

# Domain: Labour market

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## Introduction<sup>1</sup>

This domain chapter is dedicated to summarize research on the effects of labour market contextual factors on labour market participation of older workers (aged 50+) and identify research gaps. While employment participation and the timing of (early) retirement is often modelled as an individual decision, the opportunities for employment in the late career and the restrictions that employees face are largely shaped by labour market related factors, such as labour market regulations, labour market policies or age discrimination. Of special importance is the pension system. Is there a fixed retirement age? How does the pension vary with the retirement age? Does the pension age differ between different groups?

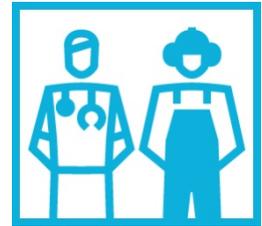
Labour market factors are often divided into supply and demand factors. Supply factors relate to the number of older workers looking for employment, the number of hours they want to work, and the skills they carry with them. The labour supply is influenced by the design of governmental policies. For example, in many countries closing of generous early retirement programs has increased the number of older workers looking for employment up to the state retirement age. Demand factors relate to the general economic composition and its development over time, and to employers' behaviour when dealing with older workers. For example, to what extent are employers biased towards older workers when looking for new employees, and to what extent do seniority wage profiles and employment protection legislation affect employers' behaviour with regard to older workers? The labour market is where labour supply and labour demand meet, and is itself influenced by economic conditions, demographic developments, social partners (unions and employer's associations), and government.

## Methodology

The main research question is: 'How does the labour market context influence labour force participation of older workers?' There is a large body of literature on the different aspects of the labour market, older workers, and retirement. Indeed, most studies that deal with employment participation of older workers touch upon some aspect of the labour market, because 'the labour market' can be thought of to encompass so many different things. In this review, we have restricted our view to studies that deal with the labour market contextual effects on the employment participation of older workers explicitly. As a result, we have only been able to cover a small part of the literature that deals with labour market effects. The references are examples of studies from within Europe or outside Europe wherever relevant. To structure the findings, we asked a number of sub-questions: Is the incidence and duration of unemployment for older workers different than for

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others? Is the recruitment and retention of older workers influenced by factors such as age discrimination by employers and seniority wage profiles? To what extent are older workers self-employed? Have they been self-employed earlier in life or do they move from employment or unemployment into self-employment? Are there sectoral differences in the employment of older workers? Employers in which sectors are especially (un)likely to employ older workers? To what extent does employment protection legislation affect the employment of older workers? How do changes in the pension system influence the age of retirement? To what extent do changing early retirement regulations influence older workers to stay in the labour market?

To find relevant literature we conducted a literature search in Scopus, scanned the National Reports for country-specific findings on labour market contextual effects, and where needed searched through the references of these studies to find additional literature. The main findings are summarized below.

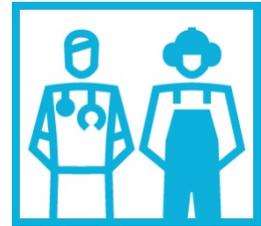
## Findings

### Unemployment

One of the main threats to longer employment participation of older workers is unemployment, in which it is important to differentiate between incidence and duration of unemployment. Young people become unemployed much more often than older people. Their first jobs are often fixed-term jobs leading to multiple (short) unemployment periods. Older workers are much less likely to get unemployed. Many of them have tenured positions and are protected by legislation, and only lose their job when their firm closes or goes through a major downsizing. When older workers do become unemployed, however, they are far more likely to stay unemployed for a longer period of time (OECD, 2006). Some older workers fail to find reemployment, and thereby leave the labour market at an age below the regular retirement age. Bonikowska and Schellenberg (2014) for example, find in Canada that the likelihood of reemployment after unemployment for older workers is heavily influenced by the age at which they became unemployed. This is a common finding in Western countries (OECD, 2006). Older workers in their early 50s have a relatively good chance of getting rehired, compared to older workers in their late 50s or early 60s. The likelihood of becoming reemployed is lower for women than for men. Some of the older workers that fail to find reemployment move into self-employment (see below). Deelen and colleagues (2014) find that Dutch older workers who become unemployed after a firm closure are much less likely to find reemployment than their prime-age counterparts. In addition, they face more severe wage cuts when they do find reemployment.

