

Economic Commentaries

Why are labour force participation and employment increasing among older people?

Iida Häkkinen Skans

The author works in the Riksbank's Monetary Policy Department¹

The employment rate and labour force participation among older people (aged 55–74) has shown a trend increase over a long period of time. It is important to understand the reasons for this, as it affects potential employment and the assessment of resource utilisation, which are both important to monetary policy.

There are many possible causes for the increase in the labour supply and employment rate among the elderly. The research literature usually finds a decline in sickness absence as the most important reason. Increased educational levels, the pension reform in 1999 and targeted tax cuts during the 2000s have probably also contributed. In recent years, the large shortage of labour has probably also led to more older people remaining in the labour market.

Despite the high employment rate, there is still spare capacity in the labour force among older people. There are many people aged 55–64 who want to work more than they do now. As life expectancy rises and the retirement age is increased, labour force participation and the employment rate among older people are expected to continue to rise. As 55–74 year olds comprise around 30 per cent of the population aged 15–74, older people's labour force participation has a relatively large effect on total labour market development.

The employment rate among people aged 55–74 has shown a trend increase over a long period of time, a development that the Riksbank and many other forecasters have often underestimated. How much this age group works has relatively large significance for potential employment and potential labour force² as 55–74 year olds comprise around 30 per cent of the population in the age range 15–74.

It is important for monetary policy that the Riksbank makes the best possible assessments of resource utilisation, potential employment and potential labour force. This Economic Commentary describes what causes may lie behind the trend increase in labour force participation among older people, to contribute to better assessments of resource utilisation and labour market development going forward.

How does labour market development look for older people?

Labour force participation, that is, the percentage of the population in the labour force, differs substantially between different age groups. Labour force participation is highest in the age group 25–54 years and then declines as people become older (see Table 1). The employment rate, that is, the percentage of the population that is employed, is relatively high among older people and has been increasing throughout the 2000s (see Figure 1). The trend increase applies to both women and men and to both 55–64 year olds and 65–74 year olds.³ The employment rate among older people is high even in an international comparison, particularly among 55–64 year olds (see Figure 2).

Compared with the other age groups, unemployment is relatively low among older people (see Table 1).⁴ It is largely those who have a job who remain in the labour force after the age of 65, which is mainly due to the right to remuneration

¹ The author would like to thank Charlotta Edler, Mattias Erlandsson, Hanna Gabriellson, Jesper Hansson, Åsa Olli Segendorf, Marianne Sterner and Pernilla Wasén for valuable contributions and comments. The views expressed in this Economic Commentary are the author's personal opinions and are not to be regarded as the Riksbank's view in these issues.

² Potential employment and potential labour force refer to the levels of employment and labour force that could be attained if there were no cyclical fluctuations.

³ However, people aged 65–74 work relatively few hours and the agreed average working hours for this age group have remained largely unchanged at 24 hours a week for the past decade. The agreed average working hours for the age group 55–64 is on average 38 hours a week, which does not differ from the average for 20–64 year olds.

⁴ Unemployment is defined as the share of unemployed persons in the labour force. The labour force comprises employed and unemployed persons.

from the unemployment insurance ceasing when one reaches the age of 65.⁵ Almost half of the men and around 20 per cent of the women who work after the age of 65 are self-employed.

Despite unemployment being relatively low, there is still spare capacity in the labour force among older people. There are many people, particularly in the age group 55–64 years, who would like to work more than they do now (see Figure 3). The spare capacity covers, in addition to unemployed persons, also latent jobseekers and employed people who would like to work more hours. The spare capacity in the labour force among older people amounted to 2.6 million hours a week on average in 2019, which corresponds to 1.7 per cent of the total number of hours worked.

