CVDR/S6/22/25/1

COVID-19 Recovery Committee

25th Meeting, 2022 (Session 6), Thursday 17 November 2022

Road to recovery: impact of the pandemic on the Scottish labour market inquiry

Introduction

1. This inquiry is focused on the long-term sick component of economically inactive people, as well as people who have taken early retirement. The Committee would like to understand what impact, if any, COVID-19 has had on these drivers of economic inactivity with a view to making recommendations for the recovery period to the Scottish Government.

2. This is the third evidence session of the inquiry, in which the Committee will examine the drivers behind early retirement and its economic impact.

3. The Committee will take evidence from the following panels of witnesses—

   Panel 1

   - Marek Zemanik, Senior Policy Advisor, Chartered Institute of Personnel and Development
   - Bee Boileau, Research Economist, and Jonathan Cribb, Associate Director at IFS and Head of the Retirement, Savings, and Ageing Sector, Institute for Fiscal Studies
   - David Fairs, Executive Director of Regulatory Policy, Analysis and Advice, The Pensions Regulator
   - Liz Cameron CBE, Director and Chief Executive, Scottish Chambers of Commerce

   Panel 2

   - Anna Ritchie Allan, Executive Director, Close the Gap
   - Chris Brodie, Director of Regional Skills Planning and Sector Development, Skills Development Scotland

- Anjum Klair, Policy Officer, and Jack Jones, Policy Officer, Trades Union Congress

Scrutiny by other committees

4. The Covid-19 Recovery Committee's statement on priorities includes a commitment to focus on key policy issues where the Committee can add value to the work of other parliamentary committees. The Committee also aims to identify opportunities to work jointly with other committees to maximise impact, whilst avoiding duplication of scrutiny.

5. The Finance and Public Administration Committee has considered overall labour market performance with a focus on the impact on tax receipts. It has not considered underlying factors, such as long-term illness and early retirement, in detail. The Economy and Fair Work Committee has considered labour market participation in its supply chain inquiry, with a focus on the impact of post-Brexit migration policy.

6. This Committee's inquiry intends to add value by examining long-term illness and early retirement in the Scottish labour market, which have not been explored by other committee inquiries to date.

Background

7. The Scottish Parliament's Information Centre (SPICe) has produced the following briefings to support the inquiry—

   - Summary of written responses to the call for views
   - The Scottish labour market

Oral evidence

8. The Committee heard from the following witnesses on Thursday, 3 November 2022—

   - Dr Hannah Randolph, Economic and Policy Analyst, Fraser of Allander Institute
   - Professor Steve Fothergill, Centre for Regional Economic and Social Research, Sheffield Hallam University, National Director, Industrial Communities Alliance
   - Tony Wilson, Director, Institute for Employment Studies
   - David Freeman, Head of Labour Market and Households, Office for National Statistics
   - Louise Murphy, Economist, Resolution Foundation

9. A transcript from that meeting can be found at the following link—

   COVID-19 Recovery Committee 23rd Meeting, 2022 | Scottish Parliament Website

10. The Committee heard from the following witnesses on Thursday, 10 November 2022—

    Panel 1: long-term illness from a public health and employment perspective

- Susie Fitton, Policy Manager, Inclusion Scotland
- Pamela Smith, Head of Economy and Poverty, Public Health Scotland
- Professor Sir Aziz Sheikh, Professor of Primary Care Research and Development, Director Usher Institute and Dean of Data, University of Edinburgh;
- Professor Gerry McCartney, Professor of Wellbeing Economy, University of Glasgow

Panel 2: long term illness from an economic perspective

- Tom Waters, Senior Research Economist, and Tom Wernham, Research Economist, Institute for Fiscal Studies
- Philip Whyte, Director, Institute for Public Policy Research Scotland

11. A transcript from that meeting can be found at the following link—

COVID-19 Recovery Committee 24th Meeting, 2022 | Scottish Parliament Website

Written evidence

12. The Committee issued a call for views, which closed on 9 September 2022 and received 42 responses. A summary of responses is provided in Paper 2 in the papers for the meeting on 3 November 2022. The Committee's call for views asked the following questions —

- What are the key factors driving the increase in labour market inactivity?
- Has long-COVID been a factor in current levels of labour market inactivity? If so, is this likely to be a permanent feature of the labour market?
- What has been the labour market impact of the pandemic on people with pre-existing health conditions?
- What factors have influenced some people to take early retirement?
- Thinking about labour market participation, have certain groups of society and parts of the country been impacted more than others?
- Have there been sectoral differences from economic inactivity – for example, have Health and Hospitality sectors been more exposed than, for example, Finance?
- What policies might encourage people to re-enter the labour market?

13. The **Annexe** includes relevant reports and written evidence provided by the following witnesses:

- Chartered Institute of Personnel and Development
- Bee Boileau and Jonathan Cribb, Institute for Fiscal Studies
- The Pensions Regulator
- Scottish Chambers of Commerce
- Close the Gap
- Skills Development Scotland
- Trades Union Congress

Next steps

14. The Committee expects to undertake stakeholder engagement and fact-finding activities in November before taking evidence from the Scottish Government at its meeting on 8 December.

Committee Clerks
November 2022

CIPD

Championing better work and working lives

UNDERSTANDING OLDER WORKERS IN SCOTLAND

Analysis and recommendations to support longer and more fulfilling working lives

Report

March 2022

The CIPD is the professional body for HR and people development. As a registered charity, we champion better work and working lives and have been setting the benchmark for excellence in people and organisation development for more than 100 years.

We have more than 160,000 members across the world, provide thought leadership through independent research on the world of work and offer professional training and accreditation for those working in HR and learning and development. The CIPD has around 11,000 members across Scotland. We sit at the heart of a proud, growing community of practitioners, members, partners, policy-makers and thought leaders in the world of work. We work with the Scottish Government, its agencies and several academic, business and voluntary partners on a broad range of public policy issues.

We are key partners on multiple working groups and serve as a conduit to our network of members, who both inform changes in policy and deliver them. Our membership in Scotland is spread across businesses from the public, private and third sectors and across businesses of all sizes. This puts the CIPD in a strong position in the public policy sphere.

Report

Understanding older workers in Scotland: analysis and recommendations to support longer and more fulfilling working lives

Contents

Acknowledgements

This report was written by Jon Boys, CIPD Labour Market Economist, and Marek Zemanik, Senior Public Policy Adviser at the CIPD. Thank you to everyone who provided feedback and supported its publication, in particular colleagues at the CIPD.

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1 Introduction

Scotland's population – and workforce – is ageing. The latest statistics paint a stark picture. While about 400,000 more people live in Scotland today than in the 1990s, the number of children living here has reduced by about a tenth. In contrast, the number of people aged 65+ has grown by over a third. By 2045, the number of people aged 65 and over is projected to grow by nearly 30%. The number of children, on the other hand, is projected to fall by over 22%. This means that employers will need to improve how they attract, manage and develop people as they age.

The purpose of this report is to better understand older workers, which we generally define as those aged 50+. By knowing who they are, their experiences, and what preferences they hold, as well as the important differences and considerations that emerge as people get older, we can design better jobs to support more fulfilling working lives. This will not only give employers a rich source of talent and experience, but also provide a catalyst for more inclusive workplaces overall. These in turn will benefit organisations and their workforces, regardless of demographic.

This report draws on data from the current cohort of older workers, but does not seek to examine generational differences. Age is a continuum that we all pass through and the insights we've gathered are applicable for generations to come. Indeed, it is successive generations that will likely work the longest careers and the ones who will benefit most from inclusive practices and a world of work that's better designed to enable everyone to work for as long as they want or need to. Where sample sizes allow, we include Scottish graphs and trends, but it is worth emphasising that there is very little variance in the patterns found between Scottish and UK-wide data.

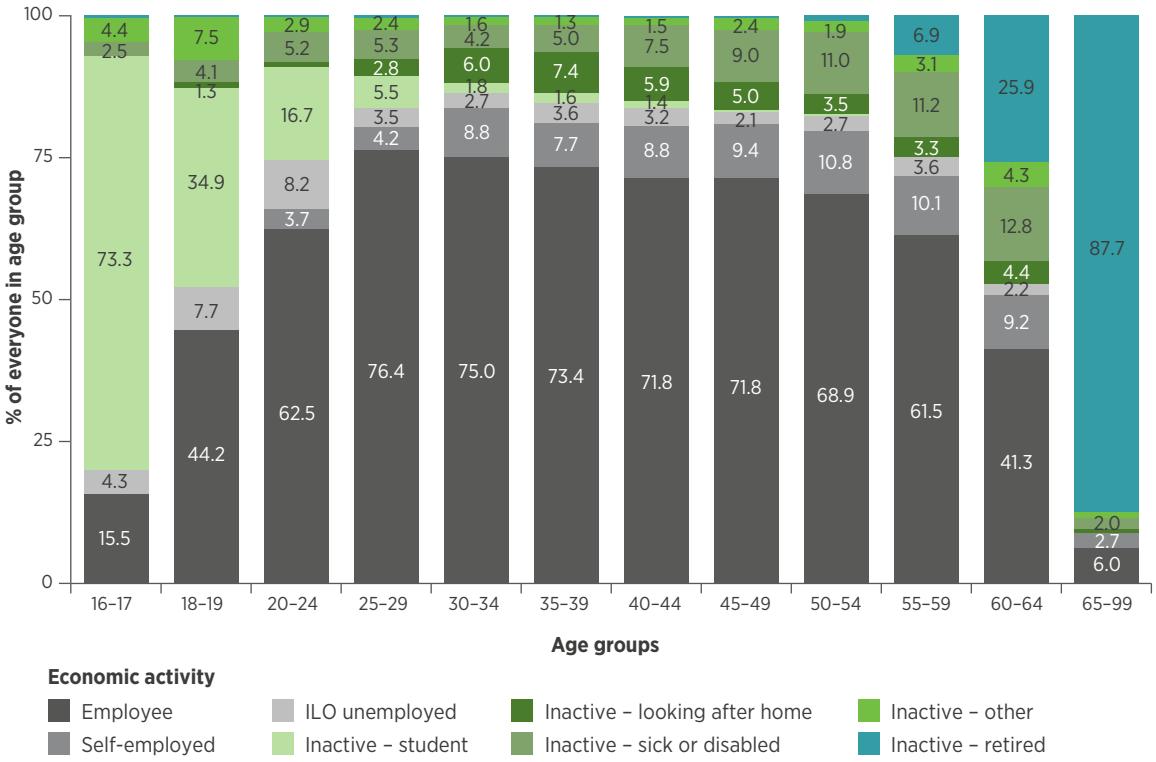
2 The economic status of older workers

The lifecycle

There is a natural ebb and flow to the lifecycle of our working and non-working lives. This is captured in Figure 1, which breaks down economic activity in Scotland by age.

We spend the first few years building our skills through education before entering work. There are high rates of inactivity among younger ages, particularly the category 'inactive – student'. We spend the middle part earning and saving for retirement. For many, there are periods away from the labour market. This is when 'inactive – looking after family and home' peaks. As we get older, there are higher rates of self-employment. Inactivity due to sickness and disability starts to increase. At some point, we transition out of the labour market into retirement. For some, this is straightforward and happens when they plan to retire. Others pass first through an intermediary inactivity stage (for example 'inactive due to sickness or disability'). A small but significant proportion of us continue to work after the traditional retirement age.

Figure 1: Economic activity, by age band (Scotland)[1]



CIPD analysis of APS July 2020 – June 2021
We have combined the categories 'unpaid family worker' and 'Government training scheme' with 'Employee'. Labels <1% have been suppressed.

Figure 1 is a helpful abstraction of this lifecycle but hides a variety of experiences. Many people spend time away from the market economy when they enter an 'inactive' state but are still working, typically taking on household or caring responsibilities – a burden that falls particularly on women.

Note on official statistics

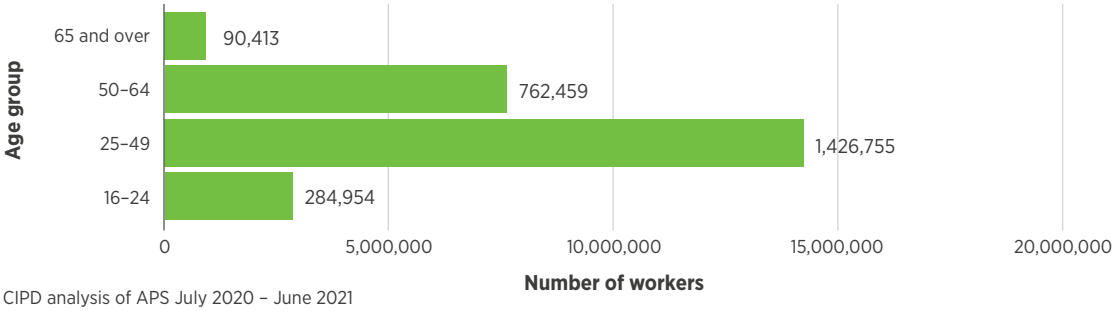
Note that many official statistics, such as the employment and unemployment rate, use an age range of 16–64. This international standard (based on historical legacy) means statistics are comparable across time and countries, but are increasingly anachronistic in a world where more people transition into the labour market later than age 16, and more people transition out after the age of 64. These statistics are widely used to inform policy and shape public understanding of the economy through their extensive media coverage. However, their construction is completely blind to people above 65 (it essentially cuts off the final bar of Figure 1). Although it is possible to construct bespoke statistics – as we have done in this report – the defaults garner much more attention and this is problematic for policy and public understanding of the importance of older workers.

Size of the older workforce

Older workers are projected to account for a larger proportion of the workforce over the next few decades, but even today they are a sizeable share of Scotland's labour market. Figure 2 shows that over 852,000 older workers account for a third (33.3%) of the Scottish workforce – roughly the same percentage as UK-wide (32.6%). There are more than 90,000 workers over the age of 65.

It is therefore imperative that employers and policy-makers understand this section of the labour market, from an immediate talent retention point of view, but also for longer-term workforce sustainability. After all, creating age-inclusive workplaces will benefit younger cohorts of workers in the future.

Figure 2: Workers, by age (Scotland)

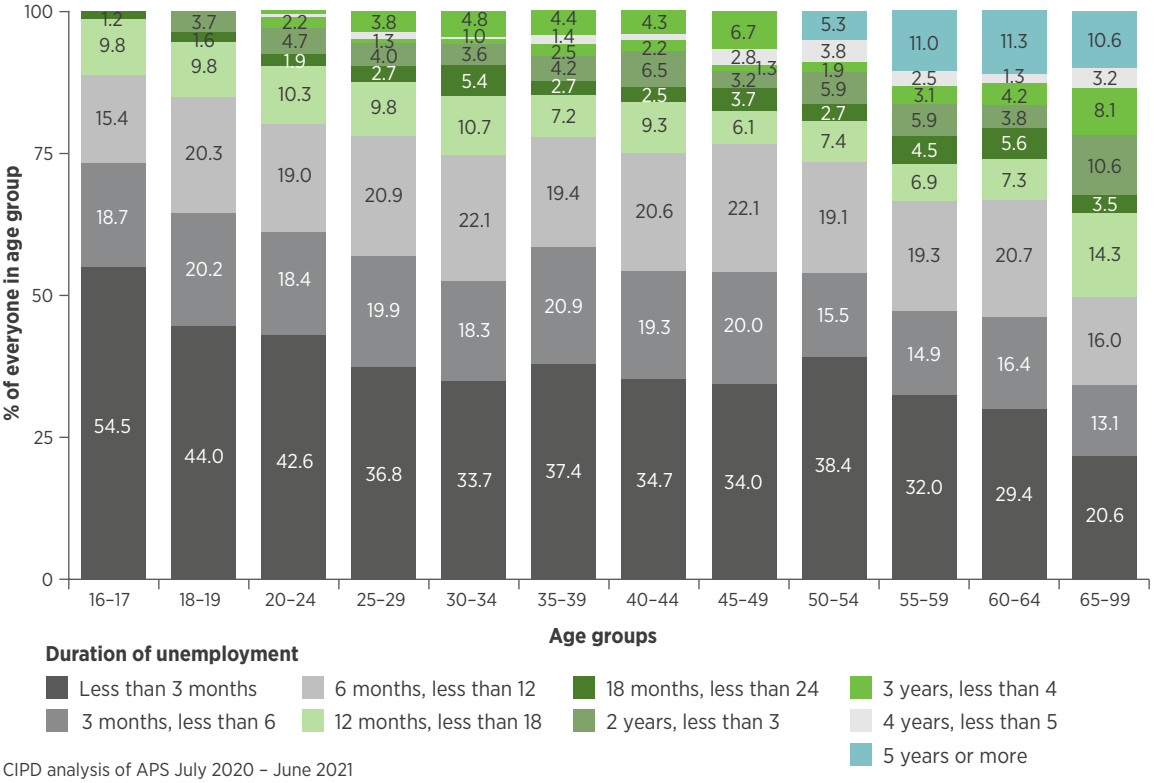


CIPD analysis of APS July 2020 – June 2021

Long-term unemployment

Looking at the non-working categories, first unemployment, then inactivity, although a higher proportion of younger workers are unemployed (as seen in Figure 1), they churn in and out of unemployment relatively quickly. When older workers experience a spell of unemployment, it is more likely to persist for longer (Figure 3).

Figure 3: Duration of unemployment, by age group (UK)



CIPD analysis of APS July 2020 – June 2021

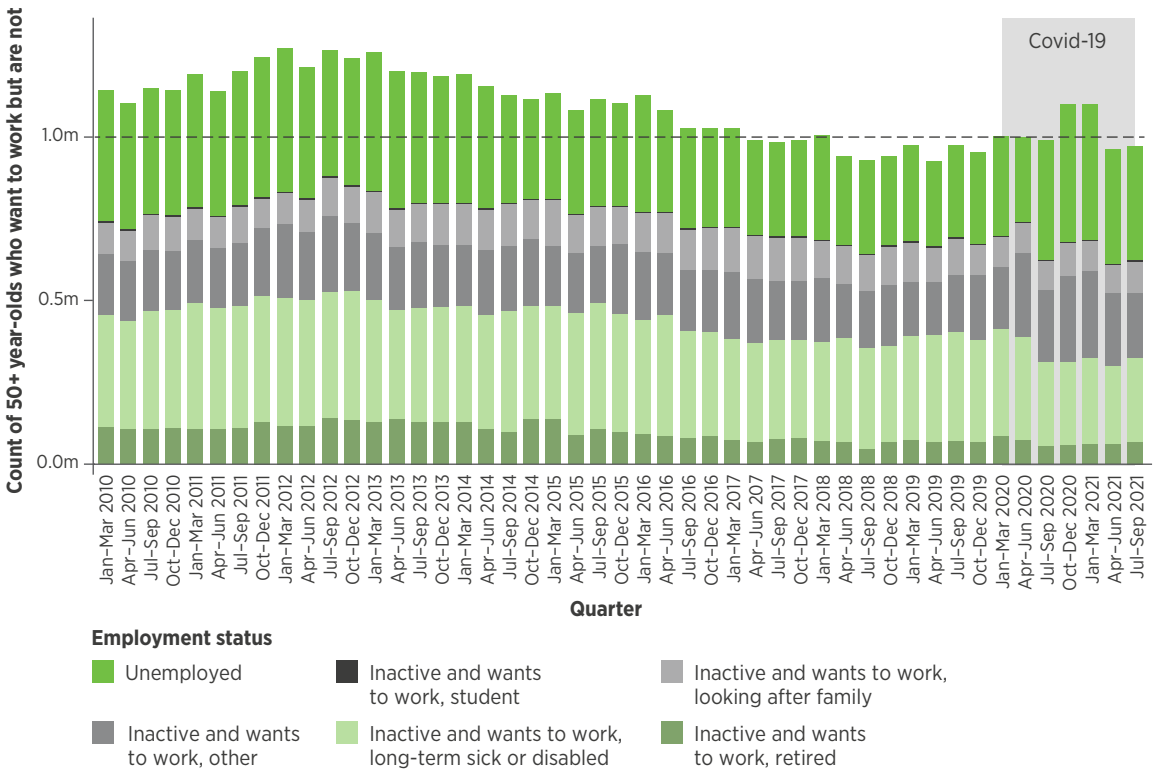
The missing million older workers

In 2017 the Department for Work and Pensions (DWP) published the *Fuller Working Lives* report, which talked of a missing million older workers. These are people who want to work but are currently not working. This includes the unemployed (by definition looking for work), who make up about a third of this number, and inactive, who make up the other two-thirds.

The DWP calculation used an age range of 50–64, but our analysis does not put an upper limit on the age. Since the DWP's 2017 report, the numbers have fluctuated a bit (they are clearly cyclical, rising when unemployment rises), but the estimate of 1 million missing workers is relatively accurate over time. The number currently stands just shy of 1 million at 974,055 (Figure 4).

Similarly in Scotland, the figure has hovered around 100,000 workers over the last two years. This is a considerable number of people who could account for around 4% of the workforce if they were to find employment. Removing barriers to employment for this group of people should be a priority. The ultimate policy aim is to enable everyone who would like to work to do so.

Figure 4: Older people not working, but would like to work (UK)[2]



CIPD analysis of LFS Jan–Mar 2020 – Jul–Sep 2021

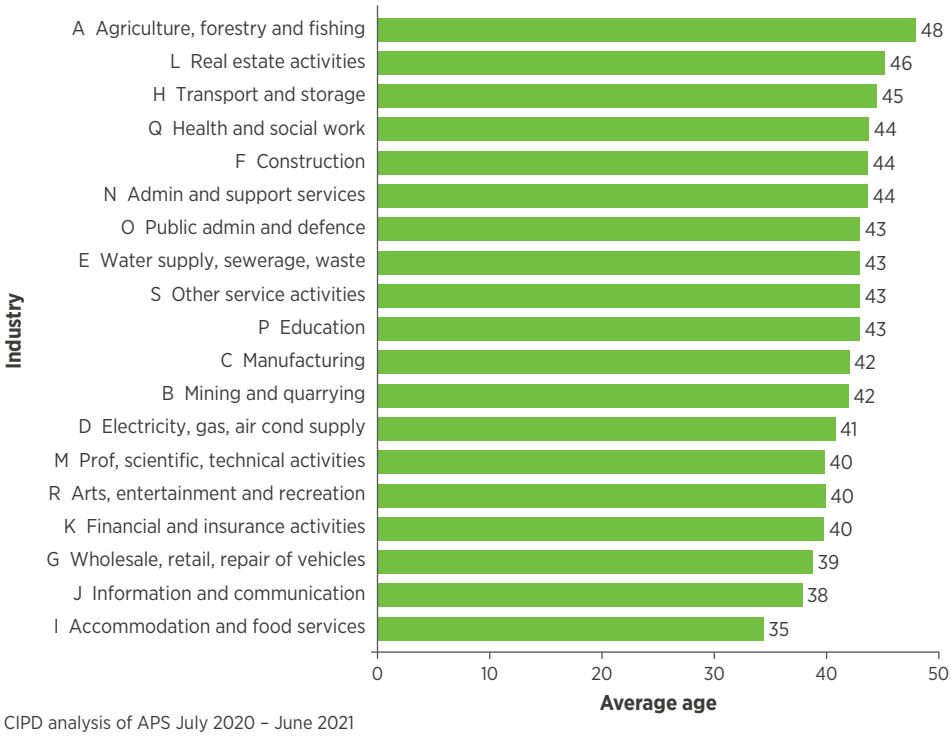
3 Where do older people work? Older workers by industry

This section looks at the age profile of industries across Scotland, which, as expected, differ markedly. An industry like agriculture is top heavy. It has an average age of 48 (Figure 5), and over half – 53.8% – are over 50 (Figure 6). At the other extreme is hospitality, which is bottom heavy. This industry has an average age of just 35 (Figure 5), and only 21.5% of people are over 50 (Figure 6). Extending working lives will clearly require an industry lens to understand the needs and preferences of different groups. It is worth emphasising that there is very little difference between the Scottish and UK-wide percentages here.

On the one hand, industries with older average ages are at greater risk of a mass exodus as people transition into retirement. However, there may be lessons to be learned from these industries about accommodating older workers. Employers with this sort of workforce age profile should be developing their talent pipeline by building links with education providers, identifying the key selling points for careers in their sector and focusing on improving job flexibility and progression opportunities.

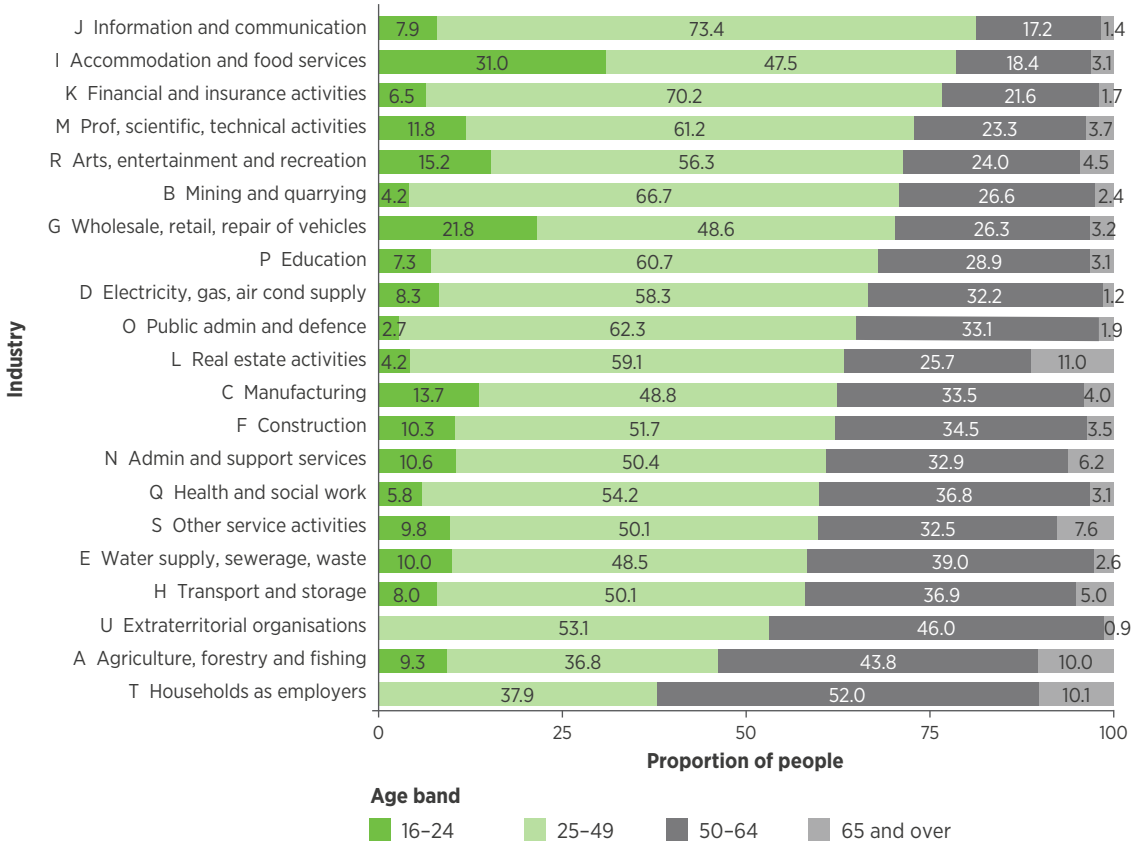
Industries with lower average ages may be less exposed to a looming demographic crunch, but they are losing out on a vital source of talent. They are also likely to be increasingly affected by skill and labour shortages unless they can improve how they attract and retain older workers. This means developing inclusive recruitment practices, for example not requiring candidates to have qualifications for jobs where they are not required in practice. It also requires employers to focus on training managers to support health and wellbeing, as well as providing flexible jobs and access to occupational health services.

Figure 5: Average age, by industry (Scotland)



CIPD analysis of APS July 2020 – June 2021

Figure 6: Age breakdown, by industry (Scotland)



CIPD analysis of APS July 2020 – June 2021

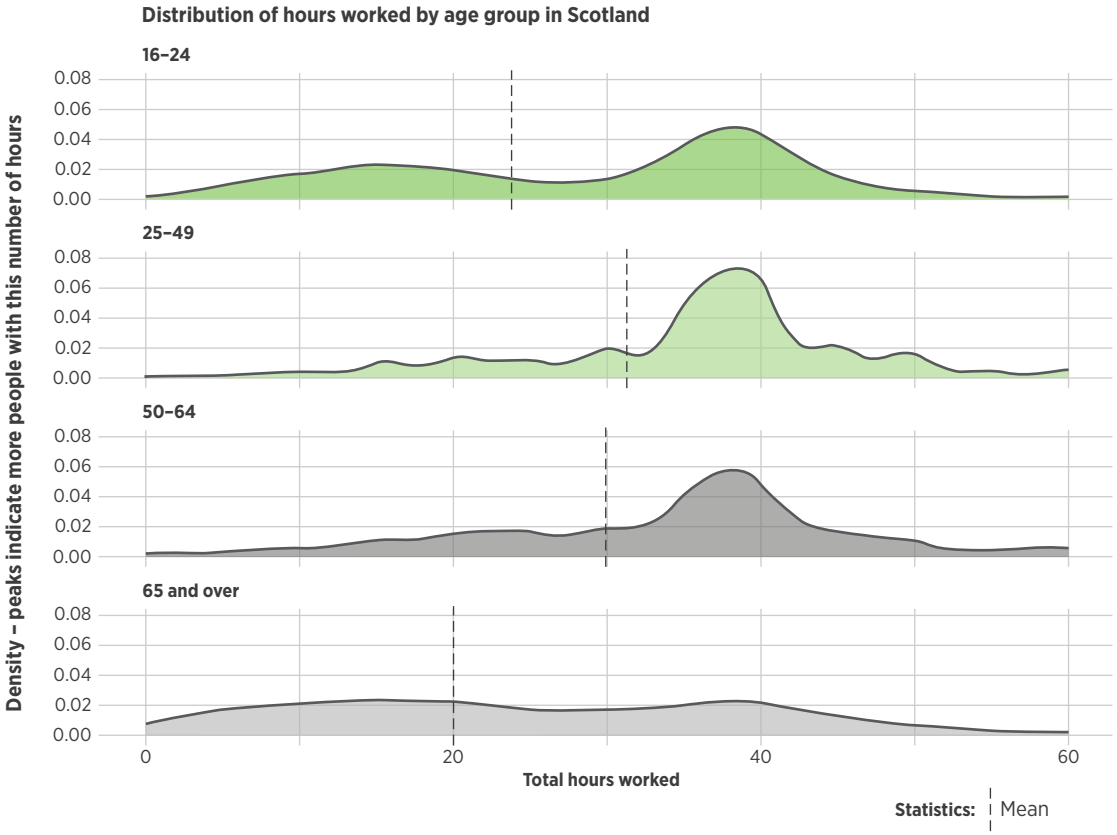
The following section goes on to look at differences in working patterns by age.

4 Hours and earnings

Hours

Figure 7 looks at the total weekly hours worked by broad age groups across Scotland. The oldest workers in the 65+ age group have a flat distribution, indicating a range of hours worked – mostly part-time – with an average of just over 20 hours a week. There is little difference between the 25–49 age group and the 50–64 age group. The older group has a slightly lower average, but the distribution is similar, with many working the equivalent of a full-time five-day week. We also see a higher proportion of part-time working for the youngest 16–24 age group.

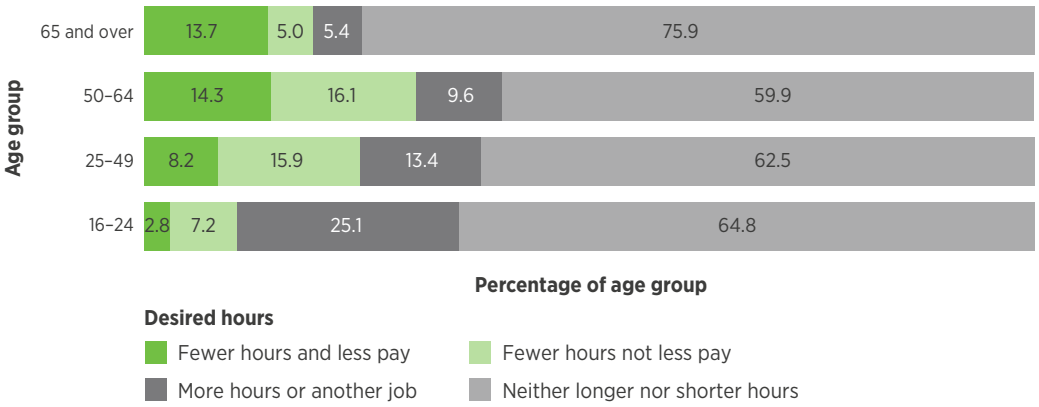
Figure 7: Hours worked, by broad age group (Scotland)



CIPD analysis of LFS Apr–Jun 2021

The next question is whether this pattern of hours suits older workers (Figure 8). Just under a third (30.4%) of Scottish workers aged 50–64 would like to work fewer hours, though only 14.3% would do so for less pay. The majority of older workers are happy with their hours, but the 50–64 age group has the highest levels of dissatisfaction. These findings suggest that a considerable proportion of older workers can't access reduced hours as a flexible work option that they are looking for, and providing additional flexibility could help with retention and recruitment.

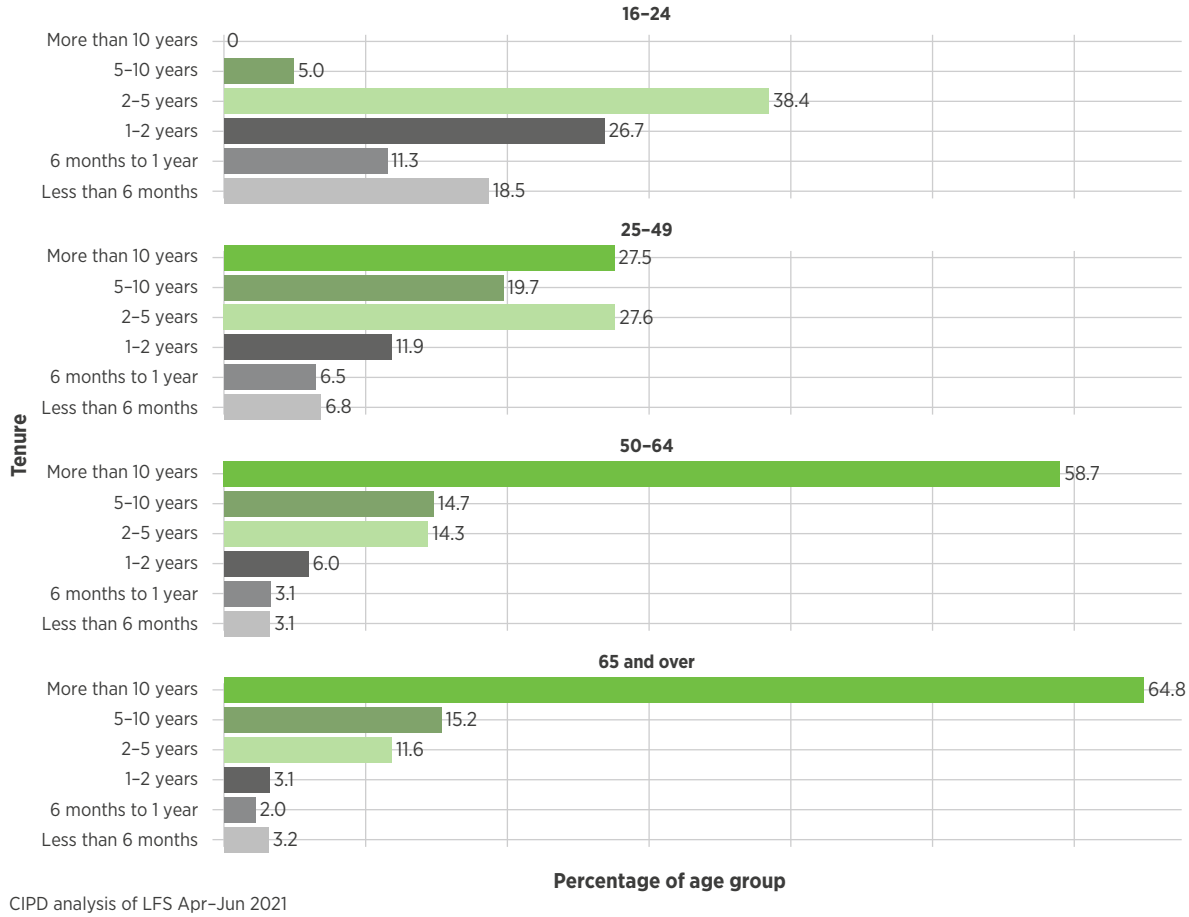
Figure 8: Wants fewer/more hours (Scotland)



CIPD analysis of LFS Apr–Jun 2021

Older workers naturally have the longest tenures. Over half of 50–64-year-olds have been with their employer for over a decade. The vast majority have a tenure greater than six months (when they can request to work flexibly). This suggests that they are either requesting more flexible working and employers are denying it, or they are not requesting it. Many companies have a cultural norm of five days a week, which may have an impact here. The data suggests that employers need to be mindful of the preferences of older workers (indeed all workers) around hours worked and consider flexible working requests, particularly around reducing hours.