### Hiring older workers

Why are unemployment spells usually longer for older workers, and why are so many older workers unsuccessful in finding reemployment? Studies from different countries attempt to answer this question. For example, studies from the UK (Daniel & Heywood, 2007), the Netherlands (Deelen, 2012; Heyma et al., 2014), and Germany (Heywood et al., 2010) find that employers in a country or industry with a deferred compensation scheme (or steep wage-tenure profiles; increasing wage with seniority) hire fewer older workers, especially for jobs that require specific human capital investments, mainly because they are uncertain about the productivity of older job applicants (statistical discrimination). Older managers and organizations with many older workers are more likely to hire older job-seekers than younger managers and organizations with relatively few older workers. Hutchens (2007) finds that in the US too, many organizations employ older workers (who were hired when they were younger) but do not hire them at older ages. He finds that this is partly



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due to employers filling job openings with people already working at the firm, rather than external hires. Karpinska, Henkens and Schippers (2011) show with Dutch data that the age of job applicants has a large impact on managers' decisions. Because they control for other factors such as health and relevant job experience, (latent) age discrimination is a likely explanation. Oude Mulders and colleagues (2014) show that employees are quite unlikely to get rehired by their former employers after mandatory retirement. Employers attach a lot of value to the employability of the older workers (i.e., the 'uniqueness' of their skills, their health, and their social contacts that are useful for the organization), but also think that older workers should be willing to drop a significant amount of wage to stay employed.

## Sectoral differences

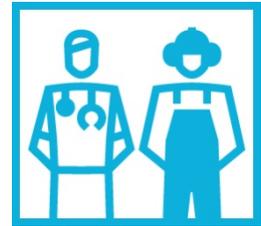
Not many studies have an explicit focus on sectoral differences in the employment of older workers. Adler and Hilber (2009) show that in the US, there are 18 people younger than 55 hired for every one person aged 55-64, but also that there are strong differences between sectors. Sectors that hire many older workers include public administration and educational services, while the accommodation and food services industry hires very few older workers. They find that relatively high paying sectors are less likely to hire older workers, while fast growing sectors are more likely to hire older workers. In short, they conclude that older workers are not hired at high rates; it varies by industry and by job market; industries with already a high proportion of older workers will continue to hire them.

## Self-employment

Self-employment is more frequent among older workers than among younger ones (e.g., Hipple, 2010). There are several explanations for this pattern. One is that those who enter self-employment earlier in life retire later. They are less affected by institutional arrangements and are therefore able to stay in the work force as long as they want, even if not always full-time. There are also older workers who turn to self-employment after leaving wage-and-salary employment, which can be seen as a phase between paid employment and full retirement (e.g., Kerr & Armstrong-Stassen, 2011 for a study on Canada). A second explanation is that older people turn to self-employment when they lose their job and are unable to find reemployment. This is often called a push factor. A third explanation is that some older workers retire with the intention to enter into self-employment. Some take early retirement from their wage-and-salary job to take up self-employment, while others wait until the mandatory or standard retirement age and then enter into self-employment. This is often called a pull factor of self-employment. In a panel based study of older workers in the Netherlands, Van Solinge (2014) shows there are older workers that enter self-employment out of opportunity (i.e., they have high financial and human capital), but also those that enter self-employment out of necessity (i.e., those that perceive their retirement as completely involuntary). Older workers that enter into self-employment also have more of an entrepreneurial attitude (e.g., self-efficacy) during their wage-and-salary employment.

