



Institute for
Fiscal Studies



Shifting into the lean and slippared pantaloon? Employment in the sixth age

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Presentation at the Department for Work and Pensions

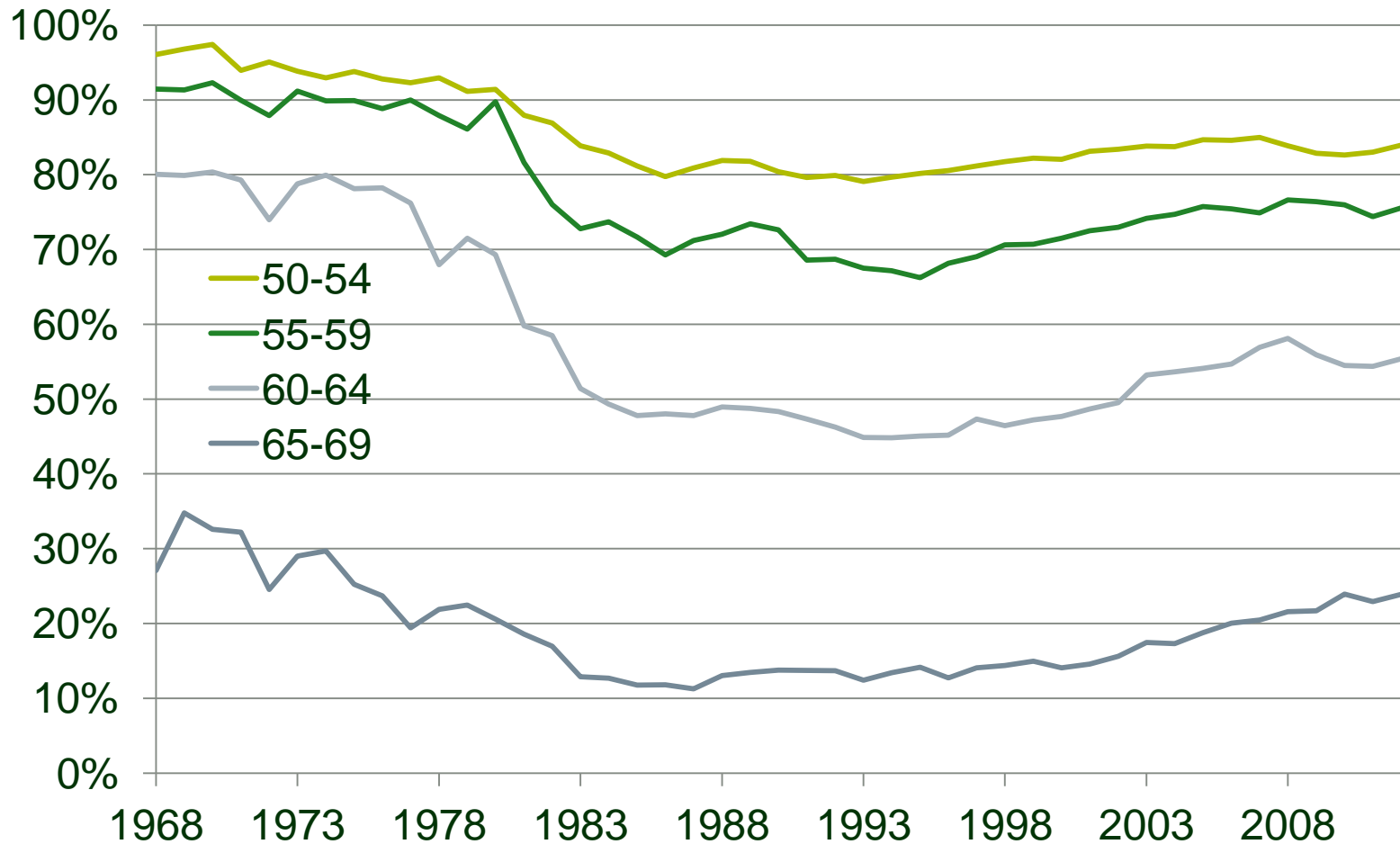
20th May 2014

Recent evidence on employment of older people

- Trends in employment rates
- Who is more (and less) likely to be in work?
 - Gender, health, education level, wealth, family circumstances
- Transitioning to retirement:
 - How does it happen?
 - What precipitates (or delays) it?
- In particular:
 - Changes in hours and importance of self-employment
 - Response to financial and other incentives
 - Effect of some policy changes: reforms to disability-related benefits, increasing the female state pension age

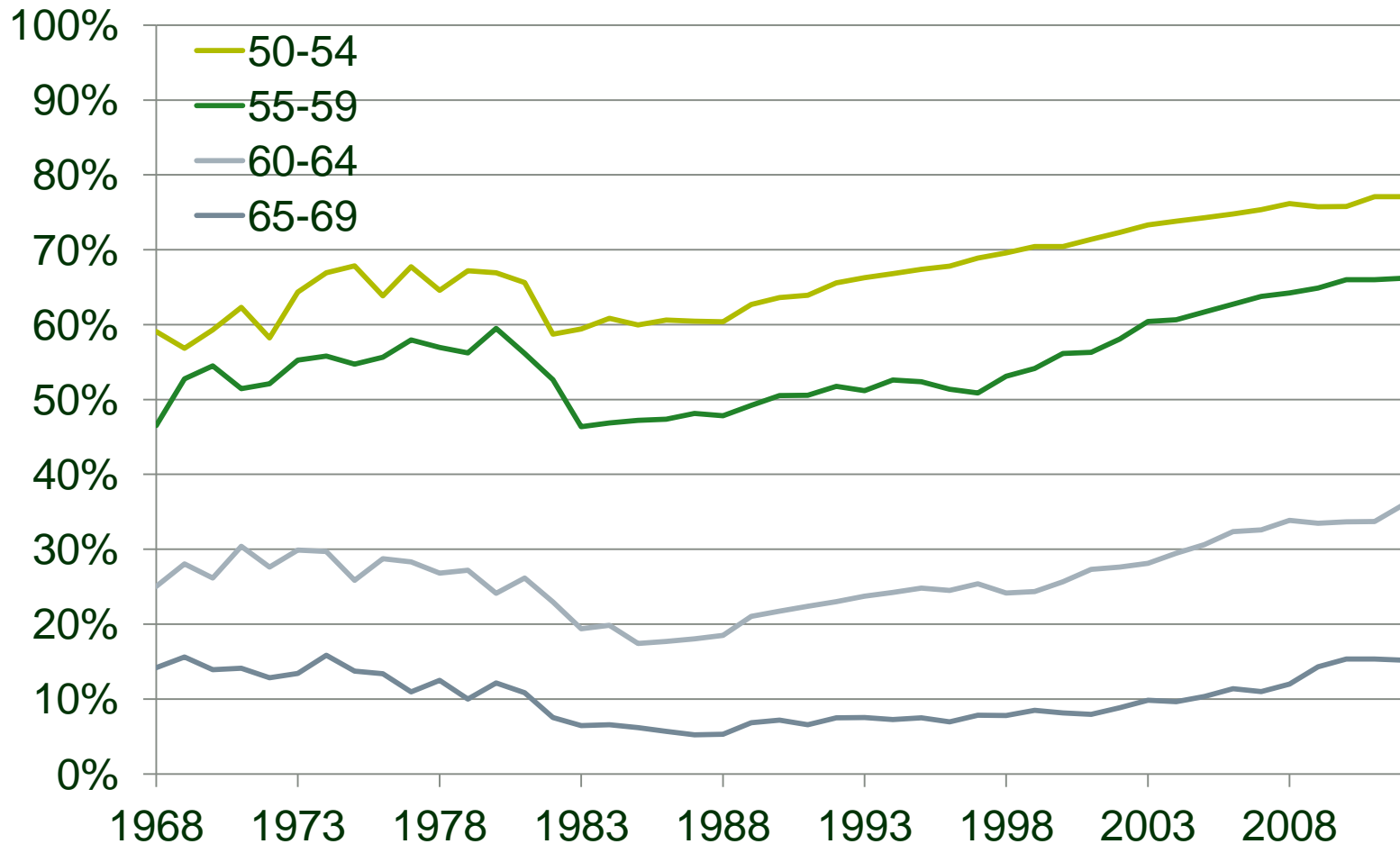
Employment rates of older men have been increasing since the mid-1990s