Figure 9: Tenure, by age (Scotland)



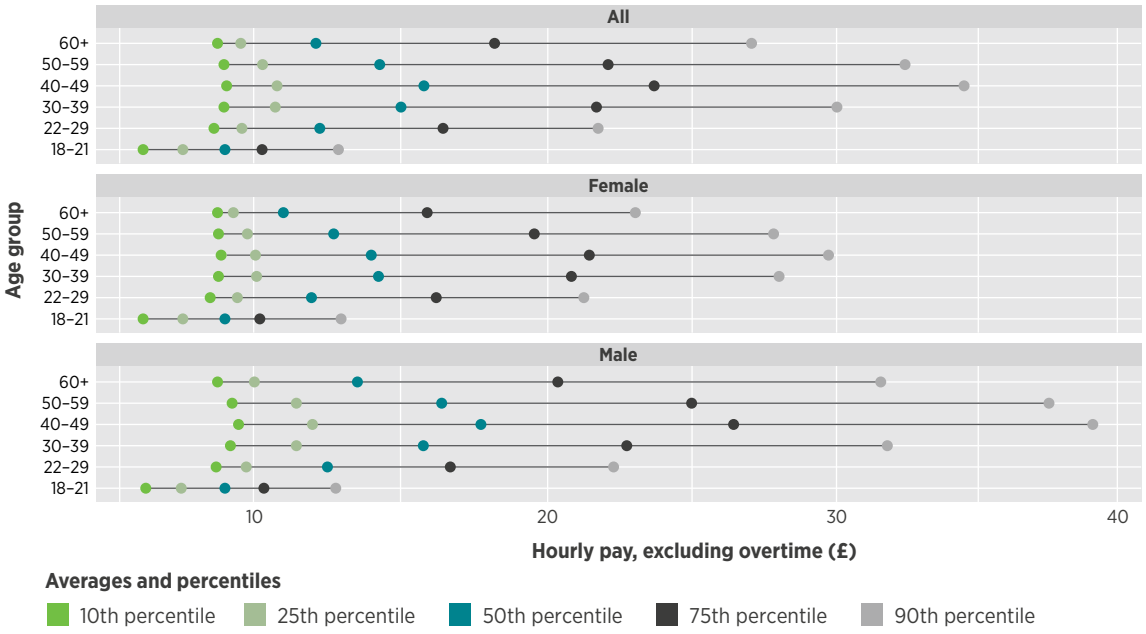
CIPD analysis of LFS Apr–Jun 2021

Earnings

The median worker (50th percentile) has higher earnings in their 40s than in their 50s, and for women, median earnings are higher in their 30s than in their 40s. In fact, for many, peak earnings occur decades before retirement age.

Though earnings change with age, perhaps of more importance is the large spread of earnings at any age. Intragenerational differences in pay are larger than intergenerational differences. This underlines the significant differences between occupational classes when it comes to pay as well as broader job quality. Research tells us that our occupation is still the most likely determinant of our job quality.

Figure 10: Pay distribution, by age and gender (UK)



CIPD analysis of ASHE 2020 Source: ASHE[3]

5 Flexible working

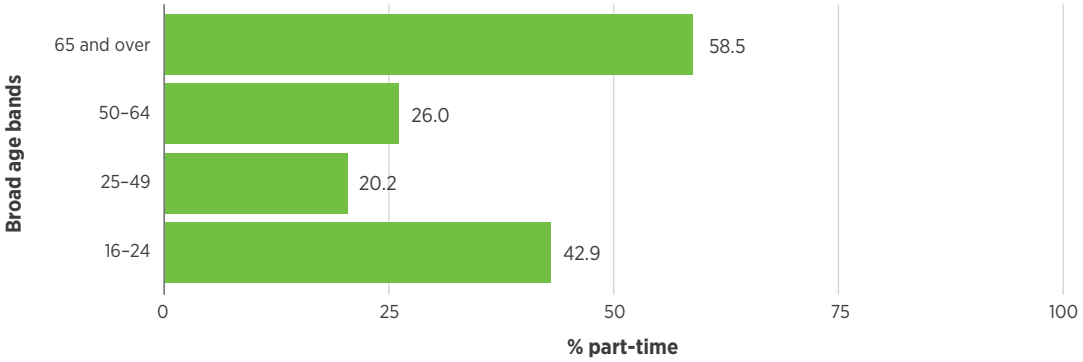
The flexibility in hours worked or location of work has understandably become a pertinent topic for researchers, policy-makers and employers. The COVID-19 pandemic has resulted in the biggest homeworking experiment this country has ever seen. There are indications that some of this flexibility is here to stay, but there are interesting flexible working patterns in the context of the ageing workforce that predate the pandemic.

Part-time working

Many older workers do voluntarily reduce their hours towards the end of their careers and statistics show that they have much higher rates of part-time working, especially those aged 65+ (Figure 11). Some of this is linked to adult caring responsibilities, which also increase by age, but also the concept of semi-retirement, where older workers trade full-time pay for better work–life balance.

However, many older workers would still prefer shorter hours regardless of pay. This suggests there is still not enough flexibility to fully cater to older workers' preferences and employers should be more willing to consider requests for reduced hours.

Figure 11: Part-time workers, by broad age group (Scotland)



CIPD analysis of LFS Apr–Jun 2021

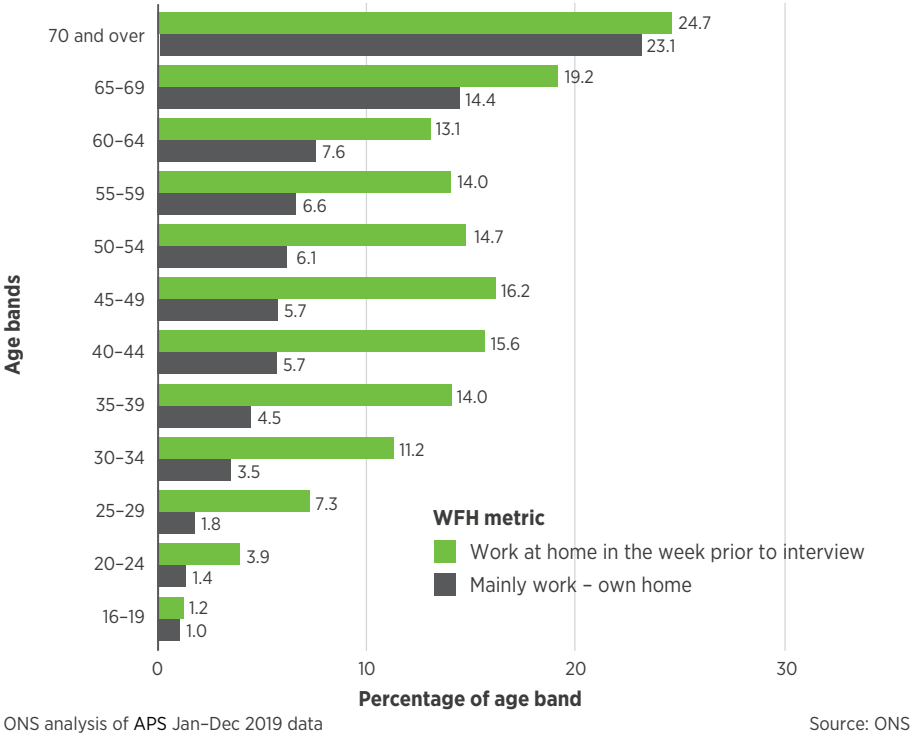
Homeworking

Given that new post-pandemic ways of working are not yet fully embedded, we have used pre-pandemic data from 2019 to look at underlying homeworking preferences by age.

Figure 12 shows that working from home exclusively increases with age and is particularly important for the post-65 age groups. The other metric – worked at home in the week prior to interview – gives us a good indication of the general level of hybrid working. For most workers this peaks around middle age, but is also more prevalent in the 65+ cohorts. This is a good indication that more flexibility is key to retaining as well as attracting older workers. The shifts in employer attitudes throughout the pandemic therefore provide a good opportunity here.

Notably, the youngest groups did very little homeworking pre-pandemic. This is primarily because younger employees are more likely to work in sectors where homeworking is much less prevalent.

Figure 12: Working from home, by age (UK)[4]

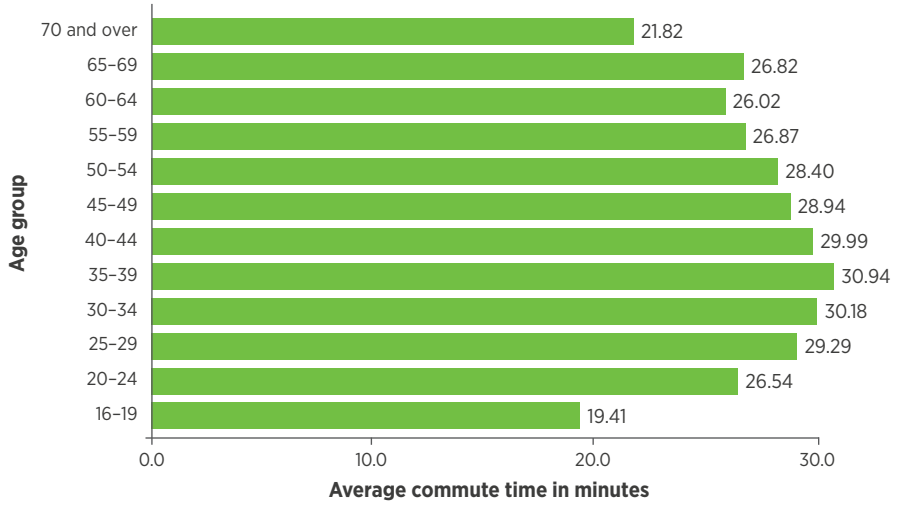


ONS analysis of APS Jan–Dec 2019 data

Source: ONS

Closely linked to hybrid working is the commute. The average commute time peaks in the early 30s (Figure 13). The reduction in commuting time for older workers suggests that long commutes are a negative aspect of work that older workers are keen to reduce

Figure 13: Average commute time (UK)



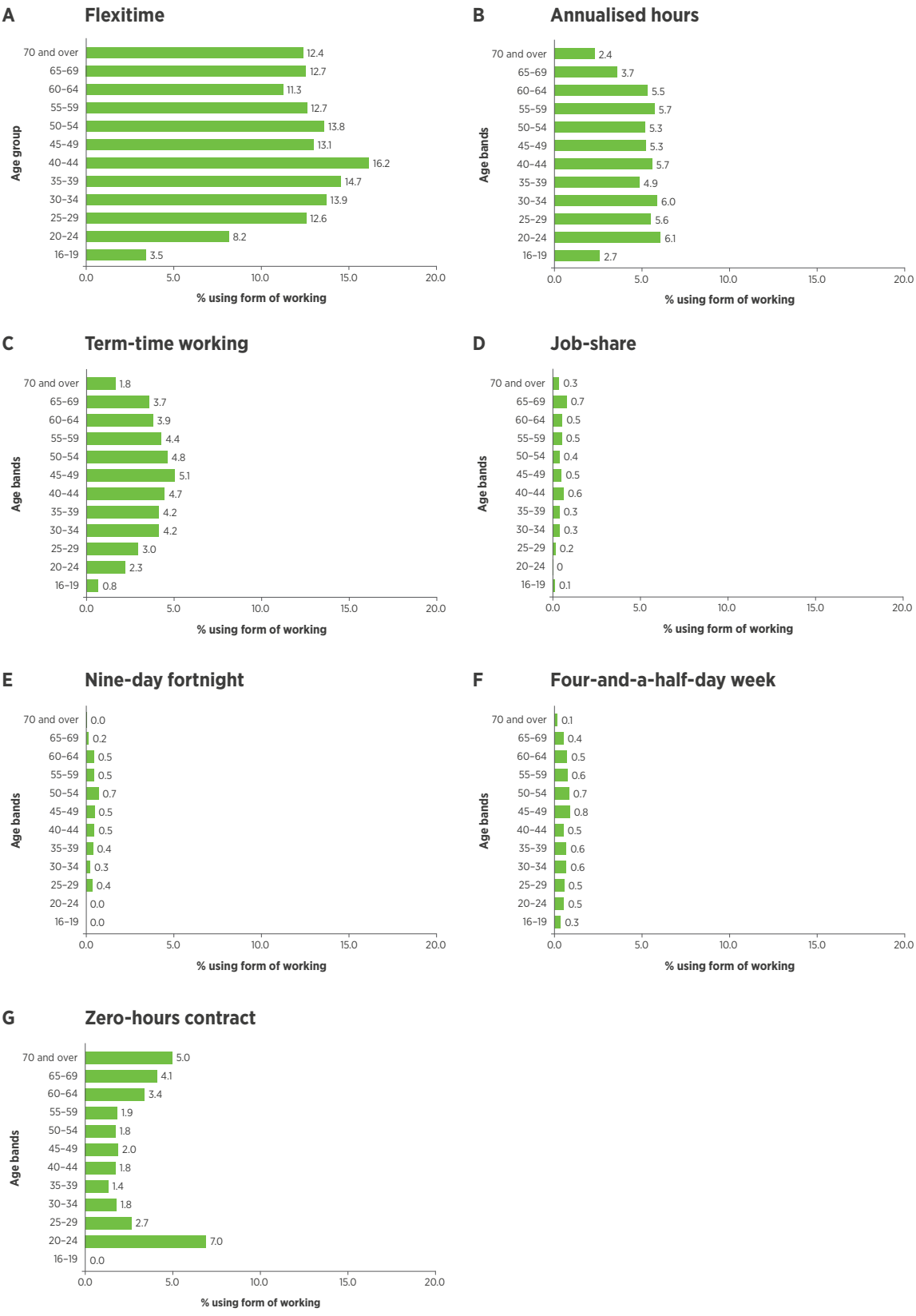
CIPD analysis of LFS Oct–Dec 2020

Other flexible working policies

Part-time working and homeworking are the most used forms of flexible working. But of course, there is a broad range of other flexible working policies. Figure 14 shows the uptake of other flexible working policies broken down by age group.

The horizontal axis is kept on the same scale (0–20%) for all panels, which helps to demonstrate that some flexible working policies are used much more than others. It is difficult to discern many patterns between these other types of flexible working and age, though older workers are slightly more likely to be on a zero-hours contract. The nature of zero-hours contract arrangements means they are likely to suit some older workers who want maximum flexibility so they can choose to work only when it suits them. This shows again that flexibility is craved by older workers and employers should consider such requests.

Figure 14: Other flexible working policies (UK)



CIPD analysis of LFS Jul–Sep 2021

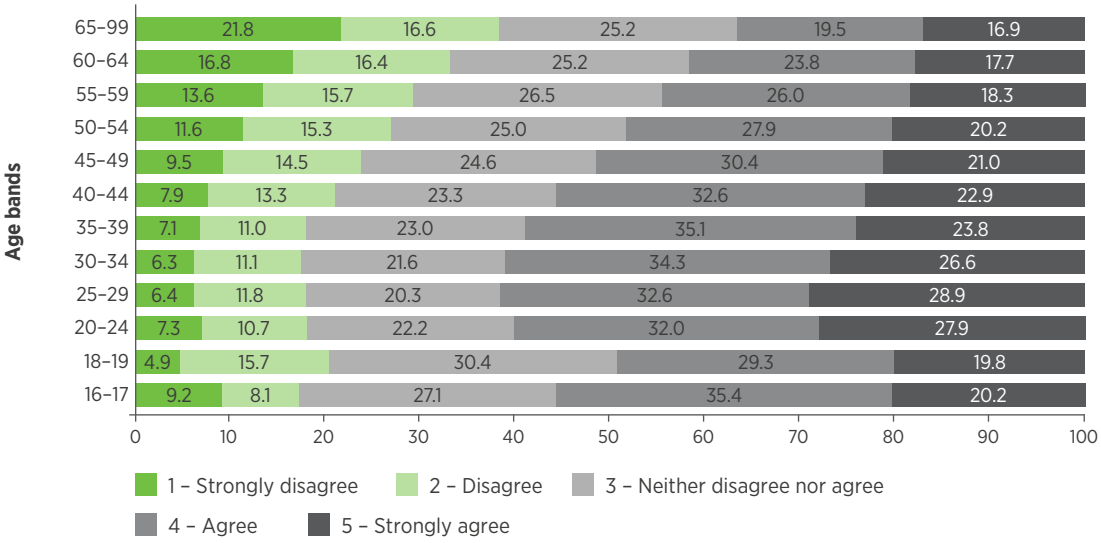
6 Progression and training

In tight labour markets, people professionals need to look at a range of strategies to attract talent beyond basic salaries or benefits packages. Applicants are increasingly interested in skills and career development opportunities – key elements of job quality.

A new question in the Labour Force Survey asks employees how they feel about opportunities for career progression in their job. Figure 15 shows that there is a clear relationship between perception of career progression opportunities and age, whereby almost 22% of the oldest employees strongly disagree that their job offers good opportunities for career progression.

Figure 15: Career progression opportunities (UK)[5]

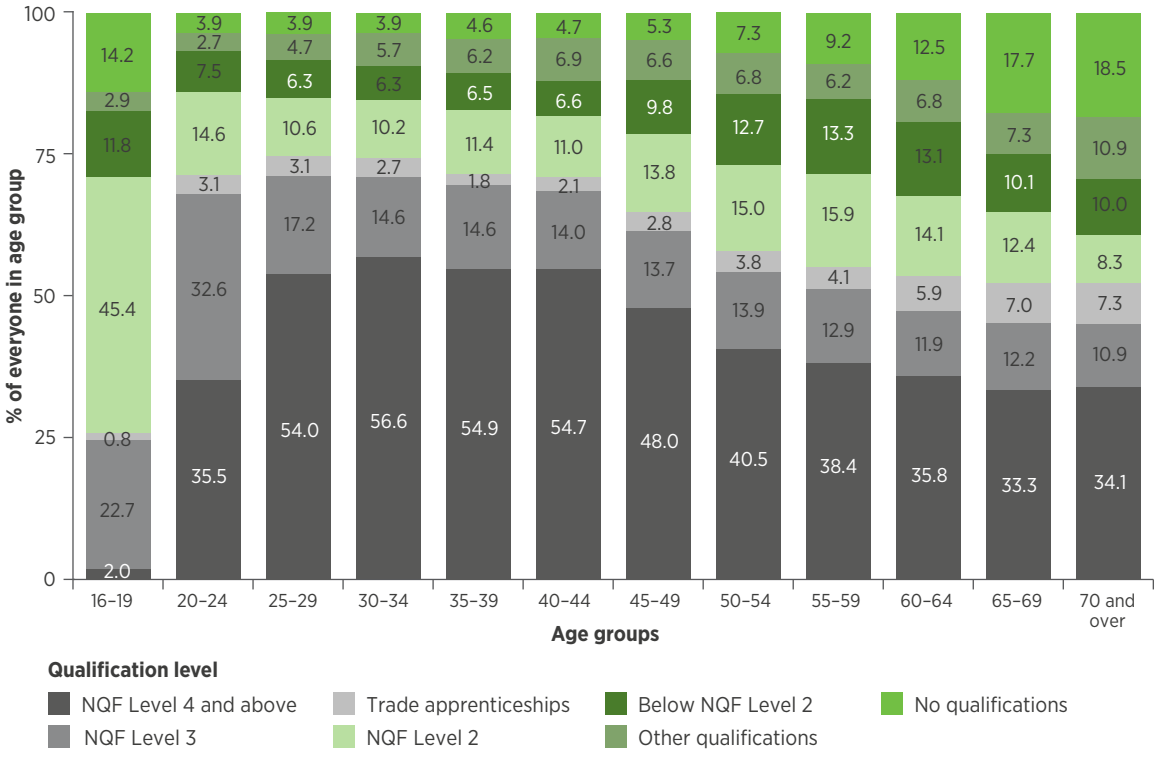
On a scale of 1 to 5, with 1 being 'strongly disagree' and 5 being 'strongly agree', to what extent do you disagree or agree with the following statement: 'My job offers good opportunities for career progression'?



Source: Annual Population Survey Jan–Dec 2020

Excepting younger people (those approximately 16–24 still in the process of gaining qualifications), older people have the lowest rates of formal qualifications (Figure 16). Formal qualifications are not, of course, a direct proxy for skills. This change represents increased time in education for more recent generations, including higher participation in tertiary education. Older workers are therefore less likely to apply for vacancies advertised with formal qualification requirements. Skills-based requirement is therefore a real opportunity to tap into this cohort.

Figure 16: Qualifications, by age (UK)



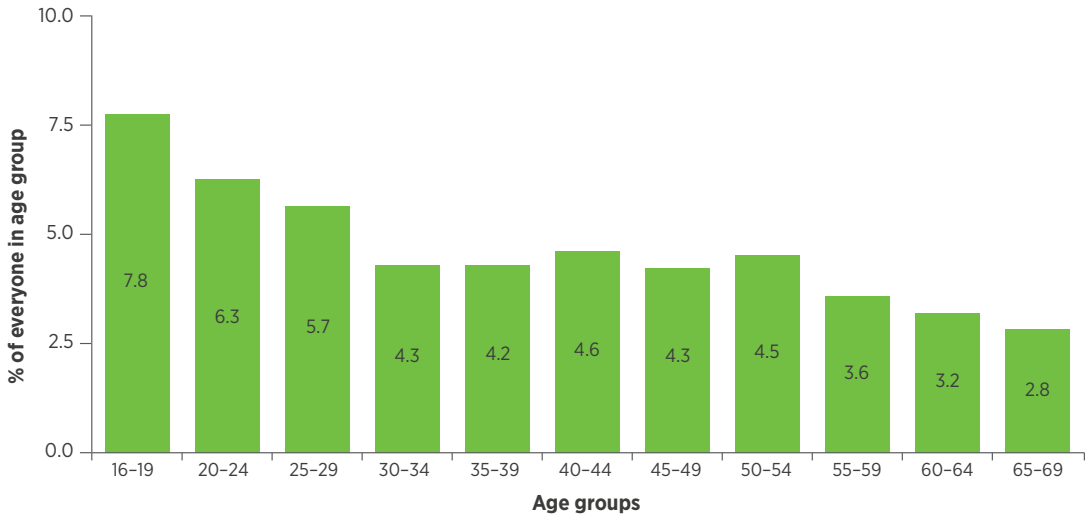
CIPD analysis of LFS Jul–Sept 2021

We have chosen to focus on off-the-job training as much as on-the-job training as it shows a more substantial commitment to invest in a worker. Figure 17 summarises our findings broken down by age. The pattern clearly shows older workers participating less in training.

As with career progression, much of this is a reflection of the stage of an employee's career. However, it can also point to gaps in skills development opportunities – on an employer as well as public policy level. The CIPD has long argued that skills investment needs rebalancing, with lifelong learning given much more prominence in light of the economic trends on the horizon.

Figure 17: Off-the-job training attendance, by age (UK)

Attended off-the-job training in the past four weeks, by age group

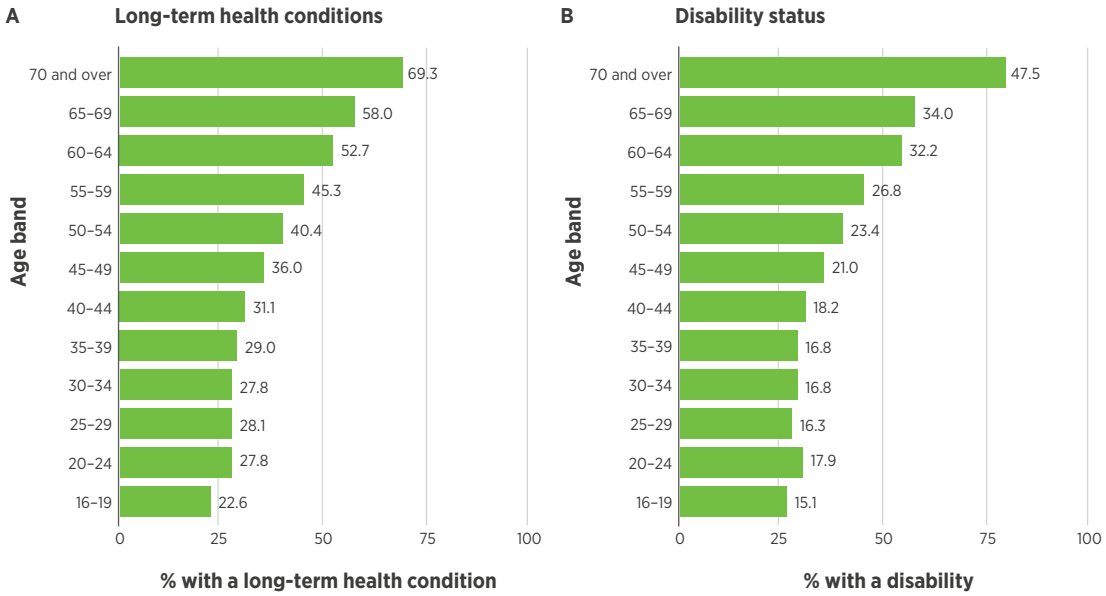


CIPD analysis of LFS Jul–Sept 2021
This question is asked to all in employment or in receipt of education/training

7 Long-term health conditions and disability

Both long-term illness and disability are a function of age, with the higher ages experiencing the greatest prevalence (Figure 18).

Figure 18: Health conditions and disability, by age (UK)



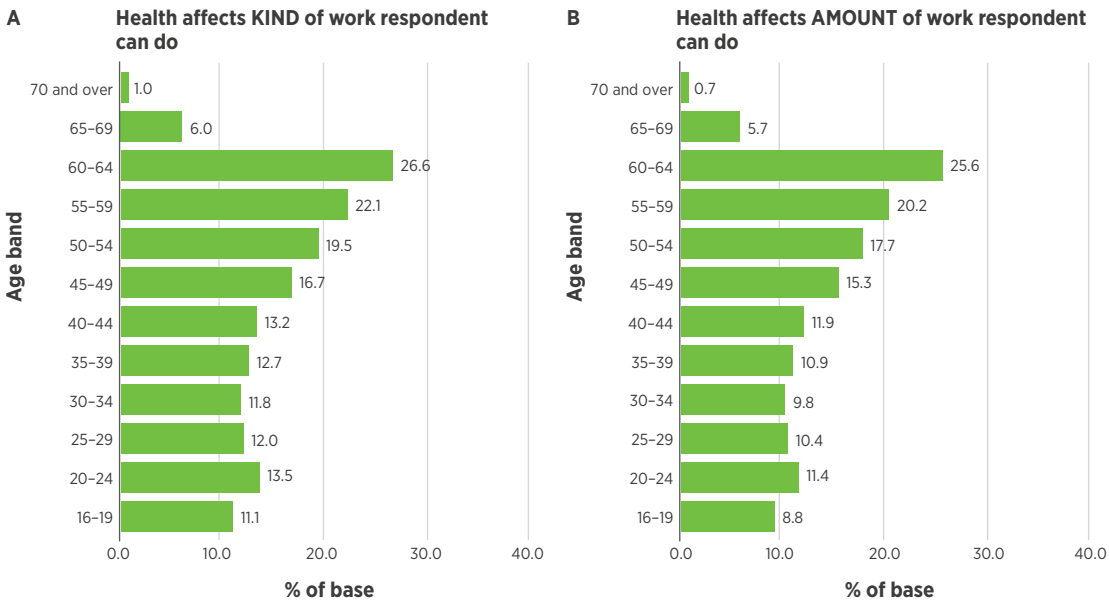
CIPD analysis of LFS Apr–Jun 2021

CIPD analysis of LFS Apr–Jun 2021

Though 65+ age groups have the highest rates of long-term illness, this is less likely to limit the type and kind of work they can do because so many in this group are not actively looking for or would like to work, as seen in Figure 19. After all, this is what retirement is designed to do, covering the period of our lives when we are no longer able to work.

However, around one in four workers are reaching the point at which a health condition limits the work they can do before they reach retirement age. Some will exit the labour market early while others will be limited in the kind and amount of work they can do. Employers have a key role to play here, especially by making reasonable adjustments that facilitate people working with a health condition.

Figure 19: Health condition affects work (UK), by age



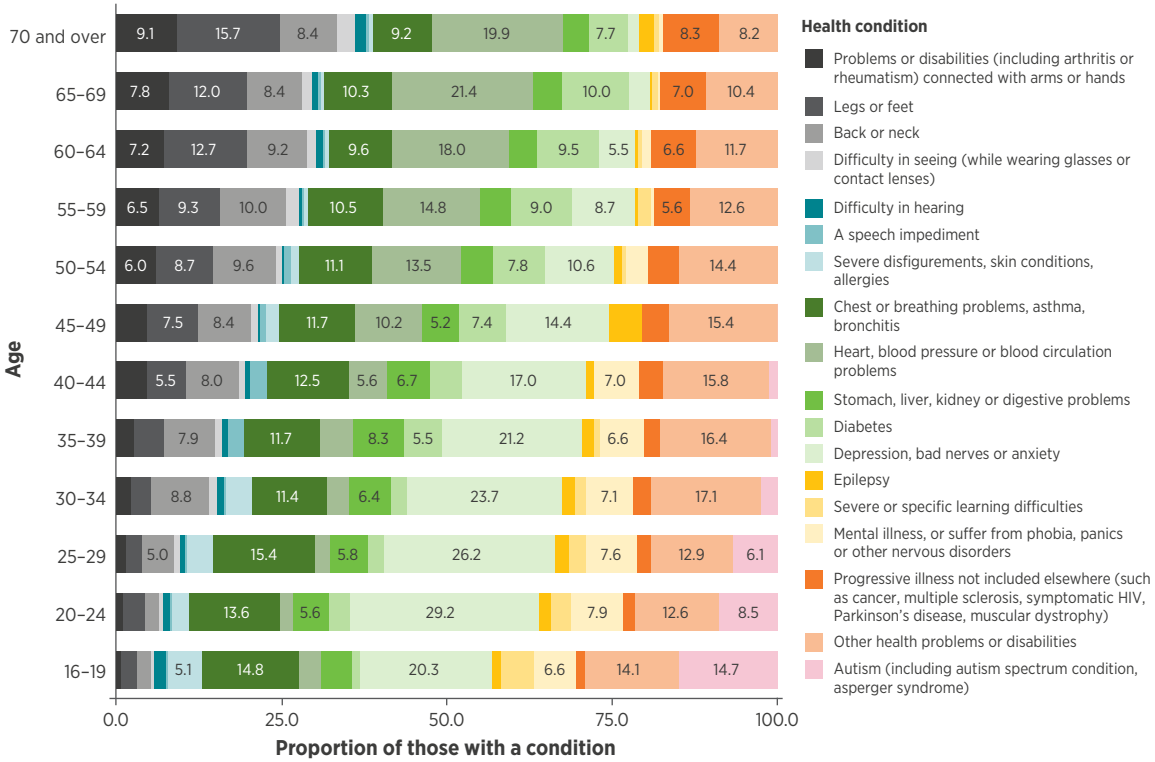
CIPD analysis of LFS Apr–Jun 2021

CIPD analysis of LFS Apr–Jun 2021

Base=All respondents with health problems and those of working age or pensioners looking for work or wanting work

The types of conditions that we experience change as we age. Of those with a health condition, at older ages there is a higher prevalence of cardiovascular disease, as well as problems with the legs or feet, back or neck (Figure 20).

Figure 20: Type of condition (UK)



CIPD analysis of LFS Apr–Jun 2021
To avoid crowding, the chart represses data labels <5%

Facilitating health conditions
Rising life expectancy is a natural outcome of better health at older ages, which also translates into an ability to work longer. However, having longer, healthier lives is a difficult policy objective for governments to target.

General prosperity raises living standards and therefore improves health and life expectancy. This can be thought of as a tailwind facilitating people to work longer. It is certainly in the interest of both governments and employers for employees to stay healthy and working for longer.

To support the health of older workers, employers should ensure they have health and wellbeing strategies in place and the necessary policies, training and support to underpin these. This includes equipping line managers with key 'soft' people management skills to support people effectively, ensuring age inclusion and providing access to flexible working arrangements.

Early access to occupational health services, for example on day one of absence, for workers who have recurrent or long-term health conditions, is the most effective way of treating such problems and preventing them from worsening. Employers must also ensure the provision of reasonable adjustments for those with a disability or long-term health condition.

Health and wellbeing is not just an issue for older workers. If employers and the Government want healthy and active older workers, they need to support the health and wellbeing of the entire workforce. The provision of occupational health support to workers in their 20s and 30s, for example physiotherapy to those with musculoskeletal problems, can prevent such conditions becoming chronic in later life.

8 Conclusions

People are living longer, and the proportion of older workers in the Scottish workforce is increasing. This means that employers will need to improve how they attract, manage and develop people as they age. This is particularly the case against a backdrop of technological change, rising skill and labour shortages, and more restrictive immigration policies.

Flexibility
Older workers are even more likely to value flexibility than their younger colleagues and are more likely to want to work fewer hours, as evidenced by higher rates of homeworking, part-time working, and self-employment. Older people are also much more likely to have caring responsibilities. This underlines the importance of ensuring employers take steps to increase the availability and range of flexibility as a means of both attracting and retaining workers as they get older.

Making the right to request flexible working a day one right, which the UK Government is currently consulting on, together with other tweaks to the legislation, would help boost the provision and uptake of flexible working. This is something the CIPD has been calling for via our Flex From 1st campaign.

Health and wellbeing
Flexible working can help older workers affected by health conditions remain in employment or find suitable work. More than half of workers have a long-term health condition by the time they reach 60, and a third are affected by some form of disability

(Figure 18). While only a quarter of older workers over 60 say that their health limits the type or amount of work that they can do, too many workers leave employment by this age because of poor health.

