferral rate on state pensions was increased from 1% for every seven weeks of deferral to 1% for every five weeks. Given that the majority of both men and women are out of the labour market before they reach the SPA (see Banks and Casanova (2003, figure 4.1)), a key policy issue is the determinants of these early labour market exits. While previous UK studies have looked at the determinants of retirement, they have tended to rely on the British Retirement Survey (BRS), which only contained individuals born between 1919 and 1933 and is therefore somewhat out of date (in particular given the large changes to both state and private pensions that have affected later cohorts), or alternatively have used the British Household Panel Survey (BHPS), which, to date at least, has had limited information on the financial incentives faced by individuals.<sup>1</sup>

The first wave of data from ELSA has provided, and still is providing, evidence on how the characteristics of those who are still in paid work at older ages differ from those who are not. This chapter builds on this evidence by showing the extent to which individuals have moved out of, or indeed into, paid work between the first wave of ELSA in 2002–03 and the second wave of ELSA in 2004–05 (Section 3.1). In addition, we describe the extent to which the characteristics of those whose labour market status has changed differ from those whose labour market status has not changed, focusing on differences by wealth (Section 3.2), pension coverage (Section 3.3) and health (Section 3.4). In Section 3.5, we turn to cross-sectional evidence from 2004–05 on compulsory retirement ages and the extent to which individuals feel constrained by them; the prevalence of reported work-related disabilities; and individuals' assessments of what changes to their working arrangements have been made, or they would like to see, so that they could be better accommodated. Section 3.6 concludes, while the tables in the annex to this chapter contain more comprehensive data on all of the issues raised in the chapter.

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<sup>1</sup>Meghir and Whitehouse (1997) construct employment histories from the 1988–89 BRS and examine the labour market transitions of men. Blundell, Meghir and Smith (2002) examine labour market transitions between both waves (1988–89 and 1994) of the BRS. Disney, Emmerson and Wakefield (2003) use eight waves of data from the BHPS (1991 to 1998) to look at the relationship between changes in health and changes in employment among older individuals.

### 3.1 Labour market transitions

Before turning to look at the movements into and out of paid work among ELSA respondents between 2002–03 and 2004–05, Table 3.1 presents data on the overall percentage of respondents who report that they were in paid work at the time of each interview. This is shown separately by both sex and age. In 2002–03, around seven-out-of-ten men and women (70.6% and 69.3% respectively) aged between 50 and the SPA were in paid work, with older individuals being less likely to be in paid work. By 2004–05, the employment rate among these same individuals had dropped to just over six-in-ten (62.6% of men and 62.2% of women). Table 3.1 also shows that the fall in employment rates was greater among older individuals than it was among younger individuals.

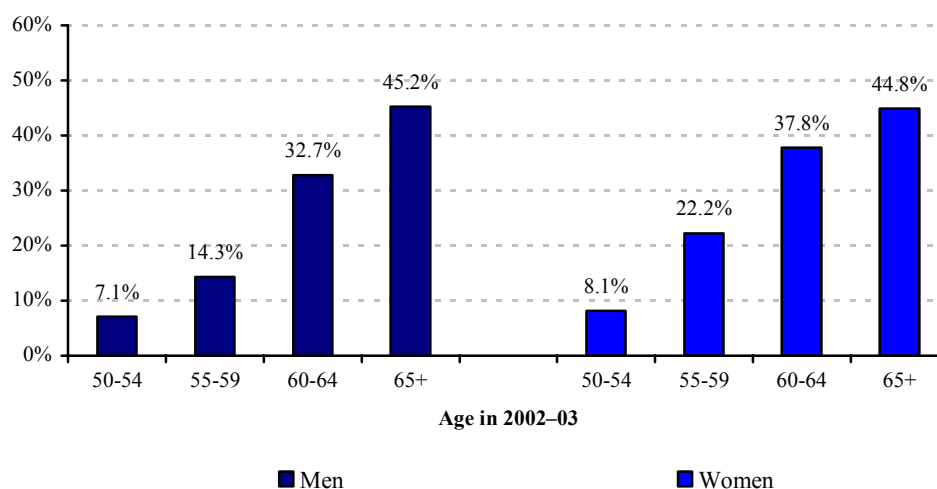
**Table 3.1. Percentage in paid work in 2002–03 and 2004–05, by age in 2002–03 and sex**

	Age in 2002–03				All	Under SPA in 2002–03	Over SPA in 2002–03
	50–54	55–59	60–64	65+			
	%	%	%	%	%	%	%
<b>Men</b>							
In work in 2002–03	84.6	72.9	48.8	10.1	45.0	70.6	10.1
In work in 2004–05	80.0	65.6	35.5	6.7	39.0	62.6	6.7
% fall in emp. rate	5.5	10.1	27.3	33.2	13.4	11.3	33.2
<b>Women</b>							
In work in 2002–03	76.7	61.2	30.6	5.2	32.3	69.3	11.0
In work in 2004–05	73.3	50.0	21.5	3.5	27.5	62.2	7.7
% fall in emp. rate	4.5	18.3	29.6	31.9	14.7	10.3	30.4
<b>All</b>							
In work in 2002–03	80.6	66.9	39.5	7.3	38.1	70.1	10.7
In work in 2004–05	76.6	57.6	28.3	4.9	32.8	62.4	7.3
% fall in emp. rate	5.0	13.9	28.2	32.6	14.0	10.9	31.4
<b>Sample size</b>							
<i>Men</i>	739	793	630	1,788	3,950	2,162	1,788
<i>Women</i>	875	930	729	2,296	4,830	1,805	3,025
<i>All</i>	1,614	1,723	1,359	4,084	8,780	3,967	4,813

While the employment rate among those aged between 50 and the SPA in 2002–03 dropped by 10.9% over the following two years, in fact 14.3% of those in paid work in 2002–03 were not in paid work in 2004–05 and 8.0% of those not in paid work in 2002–03 had moved *into* paid work by 2004–05 (authors' calculations based on the figures in Table 3A.1).

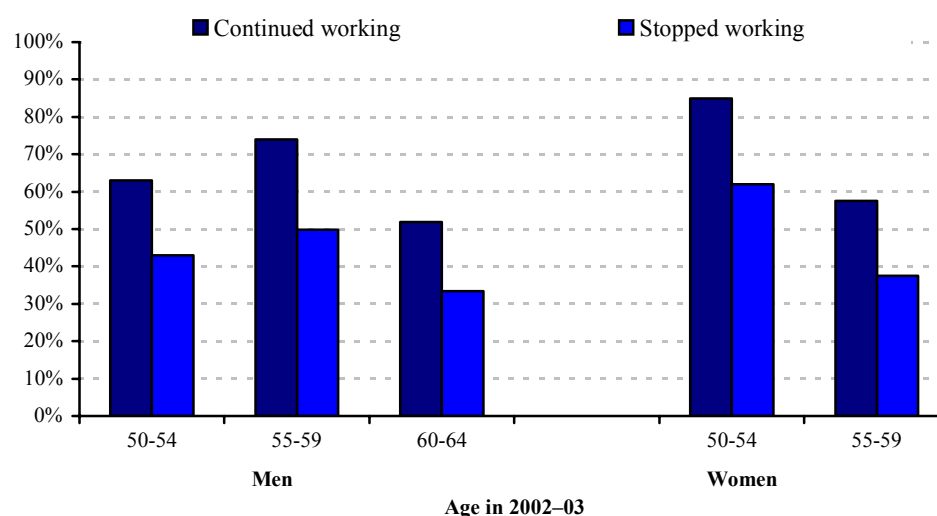
Figure 3.1 shows that among both men and women, the percentage of individuals moving out of paid work is considerably lower among those more than five years from the SPA in 2002–03 (i.e. men aged 50 to 59 and women aged 50 to 54) than among older individuals.

**Figure 3.1. Percentage of those in paid work in 2002–03 who are not in paid work in 2004–05, by age band and sex**



There is evidence that, at least to some extent, those individuals who left paid work anticipated it. Figure 3.2 shows that those individuals who left paid work between 2002–03 and 2004–05 had reported, on average, lower chances of being in paid work at older ages than those individuals who remained in paid work. This is true amongst both men and women in all age groups. Men aged 50 to 54 in 2002–03 who remained in paid work reported, on average, a 63.3% chance of being in work at age 60 when asked in 2002–03, while men of the same age who had left paid work by 2004–05 had reported, on average, a 43.1% chance of being in paid work at age 60 when asked in 2002–03.

