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Policy report

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Avoiding the demographic crunch: Labour supply and the *ageing workforce*

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Avoiding the demographic crunch: Labour supply and the ageing workforce

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About the ILC

The International Longevity Centre-UK is the leading think tank on longevity and demographic change. It is an independent, non-partisan think tank dedicated to addressing issues of longevity, ageing and population change. We develop ideas, undertake research and create a forum for debate.

Acknowledgements

This report is the culmination of a joint ILC-UK, CIPD research project seeking to understand how ageing will affect different industries. The team at the ILC-UK who conducted the analysis included Ben Franklin, Brian Beach, Helen Creighton and David Sinclair. Ben Willmott, Mark Beatson and Rachel Suff from the CIPD provided helpful comments throughout and drafted the employer-focused recommendations.

Notes on data sources

The analysis presented in this report draws on the Labour Force Survey (LFS) available from the UK Data Archive (UKDA). LFS is a survey of private households in the UK intended to gather information related to the labour market behaviour of the population. It is the largest household survey in the UK and provides the official measures of employment and unemployment. The developers and funders of the LFS, as well as UKDA, do not bear any responsibility for the analyses or interpretations presented here.

Executive summary

There are already **9.4 million people in employment over the age of 50 in the UK, equivalent to over 30% of the workforce**. In future decades, a vast proportion of this group will leave work permanently, taking their acquired skills and experiences with them. Unfortunately, long-term demographic change means that there is unlikely to be a burgeoning supply of younger people in the UK who will enter the labour market to replace retiring workers, while levels of migration are likely to be lower than that experienced over the past decade, further limiting the available talent pool. But while this broader picture seems familiar, the extent to which ageing could affect different UK industries is not.

Key trends which are transforming the nature of work

While there has been much talk of rebalancing the UK economy away from services and towards manufacturing, the truth is that service industries are highly likely to see their share of GDP rise over future decades rather than fall. The UK's comparative advantage in knowledge-intensive service industries is likely to drive this forward, with a growing emphasis on high-skilled labour and less reliance on low- and middle-skilled employment. At the same time, there is likely to be a continuation of the shift towards part-time and self-employment, as individuals – and particularly older individuals who account for a growing number and share of total employment – demand greater flexibility and more autonomy. And of course, a growing cohort of older consumers will also shift the demand for future products and services. Population ageing should not therefore be viewed in isolation of these other moving parts that will affect the labour market, but as something that will be part of a host of interconnected trends transforming the nature of work itself.

What is the scale of the challenge posed by ageing for different industries?

To better understand the scale of the challenge, we undertook detailed analysis of the Labour Force Survey (LFS). Using these data we were able to explore the age profiles of different industries as well as the extent to which industries are currently experiencing a drop-off in employment after certain ages – one measure of their ability to keep people in work as they grow older.

Our results reveal key differences across industries. For some, there is an urgent need to understand how they will replace a vast proportion of their workforce in the short to medium term due to retirement while, for others, there is a need to understand how jobs traditionally done by younger workers can be filled by middle-aged and older workers in the future.

More specifically, our analysis finds that:

- More than one in ten workers across most industry groups are aged over 60, while more than one in five are over the age of 50.
- In agriculture and real estate, over 40% of workers are aged over 50. Replacing such a significant proportion of the workforce in the next 20 years is likely to represent a difficult challenge as new recruits will need to learn the skills and expertise of those that have left.
- It is not just proportions that matter, but absolute numbers too. There are currently over 1.5 million workers over the age of 50 in health and social work and more than 1.2 million over 50 in both education and retail. Replacing such large numbers of people will require a significant number of future school-leavers and potentially migrants to fill the gaps left by older workers leaving these sectors.
- Many industries have a poor record on retaining older workers, seeing a large drop-off in the number of workers between the ages of 45–49 and 60–64. In particular, finance, public administration and ICT all see a drop of greater than 60% between the number of workers they employ in their late forties and in their late sixties. Such falls suggest that these sectors are not doing enough to support longer working lives and will be hampered by the loss of skilled and experienced staff.

Towards an industry dashboard

Combining our analyses into an industry dashboard shows that education, health and social work, and public administration and defence are the three sectors which are likely to face the biggest challenges as a result of population ageing. These industries are not only highly reliant on older workers (both in terms of making up a large proportion and number of the workforce), but are also relatively bad at retaining them. For these industries, the pressure points are likely to arrive sooner rather than later and action is urgently needed in order to reduce the likelihood of a crippling mass exodus.

Where will the replacement workers come from?

Extending working lives and supporting and nurturing younger talent

Many of the jobs being done by the 9.4 million people employed in their fifties and sixties today will be done by those in their thirties and forties tomorrow. But, our calculations suggest that if only 40% of this younger age group remain employed in their fifties and sixties, this could lead to a labour supply gap of over 1 million people needing to be filled. While some of this could be achieved by taking on younger workers – there are expected to be around 16.5 million school-leavers over the next 20 years – they may not have the sufficient level of acquired skills to take the place of more experienced

Table 1: The workforce challenge of ageing for different industry groups

Industry group	% aged over 50	Number aged over 50	% fall in employment age 60–64 relative to 45–49	Relative rank of industry
Education	36.7	1,241,940	–53.1	1
Health and social work	36.2	1,559,676	–52.0	2
Public admin and defence	33.1	617,015	–68.4	3
Transport and storage	39.0	560,982	–51.1	4
Manufacturing	33.8	1,041,542	–52.7	5
Construction	33.1	733,035	–53.0	6
Water supply, sewage…	36.5	75,149	–53.8	7
Mining and quarrying	34.6	43,507	–57.7	8
Financial and insurance activities	22.6	251,816	–72.0	9
Information and communications	25.0	281,480	–68.0	10
Professional, scientific and technical	32.7	694,142	–47.7	11
Accommodation and food services	20.3	315,099	–45.3	12
Wholesale, retail	29.9	1,202,388	–39.6	13
Agriculture	50.3	211,604	–15.6	14
Admin and support services	34.3	495,062	–38.8	15
Real estate activities	41.7	153,594	–31.4	16
Electricity, gas, etc.	29.2	54,714	–61.0	17
Arts, entertainment and recreation	28.9	218,196	–41.9	18

Sources: ONS Labour Force Survey Q2 2014 and author's calculations

Notes: Proportions and numbers are indicative only workers. To some extent, the solution will lie in supporting longer working lives as well as nurturing new talent, but other approaches may also be necessary, particularly for high-growth sectors.

Taking on migrant workers

Taking on migrants is clearly one way to fill the labour supply gap left by older workers. But given the current direction of migration policy, the extent to which migrants are likely to fill the supply gap could be limited. The current best guess is that we will have net migration of 2.3 million entering the UK over the next 20 years, which is significantly smaller than the level of migration experienced during the first decade of the twenty-first century (net 4.9 million between 2001 and 2011).[1]

Raising workforce productivity

Supplementing capital for labour is one way in which to grow productivity at a time when the availability of labour is limited. Utilising new technologies can help to make production more efficient without the need to take on more workers. However, the UK is in the midst of a productivity crisis, with output per hour still below its 2007 peak despite record numbers of people in work. Of all G7 countries, only Italy has a worse record since the financial crisis. Investing in the future to grow workforce productivity will be absolutely essential in order for the UK economy to continue growing while growth in total employment slows.

Ultimately, then, employers will need to do all of the above in order to meet the challenges posed by slowing employment growth which an older population could imply. Current trends suggest that this could be a big task, but it is not insurmountable and there are many ways that employers can plan for the future in order to avoid the worst-case scenario.

What can employers do to mitigate the risks posed by population change?

This report recommends that employers must lead from the top, with company boards meeting the challenge head on and playing a critical role in raising awareness across their organisations and developing a long-term strategy. Such a strategy must be holistic in nature and should be formed of four essential components, including:

1. **Inclusive recruitment:** employers must ensure that they do not, intentionally or otherwise, exclude relevant talent from their recruitment processes. This means, for example, that they do not screen out candidates by requiring unnecessary qualifications that could discriminate against older or younger candidates, for example requiring that people are university graduates when a degree-level qualification is not actually needed to do the job.
2. **Improve the capability of line managers:** ultimately someone's decision to leave the workforce can be the result of a failure on the part of managers to appropriately understand the needs of those they are responsible for. Line managers should be appropriately trained to ensure that they are able to meet the needs of a diverse workforce.
3. **Invest in training, development and performance management:** all employees, regardless of age, need training to keep their skills up to date and enable them to progress and develop their career. Older workers are less likely than their younger colleagues to take part in training, either because they are not offered opportunities to train, they are not encouraged to take part or because they fail to put themselves forward for training opportunities. Providing older employees with opportunities to retrain and develop their skills is a vital part of ensuring that they continue to feel motivated and challenged in their role. Employers need to ensure that older workers are not overlooked for training and they receive development opportunities and opportunities to progress their careers.
4. **Support employee health and well-being:** poor health is one of the biggest reasons for economic inactivity amongst those in their fifties. While good line management is clearly important in ensuring that any health problems are flagged up early on, employers should also offer access to many other forms of support, including occupational health advisers and counselling services where appropriate.
5. **Move towards more flexible working:** providing flexibility for workers who are more likely to have ill health, caring responsibilities and other commitments on their time must form a key component of any strategy to improve staff retention. While employees currently have a right to request flexible working, employers do not have to grant it, but, in our view, they must be duty-bound to accept the request unless they can show that it could cause irrefutable damage to the business. And at the very least, employers should think about how, in the longer term, they could facilitate flexible working. In that regard, business and HR leaders need to consider the business case in their organisation for providing flexible working practices that match employee demand and at the same time meet the requirements of the business.

Introduction

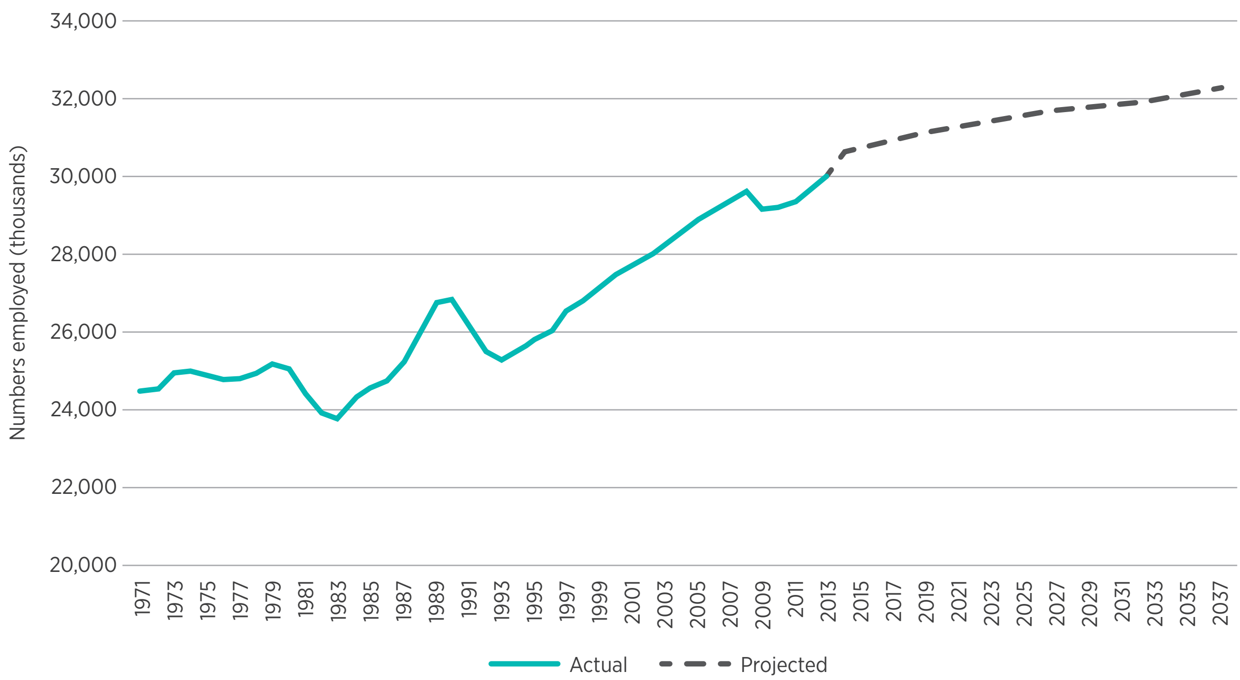
Demographic shifts mean that there is an increasing number of older people in society and in work. In 1992, one in five people in employment was aged over 50; today it is more than one in four. This trend is set to intensify as the working-age population in the UK stagnates over the coming decades. The stark truth is that, unless a higher proportion of older people remain in the labour force, or there is a significant increase in the productivity of those in work, total employment growth in the UK will slow, with adverse implications for economic output (GDP). Figure 1 shows how population change could impact total employment in the UK if there is no change in labour force participation at older ages up to 2037. While employment may still rise over the projected period, the rise is much flatter than that experienced in the 1990s and early 2000s.[1]

While the broad macroeconomic effects of ageing on employment and growth have been widely debated, the impacts of ageing on different industrial groups and sectors have, barring a few notable exceptions, received markedly less attention. However, different industrial groups will be impacted in different ways by population ageing.