Employers and policy-makers must take steps to support the health of workers throughout their working lives, to maximise their chances of enjoying a healthy and active life as they get older. For example, the provision of timely access to occupational health services to workers in their 20s and 30s who suffer from back pain or other musculoskeletal problems would mean that steps can be taken to reduce the likelihood of these conditions becoming chronic.

Skills and training

Another area where a holistic focus by employers will benefit workers across the age spectrum is access to training and development. This report shows that older workers are most likely to disagree that there are good opportunities for progression in their role and are also less likely to take part in formal off-the-job training.

Employers, and particularly managers, should guard against assumptions that older workers are less likely to be interested in training or career progression. The impact of technology on jobs will increasingly mean workers will need to upskill or reskill at different stages in their career. This demand will be compounded by more people working into their late 60s and early 70s.

Employer investment in workplace training has been in long-term decline, while public investment in lifetime learning has also been cut in recent years. Fundamental changes, such as the introduction of enhanced and buildable Individual Learning Accounts (ILAs), are required to address this. These would be designed around the principles outlined in the CIPD's Skills to Grow report and should primarily be targeted at adult upskilling. ILAs offer particular strengths to learners, employers and skills providers. They offer flexibility and individualisation, which enables them to be valuable and adaptable tools to support learners throughout their working lives.

Changes required to older workers statistics

Finally, there is a need to reform the default age range of 16–64 used for major labour market statistics by raising the upper age limit or removing it entirely. People will increasingly work into their late 60s and early 70s and this needs to be reflected in official statistics. However, this change would require a co-ordinated international response to ensure that UK statistics do not diverge from the international standards.

9 Endnotes

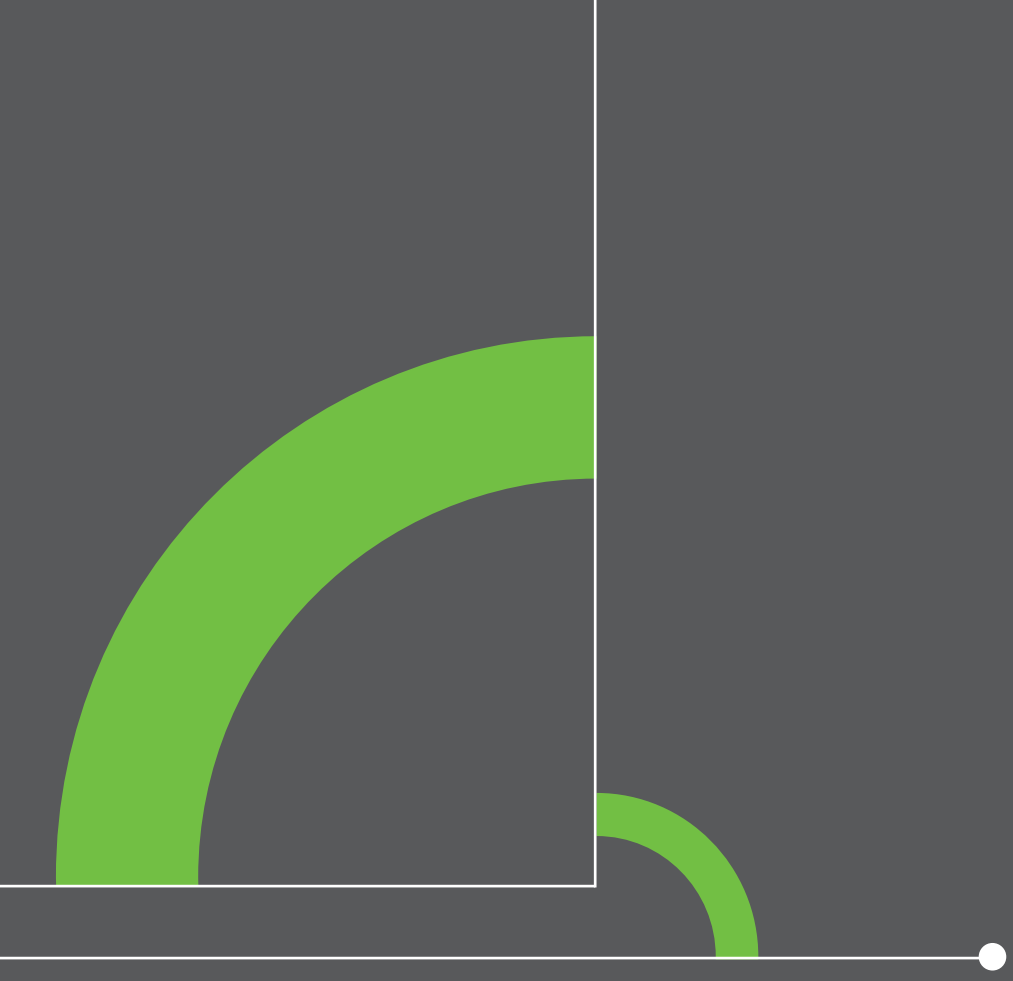
[1] Office for National Statistics, Social Survey Division, 2021, Annual Population Survey, July 2020 – June 2021, [data collection], UK Data Service, 2nd edition, Accessed 14 January 2022. SN: 8846, DOI: 10.5255/UKDA-SN-8846–2.

[2] Office for National Statistics, Northern Ireland Statistics and Research Agency, 2021, Quarterly Labour Force Survey, July–September 2021, [data collection], UK Data Service, Accessed 14 January 2022. SN: 8872, DOI: 10.5255/UKDA-SN-8872–1.

[3] Data query ONS site: www.ons.gov.uk/filters/9d54c63b-4bf5–4c46–97b8-e59b8b00e716/dimensions

[4] Watson, B. (2020) Coronavirus and homeworking in the UK labour market: 2019. London: Office for National Statistics. Available at: www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/coronavirusandhomeworkingintheuklabourmarket/2019 [accessed 14 January 2022].

[5] These statistics were kindly provided by the ONS as they are not yet publicly available. The reference is: Office for National Statistics, Social Survey Division, 2021, Annual Population Survey, January–December 2020, [data collection], UK Data Service, 4th edition, Accessed 14 January 2022. SN: 8789, DOI: 10.5255/UKDA-SN-8789–4.



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Is worsening health leading to more older workers quitting work, driving up rates of economic inactivity?

Authors

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Since the beginning of the Covid-19 pandemic, there has been a fall in the employment rate in the UK, driven by a rise in the rate of economic inactivity rather than in unemployment. There has been increasing discussion about the links between worsening ill-health and rising inactivity. The Health Foundation and the Institute for Employment Studies have both argued that a key reason behind the increase in economic inactivity has been worsening health, and John Burn-Murdoch has written for the FT about worsening health in the working age population and the role chronic illness has played in driving inactivity rates higher.

These analyses, in general, have used cross-sectional Labour Force Survey (LFS) data. This dataset does show a significant rise in health-related inactivity. Indeed, inactivity due to long-term sickness or disability has been the form of inactivity that has seen the largest increase in the working-age population since the end of 2019 (see Appendix Figure 1). Increases in health-related inactivity have especially affected those aged 50-64, the age group that has contributed the most to rising rates of inactivity since the beginning of the pandemic (Institute of Employment Studies, Oct 2022). Indeed, for 50-64 year olds, the rate of inactivity due to being long-term sick or disabled rose from 9.0% in 2019Q4 to 10.1% by 2022Q2, a rise of around 160,000 people. This rise is important in its own right.

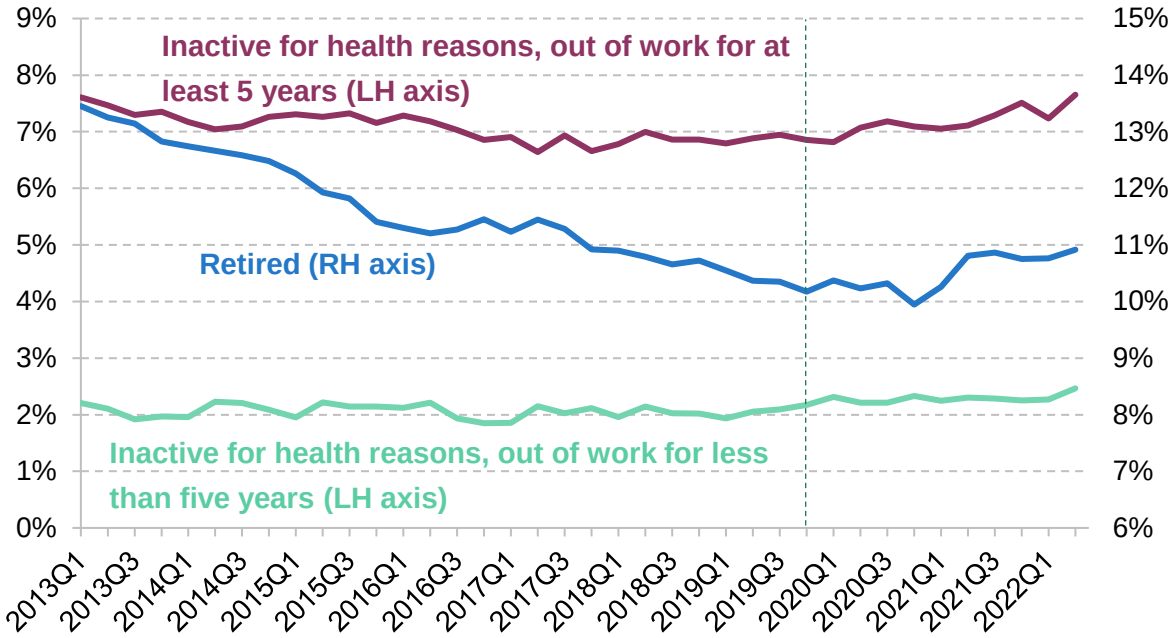
However, the rise in the number of people who are inactive due to ill-health does not necessarily imply that all these people have left the labour force *as a result* of ill-health. More people may be leaving the labour force for other reasons – for example, because they are taking early retirement – and, simultaneously, those already out of the labour force may be getting sicker. This explanation would imply that there are two problems for policymakers: first, the rise in movements from employment into inactivity; second, the increasing levels of sickness among inactive people.

There is, of course, some overlap between these two issues. But we present evidence in this brief comment that health reasons do not seem to be the key reasons for older people leaving the labour force, which has been driving up economic inactivity since the start of the pandemic. Intending to clarify the issues at stake, we will focus on 50-64 year olds, since this age group are all below state pension age and have been key in driving the rise in economic inactivity.

How long have those inactive for health reasons been out of work for?

Rather than the rise in health-related inactivity being concentrated in people who have recently left work, Figure 1 shows that the rise in health-related inactivity during the Covid-19 pandemic amongst this group is concentrated amongst those who have been out of the labour force for at least five years. Of the 1.1 percentage point increase in the fraction of 50-64 year olds who are inactive for health related reasons, 0.8ppt (73%) of that rise has been amongst people who have not worked in at least five years. The figure also that shows an additional 0.7% of the 50-64 year old population is economically inactive due to being retired compared to the end of 2019. An equivalent graph to this, for all 16-64 year olds, included here as an Appendix graph, shows that the same story is true when looking at the whole working-age population.

Figure 1. Proportion of 50-64 year olds who are retired, or are inactive due to long-term sickness or disability, split by whether they have been in paid work within the last five years



Note: Vertical line at 2019Q4 indicates the/ last quarter unaffected by the COVID-19 pandemic.

Source: IFS calculations using the Labour Force Survey.

This trend has important implications. If the rise in health-related inactivity is predominantly amongst those who have not recently left the labour force, then worsening health cannot be the key explanation for the increase in movements out of the labour force and into economic inactivity during the pandemic.

It implies, instead, that movements directly out of employment and into inactivity have been to a greater extent into other forms of inactivity, such as retirement. At the same time, it implies that there have been increasing levels of ill-health amongst those who have been out of work for an extended period of time.

Movements out of employment and into economic inactivity for older people

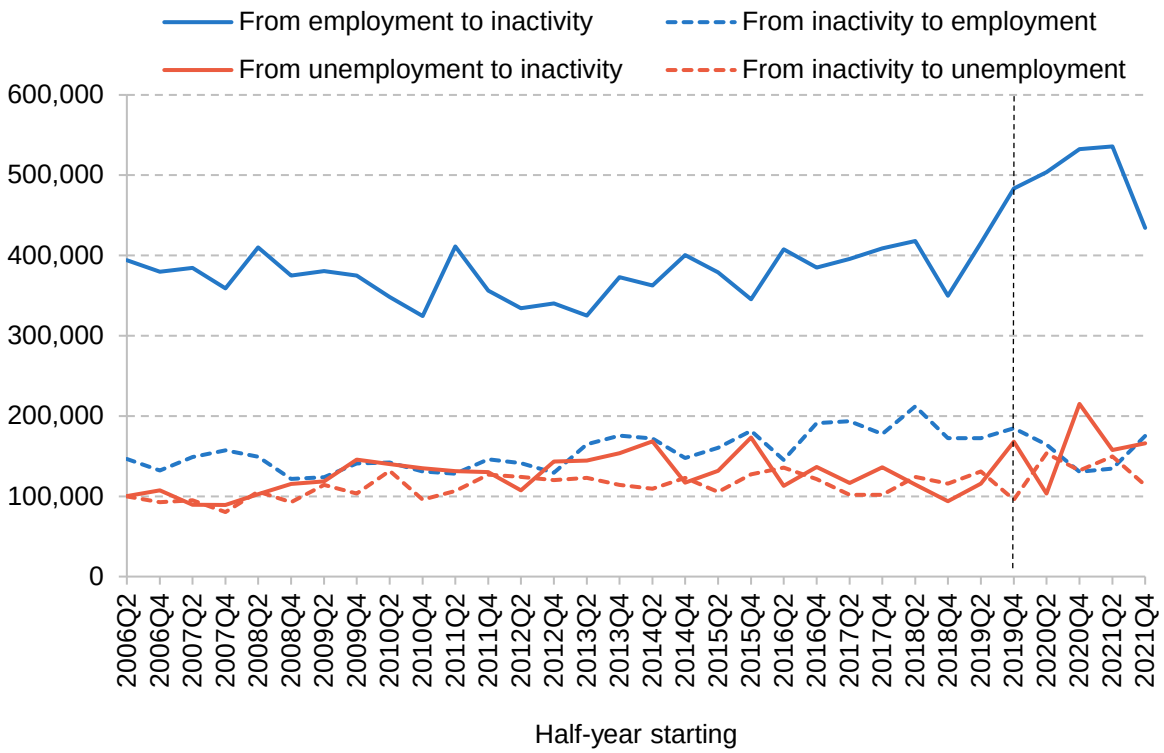
The results above confirm what was shown in our report published in June using longitudinal Labour Force Survey data, where a particularly large increase in flows out of employment into *retirement* was documented.

It could, of course, be the case that, since inactive people are getting sicker, fewer people *leave* inactivity for employment than was the case pre-pandemic, and this reduction in *outflows* from inactivity is driving the overall increase in levels of inactivity. When looking at flows in and out of inactivity, though, we can see that it seems to be moves directly from employment into inactivity which are driving the increase in the stock of inactive people, at least amongst those aged 50–64.

Figure 2 shows flows into and out of inactivity between quarters, from unemployment and employment, using the longitudinal LFS. 59% of the increase in the two years since the pandemic, compared with the six months before the pandemic, was driven by movements from employment directly into economic inactivity. A further 31% was driven by increased movements from unemployment into inactivity. While flows out of inactivity into employment have declined somewhat (represented by the blue dotted line in Figure 2), they have not been a key driver of the change in rate of economic inactivity amongst this age group.

4 Is worsening health leading to more older workers quitting work, driving up rates of economic inactivity?

Figure 2. Flows between employment and inactivity, and between unemployment and inactivity over the course of three months, among 50-64 year olds



Note: The vertical line indicates the first half-year period affected by Covid-19

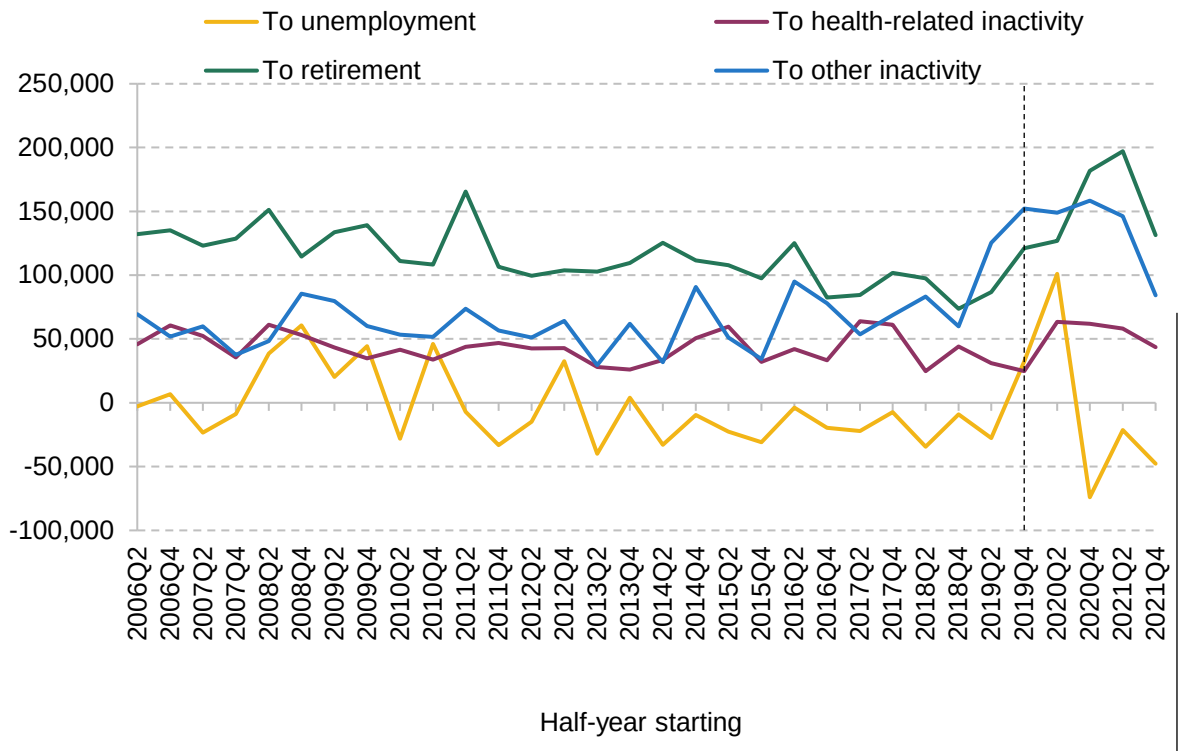
Source: Authors' calculations using the longitudinal Labour Force Survey

A final piece of evidence, again using the longitudinal LFS, is that flows out of employment into health-related inactivity do not seem to have experienced a significant tick upwards during the pandemic. This backs up what Figure 1 showed using the cross-sectional LFS, in more granular detail (at the cost of a smaller sample size).

Figure 3 shows net flows out of employment to unemployment and different forms of inactivity for 50-64 year olds. It is these outflows from employment, as Figure 2 showed, that we should be most interested in when seeking to understand rising inactivity. While flows to health-related inactivity do not seem to have changed much since the start of the pandemic, flows into retirement and "other" forms of inactivity have both increased markedly during the pandemic.

5 Is worsening health leading to more older workers quitting work, driving up rates of economic inactivity?

Figure 3. Net flows out of employment to different sources over the course of three months, by half-year, among 50-64 year olds



Note: The vertical line indicates the first half-year period affected by Covid-19

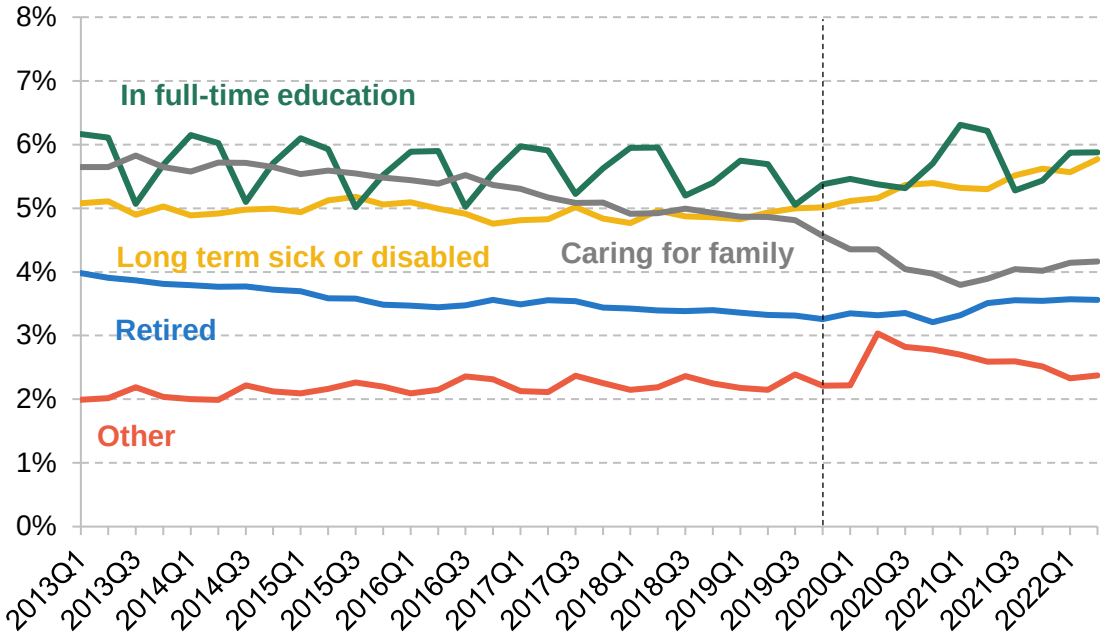
Source: Authors' calculations using the longitudinal Labour Force Survey

Summary

When looking at only the cross-sectional data, it is tempting to conclude that deteriorating health amongst the older population has been the key reason for higher levels of economic inactivity and lower levels of employment. A closer look at the data suggests that in fact there seem to be two distinct issues at stake: increasing levels of ill-health amongst the older non-working population (which is concerning as an issue in its own right), and increased levels of inactivity driven in large part by people leaving work for non-health related reasons – in particular because they have decided to retire.

6 Is worsening health leading to more older workers quitting work, driving up rates of economic inactivity?

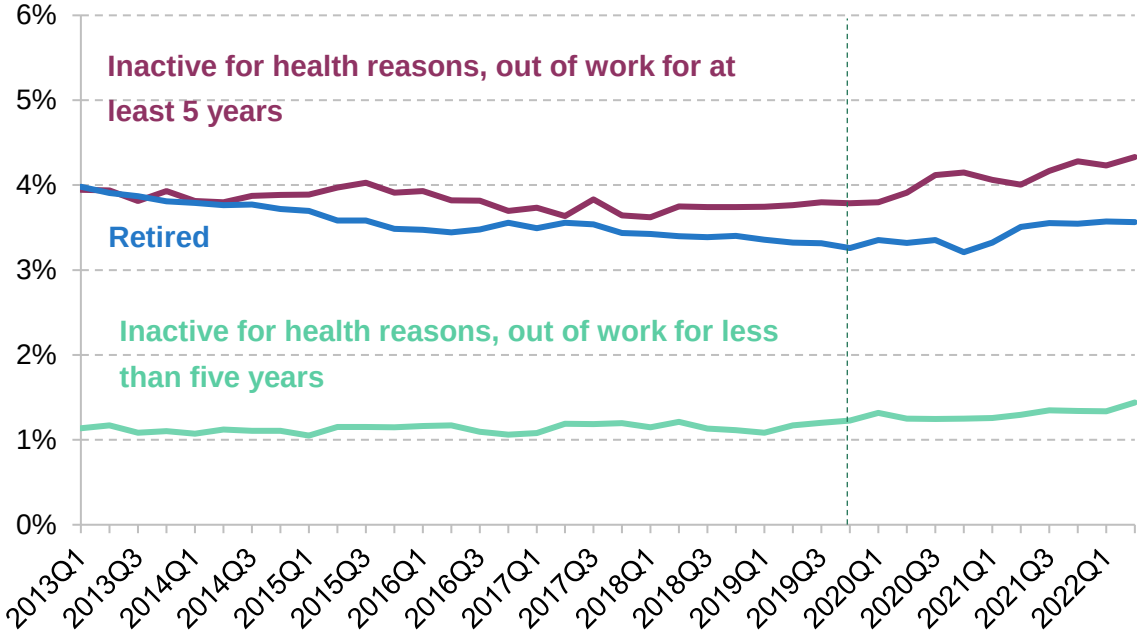
Appendix Figure 1. Proportion of the 16-64 population that is economically inactive for different reasons



Note: Vertical line at 2019Q4 indicates the last quarter unaffected by the COVID-19 pandemic.

Source: IFS calculations using the Labour Force Survey.

Appendix Figure 2. Proportion of 16-64 year olds who are inactive due to long-term sickness or disability, split by whether they have been in paid work within the last five years



Note: Vertical line at 2019Q4 indicates the last quarter unaffected by the COVID-19 pandemic.

Source: IFS calculations using the Labour Force Survey.

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Executive summary

Key findings

1 **The rate of economic inactivity among people in their 50s and 60s has risen since the start of the pandemic.** It rose from 35.4% in the first quarter of 2020 to 36.5% in the first quarter of 2022, an increase of 1.1 percentage points, back to the level seen at the end of 2018. This follows many years of falling inactivity prior to the pandemic; the inactivity rate for this group had been 42% in 2010. Falls in inactivity were always likely to slow because 2021 was the first year in a decade in which the state pension age was not rising, but the rises in inactivity had not been anticipated.

2 **The rise in economic inactivity has been larger for people in their 50s and 60s than for people younger or older than them.** While those aged 70+ have also seen an increase in economic inactivity, it has been much smaller than for 50- to 69-year-olds, and 35- to 49-year-olds saw no change at all. With an increase of 270,000 economically inactive 50- to 69-year-olds when comparing October 2021 to March 2022 with the same period two years earlier, 43% of the overall rise in economic inactivity in the UK population since the pandemic began has been driven by changes among 50- to 69-year-olds.

3 **The fraction of 50- to 69-year-old workers moving from employment directly into retirement or other forms of economic inactivity increased substantially during the pandemic. This was the key driver of the rise in economic inactivity.** It contributed two-thirds of the increase in inactivity over the last two years compared with pre-pandemic data. The remaining third of the increase in inactivity was due to fewer people leaving inactivity for employment, and more people moving from unemployment to economic inactivity, than pre-pandemic.

4 **More than half of the growth in 50- to 69-year-olds leaving work for economic inactivity seen during the pandemic was due to people reportedly leaving work because they were retiring.** Retired people are less likely to return to work than people (of the same ages) in other forms of

inactivity. Indeed, they are unlikely to ever return to employment – previous research has found that only 5–10% of retired people ever return to paid work.

5 **On some dimensions, the rise in economic inactivity has been very broad based.** Strikingly, there has been relatively little difference in the trends of 50- to 69-year-olds leaving employment for inactivity between men and women, between those with and without degrees, between those in professional and non-professional occupations, and between public and private sector employees.

6 **However, there have been particularly large increases in the proportions of part-time workers, self-employed workers and workers in their 60s moving out of employment and into economic inactivity during the pandemic.** These are all groups that are in some sense closer to retirement than full-time workers, employees, and those in their 50s. There have also been slightly larger increases in the rate of leaving paid work for economic inactivity amongst those working in occupations where it is relatively easy to work remotely than amongst those working in occupations where it is harder, or not possible, to work from home.

7 **Importantly, we do not find differences in the increase in rates of leaving employment for inactivity between those working in occupations that have seen particularly high, or relatively low, growth in vacancies over the last two years.** This suggests that weak labour demand for particular occupations or skills is unlikely to be driving the increased rates of inactivity in this age group. It also suggests that higher inactivity for 50- to 69-year-olds is likely to be contributing at least partially to the labour market tightness seen in some areas.

8 **Redundancies and dismissals significantly contributed to increases in 50- to 69-year-olds moving from employment into inactivity in 2020, but much less so in 2021.** Over a third (37%) of the increase in 50- to 69-year-olds leaving the labour force between pre-pandemic data (2017–19) and 2020 was driven by redundancies or dismissals. But as the economy recovered in 2021, these only made up 11% of the growth between 2017–19 and 2021. It appears that redundancies do not continue to play an important role in driving higher inactivity rates.

9 **Overall, it does not seem as if poor health is the primary driver of these increases in economic inactivity rates.** The fraction of workers in their 50s

and 60s moving from employment into being economically inactive due to 'long-term sickness or disability' has stayed relatively constant, with around 0.3–0.5% of 50- to 69-year-old workers per quarter making this transition both before and after the pandemic. Growth in health-related reasons for leaving the labour force only accounts for 5% of the overall growth in inactivity among this age group. And changes in transitions from employment to inactivity are similar between those with and without a long-standing health condition.

10 **Overall, the rise in economic inactivity among 50- to 69-year-olds does not look to be driven primarily either by poor health or by low labour demand leading to people being unable to find work and becoming discouraged. It looks more consistent with a lifestyle choice to retire in light of changed preferences or priorities, possibly in combination with changes in the nature of work post-pandemic (in particular more remote work) which reduce the appeal of staying in employment.**

1. Introduction

Since the COVID-19 pandemic started, the UK has seen a rise in the rate of economic inactivity among older people. This is a reversal of earlier trends. In particular, the proportion of people aged over 50 who are economically inactive – neither in work nor actively searching for work – had fallen steadily in the decade prior to the pandemic. This change of employment patterns for older people comes despite very little change in 'unemployment' (people out of work and searching for a job) – which early in the pandemic was widely expected to reach very high levels. In July 2020, the Office for Budget Responsibility (2020) forecast unemployment of 10% in 2021. In fact, the unemployment rate (for people aged 16+) peaked at just over 5% in late 2020 and by the first quarter of 2022 had fallen back to its pre-pandemic level of just 3.7%.

In the face of these modest changes in unemployment, it is more surprising that there has been such a large fall in employment – and rise in economic inactivity – that has been concentrated amongst older people. The number of people in paid work in the first quarter of 2022 was 32.6 million, 500,000 lower than its pre-pandemic peak of 33.1 million in the three months to February 2020. As we show, this fall has been concentrated among 50- to 69-year-olds.

There are a range of potential reasons for the rise in economic inactivity. First, increases in economic inactivity could be driven by lower levels of labour demand – shown, for example, by higher levels of redundancies – and that older people respond by no longer looking for work rather than being officially 'unemployed'. Second, rising economic inactivity could be driven by an increased number of people unable to work for health reasons, perhaps as a result of COVID or long COVID. Alternatively, people may want to avoid the potential exposure to COVID that comes through greater contact with other people in the workplace. Third, a trend towards remote work might have prompted some workers to take early retirement, if opportunities for socialisation are a factor keeping people in work at older ages,[1] or if people who worked from home appreciated the extra time at home and did not want to return to the workplace. Fourth, people could have chosen to take early retirement, for a variety of reasons, including having increased their wealth during the pandemic, when consumption opportunities were minimal, and when asset prices (particularly housing) increased.

[1] Results from the ONS's Over 50s Lifestyle Study imply that this plays a role (Office for National Statistics, 2022a). Of those adults who had moved into inactivity during the pandemic and stated that they would consider returning to work in the future, 54% said that 'social company' would entice them back.

This report seeks to shed new light on the fall in employment and rise in economic inactivity amongst older people in the UK, with a particular focus on those in their 50s and 60s. We use up-to-date Labour Force Survey (LFS) data (Office for National Statistics et al., 2022a) to do so, in particular using the two-quarter longitudinal LFS data (Office for National Statistics et al., 2022b) that allow us to follow individuals from one quarter to the next as they are interviewed by the Office for National Statistics multiple times. This means that rather than just observing the number and type of people who are in paid work or not, we are able to observe transitions as people move between different types of economic activity. We include data up to and including the end of March 2022. This analysis builds upon the recent work published by the Institute for Employment Studies (2022) and the Office for National Statistics (2022b), which also uses labour market transitions to examine the rise in inactivity.

We start in Section 2 by looking at the trends in inactivity rates among 50- to 69-year-olds in the UK over time, split by age, sex and form of inactivity. We also examine flows out of employment into inactivity and vice versa from one quarter to the next. We then consider in Section 3 which groups of workers have experienced particularly big rises in inactivity. Finally, we look in Section 4 at flows into inactivity broken down by the reason newly inactive workers give for leaving their last job, to help get a sense of what is driving increased inactivity. Section 5 provides a brief conclusion.

2. Changes in economic inactivity for 50- to 69-year-olds

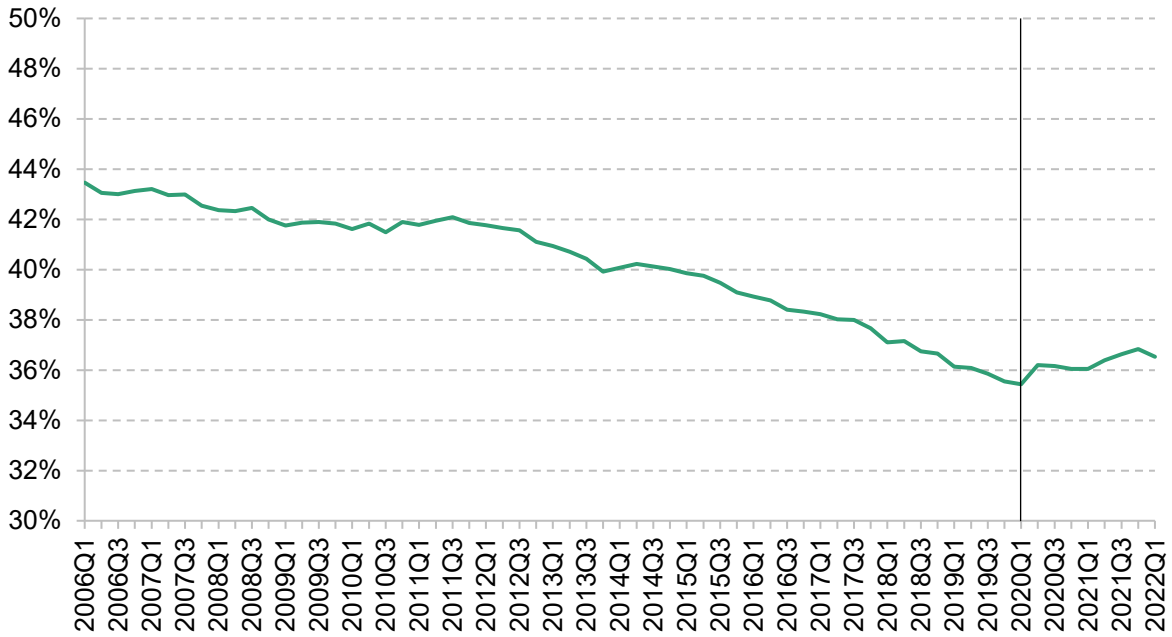
Before examining trends in economic inactivity, it is worth being precise about what 'economic inactivity' is. Consistent with international definitions, the Office for National Statistics categorises people into three mutually exclusive groups based on their labour market status. The first group is those who are in employment. Those who are not in employment are classified as either 'unemployed' or 'economically inactive'. A person is deemed to be unemployed if they have been seeking work within the last four weeks and are able to start work within the next two weeks. Alternatively, a person is 'economically inactive' if they are not in employment and were not seeking work within the last four weeks and/or are not able to start work within the next two weeks.

