The Aging Readiness & Competitiveness Report

PRODUCTIVE OPPORTUNITY

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Introduction

Countries around the world are grappling with how to sustain long-term economic growth and competitiveness amid shrinking labor forces. Older people are a key to this puzzle – while large disparities exist, and inequality is on the rise in many countries, this group, as a whole, is living longer and healthier, possesses valuable experience and expertise, and increasingly seeks to remain active and productive. Tapping this productive opportunity requires actions beyond pension reforms; while it has been the primary strategy of governments to date, this approach fails to address the real barriers to older adults’ continuing participation in the labor force. Still in early days, countries around the world are experimenting with more holistic approaches ranging from structural reforms introducing greater flexibility into work and retirement, to combatting softer barriers in employer behaviors like ageism, and to providing older adults with targeted support to remain in or re-enter the workforce.

Fig. 1 High-income countries as a whole started to see their working-age population shrink as a share of their total population in 2008 and were sooner joined by upper-middle-income countries in 2011.


(Sources: United Nations, Department of Economic and Social Affairs, Population Division; FP Analytics.)
The Future Workforce

The shrinking working-age population is casting a shadow over the world’s long-term economic prospects. Among the world’s top 20 economies – a group that accounts for 80 percent of global GDP – India is the only country that will not see its population ages 15 through 64 shrink as a percentage of its total population through 2050. As traditionally defined working-age populations shrink, the percentage of the population age 65 and older in these 20 economies will more than double, growing from an average of 10 percent today to 21 percent in 2050. This trend shows no signs of reversing – those age 14 and under today account for 22 percent of the population on average. This will fall to 17 percent by 2050.

Labor supply has traditionally been a primary driver for an economy’s long-term potential for growth. Even in an era of growing automation, the decline of working-age populations, coupled with the growing older population, represents a significant long-term risk for both high-income countries and upper-middle-income countries – particularly the latter, where a far more rapid and dramatic demographic shift is underway, as demonstrated in Figure 1.

Driven by looming fiscal concerns rather than a broader view of competitiveness, the primary response from governments has been to look to pension system reforms to prolong people’s working lives. According to Standard & Poor’s, public spending on pensions is projected to increase by nearly one-third in advanced economies, and almost one-quarter in emerging economies, and by 2050 to reach 13 percent and 10 percent of GDP, respectively. Among the 12 ARC countries, rapidly aging countries such as Korea, China, Turkey, and Brazil will face dramatically rising fiscal pressure (Fig. 2). To keep public finance in check and ensure that welfare benefits remain affordable, governments have introduced controversial measures, including increases in the pension age and higher pension benefits for those working beyond retirement age.

Missed Opportunity

High-income, as well as rapidly aging upper-middle-income countries, are at the forefront of reforming pension systems, but these policy responses have limited impact on promoting older-age labor force participation, which remains largely driven by economic necessity (Fig. 3). Extending the pension age by several years does nothing to address the manifold barriers to remaining in, or returning to, the workforce. Across the 12 ARC countries, the desire among older adults to remain productively engaged outstrips the opportunity to do so. Closing that gap will require a more holistic, innovative approach to policy that recognizes the value in tapping the productive

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potential and expertise of this population to meet broader societal challenges, and addresses the range of barriers keeping older adults from realizing their productive aspirations.

While inequality persists in life expectancy, health, and education across groups, older people, as a whole, are living longer and healthier and are increasingly better educated, but governments have failed to adapt pension and other retirement systems to these demographic shifts. Today, the average person at age 65 can live for another 16.6 years – a 46 percent increase from 1950s\(^2\) – and that person is

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expected to remain healthy for 12.8 years, which is nearly two years longer than just two decades ago.\(^3\)

In high- and upper-middle-income countries, where the pressure of aging will be most keenly felt in the coming years, average educational attainment is also increasing across generations. This is observed in all the ARC countries, although the degree varies, with greater progress achieved in Korea and emerging economies (Fig. 4). Older people with higher education tend to be more economically active. Among OECD countries, people ages 55 through 64 and


Fig. 3. *High-income and upper-middle-income countries currently have relatively low levels of older-age labor participation, which, however, also indicate great potential for them to tap the productive opportunity dormant among older people.*


(Sources: United Nations, Department of Economic and Social Affairs, Population Division; International Labor Organization; FP Analytics.)
Fig. 4. Average educational attainment is improving across generations in all ARC countries. Middle-income countries, as well as Korea, have achieved the greatest progress, although significant disparity exists between age groups.