Different industries are likely to face different sorts of challenges as their employees, as well as the labour force as a whole, continue to age, but all employers will have to adapt their working practices to manage and support a more age-diverse workforce. For some industries, there is an urgent need to understand how they will replace a vast proportion of their workforce in the short to medium term due to retirement, while for others there is a need to understand how jobs traditionally done by younger workers can be filled by middle-aged and older workers in the future.

In this report, we shed some light on the impact of ageing according to different industries with reference to the existing

Figure 1: Total UK employment, 1971–2037



Source: ONS, Labour Market Statistics, UK Population projections and author's calculations
*Assumes employment rates by age remain constant over the period

'In 1992, one in five people in employment was aged over 50.'

literature and evidence, as well as our own original data analysis of official statistics. The aim is to better understand which industries are facing the biggest pressure points and what they can do now to better manage the demographic winds of change. To this end, the report is structured in four parts:

- **Section 1** discusses the changing structure of the UK's labour market in light of the country's protracted economic recovery following the 2008 recession.
- **Section 2** attempts to quantify how different industries might be affected over the next 20 years as a result of one key determinant of replacement demand – retirement.
- **Section 3** sets out what HR strategies and practices employers should be adopting to make the most of opportunities presented by an increasingly ageing and age-diverse population and to manage the potential risks associated with this shift.
- The final section provides a **conclusion**.

1 Trends for the UK labour market

Key findings

- The labour market recovery has been driven by the service sector, which remains the only sector where output is greater today than it was in 2008. It is expected that demand for UK services is likely to continue growing over future decades, leading to an even larger number of service sector jobs in the UK economy.
- Continuing improvement to technology is likely to result in a growing number of high-skilled jobs, at the expense of many low- and medium-skill positions.
- Older workers represent a growing number and proportion of the labour market. There are currently 9.4 million people in employment over the age of 50 in the UK, equivalent to over 30% of the workforce.
- The recovery has seen a significant increase in both the number of people working part-time and the number of people who are self-employed. These trends may continue as population ageing is likely to lead to a growing demand for flexible working and greater autonomy across the workforce.

Future demand for labour will depend on a number of factors including the demand for the products and services of different sectors, the ability of technology to replace the skills and abilities of people and the point at which people retire from the workforce. While each of these factors will affect industries in different ways, they will not occur in a vacuum and will be shaped by the choices and judgements made by those working within different industries along the way, as well as by the wider social climate. In this section, we briefly outline recent trends in the labour market and make some speculative judgements about what they imply in terms of the future demand for workers.

The unrelenting shift towards services

Since the mid-twentieth century, the UK, like many other advanced economies, has become increasingly reliant on the service sector to drive economic output and less so on manufacturing and construction.[1] Today, the service sector accounts for 78.4% of GDP.[2] While there has been much talk of diversifying the UK economy in the wake of the financial crisis,[3] there is scant evidence of any significant structural shift taking place. Indeed, there is, arguably, very little scope for significantly increasing manufacturing's share of GDP over the medium term unless we make heroic assumptions about future growth rates for the sector.[4] The UK's recovery has been driven by the service sector, which remains the only sector where output is greater today than it was in 2008 (see Figure 2).

The relative success of certain industries within the service sector in leading the economic recovery has, broadly speaking, fed across into demand for human labour. Since Q1 2008, the number of people employed across service industries has substantially risen, including across the relatively high-skilled professional, scientific and technical activities industries and the information and communication industries, while numbers have fallen across manufacturing and construction. It is worth noting that real estate activities have seen the largest proportionate rise in employment since Q1 2008. This is partly because levels of activity in the housing market were initially relatively limited due to the financial crisis but have since picked up, so the overall increase appears larger than would otherwise be the case.[5]

Defining Real Estate Activities

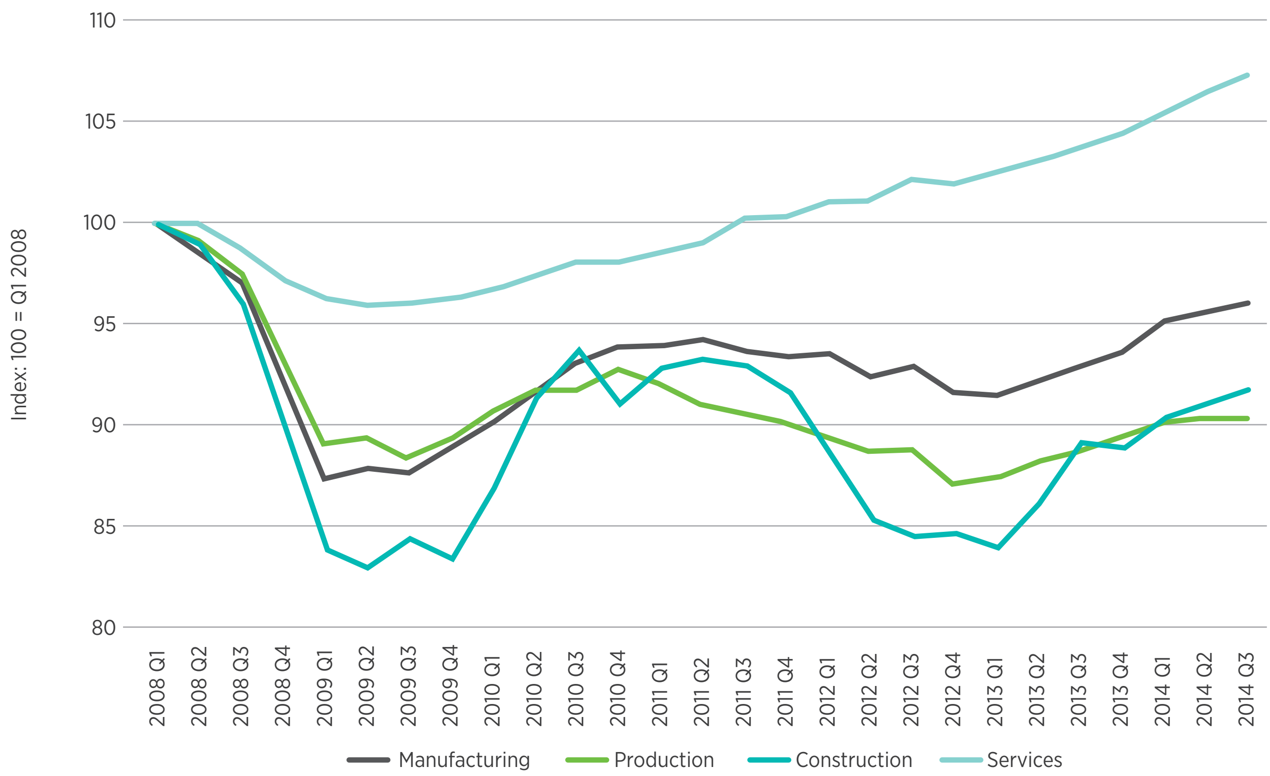
For the purposes of clarity it is worth mentioning that real estate activities cover a broad spectrum of jobs, including:

- buying and selling of own real estate
- renting and operating of own or leased real estate
- renting and operating of housing association real estate
- letting and operating of own conference and exhibition centres
- letting and operating of own or leased real estate (other than Housing Association real estate and conference and exhibition centres)
- real estate activities on a fee or contract basis
- real estate agencies
- management of real estate on a fee or contract basis.

What might this mean for the future?

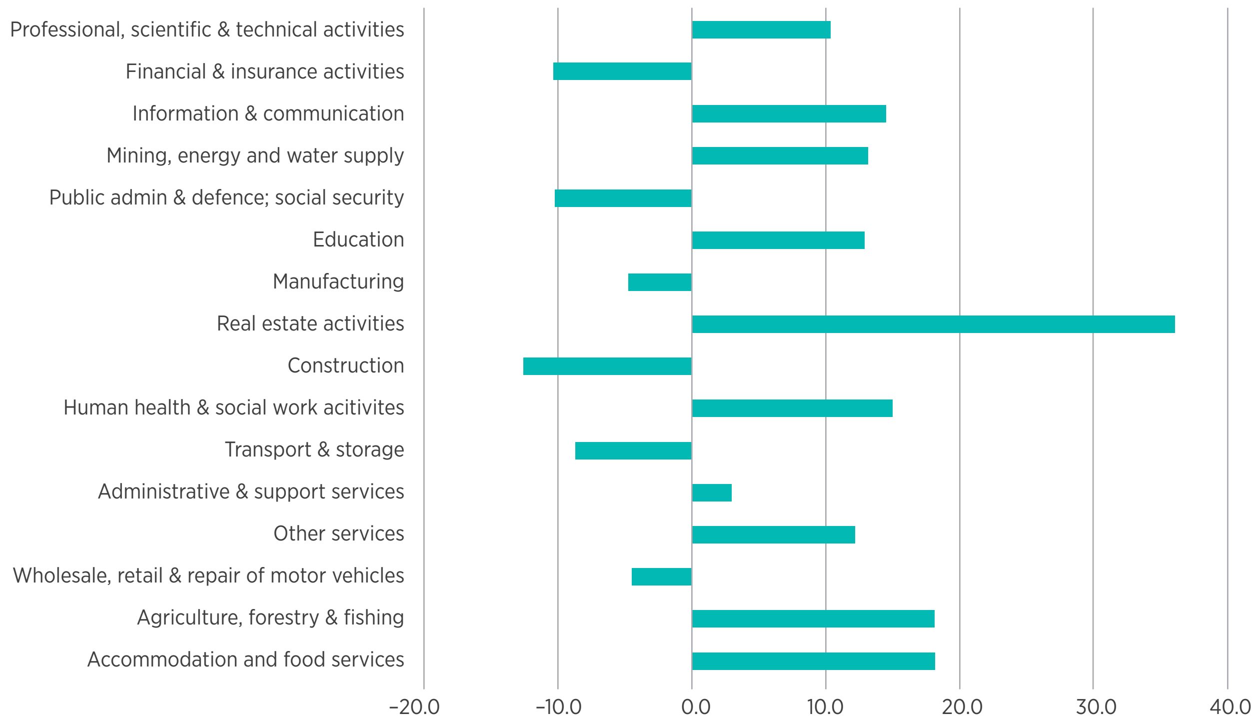
The UK economy has become ever more reliant on services (see Figures 2 and 3). There is good reason for this to continue to be the case – UK businesses have

Figure 2: GDP outputs components growth (real)



Source: ONS

Figure 3: Proportionate growth in labour among key industry groups (Q1 2008–Q2 2014) (%)



Source: ONS and author's calculations

managed to demonstrate a key comparative advantage in services and increasingly so in knowledge-intensive services such as finance, professional and business services and information and communication technologies (ICT). Demand for these UK services is likely to continue growing over future decades, while the future for UK manufacturing and production is less secure. Not only, then, will service sector employers have to fill the jobs of older workers who leave the workforce, but they will also need to grow the workforce as demand for their products and services continues to rise.

Increasing demand for high-skilled labour

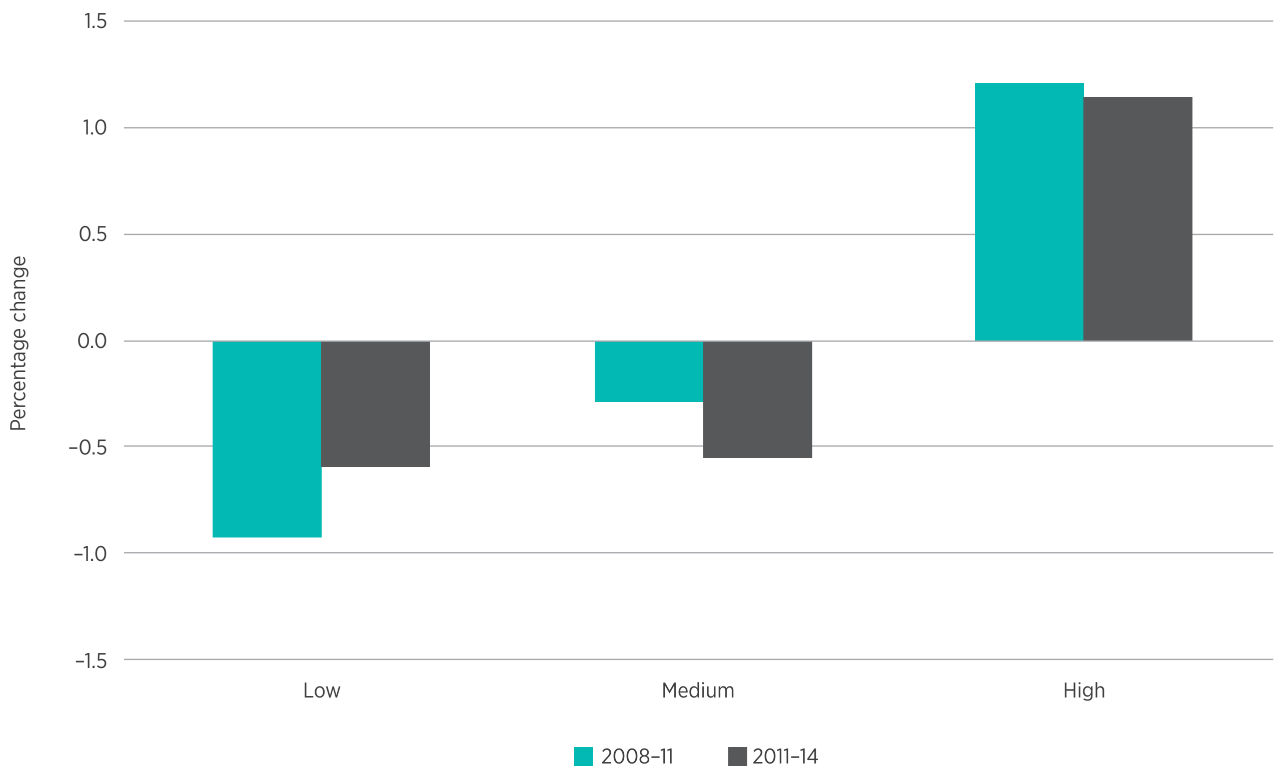
Demand for industries to expand their operations does not always feed through into demand for more workers. A significant factor in determining demand for labour is the extent to which technology can replace people in a cost-effective way. One argument that has been proposed is that as more and more businesses harness the power of technology, this will reduce the need for medium- and low-skilled workers and raise demand for high-skilled workers.[6] Whether such a shift, caused by technological change, is currently taking place in the UK is difficult to measure, but, on the basis of limited evidence, it does appear as though demand for low- and medium-skilled workers is falling while demand for high-skilled workers is rising. Ultimately, the effects of technological change are likely to be sizeable, but this is a long-term process and its short-term effect might be masked by the business cycle or other factors.

