

SPECIAL ANALYSIS

Labour Market Participation among Older People

The proportion of people aged 55 and over who participate in the labour market has risen markedly over the past decade, and the NIER expects the participation rate in this age group to increase further. The upward trend in labour market participation among older people means that potential employment and potential GDP will be around half a per cent higher in 2025 than would otherwise have been the case.

OLDER PEOPLE IN THE LABOUR MARKET TODAY

Labour market participation varies widely between age groups.³⁹ The participation rate, or the percentage of the population in the labour force, is highest among those aged 25–54 and then decreases with age (see Table 12). The decline is particularly marked at the ages of 60 and 65 (see Diagram 40).

Table 12 Labour Force Status 2012

Per cent

	Labour force participation ¹	Employment rate ¹	Unemployment ²
15–24 years	52.4	40.0	23.7
25–54 years	90.6	85.2	5.9
55–64 years	77.1	73.1	5.2
65–74 years	15.3	14.9	2.6
15–74 years	71.1	65.5	8.0

¹ Per cent of population in each age group. ² Per cent of labour force in each age group.

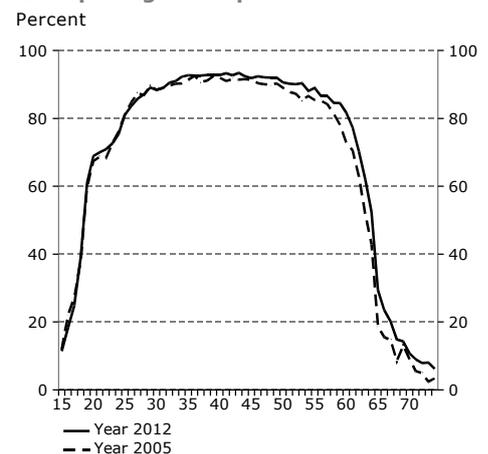
Source: Statistics Sweden.

Unemployment is relatively low among older people (see Table 12). However, those older people who are unemployed tend to remain so for a long period. The job-finding rate, or the probability of moving from unemployment to employment, are not as good as for younger people (see Diagram 41).⁴⁰ Unemployment is very low among the over-65s. This is because it is generally

³⁹ For a survey of labour market participation among younger people, see the special analysis "Arbetslöshet bland unga" (Unemployment among the Young) in *The Swedish Economy*, June 2012.

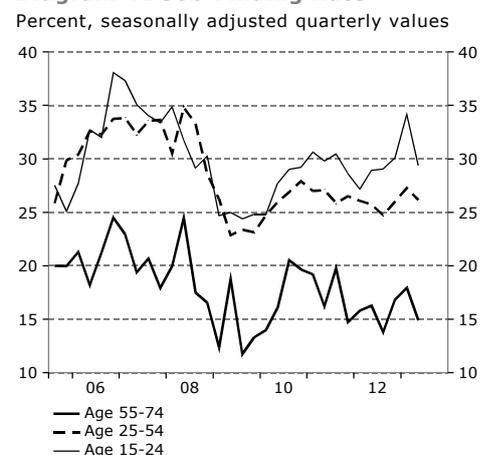
⁴⁰ See also *Arbetsmarknadsrapport 2013* (Labour Market Report 2013), Arbetsförmedlingen (the Swedish Public Employment Service).

Diagram 40 Labour Force Participation Rate per Age Group



Source: Statistics Sweden.

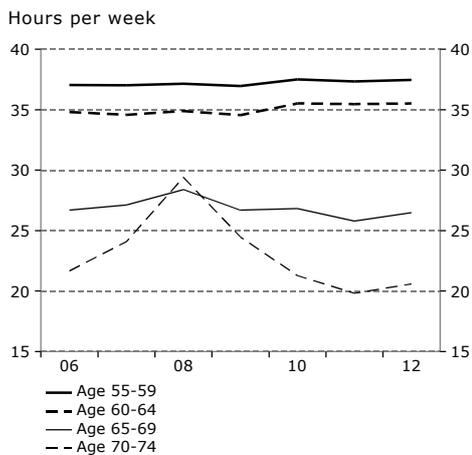
Diagram 41 Job-Finding Rate



Note: The job-finding rate is the share of unemployed leaving unemployment for employment each quarter.

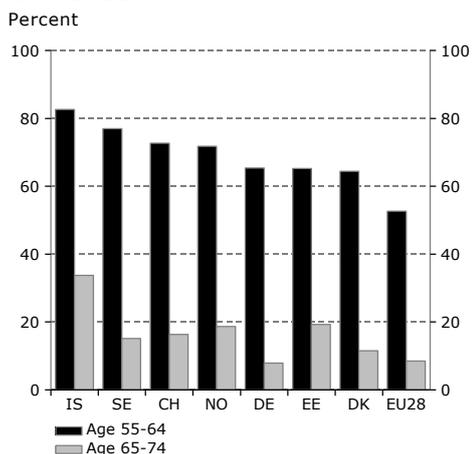
Sources: Statistics Sweden and NIER.