Table 1. Labour market status in different age groups 2019

Per cent

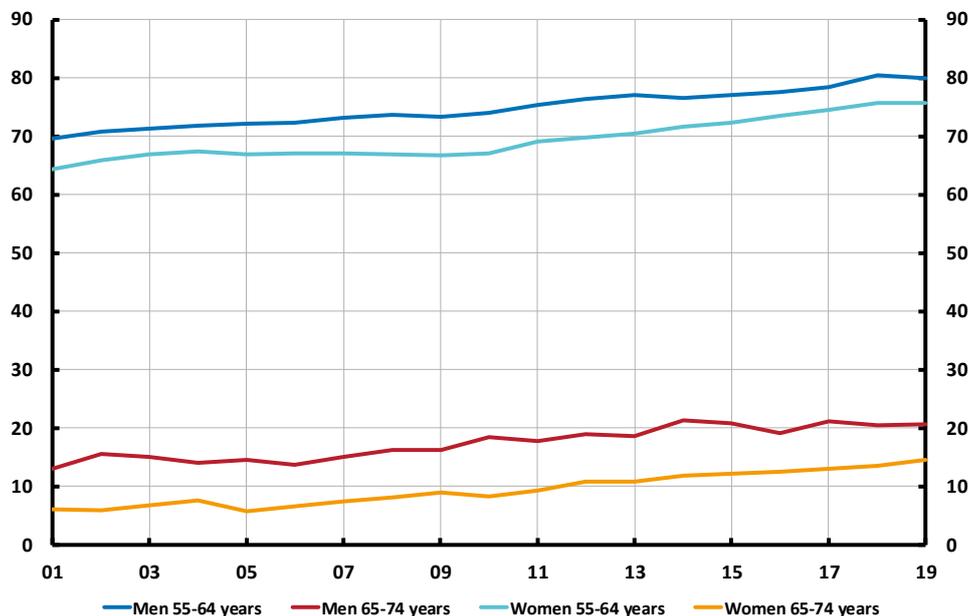
	Labour force participation ¹		Employment rate ¹		Unemployment ²	
	Women	Men	Women	Men	Women	Men
15–24 years	55.9	53.6	45.0	42.7	19.5	20.4
25–54 years	88.7	93.6	83.7	88.9	5.6	5.0
55–64 years	79.0	84.2	75.7	80.0	4.2	5.1
65–74 years	14.9	21.2	14.5	20.7

¹ Per cent of the population in respective group. ² Percentage of labour force in respective group. .. Data is lacking.

Source: Statistics Sweden

Figure 1. Employment rate 55–64 years and 65–74 years, divided into men and women

Per cent of the population in each group respectively

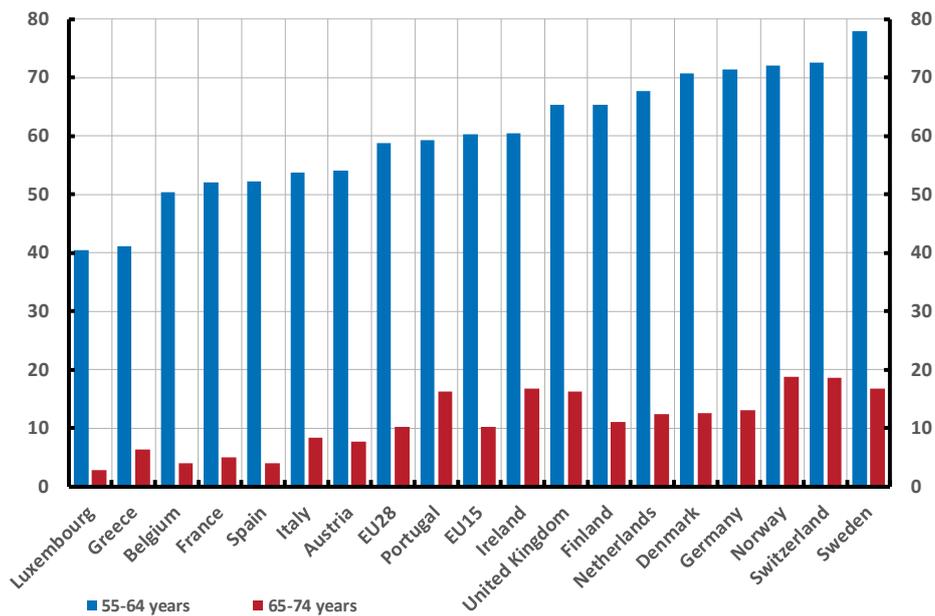


Source: Statistics Sweden

⁵ The right to sickness benefit is also limited for those who have reached the age of 65. According to the proposal from the pension group, however, these age limits will be gradually raised in line with the lowest age for the guarantee pension being raised with effect from 2023.

