

# EXTEND



## Key Findings on Inequalities in Extending Working Lives from the EXTEND project - Nov 2018

### Welcome

This newsletter summarises some of the EXTEND project's key findings concerning inequalities in extending working lives. We hope that they will prove useful and, in particular, contribute to the prevention or amelioration of those inequalities – a goal that we regard as essential in order to ensure that policies operate fairly. To make the research findings as accessible as possible we have not included detailed information on the methods employed or the data sources we used. This information can be found in the detailed reports on the EXTEND website: <http://www.extendjpimybl.eu/>.

### WHAT IS THE EXTEND PROJECT?

EXTEND is an interdisciplinary research project funded by the European Joint Programme Initiative (JPI) More Years, Better Lives, with partners in Germany (Naegele – coordinator, Hilbert), the UK (Walker), Denmark (Jensen), the Netherlands (Deeg) and Finland (Vuori). Its main aim is to investigate whether reforms aimed at extending working lives (EWL) might increase social inequality. Methods used include policy mapping, longitudinal survey analysis, an RCT field study, expert interviews, case studies, focus groups and economic simulations. We are paying special attention to the social care sector because it is particularly affected by the EWL challenge.

### Explaining socio-economic inequalities in health following exit from work

- People with low socio-economic status (SES) have worse self-rated health after leaving work than those with high SES. These inequalities are larger in the UK (England) than in Denmark, Germany and the Netherlands.
- The association between SES and health after work exit is partly explained by working conditions: physical demands, psycho-social demands, variations in tasks and degree of autonomy.
- High physical demands and low variation in tasks were associated with worse health after leaving work, regardless of SES. Low autonomy at work was linked to worse health among low SES retirees only.

- We found significant cross-country differences in post-retirement health, with the highest scores in Denmark and lowest in Estonia. A key factor is likely to be the level of public spending: higher total social expenditure, as well as higher expenditure on health, old age, housing and other social policy areas (such as cash benefits for low income households) was associated with better health for both men and women.
- Higher social expenditure leads to smaller health inequalities, with regard to spending on old age, survivors, health, labour markets, unemployment, minimum pension replacement rate (women only), incapacity, family, unemployment benefit replacement rate (men only) and total social (or welfare state) expenditure. In other words, higher social expenditure mitigates the influence of SES on health.

#### *Policy recommendations*

- Improving working conditions would improve the health of all retirees and would reduce social inequalities after work exit. Possible measures to enhance variation and autonomy are job rotation, job enlargement and job enrichment.
- Increasing spending on key welfare state benefits and services will improve health and decrease inequalities after retirement.

#### **Socio-economic differences in the determinants of early work exit**

- In all countries except the UK (England) those with low SES are at higher risk of early work exit than those with high SES. In England the opposite appeared to be the case but the result was not significant statistically.
- With regard to health, workers with poor self-rated health, functional limitations or depression, have a higher risk of early exit than their more healthy peers. Low SES workers are in poorer health than those in higher status positions.
- The kinds of work matter: as well as the effect of insecurity noted above jobs with high physical demands are a risk factor for early exit, but only for those in low SES positions. A high variation in tasks at work is associated with a low risk of early exit for those in low and intermediate jobs (but only in the absence of depression). High autonomy at work is a protective factor against early exit for both low and high SES groups. Regardless of SES those who are dissatisfied with their income are at higher risk of early exit than those who are satisfied.
- The policy and welfare state context have a significant bearing on early work exit with both SES and gender inequalities. Men in low SES jobs are likely to continue in employment when facing the prospect of relatively low pension benefits, but those in high status jobs were not affected by such contextual factors.

- Paradoxically, stricter employment protection legislation is a risk factor for early exit among low SES men. This is because employers may choose to push older employees into early retirement instead of attempting to make them redundant.
- For women, higher unemployment rates are associated with a lower risk of early exit for all SES groups (high unemployment rates being an incentive to remain in work – for those with jobs).

#### *Policy recommendations*

- Health interventions could help to reduce inequalities in work exit, especially targeted at low SES workers. Such interventions include modifications to the workplace, prevention programmes, physical activity or health literacy. Improvements in working conditions may also allow more people with health problems to remain in their jobs.
- Reducing physical demands and increasing psycho-social resources (variation in tasks and autonomy), and improving the self-efficacy of workers, would likely reduce the risk of early work exit, especially for low SES workers. Training programmes targeted at older workers may also reduce the risk of early work exit.

#### **Indexing pension age to life expectancy (LE)**

- Indexing pensionable age to LE is seen by policy makers as a way to ensure financial sustainability and intergenerational solidarity. In practice, however, it can enlarge inequality.