% of men in employment, by age group



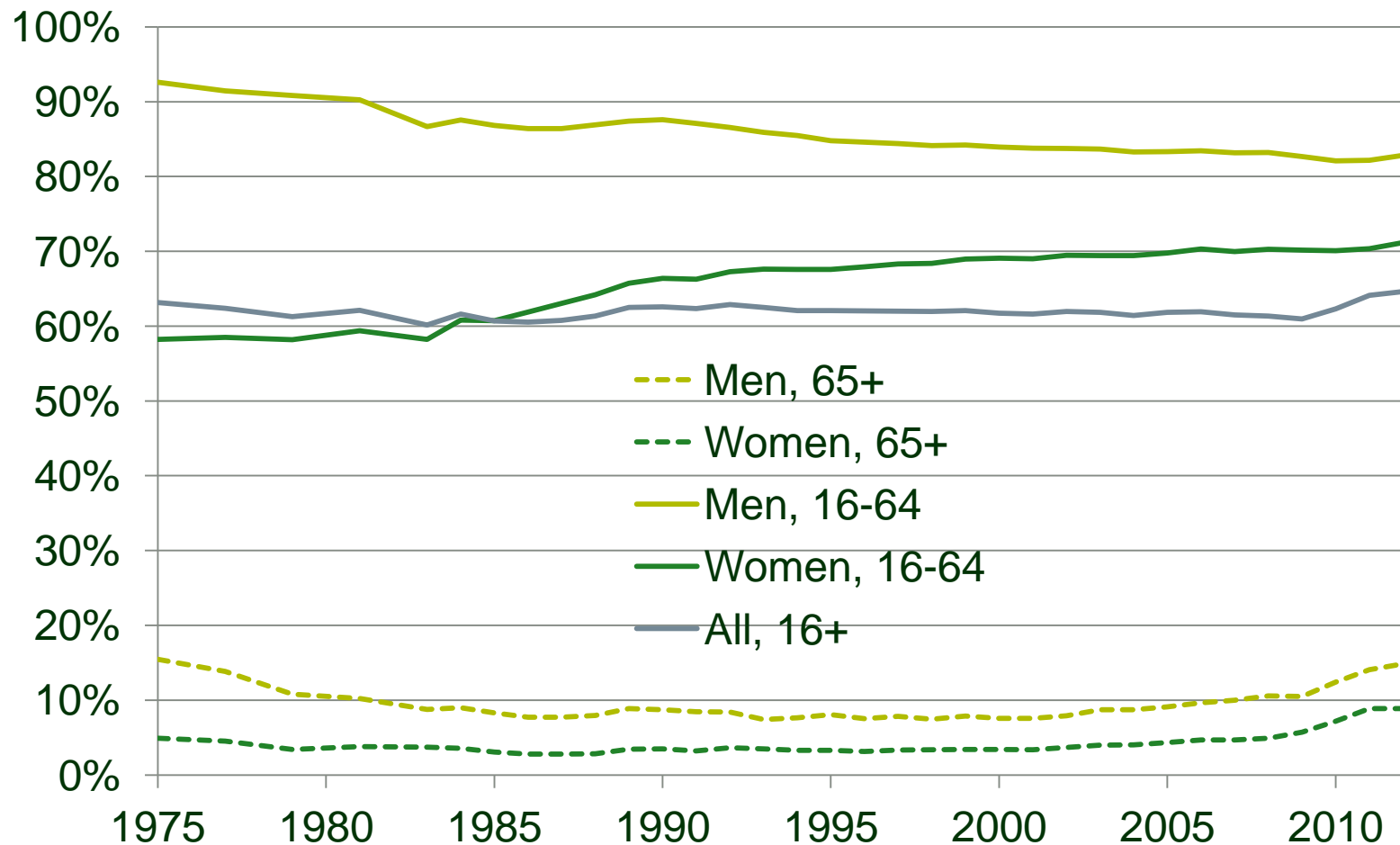
Employment rates of older women have increased even more substantially

% of women in employment, by age group



These trends have contributed to very stable fraction of adult population being in labour force

% of people in the labour force



Employment rates are strongly correlated with individual characteristics/circumstances

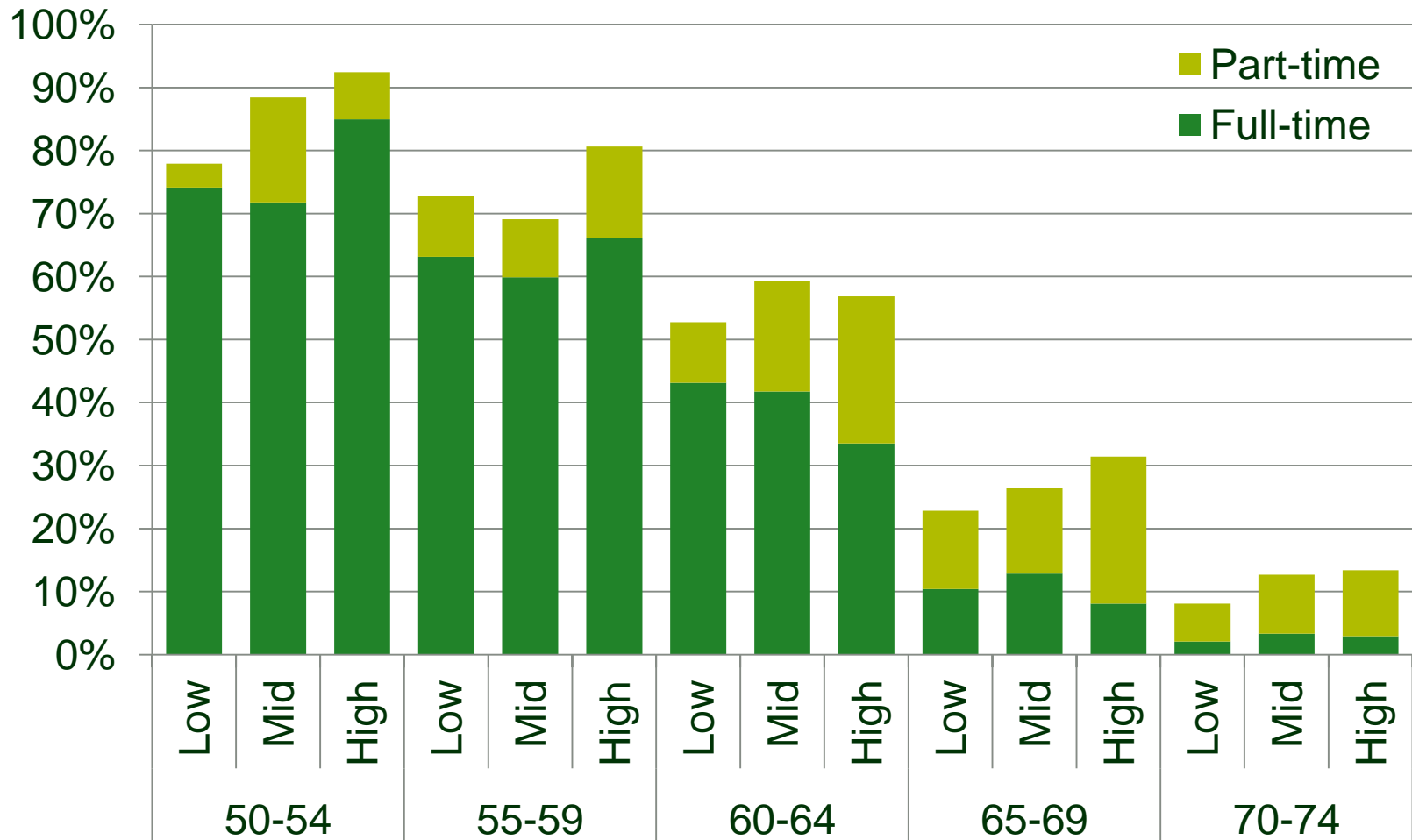
- Education
- Wealth
- Health

Definition of variables

- Using data from the English Longitudinal Study of Ageing (ELSA)
- Education
 - Low = left school at or before compulsory school leaving age
 - Mid = left full-time education after CSL but before age 19
 - High = left full-time education at age 19 or older
- Wealth
 - Total household non-pension wealth
 - Quintiles defined within each 5-year age group
- Health
 - Index estimated as first principal component from analysis of over 20 indicators of objective and subjective health
 - Quintiles defined across all age groups
- Part-time work: less than 35 hours per week (usual hours)