A study by Eurofound (2012) shows that self-employment among older workers mainly occurs in select occupations in sectors, but this differs between men and women. Self-employed older men (aged 50+) are overrepresented among managers and mid-skilled manual workers, while self-employed older women (aged 50+) are overrepresented among service and sales workers.

In a study of older Americans, Biehl, Gurley-Calvez & Hill (2014) found that unemployed are more likely to enter self-employment than those being in paid employment and that this pattern is influenced by recessions for men but not for women. In another study of the US, Zissimopoulos & Karoly (2009) found that people, both employed in wage-and-salary employment and unemployed



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(including disabled and retired), move to self-employment. Prior experience with self-employment and wealth are strong positive predictors of moving into self-employment. People apparently need the money to start a business. They can also use skills they have learned in a previous job in self-employment. Risk aversion is also a significant predictor, but only for those already employed in wage-and-salary employment: workers who are less risk averse are more likely to move into self-employment as both the benefits and the losses can be severe.

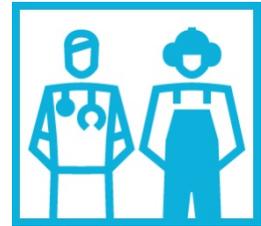
## Migration and foreign workers

Migration is related to employment participation and retirement in different ways. It is quite common for people living in Western Europe to move to Southern Europe after retirement (e.g., Zasada et al., 2011; King et al., 1998). The intention to relocate after retirement may influence the timing of retirement and may therefore lead to lower levels of self-employment or bridge jobs, thereby decreasing the labour force participation of older workers. Migration after retirement can also occur nationally – moving to another part of the country after retirement (e.g., Sander & Bell, 2014 on internal migration after retirement in Australia).

Also, immigrants may want to return to their home country after retirement (e.g., Zontini, 2014). This may also influence the timing of retirement and is likely to lead to lower levels of employment participation in later life. The propensity to return is influenced by the possibility to get a pension from the destination country even after moving back to the country of origin. The share of immigrants has gradually increased in most Western European countries. Many of those who immigrated as young labour migrants in the 1960s and 1970s are now older workers. Many have been manual workers in physically demanding jobs leading to a preference for early retirement. On the other hand, many will get low pensions when they retire giving them incentives to stay longer in the labour market.

## Labour market institutions and regulations

The supply of older workers is strongly influenced by the design of the social insurance system and labour market regulations. In the past, early retirement used to be very common in most OECD countries, as a result of generous early retirement pension schemes. For example, Fischer and Sousa-Poza (2006) show with SHARE data that generous early retirement options and the wealth accrual rate positively influence the level of early retirement. Riedel and Hofer (2013) find in a study based on the ad hoc module 2006 of the European Labour Force Survey that replacement rate and pension wealth are negatively related to retirement age. Banks and Smith (2006) find that the pension system in the UK has created two distinct groups: one on top of the wealth-distribution that takes early retirement because they can afford it, and one at the bottom of the wealth distribution that also does not work into old age, but receives disability benefits and does not define themselves as 'retired'. Dorn and Sousa-Poza (2010) find that countries with strict employment protection legislation have higher rates of people who are involuntarily early retired. They argue that generous early retirement systems have induced firms to push older workers towards early retirement. This is evidence that generous early retirement schemes have led to shorter employment participation of older workers overall. Not just the ones who wanted to retire early themselves, but also many of those that wanted to continue working took early retirement. Vestad (2013) draws a similar conclusion in a study on the labour supply effects of early retirement provision in Norway. Raymo et al. (2011) find that in the US, where pension schemes are much more workers' individual responsibility, that involuntary job loss, especially among men, leads to later retirement. However, this is because most people who experience involuntary job loss have been employed in 'bad jobs' and are unlikely to be eligible for private pension benefits. That is, they retire later because they do not have the financial capital to retire. Coile and Levine (2007) find that economic downturns



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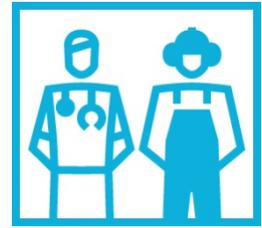
increase retirement transitions, with an effect that is comparable to a health shock for older workers or a moderate change in financial incentives, mainly because older workers become unemployed and receive unemployment benefits for a while between their last job and their first pension income.