**Figure 3.2. Mean self-reported chance of being in work at an older age amongst those in paid work in 2002–03, by sex, age band in 2002–03 and work transition**

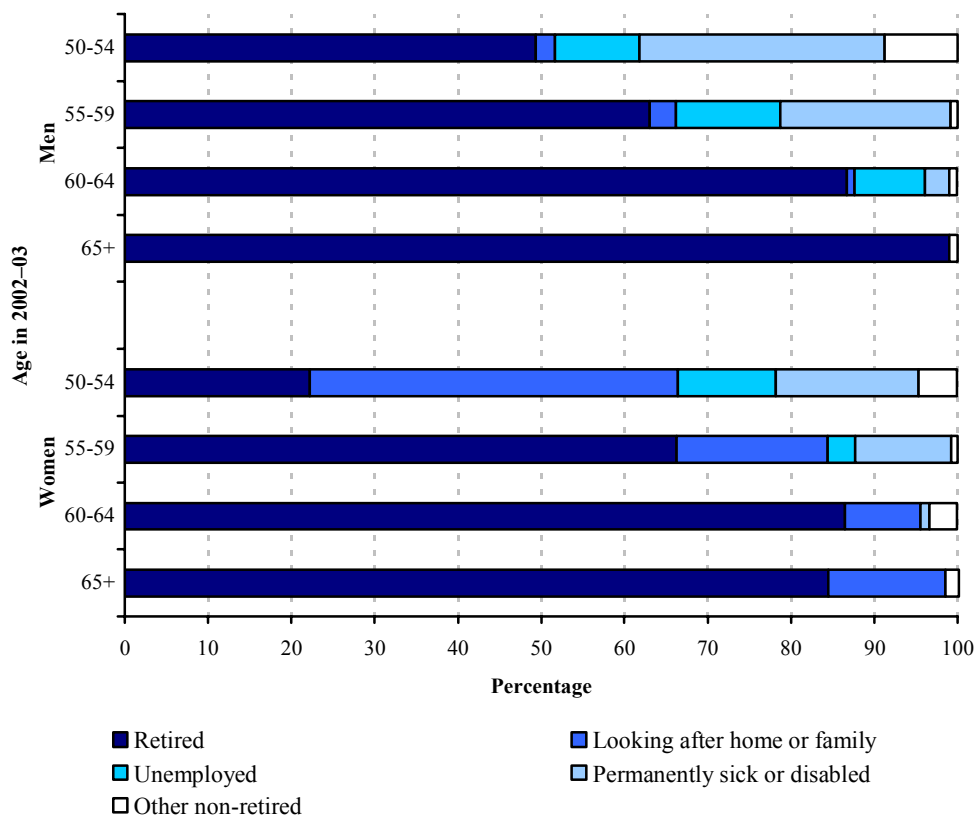


Note: Women aged 50 to 54 were asked the chances of working at age 55, men aged 50 to 59 and women aged 55 to 59 were asked the chances of working at age 60, and men aged 60 to 64 were asked the chances of working at age 65.

Furthermore, as Table 3A.4 shows, amongst all those who had been in paid work in 2002–03 but who had reported very low chances (less than 20%) of being in paid work at older ages, more than one-in-three (34.2%) had left paid work by 2004–05. In contrast, looking just at those who had been in paid work and had reported very high chances (greater than 80%) of being in paid work at older ages, fewer than one-in-twelve (7.6%) had left paid work by 2004–05.

However, not all those who leave paid work consider themselves to be retired. This is particularly true of younger individuals. Figure 3.3 shows that only about half (49.3%) of men aged 50 to 54 who left paid work between 2002–03 and 2004–05 define themselves as being ‘retired’ in 2004–05, with nearly three-in-ten (29.4%) reporting that they are ‘permanently sick or disabled’. The percentage of men moving out of work who report themselves as ‘retired’ increases with age – virtually all (99.0%) men aged over 65 who have left paid work over the last two years define themselves as ‘retired’. The most common self-reported states amongst men under the SPA who do not say they are retired are ‘unemployed’ (10.2%) or ‘permanently sick or disabled’ (14.7%).

**Figure 3.3. Self-reported economic status in 2004–05 of those who were in paid work in 2002–03 but are not in paid work in 2004–05, by age band and sex**



The pattern of self-reported status is slightly different amongst women, who are much more likely than men to say they are ‘looking after home or family’. Only about one-in-five (22.2%) women aged 50 to 54 who left paid work between 2002–03 and 2004–05 said they were retired in 2004–05, compared with more than two-in-five (44.2%) who said they were ‘looking after home or

family'. As with men, the percentage of women saying they are 'retired' increases with age. However, even amongst women aged over the SPA, 14.3% do not say they are 'retired', compared with just 1.0% of men over the SPA.

Amongst those who left paid work, wealth levels in 2002–03 and changes in income between 2002–03 and 2004–05 vary with individuals' self-reported status in 2004–05. Amongst those who moved out of paid work between 2002–03 and 2004–05 and who did not self-report that they were 'unemployed' or 'permanently sick or disabled' in 2004–05, median total family wealth (including that held in state and private pensions) was 62.3% higher in 2002–03 than the median among those who (by 2004–05) had moved out of paid work but who described themselves as being either 'unemployed' or 'permanently sick or disabled'. This is consistent with the cross-sectional evidence presented by Banks and Casanova (2003), which showed that amongst those aged under the SPA who were not in paid work, those in the higher wealth quintiles were more likely than those in the lower wealth quintiles to describe their current activity as 'retired' (rather than, for example, 'unemployed' or 'permanently sick or disabled').

Total net family income in 2004–05 was also a lower proportion of total net family income in 2002–03 for the group who moved out of paid work and described themselves as 'unemployed' or 'permanently sick or disabled' than for the group who moved out of paid work and gave other descriptions of their current economic activity. Mean total net family income in 2004–05 for those who moved out of paid work and described themselves as 'unemployed' or 'permanently sick or disabled' was about 65% of the level of mean net family income for the same group of people two years earlier. This compares with mean total net family income in 2004–05 for those who moved out of paid work but gave other descriptions of their main economic activity being about 75% of the level it had been two years earlier for this same group of people.<sup>2</sup>

The pattern of self-reported status shown in Figure 3.3 is confirmed when we look at the individual income sources of those who left paid work. As Figure 3.4 shows, overall 40.8% of men (15.0% of women) aged 50 to SPA who left work were in receipt of some private pension income in 2004–05, while 12.7% of men (14.8% of women) report having received incapacity benefit or statutory sick pay in the last year. However, receipt of these types of income is correlated with self-reported status.

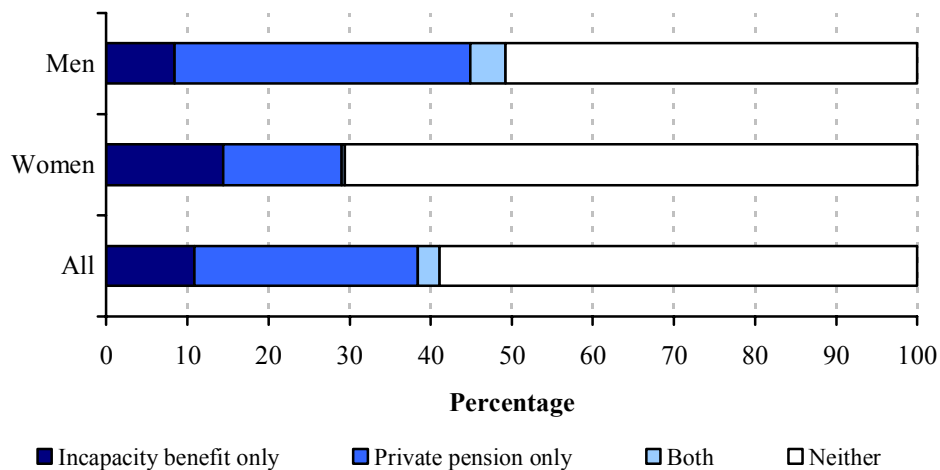
Amongst men aged 50 to the SPA who moved out of paid work and report that they are 'retired', nearly half (47.3%) were receiving income from private pensions in 2004–05, with just 6.3% reporting having received incapacity benefit in the last year. In contrast, 50.2% of men who moved out of paid work and report that they are 'permanently sick or disabled' were receiving incapacity benefit, with just 25.6% receiving any income from a private pension. Since April 2001, receipt of incapacity benefit has been means tested against (individual) private pension income, with entitlement withdrawn at a rate of 50p for every £1 of private pension income over £85 a week. This

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<sup>2</sup>These figures should not be interpreted as income replacement rates since many of these individuals will not yet be receiving all of their pension income, and many will have partners who are still in receipt of employment income.

provides a strong incentive for those receiving incapacity benefit to delay drawing any private pension income. The numbers receiving both incapacity benefit and private pension income are very low, as Figure 3.4 shows (just 4.3% of men and 0.4% of women aged 50 to SPA). Those who are receiving both may, of course, have already been receiving private pension income before they became eligible for incapacity benefit, or they may only be receiving a small amount of private pension income (i.e. under £85 per week).