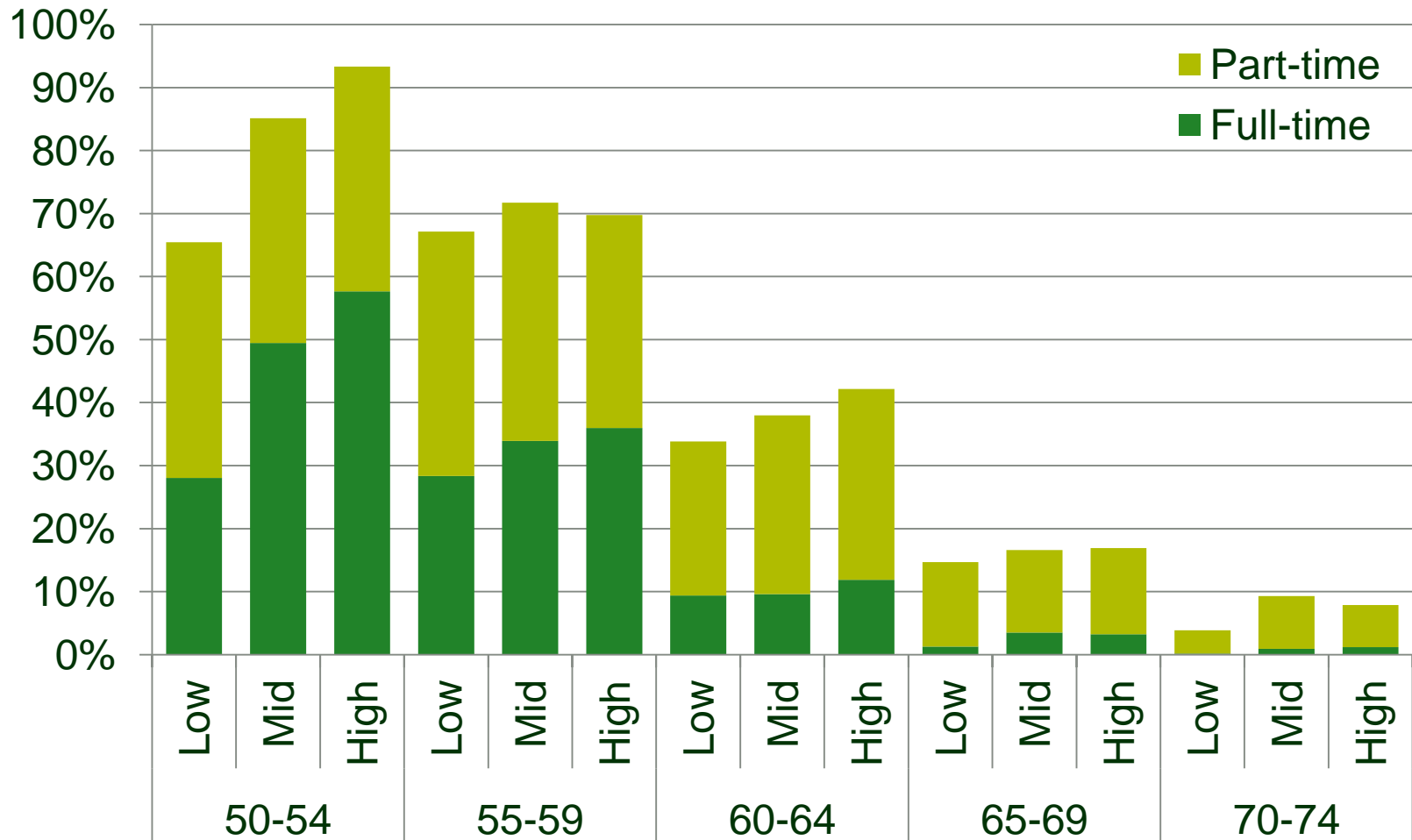
More highly educated are more likely to work

% of men working, 2012–13



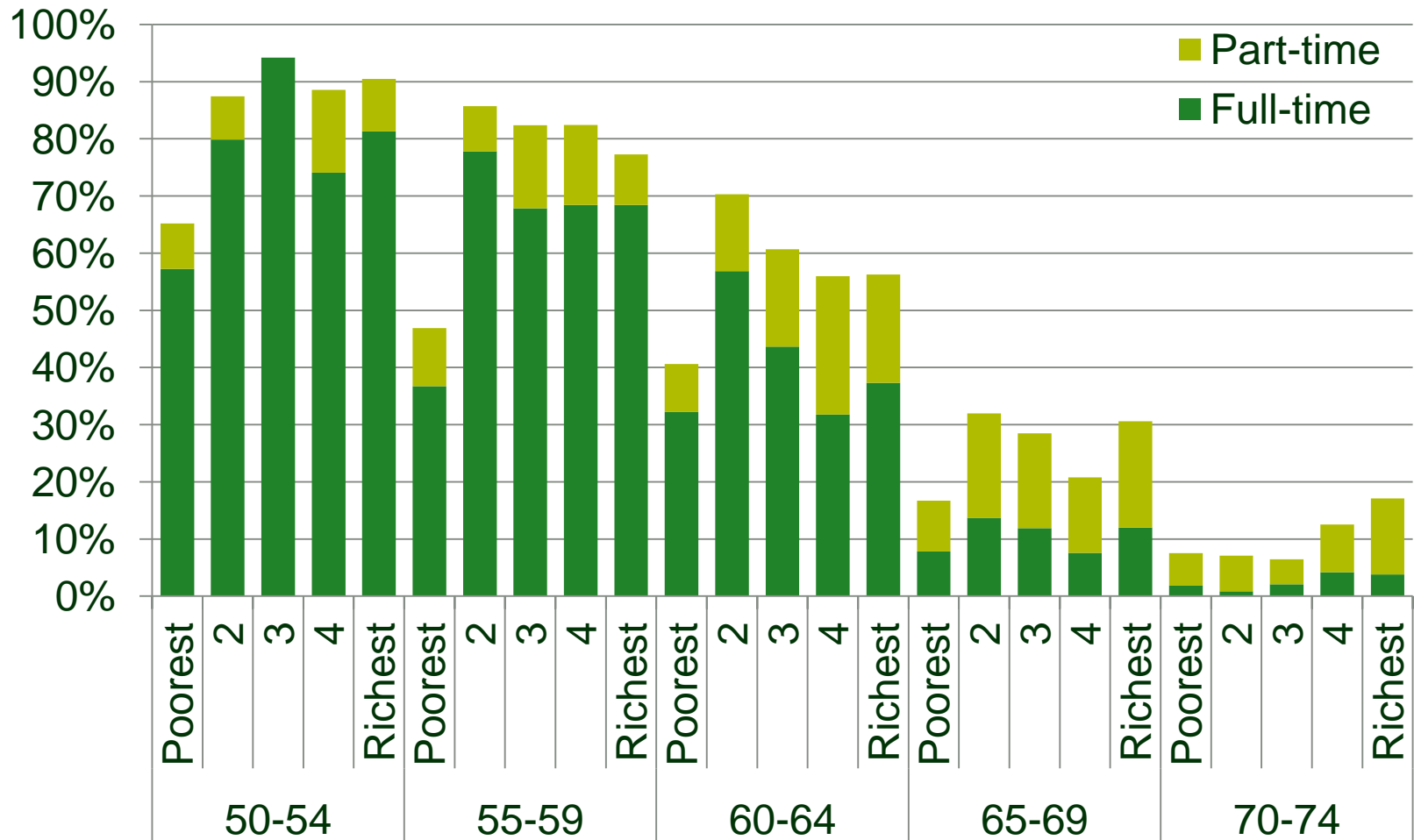
More highly educated are more likely to work