Percentage of Population with Secondary or Higher Education in ARC Countries (as of 2010)

**Industrialized Economies:**

![Graph of industrialized economies education attainment]

**Emerging Economies:**

![Graph of emerging economies education attainment]

with upper-secondary or higher education are 37 percent more likely to participate in the labor force than are peers with lower education. The improved longevity and health greatly enhance older people’s physical capacity for working, and elevated educational attainment makes them an increasingly valuable talent resource.

Despite these dramatic shifts, most countries are still using or targeting age 65 as the statutory retirement age or pensionable age. This benchmark was first set by Germany – the first modern nation to introduce an old-age pension – more than one century ago, when average life expectancy of Germans was below 40 years. Those countries planning to adjust their systems are only looking at increasing the retirement age, targeting age 67 or 68. Locked into an outdated mindset of using an arbitrary chronological age and failing to embrace a more flexible and holistic approach to retirement, governments are unable to fully realize the productive opportunity among their older populations.

According to a 2017 survey conducted by Aegon in 15 countries, 57 percent of respondents envision continuing some form of work in retirement, and only 31 percent plan to stop working altogether and enter full retirement. While financial security is the primary driver, 56 percent of respondents cited “to keep active/keep my brain alert” as an important reason to stay productive in retirement, and 38 percent would do so because they enjoy their work. However, older adults are facing a variety of challenges and hurdles that inhibit their productive participation, ranging from lack of relevant skills to pervasive ageism among employers. With the focus on pension reforms, governments are not addressing these real barriers, leaving older people who wish to continue to work out of the labor market.

There is no doubt that older adults are part of the solution to sustaining long-term growth in the coming decades. Efforts are evolving to tap the productive potential among them, with focuses on tackling barriers in employer practices and providing support for older adults in employability and continued education, although much more work still needs to be done.

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The biggest stumbling block to older people’s labor force participation comes from employers, who very often have discriminated against older workers and are locked into a rigid, binary mindset of retirement. This area also represents the biggest gap for policy efforts, as demonstrated in the lack of government focus on anti-ageism legislation and enforcement. Nevertheless, while labor market structures vary by country, encouraging progress is being made where mandatory retirement is eliminated, support is provided for employment of older adults, flexibility is introduced into retirement, and efforts are made to facilitate older workers’ productive engagement.

Ending Mandatory Retirement

Mandatory retirement is the primary obstacle facing those interested in remaining in the labor force. It forces retirement or allows for automatic termination of contracts at a set age, which is typically the state pension age. This practice is still prevalent in both high-income countries – such as Germany, Japan, Korea, and Israel – and middle-income countries like China and Brazil. While there are an increasing number of challenges to its legitimacy around the world, a recent ruling in Israel demonstrates how difficult it is to remove this practice. In April 2016, Israel’s high court ruled against a petition and upheld mandatory retirement at age 67. While acknowledging that mandatory retirement harms older workers, the court argued that competing priorities, such as opening jobs for younger workers, outweigh the harm.6

Korea is experimenting with a potential solution to what has been incorrectly perceived as a zero-sum tradeoff between older and younger workers with its wage peak system. Operating with a seniority-based wage system, a 2013 extension of the retirement age to 60 was met with widespread criticism as younger workers feared that the financial strain on corporations paying these high-wage older workers would exacerbate youth unemployment. To address this, in 2015 the government introduced a wage-structure reform that would allow for workers to remain in their positions at gradually decreasing levels of compensation (Box 1). While still in its early days, and tailored to Korea’s labor market structure, the system is indicative of the kind of creative thinking needed to explore new approaches to labor market reform within specific market contexts.