In the last ten to twenty years, many countries have realized the detrimental effects of such massive early retirement, and have tried to change their national old age pension systems with the intention of increasing the retirement age (OECD, 2006). Some examples are: (1) A change of the minimum age for receiving a pension (in some countries equalizing the pension age for women and men); (2) A lowering of the level of the pension; (3) Going from defined benefit to defined contribution systems; (4) Allowing for a combination of taking up a pension and continuing to work (part-time or full-time); (5) Introducing part-time pension systems; (6) An increase or abolishment of the upper age for starting to take up a pension; and (7) An actuarial increase of the pension when one delays taking up the pension (and a corresponding decrease when one takes it up early). Many countries, especially in Western Europe and North America have introduced one or multiple of these changes (OECD, 2006). D'Addio et al. (2010) conclude that most OECD countries have passed reforms that are encouraging later retirement. Most countries have closed the 'alternative pathways to early retirement' of disability benefits or long-term unemployment benefits by making it more difficult to get disability benefits (a stricter adherence to that the applicant should have serious health problems and not mainly labour market problems; and sometimes making employers responsible for part of the disability benefits) and by shortening the period that older workers are eligible for unemployment benefits. Thorough studies on the effects of such reforms are mainly conducted at the national level. For example, Euwals, van Vuren and Van Vuuren (2012) show that recent reforms in the Netherlands have been successful in discouraging early retirement and closing the alternative pathway of early retirement through disability insurance. Research on the effectiveness of anti-age discrimination laws is less advanced. Two studies from the US were found that find opposing evidence: Adams (2004) finds that age discrimination laws increase employment for those in the protected age ranges, but Neumark and Button (2014) find that strong age discrimination laws have not protected older workers through the great recession. In fact, age discrimination laws may have harmed older workers as discrimination is hard to observe during severe labour market disruptions and strong laws may deter employers from hiring older workers. Research from Europe is needed that assesses the effectiveness of anti-age discrimination laws.

## Analysis of research

Research on the effects of labour market contextual effects on the employment participation of older workers differs from the other domains in this project, as the direct effect of 'the labour market' on employment participation cannot be measured. The labour market is very complex and encompasses things such as labour market institutions and regulations, employers' attitudes and dynamics between employers and employees (and their associations). Studies on the effects of labour market contextual effects on the employment participation of older workers can therefore only cover part of the labour market, and often do not directly have individual employment participation as the outcome variable.

Most studies that were found were from the field of economics. Many scholars are familiar with terms such as the supply side and demand side of older workers have affiliations with economics departments, and many journals are economics oriented. The effects of labour market institutions and regulations on the employment participation of older workers are usually studied on the macro-level, and therefore also fall within the field of economics. Virtually all studies employ quantitative methods, while qualitative methods are quite rare in the analysis of labour market contextual



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effects. Many studies take a macro-level perspective and use register data or large datasets such as SHARE. Studies into employers' views and behaviour towards older workers often use survey data.

Many areas of labour market contextual factors are relatively well covered by research. However, there are naturally also gaps in the literature. For example, many studies focus only on one exit route, such as early employment or through disability insurance, and do not consider the overall effect of a labour market policy or employers' behaviour. Also, there is limited research into sectoral differences of employment of older workers and explanations thereof. Finally, there is limited research that takes a cross-national perspective in examining the effects of policy changes or employers' attitudes and behaviour. Because the labour market institutions and regulations are so different in many countries, this is difficult, but also needed because it is often unclear whether and how conclusions can be generalized to other countries.