% of women working, 2012–13



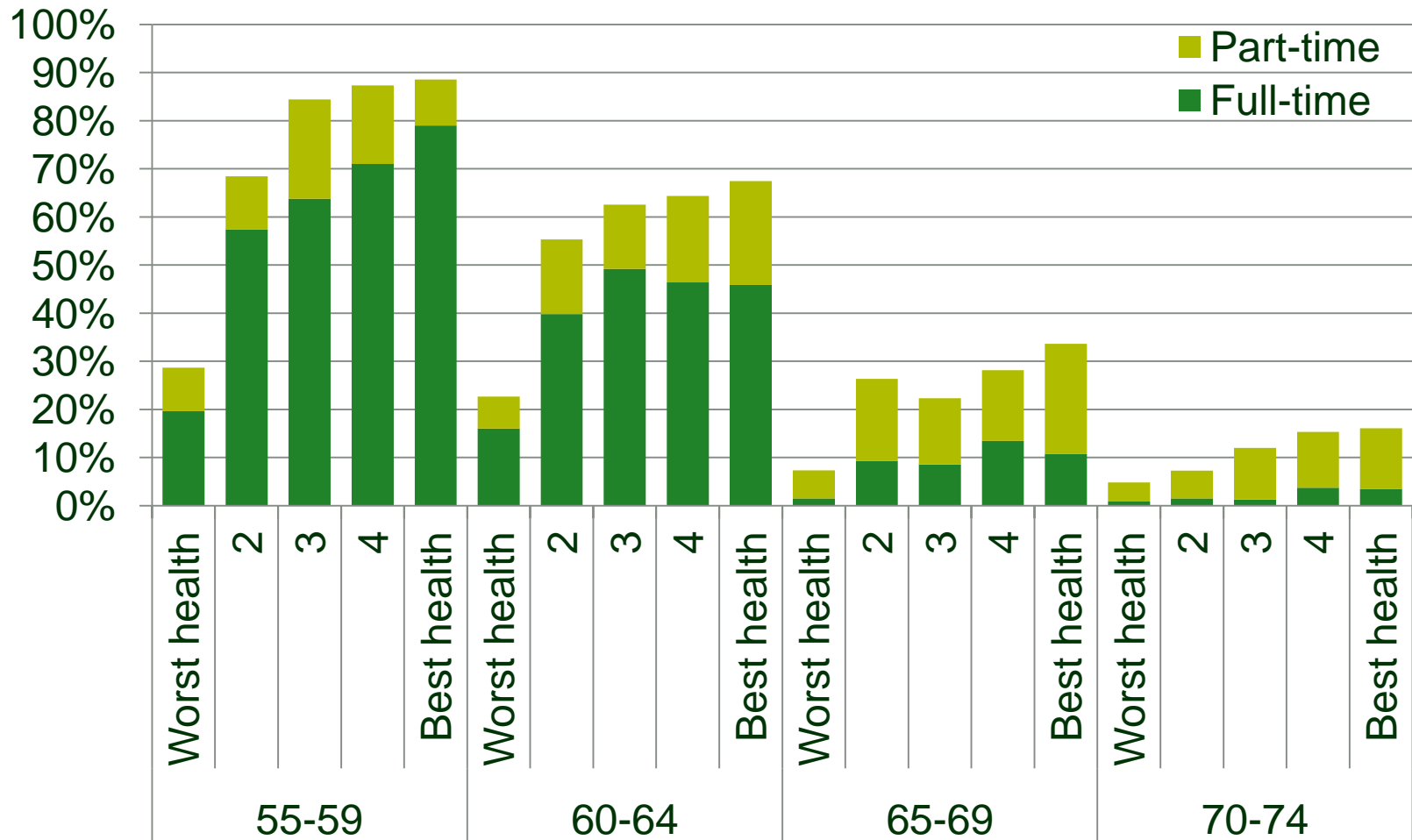
Lowest and highest wealth most likely to be out of work before the state pension age

% of men working, 2012–13



Employment is strongly related to health

% of men working, 2010–11



Employment rates are strongly correlated with individual characteristics/circumstances

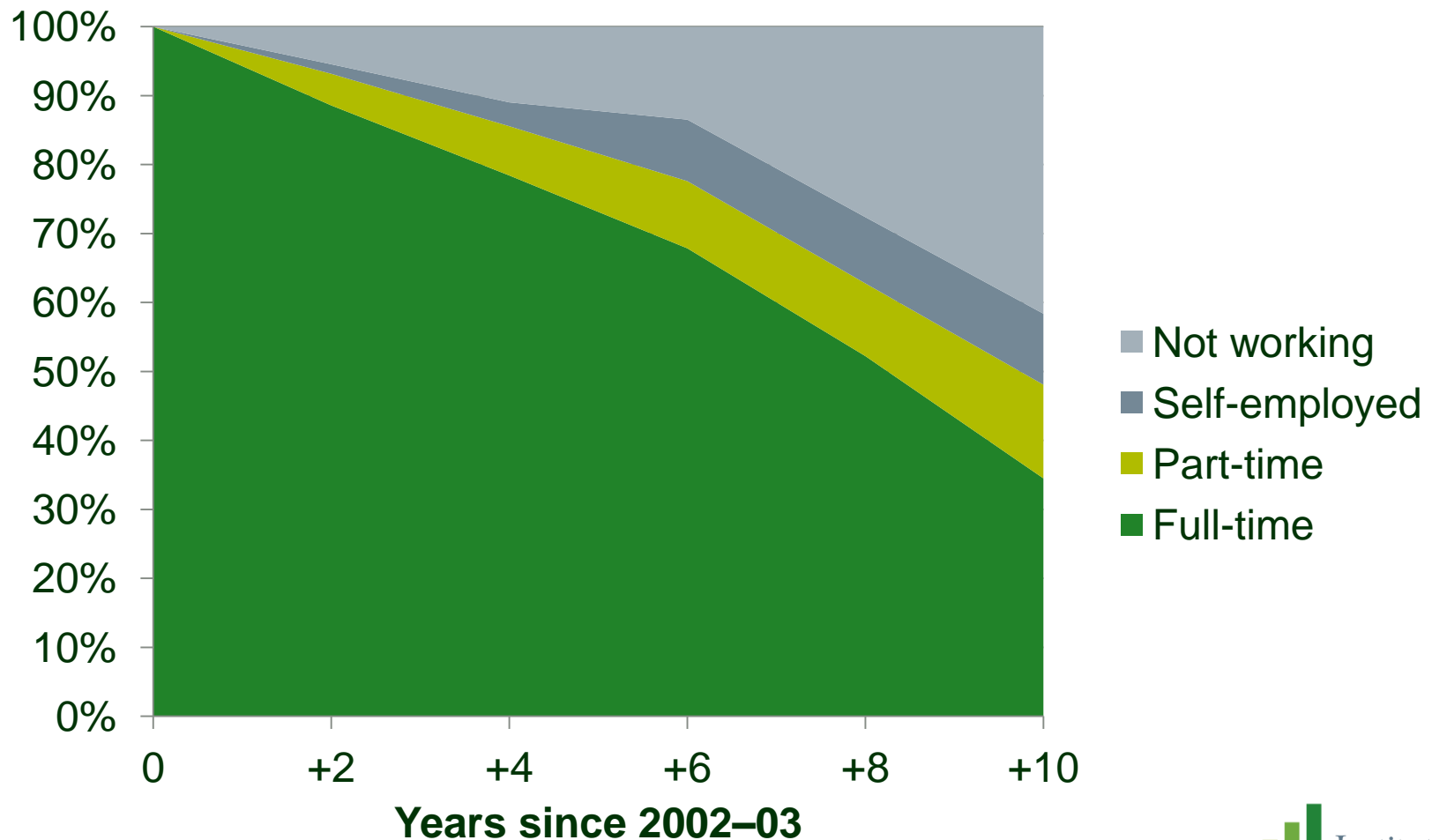
- Education
 - More highly educated are more likely to be in work
 - Especially beyond state pension age
- Wealth
 - Before state pension age: “inverse-U” relationship
 - After state pension age: wealthier more likely to be in work
- Health
 - Healthier more likely to be in work
- Employment rates of some groups already much lower than average by age 50
 - Understanding/addressing low participation rates for these groups will require looking at behaviour pre-50
 - Least healthy, low educated women, lowest wealth

Moving into retirement

- How do people transition from “work” to “retirement”?
 - How important is part-time work?
 - How important is self-employment?
 - Do workers move jobs in order to reduce their hours of work?
- When do people exit the labour force?
 - What factors influence this?
 - Are different factors important for different people?