**Figure 3.4. Receipt of incapacity benefit and private pension income amongst those aged 50 to SPA in 2002–03 who left paid work between 2002–03 and 2004–05, by sex**

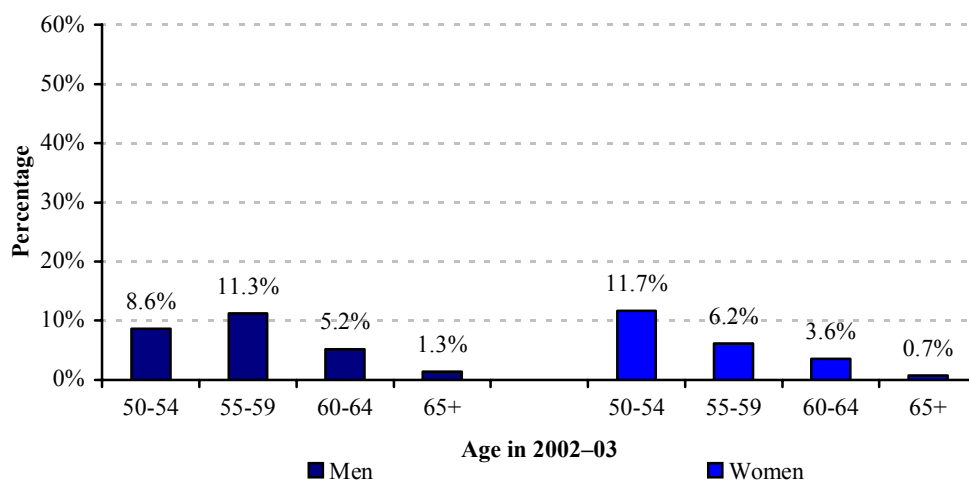


Note: ‘Incapacity benefit’ includes receipt of statutory sick pay (SSP). A similar proportion of men and women who had left paid work were in receipt of incapacity benefit in 2004–05 (12.7% and 14.8% respectively). Although incapacity benefit caseloads are higher for men than women (see [http://www.dwp.gov.uk/asd/ib\\_sda.asp](http://www.dwp.gov.uk/asd/ib_sda.asp)), we are looking here only at the subsample of individuals who left paid work between 2002–03 and 2004–05.

Women who say they are ‘looking after the home or family’ are much less likely to be receiving private pension income than those who say they are ‘retired’ – more than one-in-five (21.7%) women aged 50 to SPA who say they are ‘retired’ are receiving some private pension income, compared with only about one-in-twelve (8.5%) of those women who say they are ‘looking after the home or family’.

That fewer younger individuals report themselves as being retired, even though they have left paid work, could be because younger individuals are more likely to be intending to return to paid work. As shown in Figure 3.5, moving back into paid work was relatively more common among men and women who in 2002–03 were more than five years from reaching the SPA (i.e. men aged 50 to 59 and women aged 50 to 54). Only a very small percentage of those aged over 65 and not in paid work in 2002–03 were in paid work in 2004–05.

**Figure 3.5. Percentage of those not in paid work in 2002–03 who are in paid work in 2004–05, by age band and sex**



We also find that moving into paid work is related to self-reported status. Looking just at those who were not in paid work in 2002–03, 8.0% of those aged between 50 and the SPA in 2002–03 were in paid work in 2004–05. However, the figure was considerably lower amongst those who had self-reported in 2002–03 that they were ‘permanently sick or disabled’ (just 2.8%, with little variation between men and women). The percentage entering paid work between 2002–03 and 2004–05 was considerably higher amongst individuals who self-reported some other status in 2002–03, and there is some variation across men and women. Of those not in paid work and reporting themselves as being ‘retired’ in 2002–03, 7.8% of men (6.5% of women) were in paid work in 2004–05, whilst 19.1% of men (12.4% of women) who were out of paid work but did not describe themselves as either ‘permanently sick or disabled’ or ‘retired’ in 2002–03 were in paid work in 2004–05.

There is also some evidence of ‘joint retirement’ amongst couples. The percentage of individuals in couples who were in paid work in 2002–03 but who were not in paid work in 2004–05 is higher amongst those whose partners were also in paid work in 2002–03 but who were not in paid work in 2004–05. Table 3A.6 shows that 14.0% of men in couples and 13.4% of women in couples in paid work in 2002–03 were not in paid work by 2004–05. However, these percentages are much higher (31.6% and 30.4% for men and women, respectively) amongst individuals whose partner also moves out of work over this period.

Recent years have also seen increasing policy interest in enabling individuals to have a ‘phased’ retirement, i.e. moving from full-time to part-time work before exiting the labour market completely rather than a ‘cliff edge’ style of retirement. Indeed, the recent Green Paper on welfare reform states:

Older people have said that they require more flexible working practices to allow them to balance work with other constraints such as health problems, caring responsibilities and outside interests. Greater flexibility also helps the transition from work to retirement and could keep people in work for longer.

Department for Work and Pensions, 2006, page 71

The panel element of the ELSA survey can be used to examine the extent to which phased retirements occur, and whether they are more common among individuals with certain characteristics.

Figure 3.6 presents evidence on how the percentage of those moving out of work over the two-year window varies by age, sex and whether the individual was working full- or part-time in 2002–03. Those working part-time in 2002–03 are more likely not to be in paid work in 2004–05 than those working full-time in 2002–03, with this difference being particularly marked for men aged 50 to 54. Among men aged over 65 and in part-time employment in 2002–03, the majority are not in paid work in 2004–05.

**Figure 3.6. Percentage of those in paid work in 2002–03 who are not in paid work in 2004–05, by age band, sex and 2002–03 work status**



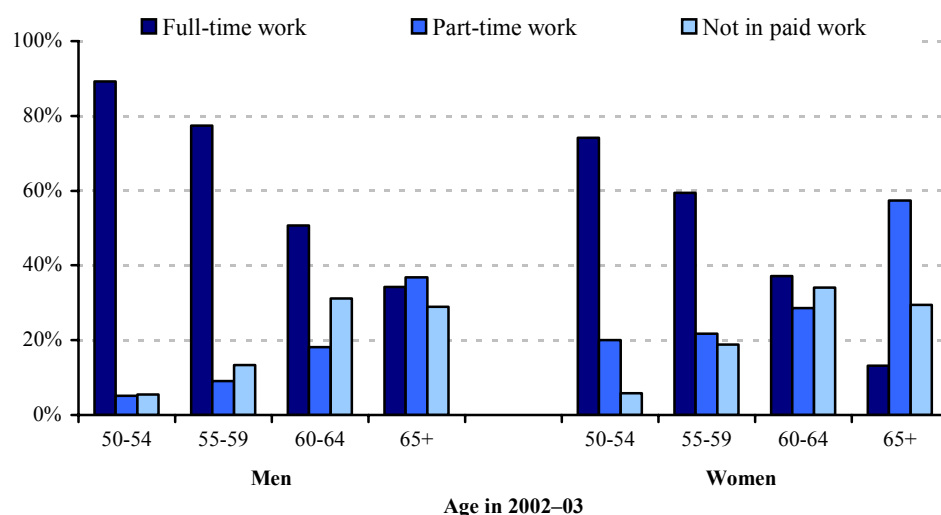
Part-time work was considerably more common amongst women than men in 2002–03. Of those aged between 50 and the SPA who were in work in 2002–03, 43.0% of women were working part-time compared with just 10.2% of men. Exits from full-time work amongst those aged 50 to 54 are also different amongst men and women. As Figure 3.7 shows, the majority of women in this age group who exit full-time work move into part-time work, whereas men in this age group are equally likely to move into part-time work or to stop working entirely (as, indeed, are men and women aged 55 to 59, while men aged 60 to 64 are more likely to not be in paid work than to have moved into part-time work). Further details of the transitions between part-time and full-time work can be found in Table 3A.2.

Those who moved from full-time to part-time work may be choosing to reduce their hours gradually before eventually leaving paid work completely. So they may be using alternative income sources to supplement their income. There is some evidence of this, as nearly three times as many men and women who moved from full-time work to part-time work were receiving income from a private pension in 2004–05 compared with those who remained in full-time work. Of those aged between 50 and the SPA moving from full-time to part-time work, 36.7% of men (9.3% of women) were receiving some income from

a private pension in 2004–05, compared with just 13.2% of men (4.0% of women) who continued to work full-time.