According to analysis of ONS data, between 2008 and 2011 the share of jobs which were classified as low- or medium-skilled fell from 55.9% to 54.8%, whereas the share of jobs classified as high-skilled

Notes for Figure 4

Low-skilled occupations comprise elementary occupations, sales and customer services operators, and process, plant and machine operatives. Medium-skilled occupations include caring, leisure and other service occupations, skilled trades and administrative and secretarial occupations. High-skilled occupations comprise managers, directors and senior officials, professional occupations and associate professional and technical occupations. Prior to 2011 these categories are derived from Standard Occupational Classification (SOC) 2000, and following 2011 they are derived from SOC 2010.

Figure 4: Proportionate change in share of employee jobs, by skill level



Source: ONS (2014 Dec) Economic Review and author's calculations rose from 44% to 45.2% (see Figure 4). A quick caveat here is that this excludes data on self-employment, which is a significant and growing proportion of total employment.

What might this mean for the future?

The extent to which businesses will invest in new technologies to replace people is impossible to forecast with any accuracy. Furthermore, the practical potential for replacement differs significantly between industries. It is, however, reasonable to assume that as growth in the pool of available workers slows, businesses will be forced to invest more in technology, skills and training in order to boost the productivity of those that remain in the workforce. As a result, it is likely that we will continue to see a rising number of high-skill jobs in the UK economy, at the expense of low- and medium-skilled.

Indeed, the UK Commission for Employment and Skills projects that 500,000 administrative, clerical and secretarial jobs alone will disappear by 2022 as a result of improvements in ICT.[7]

The UK labour market is increasingly reliant on older workers

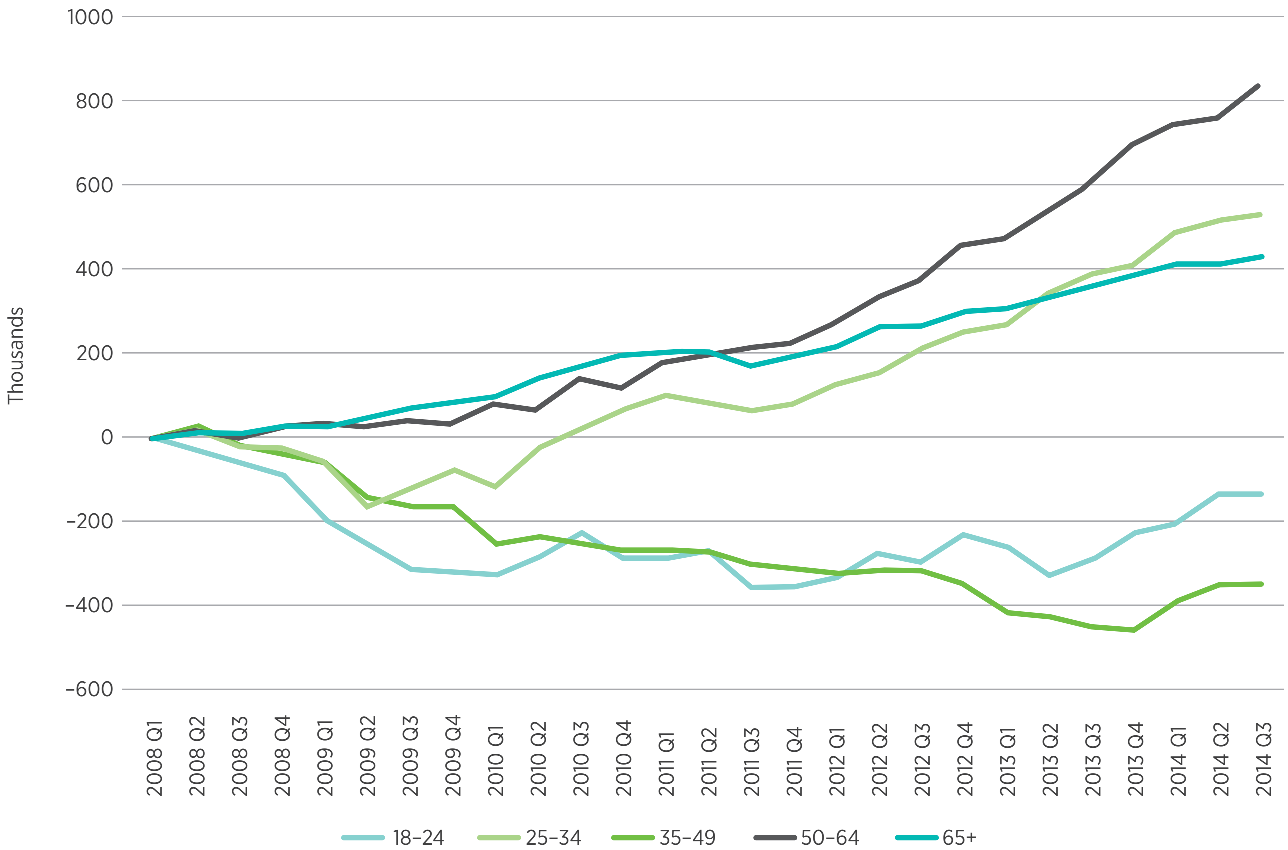
Another major driving force behind future demand for labour will be the point at which people leave the workforce altogether. Since Q1 2008, the number of people aged 50–64 in employment has risen by 842,000 – the largest increase across any age group – while the number of people aged over 65 in employment has also risen by 437,000 (see Figure 5). This is a function of both population change, as there are an increasing number of people aged over 50, and rising labour force participation amongst older age groups.

What might this mean for the future?

While the UK may have made significant progress in terms of improving labour force participation at older ages over the last decade, there remains a sharp drop in the participation of those in their mid-50s and those in their mid-60s. Indeed, according to recent analysis undertaken by the ILC-UK, there is a 64.4 percentage point drop in the employment rate between the ages of 53 and 67.[9] So while there has been an increase in the numbers of older people in work over the last few years, many older workers are still choosing to leave the workforce between their mid-50s and mid-60s.

By age 70, just 10% of people are in work, many of whom are self-employed. The sharp drop in employment is due to a range of factors, with ill health and caring for family members significant

Figure 5: Cumulative change in employment, by age band, since Q1 2008



Source: ONS Labour Market Statistics Dataser and author's calculations determinants of economic inactivity amongst people in their early to mid-50s, while 'retirement' underpins the majority of inactivity amongst those in their sixties.[10] Unless substantial gains are made in future years to the health of those in their fifties and sixties, or the state pension age rises to beyond 70, or both, it is reasonable to assume that many people will continue to withdraw from the labour market between the ages of 60 and 70.

Part-time and self-employed workers driving the recovery

While the UK's labour market recovery has been faster than after previous recessions, much of this is the result of growth in part-time workers and self-employment. Part-time employment has accounted for 65% of the 1.1 million rise in employment since the recession, while self-employment has accounted for 58% (the part-time figure will include self-employed part-time workers).

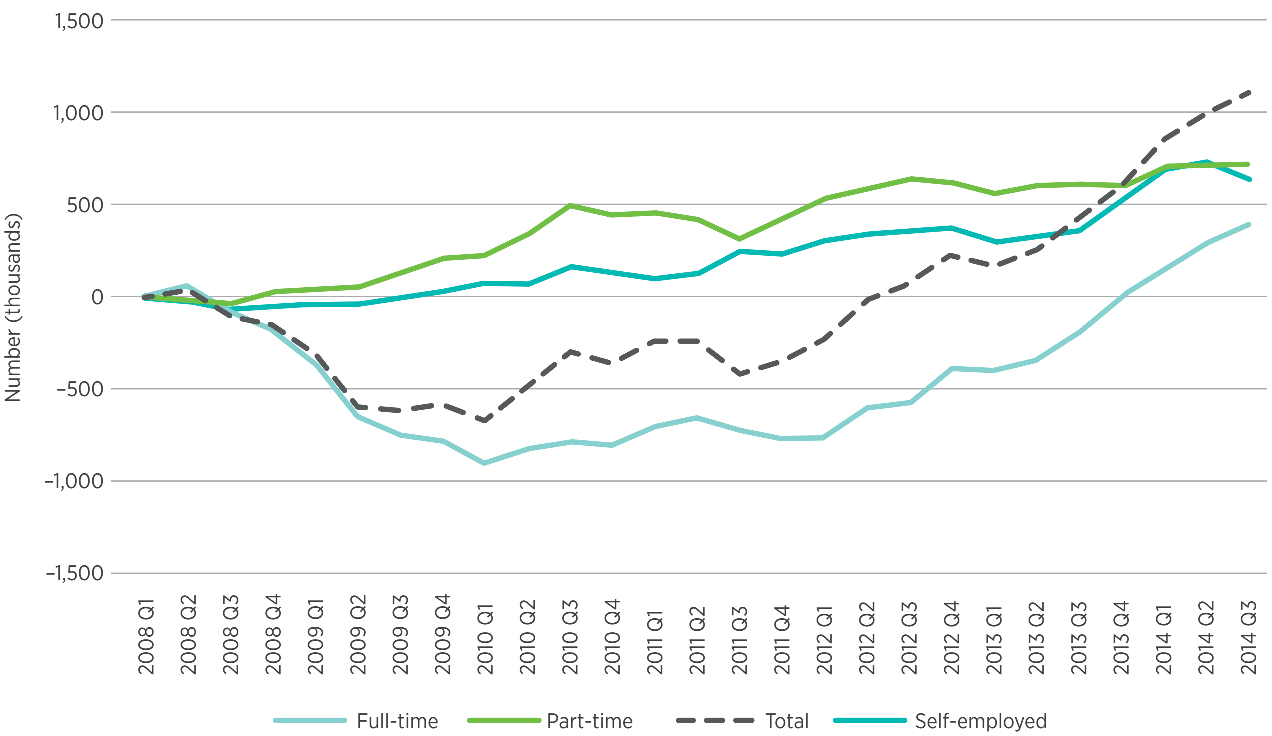
It is difficult to assess whether the increase in part-time and self-employed workers is a consequence of cyclical factors (that is, in direct response to the recession) or the result of a long-term structural shift in the make-up of the labour market, or most likely both. An important structural cause for the increase in part-time working and self-employment is likely to be population ageing, as older workers seek to reduce their hours and work more autonomously.

The over-50s account for a significant proportion of overall self-employment in the UK (42.9%) and self-employed older workers have played a key part in the labour market recovery. Since 2009, the number of self-employed people aged over 50 has risen by around 500,000. This compares with a rise of 289,000 self-employed workers aged 16–49. For those aged over 65, more than half of the increase in employment has been the result of self-employment (see Figure 7).