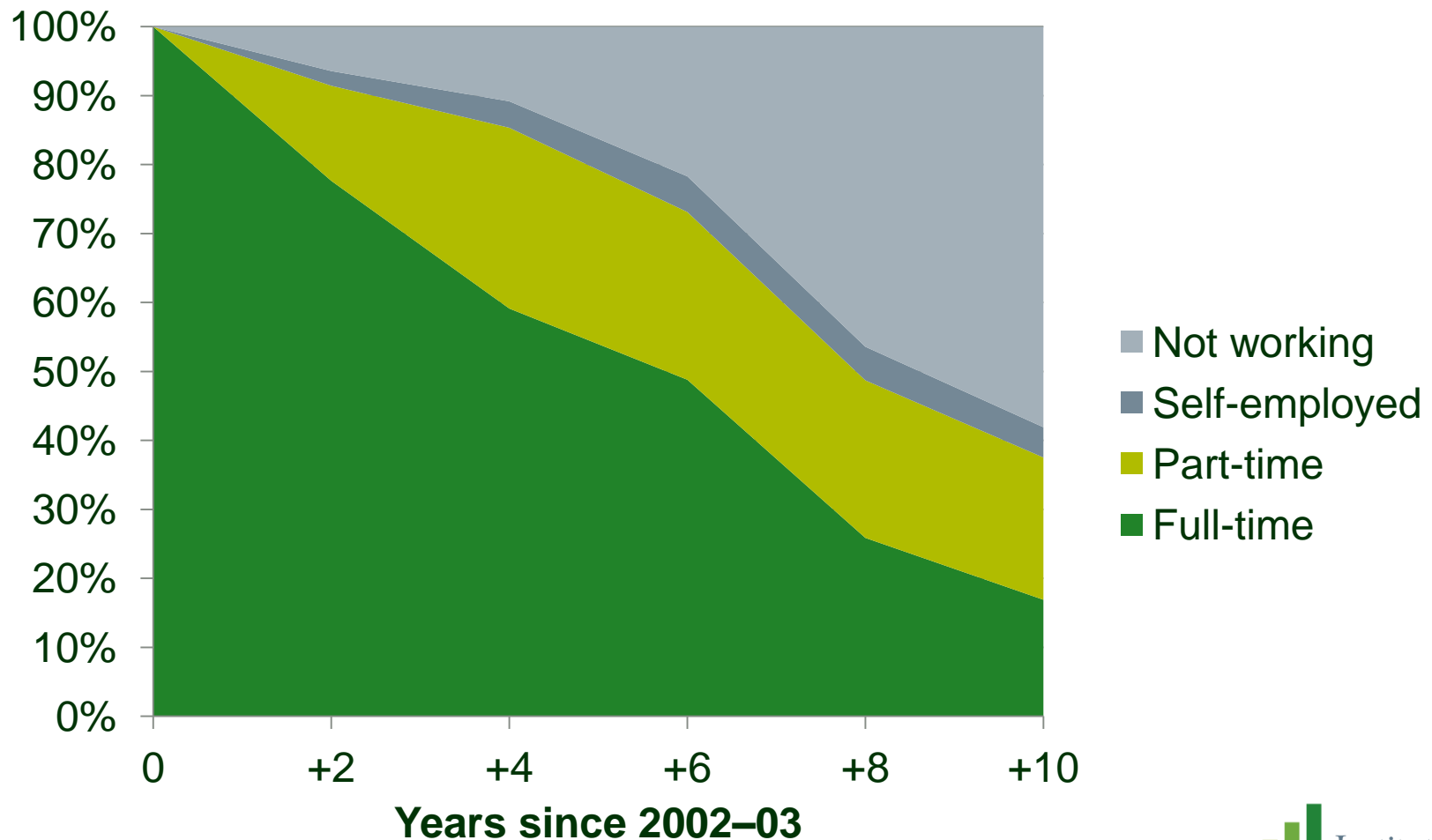
Part-time work and self-employment play a significant role in the retirement pathway...

Subsequent employment trajectories for men aged 50–54 working full-time in 2002–03



...with part-time work being more important for women

Subsequent employment trajectories for women aged 50–54 working full-time in 2002–03



How flexible is the UK labour market?

- Reducing hours of work is likely to be easier in a flexible labour market
 - i.e. variety of “job packages” available
- Indicator of flexibility: are people able to change hours within the same job or do they change jobs to achieve reduced hours?
- Using data from the English Longitudinal Study of Ageing (ELSA)
 - Waves 1–5 (2002/03 to 2010/11)
 - Focus on those who work in consecutive waves
 - Reduction in hours defined as usual hours being at least 5 hours per week shorter than reported in previous wave

Reducing hours of work is associated with moving jobs...

Job and hours changes among those who stay in work

| % | Men 50–59 | Women 50–59 | Low educated | Mid educated | High educated |
|------------------------|--------------|----------------|-----------------|-----------------|------------------|
| Stayers, no reduction | 60.9 | 65.6 | 65.9 | 65.3 | 58.7 |
| Movers, no reduction | 13.9 | 13.3 | 12.1 | 14.1 | 12.3 |
| Stayers, reduction | 16.8 | 14.7 | 14.4 | 13.5 | 20.2 |
| Movers, reduction | 8.5 | 6.5 | 7.6 | 7.1 | 8.8 |
| | <i>100</i> | <i>100</i> | <i>100</i> | <i>100</i> | <i>100</i> |
| P(Move No reduction) | 0.19 | 0.17 | 0.16 | 0.18 | 0.17 |
| P(Move reduction) | 0.34 | 0.31 | 0.35 | 0.34 | 0.30 |
| P(Reduce No move) | 0.22 | 0.18 | 0.18 | 0.17 | 0.26 |
| P(Reduce move) | 0.38 | 0.33 | 0.38 | 0.33 | 0.42 |

...this result is robust to controlling for other characteristics

OLS regression of change in hours of work (among those who remain in work)

| | Men | Women | Low educated | Mid educated | High educated |
|-------------------|----------|---------|--------------|--------------|---------------|
| Any job change | -2.03 ** | -0.74 | -1.51 | -1.51* | -0.99 |
| Change employer | -0.91 | -1.83** | -2.66** | -0.53 | -1.33 |
| Move to self-empl | -5.28*** | -3.00** | 1.89 | -0.25 | -9.22*** |

Notes: Each column reports the results from a separate OLS regression. Also control for age, sex, marital status, education, health and physical nature of job. * indicates significance at the 10% level; ** at 5%; *** at 1%.

Source: Banks, Blundell and Emmerson (2012).

How flexible is the UK labour market?