The next sections look at the extent to which the movements out of paid work seen between 2002–03 and 2004–05 are associated with individual characteristics in 2002–03.

**Figure 3.7. Work status in 2004–05 of those in full-time paid work in 2002–03, by age band and sex**



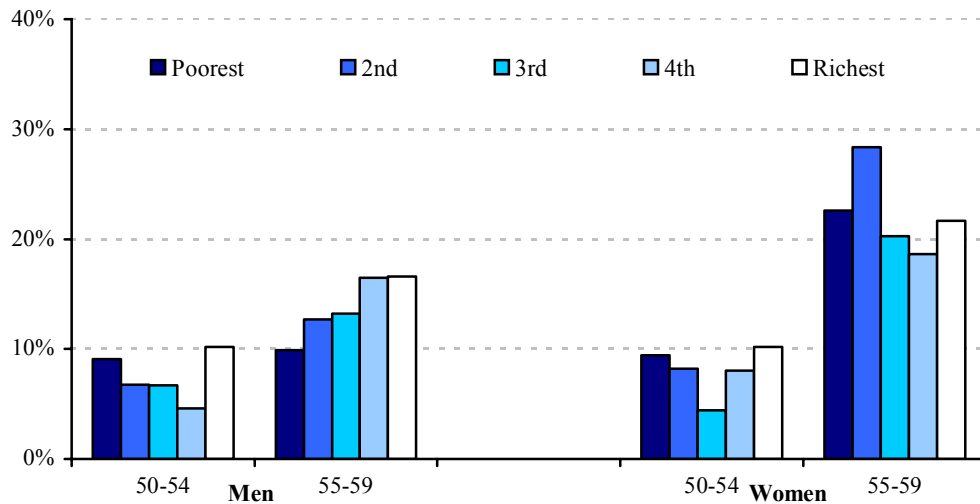
## 3.2 Labour market transitions and wealth

A key finding of the ELSA report on the first wave of data (Marmot et al., 2003) was that those who were not in paid work in 2002–03 were disproportionately drawn from the poorest and the richest (non-pension) wealth quintiles. This section takes a broader measure of wealth that includes both state and private pension wealth<sup>3</sup> and examines the extent to which this is associated with changes in labour market status of ELSA respondents between 2002–03 and 2004–05. Individuals are divided by wealth in order to look at groups with different levels of lifetime resources. Wealth is preferable to a measure such as income because income may well be expected to fall when individuals leave the labour market as, for example, individuals substitute leisure for consumption. Another alternative would be to look at consumption (as we would expect individuals to smooth their consumption over their lifetime). However, we have insufficient information on consumption in 2002–03 to divide individuals using this measure, especially as there may be expenditures that individuals no longer need to make after they leave work, such as work-related expenditures.

<sup>3</sup>For a description of the distribution of state and private pension wealth and how this varies with both non-pension wealth and other characteristics, see Banks, Emmerson, Oldfield and Tetlow (2005). For details of how the state and private pension wealth of each ELSA respondent was computed, see Banks, Emmerson and Tetlow (2005).

Figure 3.8 shows that for men aged 50 to 54, it is those in the poorest and the richest wealth quintiles who were relatively more likely to move out of paid work over the two-year period. Among men aged between 55 and 59 movements out of paid work were relatively more common among those in the richest two wealth quintiles, though the majority of those in the poorest quintile were already out of paid work by 2002–03.

**Figure 3.8. Percentage of individuals in paid work in 2002–03 who are not in paid work in 2004–05, by age band, sex and total wealth in 2002–03**

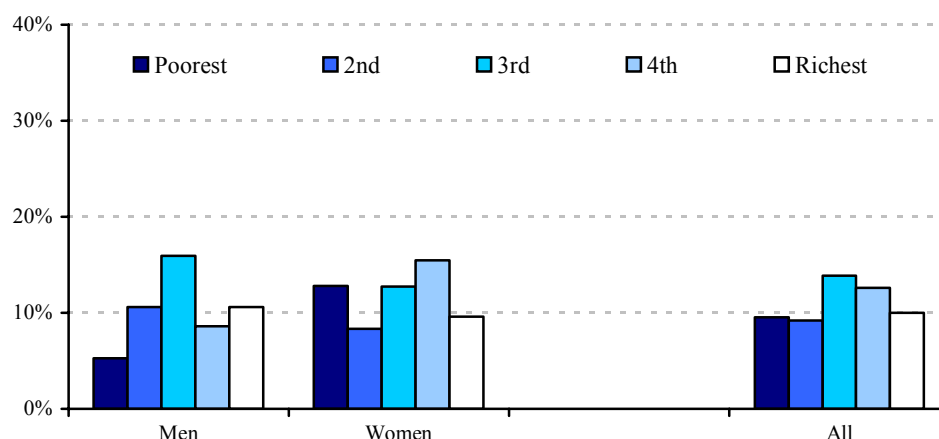


The percentage of women who were in paid work in 2002–03 but were not in paid work in 2004–05 is also shown in Figure 3.8. As was the case with men, we find that among those aged 50 to 54, those in the poorest and richest quintiles of the wealth distribution were relatively more likely to move out of paid work, with movements out of paid work among both these groups being more than twice as frequent as among women in the middle wealth quintile.

The finding that those with lower levels of wealth are more likely to exit the labour market could be due to a combination of several factors. In addition to low wealth itself, various other factors that could determine labour market exits are also correlated with low wealth. For example, those with low levels of wealth will typically have had low levels of lifetime earnings, and therefore the financial reward from remaining in the labour market will be lower. Furthermore, as is well documented (see, for example, Smith (1999)), those with lower levels of wealth are also on average less healthy, which may also cause higher levels of labour market exit. The association between certain measures of health and labour market transitions is explored in Section 3.4.

Among those not in paid work and aged 50 to 54 in 2002–03, men from the third wealth quintile and women from the first, third and fourth wealth quintiles were found to be relatively more likely to be in paid work in 2004–05, as shown in Figure 3.9. Further details of labour market transitions by wealth can be found in Tables 3A.7 and 3A.8.

**Figure 3.9. Percentage of those aged 50 to 54 not in paid work in 2002–03 who are in paid work in 2004–05, by sex and total wealth in 2002–03**



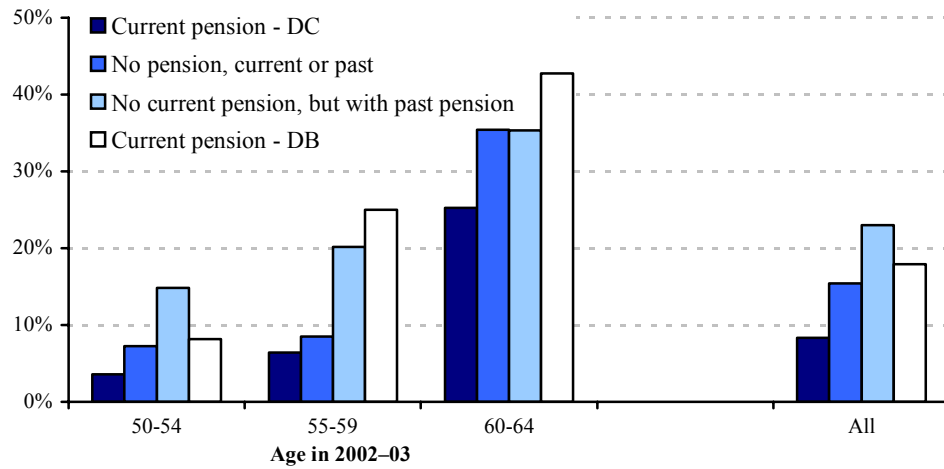
### 3.3 Labour market transitions and pension status

The boost to an individual's retirement resources from choosing to remain in the labour market will depend in part on how any pension entitlements accrue. A typical defined benefit (DB) pension arrangement will provide a financial incentive for individuals to remain in paid work until the scheme's normal retirement age and a financial disincentive to remain in paid work (or at least to remain as a contributor to that pension scheme) beyond that date. In contrast, those who have chosen not to contract out of the State Second Pension (which replaced the State Earnings-Related Pension Scheme (SERPS) from April 2002) and, in particular, those with defined contribution (DC) pensions (sometimes referred to as money purchase schemes) will typically accrue additional pension wealth from choosing to remain in paid work (at least up to the SPA).<sup>4</sup>

The percentage of men moving out of paid work is shown in Figure 3.10 by both age and pension status in 2002–03. The graph shows that among all age groups, movements out of paid work were considerably more common among those who were (only) contributing to DB pension schemes in 2002–03 than among those who were (only) contributing to a DC pension in 2002–03. Among those men who were in paid work but not contributing to a private pension in 2002–03, among both 50- to 54-year-olds and 55- to 59-year-olds, those who had previously contributed to a private pension were more likely to move out of paid work than those who had never contributed to a private pension, while there was little difference between these two groups among those aged 60 to 64.