Prior to the pandemic, there had been a gradual, secular decline in the fraction of people in their 50s and 60s who were economically inactive, as shown in Figure 2.1. The steady fall in the proportion of 50- to 69-year-olds who report being economically inactive between 2006 and 2019 is clear: from 43.5% at the start of 2006, the proportion fell by 8 percentage points to 35.4% in the first quarter of 2020.

There are a variety of reasons for this, including successive generations of women having greater attachment to the labour market through their working lives, which boosts employment and reduces economic inactivity at older ages (Banks, Emmerson and Tetlow, 2019). People at these ages are also considerably healthier than in previous decades (Banks, Emmerson and Tetlow, 2017). But, in addition, rises in the state pension age, since 2010 for women and since 2018 for both men and women, have also acted to increase employment (and unemployment) and reduce economic inactivity.

Cribb, Emmerson and O'Brien (2022) estimate that the increase in the state pension age from 65 to 66 meant that 60,000 fewer 65-year-olds were economically inactive at the end of 2020 than in Autumn 2018 as a direct result of that reform. Given that increases in the state pension age stopped in Autumn 2020, when the state pension age reached 66, we would probably always have expected a slowdown in the falls in economic inactivity since 2020 – this is a key reason not simply to extrapolate a pre-pandemic trend in falls in economic inactivity. However, this does not explain why inactivity has actually *risen* since early 2020.

Figure 2.1. Economic inactivity rate among 50- to 69-year-olds between 2006 and 2022



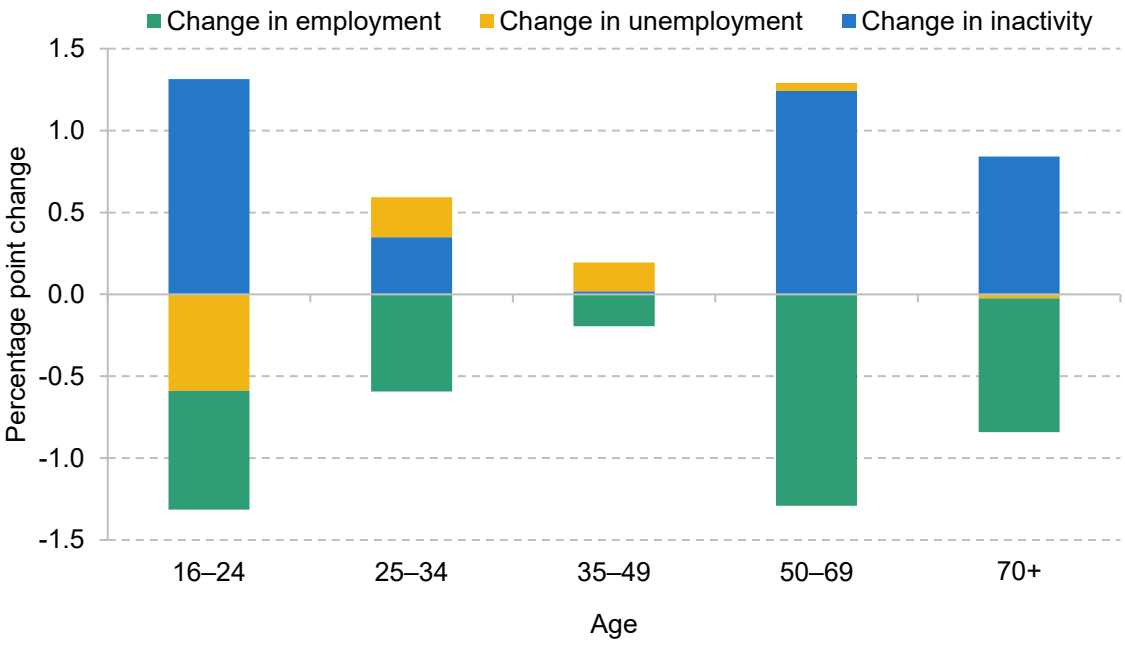
Note: Vertical line shows 2020Q1, when economic inactivity in this group reached a pre-pandemic low.

Source: Authors' calculations using the Labour Force Survey.

From the first quarter of 2020, rates of economic inactivity began to rise for 50- to 69-year-olds. By the beginning of 2022, the inactivity rate amongst this group had risen by 1.1 percentage points to 36.5%. This took place, as the graph shows, in two discrete periods. There is the initial sharp rise between the first and second quarters of 2020, with the inactivity rate rising by 0.8 percentage points. Then inactivity rates stayed stable over the rest of 2020, before rising again, more steadily, over the course of 2021 to 36.8%. With the slight fall in inactivity in early 2022, to reach 36.5%, the inactivity rate for this group in early 2022 was back to where it was at the end of 2018.

Figure 2.2 makes clear why we are specifically choosing to focus on those aged 50–69 in this analysis. It shows the change in the fractions of each age group who are employed, unemployed and economically inactive, from the six months before the pandemic (October 2019 to March 2020) to the latest six months of data (October 2021 to March 2022). We aggregate two quarters of data together to boost sample size and make results less dependent on exactly which quarters are compared – as Figure 2.1 shows, there can be sizeable quarter-to-quarter changes.

Figure 2.2. Change in fractions of population who are employed, unemployed and economically inactive (percentage points), from October 2019–March 2020 to October 2021–March 2022, by age group



Note: By definition, the changes in employment, unemployment and economic inactivity sum to zero.

Source: Authors' calculations using the Labour Force Survey.

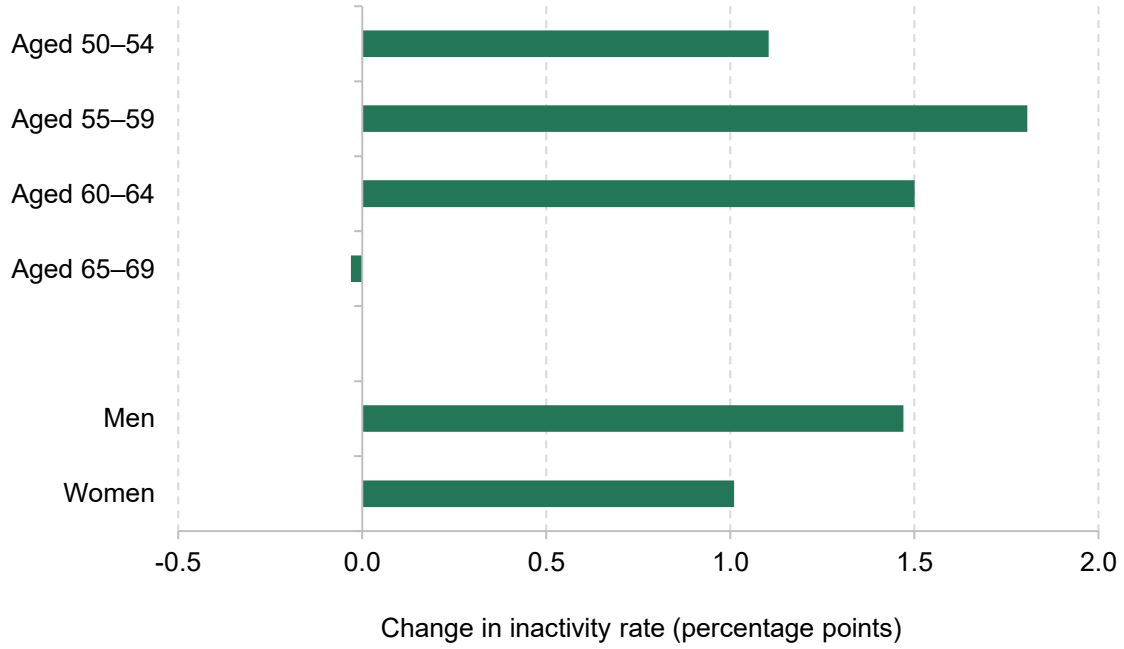
The increase in the fraction of older individuals who are economically inactive during the pandemic has been particularly large compared with other groups. Over this period, inactivity rose by 1.2 percentage points for 50- to 69-year-olds. While this is not as large as the rise for 16- to 24-year-olds (+1.3 percentage points), 85% of the increase in inactivity for 16- to 24-year-olds is as a result of more people in full-time education.

For other younger groups (25- to 34-year-olds and 35- to 49-year-olds), there has been little change in the rates of economic inactivity. There have also been an increase in the fraction of people aged 70+ who are economically inactive – of 0.8 percentage points – and a commensurate fall in their employment rate. But with an increase of 270,000 economically inactive 50- to 69-year-olds when comparing October 2021 to March 2022 with the same period two years earlier (October 2019 to March 2020), this means 43% of the overall rise in economic inactivity in the population since the pandemic has been driven by changes for 50- to 69-year-olds.

Over the same period as shown in Figure 2.2 (October 2019–March 2020 to October 2021–March 2022), Figure 2.3 shows that the increases in inactivity rates have been bigger among those in their late 50s (+1.8 percentage points), while still sizeable among those aged 50–54 (+1.1 percentage points) and 60–64 (+1.5 percentage points). The changes have been smallest

for those in their late 60s, for whom there was essentially no change (though this specific group will have been affected by the increase in the state pension age from 65 to 66, as previously discussed, which will have reduced inactivity). Figure 2.3 also shows that there have been increases in inactivity both for men (+1.5 percentage points) and for women (+1.0 percentage points).

Figure 2.3. Change in rate of economic inactivity (percentage points) for 50- to 69-year-olds, October 2019–March 2020 to October 2021–March 2022, by subgroup

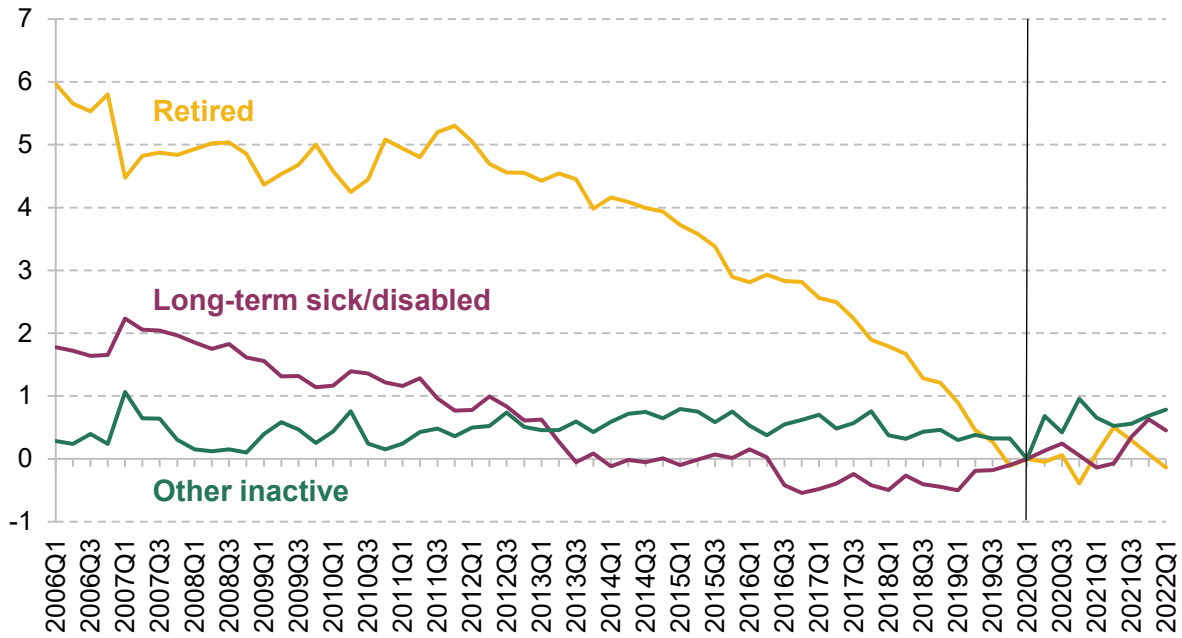


Source: Authors' calculations using the Labour Force Survey.

We can also look at the change in different sorts of inactivity over time. The Labour Force Survey asks questions that aim to understand the main reason why people are economically inactive. Figure 2.4 decomposes the change in the inactivity rate into those who moved into retirement, long-term sickness or disability, and other forms of inactivity. It shows that the fraction of people who were retired was trending sharply downwards before 2020; this trend was reversed during the pandemic, with retirement rates roughly unchanged in early 2022 compared with early 2020, though there is variation from quarter to quarter.

Despite relatively little change since around 2013, there has been a tick up in the fraction of 50- to 69-year-olds saying that they are out of work due to long-term sickness or disability, which is 0.5 percentage points higher than in early 2020. Other inactivity – including caring responsibilities, and discouraged workers (i.e. those who want a job but have given up searching) – rose during 2020, earlier than retirement began to rise, and remained at its elevated level into early 2022, 0.8 percentage points higher than in early 2020.

Figure 2.4. Percentage point change in different forms of inactivity for 50- to 69-year-olds from 2020Q1



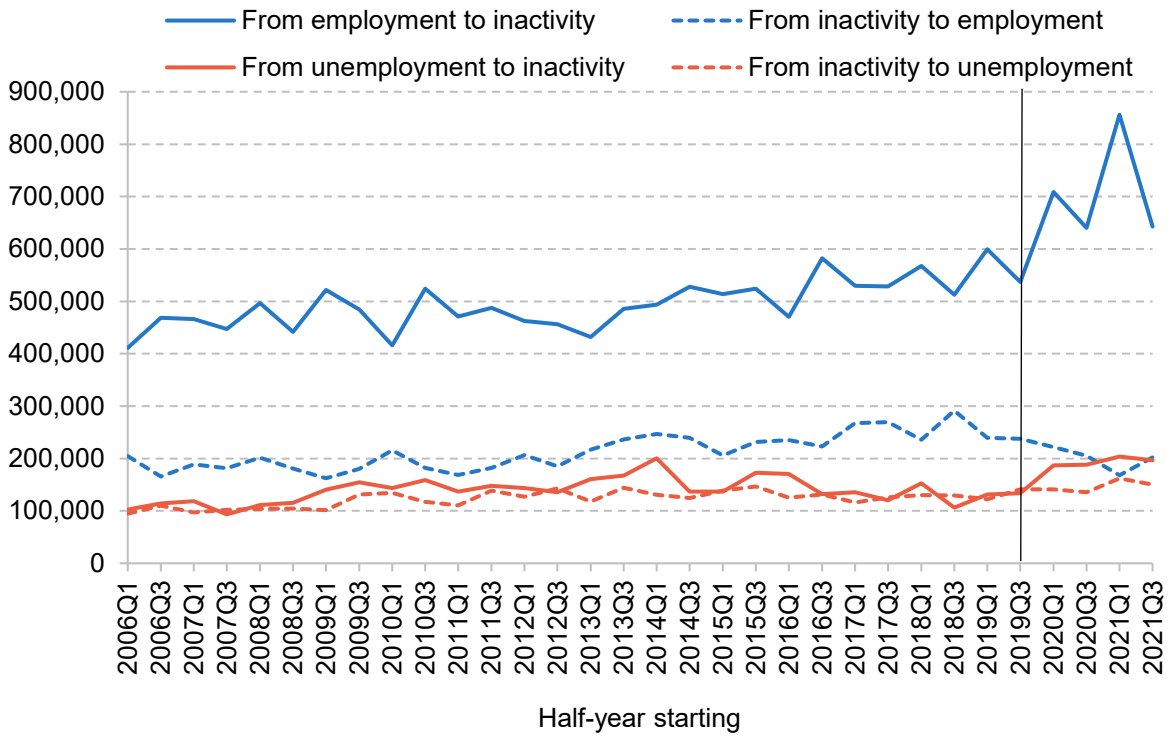
Note: Vertical line shows 2020Q1, when economic inactivity in this group reached a pre-pandemic low and from which we measure the change in forms of inactivity in this figure.

Source: Authors' calculations using the Labour Force Survey.

Using a longitudinal form of the LFS, which links individuals between two quarters, allows us to focus on the specific flows into and out of economic inactivity over the course of three months (i.e. between quarters), in order to see what is driving the change in the rates of economic inactivity.

Figure 2.5 illustrates the flows into and out of economic inactivity between quarters for 50- to 69-year-olds using these data. (We aggregate the data together into half-years in order to smooth the series out, as there are relatively small numbers of people who make each transition each quarter.) The graph shows that the rise in inactivity rates illustrated above is being driven primarily by movements from employment into inactivity. Comparing the two years since the pandemic started with the last six months before the pandemic, an average of an additional 170,000 older workers have moved into inactivity per half-year. This compares with an average of around 40,000 fewer people of this age per half-year moving from inactivity into employment, which also pushes up rates of inactivity.

Figure 2.5. Number of 50- to 69-year-olds moving from employment to inactivity (and vice versa) and from unemployment to inactivity (and vice versa) within three months, by half-year



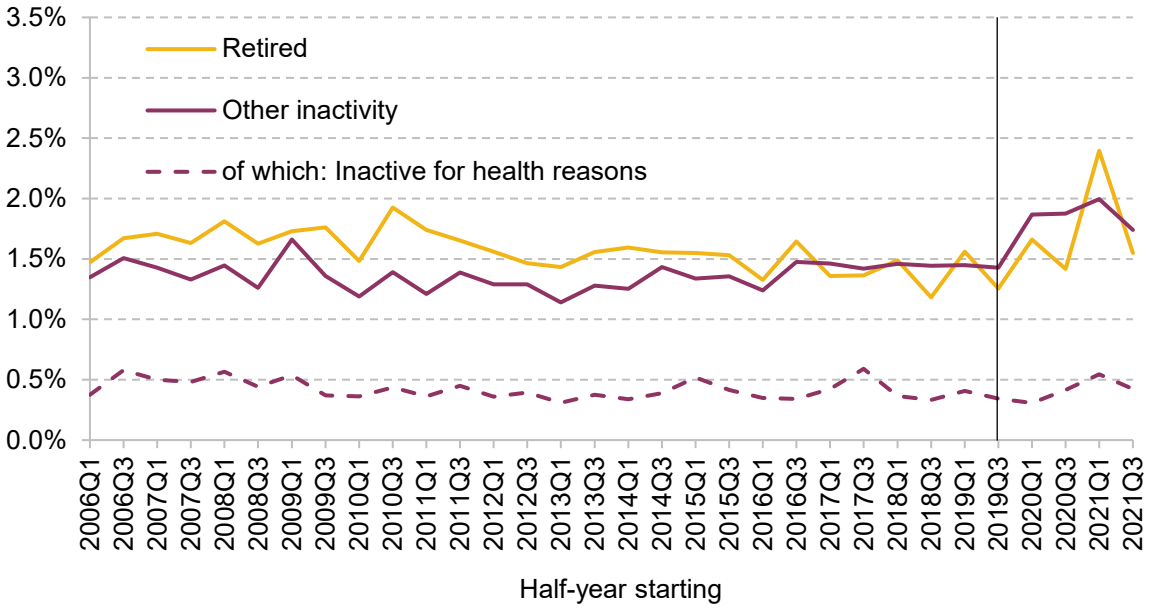
Note: The vertical line indicates the final data point unaffected by the COVID-19 pandemic.

Source: Authors' calculations using Longitudinal Labour Force Survey.

There have also been more people in their 50s and 60s moving from unemployment to inactivity (60,000 more per half-year since the pandemic compared with pre-pandemic), while there has been minimal change in the number of 50- to 69-year-olds leaving inactivity for unemployment. Overall, this implies that around two-thirds of the increase in the net flow into economic inactivity is as a result of more people leaving paid work for economic inactivity during the pandemic. We therefore focus on this particular transition in much more detail in the remainder of this report.

Figure 2.6 breaks down the flow from employment directly into inactivity in more detail, looking at how the proportion of employed 50- to 69-year-olds moving into retirement and other sorts of inactivity between quarters has changed during the pandemic. The key finding of this graph is that 50- to 69-year-olds have been leaving work for both retirement and other forms of inactivity during the pandemic.

Figure 2.6. Percentage of 50- to 69-year-old workers moving into inactivity in a three-month period, by form of inactivity



Note: The vertical line indicates the final data point unaffected by the COVID-19 pandemic.

Source: Authors' calculations using Longitudinal Labour Force Survey.

On average during the pandemic, the fraction of workers in this age group leaving work for retirement is around 40% higher than it was immediately pre-pandemic, and there has been a roughly 30% increase in the fraction of workers leaving for other forms of inactivity.[2] The rates of leaving work for either retirement or other forms of inactivity are higher than at any point since at least 2006 (the longitudinal LFS has a consistently coded definition of inactivity since 2006). It looks as if relatively little of this increase is driven by moves into 'long-term sickness or disability', for which the rates of around 0.3–0.5% per quarter are similar to those seen pre-pandemic, although there is a slight tick up late in 2020.

Overall, these results imply that more workers aged 50–69 have been leaving work during the pandemic, at high rates compared with recent history, both for retirement (particularly later in the pandemic) and other forms of inactivity (throughout the pandemic); this has therefore driven up rates of economic inactivity.

[2] There have been large increases in the number of 50- to 69-year-olds leaving employment for retirement even while there has been relatively little change in the fraction of 50- to 69-year-olds who are retired (shown in Figure 2.4). Figure A.1 in the appendix shows that this is because there has been an increase in the net flow from retirement to other forms of inactivity. A large part of this is people reclassifying themselves as being economically inactive due to 'not needing a job', which is not counted as the same as being retired.

3. Moves into economic inactivity for different groups

We now look in more detail at people in their 50s and 60s moving out of employment into economic inactivity, and we consider which groups this rise in exits from the labour force has been most prevalent in. As in the previous section, we examine flows from employment into retirement and into other forms of inactivity separately, since economic inactivity other than retirement tends to be less persistent as a state than retirement – retirees were less likely to move back into work than those who are inactive for other reasons prior to the pandemic, controlling for age and sex. Indeed, Kanabar (2013) estimates that only between 5% and 10% of people ever return to employment after having retired. We examine how these moves from employment to retirement and other forms of inactivity vary by a range of individual and job characteristics.

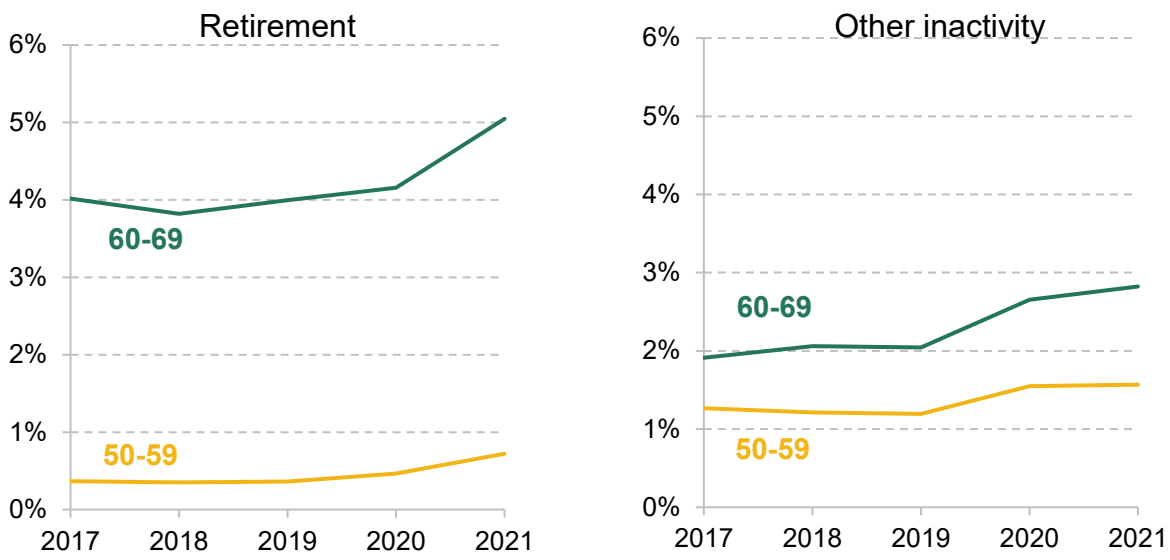
When looking at each of these groups, we look at the average rate of workers leaving employment for retirement / other inactivity within three months, averaged over a whole year (compared with over six months as done in the previous section). That is so we gain sufficient sample size to give greater certainty to our conclusions when looking at subgroups of the population.

First, Figure 3.1 shows that the increase in the rate at which workers retired during the pandemic was more marked for those in their 60s than for those in their 50s. This is especially the case in 2021, when the proportion of workers in their 50s retiring within three months was 0.7%, up from 0.4% in 2019 and the proportion of workers in their 60s retiring was 5.0%, up from 4.0% in 2019. The increase in the rate at which workers moved into other forms of inactivity during the pandemic was also greater for those in their 60s, although the difference was smaller than for moves into retirement.

Second, Figure 3.2 shows that working men and working women saw similar increases in the rate of moving from employment into retirement during the pandemic. And the increases in the rate of men and women leaving employment for other forms of economic inactivity have been fairly similar during the pandemic too.

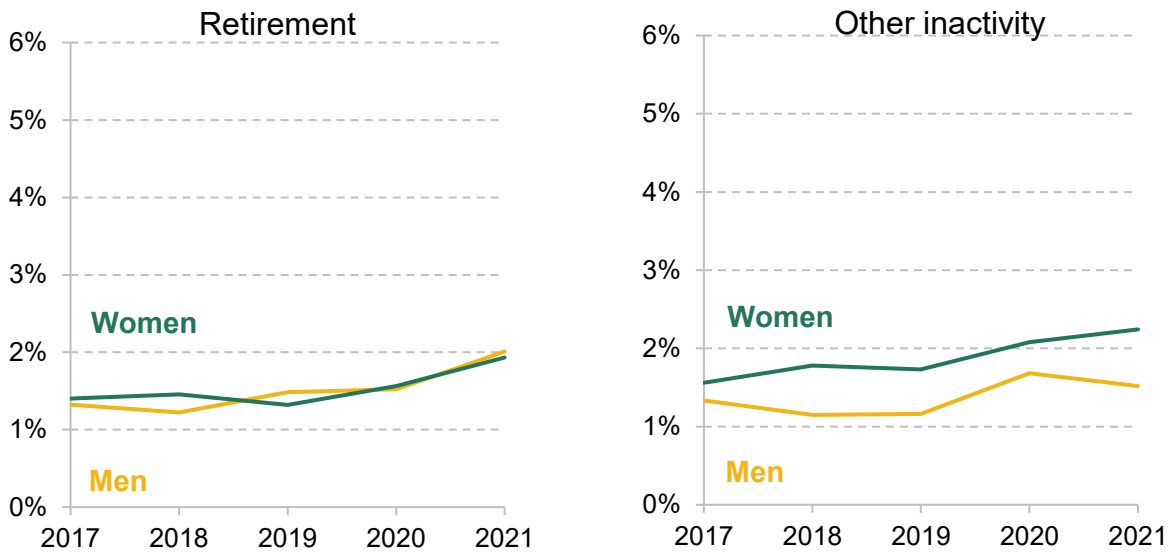
In addition to there being relatively little difference between men and women, Figure A.2 in the appendix shows that there is little difference in the rate of leaving employment for inactivity between people in professional jobs and those in other occupations or between people with

Figure 3.1. Percentage of 50- to 69-year-old workers moving into inactivity in a three-month period, by form of inactivity and age



Source: Authors' calculations using Longitudinal Labour Force Survey.

Figure 3.2. Percentage of 50- to 69-year-old workers moving into inactivity in a three-month period, by form of inactivity and sex



Source: Authors' calculations using the Longitudinal Labour Force Survey.

degrees and those without. University-educated and professional workers are typically more affluent than the average 50- to 69-year-old worker; the lack of significant difference in rates of movement into inactivity for the groups in Figure A.2 means that we can reject the idea that the increase in inactivity is purely amongst those who are relatively well off.[3]

There are, however, two groups for whom there are particularly different trends. First, the trends between employees and the self-employed leaving work for inactivity are markedly different, as shown in Figure 3.3. While there have been similar increases in the rate of leaving work for retirement for the self-employed versus employees between 2019 and 2021, the left-hand part of Figure 3.3 shows that the increase happened earlier (i.e. in 2020) for the self-employed than for employees.[4] Much more dramatic has been the increase in the fraction of self-employed workers leaving for other forms of inactivity, which rose by 50% between 2019 and 2020. This increased rate of leaving self-employment for inactivity has pushed down the fraction of 50- to 69-year-olds who are self-employed, as shown in Cribb and Emmerson (forthcoming).

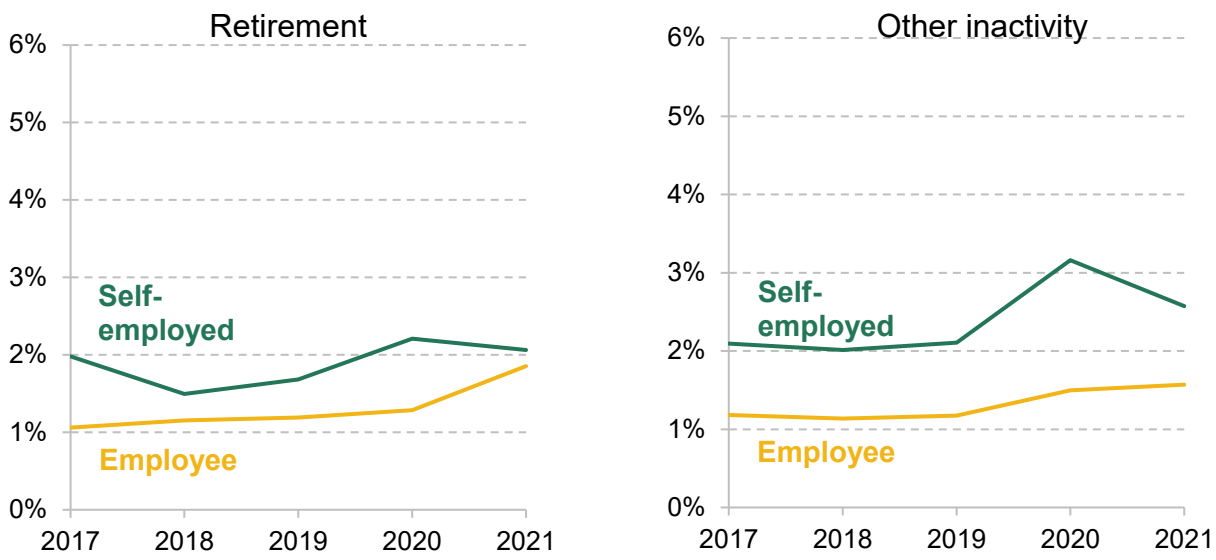
There have also been very different trends between part-time and full-time workers, as shown in Figure 3.4. Part-time workers experienced a larger increase in movements into retirement than did full-time workers and there have also been larger increases in the fraction of part-time workers moving into other forms of inactivity than for full-time workers. Similar to the falls in self-employment, Cribb and Emmerson (forthcoming) show that these changes have fed through into falls in the number of part-time workers aged 50–69 in the UK population.

One similarity that self-employed people and part-time workers have is that they are – in a sense – closer to retirement already than full-time employees. By definition, part-time workers work fewer hours than full-time workers, with more time for leisure, caring for family members or other activities. Some part-time workers will have reduced their hours of work in recent years, having previously been full-time workers (Banks, 2016). Self-employed workers tend to have lower earnings than employees (Cribb, Miller and Pope, 2019) and almost by definition have more control over their working lives than employees. In that sense, it seems that there have been greater increases in economic inactivity since the pandemic for the people who were closer to retirement.

[3] The findings about relatively little difference between the sexes and between those in professional occupations versus other occupations contrast with those of the Office for National Statistics (2022b), which finds that older men moved into inactivity at a higher rate and that professionals were more likely to leave work for inactivity. This is in particular because we are looking at the average flows aggregating a year's data together at a time, rather than comparing a single transition between quarters (between the second and third quarters of 2021).

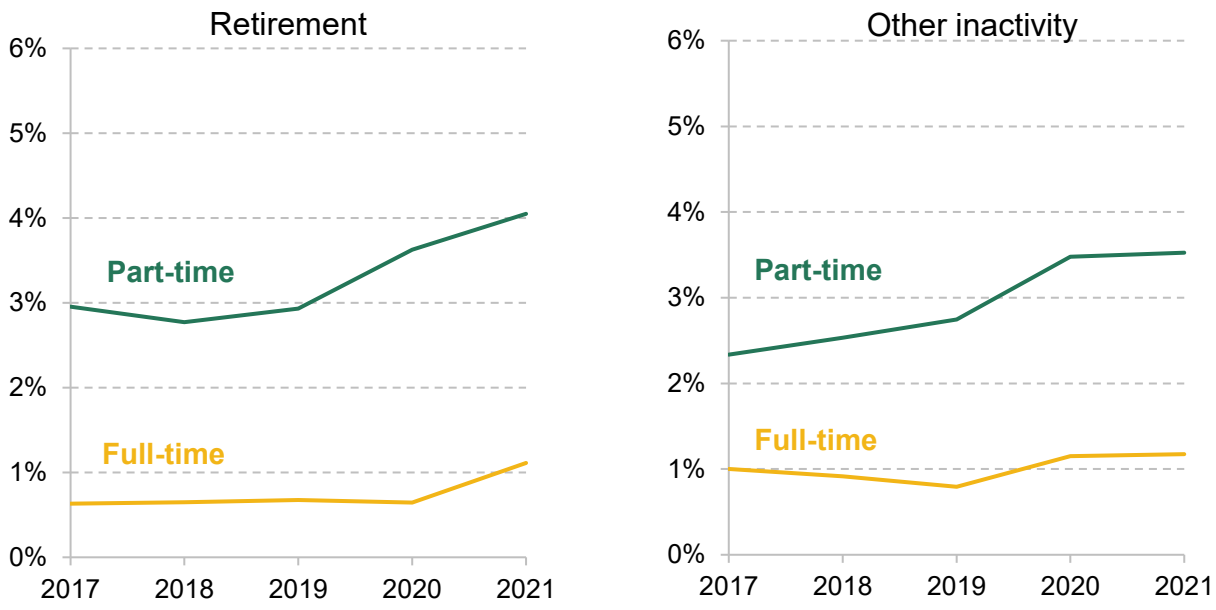
[4] For employees, there have been very similar patterns for private and public sector employees, although in 2020 public sector employees were less likely to move into other forms of inactivity than private sector employees, though the difference had closed by 2021, as shown in Figure A.3 in the appendix.

Figure 3.3. Percentage of 50- to 69-year-old workers moving into inactivity in a three-month period, by form of inactivity and employment type



Source: Authors' calculations using the Longitudinal Labour Force Survey.