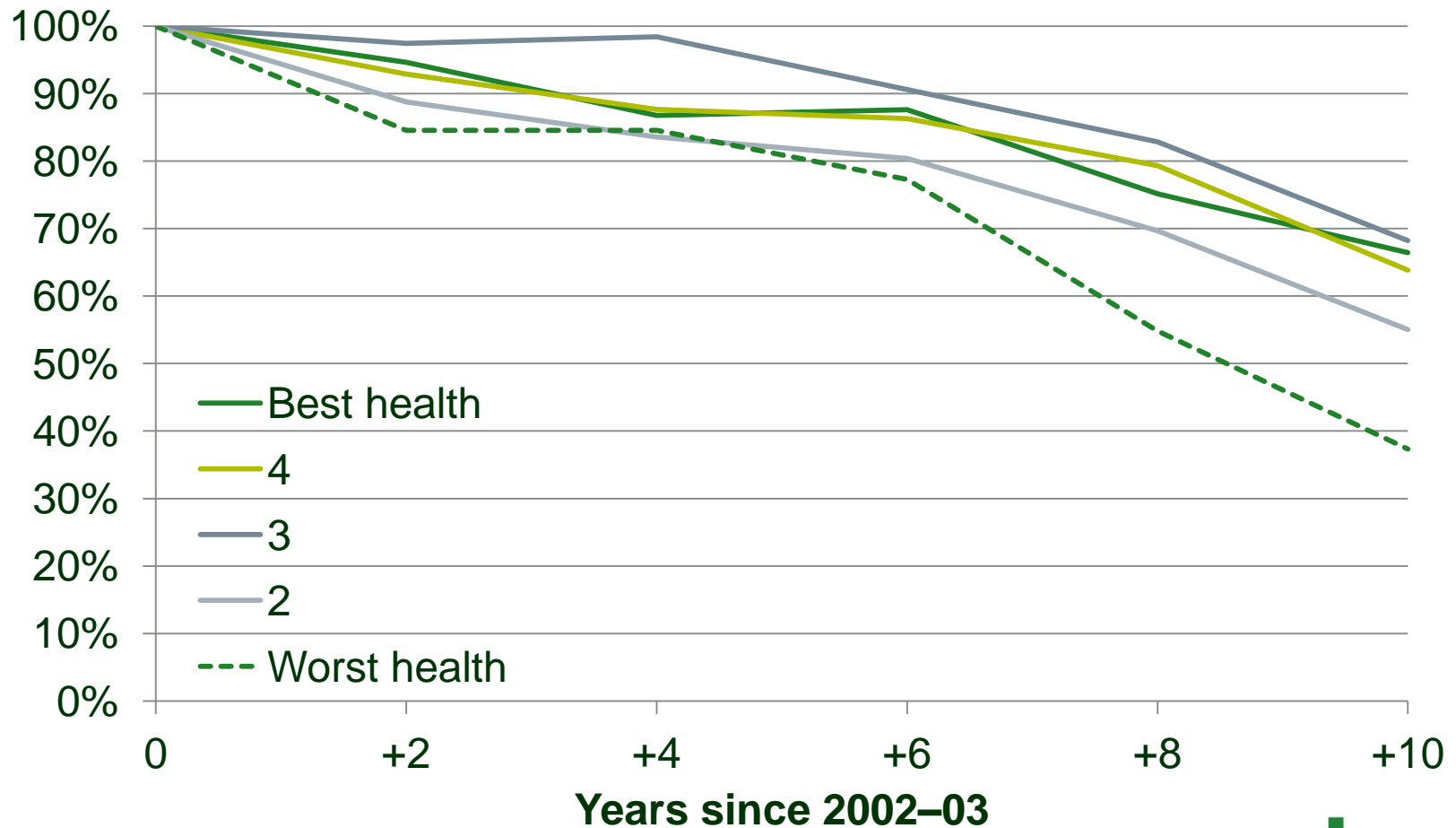
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- Using data from the English Longitudinal Study of Ageing (ELSA)
 - Waves 1–5 (2002/03 to 2010/11)
 - Focus on those who work in consecutive waves
 - Reduction in hours defined as usual hours being at least 5 hours per week shorter than reported in previous wave
- Moving jobs is significantly associated with reducing hours of work: suggests labour market has some rigidities
 - Self-employment particularly important for high educated in reducing hours of work

What factors precipitate labour force exit?

- Numerous factors are known to be important
 - Health
 - Financial incentives
 - Family circumstances: including joint retirement of couples
 - Reaching state pension age
 - Demand-side factors

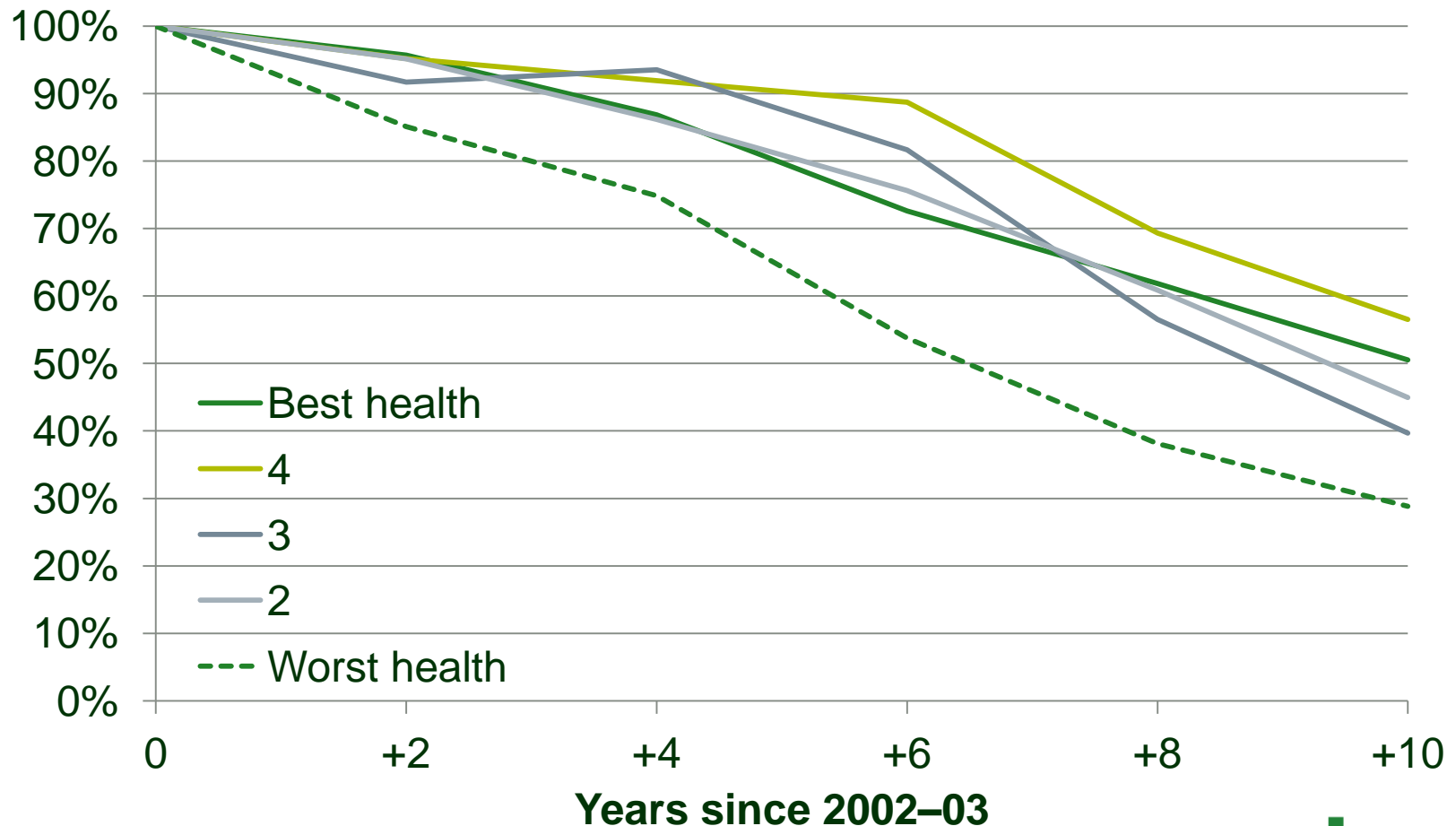
Least healthy exit work more quickly

Employment rates in subsequent years, among those initially working (men, initially aged 50–54)