Combatting Ageism

Ageism and misperceptions of older people are pervasive among employers and have been among the primary barriers to their participation in the labor force. According to the 2012 EU Active Ageing survey, more than one in five respondents have either witnessed or been the subject of discrimination in the workplace because they are perceived to be too old; moreover, 70 percent cited employers’ negative perceptions of older employees as an important obstacle that stops those age 55 or older from working. Older people are often perceived as lacking marketable skills and having less potential to learn new skills, progress, and add value.

Age discrimination is also pervasive in employers’ hiring practices, inhibiting older adults from re-entering the workforce or changing jobs. It exists across the board, but the situation is often worse in emerging economies, due to a lack of formal policies or policy enforcement. Take China, which is home to the world’s largest older population. While laws and regulations at various levels generally prohibit age and other types of discrimination, in practice, employers have wide discretion in setting the age threshold for job positions, as long as it does not violate child labor protection laws. Moreover, “invisible employment,” whereby employers do not sign formal labor contracts, is common among retirees who resume working. Employers are obligated to pay these older workers basic wages but not other social insurance. The unequal treatment undermines older workers’ rights and interests, preventing their economic participation.

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First and foremost, anti-ageism legislation is fundamental to protect older adults’ equal rights in the labor market, but it has not drawn as much attention from policymakers as it deserves. While there are specific UN conventions to protect the rights of groups such as women, children, immigrants, and disabled people, there is no legally binding international convention to specifically protect the rights of older people. And while the International Labor Organization requires its member states to eliminate employment discrimination based on sex, race, color, religion, political opinion, national origin, and social origin, the organization leaves it to the discretion of member states to add age discrimination.

Countries with strong anti-age discrimination policies and legislation have seen evidence of their positive impact on older adults’ labor force participation. The U.S. was a leader in this area, enacting the Age Discrimination in Employment Act of 1967, a federal law that prohibits discrimination against employees age 40 or older. Congress went further in 1986, abolishing mandatory retirement. The elimination of mandatory retirement was estimated to help raise the labor participation of people age 65 or older by 10 to 20 percent.

Today, labor participation of Americans age 65 or older is one-third higher than the OECD average.

As a complement to legislation, innovative programs are being developed to provide support for employers to facilitate the employment of older adults and prevent ageism. The UK’s Age Positive Initiative is one such effort that could serve as a model for other countries and communities. The initiative was launched in 2013 by the Age Action Alliance – a group of organizations and individuals dedicated to supporting the lives of older adults. It provides employers with a tool kit to address retaining, retraining, and recruiting older workers, as well as guidance for employers and staff regarding a range of issues related to ageism in the workplace. While such support cannot be a substitute for legislation, it is vital to creating an older-age-friendly labor market.

**Introducing Flexibility into Retirement**

Even in countries where mandatory retirement has been abolished, a binary mindset about retirement is pervasive, resulting in rigid work arrangements that do not allow for a more gradual transition that would enable older adults to continue working and contributing to the economy and society. In fact, lack of flexibility in work is a main reason for many older people to withdraw voluntarily from the workforce sooner than they wish. Due to declining physical

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health or care obligations for family members, older workers often prefer working fewer hours and gradually phasing into retirement, but these options are scarce. In the 2012 EU Active Ageing survey, a lack of opportunities to retire gradually by progressively reducing working hours was the most important reason for people age 55 and older to stop working, as cited by 72 percent of respondents.12

Forward-looking governments and employers are acting to promote flexible retirement, allowing older adults to reduce working hours in exchange for extension of working life. In the U.S., where it is estimated that 2.7 million jobs are likely to be needed over the next decade due to retirement within the existing labor force, employers are taking the lead.13 Driven by the growing skill gaps, an increasing number of U.S. employers are offering programs that allow employees to reduce working hours while phasing in retirement benefits. Between 2010 and 2016, the percentage of U.S. companies offering a formal or informal phased retirement program rose from 10 percent to 14 percent. Since 2014, the U.S. government has also been promoting phased retirement among its federal employees. By introducing flexible retirement, these employers are also aiming to facilitate the transfer of skills and institutional knowledge from older to younger workers more systematically.