Structural or cyclical? Clues since the 1990s

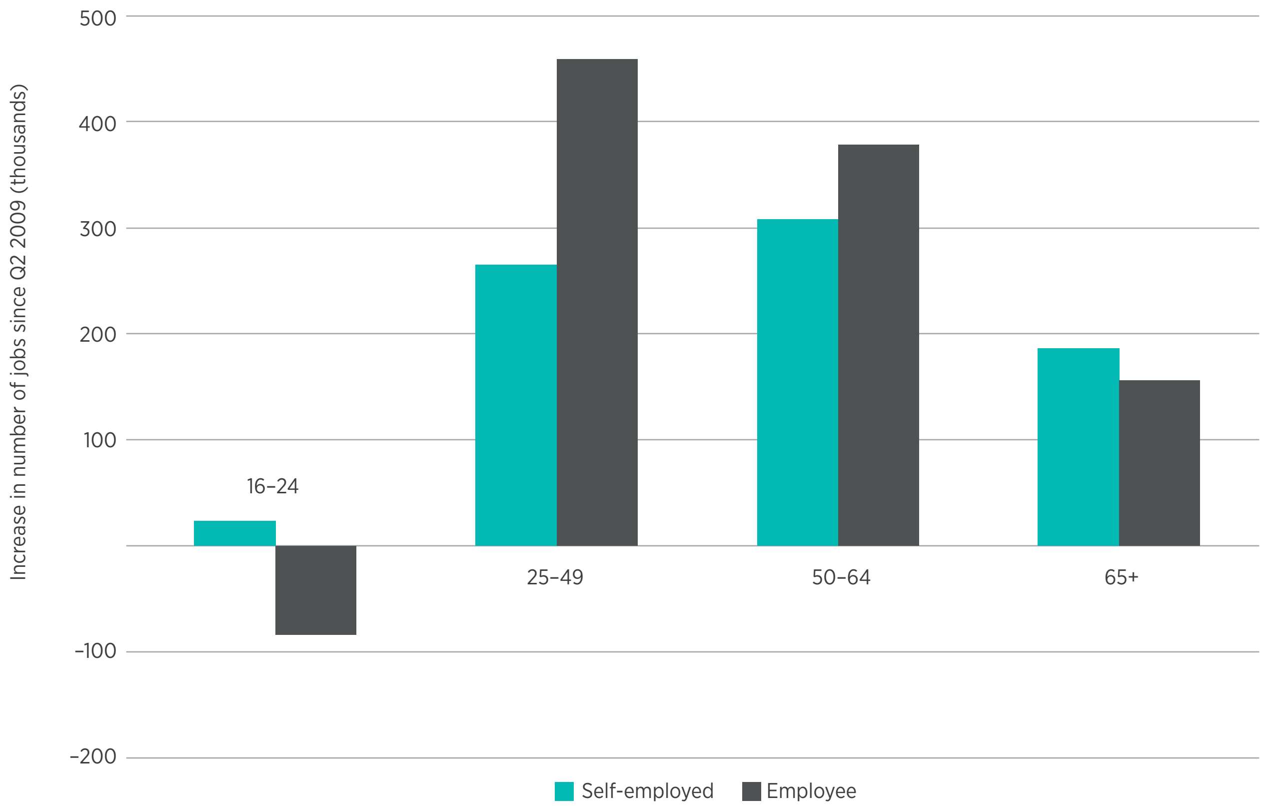
There has been much debate about whether the recent growth in part-time and self-employment is structural or cyclical. One way to find out is to contrast the current recovery with that following a previous recession and see if things look different. In this regard, we compare the post-2008 experience with the post-1991 experience. Figure 8 shows that the recovery in part-time employment since 2008 is similar to that experienced in the early 1990s – five years after the recession of 1991 there were also a lot more part-time

Figure 6: Cumulative change in numbers employed since Q1 2008, by type of employment



Source: ONS Labour Market Statistics and author's calculations

Figure 7: Change in number of workers, by age band and employment status (Q2 2009 – Q2 2014)



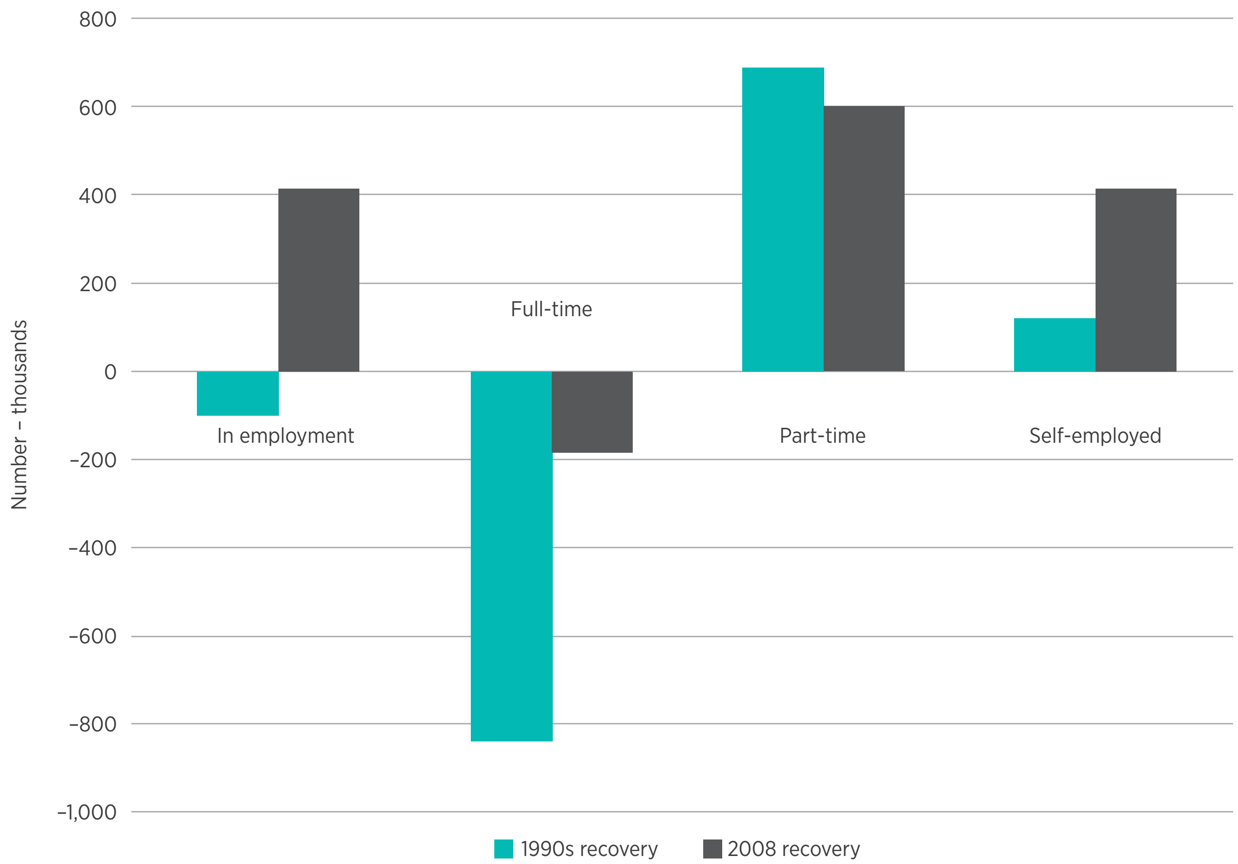
Source: ONS and author's calculations

workers. However, the recent rise in the numbers of self-employed is far greater than the rise in self-employment back in the 1990s (see Figure 8). In addition, looking at the overall trend since the early 1990s is also highly instructive; both part-time and self-employment have been creeping upwards as a proportion of total employment for some time. Both Figure 8 and Figure 9 therefore help to demonstrate that we are potentially in the midst of a structural shift in the labour market towards an increasing number and proportion of part-time and self-employed jobs.

What might this mean for the future?

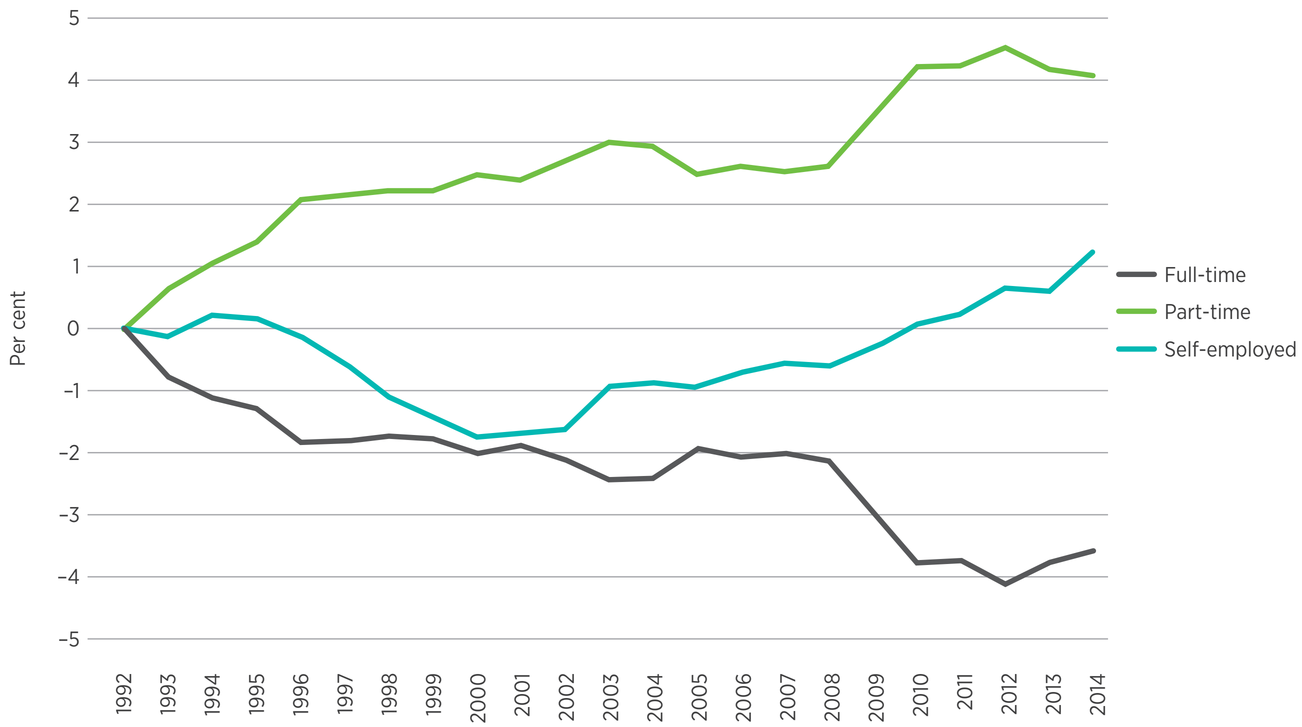
As the workforce is made up of an increasing proportion of older workers, this is likely to lead to a growing demand for flexible working and greater autonomy across the labour market – which is perhaps already revealing itself in the increasing proportion of older workers who are moving into self-employment. Without additional flexibility, many older workers may well leave their employer and go elsewhere, including setting up their own businesses or leaving the workforce altogether. But while there appears to be a shift under way towards self-employed and part-time working, it is critical that the jobs of the future are meaningful – both in the sense of providing a decent wage as well as providing some level of enjoyment where possible. Indeed, while older workers often describe self-employment as fulfilling, they earn significantly less than those in full-time work despite working, on average, relatively long hours. There is a big question about whether different industries are able to provide the flexibility that older workers require and subsequently whether those jobs still provide older workers with sufficient income and emotional and cognitive fulfilment to keep them in work. With this in mind, this report now turns to the scale of the challenge facing different industrial groups.

Figure 8: Changes in the number of jobs five years after recession



Source: ONS Labour Market Statistics and author's calculations

Figure 9: Cumulative change in type of employment as a proportion of total (%)



Source: ONS Labour Market Statistics and author's calculations

2 Assessing the scale of the challenge for different industries posed by ageing

Key findings

- More than one in ten workers across most industry groups are aged over 60, while more than one in five are over the age of 50.
- The health and social work sector, as well as the education, retail and manufacturing sectors, all currently have over 1 million workers aged over 50.
- Retail and health and social work both have more than 400,000 workers aged over 60, meaning that they may have to start replacing large numbers of retiring workers in the next five to ten years.
- Some industries see a large dropout of workers between the ages of 45–49 and 60–64. Finance, public administration and ICT all see a drop of greater than 60% between the number of workers they employ in their late forties and in their early sixties. This suggests that they are not doing enough to keep hold of valuable older employees.
- It is not just industries with older workforces that will be affected by population change – those that have been used to relatively young workforces may face a particularly difficult challenge in adapting to an ageing workforce as well.
- Several industries have workforces where well over 30% of employees are aged under 30, and in accommodation and food sectors over half of the workforce is under 30. As these workforces age, the sectors will have to make adjustments accordingly.

While the broad macroeconomic effects of ageing on employment and growth have been widely debated, the impacts of ageing on different industrial groups and sectors have, barring a few notable exceptions, received markedly less attention. However, different industrial groups will be impacted in different ways by population ageing.

To better understand the scale of the challenge stemming from population ageing, we undertook detailed analysis of the Labour Force Survey (LFS) – the largest and most comprehensive dataset about the state of the UK's labour market. By using data we were able to explore these age profiles of different industries as well as identify the extent to which industries are currently experiencing a drop-off in employment after certain ages. This approach allows us to crudely assess the different types of challenges posed by population ageing to different industry groups.