Least healthy exit work more quickly

Employment rates in subsequent years, among those initially working (women, initially aged 50–54)



Financial incentives matter

- Pensions (state and private) provide incentives to exit work at specific points
- Stock and Wise (1990) proposed the “option value” approach to modelling these incentives
 - Basic idea: want to continue working if it gives you the “option” of accruing greater pension rights that are worth more than any pension foregone by continuing to work/not draw
- Estimated this model using ELSA data (2002/03 to 2010/11)
 - Outcome of interest: leaving paid work between t and $t+2$
 - As a function of: period t characteristics and forward-looking option value measured in period t

Forward-looking financial incentives matter

Probit regression of leaving work between t and t+2

| | Marginal effect | Standard error |
|-----------------------|-----------------|----------------|
| Option value | -0.006*** | 0.001 |
| Health index (linear) | -0.020*** | 0.002 |
| Couple | 0.028*** | 0.009 |
| Partner working | -0.041*** | 0.008 |
| Net wealth | 0.002 | 0.004 |
| Low education | -0.024** | 0.010 |
| Mid education | -0.016 | 0.010 |
| Self-employed | -0.037*** | 0.010 |

- 1 s.d. increase in option value reduces 1-year retirement probability by 2.8 pts (baseline probability = 8.6%)
- Some evidence that response to financial incentives is different across health groups: exploring further in ongoing work

What do we know about the effect of policy changes?

Two examples:

1. Reforms to disability-related benefits
2. Increasing the female state pension age

Reforms to disability-related benefits

- 1995: Incapacity Benefit replaced Invalidity Benefit
 - Less generous to new claimants
 - “Own occupation” test replaced with “any occupation” test
 - Principally reduced on-flow
- 2003 onwards: Pathways to Work and Employment Support Allowance
 - Increased conditionality
 - Increased support
 - Increased financial incentives to return to work
 - Aimed to increase off-flow

Increases in employment rates coincide with policies that reduced disability benefit claiming

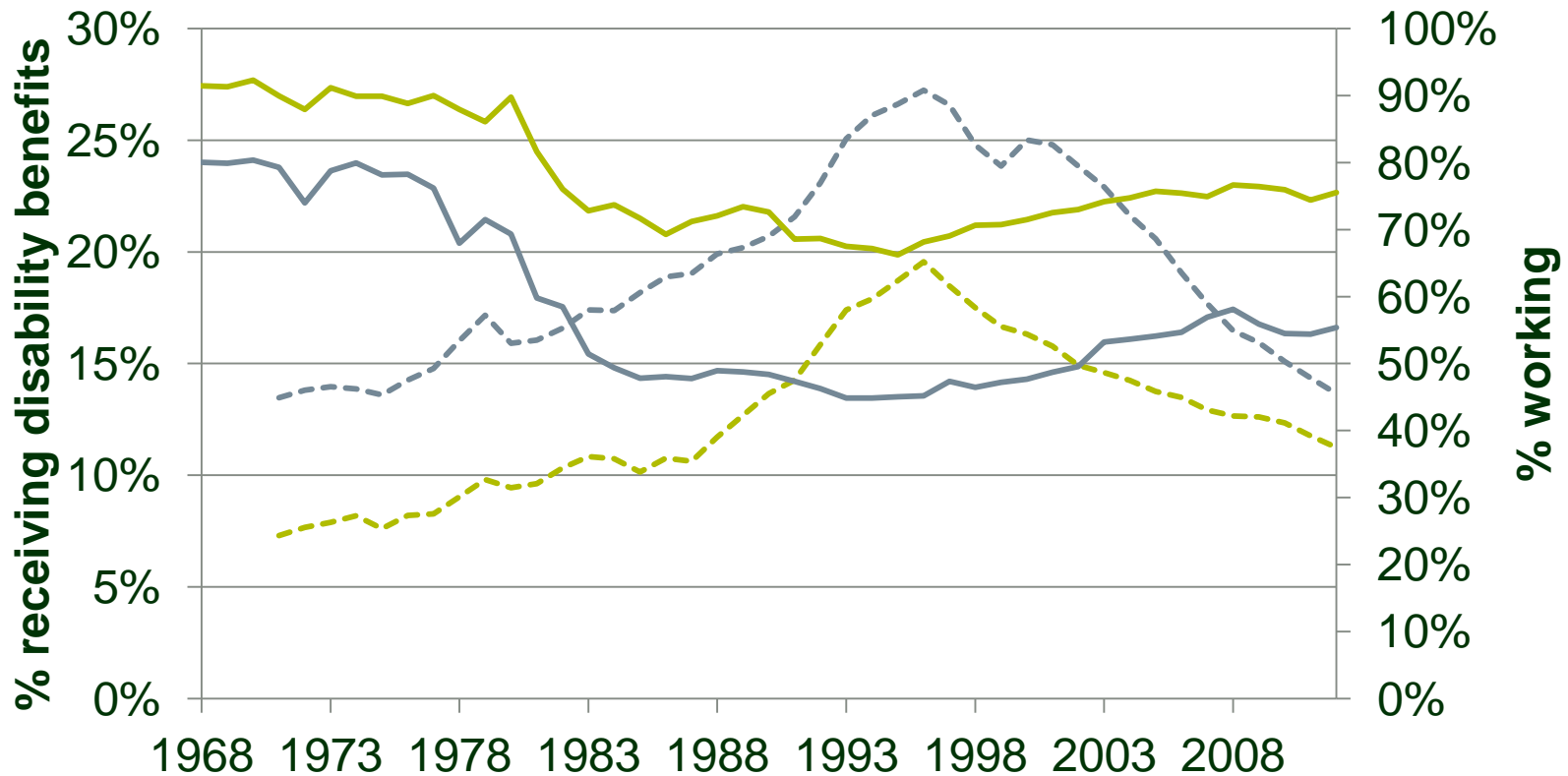
% of men receiving disability benefits (LH axis) and in employment (RH axis)