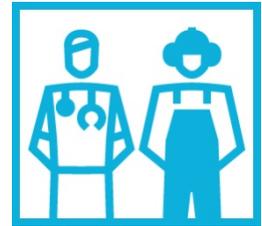
## Cross-national diversity

Most studies on the effects of labour market contextual effects on the employment participation of older workers are conducted in North-West Europe (Germany, Netherlands, Norway, and UK). Some studies use data from large European surveys such as SHARE. In addition, there are relatively many studies from the US. While their conclusions are not necessarily applicable to the European context, the mechanisms are interesting and may offer insights into the way things work in Europe.

The Organisation for Economic Co-operation and Development (OECD) publishes reports on the national labour market context of its member-states. In 2006, an important comparative report titled *Live longer, work longer* was published (OECD, 2006). A recently started new round of national reports will lead up to a new cross-national comparative report. These reports offer a lot of insight into the labour market for older workers in individual countries, with attention for both the supply side and the demand side of the labour market, and insight into the institutional design of the labour market. The variation between countries is a promising starting point for comparative research.

## Research conclusions

- Older workers are less likely to lose their job than younger workers, but when they do, are much less likely to find reemployment. When they do find reemployment, they often face wage cuts. Some older workers move from unemployment into self-employment.
- Employers in countries with strong deferred compensation schemes (steep wage-tenure profiles; increasing wages with seniority) are less likely to hire older workers than employers in countries with more equal compensation schemes.
- Many firms employ, but do not hire older workers. That is, they hire them when they are young and employ them into old age, but are much less likely to hire older workers out of the labour market.
- The opportunities for older workers to work past standard retirement age are very limited. Many countries do not have explicit policies for this, and employers are very reluctant to offer these opportunities to older workers that want to continue working.
- Self-employment is quite common among older workers. However, there are different reasons why people move into self-employment. Some become active in self-employment because they want to stay active (part-time) after their career job, while others move into self-employment because they cannot find regular wage-and-salary employment.



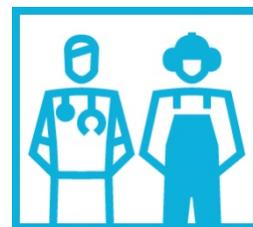
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- Planned migration of older workers to, for example, Southern Europe, or migration of immigrants back to their countries of origin can affect the timing of the retirement and the engagement in self-employment or bridge jobs.
- Early retirement provision in the past has significantly shortened the employment participation of older workers overall. Not only those that wanted to retire early got the chance to do so, many of those that wanted to continue working were pushed towards retirement by their employers.
- Most countries have implemented policies that discourage or abolish early retirement options. Also, most alternative pathways to early retirement, such as through disability insurance or unemployment benefits, have been largely closed. This has effectively raised the retirement age in most countries, but there is still a lot of room for improvement.

## Research needs

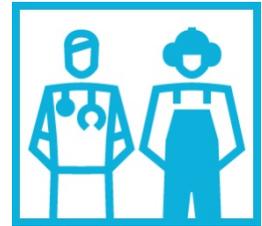
- The supply of female older workers. Much of the research focuses on men, but why are there such large differences in the employment participation of older women?
- Cross-national comparative research into how labour supply varies as a result of the several alternatives available to employment (e.g., how good is the pension income, are there unemployment benefits).
- More focus on sectoral differences in the employment of older workers. Are there differences in the ways employers from different sectors and industries perceive older workers? How does this result in behaviour? How are they affected by sectoral collective labour agreements?
- Longitudinal research into employers' attitudes and behaviour with regard to older workers, both from inside their firm (retaining older workers) and outside their firm (hiring older workers). There is a need for cross-national studies in this field, to understand the effects of national labour market institutions and regulations.
- Cross-national comparative research into the effects of labour market policies, such as anti-age discrimination laws and encouragement programs aimed at employers.



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