A quick health warning on the data

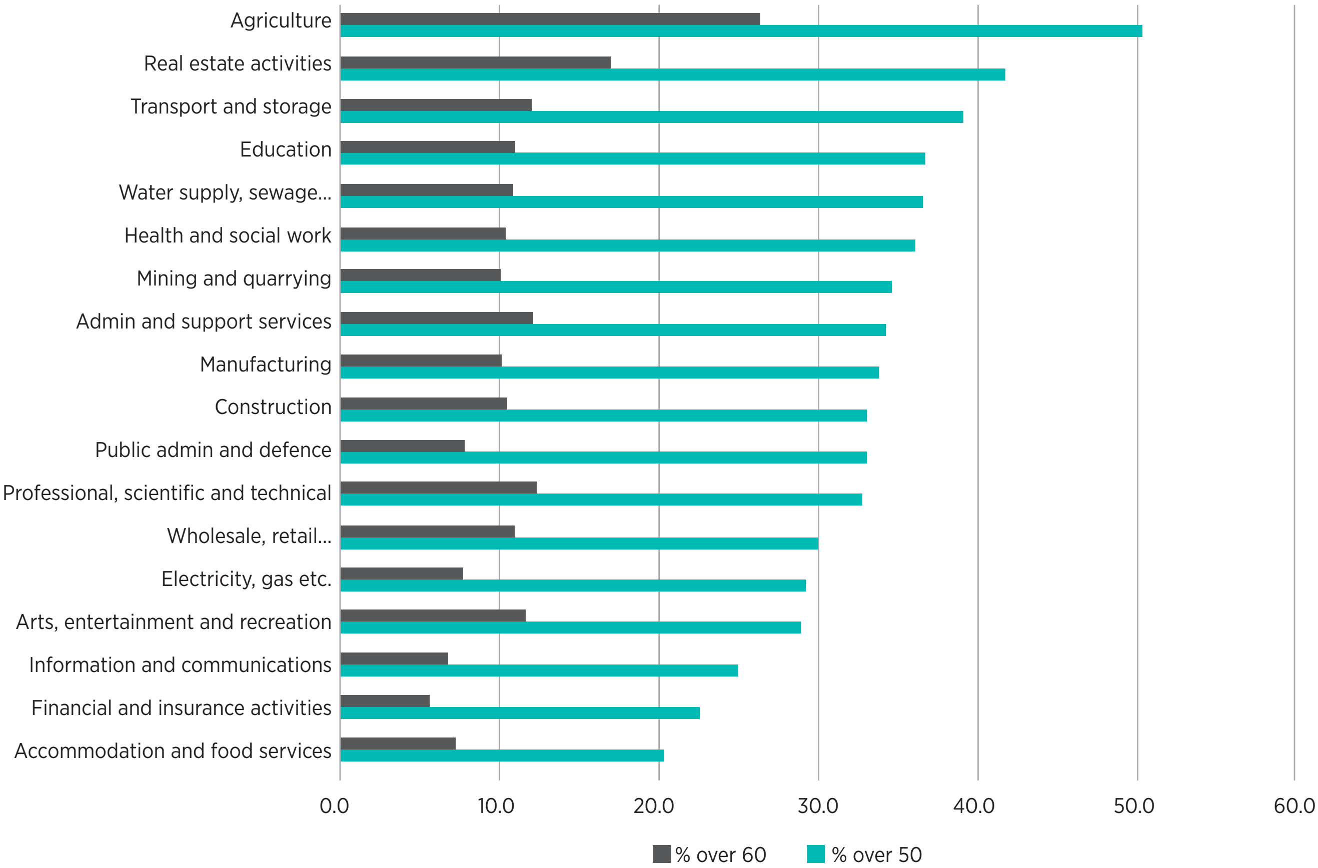
While the LFS dataset collects information about employment across a number of job types, we focused our analysis on the age structures of broad industry groupings so that we could be reasonably confident that the results were representative of the 'real' world. But even then, we would suggest that our results should be seen as indicative only as sample sizes for some industry groupings were relatively small – a problem highlighted by Wilson et al in their study of the future demand for UK labour.[1]

Facing a mass exodus

To assess the extent of the challenge, it is necessary to look at the **proportion** of the workforce that is currently accounted for by older workers as well as the overall **number**. Having to replace a high proportion of workers is likely to be challenging even if there is a stock of labour that is willing and able to fill those positions, because it will take time for new recruits to acquire the skill sets necessary to function at the same level as those who have left. On the other hand, having to replace a high number of workers could also pose a significant challenge as it may not be clear how the demand for so many replacement workers can be met.

According to our analysis, more than one in ten workers across most industry groups are aged over 60, while more than one in five are over the age of 50. There are some exceptions – for instance, the over-60s account for just one in twenty people working in financial and insurance services, while accommodation and food services also have relatively younger age profiles. At the other end of the spectrum, agriculture and real estate activities have the oldest age profiles. Over half of people working in agriculture are over the age of 50, while more than one in four are over the age of 60. For real estate activities, over 50% of the workforce are over the age of 50. Out of the 18 industry groups explored for this report, six have workforces in which over 35% are

Figure 10: Proportion of different industry groups accounted for by the over-50s (%)



Source: ONS Labour Force Survey Q2 2014 and author's calculations

aged 50 or above (see Figure 10 for a full breakdown).

In terms of overall numbers, the health and social work sector, as well as the education, retail and manufacturing sectors, are likely to face the biggest challenges in maintaining or growing the size and capability of their workforce – all currently have over 1 million workers aged over 50. This means that employers may need to take action on a number of fronts – both to retain, and if need be retrain, their older workers as well as broadening their resourcing strategies to appeal to a more age-diverse talent pool. Retail and health and social work face the most urgent challenge as both have more than 400,000 workers aged over 60, meaning that they may have to start replacing large numbers of retiring workers in the next five to ten years.

How do different industries compare in terms of keeping older people in employment?

Why people leave the labour market at older ages

A number of theoretical perspectives have been developed to explain the timing of retirement and economic inactivity among older people. Most prominent of these is a debate over *pull* and *push* factors.

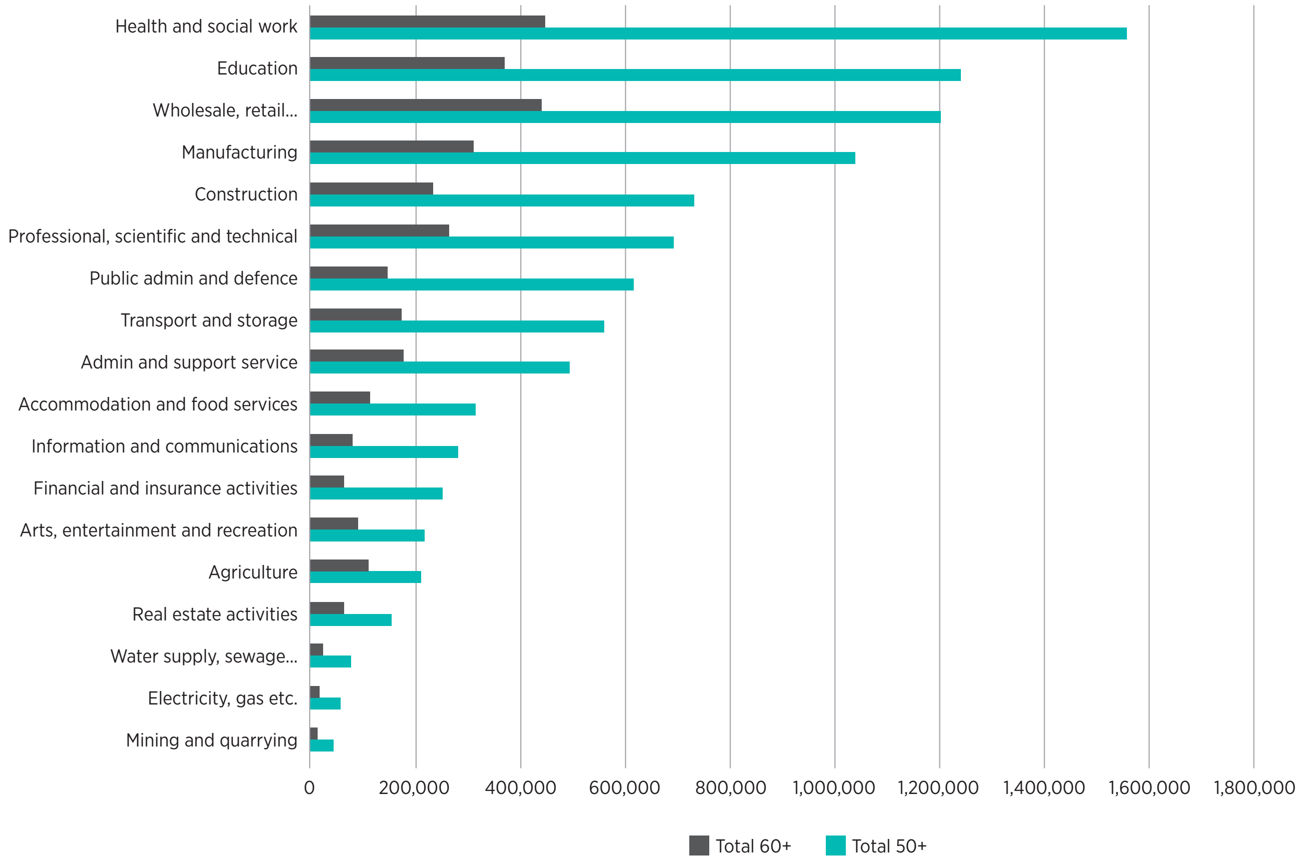
Pull factors can be thought of as economic incentives in the form of public or private pensions or implicit taxes on work, which make labour market exit an attractive option as older workers weigh the costs and benefits between staying in work to earn money and leaving to enjoy leisure time in retirement.[2]

Much of the decline in employment rates of older workers that began in the 1970s has been attributed to this perspective, as a number of countries started providing early retirement schemes – either explicitly or as de facto early retirement via disability, with generally high benefit levels.[3] Unemployment benefits can also create a bridge to retirement, especially when the benefit outweighs perceived potential gains by re-entering the labour market.[4]

On the other hand, *push* factors are constraints that limit the demand for labour. Some of these are driven by firms, whose personnel policy will affect retention, training and dismissal of older workers.[5] The degree to which technology is integral to production may also impact the age structure of the workforce.[6]

Ill health and informal care responsibilities can also constrain

Figure 11: Total numbers of people employed, by age and industry grouping



Source: ONS Labour Force Survey Q2 2014 and author's calculations

older people's ability to stay in work.[7] Moreover, previous evidence suggests that much of the economic inactivity among older people is involuntary, driven by disabilities or redundancies.[8] In this regard, older people are forced out of the labour market due to a lack of viable alternatives, rather than having made a decision based on favourable financial incentives.[9]

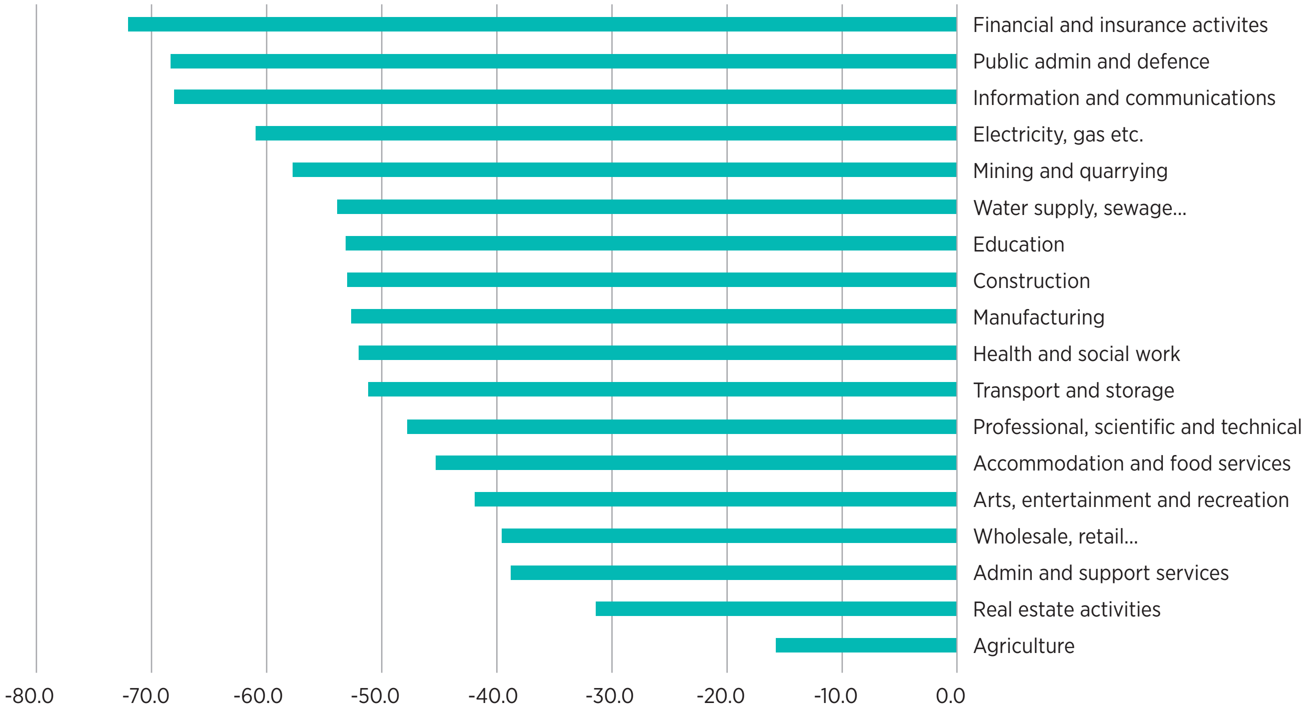
There are other arguments that go beyond this duality of push and pull factors. Collective bargaining arrangements can also influence early exit decisions.[10] The relations between government, employers and trade unions continuously shape policy related to labour markets and social benefits. These partnership arrangements direct the reactions to the other push and pull factors, given the constraints and opportunities they establish. This occurs not only at the national level, but also at a firm level between management, workers and their representatives.