--- % IVB/IB/ESA, ages 55-59

--- % IVB/IB/ESA, ages 60-64

— % working, ages 55-59

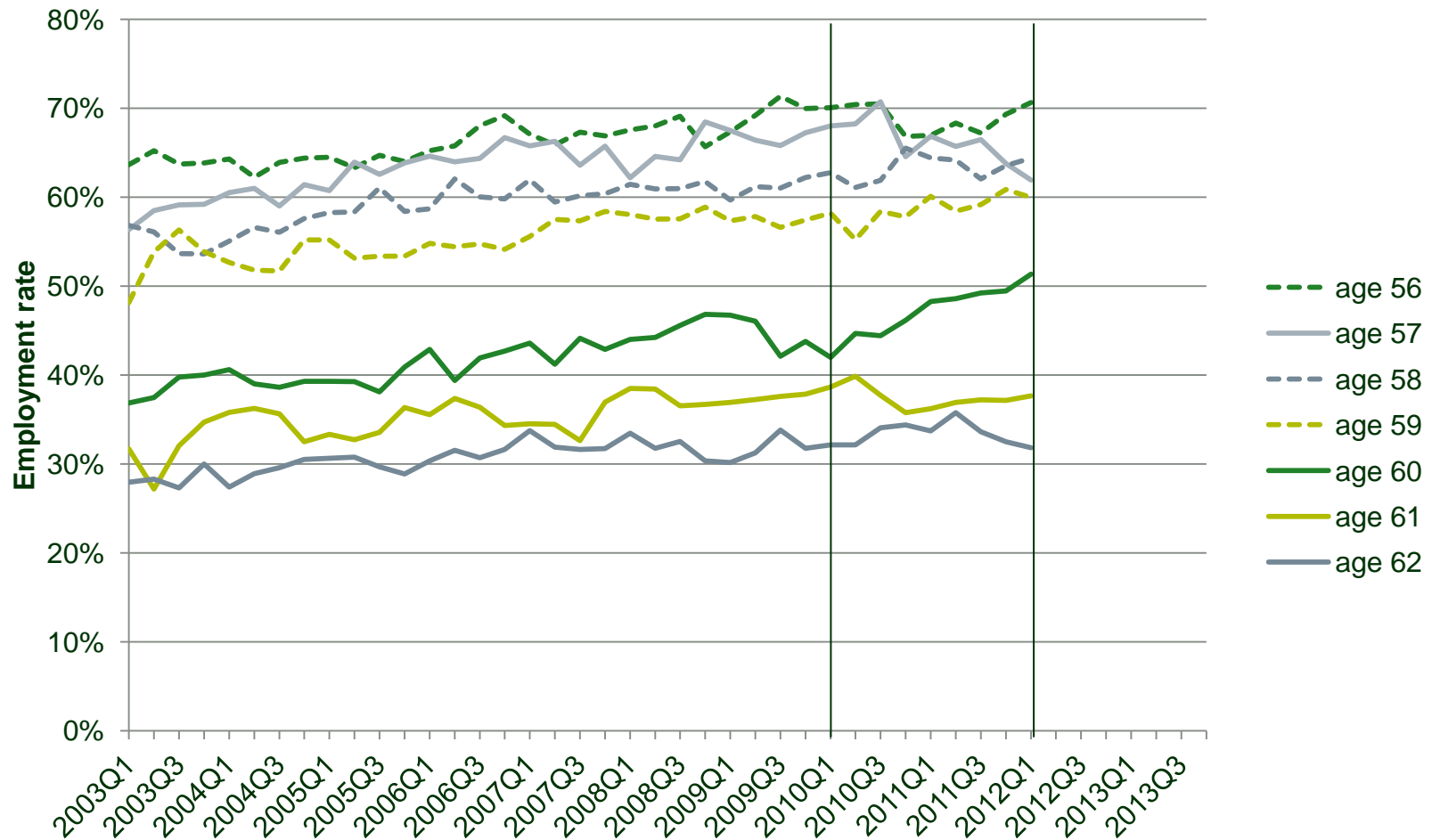
— % working, ages 60-64



Increasing the female state pension age

- Started to increase from 6 April 2010
 - Affects women born after 5 April 1950
- Not only affects age at which women can start to receive state pension
 - Knock-on effects on other aspects of tax and benefit system: including employee National Insurance and Pension Credit
- Receipt of state pension income is unaffected by level of earnings
 - In theory, decision to leave work and decision to start claiming state pension should be independent
 - Effect of increasing SPA on employment rates could have been small?
- What effect did it have in practice?

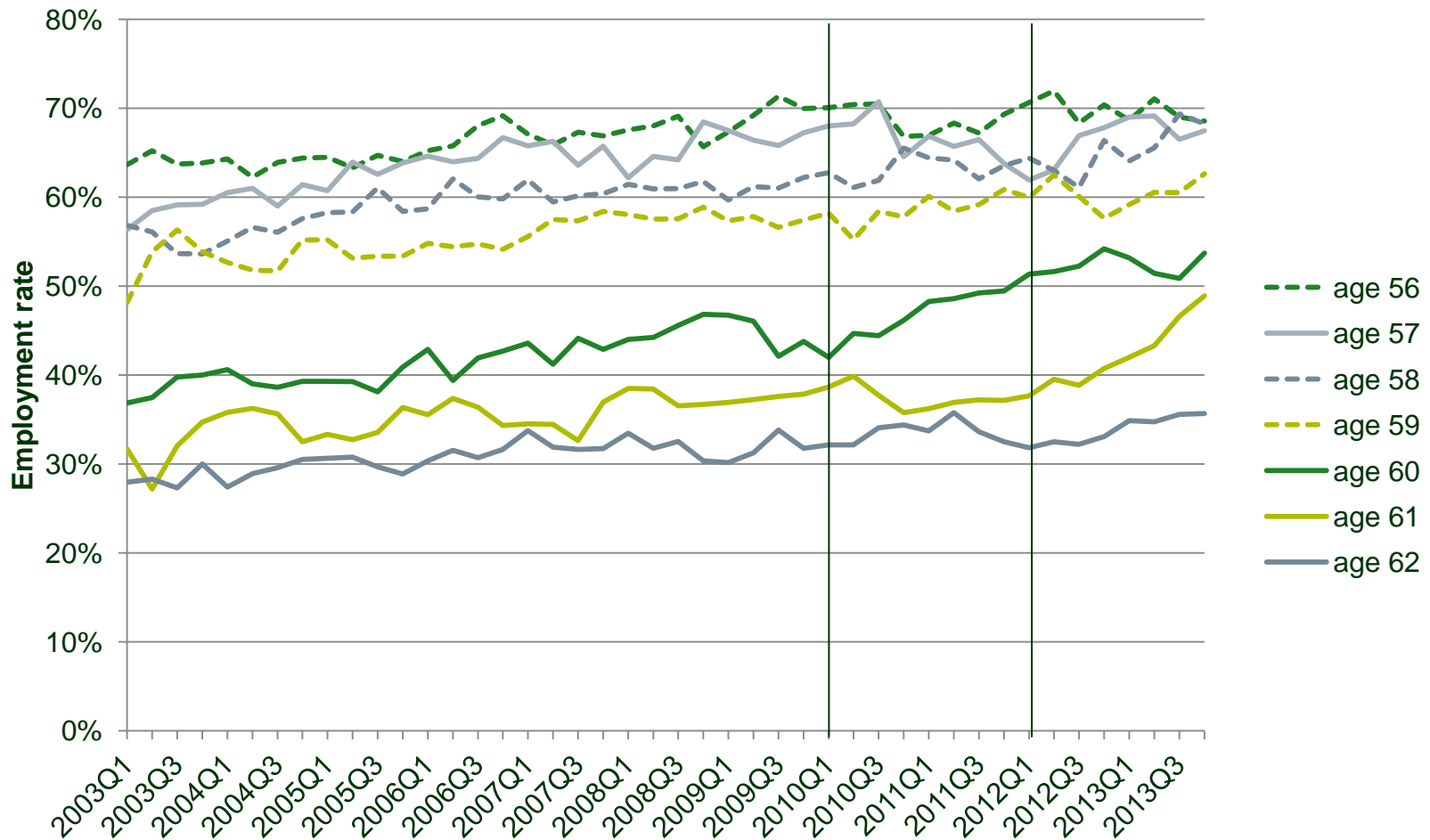
Employment of 60 year old women has risen



Employment rate among 60 year old women estimated to have increased by 7.3ppts

- Using data up to 2012 Q2
 - Female state pension age had risen to age 61
- Difference-in-differences estimation strategy
 - Controlling for underlying differences between different cohorts and any common time trends/shocks
- Employment rate of 60 year old women increased by 7.3 ppts
- Employment rate of affected women's husbands also increased
 - By 4.2 ppts among husbands aged 55–64
 - Evidence of complementarities in leisure

...employment of 61 year old women seems to be rising too



Summary (1)

- Employment rates of older people have been increasing since mid-1990s
- Less likely to be in work are:
 - Women: although their employment rates are catching up to men's
 - Lower educated
 - Less healthy: labour force exit happens before age 50 for those in the worst health
 - Relationship between wealth and work changes at SPA
- Transitioning to retirement
 - Significant minority of full-time workers experience periods of part-time work and/or self-employment before retirement
 - Part-time work especially prevalent among women
 - Self-employment more common among men

Summary (2)

- Many workers who reduce their hours do so by changing job
 - Suggests some rigidity in the labour market?
 - For high educated, switch to self-employment particularly important for reducing hours
- Find evidence that financial incentives to retire do matter
 - 1 s.d. increase in option value reduces 1-year retirement probability by 2.8 ppts
 - But health, family circumstances, and reaching state pension age (among other things) also matter
- Some recent policy changes have had a significant effect on employment rates
 - Reforms to disability-related benefits (though no evidence yet on the most recent reforms)
 - Increasing female state pension age

References

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- Cribb, Emmerson and Tetlow (2013), “Incentives, shocks or signals: labour supply effects of increasing the female state pension age in the UK”, IFS Working Paper, W13/03, <http://www.ifs.org.uk/publications/6622>