Figure 3.4. Percentage of 50- to 69-year-old workers moving into inactivity in a three-month period, by form of inactivity and full-time or part-time work



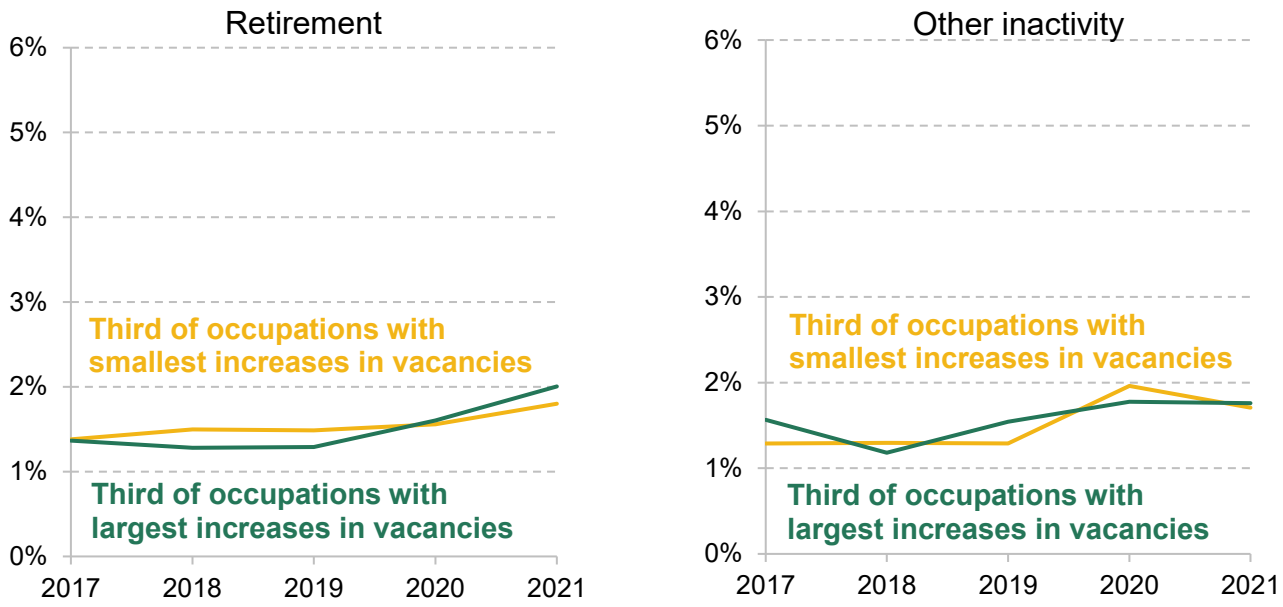
Note: 'Full-time' refers to people working at least 30 hours per week.

Source: Authors' calculations using the Longitudinal Labour Force Survey.

With the increases in moves out of employment and into inactivity concentrated amongst self-employed workers and (particularly) part-time workers, it is worth asking whether these patterns could reflect a role played by differential labour demand in the pandemic and the recovery from it. One way to answer this is to examine whether the patterns of leaving paid work for inactivity are greater in occupations with low vacancy growth than in occupations with higher vacancy growth.

To do this, we examine growth in vacancies between late 2019/20 (October 2019 to February 2020) and late 2021/22 (October 2021 to February 2022), measured at the four-digit SOC code in the Adzuna vacancy data, as calculated by Joyce et al. (2022) – see figure 2.2 in that publication. We create equal thirds of the working 50- to 69-year-old population based on vacancy growth in their occupation,[5] and compare flows out of employment into inactivity for the thirds of workers in occupations with the highest and lowest vacancy growth.

Figure 3.5. Percentage of 50- to 69-year-old workers moving into inactivity in a three-month period, by form of inactivity and growth in occupations' vacancies since late 2019/20



Note: Occupations (measured at the four-digit SOC level) are ranked based on the growth in the number of vacancies measures in Adzuna data, between late 2019/20 (October 2019 to February 2020) and late 2021/22 (October 2021 to February 2022) as calculated by Joyce et al. (2022), and split into equal tertiles (thirds) for 50- to 69-year-old workers. Only the thirds with highest and lowest growth in vacancies are illustrated.

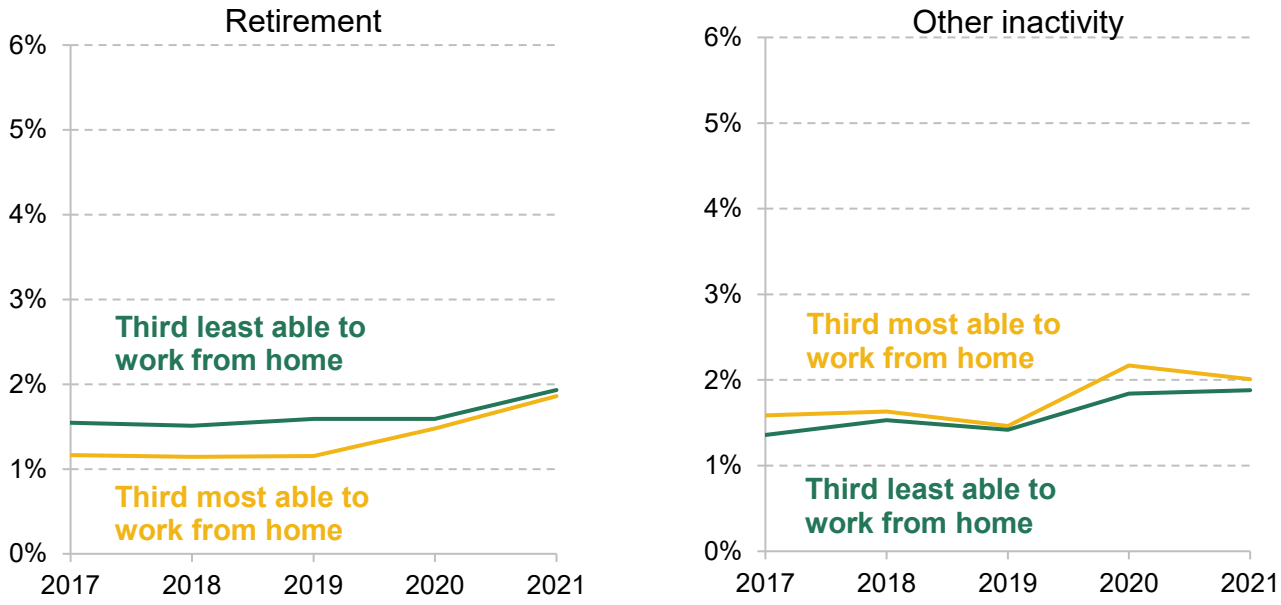
Source: Authors' calculations using the Longitudinal Labour Force Survey.

[5] The bottom third contains occupations with vacancy growth of less than approximately 25% over the two years. The middle third has occupations with vacancy growth of between approximately 25% and 50% over the two years. And the highest third has occupations with vacancy growth in excess of 50% over the two years.

The results are presented in Figure 3.5, which shows that there is very little difference between the increased rates of moving into retirement and other forms of inactivity for people working in occupations that have seen higher and lower vacancy growth over the last two years. Given that the growth in vacancies provides guidance to occupations that are seeing relatively large or small growth in labour demand, this suggests that stronger or weaker demand for specific occupations or skills is unlikely to be playing a key role in driving the increase in economic inactivity among people in their 50s and 60s. It also suggests that higher inactivity for 50- to 69-year-olds is likely to be contributing at least partially to the labour market tightness seen in some areas.

An additional consideration is whether the increased rates of working from home could have had an impact on workers' decisions to leave work for retirement or other forms of inactivity. Figure 3.6 provides some evidence that there is a small difference between people working in occupations where it is easier to work from home and those where it is harder to work from home. The graphs use a measure of how much each occupation (defined by a four-digit SOC code) is able to work remotely, and take people in the third of the distribution that is most able to work from home and the third of the distribution that is least able to work from home (the middle third is therefore excluded).

Figure 3.6. Percentage of 50- to 69-year-old workers moving into inactivity in a three-month period, by form of inactivity and ability to work remotely (split into thirds)



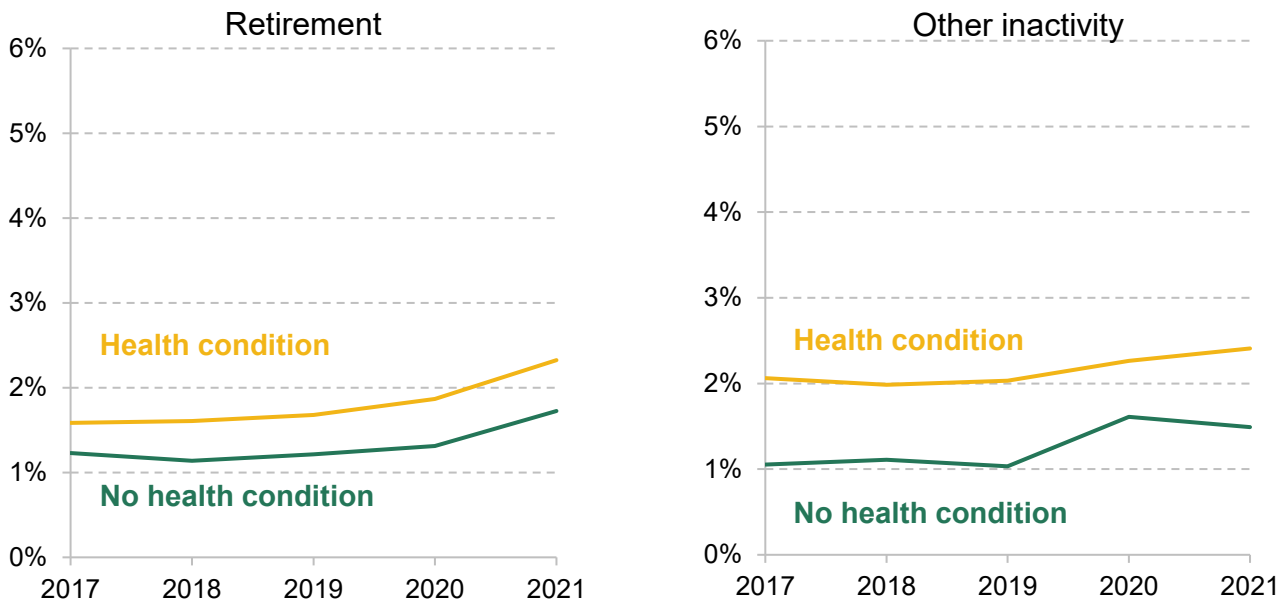
Note: The telework index is based on four-digit occupation (SOC) codes in Dingel and Neiman (2020). Only the top and bottom tertiles (thirds) of the distribution of ability to work from home are presented.

Source: Authors' calculations using the Longitudinal Labour Force Survey.

Figure 3.6 shows that the increase since the start of the pandemic in the rate of moving from employment into retirement or other forms of inactivity is slightly higher for those who are more able to work from home than for those who are much less able to do so. This could be driven either by people who worked from home during the pandemic getting used to more time spent at home – and therefore being unwilling to return to the workplace as public health restrictions have been relaxed – or by people who worked from home actually preferring to be in the workplace, where they could have socialised with people, and not enjoying the lack of socialisation associated with remote working.

Finally, Figure 3.7 shows that those 50- to 69-year-olds workers with a long-standing health condition (lasting, or expected to last, 12 months or more) prior to the pandemic moved out of employment into retirement and other forms of inactivity at a higher rate than those without a long-standing health condition. But there does not seem to have been a larger increase in leaving work for retirement and other inactivity among those with a health condition than among those without one – the percentage point increases are similar for the two groups.

Figure 3.7. Percentage of 50- to 69-year-old workers moving into inactivity in a three-month period, by form of inactivity and presence of long-standing health condition



Note: 'Health condition' is a long-standing health condition lasting, or expected to last, at least 12 months.

Source: Authors' calculations using Longitudinal Labour Force Survey.

In addition, it does not seem that concerns about catching COVID-19 in the workplace are likely to have driven the rise in retirement – when looking either at occupations where you are particularly likely to be working in close proximity to others or at occupations where higher fractions of workers caught the disease, we do not see higher increases in the rates of leaving work for inactivity during the pandemic than in occupations where people work less closely or which saw lower exposure to COVID-19.

Of course, there could be multiple offsetting effects taking place – while some workers with a specific health condition might be more likely to leave employment and move into retirement or other inactivity during the pandemic, due to their vulnerability to the disease, other workers with a health condition might benefit from the increasing availability of remote and flexible work, and become able to stay in employment for longer, whereas pre-pandemic they might have felt that they had little choice but to resign.

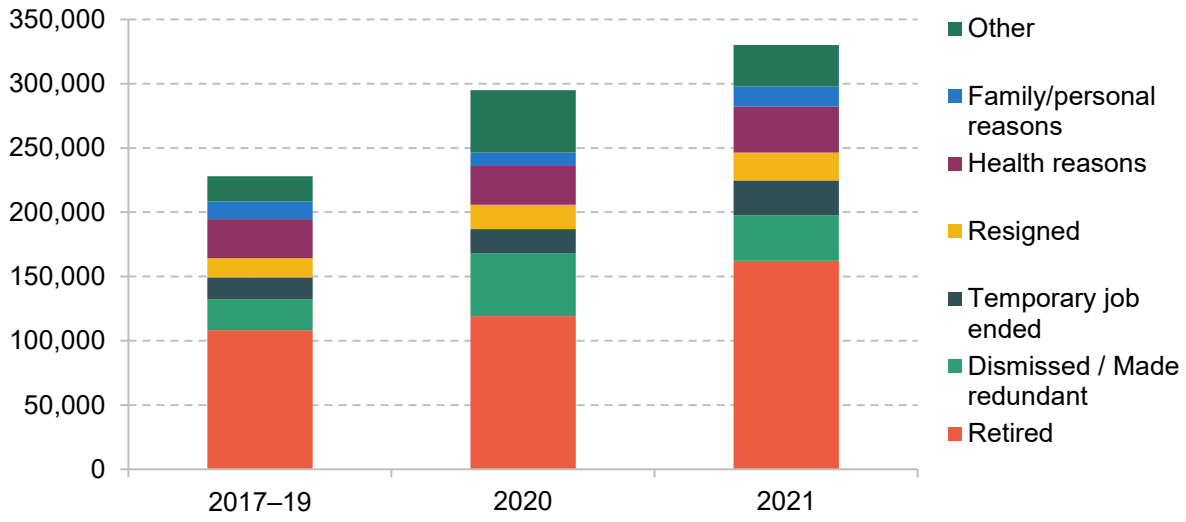
In summary, we find that three particular groups saw particularly large increases in the probabilities of moving out of employment and into retirement or other forms of inactivity during the COVID-19 pandemic: people in their 60s, self-employed workers and part-time workers. We do not find any material difference in the trends of leaving employment for inactivity between those working in occupations with high and low vacancy growth, suggesting that weaker labour demand in some occupations is unlikely to be driving the rise in inactivity. There is some evidence that people in occupations that have a greater ability to work remotely saw somewhat larger increases in the rate of leaving paid work for inactivity.

In comparison, there were fairly small differences between men and women, between people with and without degrees, between those in professional versus non-professional occupations, and between public and private sector employees. On these dimensions, therefore, the rise in inactivity has been broad based. And, potentially surprisingly, we did not see a greater increase in transitions into inactivity for those with long-standing health problems than for those who did not have such health problems.

4. Reasons for moving into inactivity

In this section, we look briefly at stated reasons for leaving work to help us understand the higher rates of 50- to 69-year-old workers leaving the labour force. Coupled with Section 3's analysis of which *types* of workers are moving into inactivity at a higher rate, this can build a picture of the increase in economic inactivity over time and the potential reasons for it.

Figure 4.1. Average number of 50- to 69-year-olds moving from work into inactivity in a three-month period, with their reported reasons for leaving their previous job



Note: The figures are measured over the set of people who responded to this question.

Source: Authors' calculations using the Longitudinal Labour Force Survey.

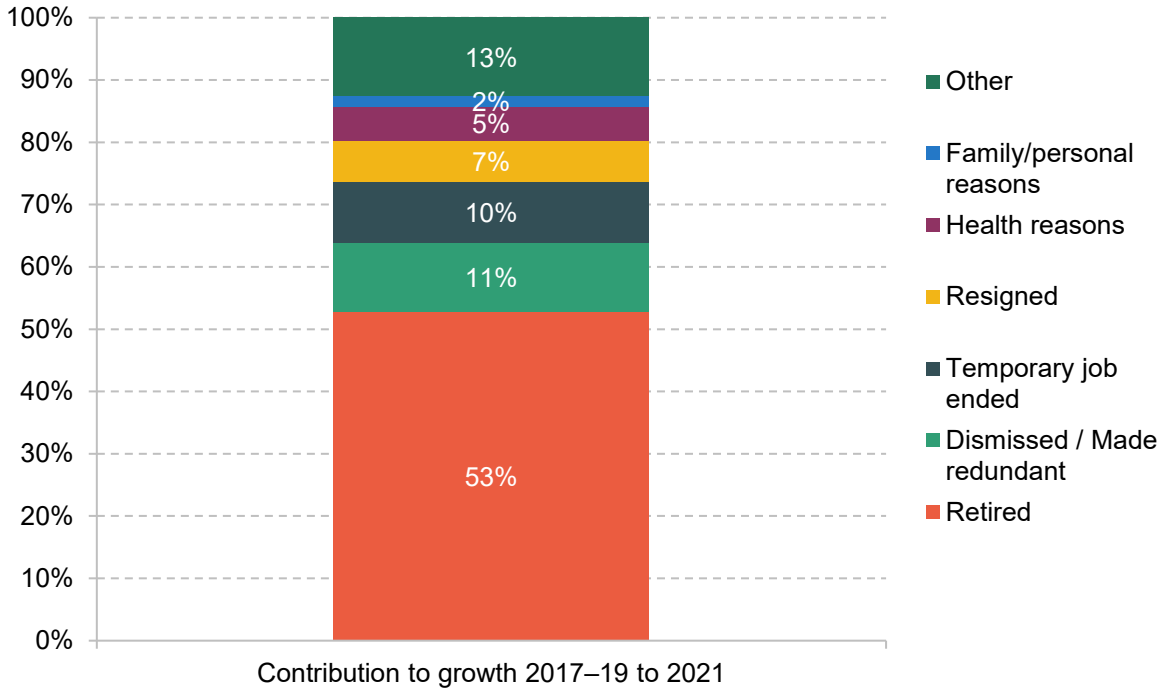
Figure 4.1 shows the average number of workers aged 50–69 moving into economic inactivity within three months, broken down by the reasons they reported for leaving their last job. These figures are shown for the pre-pandemic average (2017–19) and for 2020 and 2021 separately. Note that they only include people who make these transitions *and* report a reason for having left work, so they do not add up quite to the same changes seen in previous sections, but they still give a good sense of people's stated reasons for leaving the labour force.

Alongside this, Figure 4.2 shows the contribution that each reason for leaving work makes to growth in the number of 50- to 69-year-olds leaving employment for inactivity. In particular, it shows that the increased number of people retiring explains 53% of the increase in the number of

50- to 69-year-olds moving from employment to inactivity between 2017–19 and 2021, consistent with the large increases in movements into retirement seen in Figure 2.6.

However, the figures also shed light on other reasons for the increase in moves from employment into inactivity. Redundancy and other job loss also played an important role, especially in 2020. The number of people moving from employment to inactivity due to redundancy or dismissal doubled from 24,000 per quarter prior to the pandemic to 49,000 per quarter. This increase made up 37% of the increase in the number of transitions from employment to inactivity between 2017–19 and 2020. However, compared with 2020, there were falls in the numbers moving into inactivity due to redundancy or dismissal in 2021 (to 35,000 per quarter). This was because redundancy rates amongst 50- to 69-year-olds fell considerably in 2021 – see Figure A.4 in the appendix – and the re-employment rates of older workers who were made redundant in 2021 returned to their pre-pandemic levels (see Figure A.5). Even so, Figure 4.2 shows that 11% of the increase in transitions from work to inactivity between 2017–19 and 2021 can be explained by increasing numbers of redundancies or dismissals.

Figure 4.2. Contribution to the increase in movements into inactivity between 2017–19 and 2021 of each reason for leaving previous job



Note: The figures are measured over the set of people who responded to this question.

Source: Authors' calculations using the Longitudinal Labour Force Survey.

Figures 4.1 and 4.2 also show that there was an increase in a whole range of different answers (including the number that give an unspecified 'other' reason). These include a temporary job coming to an end; resigning (for unspecified reasons); family and personal reasons; and health reasons. It is worth highlighting that there is in fact only a small rise in the number of people who leave employment for inactivity who report that the reason they left work was health-related. This form of exit from the labour force contributed only 5% of the increase in moves from work to inactivity comparing 2017–19 and 2021.

In summary, consistent with the data on types of economic activity, looking at stated reasons for moving into inactivity shows big increases in the number of 50- to 69-year-olds who left work because they were retiring. There were a range of other responses, and the increased level of redundancies seems to have played a contributing role in 2020, but a much reduced role in 2021. In contrast, there is very little evidence of substantial increases in the number of people who left work for inactivity who said that the reason they left work was health-related. These findings are consistent with the findings in previous sections, which also suggested that low labour demand in some occupations, and poor health, were unlikely to be important drivers of the increase in economic inactivity.

5. Conclusion

This report has shed light on the recent striking changes in the labour market behaviour of older individuals. Economic inactivity among 50- to 69-year-olds, after falling consistently in the years prior to the pandemic, rose during the pandemic, and this increase was considerably larger than for other parts of the population. The rates of 50- to 69-year-old workers leaving employment for retirement or for other forms of inactivity spiked, and are higher than at any point since at least 2006, a period that of course includes the Great Recession. Other trends have also pushed up rates of economic inactivity: economically inactive people at these ages have been less likely to return to paid work, and more people have moved from unemployment into economic inactivity during the pandemic. While the increase in inactivity is large and a reversal of a long-running trend, it is also important to note that rates of economic inactivity among 50- to 69-year-olds still remain below those seen prior to 2018.

In terms of who has been most affected by the increased rates of leaving employment for inactivity, three groups stand out: part-time workers, self-employed workers, and workers in their 60s, all of whom became more likely to move out of employment and into economic inactivity during the pandemic. These are all groups that are, in a sense, closer to retirement. Particularly for part-time workers and the self-employed, these increased rates of leaving the labour force started earlier in the pandemic (2020), whereas rises in leaving work for economic inactivity amongst full-time workers and employees have both been less dramatic and occurred later in the pandemic (2021). There is also some evidence of occupations where there is greater ability to work remotely seeing larger increases in the number of people leaving work for economic inactivity, but the differences are not as large as for the other groups identified.

On a number of dimensions, the rises in inactivity look very broad based: we do not find any difference in the trends between men and women, those with and without degrees, those in professional and non-professional occupations, or those who are private and public sector employees. Nor do we find differences in the increase in rates of leaving employment for inactivity between those working in occupations that have seen particularly high, or relatively low, growth in vacancies over the last two years. This suggests that weak labour demand for particular occupations or skills is unlikely to be driving the increased rates of inactivity among people in their 50s and 60s.

Looking at stated reasons for leaving work also provides some insights into what has been driving these trends. The majority (53%) of the increase in 50- to 69-year-olds leaving employment for inactivity between 2017–19 and 2021 is due to more people reportedly leaving

work in order to retire. Redundancies and dismissals were important in driving up inactivity in 2020, though much less so in 2021. Over a third (37%) of the increase in 50- to 69-year-olds leaving the labour force between pre-pandemic data (2017–19) and 2020 was driven by redundancies or dismissals, as redundancy rates spiked. But these only made up 11% of the growth between 2017–19 and 2021.

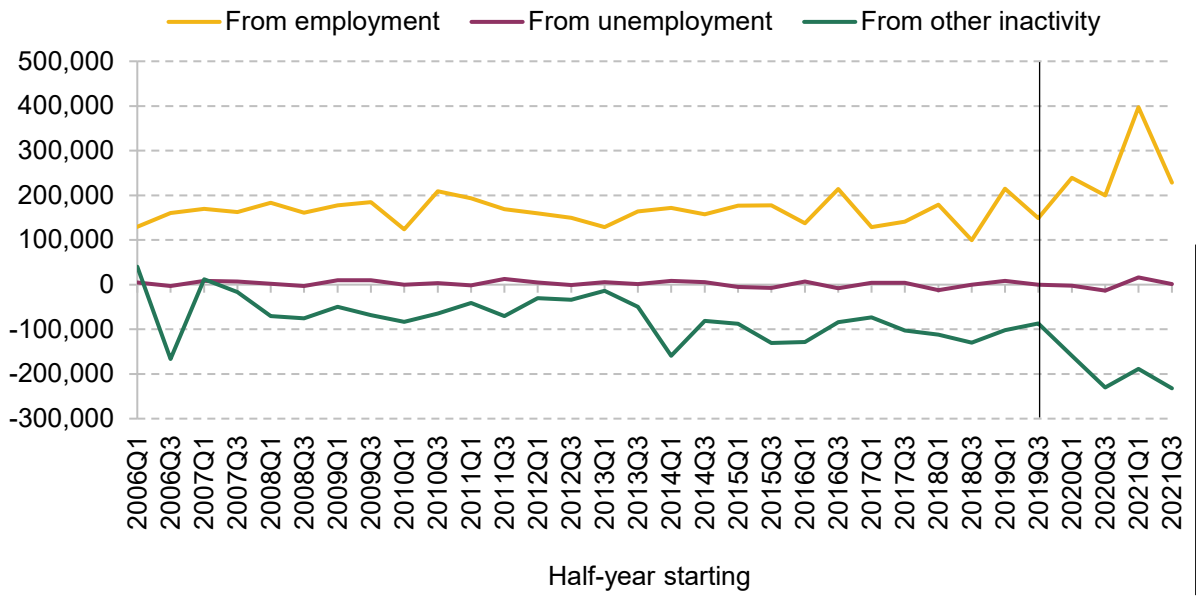
Growth in health-related reasons for leaving the labour force only accounts for 5% of the overall growth in inactivity. In addition, the fraction of 50- to 69-year-old workers moving from employment into being economically inactive due to 'long-term sickness or disability' has stayed relatively constant during the pandemic. Also, changes in transitions from employment to inactivity are similar between those with and without a long-standing health condition. All together, these facts suggest poor health is not a primary driver of these increases in economic inactivity rates.

Overall, therefore, the rise in economic inactivity among 50- to 69-year-olds does not look to be driven primarily either by poor health or by low labour demand leading to people being unable to find work and becoming discouraged. It looks more consistent with a lifestyle choice to retire in light of changed preferences or priorities, possibly in combination with changes in the nature of work post-pandemic (in particular more remote work) which reduces the appeal of staying in employment.

It is, of course, hard to say how much these trends will continue. Optimists might look at the latest quarter of data – from 2022Q1 – which showed a fall in inactivity among those aged 50–69. But drawing conclusions from only one quarter of data is risky at the best of times. And while some may celebrate if the trend of higher inactivity were to prove to be temporary, we should be careful. With rising inflation and spiking energy bills, older people returning to employment (or not retiring when they otherwise would) because they cannot afford to pay their gas bill would not exactly be a trend to celebrate (even though for some it might be a reasonable response to the rising cost of living).

Appendix

Figure A.1. Net flows into retirement from different sources over the course of three months, by half-year

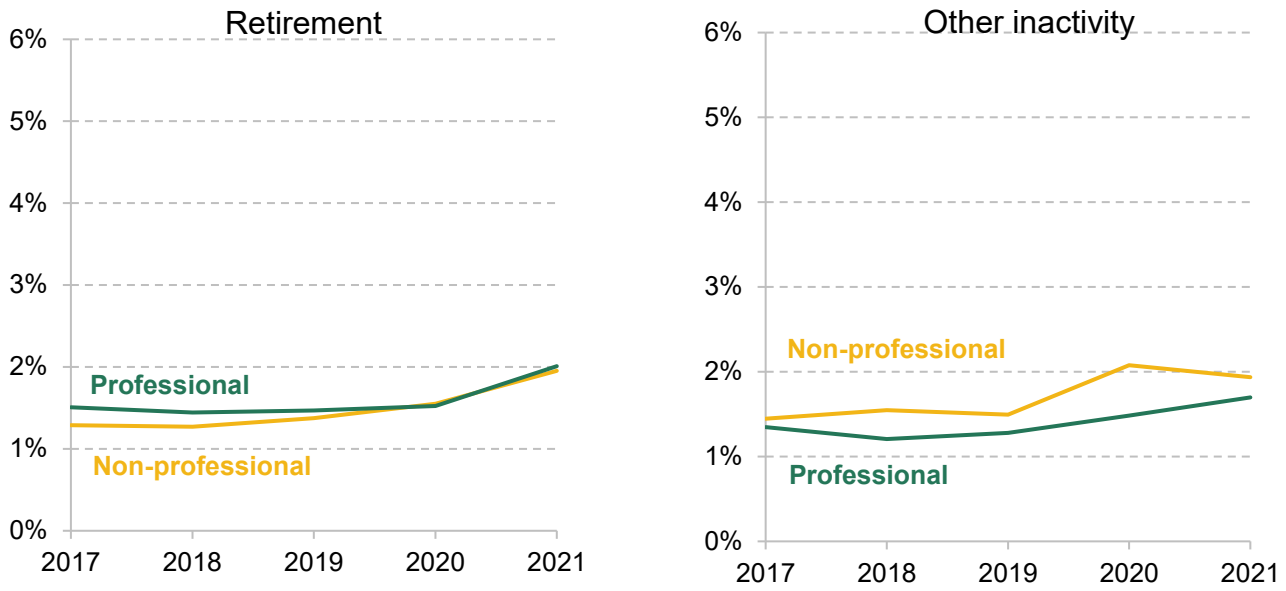


Note: The vertical line indicates the final data point unaffected by the COVID-19 pandemic.

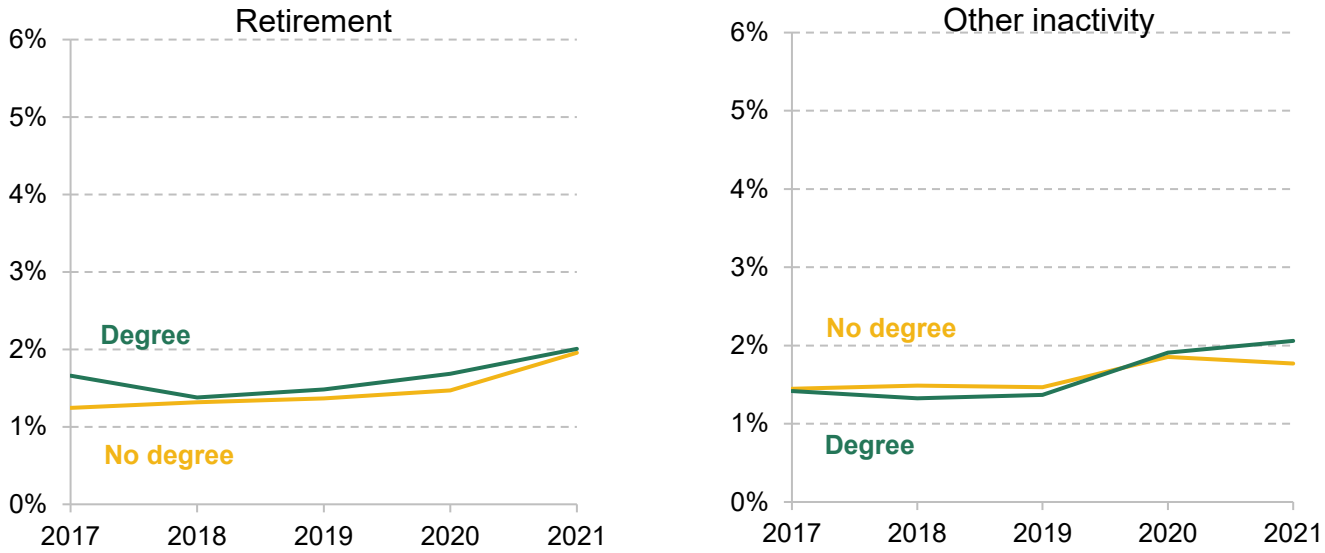
Source: Authors' calculations using Longitudinal Labour Force Survey.

Figure A.2. Percentage of 50- to 69-year-old workers moving into inactivity in a three-month period, by form of inactivity: professional versus non-professional and graduate versus non-graduate

Panel A. Differences between those in professional and non-professional occupations



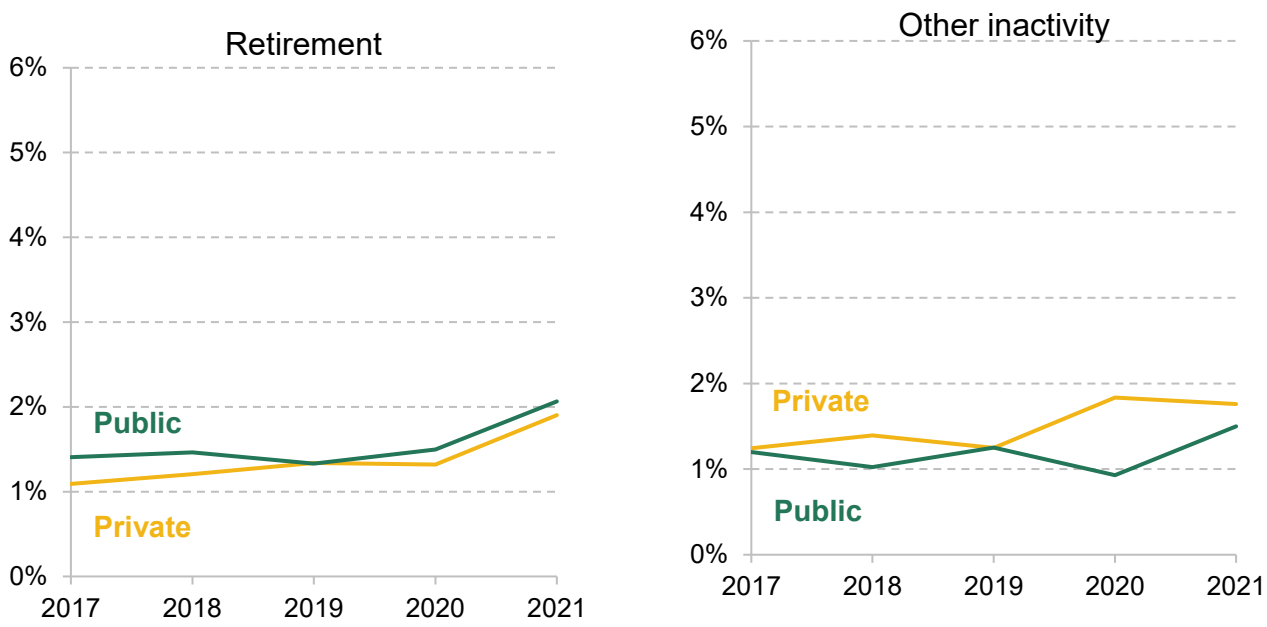
Panel B. Differences between workers with and without degrees



Note: Professional occupations are classified as Professionals or Associate Professionals (SOC2010 or SOC2020 one-digit codes 2 and 3).

Source: Authors' calculations using the Longitudinal Labour Force Survey.