These different strands explaining labour market exit among older workers demonstrate the complexity in understanding labour market engagement in later life. Retirement is often considered a choice or decision that people make, but exits from the labour market among older workers are often involuntary, as workers are pushed out by the onset of poor health or disability, or by specific measures taken by employers to shed workers.

Results for specific industries

Some industries see a large dropout of workers between the ages of 45–49 and 60–64. Finance, public administration and ICT all see a drop of greater than 60% between the number of workers they employ in their late forties and in their late sixties. This may be because such industries are ill suited to older employees, for example they are high-stress professions and make insufficient provision to help their older employees continue training. Alternatively, it may be because pensions in these sectors have been historically generous, reducing the financial imperative for the individual to continue working. Or most likely it is a combination of both of these sets of factors. Industries which have a poor record on retaining older workers will need new strategies to alter this going forward – even if this means making changes to some roles or working practices to enable longer working lives. However, some industries appear better at holding on to their workers – perhaps because they provide more support for their older workers, or perhaps because

Figure 12: Percentage change in the numbers of workers aged 45–49 and 60–64 (%)



Source: ONS Labour Force survey and author's calculations

in some sectors individuals have a real financial need to keep on working. In agriculture, for instance, there are just 15% fewer people working aged 60–64 than aged 40–44, suggesting that employment does not drop off a cliff at older ages. But this is likely to be a function of higher levels of self-employment and a lack of private savings for retirement rather than necessarily good practice on behalf of employers in supporting longer working lives.

Encouraging workers to remain in employment even after they have reached the state pension age will be increasingly important for all industries in the coming years as growth in the number of working-age adults slows.

Combining all of the different measures to create a dashboard

It stands to reason that the extent of the challenge facing different industries will be a combination of their specific reliance on older workers, the sheer number that they may need to replace and their ability to sustain older people in employment. To capture all of these different elements, we created a crude dashboard to identify which industries are facing the biggest collective challenges. In this context, those industries at the top of our dashboard face the biggest challenge because they have a relatively high number and proportion of their workforce aged over 50 as well as experiencing a relatively high drop-off in the number of people employed at older ages. They are therefore reliant on older workers but are relatively bad at retaining them. These industry groups include: education, health and social work, and public administration and defence. High replacement demand in these areas will represent a large cost to the organisations who will have to recruit and train new employees. In contrast, the industries at the bottom of the dashboard, such as administration and support services and arts, entertainment and recreation, are relatively less reliant on older workers. This is not to say that all industries do not need to plan for a diverse workforce, but that, broadly speaking, population ageing is likely to pose a larger challenge for those at the top of the dashboard than those at the bottom.

It is concerning that the dashboard shows education facing the biggest challenges in the coming years. Not only are a large proportion of the workers in this sector already aged over 50, there is a large fall in employment of people between the ages of 45–49 and 60–64, suggesting that the sector struggles to retain its older employees. This may be partly due to relatively good pension arrangements for some working

Figure 13: The workforce challenge of ageing for different industry groups

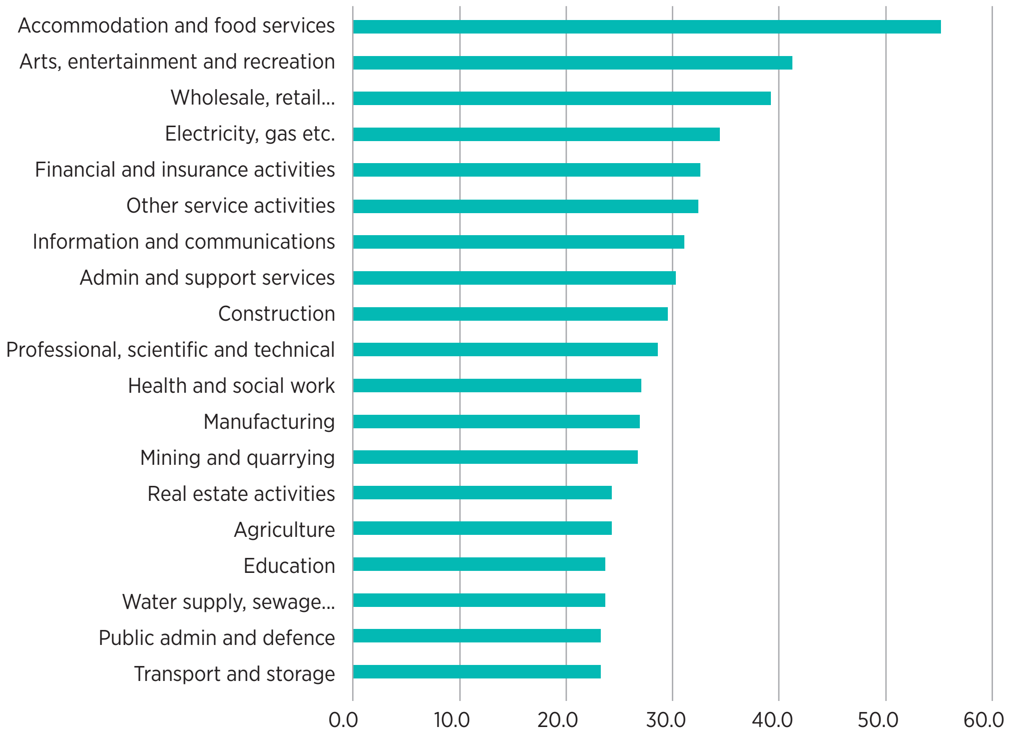
Industry group	% aged over 50	Number aged over 50	% fall in employment age 60–64 relative to 45–49	Relative rank of industry
Education	36.7	1,241,940	–53.1	1
Health and social work	36.2	1,559,676	–52.0	2
Public admin and defence	33.1	617,015	–68.4	3
Transport and storage	39.0	560,982	–51.1	4
Manufacturing	33.8	1,041,542	–52.7	5
Construction	33.1	733,035	–53.0	6
Water supply, sewage…	36.5	75,149	–53.8	7
Mining and quarrying	34.6	43,507	–57.7	8
Financial and insurance activities	22.6	251,816	–72.0	9
Information and communications	25.0	281,480	–68.0	10
Professional, scientific and technical	32.7	694,142	–47.7	11
Accommodation and food services	20.3	315,099	–45.3	12
Wholesale, retail	29.9	1,202,388	–39.6	13
Agriculture	50.3	211,604	–15.6	14
Admin and support services	34.3	495,062	–38.8	15
Real estate activities	41.7	153,594	–31.4	16
Electricity, gas etc.	29.2	54,714	–61.0	17
Arts, entertainment and recreation	28.9	218,196	–41.9	18

Sources: ONS Labour Force Survey Q2 2014 and author's calculations
Notes: Proportions and numbers are indicative only

in the education sector as well as the stressful nature of some of the work involved. Whatever the reason, quality education provision requires highly skilled, professional employees who have had a number of years of experience teaching. When many of the experienced teachers leave the workforce over the coming decade, the sector could struggle to fill the gaps.

The health and social work sector, which ranks in second place on this dashboard, faces an almost perfect storm. Not only will it have to replace over 1.5 million retiring workers over the next two decades, it also has a relatively poor record on older workers, with a 52% fall in the number of people employed between the ages of 45–49 and 60–64. This perhaps reflects upon the stressful nature of the work as well as the fact that health and social work can be highly physically demanding.

Figure 14: Percentage of workforce under 30, by industry (%)



Source: ONS Labour Force Survey Q2 2014

Moreover, as a result of population ageing, demand in this sector is set to grow, with projections showing 1 million extra care workers are likely to be needed in England alone by 2025 to meet expected demand.[11]

Transitioning from a relatively youthful workforce

The final challenge for industries to consider is one connected to their workforce at the other end of the age spectrum. Several industries have workforces where well over 30% of employees are aged under 30, and in accommodation and food over 50% of the workforce is under 30. As the average age of the UK population increases in the coming years, industries which currently employ mainly younger workers will need to find ways of retaining their workers as they age as well as potentially recruiting more from overseas to fill any gaps.

Demand for certain services will exacerbate potential labour supply problems

The loss of older workers through retirement will create replacement demand for labour, affecting some industries more than others. However, in addition to replacement demand, expanding industries will also have to find additional workers to fill newly created posts as well as putting strategies in place to retain and, if necessary, retrain older workers. Filling these posts at a time when growth in the UK's working-age population is slowing will represent an additional challenge for these industries.

As noted in the previous section, the UK economy is increasingly based around services. There also appears to be a shift occurring in the UK labour market away from low- and particularly medium-skill jobs towards high-skill positions – the so-called 'hollowing out' of the labour market. As a result it is likely the service sector, and in particular highly skilled sections of the sector, will experience difficulty in plugging these additional gaps.

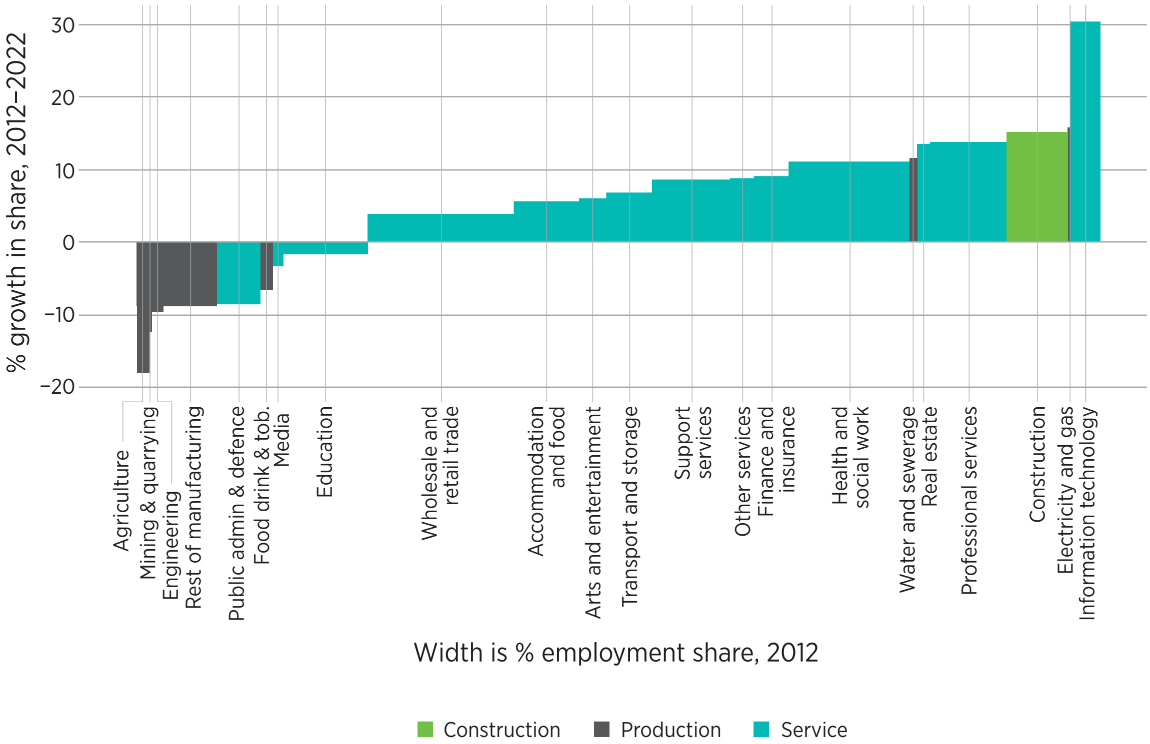
The UK Commission for Employment and Skills projects that between 2010 and 2020 there will be an extra 1.5 million jobs created in the service sector. It also forecasts there will be an additional 2 million jobs in white-collar occupations, such as managers, professionals and associate professional roles.[12] See Figure 15 for a breakdown of their projections by sector.

Where will all the workers come from?