#### **ONLINE PRESENCE**

The EXTEND website can be accessed here:

<http://www.extendjimmybl.eu/>

We also have a project on ResearchGate:

<https://www.researchgate.net/project/EXTEND>

- Indexation may be achieved in two different ways. Finland and UK fix the share of adult life spent in retirement. As about one-third of adult life is in retirement, a one year increase in LE will lead to an increase in pensionable age of around 8 months. In contrast Denmark and the Netherlands fix the average amount of years spent in retirement (at the current average in the Netherlands and in Denmark at a reduced average). All four countries use average LE as the reference point. But the LE of higher educated and higher SES groups increases faster than the average, and vice versa for the lower educated/SES groups, which means that the former can expect an extension of retired life while, for the latter, it would reduce. This effect is even more pronounced for healthy LE.
- The policy context and accompanying measures are also critical to the effect indexation has on inequality after retirement. With the exception of Denmark, all countries have taken steps to encourage longer working lives or to protect people from poverty in old age. Both the Netherlands and Finland have reduced the accrual rates of their defined benefit pensions, so a full pension is achieved at a later age. In the UK the Basic State Pension and the State Second Pension have been replaced by the more generous New State Pension (NSP) and auto-enrolment into occupational schemes for most workers. The interaction of these measures with indexation tends to enlarge inequalities:
  - The highest earners are the most likely to delay retirement in response to pensionable age rises, as well as having the highest occupational pensions, which means they benefit more from supplementary pension accumulation due to delayed retirement.
  - A delay in pensionable age also means a reduction in pension wealth for those dependent on the public basic pension, because of the shorter period in receipt.
  - In the case of the UK the transition to the NSP falls heavily on lower educated/lower SES women. This is because the NSP requires longer periods of contributions than the Basic State Pension for a full pension (35 years instead of 30), and these women's incomes on average are below the threshold to qualify for auto-enrolment into occupational pensions for several working years, and the loss of the highly beneficial contribution rate for a very thin income band for low income earners in the State Second Pension (40% replaced by 8% under auto-enrolled occupational pensions). As a result, the average lower educated woman in the UK loses 5% of their monthly income due to these reforms and are likely to end up on social assistance (pension credit) after retirement. Moreover, if it were not for social assistance this group of women would lose 25% of their monthly income.
  - A very different picture emerges from the defined benefit schemes in Finland and the Netherlands. The lower accrual rates following indexation of the pension age mean that everyone loses pension income (monthly and over the lifetime). However, the monthly loss is minimal for the lower educated/lower SES groups and much bigger for the higher educated, reflecting the higher occupational pensions of the latter – with the basic pension making up a more important part of the incomes of the former.
- In summary, the indexation approach taken in Finland and the Netherlands is preferable, in terms of equity, to that in Denmark and the UK. Whereas inequalities decrease in the first two countries they increase in the latter two. In terms of both inequality reduction (Finland and the Netherlands) and maximising the incomes of the worst off (Denmark), the UK approach provides the least equitable outcome.

#### *Policy recommendations*

- Although flawed in several respects there are still sound arguments for indexation to LE from the perspective of intergenerational equity. However the approach requires adjustment to ensure that the principle of equal treatment for equal risk applies not only between, but also within generations. This could be done by individualising pension ages, taking into account factors affecting LE, such as occupation and education level. Alternatively, accrual rates could be lowered or pension benefits increased for those with shorter

than average expected survival in retirement.

- With regard to policy context and accompanying measures a solid and reliable basic pension is critical in tempering the impact of indexation for those in lower SES positions.
- Pension policy is not necessarily the best policy tool to steer retirement. Danish data show that pull factors play a very minor part in retirement decisions. The major influences are either push or jump related, which means that they either retired involuntarily or as a result of a search for a new role. Neither of these are influenced by changes in benefit generosity or eligibility.

### The Work Engagement for Senior Employees Programme

- This Finnish intervention programme was designed to promote late-career management preparedness on the part of older workers. It comprised training focused on two interrelated dimensions: career management self-efficacy and preparation for dealing with career setbacks.
- The efficacy of the Programme was assessed using a randomised control trial covering 699 employees from 17 organisations. The results show that the training was successful. It increased older worker's late-career preparedness and decreased their perceived age discrimination. Moreover, participants reported higher engagement in their work and career and better mental well-being at six-month follow-up than those in the comparison group. Furthermore the

intervention benefited most those workers with lower education and with a young supervisor. Their perceptions of age discrimination decreased the most. The intervention was also successful for employees with caregiving responsibilities.

### Is age management cost-effective?

- Cost benefit analyses carried out within the project, using a large German database of organisations, show that firms having introduced at least one type of age or health management policy are, on average, 20-30% more productive than employers without such measures.
- In contrast profitability benefited to a much lesser extent. However the probability of having high levels of profitability is significantly enhanced among firms using at least one type of age or health management measure.

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Dan Holman  
Research Associate

Alan Walker  
Professor of Social Policy & Social Gerontology



The  
University  
Of  
Sheffield.

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