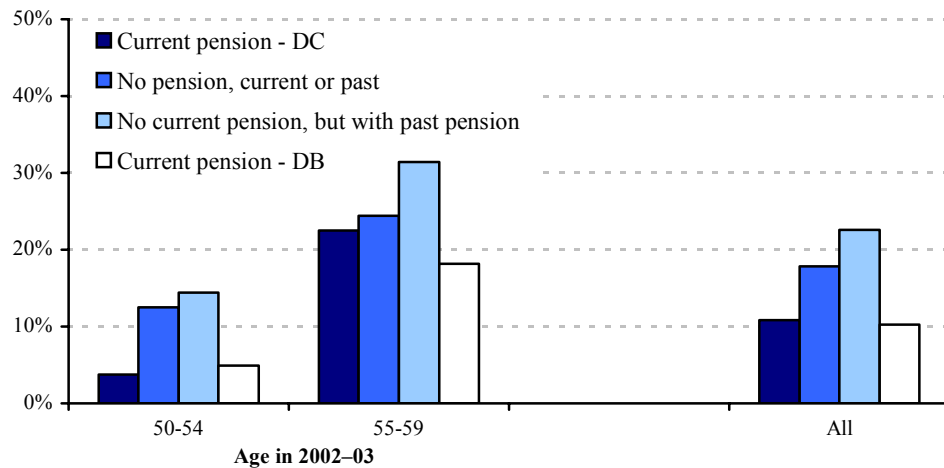
<sup>4</sup>For a further description of these incentives, see, for example, Banks and Smith (2006, section 3).

**Figure 3.10. Percentage of men in paid work in 2002–03 who are not in paid work in 2004–05, by age band and pension type in 2002–03**



Equivalent figures for women are shown in Figure 3.11. This shows that those in paid work who were contributing to a private pension in 2002–03 were less likely to move out of paid work than those who were not contributing to a private pension, and that there was little difference in the likelihood of moving out of paid work by whether individuals were contributing to a DB or to a DC pension arrangement. Further figures on movements into and out of paid work by pension status can be found in Tables 3A.9 and 3A.10.

**Figure 3.11. Percentage of women in paid work in 2002–03 who are not in paid work in 2004–05, by age band and pension type in 2002–03**



The issue of phased retirement is also potentially related to the financial incentives provided by pension arrangements. In particular, those in final salary DB pension schemes will, at least in the past, typically have had less incentive to engage in a phased retirement than those in other types of schemes. This is particularly borne out in data on the labour market transitions of men aged between 50 and the SPA who were in full-time paid work in 2002–03 but not in full-time paid work in 2004–05: those who had been

contributing to a DC pension arrangement were almost twice as likely to move into part-time work as those who had contributed to a DB pension arrangement.<sup>5</sup> Given that from 6 April 2006 individuals are able to begin drawing an occupational pension while still working for the employer providing that pension, it will be interesting to see whether phased retirement becomes more common among those who were members of employers' pension arrangements – and in particular those who were members of defined benefit schemes.

### **3.4 Labour market transitions and health**

In the first wave of ELSA, respondents who reported better health were also more likely to be in paid employment (see Banks and Casanova (2003, figure 4.1)). In this section, we look at the extent to which movements into or out of paid work between 2002–03 and 2004–05 were associated with self-reported health in 2002–03. Figure 3.12 shows that both men and women in paid work in 2002–03 who reported that their health was fair or poor were more likely to not be in paid work in 2004–05 than those who reported that their health was excellent or very good. Amongst those aged between 50 and the SPA, those who reported being in fair or poor health were about twice as likely to stop working as those who reported being in excellent or very good health. The difference is greatest amongst men aged between 50 and 54 in 2002–03. Amongst this group, those who reported having fair or poor health in 2002–03 were nearly three times as likely to have stopped working by 2004–05 as those who had reported excellent or very good health in 2002–03.

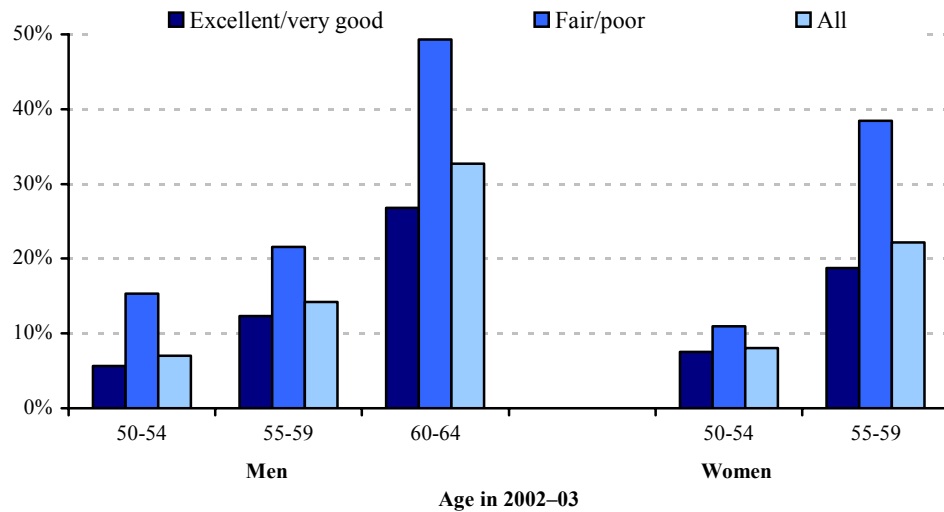
The difference between the proportions of those in poor health and those in excellent health who leave paid work is greatest if we look just at individuals who reported that they were in manual employment.<sup>6</sup> Almost one-in-three (31.2%) male manual workers who reported having fair or poor health in 2002–03 had left paid work by 2004–05, whereas just one-in-five (19.5%) male non-manual workers reporting fair or poor health had left paid work. However, if we look instead at men who reported being in excellent or very good health, rates of exit from paid work are very similar amongst manual and non-manual workers (12.8% and 11.7% respectively). Further details of labour market exits amongst individuals with different self-reported health in manual and non-manual jobs can be found in Table 3A.13.

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<sup>5</sup>Authors' calculations based on Table 3A.10 reveal that 49.4% of men aged 50 to the SPA who had been in full-time paid work and contributing to a DC pension scheme in 2002–03 but not in full-time paid work in 2004–05 had moved into part-time paid work in 2004–05, compared with just 28.0% of those who had been contributing to a DB pension scheme. The equivalent figures for women aged between 50 and the SPA are 67.4% and 62.0% respectively.

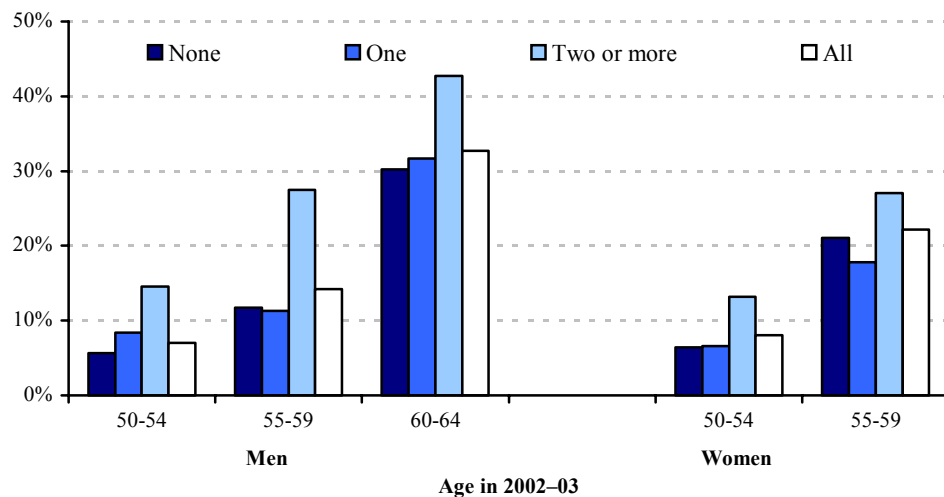
<sup>6</sup>Manual jobs are defined here as jobs that the respondent says require 'some physical effort' or 'vigorous physical activity'. Non-manual jobs are those where the individual 'spend[s] most of [the] time sitting' or 'spend[s] most of [the] time standing or walking'.