School-leavers and those who are currently middle-aged

With the UK needing to replace over 9 million older workers who are likely to retire over the next 20 years, it is worth reflecting on where replacement workers could

Figure 15: Projected employment change, by sector (2012–22) (%)



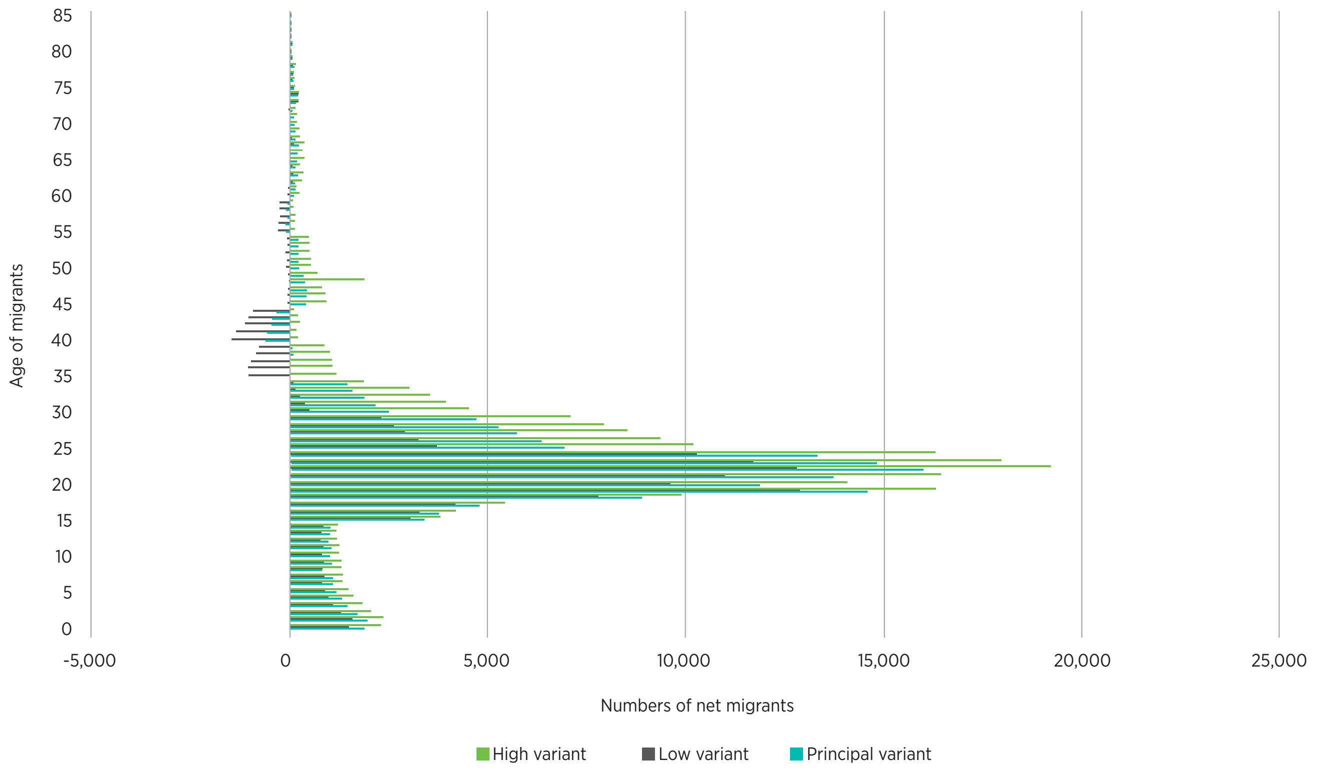
Source: UKCES (2014) *Working futures 2012–2022*

come from. Some of them will be school-leavers. It is estimated that there will be 16.4 million school-leavers (defined as total numbers of people turning 16) over the next 20 years.[13] If we assume that 70% of this group becomes employed during this time, that could fill around 11.5 million vacancies. But school-leavers will not be sufficient to plug the gap caused by older workers leaving – many school-leavers will not have the necessary skills and expertise to fill the jobs of older workers. More likely, these jobs will be taken by those who are now in their thirties and forties. But unless employment rates at older ages rise, this group may not be large enough to replace the 9.4 million older workers who will leave. If, for example, we plausibly assume that just 40% of those now in their thirties and forties remain in employment in their fifties and sixties, this could lead to a shortfall of around 1 million jobs needing to be filled. Clearly one way is to raise employment levels at older ages, but many employers will also look towards migrant workers to meet the labour supply challenges.

Future migration scenarios

The Office for National Statistics projects three future migration scenarios for the UK – principal, high and low. Depending on which direction the UK takes, it could have a major impact on businesses' ability to plug any gaps caused by people leaving the workforce as well as to grow the workforce when required to meet growing demand for products and services. The high migration scenario would see approximately 4.7 million net migrants come to the UK over the next 20 years, of which the vast majority (4.1 million) will be aged 16–64 in their year of entry. By comparison, the low migration scenario would see approximately 2.3 million net migrants come to the UK over the next 20 years, of which 1.9 million will be aged 16–64. Figure 16 outlines the age structure of net migration per annum across the ONS's various scenarios. It shows that most of the net increase will be concentrated between the ages of 20 and 30. Exploiting labour from abroad is likely to be an important part of an employer's armoury to fill labour gaps over future years. And government policy is likely to play, in one way or another, a crucial role in determining which future path of migration the UK follows. Indeed, many experts currently believe that the UK's migration path is most likely to follow the ONS's so-called 'low migration variant', which would leave employers with a smaller pool of available labour over future years by comparison with the last decade.[14]

Figure 16: Annual net migration, by single year of age (various ONS projections 2018–)



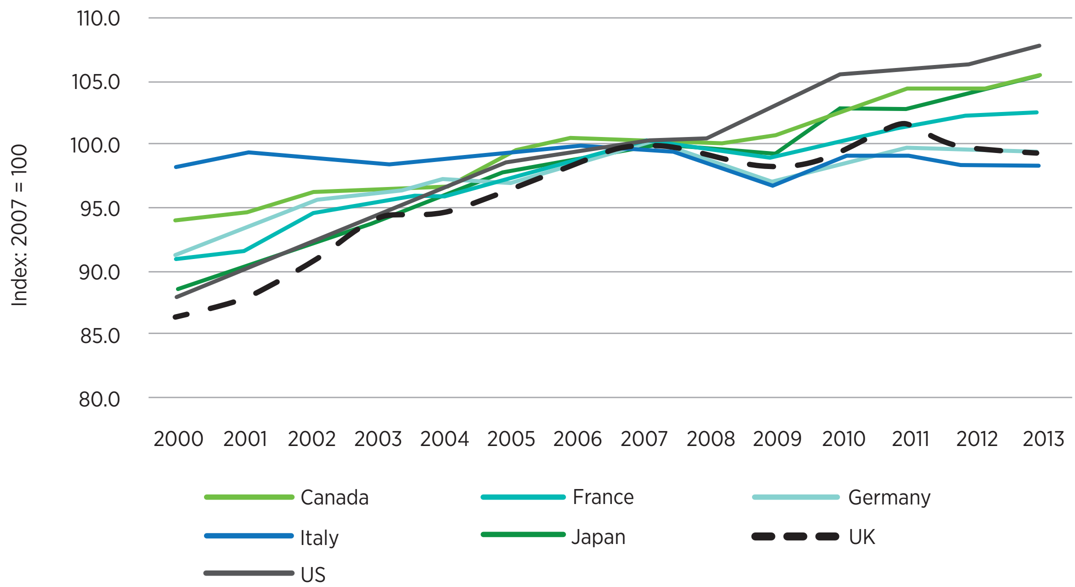
Source: ONS population projections

Substituting capital for labour

An alternative way of ensuring that population ageing does not result in falling productivity across industries is to substitute capital for labour. By investing in machines and other forms of technology to replace or grow the productive capacity of those in the workforce, a stagnating or even shrinking labour market does not have to equate to shrinking productivity. Alas, the UK's current record on generating more productivity with the same number of workers is poor. The standard measure for labour productivity, output per hour worked, has barely changed since 2007 despite record numbers of people in employment. What's more, the UK stands close to the bottom of G7 nations in this regard, sitting just above Italy (see Figure 17). While such poor productivity may, in part, stem from slack in the UK labour market – due to high levels of unemployment and underemployment after the financial crisis – the fact that productivity continues to disappoint seven years later remains a cause for concern. If industries are unable to drive forward the productivity of those in work by investing in training and skills as well as new technology to boost efficiency, population ageing will ultimately result in stagnant industries and flat-lining economic output.

Ultimately employers are likely to require a mixture of all of the above strategies – supporting the needs of older workers, encouraging and nurturing young talent, investment in capital to raise workforce productivity and plugging skills gaps through employing migrant workers. But how can employers successfully achieve these ends?

Figure 17: GDP per hour across advanced economies



Source: OECD and ONS

3 Adapting to an ageing and more age-diverse workforce

Key findings

- In order to adapt, firms require buy-in from the top, with boards leading the way in developing a strategy for coping with a diverse workforce.
- Any strategy should take a holistic approach and focus on:
  - inclusive recruitment: ensuring that relevant people are not intentionally or otherwise excluded from the recruitment process
  - improving capability of line managers: ensuring that line managers are equipped with the knowledge and skills necessary to manage different sorts of people with different types of challenges
  - supporting employee health and well-being: ensuring that organisations have processes in place to proactively identify health problems and support to reduce the chance of workforce exit
  - moving towards flexible working: HR managers and business leaders must understand the business case for flexible working and make every effort to grant it when requested by an employee.

Different industries face different demographic challenges, but all employers will have to adapt their working practices to manage and support a more age-diverse workforce. Some with older workforces face the prospect of replacing a large number of retiring workers, while others could struggle with retaining their workers once they reach their mid-50s, let alone the state pension age. A few sectors have a large proportion of their workforce under the age of 30 whereas others have a greater proportion over 50. Increasingly employers will have four or even five generations represented in their workforce, requiring more flexible and tailored people management practices.

The business case for taking action

Board support is key to achieving buy-in for strategic action. Board members need to know why managing an ageing workforce makes business sense, what the underlying demographic issues are for the particular organisation, the benefits of addressing them and the implications of ignoring them.

Business leaders need to understand the skills and knowledge available in their workforces; how this skills and knowledge base will be managed to meet the needs of the business; and the comparative costs and benefits of doing this in different ways, for example improving the retention of older workers versus recruiting and training new entrants. For example, the evidence suggests that older workers are particularly adept in customer-facing roles, and organisations with strong customer service models may want to emphasise the attraction and retention of this demographic as part of its resourcing strategy. McDonald's and B&Q are examples of organisations that have benefitted from the link between the employment of older workers and enhanced customer service.[1]

The business case for investing in young people is also persuasive, ranging from the strong return on investment in their training and development to the new ideas and skills that they can bring, for example digital skills.[2]

Developing a strategy

Once they understand the challenges and opportunities associated with the ageing of the workforce, HR and business leaders need to take a step back and consider how their organisation should respond. CIPD research shows that just 14% of organisations have a strategy to manage their ageing workforce, with a further 6% developing a business case for a strategy.[3] The most common approach to managing an age-diverse workforce is to deal with problems as they arise (31%), while 15% say they have considered possible implications of an ageing workforce but have not identified a need to modify the way they do things. A total of 21% say they are not aware of any challenges that might emerge (6%) or that they have not considered the issue at all (15%).[4] Countering the impact of an ageing and shrinking labour market means that employers need to be proactive, flexible and agile to avoid facing impending skills and recruitment gaps.

A holistic approach

Managing an age-diverse workforce and encouraging older workers to stay in work longer is not a quick fix and will need employer action on more than one front to be effective. Our industry dashboard makes clear that specific industries face specific challenges in terms of the ageing workforce. In addition, individual employers need to develop a range of people management practices to enable workers at different stages of their careers to continue to contribute to their full potential and maintain job satisfaction and engagement. CIPD research suggests that a coherent strategy on managing and supporting an age-diverse workforce should incorporate the following elements.

Create the talent pipeline

Employers need to ensure they have the right HR policies and procedures in place so they are able to access the right skills for the business. This involves developing inclusive recruitment strategies to ensure that they are recruiting from a diverse labour pool. There is evidence to suggest that unconscious bias on the part of recruiters acts as a barrier to sourcing potential candidates from both the young and older ends of the age spectrum. To capitalise on the available young talent in the labour market, employers should be building links with schools and colleges and investing in young people by providing work experience placements and apprenticeships. Employers should be promoting opportunities via a range of methods, such as social media, attending recruitment fairs, engaging with schools and advertising via Jobcentre Plus, as well as traditional methods such as local newspapers and websites.[5]

While progress has been made by employers in reaching out to a wider talent pool, evidence suggests there is much more progress needed. According to recent CIPD research, just 20% of organisations report they have built close relationships with local schools and colleges, only 19% of employers say they provide work experience for all ages and 15% report they use apprenticeship schemes for all ages.[6] Public funding of apprenticeships has generally targeted younger rather than older workers; this has helped to reinforce the stereotype that apprenticeships are only things that young people do. A change of funding and culture is required in order to facilitate the growth of older apprentices.

Employers need to ensure they are not screening out candidates by requiring unnecessary qualifications that could discriminate against older or younger candidates, for example requiring that people are university graduates when a degree-level qualification is not actually needed to do the job. Some employers, for example Nestlé, recruit primarily for attitude and personality, recognising that while they can provide the necessary technical training to address skills shortfalls, it is much harder to address problems relating to work ethic or a lack of empathy.