Diagram 42 Average Hours of Work per Person at Work



Source: Statistics Sweden.

Diagram 43 Labour Force Participation Rate 2012



Source: Eurostat.

only those who are in work who remain in the labour market after reaching 65.⁴¹ Approximately 50 per cent of men and 30 per cent of women still working after their 65th birthday are self-employed.⁴² As in other age groups, labour force participation and the employment rate are, on average, higher for men than for women (see Table 13).

The average number of hours worked per week by a working person is just under 37 for those aged 55–64. This is not much different to the 25–54 age group, which worked an average of 37.5 hours per week in 2012. However, average hours worked are markedly lower among the over-65s (see Diagram 42).

Table 13 Labour Force Status among Older People 2012

Per cent

	Labour force participation ¹		Employment rate ¹		Unemployment ²	
	Women	Men	Women	Men	Women	Men
55–59 years	83.3	89.2	79.7	84.3	4.3	5.5
60–64 years	63.3	72.9	60.2	68.6	5.0	6.0
65–69 years	15.4	24.6	14.8	24.2	4.5	1.6
70–74 years	5.8	11.4	5.6	11.1	2.4	2.1

¹ Per cent of population in each age group. ² Per cent of labour force in each age group.

Source: Statistics Sweden, LFS.

FEW COUNTRIES HAVE HIGHER PARTICIPATION RATES IN THE 55–64 AGE GROUP

By international standards, Sweden has a very high level of labour force participation among those aged 55–64. Of the OECD countries, only Iceland had a higher participation rate in this age group in 2012 (see Diagram 43). There is a clear link between labour force participation in the 55–64 and over-65 age groups in the OECD countries as a whole: if participation is high at 55–64, it is generally also high among those aged 65 and

⁴¹ One contributing factor is that the over-65s are not entitled to unemployment benefits.

⁴² The sectors in which the over-65s most commonly run their own businesses are agriculture, forestry and fishing, wholesale and retail, and business services. Around 10 per cent of women in this group operate in the care sector. When it comes to employees, men work most commonly in manufacturing or financial services, while women are most likely to work in the care sector. Many of those over the age of 64 are employed on fixed-term contracts. See chapter 10 of *Längre liv, längre arbetsliv: Förutsättningar och hinder för äldre att arbeta längre* (Longer lives, longer working lives: What older people need and do not need to work longer), preliminary report of Pensionsåldersutredningen (the Swedish Retirement Age Commission), SOU 2012:28.

over.⁴³ In Sweden, however, participation decreases relatively quickly at the age of 65. This can be interpreted as the norm of retiring around that age being well established in Sweden.

LABOUR FORCE PARTICIPATION AMONG OLDER PEOPLE HAS INCREASED OVER A LONG PERIOD

Viewed over a longer period, older people have gradually increased their participation in the labour market.⁴⁴ Participation has trended up among both older women and older men since the turn of the millennium (see Diagram 44 and Diagram 45). The increase from 2005 to 2012 was approximately 4 percentage points in the 55–64 age group and 5 percentage points in the 65–74 age group. There were increases in all of the individual age groups (see Diagram 40).⁴⁵ Labour force participation among older people appears to have been relatively unaffected by the economic climate.⁴⁶

Many factors are affecting labour force participation, such as better health and higher life expectancy, higher average levels of education, and fewer arduous jobs.⁴⁷ Pension reforms have also played a role by increasing the financial incentives for staying in work longer, and recent years' introduction of the earned-income tax credit and reforms of the sickness benefit system have further incentivised participation in the labour market.⁴⁸

DEMOGRAPHIC DEVELOPMENTS AND FUTURE TRENDS

Demographic developments, or how the size and composition of the population vary over time, affect the supply of labour. If

⁴³ See "Uträdesåldern från arbetslivet – ett internationellt perspektiv" (Retirement age – an international perspective), memo from the Swedish Pensions Agency, 2012.

⁴⁴ See, for example, Sjögren Lindquist, G. and E. Wadensjö, "Arbetsmarknaden för de äldre" (The labour market for older people), Report to the Swedish Fiscal Policy Council 2009/7.