Figure 2. Employment rate in European countries 2018, 55–64 years and 65–74 years

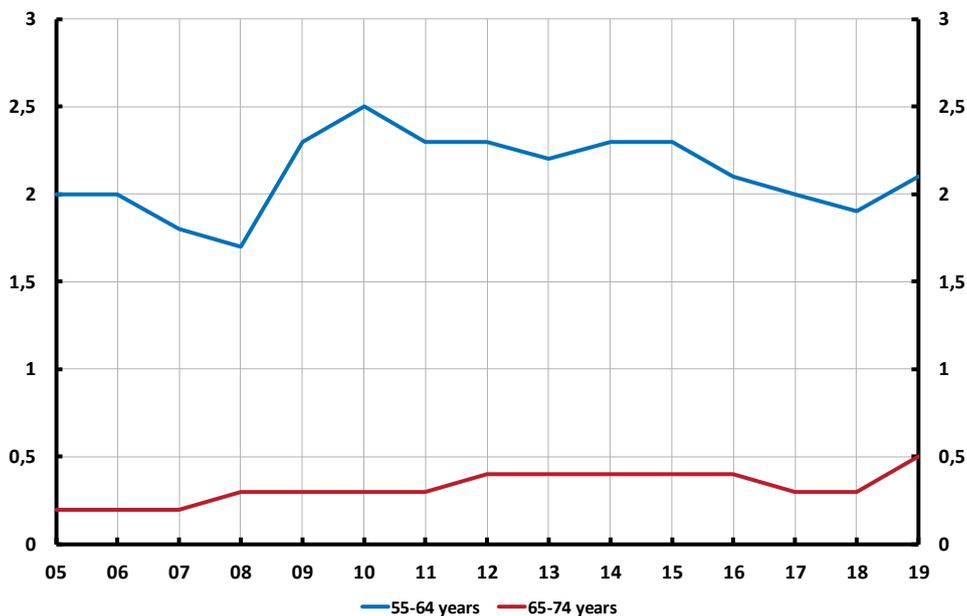
Per cent of the population in respective age group



Sources: Eurostat and Statistics Sweden

Figure 3. Spare labour force capacity for unemployed, latent jobseekers and underemployed older people

Million hours



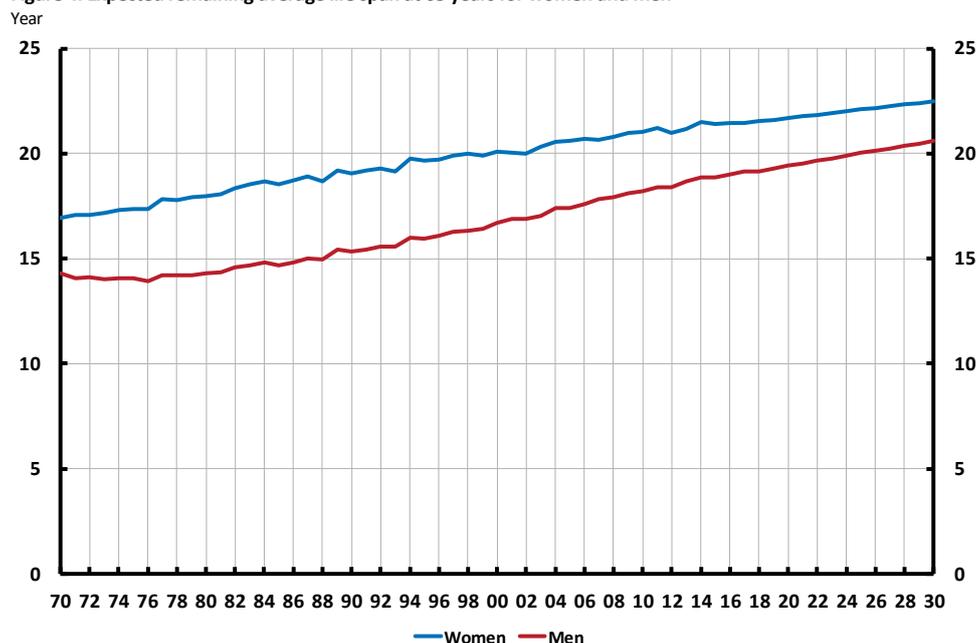
Note. Latent jobseekers are people outside of the labour force who want to and can work, but have not applied for jobs. Underemployed are people who are employed but work fewer hours than they can and wish to work.