There is still a great deal of age stereotyping on the part of those involved in recruitment and it is in employers' interests to ensure that people are not screened out on the basis of prejudice or unconscious bias on the part of line managers. Labour market data shows that older workers often find it very hard to get back into work if they have left or lost their job, despite the wealth of experience that they would bring, suggesting that some employers shy away from recruiting older people.[7]

Build line management capability

Organisations need to develop the capability of line managers to manage an increasingly age-diverse workforce. Line managers play a critical role in all organisations as they regularly make recruitment and selection decisions and manage people on a day-to-day basis. It is the relationship between manager and employee that to a large extent decides whether or not an individual is engaged and 'goes the extra mile' for the organisation. Line managers play a crucial role in coaching people and helping them learn on the job as well as in supporting and initiating formal training and development opportunities for their staff. They are also key to building effective teams, managing conflict and supporting employee well-being. However, just over a third of employers say they train their line managers to develop teamworking among age-diverse teams, with a similar proportion rating their managers as effective in doing this.[8] This suggests significant progress needs to be made by many organisations to ensure they equip their managers with the necessary skills in this respect. CIPD research indicates that many young managers lack the confidence to manage older colleagues, further emphasising the need for training and support in this area.

Invest in training, development and performance management

All employees regardless of age need training to keep their skills up to date and enable them to progress and develop their career. Older workers are less likely than their younger colleagues to take part in training, either because they are not offered opportunities to train, they are not encouraged to take part or because they fail to put themselves forward for training opportunities. Providing older employees with opportunities to retrain and develop their skills is a vital part of ensuring that they continue to feel motivated and challenged in their role. Employers need to ensure that older workers are not overlooked for training and that they receive development opportunities to progress their career.

Older workers are less likely than younger employees to change jobs and so they are less likely to use their newly acquired skills and knowledge to leave their organisation.[9] CIPD research shows that workers of all ages see an employer's investment in training as a sign of commitment, which they generally reward with greater loyalty to their organisation.[10]

Older workers also have significant skills and expertise that they can pass on to younger staff and so can play a valuable role as a coach or a mentor.

Organisations also need to provide younger workers with development and progression opportunities if they want to retain staff.

As highlighted above, line managers play a central role in staff development and need to ensure they have regular one-to-one conversations with all their employees about their development needs and wider career aspirations as part of ongoing performance management. Research shows that line managers can shy away from discussing important work and career issues with older workers in the fear that broaching the subject could be perceived as age-discriminatory. Line managers should be confident and competent to have constructive and positive conversations with older employees as part of an open and inclusive working culture.

Finally, employers should consider whether the way they manage reward and progress individuals through salary bands is appropriately flexible and not unfairly age biased.

Support for employee health and well-being

Some physically demanding tasks become more difficult with age, but changes in work practices, technology and health and safety practice mean that there are relatively few jobs which cannot be done by an average healthy 60-year-old. With retirement ages increasing, it is becoming increasingly important for workers to remain physically and mentally healthy – not just to remain in work but to be able to enjoy an active retirement when they do leave the workforce. In general, older workers are less likely to take time off through ill health than younger workers, particularly short-term absence. However, for those older workers who do have health problems, the length of absence is likely to be longer, making it even more important to manage return-to-work support.[11]

The ageing workforce is an important factor behind the business case for investing in employee well-being. Research has shown that less than half of UK employers have an employee well-being strategy, with large organisations much more likely than small employers to have one.[12] An organisation's health and well-being strategy should be focused on employees throughout their working lifecycle and not just on older workers.

They also need to incorporate a focus on supporting both employee mental and physical well-being.

How people are treated and managed on a day-to-day basis is central to their well-being and engagement. Line managers can either help manage and prevent or cause or exacerbate stress in the workplace, which is one of the top causes of absence and linked to mental health conditions such as anxiety and depression, as well as heart disease. Managers are also the people in a position to pick up on the early warning signs which might suggest that people are struggling to cope. The CIPD has produced joint guidance with the Health and Safety Executive on the management behaviours line managers need to exhibit to manage stress in the workplace.[13] Ensuring line managers demonstrate these core people management skills is an essential starting point for supporting employee health and well-being. Access to a confidential helpline and counselling services and ideally some sort of mental health support network can also ensure people with mental health problems receive support at an early stage.[14]

In addition, employers should make sure they pay proper attention to job design, health and safety requirements and ergonomics so that they meet the needs of an age diverse workforce.

Individuals themselves also have a responsibility to manage their own health and well-being. Employers should consider how they can support and encourage staff to invest in their physical well-being, for example by making healthier lifestyle choices to combat major and growing health risks. There is a growing body of evidence which shows a link between low levels of physical activity and conditions such as obesity, cancer and dementia.

Employee well-being programmes can incorporate a range of different elements, such as healthy food choices in staff canteens, free health checks, subsidised gym membership or on-site exercise classes, workplace sports clubs, walking or pedometer challenges, and changes to office design or facilities to encourage more activity, such as sit–stand desks.

Well-being programmes can also incorporate benefits such as private medical insurance and healthcare cash plans.

Create more flexible working practices

Employers that can provide flexible work arrangements are more likely to be able to attract and retain an increasingly age-diverse workforce. They are also supporting employee work–life balance and their well-being, with associated reduction in stress and increased levels of employee engagement.

Flexibility incorporates both employment flexibility in the form of different types of contractual arrangements, such as temporary and casual forms of employment, as well as flexible working practices, such as part-time working, homeworking and flexi-time.

Many workers prefer to work more flexibly as they approach retirement, gradually adjusting their work–life balance and enabling them to manage caring responsibilities for older relatives (which affect many people in their fifties and sixties). An estimated 2.4 million workers are sandwich carers – caring for both children and ageing parents.[15]

Aside from the need to develop strategies aimed at extending working life, employers need to consider the benefits of fostering an age-diverse workforce. Employers can develop flexible working policies to support employees to achieve a better work–life balance at every stage of their working life. For example, our research shows that over 40% of the current workforce in accommodation, food, the arts and entertainment sectors are under the age of 30. In an ageing society, these industries will need to revise their employment strategies to retain their workers as people over the age of 30 are often looking for a different style of employment from those who are still in their twenties. Some will be considering starting a family, for example, and may need more flexible working arrangements. Industries with a workforce skewed towards the young end of the age spectrum may need to consider a more age-balanced resourcing strategy where possible and develop recruitment and people management policies that appeal to people in their forties, fifties and sixties.

Younger workers can be more tolerant of unsociable and unpredictable hours. However, to retain these workers as they get older, employers will need to offer alternative working arrangements which fit in around family life. Or, if unpredictability and variability cannot be avoided, employers must help employees align other parts of their lives with the nature of their work (such as organise childcare which is as flexible as their work, rather than hand over a few childcare vouchers and think 'job done' – see box below). This may be particularly applicable to the

Phased retirement

'Cliff-edge' retirement can be unhealthy for the employee and employer. A phased approach that allows an older worker to acclimatise to retirement while still benefitting financially and socially from a work environment could suit many people. Phased retirement has been used to great effect by American Express – a multinational financial corporation. In 2006, American Express realised that a significant proportion of their workforce would be eligible to retire over the coming decade. Moreover, the company anticipated that when these workers retired, they would take with them a wealth of firm-specific human capital that it would be very difficult for the company to replace. In response, they launched a phased retirement programme which reduced the responsibilities of those close to retirement, giving them more time off and freeing up some of their time to document their knowledge and teach it to others. Those on the programme continued to receive a portion of their previous salary and stayed with the company for up to a year longer than they otherwise would have done, benefitting both American Express and their finances in retirement.[16]

Corporate childcare: helping to retain younger workers who start a family

For working parents, childcare can represent a very significant cost. In 2014 the cost of sending a child under 2 to nursery part-time (25 hours) was £109.89 per week on average, or £5,710 per year. For a family with two children in full-time childcare the yearly bill was £11,700. Over the last five years childcare costs have risen 27% – meaning parents pay £1,214 more in 2014 than they did in 2009.[17] Corporate childcare can therefore be an important part of an employee's remuneration package.

accommodation and food service sectors. Workers will be more likely to stay as they age if they are offered childcare and favourable maternity/paternity packages as part of their remuneration.

Research in Switzerland has shown that parents working in companies with their own childcare services display greater commitment to their employers than parents in companies without this support.[18] The authors of the study argued that this was due to basic reciprocity – if a company acts well towards you, you will act well towards them.

The vast majority of employers (96%) offer some form of flexible working.[19] All large employers offer flexible working to some employees, as do 95% of medium-sized organisations. There is also widespread provision of flexible working among small businesses (91%) and micro-sized companies (85%). Employers are missing a trick if they do not take advantage of this provision to enable a greater number of older employees to remain in work for a longer period on reduced or more flexible hours. As the workforce ages, so does the proportion of employees who are caring for an older and/or ill relative. Often, employees with caring responsibilities are an invisible group, and it is important that employers are aware of the physical and emotional needs of carers in the workplace. Elder care, unlike childcare, does not necessarily have a regular pattern, and employees with caring responsibilities may need more creative and tailored flexible working arrangements to cope with unexpected demands.

However, while three-quarters of employees make use of some form of flexible working, outside flexi-time and part-time working, many practices such as home and remote working are largely restricted to managers and take-up of other forms of flexibility is low. Only 5% of employees have some form of compressed hours, for example spreading a five-day week over four days. Just 3% of respondents use annual hours (staff are contracted to work a set number of hours each year, with flexibility over when hours are worked). Just 1% of respondents job-share.

Business and HR leaders need to consider the business case in their organisation for providing flexible working practices that match employee demand and at the same time meet the requirements of the business.

While employees currently have a right to request flexible working, employers do not have to grant it, but, in our view, they must be duty-bound to accept the request unless they can show it could cause irrefutable damage to the business. And at the very least, employers should think about how, in the longer term, they could facilitate more flexibility for the individual even if they think it is impossible to achieve in the short term.

Case study: Supporting older workers to work flexibly at British Gas

With nearly 30% of its workforce aged between 45 and 64, British Gas works hard to support its older workers. It offers people the opportunity to work reduced hours or part-time, take pre-retirement leave or utilise homeworking as a way to shorten the working day by reducing commuting time. Last year British Gas was awarded the title ‘Best for Flexible Working’ in the 2014 Top Employers for Working Families Awards.

Provide financial advice and guidance

Employers can play an important role in helping employees improve their knowledge and understanding about their personal financial management so they can make more informed choices over when they retire and the options open to them.[20]

Many employers report that although they offer a full range of benefits, the value of those benefits is not fully understood by staff. In addition, benefit surveys provide evidence that employees are not using benefit schemes to their maximum advantage. Improving financial awareness empowers employees, enabling them to make more informed choices and to engage with their benefits, which can also lead to improved motivation and retention.

Recent changes, for example employers being required to automatically enrol workers into a pension scheme to which the employer must contribute, have contributed to an increase in the proportion of workers contributing to workplace pension schemes. This has increased the need for employees to understand the value of their pension provision, particularly as there is a danger that employees will only pay the minimum level of contribution, which it is generally agreed will not provide an adequate retirement income for many individuals.

Improving financial awareness among staff can also lead to improved well-being. Mental health charity Mind has found a link between people who are struggling to manage debt and mental health problems; consequently, giving staff the tools to manage their finances can lead both to reduced absenteeism and greater productivity.

Conclusion

Demographic change will have a profound effect on the UK labour market over the next two decades and beyond. The UK Commission for Employment and Skills anticipates there will be around 12 million vacancies as a result of workers leaving the labour market and, as our industry dashboard illustrates, some industries will be hit harder than others. The health and social work sector, education, retail and manufacturing are all likely to have to replace over a million retiring workers each over the next 15 to 20 years or find ways of raising the productivity of those who remain in work – something that UK industry has found particularly challenging over the last decade or so. However, even industries at the other end of the age spectrum that rely mainly on younger workers may have difficulties and will need to rebalance their resourcing strategy to ensure a stable workforce for the future. For example, while less than 20% of workers in the accommodation sector are over 50 years of age, over 50% are under 30. In an ageing society even relatively young industries will have to adapt to demographic change, doing more to retain their employees as they age and appealing to more mature workers.

To better cope with the effects of population ageing, employers and industries must recognise the potential issues they face, such as skills shortages, productivity challenges, labour shortfalls and an inability to meet customer service and production targets. Employers need to assess the implications of the age structure of their specific workforce – whether that be a large number of retirees, a high dropout rate of older workers or the loss of a younger-than-average workforce. Equipped with this information, industries and employers will be better placed to take early action to mitigate the challenge brought by population ageing.

Population ageing has the potential to cause significant labour market disruption, particularly in some industries, as our research shows. However, a crisis can be averted if employers adapt their HR and age-diversity practices, tailoring them to meet the difficulties their industries will encounter over the coming years. For some industries the challenge to adapt is more urgent than for others, but ultimately all must develop and implement long-term strategic plans to cope with population ageing, which, along with other 'megatrends' affecting the UK's labour market, threatens to change the very nature of work itself.

Endnotes

Executive summary

1 Author's calculations based on ONS figures.

Introduction

1 Total future employment based on author's calculations using ONS 2012 Principal Population Projection and ONS employment rates by age band. To calculate future employment, we held employment rates constant as a proportion of each age group and calculated the total over future years.

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