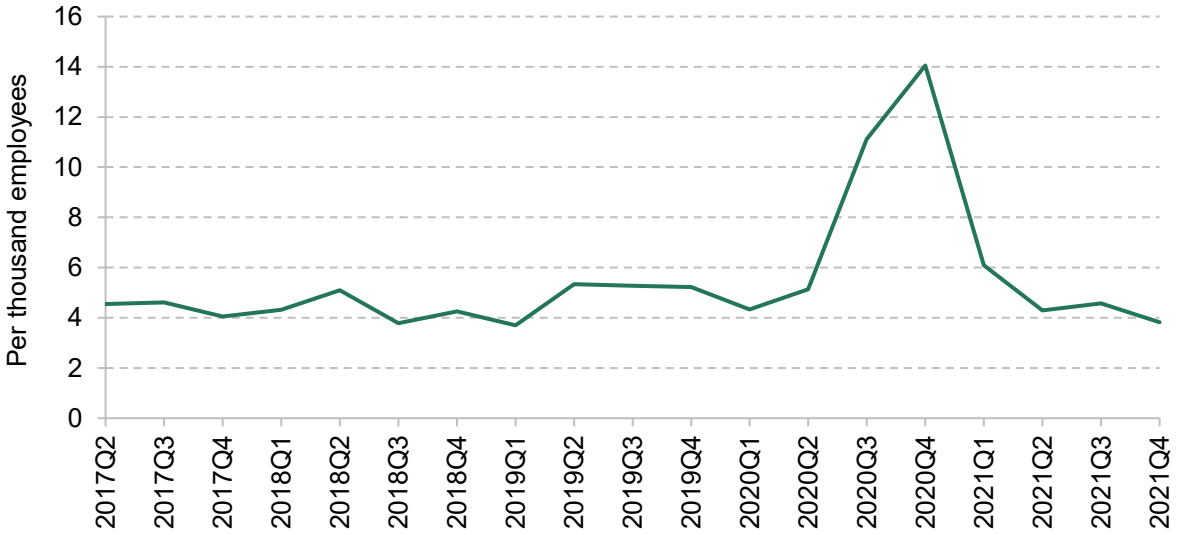
Figure A.3. Percentage of 50- to 69-year-old workers moving into inactivity in a three-month period, by form of inactivity and whether public or private sector



Note: Self-employed workers are excluded.

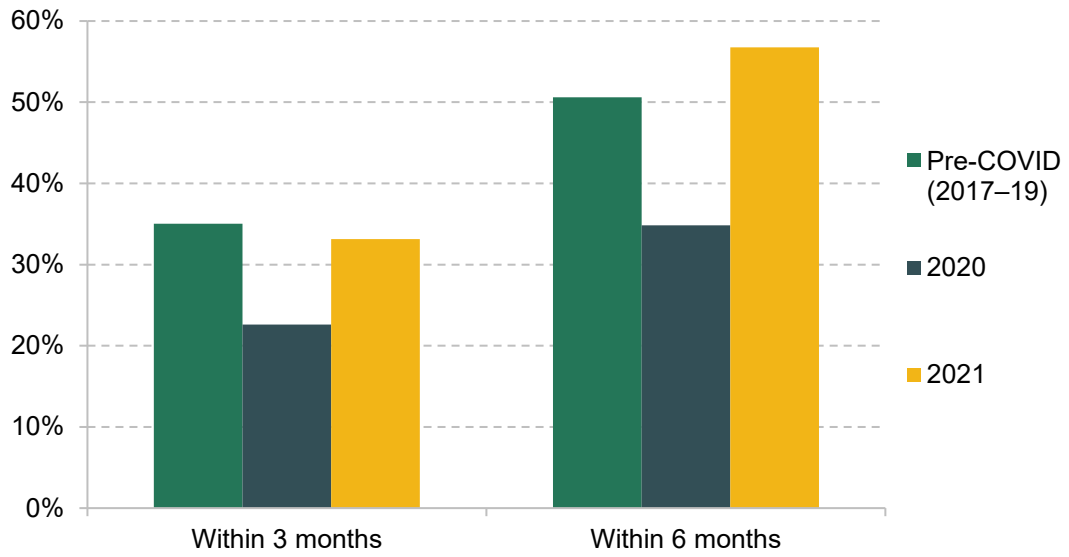
Source: Authors' calculations using the Longitudinal Labour Force Survey.

Figure A.4. Redundancy rate among 50- to 69-year-olds, per thousand employees



Source: Authors' calculations using the Labour Force Survey.

Figure A.5. Re-employment rates among 50- to 69-year-olds following redundancy, by period of non-employment



Source: Authors' calculations using the Longitudinal Labour Force Survey.

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The Pensions Regulator: background information

David Fairs, Executive Director of Regulatory Policy, Analysis and Advice - The Pensions Regulator (TPR)

David was appointed Executive Director of Regulatory Policy, Analysis and Advice on 2 July 2018, having previously been a senior partner in KPMG's Pension Practice. He is responsible for the development of policy for TPR and has oversight of TPR's professional advisers including lawyers, actuaries, investment advisers and business analysts.

He is co-chair of TPR's Diversity and Inclusion Committee and a member of the cross-Government Portfolio Committee overseeing the introduction of the Pensions Dashboard. He is the responsible Executive for climate change and ESG within TPR and a member of HM Treasury's TCFD Senior Steering Board, the Stakeholder Stewardship Working Group, the Working Group on Productive Finance and the Climate Financial Risk Forum. He is also a member of the Joint Forum for Actuarial Regulation and chairs the Pensions Working Group.

David is a former Chairman of the Association of Consulting Actuaries and Director of the Association of Consulting Actuaries Limited, a former Council member of the International Actuarial Association and the inaugural Chairman of the Joint Industry Forum for Workplace Pensions. He was also a Council member of the Society of Pension Consultants and a former Chairman of the Actuaries Club.

David is also Chair of the Genomics Development Board for Sarcoma UK, an advisory Board member of the Association for Business Psychologists and the Department of Mathematical Sciences at Essex University and a Governor of the Pensions Policy Institute.

<u>The Pensions Regulator's responsibilities</u>

The Pensions Regulator (TPR) is the regulator of work-based pension schemes in the UK. Its statutory objectives are: to protect members' benefits; to reduce the risk of calls on the Pension Protection Fund (PPF); to promote, and to improve understanding of, the good administration of work-based pension schemes; to maximise employer compliance with automatic enrolment duties; and to minimise any adverse impact on the sustainable growth of an employer (in relation to the exercise of the regulator's functions under Part 3 of the Pensions Act 2004 only).

Scottish Chambers of Commerce: written submission

1.0 Introduction

The Scottish Chambers of Commerce (SCC) Network welcomes the opportunity to contribute into the COVID-19 Recovery Committee's inquiry into the impact of COVID-19 on the labour market and the prospects for recovery in the short, medium and long-term. We understand that the committee is specifically focused on the number of economically inactive people who are long-term sick and / or have chosen early retirement in the past two years, covering the main period of the COVID-19 pandemic.

The aftereffects of Covid-19 on the economy and society are still being felt today. This is on top of other factors such as Brexit which is continuing to impact particular sectors such as tourism and hospitality, as well as the inflationary crisis which is fuelling pay pressures on employers.

This submission will cover trends in labour market activity post-Covid, the impact of long-covid on the labour market, labour market participation of different groups of society and policy solutions to encourage people to re-enter the labour market. This submission has been informed and influenced by SCC's economic research and direct engagement with the Chambers of Commerce Network in Scotland.

SCC will be delivering in-person evidence to the Parliamentary Committee on 17th of November and will be able to expand on the points and recommendations included in this submission.

2.0 **Key Recommendations:**

1. Tailor elements of the current careers service offering specifically to older workers, from 50-64, to ensure that they can access opportunities and be encouraged to re-enter or stay in the labour market.

2. To tackle economic inequality, the Scottish Budget should continue to secure funding to Skills Development Scotland's various schemes which target economically disadvantaged individuals.

3. Quicker progress must be made on the Programme for Government commitment to develop a Talent Attraction and Migration Service to bring in skilled workers and help individuals to make Scotland their home and work in Scotland.

4. Greater consideration of the productivity impact of changed working patterns because of COVID: accessing the impact of home working on productivity.

5. To support suffers of long-COVID, ensure that these people have high standards of the support that they need and continue to support the vital work of the third sector who have a key role to play in providing those services, in addition to health and social care.

3.0 **SCC Network Economic Insight & Impact on Businesses**

SCC's Quarterly Economic Indicator is Scotland's longest-running economic survey of its kind. It tracks economic performance and business confidence across five key industrial areas – Manufacturing, Construction, Finance and Business Services, Tourism and Retail, measuring several indicators including business optimism, investment and performance to provide comprehensive understanding of the Scottish business landscape.

The most recent survey results from Q3 2022 reported that rising costs, inflation and energy bills are the top concerns for businesses. A long-term concern from the survey has been recruitment difficulties and labour market shortages which has featured as a major challenge for firms. The survey indicates that recruitment difficulties have been on the rise through 2022 and have significantly increased since 2021, with the manufacturing and tourism sectors seeing the most difficulty in hiring people.

From 2018 to the end of 2019, this plateaued at around 25-35% of firms. During the first year of the COVID-19 pandemic, this fell to historic lows. This was due to business and employment support schemes, particularly the furlough scheme. During this period, most firms reported no changes to their staff levels, leaning on the safety net of furlough to maintain their current staff levels but with caution and not actively hiring.

(SCC Quarterly Economic Indicator – Q1 2018 to Q3 2022)

Coming out of the pandemic, going into 2021, we begin to see the aftermath as public health restrictions and government support such as furlough were phased out.

Although official labour market statistics would indicate that the overall employment and unemployment figures have remained stable as we have come out the pandemic, our data indicates that businesses continue to face challenges hiring the people that they need.

This is borne out by ONS data that indicates that there are nearly 1.3 million job vacancies in the UK. In Scotland, we have more vacancies than people that can fill those roles.

Businesses are also indicating that labour costs are among the top cost pressures at this time, usually only behind the cost of energy. SCC began assessing this trend in Q2 2022 and 64% of all firms reported increased pressure from labour costs. This rose to 72% in Q3 2022.

That makes 7 in 10 Scottish firms that are facing increased cost pressures from labour costs, such as salaries and pay settlements.

4.0 Societal Changes & Economic Inactivity

While employment has remained high and unemployment low, this has come with a significant increase in the number of economically inactive people. This group can comprise of people such as students not working or seeking week and those in retirement.

Economic inactivity in Scotland has been higher than in the UK for over five years, and that gap has widened throughout the pandemic. The Annual Population Survey indicates that economic inactivity for people aged 16-64 increased by 5.4 per cent over the course of pandemic.

Long-term sickness, including long COVID, has invariably played a key part in 'discouraging' people, particularly older workers, to staying in the labour market. This has been a large driver in the rise in economic inactivity over the past two years, along with those taking early retirement.

Another factor has been a shift in lifestyle choices, brought upon the societal changes accelerated by the pandemic, in areas such as the nature of work post-pandemic.

The Institute for Fiscal Studies concluded in a report on economic inactivity among people in their 50s and 60s that lifestyle choices seem to the primary driver of the trend of older workers deciding to retire early from the workforce.
As an organisation, we were actively involved in the recent review of career services in Scotland and agree with the final report's acknowledgement that Scottish career services are already a world class standard. However, as economies constantly deal with new challenges and opportunities, we also agree with the recommendation that the services must continue to evolve alongside changes in the world of work.

It has never been more important to work together to support people of all ages to develop their knowledge and experience of this changing world of work. This gives employers an opportunity to put a spotlight on their industry and attract fresh skills and talent to shape their own future workforce.

Recommendation: Tailor elements of the current careers service offering specifically to older workers, from 50-64, to ensure that they can access opportunities and be encouraged to re-enter or stay in the labour market.

5.0 **Demographics and economic equality**

Scotland's long term demographic challenges are well documented and SCC notes the findings and recommendations of the Scottish Government's *'A Scotland for the future'* publication.

An ageing population combined with the prospect of reduced net migration to Scotland poses a substantial challenge to Scotland's long term economic prosperity and the needs of businesses to access the necessary skills and talent.

It is paramount that the Scottish and U.K. Government work together to address these demographic challenges and create an environment that allows businesses to attract talent and plug gaps in the workforce with ease.

The impact of the pandemic and EU exit has laid bare the workforce and skills challenges facing Scottish businesses with shortages of staff emerging across multiple sectors.

We have continued to urge the UK Government to expand the Shortage Occupation List to increase flexibility in the UK immigration system for sectors that continue to experience persistent recruitment difficulties. It is welcome that a review of the SOL has been announced and we will look to contribute into it. We note the SOL is a short-term measure to address immediate labour markets shortages and wider policy shifts are needed in the overall migration policy framework for the UK.

Recommendation: We have welcomed the development of an Industry Advisory Group for rUK Talent Attraction, but quicker progress must be made on the Programme for Government commitment to develop a Talent Attraction and Migration Service to bring in skilled workers and help individuals to make Scotland their home and work in Scotland.

For noting, SCC is part of the joined-up approach with Scottish Government and partners to support the resettlement of refugees from Afghanistan and Ukraine into employment opportunities.

Improving Scotland's economic equality will also be vital to meeting the demographic challenges Scotland faces such as increasing women's ability to access high-quality, well-paid jobs that provide greater financial security.

The challenges of an ageing workforce and rapid changes to industry and our economy also mean that many more people will be required to train and re-train to match the needs of business. SCC therefore see investment of the workforce at all ages as being a vital component in tackling the issues caused by Scotland's ageing population.

Recommendation: A commitment to a long-term increase in funding of Skills Development Scotland's Apprenticeship Employer Grant and additional grants support which targets economically disadvantaged individuals, should be implemented to upskill Scotland's workforce and increase the skills and talent

6.0 **Work Patterns & Flexible Models**

Building on the changes that have been ushered in by the pandemic such as greater support for flexibility in the workplace to tackle inequalities, attract talent and retain skills in the economy, benefiting business and society will also be key. Businesses have identified benefits of adopting different business models, whether that be hybrid working or expansion of flexible working. These latter measures may well be a useful incentive to offer older workers a route back into the workforce.
Many businesses are continuing to deploy and offer flexible working options as a tool to recruit and retain talent whilst other sectors are struggling with the lack of footfall and spend recovery.

The lack of office workers has been detrimental to some businesses, who rely on worker footfall for revenue. That has caused more hardship for firms on top of a cost of living crisis which is supressing consumer spend. Businesses reliant on footfall cannot survive prolonged periods without it.

Therefore, it's critical that all factors to revive our city centres are addressed including restoring worker footfall, the normalisation of in-person meetings/events and more in-person working opportunities are enabled.

Recommendation: While businesses will remain open to offering flexible working and it could be a valid route to getting more older workers back into the workforce, we would recommend greater consideration of the productivity impact of changed working patterns because of COVID and further assessment of the impact of home working on productivity.

7.0 **Invest in Scotland's workforce and the third sector**

Our people are at the heart of our businesses. We need access to the best talent to drive business growth and a clear plan to upskill and reskill our workforce at all levels. Productivity growth is the sustainable way to secure effective growth in quality jobs and increase our output.

It's essential that the Scottish Government continues to work with industry to support Scotland's workforce to upskill and reskill to match the needs of business.

Recommendation: Expand retraining opportunities to help people back into work and expand upskilling opportunities to help those out of work secure jobs that are being created in emerging and growing sectors now and in the future. For example, delivering quicker funding for the Just Transition Fund for the North East and Moray to help finance organisations, businesses, communities and individuals to transition to net zero, creating jobs in low carbon industries and contributing to

Long Covid will continue to remain a factor which prevents people unable to return to work. Employers are keen to ensure flexibility for those with Long Covid are able to access opportunities and contribute while ensuring their healthcare needs are fully

supported.

According to research by the Scottish Council for Voluntary Organisations (SCVO), the pandemic has been incredibly disruptive for third sector organisations in Scotland. The research indicates that 57% of organisations saw demand for their services rise since the start of the pandemic, with half facing financial challenges on top.

Third sector organisations have a frontline role to play to help people with long-Covid manage its effects and ensure they can play a full part in society. Therefore, demand for the critical work of third sector organisations will only **increase further.**

Recommendation: For such organisations to continue this work and support the long-term effects of long-Covid on people, we would encourage further support for the third sector so that they may continue to play a key role in providing critical support services to those who need it most.

ENDS

ABOUT SCC: The Scottish Chambers of Commerce Network sits at the heart of local business communities, representing over 12,500 businesses in Scotland. With 30 local Chambers rooted in communities across Scotland, the Chamber Network provides practical advice and support to Scottish companies through unrivalled expert leadership, business-to-business connections, mentoring/coaching, business support services and international trade support.

Close the gap: written submission

August 2022

1. Introduction

Close the Gap is Scotland's policy advocacy organisation working on women's labour market participation. We have been working with policymakers, employers and employees for over 20 years to influence and enable action that will address the causes of women's labour market inequality.

Close the Gap welcomes the opportunity to respond to this inquiry on the impact of Covid-19 on the Scottish labour market. The impact of the pandemic on women's labour market inequality has been a core focus of Close the Gap's work since 2020. Our analysis has shown that women's employment has been impacted in multiple and specific ways by Covid-19 job disruption[1], with disproportionate implications for the employment of Black and racialised women, disabled women and single mothers.[2] This underscores the need for a gendered approach to labour market policymaking in Covid recovery.

While unemployment did not reach the unprecedented highs that were expected during the crisis, an unanticipated labour market trend emerging from the pandemic has been rising economic inactivity. This trend is particularly acute among older workers. In the context of a tight labour market and record vacancies, rising inactivity could have far-reaching implications for the UK economy.[3] Women continue to account for the majority of economically inactive people in the UK. Women's engagement with the labour market is constrained by their caring responsibilities and increasing numbers of women are inactive due to retirement or ill-health. If we are to enable women to re-enter the labour market, there is need for action to improve access to high-quality flexible working; provide support with caring responsibilities; develop gender-sensitive upskilling and reskilling initiatives; and provide better support for those experiencing long-Covid.

The data relating to economic inactivity is a changing picture. Data released by the Office for National Statistics (ONS) in July 2022 showed that inactivity for those aged 50- 64 had fallen on the last quarter with more people aged 50 and older in work or looking for work than since just before the pandemic.[4] In July 2022, economic activity had increased by 116,000 among the over-50s in the past year.[5] By contrast, in the

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1 Close the Gap (2021) *One Year On: How COVID-19 is impacting women's employment in Scotland* available at https://www.closethegap.org.uk/content/covid-19/1617267711_One-Year-On---How-COVID-19-is-impacting-womens- employment-in-Scotland.pdf

2 Close the Gap (2022) *An Unequal Burden: How Covid-19 has affected women's employment, financial security and unpaid work* available at https://www.closethegap.org.uk/content/resources/An-Unequal-Burden---How-Covid-19-has-affected- womens-employment-financial-security-and-unpaid-work-2.pdf

3 ONS (2022) Vacancies and jobs in the UK: August 2022 available at https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/latest.

4 Hill, Amelia (2022) "Britain's 'great unretirement': cost of living drives older people back to work", The Guardian, 25th July 2022 available at https://www.theguardian.com/business/2022/jul/25/britains-great-unretirement-cost-of-living-drives-older-people-back-to-work?CMP=share_btn_link

5 Ibid.

latest data release (August 2022) the inactivity rate for older workers has increased on the previous quarter.[66] We therefore urge the Covid-19 Committee to analyse future data releases to understand the longer-term trends around gender differences in economic inactivity.

2. Economic inactivity

Women are more likely to be economically inactive than men. Data from July 2022 shows that there are 1,544,000 more economically inactive women (5,146,000) than men (3,602,000) in the UK.[77] Higher rates of economic inactivity among women reflects women's propensity to be primary caregivers for children, or to have unpaid caring roles for older people or disabled people. The Gender Equality Index published in 2020 finds that 85% of people aged 16-64 who were "economically inactive" due to caring were women and Scotland's overall score on the measure of inactivity due to caring is low, leading Scottish Government to conclude that "Scotland is a long way from full gender equality in this area."[8] The value of this work is estimated to be worth an estimated £1.1 trillion to the UK economy, or around 56% of GDP.[99] Despite women's unpaid work being critical to the functioning of the economy, the system of national accounts does not identify it as "productive", and instead when women are doing unpaid work they are counted as being economically inactive.

Gendered patterns of care were exacerbated by the Covid-19 crisis, particularly during school and nursery closures, as women assumed the burden of additional unpaid caring responsibilities for children, older people and disabled people. Women's increased caring responsibilities were a key contributor to the negative impact of Covid-19 on women's labour market equality, particularly at the start of the pandemic. Looking at the period of March to May 2020, women's unemployment rose twice as fast as men's in Scotland[10] and mothers across the UK were 1.5 times more likely than fathers to have lost their job or quit.[11] The difficulties in balancing paid work, home-schooling and childcare saw many women with caring responsibilities withdraw from paid work or reduce their working hours, posing significant risks for women's economic equality in the longer term. In addition, the reduction or loss of social care packages during the crisis made it more difficult to access formal care, displacing responsibility onto female family members.[12] Unpaid caring roles have traditionally posed a barrier to women entering and retaining employment, and this was intensified by the crisis

6 ONS (2022) A05 SA: Employment, unemployment and economic inactivity by age group (seasonally adjusted) – August 2022 available at: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/employm entunemploymentandeconomicinactivitybyagegroupseasonallyadjusteda05sa

7 ONS (2022) Table INAC01: Economic inactivity: Women aged 16 to 64 by reasons for inactivity (seasonally adjusted) July 2022.

8 Scottish Government (2020) Gender Equality Index.

9 Office for National Statistics (2016) Women shoulder the responsibility of 'unpaid work'.

10 Close the Gap (2021) *One Year On: How COVID-19 is impacting women's employment in Scotland* available at https://www.closethegap.org.uk/content/covid-19/1617267711_One-Year-On---How-COVID-19-is-impacting-womens-employment-in-Scotland.pdf

11 House of Commons Library (2022) *Will more economic inactivity be a legacy of the pandemic?* available at https://commonslibrary.parliament.uk/will-more-economic-inactivity-be-a-legacy-of-the-pandemic/

12 Engender (2020) *Gender and unpaid work: The impact of COVID-19 on women's caring roles*

3. Answers to consultation questions

1. What are the key factors driving the increase in labour market inactivity?

Comparing data relating to March to May 2022 to data for the same period pre-pandemic (March to May 2019) shows that long-term sickness and retirement accounted for the biggest rises in economic inactivity among women aged 16-64. When comparing these time periods, there are 146,000 additional economically inactive women due to long-term sickness and 25,000 more retired women.[13] Retirement was the key driver of rising economic inactivity for older workers (50 to 69 year olds), accounting for more than half of the growth.[14] Older men and women saw similar increases in the rate of moving from employment into retirement and other forms of economic inactivity during the pandemic.[15][15]

The only category of economic inactivity that decreased during the pandemic is those looking after family or home. This has a particular impact on women's inactivity rates, particularly within the 35-49 age group.[16] Overall, there are 334,000 fewer women who are economically inactive due to looking after family or home in March to May 2022 than there were in the same period in 2019.[17] This decline is attributed to women being more likely to enter or stay in the workforce because of increased flexibility in working patterns, or to compensate for a partner losing income during the crisis.[18] During the pandemic, there was also increasing demand for labour in female-dominated sectors which were critical to the pandemic response such as care, cleaning, education and essential retail which meant many women in these sectors actually increased their working hours during the crisis.[19] Despite reducing inactivity due to looking after family or home, this remained the most common reason for women's inactivity throughout the pandemic. Recent data releases have also shown increasing numbers of women being inactive due to care, which calls into question the extent to which this is a long-term trend. In March to May 2022, more than a quarter (28.3%) of economically inactive women were inactive due to looking after home or family.[20] This underscores the need for sufficient flexibility in the labour market to enable women to balance earning with caring.

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13 ONS (2022) *Table INAC01: Economic inactivity: People aged 16 to 64 by reasons for inactivity (seasonally adjusted)*

14 Institute for Fiscal Studies (2022) *The Rise in economic inactivity among people in their 50s and 60s* available at https:// ifs.org.uk/publications/16087

15 Ibid.

16 https://commonslibrary.parliament.uk/will-more-economic-inactivity-be-a-legacy-of-the-pandemic/

17 ONS (2022) *Table INAC01: Economic inactivity: People aged 16 to 64 by reasons for inactivity (seasonally adjusted)*

18 House of Commons Library (2022) *Will more economic inactivity be a legacy of the pandemic?* available at https://commonslibrary.parliament.uk/will-more-economic-inactivity-be-a-legacy-of-the-pandemic/

19 Close the Gap (2021) *One Year On: How COVID-19 is impacting women's employment in Scotland* available at https://www.closethegap.org.uk/content/covid-19/1617267711_One-Year-On---How-COVID-19-is-impacting-womens-employment-in-Scotland.pdf

20 ONS (2022) *Employment in the UK – July 2022* available at https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/july2022

2. Has long-COVID been a factor in current levels of labour market inactivity? If so, is this likely to be a permanent feature of the labour market?

Data from the ONS shows that almost 2 million people in the UK (3% of the population) were experiencing long-Covid symptoms lasting longer than four weeks as of 4th June 2022.[21] This data also shows that long-Covid was significantly more prevalent among women which aligns with a previous review of risk factors which found consistent evidence of an increased risk of long-Covid amongst women.[22] While acute cases of Covid tend to be mostly male and over 50, long-Covid sufferers are both relatively young and overwhelmingly women.[23] As women are more likely to experience long-Covid, it will very likely have an impact on the female economic activity rate.

Recent analysis by the Institute for Fiscal Studies (IFS) points to about one in 10 long-Covid sufferers stopping paid work while they had the condition, with the majority taking sick leave, rather than losing their job altogether.[24] In the longer-term, the numbers of people who are inactive due to long-Covid may increase as entitlement to sick leave runs out. A survey by the Resolution Foundation found that around 600,000 adults have either left the workforce since the pandemic started, or are working fewer hours, because of long-Covid or the fear of the virus, with women and younger people over-represented in this group.[25] These results thus reflect the profile of people who are currently reporting symptoms of long-Covid and women's concentration in occupations which have higher exposure to the virus. ONS data shows that the prevalence of long-Covid was greatest among those working in in social care (85% female[26]), teaching and education (68% female[27]) or health care (76% female[28]).[29]

Inadequate employer responses have made sustaining paid work while experiencing long-Covid particularly difficult, heightening the risk of rising inactivity due to ill-health. The campaign group Long Covid Nurses and Midwives UK has raised concerns about the number of nursing staff with long-Covid being encouraged to take ill-health

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21 ONS (2022) *Prevalence of ongoing symptoms following coronavirus (COVID-19) infection in the UK: 7 July 2022* available at https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/conditionsanddiseases/bulletins/prevalenc eofongoingsymptomsfollowingcoronaviruscovid19infectionintheuk/7july2022

22 REACT (2021) *Long COVID available at* https://spiral.imperial.ac.uk/bitstream/10044/1/89844/9/REACT_long_covid_paper_final.pdf

23 David Cox (2021) 'Why are women more prone to long Covid?', *The Guardian,* 21st June 2021, available at: https://www.theguardian.com/society/2021/jun/13/why-are-women-more-prone-to-long-covid

24 Institute for Fiscal Studies (2022) *The Rise in economic inactivity among people in their 50s and 60s* available at https://ifs.org.uk/publications/16087.

25 Resolution Foundation (2021*) Begin again? Assessing the permanent implications of Covid-19 for the UK's labour market* available at https://economy2030.resolutionfoundation.org/wp-content/uploads/2021/11/Begin-again.pdf

26 Scottish Social Services Council (2019) *Scottish Social Service Sector: Report on 2018 Workforce Data*

27 NOMIS (2022) Annual population survey - regional - employment by occupation – teaching and education professionals

28 NOMIS (2022) workforce jobs by industry (SIC 2007) and sex - human health and social work activities

29 ONS (2022) *Prevalence of ongoing symptoms following coronavirus (COVID-19) infection in the UK: 6 May 2022*

retirement by employers.[30] In some cases, staff with the condition were being pushed down the retirement route without reasonable adjustments being put into place to support them back to work. More broadly, a survey by the TUC in 2021[31] also found that:

- Over half (52%) of respondents said they had experienced some form of discrimination or disadvantage due to long-Covid.
- One in six respondents (18%) said the amount of sick leave they had taken had triggered absence management or HR processes. This could be particularly difficult for women, as evidence showed women have been forced into using their sick leave entitlement to undertake additional unpaid care during the pandemic, especially during school and nursery closures.[3232]
- Overall, one in 20 respondents said they had been forced out of their jobs because they had long-Covid.

While there is a lack of data to demonstrate the particular impact of long-Covid on economic inactivity, the condition is likely to have contributed to the additional numbers of people across the UK who are economically inactive due to ill-health. Given the groups who are more likely to experience long-Covid, it would be expected that the condition will have a particular impact on the labour market participation of younger women. With individuals continuing to report long-Covid symptoms at least three months after infection, there are likely to be persistent negative labour market implications which further cement women's economic inequality.[3333] It is therefore vital that employers improve their responses to long-Covid among the workforce, ensuring that those experiencing symptoms are given appropriate support.

3. What has been the labour market impact of the pandemic on people with pre-existing health conditions?

People with pre-existing health conditions are at greater risk of Covid-19 and more likely to experience long-Covid. Research by Resolution Foundation also showed that the fear of the virus was resulting in people reducing their working hours or leaving the labour market.[3434] Taken together, the continued presence of Covid-19 may lead to increasing numbers of people with pre-existing conditions leaving the labour market due to ill-health or a desire to protect their health, particularly when public health measures

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[30] Nursing Times (2022) 'Nurses with long Covid being 'pushed' to take ill health retirement' available at: https://www.nursingtimes.net/news/coronavirus/nurses-with-long-covid-being-pushed-to-take-ill-health-retirement-12-08-2022/

[31] TUC (2021) 'TUC calls for long Covid to be urgently recognised as a disability to prevent "massive" discrimination' available at https://www.tuc.org.uk/news/tuc-calls-long-covid-be-urgently-recognised-disability-prevent-massive- discrimination

[32] Close the Gap (2020) Disproportionate Disruption available at https://www.closethegap.org.uk/content/resources/Disproportionate-Disruption---The-impact-of-COVID-19-on- womens-labour-market-equality.pdf

[33] Institute for Fiscal Studies (2022) *The Rise in economic inactivity among people in their 50s and 60s* available at https://ifs.org.uk/publications/16087

[34] Resolution Foundation (2021*) Begin again? Assessing the permanent implications of Covid-19 for the UK's labour market* available at https://economy2030.resolutionfoundation.org/wp-content/uploads/2021/11/Begin-again.pdf

have been removed.

There is a lack of labour market data to highlight how the pandemic has specifically affected women with pre-existing health conditions and disabled women. However, research by Glasgow Disability Alliance found that disabled women experienced a number of employment challenges as a result of the pandemic including lack of employment support; discrimination; increased difficulties in progressing Access to Work Claims; and pressure to return to the workplace.[35] Many disabled people also lost social care support during the pandemic which will have created additional barriers to maintaining paid employment. It is therefore critical that employers take steps to improve their workplace practices to support disabled women, otherwise a long-term outcome of the pandemic may be rising economic inactivity among this group. This would further jeopardise Scottish Government commitments to tackling the disability employment gap and the gender pay gap.

4. What factors have influenced some people to take early retirement?

Early retirement is a key contributor to rising inactivity, with 70% of the increase in inactivity since the start of the pandemic being driven by those aged 50 to 64 years. Falls in inactivity for older workers, which had been visible over a number of years before the outbreak of Covid-19, were always likely to slow in 2021 because this was the first year in a decade in which the state pension age was not rising.[36] However, the level of increase in inactivity had not been anticipated. A number of factors contribute to the rise in early retirement, including changes to working practices in response to Covid-19; the fear of the virus and ill-health; and the lack of high-quality part-time and flexible work.

Research by the Institute for Fiscal Studies suggested that people taking early retirement were making a “lifestyle choice” reflecting changing priorities and preferences, with relatively small numbers being forced out of work because of redundancy or long-term health problems.[37] However, this may also reflect the lack of flexibility in the labour market, with older workers struggling to find quality part-time or flexible work that enables them to work the number of hours they wish. Analysis by IFS and the Fair Work Convention has also highlighted that remote working has made employment less appealing to some older workers with less access to the social interactions of the workplace.[38]

Data shows that the rise in inactivity has not been restricted to those who are relatively

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[35] Glasgow Disability Alliance (2022) *Triple Whammy: Disabled Women’s Lived Experiences of Covid-19* available at https:// gda.scot/resources/triple-whammy-disabled-womens-lived-experiences-of-covid-19-voices-priorities-and-actions-for- change-full-report-pdf/

[36] Institute for Fiscal Studies (2022) *The Rise in economic inactivity among people in their 50s and 60s* available at https:// ifs.org.uk/publications/16087

[37] Ibid.

[38] National Institute of Economic and Social Research (2022) *Exploration of the pay and career progression experiences of women aged over 50 in Scotland* available at https://www.fairworkconvention.scot/wp-content/uploads/2022/07/Experiences-of-pay-and-progression-among-women-over-50-in-the-workplace-in- Scotland.pdf and Institute for Fiscal Studies (2022) *The Rise in economic inactivity among people in their 50s and 60s* available at https://ifs.org.uk/publications/16087

well-off.[39] We therefore urge the Committee to consider the financial implications for women who take early retirement, particularly in the context of the ongoing cost of living crisis. Older women are already more likely than their male counterparts to be experiencing pensioner poverty. Research by Age UK found that 1 in 5 female pensioners in 2021 were living in poverty.[40] The gender pay gap is a key contributor to the gender pension gap, leading to higher rates of pensioner poverty among women. As women are more likely to be in low-paid work, and more likely to take time out of paid employment in order to care, they contribute less to their pension pot over the course of their working lives. Leaving the labour market earlier than planned could therefore have far-reaching implications for older women's financial security. There are concerns for nursing staff who have been encouraged to take ill-health retirement by their employer, as highlighted in question 2, despite the lack of evidence that exists for successful applications for a diagnosis for long-Covid alone. Women who have pursued this option may therefore be pushed to financial precarity when they are unable to access their NHS pension and have no entitlement to other forms of financial support.[41]

Research by the ONS found that men are more likely (7%) to state that they left the labour market because no longer needed the money from their job than women (3%). Moreover, men were more likely (51%) to use savings and investments to fund their retirement than women (33%). By contrast, women were more likely to receive financial support from a partner or family (26%) than men (10%).[42] This is concerning as financial dependence and poverty are both primary risk factors that diminish women's resilience and can prevent women from leaving an abusive partner. The vast majority of women (89%) affected by domestic abuse report that financial abuse was central to their experience. Findings from the Women's Aid survivor voice survey in 2018 found that nearly half of women did not have enough money to pay for basic essentials, like food and bills, while they were with their abusive partner.[43] The survey also found that almost half (43%) of respondents were in debt as a result of their experiences of abuse.[44] It is particularly important that the Committee consider this economic context as women's economic inequality means that the ongoing cost of living crisis is having a disproportionate impact on women's financial insecurity.

5. Thinking about labour market participation, have certain groups of society and parts of the country been impacted more than others?

There is a lack of intersectional data on experiences on employment, unemployment, and economic inactivity. In particular, there is no publicly available data on rates of inactivity for Black and racialised women or disabled women. The lack of intersectional labour market data makes it difficult to draw meaningful conclusions about the

[39] Institute for Fiscal Studies (2022) *The Rise in economic inactivity among people in their 50s and 60s* available at https:// ifs.org.uk/publications/16087

[40] Age UK (2021) *Pensioner Poverty: Making ends meet: why pensioner poverty is still an issue*

[41] Nursing Times (2022) 'Nurses with long Covid being 'pushed' to take ill health retirement' available at https://www.nursingtimes.net/news/coronavirus/nurses-with-long-covid-being-pushed-to-take-ill-health-retirement-12-08-2022/

[42] Strickland, Hugh (2022) *The over-50s and the world of work: what's happening and why?* Available at https://blog.ons.gov.uk/2022/03/14/the-over-50s-and-the-world- of-work-whats-happening-and-why/

[43] Women's Aid (2019) The Economics of Abuse available at https://www.womensaid.org.uk/wp-content/uploads/2019/03/Economics-of-Abuse- Report-Summary-2019.pdf

[44] Ibid.

experiences of different groups. Improving the range of intersectional and gender-sensitive sex-disaggregated data used in labour market policymaking must be a key priority for the Scottish Government if it is to realise its ambitions on women's equality.[45]

Have there been sectoral differences from economic inactivity – for example, have Health and Hospitality sectors been more exposed than, for example, Finance?