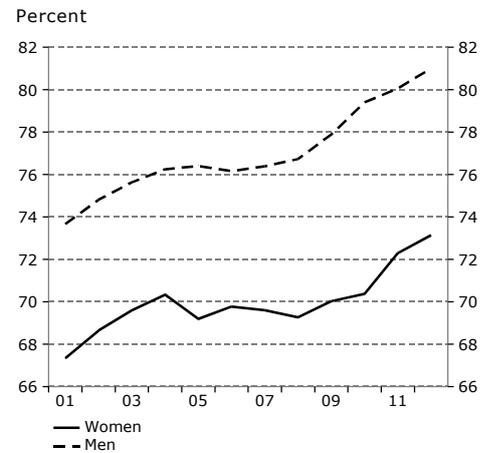
⁴⁵ The average increase for single-year cohorts (55-year-olds, 56-year-olds and so on) is actually larger than the aggregated increases for the 55–64 and 65–74 age groups. This is because the composition of the older population has changed since 2005, with more people reaching more advanced ages. As labour force participation decreases with age, this is putting a damper on the increase in participation in the aggregated groups.

⁴⁶ This was also observed in other countries during the financial crisis. See *OECD Employment Outlook 2013*, OECD.

⁴⁷ See *Längre liv, längre arbetsliv: Förutsättningar och hinder för äldre att arbeta längre* (Longer lives, longer working lives: What older people need and do not need to work longer), preliminary report of Pensionsåldersutredningen (the Swedish Retirement Age Commission), SOU 2012:28.

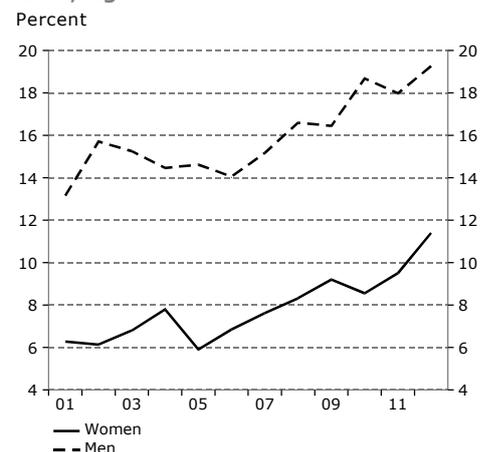
⁴⁸ See, for example, Laun, L., "Om förhöjt jobbskatteavdrag och sänkta arbetsgivaravgifter för äldre" (On higher earned-income tax credits and lower employer contributions for older people), Report 2012:16, IFAU, and Glans, E., "Pension reforms and retirement behaviour", Uppsala University Department of Economics, 2009.

Diagram 44 Labour Force Participation Rate, Age 55–64



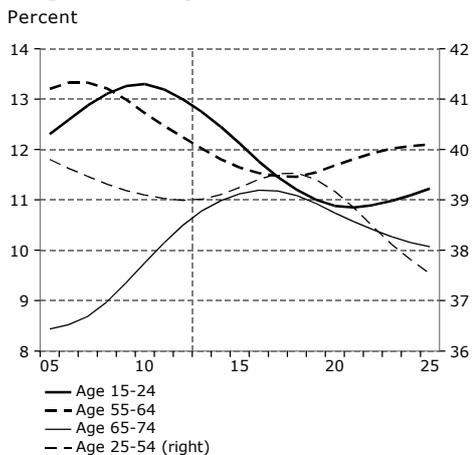
Sources: Statistics Sweden and NIER.

Diagram 45 Labour Force Participation Rate, Age 65–74



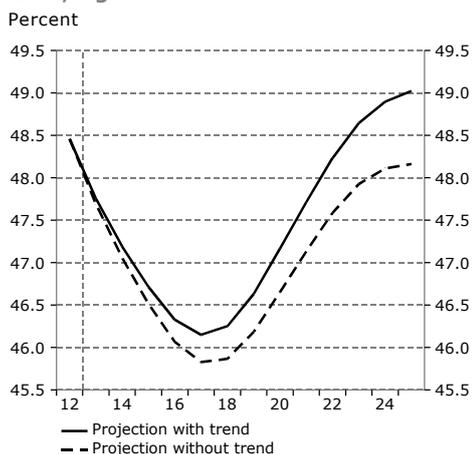
Sources: Statistics Sweden and NIER.

Diagram 46 Population Shares



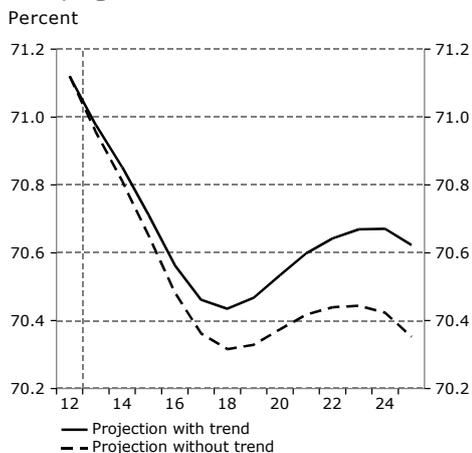
Source: Statistics Sweden.