**Figure 3.12. Percentage of those in paid work in 2002–03 who are not in paid work in 2004–05, by age band, sex and 2002–03 self-reported health**



A similar association between health in 2002–03 and likelihood of moving out of paid work by 2004–05 is seen when the measure of baseline health is self-reported mobility limitations rather than self-reported general health. For further information on the measure of mobility limitations used, see Chapter 6 and Steel et al. (2003). Figure 3.13 shows that men and women of all age groups who report two or more mobility limitations are more likely to move out of paid work than those who report one or no mobility limitations.

**Figure 3.13. Percentage of those in paid work in 2002–03 who are not in paid work in 2004–05, by age band, sex and 2002–03 self-reported mobility limitations**



It is also the case that among those not in paid work in 2002–03, those who reported being in excellent, very good or good health were more likely to have moved into paid work by 2004–05 than those who reported that they were in fair or poor health. As shown in Figure 3.14, this gradient with health is

particularly striking for men: one-in-nine (11.7%) men who stated that their health was either excellent or very good had moved back into paid work by 2004–05 compared with less than one-in-twenty (4.8%) of those who had stated that their health was fair or poor.

**Figure 3.14. Percentage of those aged 50 to SPA and not in paid work in 2002–03 who are in paid work in 2004–05, by sex and 2002–03 self-reported health**

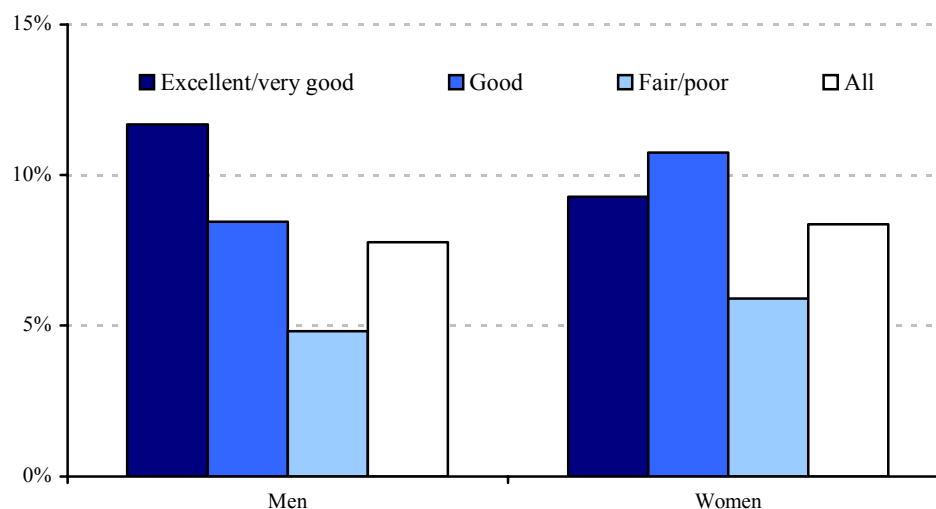


Table 3A.14 shows that the pattern of movements into paid work by self-reported mobility limitations for men is similar to that for self-reported general health in Table 3A.11. Among those men not in paid work in 2002–03, those who reported no or one mobility limitation were more likely to be in paid work in 2004–05 than those who reported two or more mobility limitations. The pattern by number of self-reported mobility limitations for women is less clear. Women who had reported one limitation were more likely to move into paid work than either those who had reported that they had no mobility limitations or those who had reported two or more limitations.

In summary, the pattern of labour market transitions by health is consistent with the hypothesis that those who report poor health are both more likely to move out of paid work and, unless their reported health improves, subsequently less likely to return to paid work. Additional waves of ELSA data will be required to investigate the extent to which this is the case.

Further figures on movements into and out of paid work by self-reported general health can be found in Tables 3A.11 and 3A.12, while figures split by reported mobility limitations can be found in Tables 3A.14 and 3A.15.

### 3.5 Employment and work practices

The 2004–05 ELSA survey contains new questions designed to shed light on employment practices, the extent to which labour market exits are either voluntary or involuntary, and how this relates to the respondent’s health. (Note

that, as this section looks only at circumstances in 2004–05, individual ages used throughout this section refer to age in 2004–05.)

## **Compulsory retirement**

Many employers have compulsory retirement ages (CRAs) within their contract of employment. In other words, they impose an age at which an employee is obliged to stop working for that organisation. Given the growing concern to facilitate individuals staying in work at older ages, there has been increasing interest in whether such CRAs are constraining individuals to stop working earlier than they would otherwise choose to. Government policy has also attempted to reduce the extent to which those wishing to remain in paid work are constrained by CRAs, as stated in the recent Green Paper: ‘We will also be introducing a default retirement age of 65, below which employers will not be able to force people to retire (unless it can be objectively justified). Employers will also have a duty to consider requests to work beyond age 65’ (Department for Work and Pensions, 2006, page 67).

The 2004–05 ELSA survey asked those individuals who were in paid employment whether or not their employer had a CRA. As shown in Table 3A.16, among those aged 52 to 59 who were in employment, just under half of men (49.7%) and just over a third of women (34.0%) report that their employer has a CRA. Nearly one-in-five (18.9%) of those who report that they face a CRA say that they would like to work beyond this age.<sup>7</sup>

By far the most common reported CRAs were 60 and 65. Among both men and women, 65 is a more common reported CRA than 60, with other reported CRAs being extremely rare – only 8.1% of individuals aged between 52 and 59 report having a CRA that is not either 60 or 65.

Only a minority of those in this age group who reported facing a CRA (16.0% of men and 23.2% of women) say that they would, if it were possible, like to work beyond this age. Perhaps unsurprisingly, those who report having a CRA of 60 are more likely to state that they would like to remain in paid work beyond this age than those who report a CRA of 65: 41.3% of men (37.6% of women) with a reported CRA of 60 say they would like to work beyond this age, compared with just 12.0% of men (19.7% of women) with a reported CRA of 65.

So there is a small, but not insignificant, minority (7.9%) of workers in 2004–05 aged between 52 and 59 who said they felt constrained by the CRA that they report. For some of these people, new legislation that comes into effect in October 2006 (which will make compulsory retirement before age 65 illegal unless it can be ‘objectively justified’) may help. Of employees aged under 60, 7.5% reported facing a CRA below 65, of which 38.3% (i.e. 2.9% of all

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<sup>7</sup>Of men aged 60 to 64, 38.0% reported that they faced a CRA, of which 34.7% say they would like to work beyond this CRA. Men in this age group are excluded from the analysis presented in the main text because amongst this age group it is particularly likely that individuals could already have left the labour market if their previous job had a CRA of 60 or that they moved to a job with a higher CRA in order to allow them to continue working.

employees aged 52 to 59) say they would like to work beyond this age. The new legislation may help this group to remain in employment for longer.

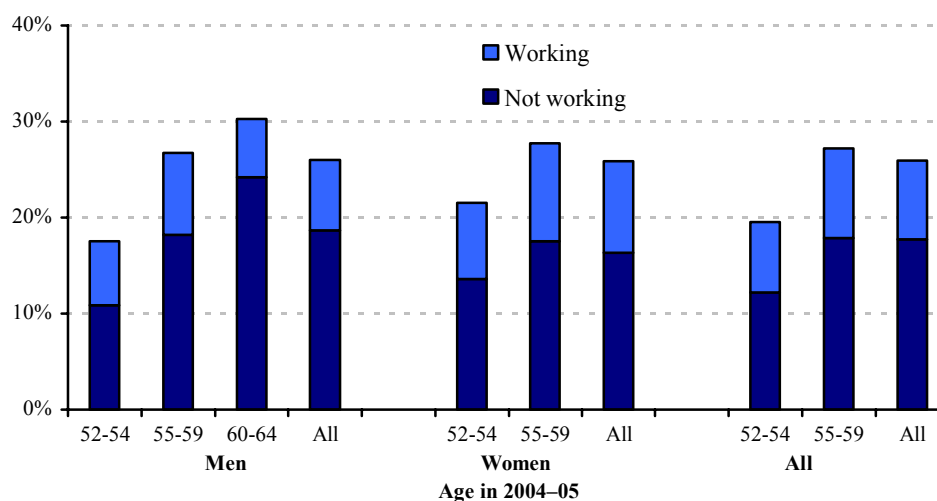
Further details of the numbers of employees who report that their employer has a CRA and the percentage who feel constrained by these CRAs are given in Table 3A.16.