Source: Statistics Sweden

What causes lie behind the increased labour supply among older people?

There are many possible causes for the increase in the labour supply and employment rate among the elderly. The research literature usually finds a **decline in sickness absence** as the most important reason. It has become more difficult to leave the labour force through sickness benefit or disability pension as the medical requirements for receiving remuneration from the sickness insurance have become stricter. This applies in particular to the past decade.⁶ Studies show that changes in the sickness insurance have contributed substantially to increasing labour force participation among older people who have not yet reached retirement age.⁷ Over time, older people's health has also improved. This is visible, for instance, in the fact that mortality at a given age has declined and that older people often perceive themselves to be in good health. Remaining life expectancy at the age of 65 has also increased and is expected to continue to increase (see Figure 4). The **increasing level of education** among older people has also contributed to a higher level of employment.⁸ To some extent the increased employment among older people can be explained by women working to a greater extent now than before. This is probably also partly due to the stricter medical requirements in the sickness insurance. In an international comparison, the extensive systems for childcare and elderly care in Sweden also explain why older women work more here than in other countries.

Figure 4. Expected remaining average life span at 65 years for women and men



Source: Statistics Sweden

A further explanation why older people work more is the **pension reform** that came into force in 1999.⁹ The Swedish pension system gives strong financial incentives to remain in employment. Estimates in Laun and Wallenius (2015) show that the average actual

⁶ Major reforms were made to the sickness insurance system in 2008–2010. See, for instance, the Swedish Social Insurance Inspectorate (2012).

⁷ See, for instance, Johansson et al. (2018), Laun and Palme (2018) and Forslund (2019).

⁸ See, for instance, Geppert et al. (2019) and Laun and Palme (2018).

⁹ However, the reform was known about earlier. The parliamentary pension group presented a proposal in 1994 for reforms to the old age pension system that was adopted by the Riksdag (parliament) in the same year.

retirement age could increase by 2.5 years when the pension reform has attained full effect. The first cohort to be completely covered by the new pension system turned 65 in 2019 (people born in 1954). There is still no research showing how much of the actual increase in the labour supply among older people is due to the pension reform, but it seems likely that it has contributed.

Since 2007, there has also been a gradual introduction of **targeted tax cuts** for people aged over 65. Higher earned income tax credit for people over the age of 65 have increased the incentives to work and the abolition of the special payroll tax has increased the incentives for employers to employ and retain older workers.¹⁰ Research shows that targeted tax cuts for older people increased labour force participation in 2007–2010 by around four percentage points among those who had reached the age of 65 the previous year.¹¹ Since 2009, however, there is a special basic deduction for pensioners that has been extended several times, to reduce the differences in income tax between wage-earners and pensioners. This probably reduces the incentives for older people to continue working, but there are no empirical studies on the size of these effects.

The labour supply among older people has thus increased substantially, but the demand for older workers has probably also increased, partly because it has become cheaper to employ and retain them since the special payroll tax was abolished. During the economic upswing there has also been a large shortage of labour. The shortages have also been high in the public sector, where many women work. The fact that demand for some professional groups, for instance, teachers, social workers and nurses, has increased is partly due to the large reception of refugees and partly to the number of children and elderly people in the population increasing. Many older employees have stayed in their jobs when there has been a high demand. Even if economic activity were to deteriorate, the demand for labour in public-financed welfare services is expected to be maintained for demographic reasons.