Occupational segregation puts women at greater risk of leaving the labour market due to ill health. Data analysed by the TUC found that people whose last job was in caring, leisure and other service occupations (83% female); sales occupations (63% female)[46] and customer service occupations (54% female) are disproportionately likely to be inactive because of health problems. In total, these low-paid occupation groups account for almost six in ten ill-health early exits from the labour market (57%), despite employing just three in ten workers.[47] Between the third quarters of 2019 and 2021, there was a 95% increase in the numbers of staff leaving sales and customer services occupations (60% female)[48] into economic inactivity due to ill health.[49] The limited available data on occupational segregation for Black and racialised women shows that they are over-represented within these sectors, implying that Black and racialised women may be particularly impacted by economic inactivity due to ill health.

6. What policies might encourage people to re-enter the labour market?

Support to mitigate the impact of the cost of living crisis

Qualitative data from the ONS supports the hypothesis that the recent reduction in economic inactivity among older workers reflects those coming out of retirement, rather than simply continuing to look for work after the age of 65.[50] The UK is now replicating a trend that has been visible within the US economy, whereby rising inflation and the cost of living crisis has contributed to "unretirement".[51] Economic inactivity due to retirement may decline as people return to paid work in order to prevent their household falling into

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45 Scottish Government (2020) *Scottish Government's Response to the First Minister's National Advisory Council on Women and Girls: 2019 Report Recommendations* available at https://www.gov.scot/binaries/content/documents/govscot/publications/corporate-report/2020/12/scottish- governments-response-first-ministers-national-advisory-council-women-girls-nacwg-2019-report- recommendations/documents/scottish-governments-response-first-ministers-national-advisory-council-women- girls/scottish-governments-response-first-ministers-national-advisory-council-women-girls/govscot%3Adocument/ scottish-governments-response-first-ministers-national-advisory-council-women-girls.pdf

46 ONS - Annual population survey - regional - employment by occupation – October to September 2021

47 TUC (2022) *Older workers after the pandemic: creating an inclusive labour market* available at https://www.tuc.org.uk/research-analysis/reports/older-workers-after-pandemic-creating-inclusive-labour-market

48 Annual Population Survey – regional – employment by occupation

49 TUC (2022) *Older workers after the pandemic: creating an inclusive labour market* available at https://www.tuc.org.uk/research-analysis/reports/older-workers-after-pandemic-creating-inclusive-labour-market

50 Hill, Amelia (2022) "Britain's 'great unretirement': cost of living drives older people back to work", *The Guardian,* 25th July 2022 available at https://www.theguardian.com/business/2022/jul/25/britains-great-unretirement-cost-of- living-drives-older-people-back-to-work?CMP=share_btn_link

51 Institute for Fiscal Studies (2022) *The Rise in economic inactivity among people in their 50s and 60s* available at https://ifs.org.uk/publications/16087

poverty, particularly as working age benefits are insufficient to protect households from financial insecurity. This trend is likely to be particularly acute for those who are already at greater risk of poverty, including older women, single mothers, Black and racialised women, and families with a disabled member.

This current economic context is therefore critical to understanding changes in inactivity rates. While the cost of living crisis may facilitate a reduction in economic inactivity, this would not be a trend to celebrate. Historically, retired people are less likely to return to work than people of the same age in other forms of inactivity, with around 5-10% of retried people ever returning to paid work.[52] Recent research commissioned by the Fair Work Convention noted that older women cited a number of reasons for their wish to retire or reduce their hours, such as: pursuing leisure and personal interests while they were still in good health; improving their own health; and to spend time with family, particularly their spouses.[53] The necessity of returning to work during the cost of living crisis may deprive women of choice over their lives and when they leave the labour market.

Support for women with caring responsibilities

While the numbers of people who are economically inactive due to looking after home or family decreased over the course of the pandemic, caring roles remain a critical reason for women's economic inactivity. Women's disproportionate responsibility for unpaid care is a key cause of the gender pay gap and a contributor to higher rates of poverty among women. Women's disproportionate responsibility for childcare and care and the lack of quality flexible working makes it difficult for them to balance work with family life.[5454] As a result, maternal employment in the UK continues to lag significantly behind the best performers in the OECD.[55] Prioritising policies which better enable women to balance earning with caring might encourage more women to re-enter the labour market. This requires a focus on creating a flexible labour market, improving the quality of part-time jobs and improving access to affordable, flexible and accessible childcare.

There is a popular narrative that flexible working has become a workplace norm during the pandemic. However, in reality there remain numerous barriers to flexibility. While there was an increase in access to remote working for some workers during the pandemic, data highlights that all other forms of flexible working declined during the crisis. In 2021, only 27% of jobs in the Scottish labour market were advertised with

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52 Institute for Fiscal Studies (2022) *The Rise in economic inactivity among people in their 50s and 60s* available at https:// ifs.org.uk/publications/16087

53 National Institute of Economic and Social Research (2022) *Exploration of the pay and career progression experiences of women aged over 50 in Scotland* available at https://www.fairworkconvention.scot/wp- content/uploads/2022/07/Experiences-of-pay-and-progression-among-women-over-50-in-the-workplace-in-Scotland.pdf

54 Close the Gap (2019) *Flexible Working for All? The impact of the right to request regulations on women in Scotland* available at https://www.closethegap.org.uk/content/resources/Flexible-Working-for-All.pdf

55 Campbell, Jim, Prof Diane Elson and Prof Ailsa McKay (2013) *The Economic Case for Investing in High Quality Childcare and Early Years Education, Women in Scotland's Economy Research Centre*

flexible options.[56] It is therefore easy to overstate the impact of the pandemic in changing working practices and it cannot be presumed that employers have drastically changed their approach to flexible working. A survey conducted by the TUC in 2021 highlighted that 87% of women want to work more flexibly in the future.[57] We currently remain some distance from meeting that demand, necessitating both regulatory and cultural change.

The Scottish Government should work with the UK Government to implement changes to the regulatory framework, as per the consultation on making flexible working the default.[58] There is also a critical role for the Scottish Government in influencing employer practice around flexible working. Recent research conducted in Scotland found that just over half (52%) of employers think flexible working creates more work for line managers, and almost a third (30%) felt that those working flexibly are less committed to their career.[56] Building a labour market that is characterised by high-quality flexible and part-time jobs would enable women with caring responsibilities to re-enter the labour market.

In addition, there is a need to improve access to affordable, flexible and accessible childcare in Scotland. A survey by Working Families found that mothers were twice as likely as fathers to report that the availability of childcare had a "big impact" on their ability to work.[59] The introduction of the 1140 hours of funded childcare is an important starting point, but this should not be the end point of reform. The delivery of these funded hours at the local level is often insufficiently flexible to meet the needs of women, particularly single mothers, and their families.[60] A recent survey by the Scottish Women's Budget Group found that, of women with children who were entitled to the 1140 hours, two-thirds reported that the delivery of these hours do not cover their childcare requirements due to a lack of flexibility in delivery.[61] Prescriptive models of delivery do not align with available hours in the labour market and, as a result, the 1140 hours has not enabled mothers to enter employment if they need or want to.[62]

Close the Gap have called for a further increase in the funded childcare entitlement to 50 hours for children aged 6 months and above. This call has also been supported by One Parent Families Scotland; First Minister's National Advisory Council on Women

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56 Timewise (2022) The Timewise Scottish Flexible Jobs Index 2021 available at https://timewise.co.uk/wp- content/uploads/2022/02/Timewise-Scotland-Flexible-Jobs-Index-2021.pdf

57 TUC (2021) *The Future of Flexible Work*

58 Close the Gap (2021) *Close the Gap response to the UK Government Consultation on making flexible working the default* available at https://www.closethegap.org.uk/content/resources/Close-the-Gap-response-to-the-UK-Government- consultation-on-Making-Flexible-Working-the-Default---November-2021.pdf

59 Working Families (2022) *Working Families Index 2022: Families and Flexible Working post Covid-19*

60 Audit Scotland (2018) *Early Learning and Childcare*

61 Scottish Women's Budget Group (2022) *Women's experiences of childcare shared through our survey* available at https://www.swbg.org.uk/news/blog/womens-experiences-of-childcare-shared-through-our-survey/

62 Joseph Rowntree Foundation and Save the Children (2022) *Delivering for Families? JRF and Save the Children's response to Best Start, Bright Futures* available at https://www.jrf.org.uk/file/59179/download?token=7uqyQuTG&filetype=full- report

and Girls[63]; the Poverty and Inequality Commission[64]; the Social Renewal Advisory Board[65]; Poverty Alliance[66]; and the Child Poverty Action Group in Scotland.[67] In enabling mothers to re-enter the labour market should they need or want to, the introduction of a universal entitlement to 50 hours a week of funded childcare would be an important anti-poverty measure. In addition, investment in childcare infrastructure is good for the economy and is a stimulus for growth.[68] A key factor in the strong return on investment is that childcare enables women to enter employment. Analysis by Close the Gap found that the cost of women's labour market inequality in Scotland is £17 billion a year.[69] Similarly, the Centre for Progressive Policy have estimated that ensuring women have access to childcare services that enables them to work the hours they want would generate up to £28.2bn in economic output per annum.[70] Women increasing their earnings would also translate into greater tax revenue for the Government, stimulate economic activity, and lower benefit spending.[71] Investment in childcare is therefore not only good for women and their families, it is good for economic growth.

Supporting older women to return to work

Among older workers who would consider returning to employment, flexible working was the most important aspect of choosing a new job (36%), followed by working from home (18%) and something that fits around caring responsibilities (16%).[72] These issues are likely to be particularly pertinent for women. Research by the Fair Work Convention highlighted that older women seek out flexible or part-time work as a means of managing health, wellbeing and caring responsibilities.[73] Moreover, the majority of

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63 National Advisory Council on Women and Girls (2018) *2018 Report and Recommendations available at* https://onescotland.org/wp-content/uploads/2021/03/2018report.pdf

64 Poverty and Inequality Commission (2021) *Child Poverty Delivery Plan progress 2020-2021 Scrutiny by the Poverty and Inequality Commission* https://povertyinequality.scot/wp-content/uploads/2021/06/Child-poverty-scrutiny- report-2020-21-Report-to-Scottish-Government-22-June-2021-003.pdf

65 Social Renewal Advisory Board (2021) *If Not Now, When? The Social Renewal Advisory Board Report*

66 Poverty Alliance (2021) *A Scotland for All of Us: Poverty Alliance 2021 Scottish Parliament Election Manifesto* available at https://www.povertyalliance.org/wp-content/uploads/2021/03/A-Scotland-for-all-of-us-Poverty-Alliance-2021-Scottish-Parliament-election-manifesto.pdf

67 https://cpag.org.uk/policy-and-campaigns/briefing/early-learning-and-childcare-%E2%80%93-1140-hours-and-beyond- msps-briefing

68 Calver, Tom (2022) 'Held Back: the mothers who can't afford to return to work' *The Times,* 5th June 2022*,* available at https://www.thetimes.co.uk/article/held-back-the-mothers-who-cant-afford-to-return-to-work-r5r3k9bxl

69 Close the Gap (2016) *Gender Equality Pays: The economic case for addressing women's labour market inequality*

70 Centre for Progressive Policy (2022) *Women in the labour market boosting mothers' employment and earnings through accessible childcare* available at https://www.progressive-policy.net/downloads/files/CPP-report-women-in-the-labour-market-Oct-2021-2.pdf

71 Ibid.

72 ONS (2021) *Reasons for workers aged over 50 years leaving employment since the start of the coronavirus pandemic* available at https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/reasonsforworkersagedover50yearsleavingemploymentsincethestartofthecoronaviruspandemic/2022-03-14

73 National Institute of Economic and Social Research (2022) *Exploration of the pay and career progression experiences of women aged over 50 in Scotland* available at https://www.fairworkconvention.scot/wp-content/uploads/2022/07/Experiences-of-pay-and-

older workers who would either consider returning to work or are looking for paid work would like to return on a part-time basis (69%), with only 9% reporting that they would like to return full-time. It is therefore vital that there are good quality part-time and flexible working opportunities for older women which enables them to access fair work and decent wages. During a period of high vacancy rates in sectors where older women are concentrated, including retail and social care, there is a strong business case for employers prioritising flexible working and providing support with caring responsibilities in order to support older women to return to the labour market.

Older women also face multiple disadvantages in the workplace as a result of the discrimination and intersecting inequalities as a result of their age and gender. Older women identify recruitment processes as a primary reason that they are not applying for new opportunities, reporting that they fear they will experience discrimination and be stigmatised as less productive or efficient.[74] Building inclusive workplace cultures through the introduction of gender-sensitive recruitment, development and employment practices are therefore critical to enabling more older women to re-enter the workplace.

Gender-sensitive upskilling and reskilling support

In order to support women to re-enter the labour market, there is a need to develop gender-sensitive upskilling and reskilling support. Evidence shows that women are less likely to have access to training, particularly women working in low-paid part-time jobs[75]; less likely to undertake training that will enable them to progress or secure a pay rise; and more likely to have to do training in their own time and to contribute towards the cost.[76] Embedding gender mainstreaming approaches in the development of skills and training interventions would give prominence to factors which influence women's access to skills including gender stereotyping; occupational segregation; women's propensity to have caring roles; the need to provide support with travel and childcare costs for women living in poverty; women's experiences of male violence; the timing and location of skills and training opportunities; and whether any course costs present a gendered financial barrier.

The recently published Adult Learning Strategy for Scotland includes only a marginal reference to the gendered barriers women experience in accessing skills, and there are no actions which specifically engage with gendered patterns of skills acquisition and utilisation. If the forthcoming lifetime upskilling and retraining offer replicates this gender-blind approach, the offer is unlikely to enable economically inactive women to move into high-quality employment. To reduce economic inactivity rates among women, the Scottish Government must ensure that gender mainstreaming approaches are embedded within all skills policymaking and service design. This should include gathering intersectional gender-sensitive sex-disaggregated data for all skills programmes and interventions to ensure that gender equality is core to the evaluation and monitoring of programmes.

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progression-among-women-over-50-in-the-workplace-in-Scotland.pdf

[74] Ibid.

[75] House of Commons Women and Equalities Committee (2016) *Inquiry into the gender pay gap*

[76] Aldrige, Fiona and Corin Egglestone, (2015) *Learning, Skills and Progression at Work: Analysis from the 2015 adult participation in learning survey, UK Commission for Employment and Skills*

Support for people experiencing long-Covid

The Scottish Government should work with employers to promote best practice responses to long-Covid in the workplace. Women experiencing long-Covid may require reasonable adjustments to enable them to continue paid work. Close the Gap has advocated that the UK Government should urgently recognise long-Covid as a disability under the Equality Act. Many individuals experiencing long-Covid already meet the 12-month criteria for a “long-term condition".[77] This would ensure that employers cannot legally discriminate against workers with long-Covid while also placing a duty on employers to make reasonable adjustments that remove, reduce or prevent any disadvantages workers with long-Covid face. Without the legal obligation to make reasonable adjustments, it may be difficult for those experiencing long-Covid to get the necessary support from employers, leading them to leave the labour market. To prevent increasing numbers of those experiencing long-Covid leaving employment, the Scottish Government should work with the UK Government to recognise long-Covid as a disability under the Equality Act.

[77] TUC (2021) ‘TUC calls for long Covid to be urgently recognised as a disability to prevent “massive” discrimination’ available at https://www.tuc.org.uk/news/tuc-calls-long-covid-be-urgently-recognised-disability- prevent-massive-discrimination

Skills Development Scotland: written submission

Information about your organisation

Skills Development Scotland (SDS) is Scotland's national skills body. We contribute to Scotland's sustainable economic growth by supporting people and businesses to develop and apply their skills. We work with our partners to provide services that deliver the very best outcomes for Scotland's people, businesses and the economy.

What are the key factors driving the increase in labour market inactivity?

During the pandemic, Scotland's employment rate decreased but remained high, bolstered by business and employment support schemes.

Despite Scotland's low unemployment rate and relatively high employment rate, labour market participation declined, as the actual number of people in employment decreased compared to pre-pandemic levels, whilst there has been a notable increase in the number of economically inactive people in Scotland. Economically inactive people are not in employment, but do not satisfy all the criteria for unemployment. This group is comprised of those who want a job but who have not been seeking work in the last 4 weeks, those who want a job and are seeking work but not available to start and those who do not want a job. For example, students not working or seeking work and those in retirement are classed as economically inactive. It can be useful for some purposes to consider only those who are both economically inactive and not of state pension age.)

Economic inactivity for people aged 16-64 has increased by 5.4 per cent over the course of pandemic. (Annual Population Survey, accessed via NOMIS. Data is covering the 12 month period January 2019 to December 2019 and 12 month period January 2021 to December 2021). This level of economic inactivity means that approximately one in every four persons (16-64) were economically inactive in Scotland. Across the UK, the number of people who are economically inactive has also increased over the same period, but to a lesser extent. Economic inactivity in Scotland has been higher than in the UK since 2015/16, and this gap has widened throughout the pandemic.

Interest in working is at the lowest amongst the inactive population. Fewer than one in five (17.6 per cent) of those inactive indicated they would like a job despite not currently looking, which is below the 18 year average of 24.1 per cent. (Annual Population Survey).

Students and the long-term sick (to have been off sick from a job (employed or self-employed) for four weeks in a row or longer in the past 12 months) form a large part (55.3 per cent) of the inactive population in Scotland and the increase in long-term sick has driven growth in economic inactivity over the past two years. The number of inactive people 'discouraged' has risen sharply during the pandemic but is starting to fall. The long-term trends for those 'discouraged' suggest this group is fluid and reactive to labour market conditions. The only category of economic inactivity that contracted over the duration of the pandemic was those looking after their family or home.

The Resolution Foundation (Begin Again?, 2021) cites UK wide evidence of some individuals reducing labour market participation due to COVID related reasons, but at the same time point to the fact that long-term sickness was already increasing as a reason for economic inactivity before the pandemic, and 'that exits from the workforce due to COVID-19 have been offset either by reductions in other health problems or by changes to work (such as remote working) supporting those with other conditions to remain in employment.'

Even though the economic inactivity rate for females was higher than males, more men became economically inactive during the pandemic than women. Over the long term, inactivity has been rising amongst men and falling amongst women.

Commentators have claimed that by supporting people who are 'inactive' into work, there could be benefits for these individuals, a potential pool of additional labour supply, and some have argued this may support inclusive growth. (OECD (2019), Trends in economic inactivity across the OECD; Centre for Cities (2019) Where are the missing workers?; Social Market Foundation (2020), A new Safety net: Guaranteeing jobs and training after the crisis). Studies have also suggested that a decrease in workforce participation 'could have a lasting impact on the labour market, leading to scarring that affects those individuals' future living standards, and our potential future growth rates'. (Resolution Foundation **(**2021), Begin again?)

Thinking about labour market participation, have certain groups of society and parts of the country been impacted more than others?

Skills Development Scotland is a data-led organisation and is committed to maintaining its role of providing robust evidence on the labour market to help inform policy direction and investment in response to economic and labour market conditions. Our understanding of the issues affecting Scotland's labour market is enhanced by direct engagement with Industry Leadership Groups (ILGs).

Our Economy, People and Skills reports are informed by deep engagement with industry bodies and stakeholders and are shared with partners on a monthly basis. The Economy People and Skills reports include spotlight articles on the unequal impacts of the pandemic.

These insights are complemented by Regional Skills Assessments (RSAs) and Sectoral Skills Assessments (SSAs) which expand upon the specific impacts of the pandemic, consider the future demand for skills and jobs and identify opportunities for recovery.

Have there been sectoral differences from economic inactivity – for example, have Health and Hospitality sectors been more exposed than, for example, Finance?

The supply of people in Scotland's labour market has been impacted by high levels of economic inactivity during the pandemic, as well as the impacts of Brexit and demographic challenges. For example, sectors such as Accommodation and Food,

Health and Social Care and Manufacturing have been impacted by labour shortages. Insight from SDS sector managers reports that:

Accommodation and food:

Existing negative perceptions of working in the sector have been exacerbated by the pandemic; many older and experienced staff left the sector throughout and after the pandemic;

Shortages are affecting business capacity to deliver services, risking damage to Scotland's reputation as a world leading tourist destination.

Scottish Tourism Emergency Response Group presented considerable anecdotal evidence from business surveys and industry groups demonstrating the extent and impact of labour shortages

Health and Social Care:

The Health and Social Care Sector is experiencing chronic staff shortages. Factors contributing to this include Brexit, COVID-19, and wellbeing of the existing workforce

The shortages may impact on care packages and service provision; affecting the quality of life for those who draw on health and social care services

The UK Migration Advisory Commission (MAC) report suggests that demand for labour in social care is outpacing population growth and this demand will continue to increase in the future.

Manufacturing:

Labour shortages are present across the Manufacturing sector. A Scottish Food and Drink Survey highlighted that 88% of Food and Drink Manufacturers had vacancies, 30% were not taking on new business and 25% reduced production as a result of labour shortages.

Redundancies during the pandemic, an ageing workforce, and reduced availability of EU workers are all contributing factors to labour shortages in the manufacturing sector. In Life and Chemical Sciences Manufacturing labour shortages were also attributed to increased demand for COVID-19 testing and vaccine production.

Recovery within Non-Food and Drink Manufacturing and supply chains resulted in increased demand for workers.

There is also evidence that the Wholesale and Retail Trade, Agriculture, Construction and Transport sectors have been impacted by labour shortages to a greater degree than other sectors in Scotland.

Trades Union Congress: written materials

Older workers after the pandemic: creating an inclusive labour market report

23 Feb 2022

Executive summary

There has been a significant increase in the number of older workers leaving the labour market before they reach state pension age. The number of people aged 50-65 who were not actively looking for work increased by over 200,000 between the third quarters of 2019 and 2021.

This has been driven by an increase in the numbers leaving because of long-term health conditions, and an increase in the numbers retiring from paid work. It has reversed long-term trends that have seen men and women extend their working lives over the last 25 years, and is damaging for both older people who are at increased risk of having to rely on inadequate working age benefits, and the wider economy which is experiencing skills and labour shortages.

Ensuring that older workers can participate in the labour market will require major changes in the workplace to ensure that older workers have the skills they need and that jobs and workplaces meet the needs of an ageing workforce. And making sure that those who are unable to continue working into their mid-sixties are not penalised as a result will require an overhaul of working and pension age benefits.

Black and ethnic minority (BME) and working class workers are significantly more likely to be forced out of work before they can access their state pension. So, improving jobs for these groups of workers as they age will be key to tackling labour shortages and reducing poverty in later life and retirement.

While BME workers are less likely to retire early than their white counterparts, those that do leave the labour market early are significantly more likely to do so because of poor health, and more than twice as likely to do so because of caring responsibilities. Just 17 percent of BME people who are economically inactive aged 50-65 have retired, compared to 40 percent of economically inactive white people, reflecting a wide ethnicity gap in average pension wealth.

People in low paid and manually intensive jobs are also at far greater risk of being forced out of the labour market early. Those working with heavy machinery and in ‘elementary occupations’ like cleaning or security are particularly vulnerable, closely followed by people in caring and other service occupations and retail and customer service.

Together these occupations account for just three in ten jobs in the labour market, but almost six in ten people who leave the labour market come from these sectors.
So, plans to tackle labour shortages by helping more older people stay in work must tackle the structural discrimination that means workers on lower pay are more likely to

be pushed out.

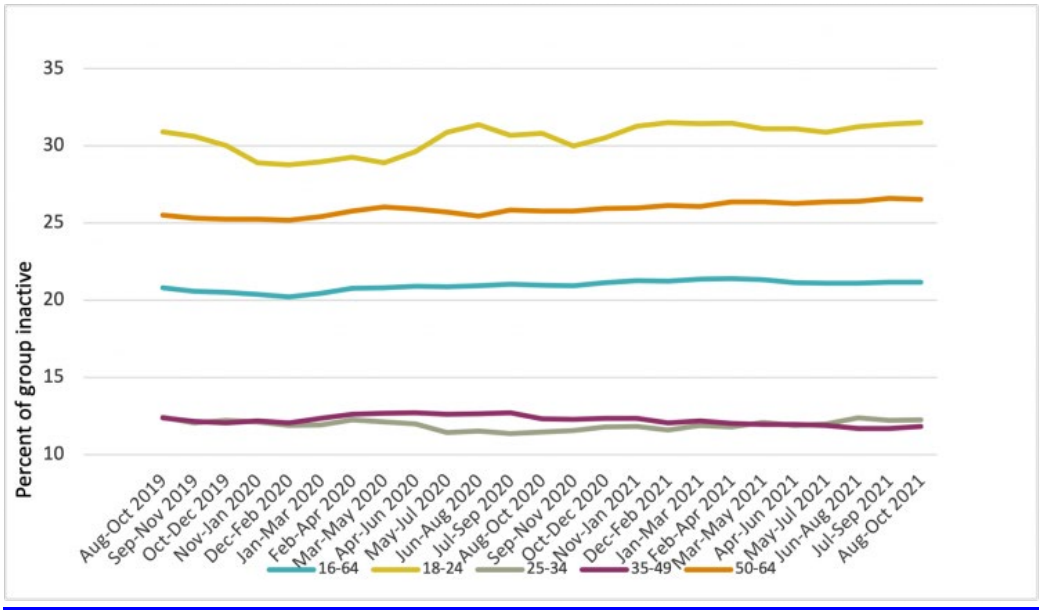
This includes:

- Ensuring that, as we emerge from the pandemic phase of Covid, workplaces are safe for all workers through improved health and safety guidance and stronger enforcement, and bringing unions and employers together do ensure that we address workers and skills shortages and deliver the government's ambition of a high wage, high productivity economy.
- Ensuring older workers have the skills needed to thrive in the labour market by giving them a right to a mid-life career and skills review and right to access funded retraining, and providing tailored support for older workers at risk of long-term unemployment or falling out of the labour market.
- Helping older workers to manage disabilities and health conditions by ensuring that employers put in place reasonable adjustments for disabled workers and tackling workplace discrimination, and strengthening flexible working rights to allow older workers to manage workloads.
- Reforming the state pension and benefits system so that people of all ages who are unable to work can maintain a decent standard of living, and tackle the issues that affect older workers most acutely. As well as de-coupling the eligibility age for pension credit from the state pension age and giving early state pension access to some people, this means shelving planned state pension age increases in response to stalling longevity improvements and growing longevity and labour market inequalities.

Older workers after the pandemic: creating an inclusive labour market

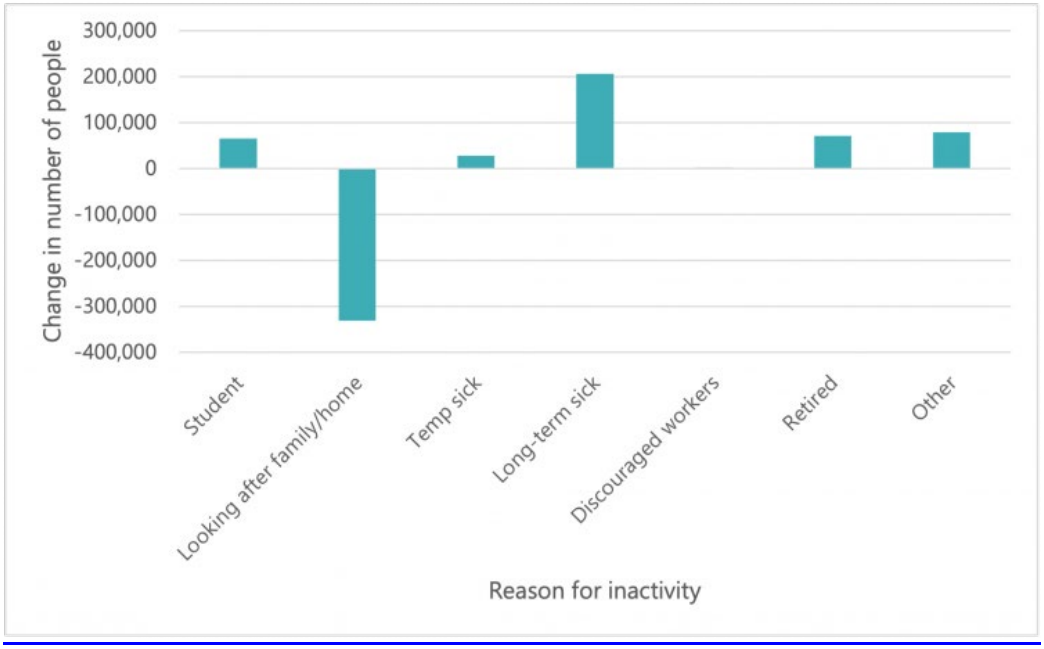
Since the start of the Covid-19 pandemic we have seen rising levels of economic inactivity in the UK labour market. While support for the labour market such as the furlough scheme has avoided a steep increase in unemployment, since the first quarter of 2020 the headline figures show an additional 300,000 people aged 16-64 are now economically inactive according to the latest figures from the Office for National Statistics. This category covers those who are not actively looking for work, or are unavailable to start work and includes students, the long-term sick or disabled, carers and retired people. Inactivity has risen in previous recessions, but the numbers are still striking at a time when many employers are reporting a shortage of workers.

This rise in economic inactivity since the first quarter of 2020 represents a 0.8 percentage point increase and has been primarily driven by a growing number of workers under 24 and over 50 either leaving or delaying entering the labour market (see figure 1). Since the start of 2020, the economic inactivity rate of people aged 18-24 has risen by 1.6 percentage points, an increase of 47,000 while for those aged 50-64, it has risen by 1.5 percentage points, an increase of 228,000 (reflecting the larger size of this group of workers).



Source: ONS

Across all people aged 16-64, the increase is the result of higher numbers of students, long-term sick and retired people, partly offset by a sharp drop in the number of people economically inactive because of caring responsibilities (see figure 2). Between the third quarters of 2019 and 2021 the number of people unable to work because of long-term health problems increased by more than 200,000, while the number of students and retired people increase by over 65,000 and over 70,000 respectively.



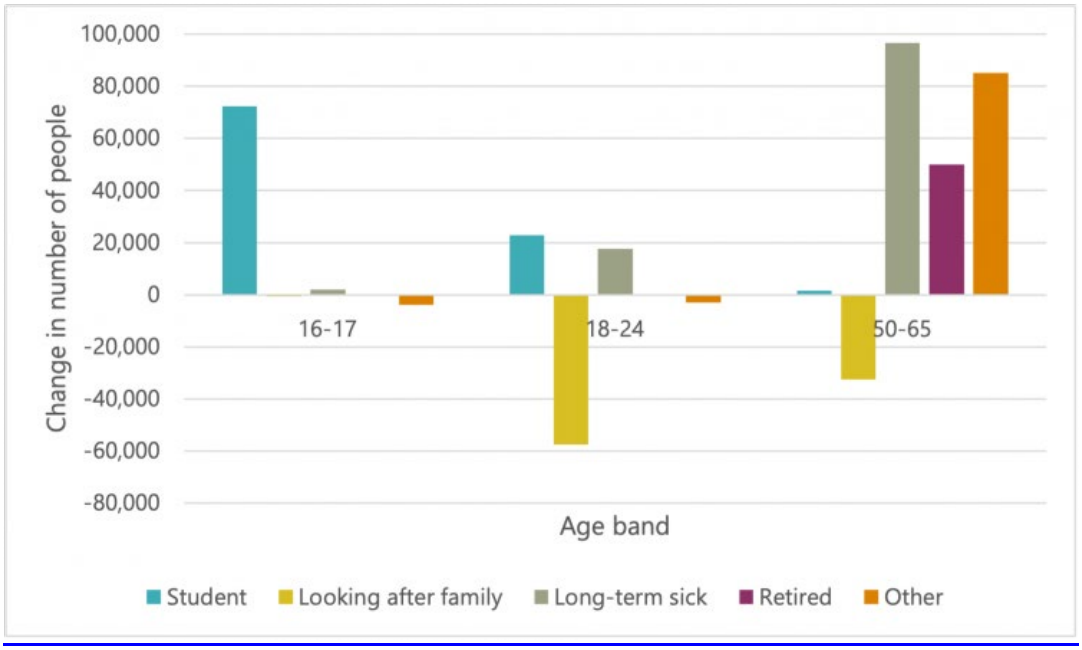
Source: TUC analysis of ONS data

Looking specifically at the oldest and youngest population groups – those responsible for the overall increase in inactivity – the picture becomes even clearer (see figure 3).

While growing numbers of young people are delaying joining the labour market to stay in education, a growing number of older workers are either retiring before they reach state pension age or leaving the labour market because of long-term sickness or disability.

Over this two-year period, economic inactivity due to long-term health problems among those aged 50-651 increased by 97,000 or 0.8 percentage points, while the number who had retired from paid work increased by 50,000, or 0.2 percentage points.
The number of people who were economically inactive for a range of other reasons – including those who said they did not want or need a job and those that gave no reason – increased by 85,000. As with other age groups, this was partly offset by a fall in the number economically inactive because of caring responsibilities, which dropped by 33,000.

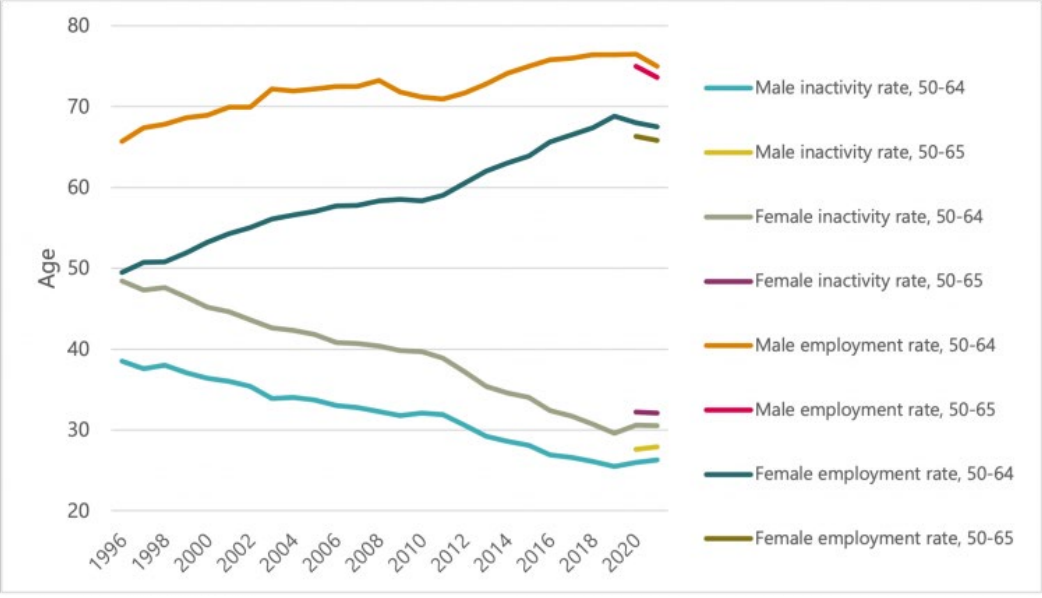
In total the number of people aged 50-65 who were economically inactive increased by more than 200,000 – or 5 percent - between the third quarter of 2019 and the third quarter of 2021.