### Work-limiting disabilities

Section 3.4 showed that those who reported being in worse health were most likely to stop working and least likely to move back into paid work amongst all age groups. This suggests that changes to employment conditions to accommodate employees with health problems could be an important means of raising employment rates amongst those approaching the SPA. This section looks first at how many individuals aged between 52 and the SPA report having a disability that limits the type of work they can do and then at what changes employers have made to accommodate these individuals and whether there are any other changes that individuals feel could help them stay in work.

ELSA respondents to the 2004–05 survey were asked whether they had any conditions that affected their ability to work. Figure 3.15 shows that just over a quarter of men and women aged between 52 and the SPA reported having a work-limiting disability. As we would expect, the percentage of individuals reporting having a work-limiting disability is higher amongst older age groups for both men and women. In addition, among men who report having such a disability, the percentage who are in paid work declines with age.

**Figure 3.15. Percentage of those aged 52 to SPA in 2004–05 reporting having a work-limiting disability in 2004–05, by sex, age band and work status of these individuals**



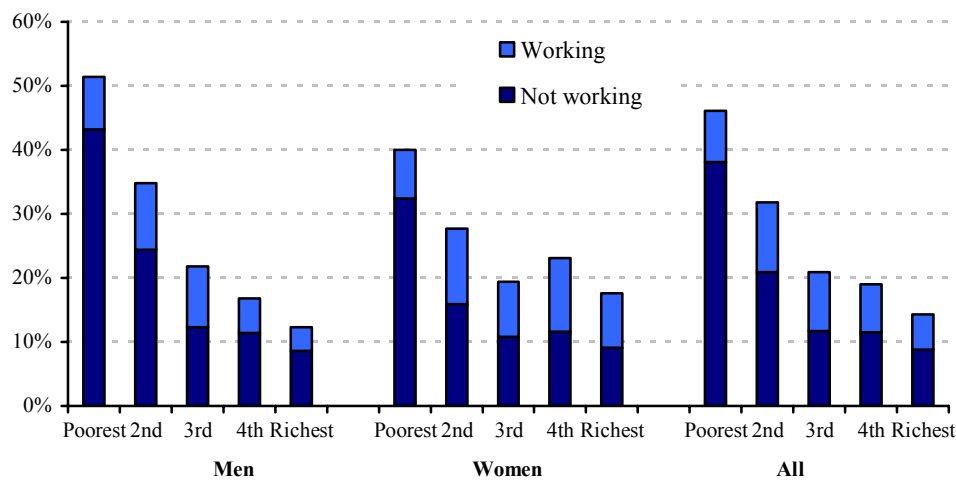
As shown in Table 3A.17, reported work-limiting disability is substantially more prevalent among those not in paid work than among those who are in work, and this is particularly true among younger individuals. For example, over six-in-ten (62.8%) men aged 52 to 54 who were not in paid work report that they had a disability that affected the amount of work that they could do,

compared with under one-in-ten (6.4%) men in the same age group who were working full-time.

Recent policy has also been focused on those with work-limiting disabilities who are receiving incapacity benefits. In particular, the Pathways-to-Work pilots provide greater support (both financial and non-financial), and impose greater obligations, to encourage claimants of incapacity benefits to move off benefits and into paid work. Early descriptive evidence shows that the off-flow rate from these benefits after six months is around 8 percentage points higher in the areas where the pilots were operating than in the rest of the country, and the government recently announced that these pilots are set to be extended nationwide.<sup>8</sup>

Figure 3.16 shows that the percentage of men aged between 52 and the SPA who reported that they had a work-limiting disability in 2004–05 was far higher among those in the lower wealth quintiles. Over half (51.4%) of the men in the poorest wealth quintile reported having a disability that limited the work they could do, whereas fewer than one-in-eight (12.2%) of the men in the richest quintile reported having a work-limiting disability. A similar pattern can be seen for women.

**Figure 3.16. Percentage of those aged 52 to SPA in 2004–05 reporting having a work-limiting disability in 2004–05, by sex, quintile of total wealth and work status of these individuals**



Amongst women who reported having a work-limiting disability, those in the lower wealth quintiles are less likely to be in paid work than those in the higher wealth quintiles. More than four-in-five (80.9%) women in the poorest wealth quintile who report having such a disability are not in work, compared with just over half (51.3%) of those in the richest quintile. Amongst men who reported having a work-limiting disability, a slightly different pattern of employment emerges. Men in the poorest, second and richest wealth quintiles who reported having such a disability are the most likely to be out of work

<sup>8</sup>See Department for Work and Pensions (2006, figure 2.3).

(84.0% of those in the poorest quintile, 70.2% of those in the second quintile and 70.0% of those in the richest quintile are not in work), while those in the third and fourth quintiles are most likely to be in work (only 56.3% of those in the third quintile who report a work-limiting disability are out of work).

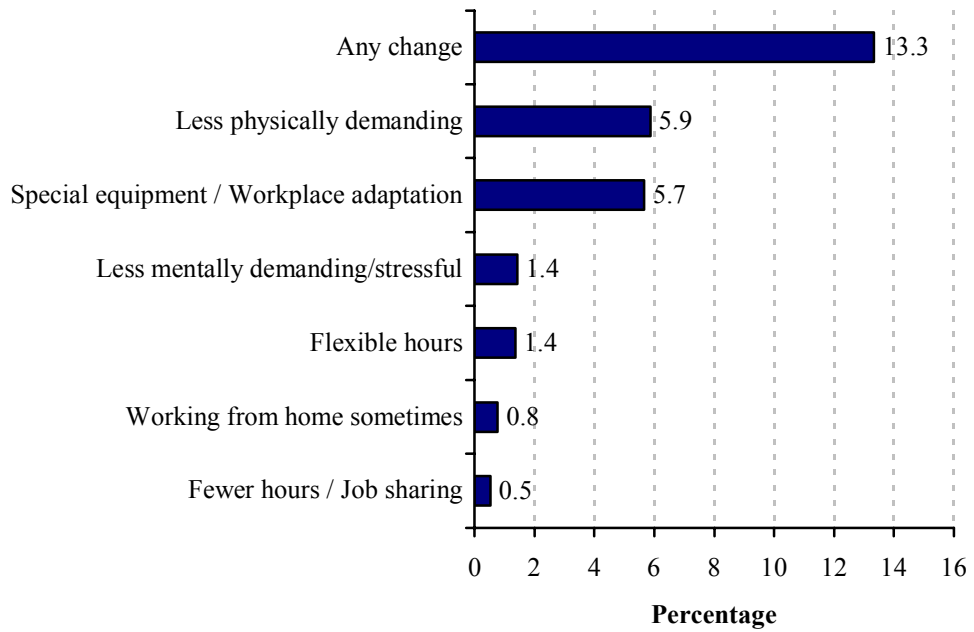
We might expect employment rates to be lowest amongst the richest and poorest individuals with work-limiting disabilities. Those in the poorest wealth quintiles who have such a disability may receive a reasonably good earnings replacement rate from (flat-rate) out-of-work disability benefits such as incapacity benefit, while those in the richest wealth quintiles may have sufficient income – for example, from a defined benefit pension – to fund their consumption needs even if they are not in employment.

As shown in Figure 3.15, the majority of those who reported having a work-limiting disability were not in paid work. About one-in-four individuals (25.9%) aged under the SPA reported having such a disability. Since these individuals are much more likely to be out of work than non-work-disabled individuals, one way to increase employment rates amongst this age group could be to adapt employment conditions to allow these people to continue working for longer. There are various ways that employers could adapt jobs to help individuals with health problems. For example, employers may be able to reduce the physical or mental demands of the job (perhaps by enabling an individual to move to a different role within the organisation) or to reduce the number of hours an individual works.