Labour force participation and employment may continue to increase among older people

There is still potential to further increase employment among older people. The new pension reform (which comes into force from 2020 and onwards) entails higher age limits for employment protection and for drawing old age pension and will probably contribute to further increased employment rate among older people.¹² Higher age limits may change the norm for when workers are expected to retire and also affect how employers view older workers. According to the new pension reform, the lower age limits for drawing general old-age pension and guarantee pension and the age limits for receiving sickness benefit, disability pension and unemployment benefit will be increased as life expectancy rises.¹³ The age limit for employment protection will be raised from 67 in 2019 to 69 in 2023. Higher age limits in the pension system and other social security systems can potentially have large effects on employment and labour force participation. But how much the employment rate among older people actually rises as a result of the pension reform will also depend on which other possibilities they have to leave the labour force apart from old-age pension. The design of and terms and conditions for occupational pension may also have an effect on retirement.¹⁴ Previously, many workers have left the labour force through sickness benefit or disability

¹⁰ The special payroll tax for older people was reintroduced in 2016, but removed again in July 2019.

¹¹ Laun (2017).

¹² Detailed descriptions of the proposed pension reform can be found in Swedish Ministry of Health and Social Affairs (2019) and the Swedish Government (2019).

¹³ The increases in the age limits should correspond to 2/3 of the increase in life expectancy.

¹⁴ Many occupational pensions have become premium-based, but these only apply to younger employees. In many occupational pension agreements, payments into the pension end at the age of 65 and the lowest age for drawing occupational pension is 55.

pension much earlier than the retirement age. The design of the social security systems and the enforcement of the regulations are therefore important for the labour supply of older workers.

Unemployment rate for older people is probably also affected by the pension reform and higher age limits in the social security systems. Older workers have lower unemployment risk than the young, but the older workers who do lose their jobs often risk longer periods of unemployment. This is to some extent because they may have outdated skills and a lower level of formal education. Particularly in times of rapid structural change, older workers risk to be excluded from the labour market. Older unemployed workers have a shorter time left to benefit from education and have poorer access to education facilities, which makes it more difficult for them to update their skills.¹⁵ The fact that older unemployed workers have difficulty finding new jobs could also be due to age discrimination and high wage costs for older people, for instance, in the form of occupational pensions. Research shows that the probability of being called for a job interview declines as early as the age of 40, and that the probability declines faster for men than for women.¹⁶ This should not reflect an actual decline in productivity.

Increased employment among older people has a substantial effect on the total employment rate

Older people (aged 55–74) comprise around 30 per cent of the working age (15–74 years) population, and according to Statistics Sweden's population forecasts, this share will remain fairly constant over the coming decade. Therefore, the employment rate among older people has a significant effect on the total employment rate. As an illustration, one can study how the total employment rate would develop in 2020–2030 if the employment rate in each age cohort was kept at the same level as it was in 2019, and alternatively how the employment rate would develop if the age group 60–74 years gradually “rejuvenates” its labour market behaviour by one year from 2020 to 2030.¹⁷ The rejuvenation means that each cohort in the ages 60–74 changes their labour market behaviour so that they have the same employment rate and labour force participation as people one year younger. For instance, 65-year olds would in 2030 have the same labour force participation and employment rate as 64-year olds had in 2019.

The blue line in Figure 5 shows the projection for the employment rate with no change in behaviour. With no change in behaviour, the employment rate first rises slightly and then declines to around the same level in 2030 as it had in 2019. The changes in the employment rate over time in this projection are solely due to variations in the age composition of the population.¹⁸ The red line in Figure 5 shows how the total employment rate changes when one assumes a gradual rejuvenation of labour market behaviour among older people. The rejuvenation assumption means that the total employment rate increases 2020–2030. The employment rate is just over one percentage point higher in 2030 than it would be with unchanged market behaviour.

These effects on the total employment rate may appear relatively large, bearing in mind that it is only the older people who change their labour market behaviour. Figure 6 shows the projection of the employment rate for the age group 65–74 years with and without the

¹⁵ For example, the right to financial support for studies ends at the age of 56. The Government has proposed that this age limit should be raised to 60 in October 2021.

¹⁶ Carlsson and Eriksson (2017).

¹⁷ All other age groups are assumed to have the same labour market behaviour as in 2019.