Source: TUC analysis of the Labour Force Survey

This growth in inactivity has led to a reversal of long-term trends in the labour market that have seen employment rates among older workers increase and inactivity rates fall (see figure 4) since the mid-1990s. Department for Work and Pensions (DWP) figures show between 2019 that 2021 employment rates for men aged 50-64 fell by 2.8 percentage points while inactivity rates increased by 2.4 percentage points. For women over the same period employment decreased by 3 percentage points while inactivity increased by 0.9 percentage points. 2 age, which hit 66 for men and women in October 2020 this shows a significant increase in the number of people leaving the labour market before reaching state pension age. The Institute for Employment studies has calculated that, if pre Covid-19 trends had continued, there would be almost 500,000

more older workers in the labour market today [3]



Source: Department of Work and Pensions

This increase in economic inactivity among older workers is reflected in a fall in the average age of exit from the labour market for both men women, which had also been increasing steadily since the mid-1990s (see figure 5). Between 2019 and 2021 the average age of exit fell by 0.2 years for men and 0.3 years for women.

Source: Department for work and pensions

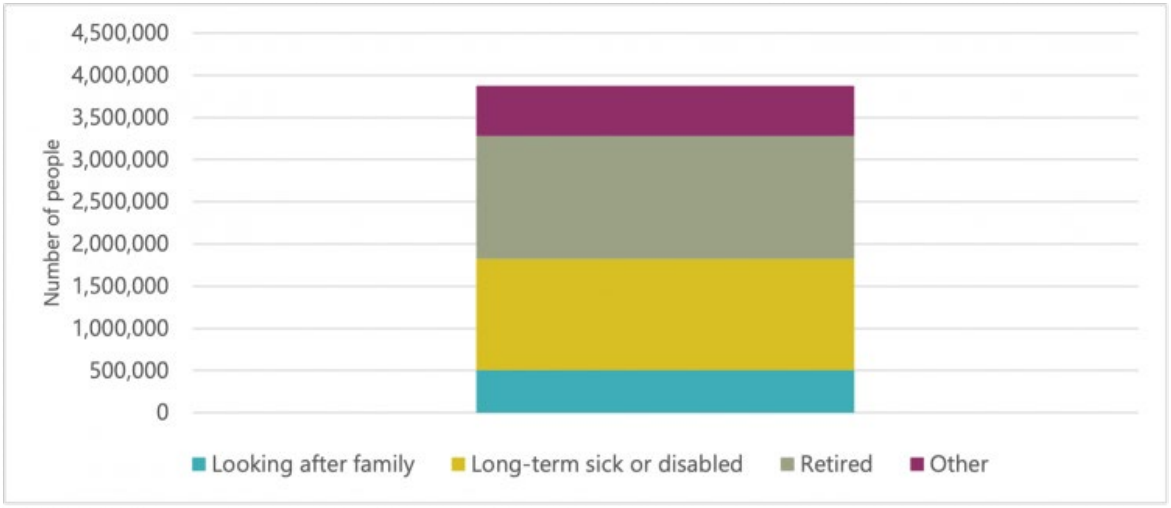
Extending working lives has been a key aim of government for some time, in recognition of the fact that current generations are living longer than previous generations. The government acknowledges that leaving the labour market before state pension age can

be damaging for workers' health, financial stability and mental well-being, as well as being detrimental to the wider economy.4 This is particularly true for those with no or inadequate levels of occupational pension who are forced to rely on inadequate working age benefits if they are unable to work.

Reasons for leaving the labour market

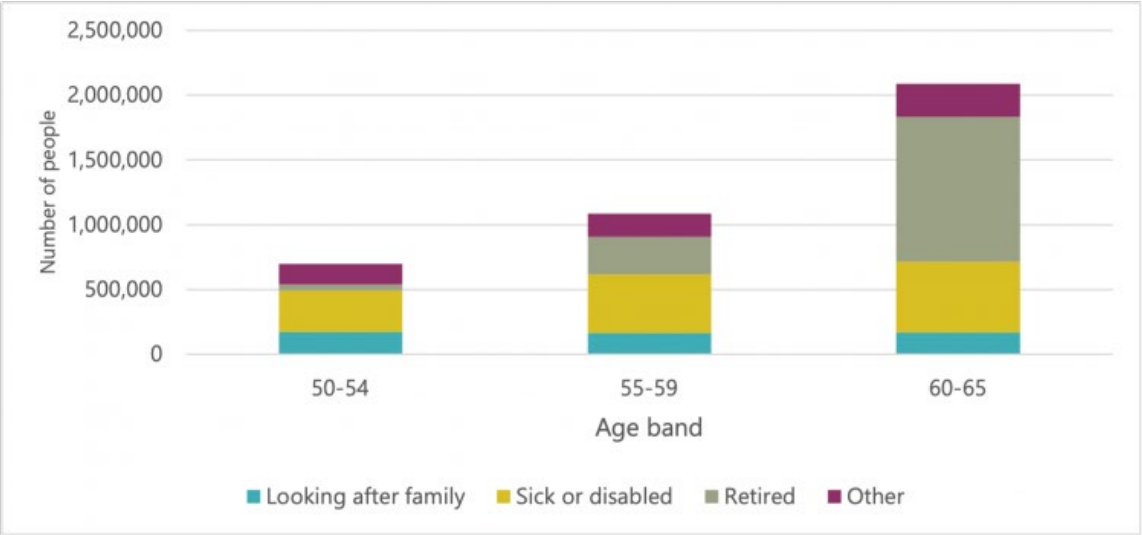
Older workers are more likely to leave the labour market due to ill-health

In total, almost 4 million people between 50 and state pension age were economically inactive in the third quarter of 2021. The most common reason for being out of the labour market was retirement (38 percent) closely followed by long-term sickness or disability (34 percent) and caring responsibilities (13 percent).



Source: TUC analysis of the Labour Force Survey

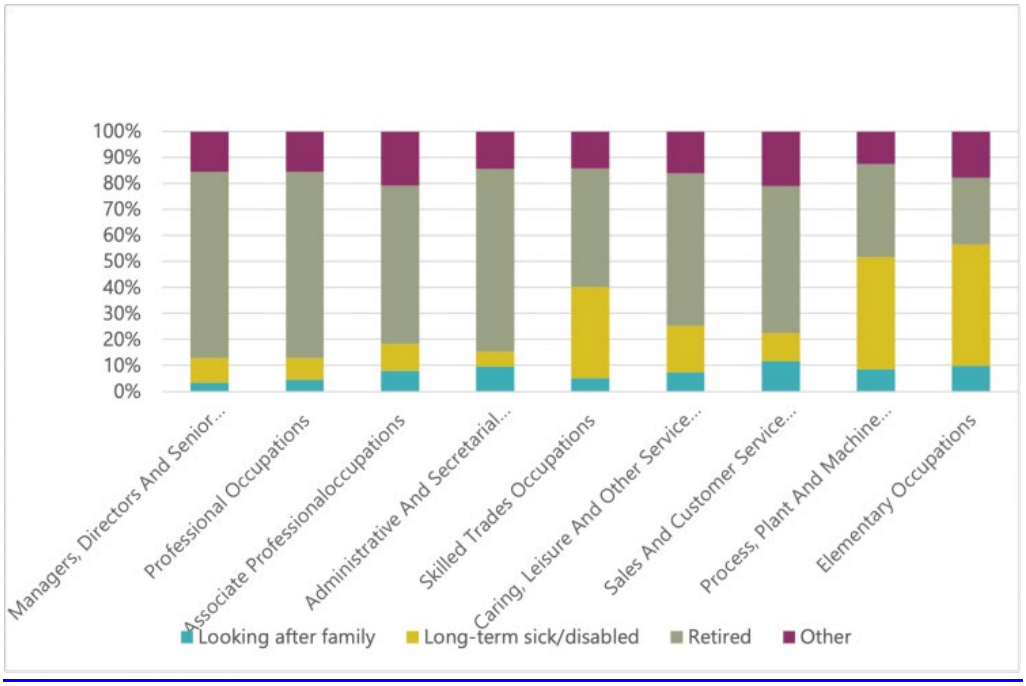
Within this group of older people, levels of economic inactivity increase as they approach state pension age, with just under 2.1 million people aged 60-65 economically inactive (see figure 7). This is primarily the result of increasing numbers of retired people in older age bands. By age 60-65 this accounts for over half the number of people who are economically inactive. Although the levels of inactivity due to long-term sickness increase slightly with age, they are high across all age bands over 50. Among people aged 50-54 almost half of all those who are economically inactive are out of the labour market because of poor health.



Source: TUC analysis of the Labour Force Survey

Older workers are more likely to leave the labour market due to occupational inequality

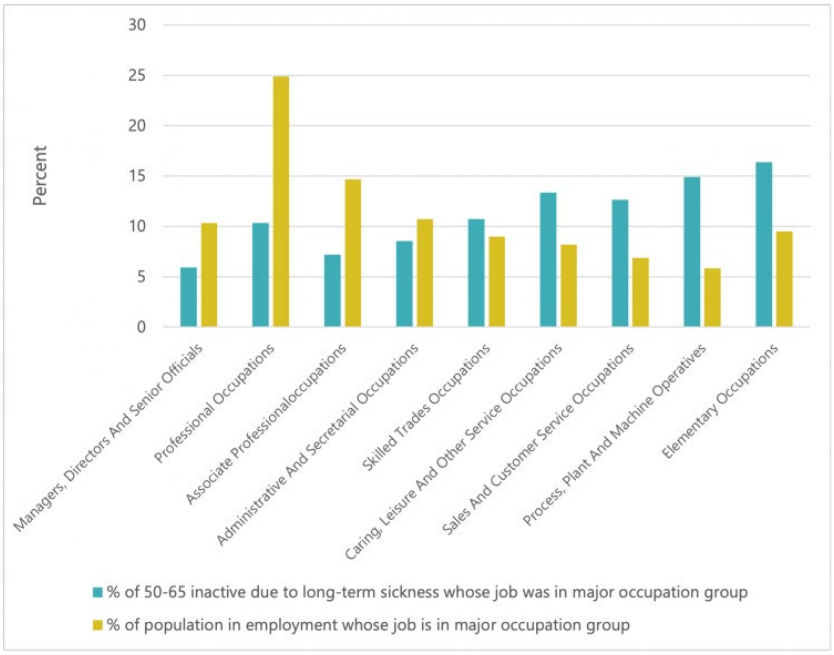
Previous TUC research has highlighted the sharp class inequalities that affect which workers are being forced out of the Labour market early, with those in low paying and manually intensive work the hardest hit.5 This still holds true. Over 60 percent of former managers and former professionals who are economically inactive before they reach state pension age have retired, while around 10 percent have been forced out by ill health (see figure 8). In the lower paid occupational groups of process, plant and machinery operatives and elementary occupations – a category that includes many of the lowest paid jobs such as cleaners, security guards and call centre workers – the proportion who have left the labour market for health reasons rises to around 40 percent. In these two groups more than half of all those who leave the labour market before state pension age do so because of poor health or caring responsibilities.



Source: TUC analysis of the Labour Force Survey

This high rate of people leaving the labour market early whose last job was in an elementary occupation or as process plant or machinery operatives, means that almost one in three older people (31.3 percent) who are inactive due to health problems came from these sectors (see figure 9). While one in six of the current workforce (15.3 percent) is employed in these parts of the labour market.

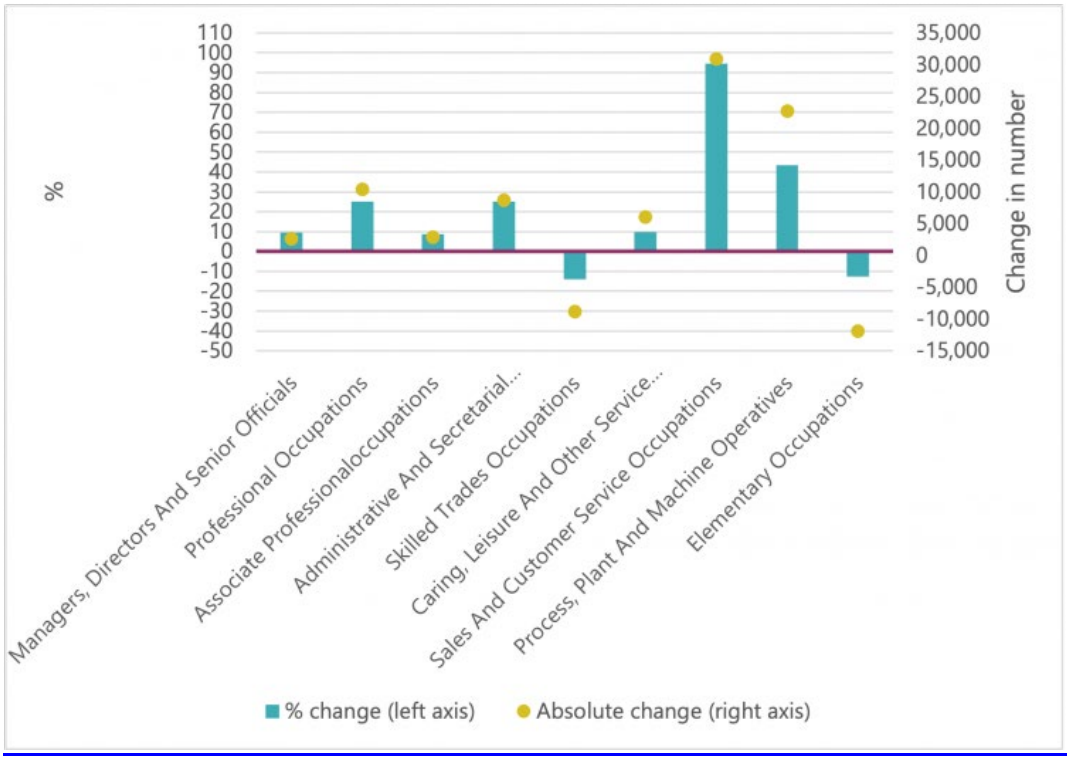
People whose last job was in caring, leisure and other service occupations and sales and customer service occupations are also disproportionately likely to be inactive because of health problems. In total, these four low-paid occupation groups account for almost six in ten ill-health early exits (57 percent), despite employing just three in ten workers (30 percent).



Source: TUC analysis of the Labour Force Survey

The effect of the Covid-19 pandemic has not been evenly felt across all occupational groups, with sales and customer services and process, plant and machinery operatives seeing sharp increases in the number of people leaving the labour market due to poor health (see figure 10). Between the third quarters of 2019 and 2021 the number of people economically inactive due to poor health whose last jobs had been in these sectors increased by 95 percent and 43 percent respectively.

This is not a uniform story of widening inequalities, however. There has been a fall in the number of workers leaving the labour market due to ill health from elementary professions and skilled trades – two occupation groups with generally high number of ill health early exits – while professional occupations has seen a significant increase.
It does show however, that some sectors of the economy are likely to be hit particularly hard by the economic impact of the pandemic, and older workers in these sectors will be in need of targeted support.



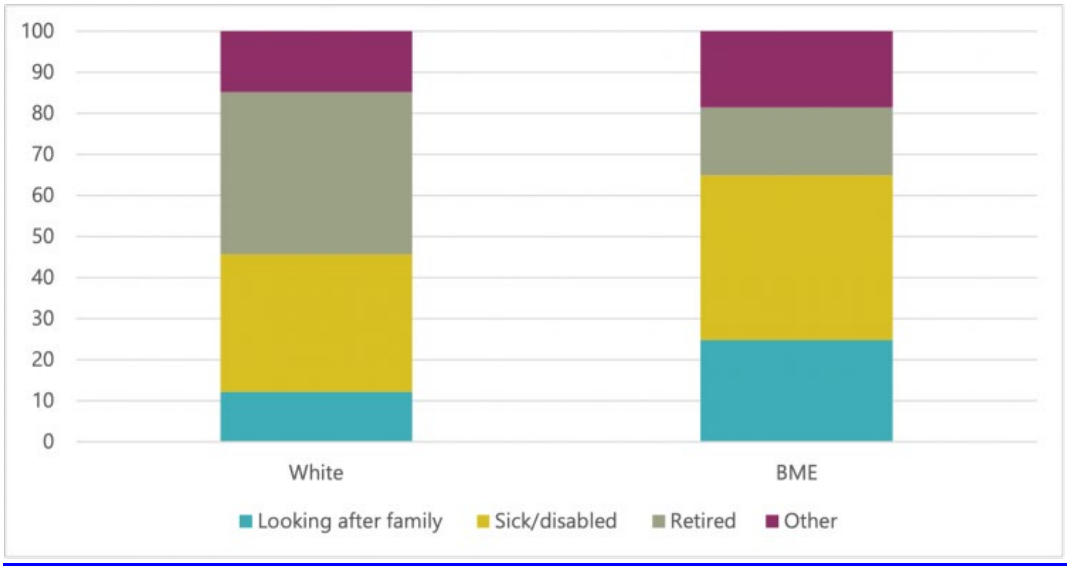
Source: TUC analysis of the Labour Force Survey

Older workers from Black and minority ethnic groups are more likely to leave the labour market

Black and minority ethnic (BME) workers aged 50-65 are less likely to be economically inactive than their white counterparts. Some 26 percent of BME people in this group are inactive compared to 29 percent of white people, with this gap widening by 1 percentage point between Q3 2019 and Q3 2021. But those that are inactive are significantly less likely to be retired, and more likely to be in poor health or have caring responsibilities (see figure 11).

White people in this age group who are economically inactive are more than twice as likely to have retired as their BME counterparts. This is likely to be a result of the significant gap in average pension wealth that means white workers are the most likely to be in a position to choose to retire before they reach state pension age. Average income from private pensions for BME pensioners over 65 is just 71 per cent of the population average.6

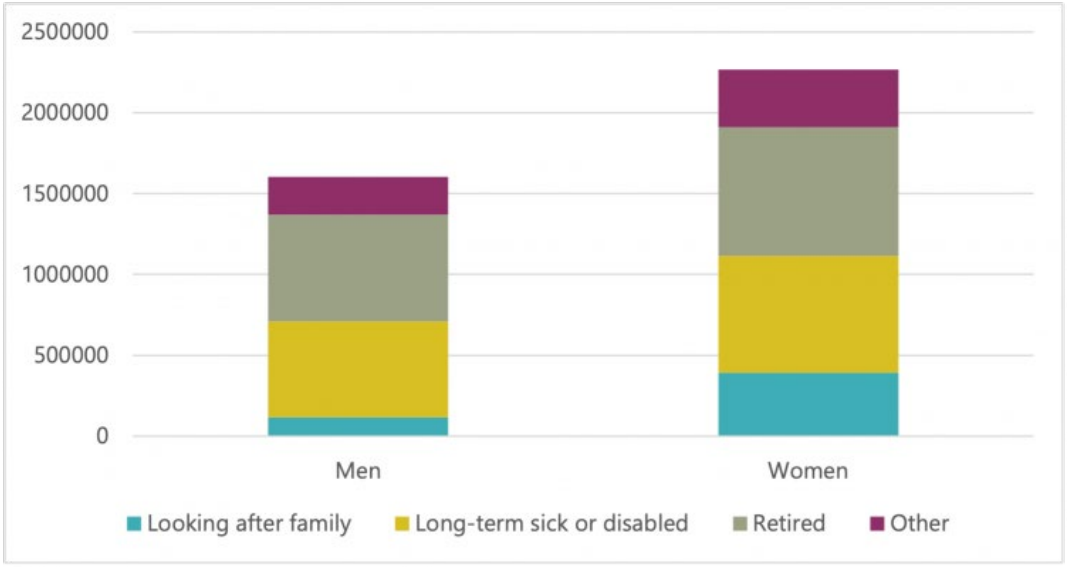
Older BME people who are economically inactive are 6.7 percentage points more likely to have left the labour market due to poor health and more than twice as likely to be unable to work because of caring responsibilities.



Source: TUC analysis of the Labour Force Survey

Older women are more likely to leave the labour market than men

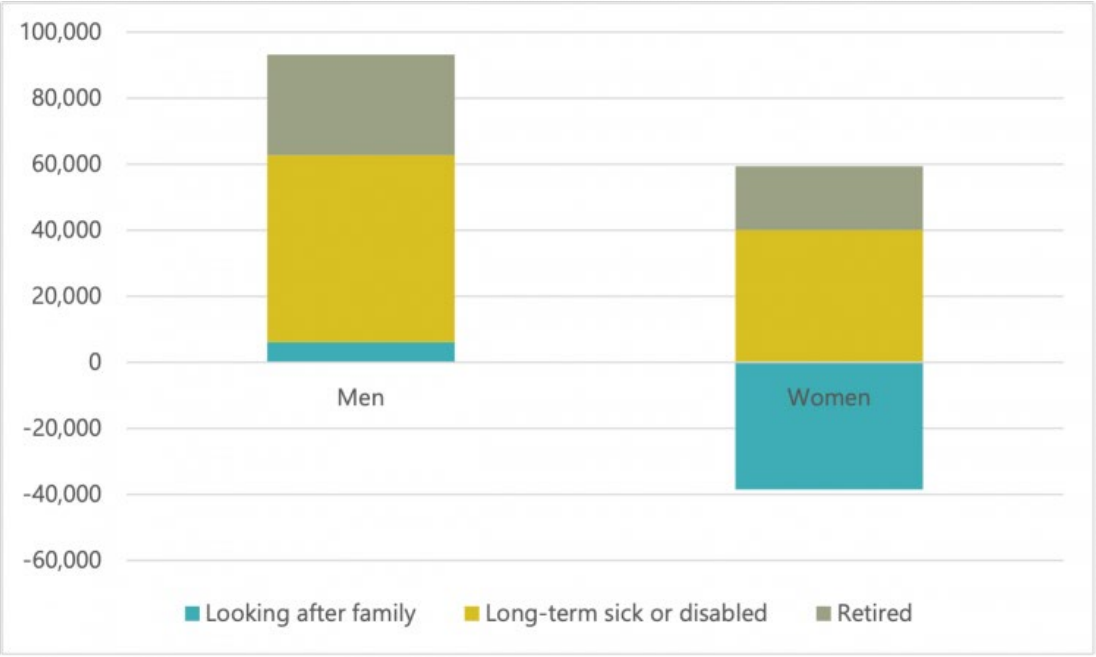
Older women have historically had higher rates of inactivity than older men. Although this gap has closed in recent decades there are still over 660,000 more women aged 50-65 who are economically inactive than there are men (see figure 12). Economically inactive men are more likely to be retired or in ill health than women, but the greatest difference is in the rates of inactivity because of caring responsibilities. The proportion of women in this age group who have left the labour market for this reason (17 percent) is more than twice as high as the proportion of men (7 percent).



Source: TUC analysis of the Labour Force Survey

While levels of economic activity have fallen for both men and women over the pandemic, the gender activity gap still appears to be closing. This is driven by changes

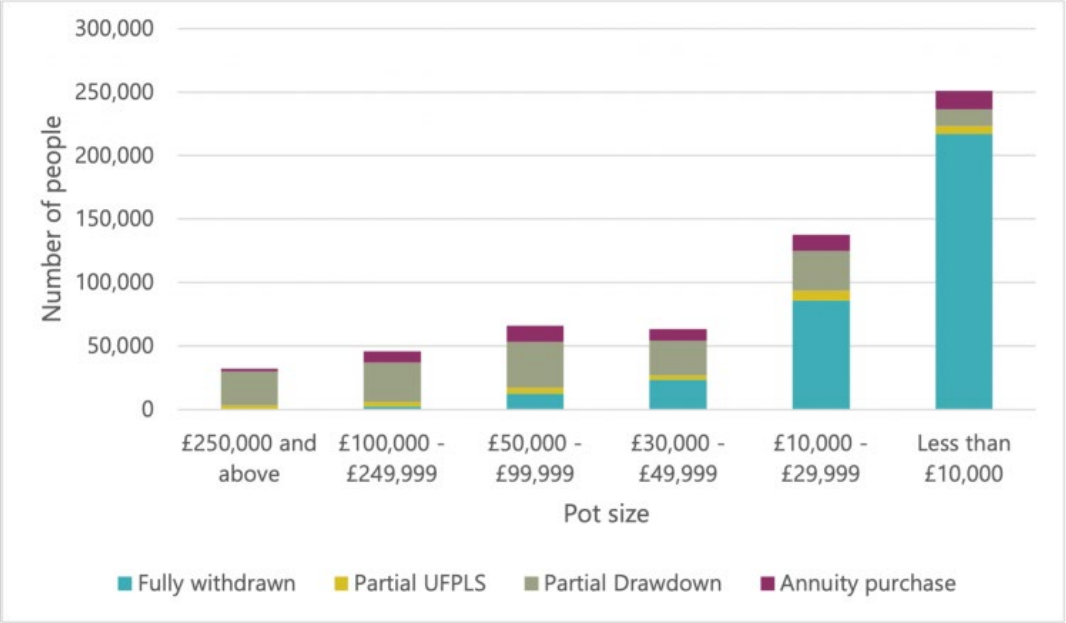
in the number of people out of the labour market because of caring responsibilities. While the number of women aged 50-65 who were economically inactive for this reason fell, there was actually a small increase for men in this age group. There was also a greater increase in the number of older men who are out of the labour market due to ill health and early retirement.



Source: TUC analysis of the Labour Force Survey

Sustainability of workplace pension incomes

As well as the rise in ill-health early exits, the 50,000 increase in the number of men and women who have left the labour market before their 66th birthday 1 because they have retired from paid work is also a concern. Although many people choose to retire before state pension because they have sufficient resources to maintain their standard of living others simply retire because they cannot find suitable work. There is evidence that the pandemic increased the numbers forced into early retirement in this way. The Financial Conduct Authority found that 23 percent of those who retired between March and October 2020 did so because they had lost their job because of Covid-19. 8 In total, 58 percent of people retiring in this period said they did so because of the pandemic. Evidence from the FCA's retirement income market data also shows that the vast majority of people accessing defined contribution pension pots in 2020/21 had small pots and cashed them out entirely (see figure 14). Two thirds (65 percent) of pots accessed had values below £30,000 while 87 percent of those cashing in pots worth less than £10,000 took the whole amount in cash.



Source: FCA Retirement income market data 2020/21

This does not tell us whether the people accessing these pots had other sources of income from pensions, savings, or continued work, and not all of the additional retirees will be relying on a DC pension for retirement income. But it does show that very few people accessing their DC pensions under the 'pension freedoms' are using it to provide a sustainable retirement income. It suggests many are using it to supplement incomes or as a bridge before other sources of income, such as a state pension, are accessible. This combination of an increase in unplanned retirements due to Covid-19 and a large number of people cashing out small pension pots suggests an increased risk that people will exhaust their retirement savings. This would force more older people to rely on working age benefits or pension credit.

Policy recommendations

Safer workplaces

Covid-19 poses a higher risk to older people, so protecting workers from Covid transmission will play a key part in ensuring older people can remain economically active and feel safe in work. There is a legal obligation to assess and manage all risks in a workplace – and to consult with unions and/or the workforce on this process. The 120,000 trained union health and safety reps in workplaces across the UK should be mobilised to help ensure that workplaces are safe, including workplaces with no existing union reps and unions are not recognised.

To control workplace outbreaks the government must ensure that Covid testing remains free, and update guidance on mask wearing and social distancing, as well as rapidly introducing measures to help clean the air in workplaces.

Active and effective enforcement is key to ensuring employers comply with their obligation to provide safe working arrangements, which means funding cuts to the

Health and Safety Executive and local authorities will have to be reversed.
And to meet the challenges now facing our labour market, the government should bring unions and businesses together to advise on how to achieve the mission of a high wage, high productivity economy.

Key recommendations:

- Risk assessments: Employers must be compelled to provide airborne protections for workers, with ventilation measures and FFP3-grade face masks. Individual risk assessments must be completed for groups of workers at heightened risk. Publication of workplace-wide risk assessments should be made a legal requirement.
- Regulation and Enforcement: Tougher enforcement is required to incentivise robust risk management, and government must provide a new funding settlement to HSE and local authorities allowing them to invest in inspectorate capacity.
- Covid testing: Government must expand access to rapid testing, keeping it free, with prioritisation for frontline 'key' workers.
- 'Working better' taskforce: Government must convene a taskforce, chaired by a cabinet minister, bringing together worker representatives, business and independent experts. The taskforce would report on how to achieve the mission of a high wage, high productivity economy before the autumn financial statement.9

Skills

Older workers are the least likely to get 'off the job training' from their employers,10 and have for a long time faced additional barriers in the labour market. This discrimination means over-50s who are unemployed are twice as likely as the youngest workers to become long-term unemployed, with just one in three who were made redundant getting back in employment within three months, even pre-Covid-19.11 So many older workers will require additional support if they are to return to or stay in the labour market.
This means enabling workers to access mid-life reviews to help them plan for later life, as well as making sure they are able to access any training they require. There is an important role for Union Learning Representatives in delivering these reviews as workers are likely to be more open with them than their managers about skills gaps and personal pressures.

The Union Learning Fund supported people to access training at work for more than 20 years and played a key role in helping older workers acquire the skills they need to sustain and build their employment prospects. The government should review its puzzling and counter-productive decision to cut the grant for the Union Learning Fund. TUC research has demonstrated that this will reduce the number of adults taking up learning and training, including many older workers.12

Key recommendations:

Mid-life reviews: All workers must have the right to a mid-life career and skills review to help them plan, progress and prosper in later life.

Right to retrain: Government must expand existing skills entitlements and establish a new ‘right to retrain’. These entitlements should be incorporated into lifelong learning accounts and accompanied by new workplace rights, including a new right to paid time off for learning and training for all workers

Funding commitment: Government must invest in skills over the long-term and ensure that this part of the departmental budget is not first in line for cuts. It should also establish a new national social partnership on skills and restore of funding for the successful Union Learning Fund.

Targeted support: In recognition of the additional barriers faced by unemployed or economically inactive older people in returning to the labour market, the government must provide funded retraining schemes targeted at older people.

Health and flexible working

The growing number of older people unable to work because of long-term sickness or disability means that tackling the barriers faced by disabled people in the workplace is also vital for increasing labour market participation. This requires ensuring that older workers who are disabled have access to the support they are legally entitled too and do not face discrimination. It also means giving stronger rights to flexible and home working, which would benefit those managing long-term health conditions or needing to reduce their workload.

Key recommendations:

- Reasonable adjustments: Employers must take all steps they can to ensure they comply with their proactive duty to implement reasonable adjustments for disabled workers, including working from home and flexible work patterns as soon as is possible.
- Pay gap reporting: In order to promote transparency and ensure workforce monitoring is used consistently across employers the government must introduce mandatory disability pay gap reporting.
- Job adverts: Introduce a legal duty on employers to consider which flexible working arrangements are available in a role and publish these in job advertisements, with the new postholder having a day-one right to take up the flexible working arrangements that have been advertised.
- Right to work flexibly: A day-one right to request flexible working for all workers, with the criteria for rejection mirroring the objective justification set out above. Workers should have a right to appeal and no restrictions on the number of flexible working requests made.

Pensions and benefits

To ensure those people who are unable to stay in work into their mid-sixties and beyond are not condemned to poverty, reform of both pension and working age benefits is needed. Reforming universal credit so that it provides an income recipients can live on and doesn't punish older workers with modest levels of savings would ensure a decent safety net for those forced out of the labour market.

Extending auto-enrolment to ensure more people built up meaningful pension pots would give people greater financial security as they plan for retirement or manage their workload. And developing default retirement income pathways would help people accessing DC pensions they have been auto-enrolled into to do so in a way provides a suitable retirement income.

In the absence of an overhaul of universal credit the government needs to provide targeted support through the benefits system to those approaching state pension age who are unable to work or struggling on low incomes.

And the government cannot push ahead with plans to increase the state pension age. Analysis of ONS population projections has found that the government would have to delay the planned increase from 66 to 67 by 23 years if it is to stick to the formula of people spending up to a third of their working life in retirement.13 The inequalities explored in this report – and the growing gap in life expectancy in the most and least deprived areas14 - show that the independent review of the state pension age taking place this year should focus on the impact of any changes on the least well off.

Key recommendations

- Universal Credit: UC should be increased to 80 per cent of the real Living Wage, and the savings rule that reduces payments to anyone with £6,000 in savings and means those with £16,000 are not eligible must be reformed.
- State pension access: Those approaching state pension age who are unlikely to be able to work again due to caring responsibilities, ill-health, or long-term unemployment should be eligible for early access to their state pension.
- Pension credit: The eligibility age pension credit should be set at a lower level than the state pension age to help all older people struggling to manage on a low income.
- State pension age: Government should shelve plans for further state pension age increases and use the independent review of state pension age to develop a framework that links any future increases to improved life expectancy in the most deprived areas to address the impact of growing longevity inequality.
- Auto-enrolment: Government must phase out the auto-enrolment lower earnings limit and earnings trigger that means employers do not have to auto-enrol low paid workers into a workplace pension or make meaningful contributions to their retirement savings. To ensure workers who have been auto-enrolled into schemes have the best chance of turning their pot into a sustainable income, regulators must develop default retirement income pathways that are suitable for most members, with strong governance and capped investment charges.

Endnotes

1) This age band includes all people up to the current state pension age.

2) DWP, Economic labour market status of individuals aged 50 and over, trends over time: September 2021 https://www.gov.uk/government/statistics/economic-labour-market-status-of-individuals-aged-50-and-over-trends-over-time-september-2021/economic-labour-market-status-of-individuals-aged-50-and-over-trends-over-time-september-2021 Taking into account increases to the state pension

3) EIS, Labour Market Statistics, November 2021 https://www.employment-studies.co.uk/resource/labour-market-statistics-november-2021

4) ONS, Living longer: impact of working from home on older workers, https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/ageing/articles/livinglongerimpactofworkingfromhomeonolderworkers/2021-08-25

5) TUC, Extending working lives - How to support older workers https://www.tuc.org.uk/research-analysis/reports/extending-working-lives-how-support-older-workers

6) Pensions Policy Institute, The Underpensioned Index https://www.pensionspolicyinstitute.org.uk/media/3678/20201208-the-underpensioned-index-exec-summary-final.pdf

7) The state pension age increased from 65 years and 6 months to 66 years in stages between October 2019 and October 2020, so some of those aged 50-65 in Q3 2019 who had retired will have actually reached state pension age, meaning the increase in the number of people retiring before they reach state pension is slightly larger than this 50,000 figure.

8) FCA, Financial Lives 2020 survey: the impact of coronavirus, https://www.fca.org.uk/publication/research/financial-lives-survey-2020.pdf

9) For more details see TUC report, A better normal: Delivering better work now, https://www.tuc.org.uk/research-analysis/reports/better-normal

10) Centre for Ageing Better, State of ageing in 2020, https://www.ageing-better.org.uk/work-state-ageing2020

11) Ibid

12) TUC 2020, Getting every adult to level 3- https://www.tuc.org.uk/research-analysis/reports/getting-every-adult-le…

13) LCP, Twenty million adults could be in line for ‘state pension age reprieve’ as life expectancy improvements ‘collapse’ even before the Pandemic, https://www.lcp.uk.com/media-centre/2021/12/twenty-million-adults-could-be-in-line-for-state-pension-age-reprieve-as-life-expectancy-improvements-collapse-even-before-the-pandemic

14) The Kings Fund, How much longer and further are health inequalities set to rise? https://www.kingsfund.org.uk/blog/2021/10/rising-health-inequalities-office-health-improvement-disparities