Diagram 47 Labour force Participation Rate, Age 55-74



Source: NIER.

Diagram 48 Labour Force Participation Rate, Age 15-74



Source: NIER.

groups with a lower average participation rate grow as a proportion of the population, this will pull down overall labour force participation, and vice versa. The 65–74 age group has grown and will account for between 10 and 11 per cent of the population in 2015–2025, whereas the proportion of people aged 25–54 will decrease (see Diagram 46).

The NIER uses a demographic model called KAMEL for labour force projections.⁴⁹ The model assumes that participation rates in each age group are constant over time and so does not capture any trends in participation in specific groups. The NIER has concluded that these demographic projections needs to be supplemented with a trend that reflects further growth in labour force participation among older people.

The NIER predicts that labour force participation among those aged 55–74 will continue to climb, but that the upward trend will slow as the effects of the earned-income tax credit and reforms of the sickness benefit and pension systems abate. The trend is expected to be strongest in the 65–69 age group.⁵⁰ Labour force participation among those aged 55–74 is projected to rise at a rate such that the percentage of the labour force in this age group will be approximately 1.5 per cent higher in 2025 than is projected without this trend. The labour force participation rate in this age group will be approximately 1 percentage point higher (see Diagram 47).

Labour force participation for the full 15–74 age group will decrease from today's levels through to 2025. This is because those with lower average participation rates, such as older people and immigrants, will grow as a proportion of the population (see Diagram 48). However, when the projection includes an upward trend in labour force participation among older people, the decrease is smaller, and the participation rate is approximately 0.3 percentage points higher in 2025 than is projected without this trend (see Diagram 48).

⁴⁹ For a more detailed presentation of KAMEL, see Appendix 2 to "Sveriges ekonomi – ett långsiktsscenario fram till år 2035" (The Swedish Economy – a long-term scenario through to 2035), Occasional Study No. 30, NIER.

⁵⁰ There is reason to believe that labour force participation will continue to rise fastest among those aged 65-69 because previous pension reforms have impacted most heavily on this age group. See "Hur ska utvecklingen av arbetsmarknadens funktionsätt bedömas?" (How should developments in the functioning of the labour market be interpreted?), Report from the Economics Department of the Ministry of Finance 2011:1, Swedish Ministry of Finance.

CONTINUED RISE IN PARTICIPATION AMONG OLDER PEOPLE TO PUSH UP POTENTIAL GDP

The upward trend in labour force participation among older people will enlarge the overall potential labour force by approximately 20 000 people or half a per cent (see Diagram 49). As unemployment and average hours worked among older people are below average, higher participation rates in this age group will put downward pressure on overall unemployment and average hours worked. However, these effects are expected to be marginal.

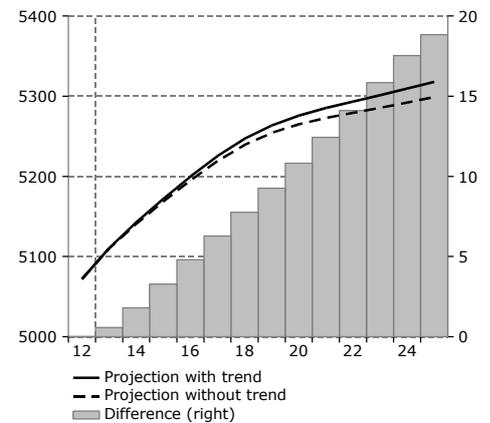
The overall impact on potential GDP will therefore be approximately the same as that on the potential labour force. Potential GDP will be approximately 0.5 per cent higher in 2025 as a result of continued growth in labour force participation among older people.

How public finances are affected by increased labour force participation depends on many different factors.⁵¹ With more people in work, tax revenue will be higher than otherwise. However, the rise in tax revenue will be reduced by more people receiving earned-income tax credits, especially if the increase in participation is among the over-65s, as they are entitled to both a higher earned-income tax credit and lower employer contributions.

The under-65s may be entitled to both unemployment and sickness benefits. If they increase their labour force participation but do not work due to unemployment or ill health, public expenditure will rise. The over-65s are not entitled to these benefits, and so an increase in their participation will bring a more clear-cut improvement in public finances.

The overall effect on public finances of higher labour force participation among older people will be positive, but the size of the effect will depend on the ages at which most of the increase takes place.

Diagram 49 Potential Labour Force
Thousands and percent, respectively



Source: NIER.

⁵¹ This refers to current rules. The final report of Pensionsåldersutredningen (the Swedish Retirement Age Commission) presents estimates of what effects its proposals would have on public finances. See *Längre liv, längre arbetsliv: Åtgärder för ett längre arbetsliv* (Longer lives, longer working lives: Actions for a longer working life), final report of Pensionsåldersutredningen, SOU 2013:25.