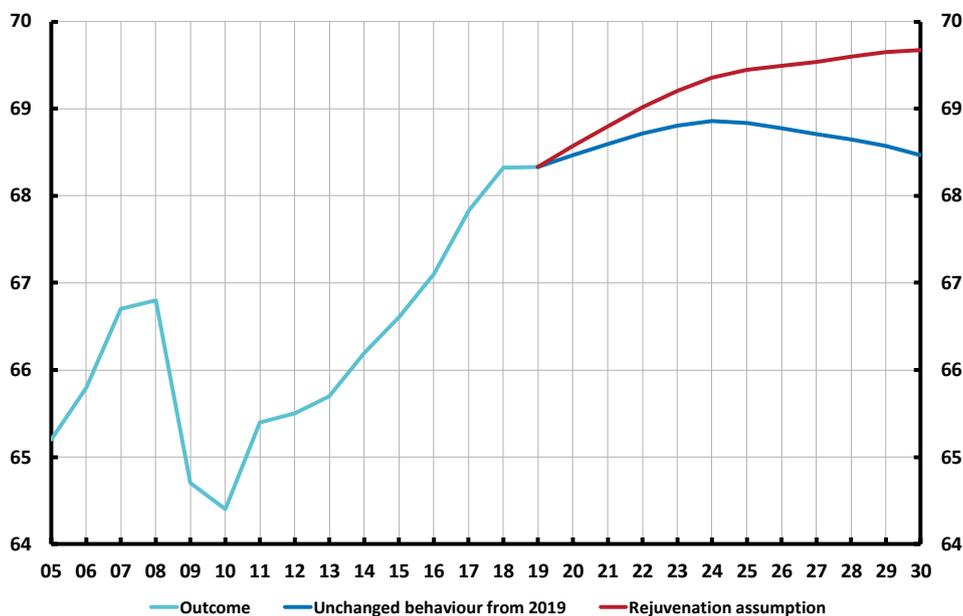
¹⁸ The projection does not take into account any other changes in the composition of the population, such as changes in the share of those born outside of Europe, which can also affect how the employment rate develops going forward. This projection should therefore not be interpreted as the most likely development for the total employment rate, but only as an illustration of how the age composition affects the development of the employment rate.

rejuvenation and the outcome for 2005–2019. The employment rate in 2030 for the age group 65–74 will be five percentage points higher with the rejuvenation assumption than if one assumes unchanged labour market behaviour. This is well in line with the increase in the employment rate for 65–74 year olds between 2009 and 2019.

How much the labour supply of older people changes is of course difficult to forecast, and the further ahead one looks, the more uncertain the calculations are. Projections should therefore only be regarded as an illustration of possible effects. But the projection shows that increased employment among older people has significance, not just for employment in the age group, but also for the total employment rate. It is therefore important to follow the labour market development for older people to avoid underestimating the total spare capacity on the labour market.

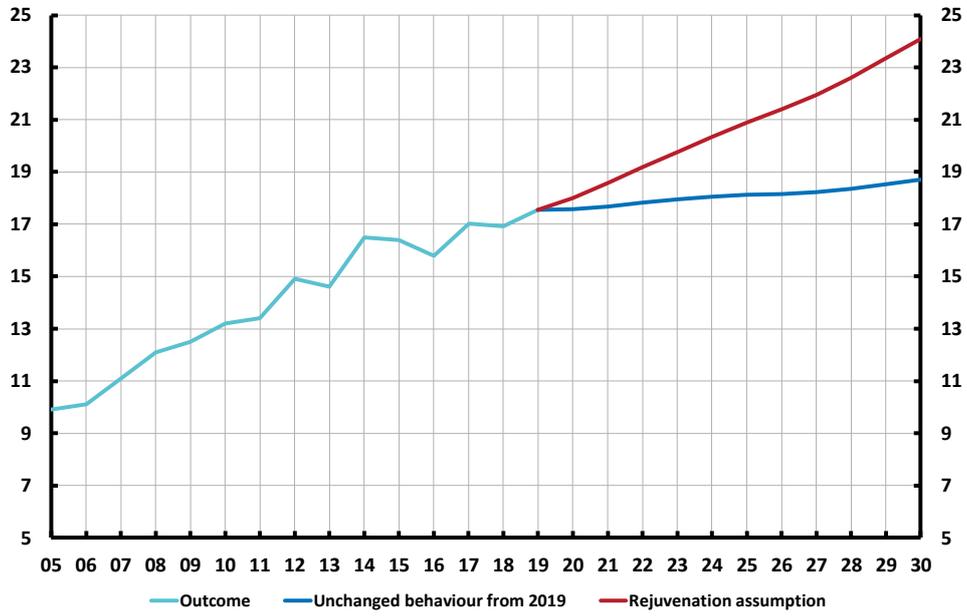
Figure 5. Projection of the employment rate (15–74 years) with unchanged behaviour from 2019, and with an assumption of a gradual rejuvenation of labour market behaviour for older people (60–74 years)

Percentage of the population aged 15–74



Sources: Statistics Sweden and the Riksbank.