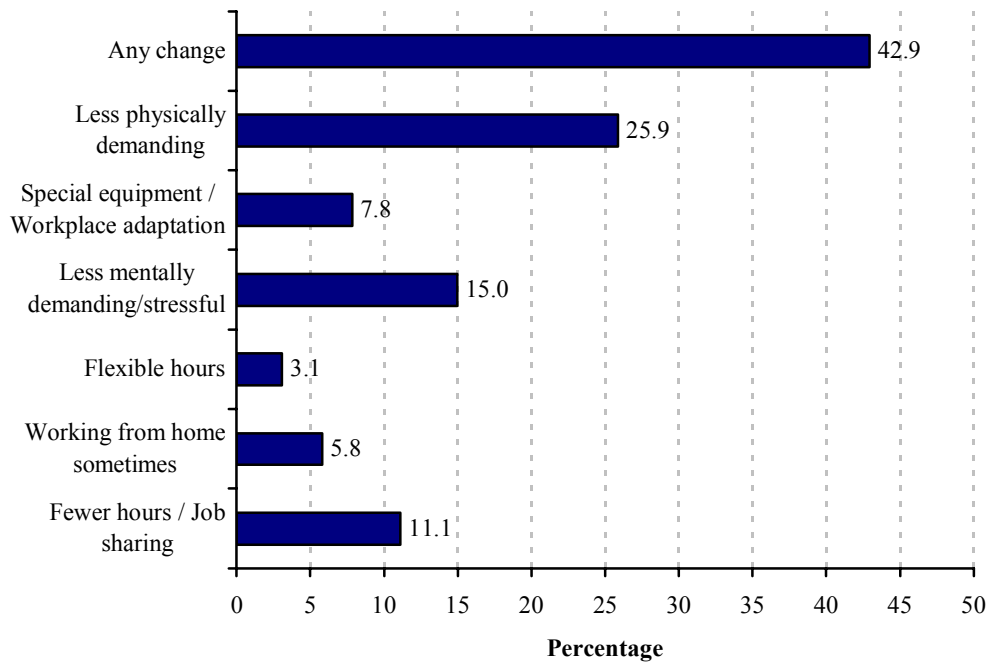
In 2004–05, those ELSA respondents who were employed and reported that they did have a work-limiting disability but that it did *not* affect their work in their current job were asked what, if anything, their employer had done to accommodate their disability or health condition (to see whether their ability to carry out their current job without any problems could be a result of adaptations made by their employer). Of those aged between 52 and the SPA who reported having any work-limiting disability and were in work, 55.7% said that their disability did not affect the kind or amount of work they could do in their current job. Amongst these people, Figure 3.17 shows that only 13.3% stated that their employer had made a change to their working situation to accommodate them. The most common types of changes were making the job less physically demanding and introducing special equipment or adaptations to the workplace; both of these were reported by about 6% of these respondents.

Those individuals who reported that their health condition or disability did limit their ability to do their current job were instead asked what changes they would like their employer to make because of their disability. Figure 3.18 shows that even amongst this group, the majority would not like to see any changes to their workplace, although a sizeable minority (42.9%) did report that they would like to see some changes. The most commonly cited requests were for a less demanding job (either physically or mentally) and for fewer hours of work. However, given that the question asked did not explicitly state that such changes would be accompanied by a commensurate drop in pay, the popularity of these responses is perhaps not surprising.

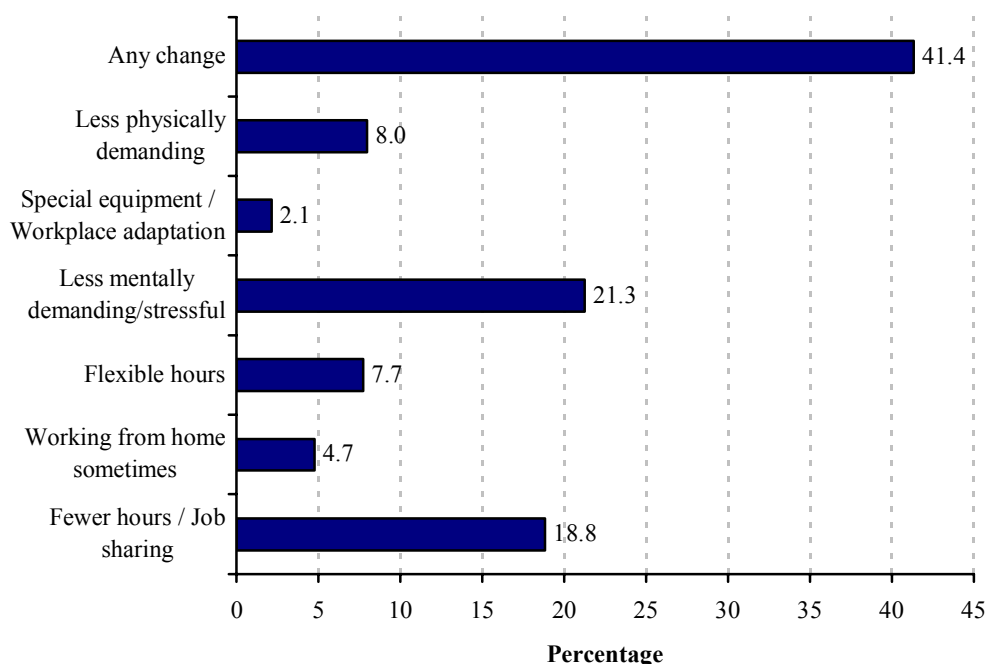
**Figure 3.17. Reported changes to working situation among those reporting that they do have a work-limiting disability but that it does not affect their ability to work in their current job**



**Figure 3.18. Reported desired changes to working situation among those reporting that they have a health problem that limits their ability to work in their current job**



**Figure 3.19. Reported desired changes to working situation among those reporting that they do not have a work-limiting disability**



The types of changes desired by those with a work-limiting disability that affects their current job are somewhat different from the types of changes desired by non-work-disabled employees, as shown by Figures 3.18 and 3.19. Those with a work-limiting disability were much more likely to say that they wanted physical changes made to their job (e.g. less physically demanding or special equipment), whereas those who were not work-disabled were more likely to say that they wanted a less mentally demanding job or fewer, or more flexible, working hours. This is consistent with what we might expect for these two groups. However, some care should be taken when directly comparing Figures 3.18 and 3.19, as those without a work-limiting disability were asked a slightly different question from those with a work-limiting disability, which may have affected responses.<sup>9</sup>

### 3.6 Conclusions

The retirement behaviour of older individuals and extending the length of working lives are important policy concerns, given the issues surrounding increasing life expectancies and declining relative generosity of state pensions. The data from the first wave of ELSA in 2002–03 identified some of the factors associated with being in or out of work at older ages. With the

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<sup>9</sup>Those with a work-limiting disability were asked ‘Would you like the work you do for your employer to change in any of these ways because of your health problem or disability?’, whereas those without a work disability were simply asked ‘Would you like your current job to change in any of these ways?’.

additional data from the second wave of ELSA in 2004–05, we are able to look at the factors associated with the dynamics of labour market participation (i.e. movements into and out of work).

The analysis has identified some characteristics that are associated with being more likely to stop work. Men who were contributing to defined benefit pensions were more likely to stop working than individuals contributing to defined contribution pensions. This suggests that the trend away from private sector defined benefit pension arrangements towards private sector defined contribution pensions that has occurred in the UK since 1988 might help increase retirement ages of subsequent cohorts.

Analysis of the data from the first wave of ELSA in 2002–03 by Banks and Casanova (2003) showed that individuals in poor health were most likely to be out of work. Using the additional data from the second wave of ELSA in 2004–05, we find that these individuals are also the most likely to move out of work (conditional on having been in work in 2002–03) and the least likely to re-enter work (conditional on not being in work in 2002–03). The pattern of labour market transitions by health is consistent with the hypothesis that those who report poor health are both more likely to move out of paid work and, unless their health subsequently improves, less likely to return to paid work. Analysis of further waves of ELSA data will be able to show the extent to which this is the case.

Banks and Casanova (2003) also showed that in cross-section among those aged 50 to the SPA, it was those with relatively low or relatively high levels of wealth who were more likely to be not in the labour market. Our analysis has shown that for men aged 50 to 54, even looking just at those who were in work, it is those in the middle of the wealth distribution who were least likely to have left paid work in 2004–05. Moreover, taking those men aged 50 to 54 who were not in paid work, those in the middle of the wealth distribution were most likely to be in paid work in 2004–05.

Given the importance of extending working lives, reducing barriers to working at older ages could be beneficial. The 2004–05 ELSA survey included some new questions designed to look at this issue. One such possible barrier is compulsory retirement ages. However, the analysis presented here shows that the majority of employees do not, in fact, report facing a CRA; even amongst those who do, the majority do not feel constrained by this. Another possible barrier to continued working for individuals with health problems (which become increasingly prevalent at older ages) is if some demands of the job are incompatible with the health problems of the individual. We find that, even amongst those individuals who say that their disability or health problem does not limit their ability to do their current job, the majority have not actually been offered any changes to their work conditions by their employer.

## **Acknowledgement**

The research for this chapter was produced under the auspices of the IFS pensions and retirement saving consortium, to which the authors are grateful for both financial assistance and useful comments. The members of the IFS pensions and retirement saving consortium are: the Actuarial Profession, the

Association of British Insurers, the Bank of England, the Department for Work and Pensions, HM Revenue and Customs, HM Treasury and the Investment Management Association. The authors also thank the Economic and Social Research Council for co-funding through the research grant ‘Late Life Work and Retirement’ (RES-000-23-0588) and James Banks for useful comments.

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