Figure 6. Projection of the employment rate for the age group 65–74 years with unchanged behaviour from 2019 and with an assumption of a gradual rejuvenation of labour market behaviour for 60–74 year olds.
 Percentage of the population aged 65–74



Sources: Statistics Sweden and the Riksbank.

Conclusions

Employment among older people has been increasing over a long period of time. This is at least partly due to various political measures that aim to increase labour force participation among older people and the demand for older workers. The political measures include tax cuts, stricter enforcement of the sickness insurance regulations and the pension reform in 1999. Better health and higher educational levels have probably also contributed to higher labour force participation and higher employment rate among older people. But there is still scope to increase employment and the number of hours worked among older people.

The new pension reform (which comes into force from 2020 and onwards) will probably contribute to a further increase in labour force participation. Older people (aged 55–74) comprise around 30 per cent of the working age (15–74 years) population, and according to Statistics Sweden's population forecasts, this share will remain fairly constant over the coming decade. The development of the employment rate among older people has therefore a significant effect on the total employment rate.

If labour market behaviour among older people remains unchanged, the total employment rate will rise somewhat in coming years, and then decline, to be at roughly the same level in 2030 as it was in 2019. But if instead each cohort in the age range 60–74 years gradually “rejuvenates” its labour market behaviour from 2019 to 2030 so that they have the same employment rate and labour force participation rate as people who are one year younger, the total employment rate will increase. The total employment rate (15–74 years) is just over one percentage point higher in 2030 with the rejuvenation assumption than it would be without changes in behaviour. Of course, this type of calculation is very uncertain, and should only be regarded as an illustration of potential effects. But this illustration shows that it is important to follow labour market developments among older people to avoid underestimating the total spare capacity on the labour market.

References

Carlsson, M. and Eriksson (2017), "The effect of age and gender on labor demand – evidence from a field experiment", IFAU Working paper 2017:8.

Forslund, A. (2019), "Employment outcomes and policies in Sweden during recent decades", IFAU Working paper 2019:15.

Geppert, C., Y. Guillemette, H. Morgavi and Turner (2019), "Labour supply of older people in advanced economies: The impact of changes to statutory retirement ages", OECD Economics department, working paper no. 1554.

Swedish Social Insurance Inspectorate (2012), "Stabilitet i sjukfrånvaron", (*Stability in sickness absence*), ISF report 2012:15.

Johansson, P., L. Laun, M. Palme and H. O. Stensöta (2018), "Drivkrafter och möjligheter till ett förlängt arbetsliv" (*Driving forces and opportunities for an extended working life*), IFAU report 2018:20.

Laun, L. (2017), "Effekten av riktade skattelättnader på äldres arbetskraftsdeltagande" (*The effect of targeted tax cuts on older people's labour force participation*), *Ekonomisk debatt* no. 8, 2017.

Laun, L. och M. Palme (2018), "The recent rise of labour force participation of older workers in Sweden", NBER Working paper no. 24593.

Laun, T. and J. Wallenius (2015), "A life cycle model of health and retirement: The case of Swedish pension reform", *Journal of Public Economics*, 127, pp. 127–136.

Swedish Government (2019), "En riktålder för höjda pensioner och följsamhet till ett längre liv" (*A benchmark age for raised pensions and flexibility for a longer life*), Government Bill 2018/19:133.

Swedish Ministry of Health and Social Affairs (2019), "Höjda åldersgränser i pensionssystemet och i andra trygghetssystem" (*Raised age limits in the pension system and other social security systems*), Ds 2019:2, Ministry of Health and Social Affairs.