Flexibility in work can also be enabled by technology and a focus on entrepreneurship, which can be supported and promoted through policy. Japan, where the

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Box 2. The Irodori Project in Japan

In Kamikatsu, a small rural town in Katsuura District, Tokushima Prefecture, nearly half of the population is older than 65, and 86 percent of homes are connected to the internet through a fiber-optic network. It is the site of “Irodori,” a cooperative selling brightly colored leaves. Through the “Irodori” project, local farmers sell some 320 different kinds of leaves grown in the local mountains and fields, which are used for Japanese-style table settings. Senior farmers can access market information, receive orders, and manage shipments via special trackball-controlled computers placed in agricultural cooperatives, and more recently, through the use of special tablet devices that were developed in partnership with telecom operator NTT DoCoMo. Kamikatsu now has a market share of 90 percent for the Irodori leaf and has become a model for how ICT can be leveraged to contribute to the economic development of older adults and rural areas.
labor force has been shrinking for the past two decades, is promoting telework and has set a goal of expanding this segment to 10 percent of its total labor force by 2020. The government has been promoting telework via a range of pilot programs to demonstrate its value, as well as holding a national telework day on July 24th each year. In addition to telework, the country’s strong ICT infrastructure is enabling entrepreneurial older adults to remain productively engaged, as demonstrated in the “Irodori” project (Box 2).

Another particularly interesting model has emerged out of the UK, where the New Enterprise Allowance program offers financial support and coaching for individuals seeking to start new businesses. While older adults are not the target, they have been major beneficiaries, particularly those seeking to accommodate the care of a spouse. As teleworking and entrepreneurship provide two promising approaches to facilitate older adults’ economic participation, they deserve more support and investment from governments and employers.
Support for Older Adults

Support for older adults’ employability through continuing education is essential to enhance their competitiveness in the job market, where they tend to be disadvantaged. Compared with barriers in employer practices, this area has drawn greater attention and resources, but government programs tend to be limited to the most vulnerable or offer general support to job seekers rather than tailored offerings that address the specific needs of older workers. However, best practices are emerging that deliberately tap the productive opportunity of experienced professionals and integrate continuing education for older adults into national endeavors to promote lifelong learning.

Employability

Older people tend to be disadvantaged in job markets, and it often takes them longer to obtain a desired job. According to OECD statistics, nearly 40 percent of job seekers age 55 or older were unemployed for at least one year in 2016, more than one-quarter higher than the general population. And the longer older people remain unemployed, the greater the risk of losing relevant skills or of dropping out of the labor force altogether.

A lack of relevant skills and knowledge is one challenge faced by older workers. Sixty-two percent of respondents in the 2012 EU Active Ageing survey believed that lack of skills for the modern workplace was a very or fairly important reason for people age 55 or older to exit the labor market. This is particularly true for those seeking jobs in a new area.14 The 2017 Aegon survey revealed that, among those who indicated a desire to continue working, more than 40 percent planned to enter a new field.15 Older adults with low literacy or limited technical skills often face a significant disadvantage in their quest to transition into office jobs from labor-intensive work for which they are no longer suited, but the issue extends to white collar workers seeking to shift their career tracks as well.

Industrialized economies are leading the effort to develop new approaches to supporting employability, which would be adapted to middle-income economies where such support is, at best, limited today. For example, in China, people older than the statutory retirement age are not eligible to receive job-search assistance

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provided by the government, which includes training and referrals. Best practices are emerging from programs that provide targeted support for older job seekers, as compared to the mainstream all-age approach. While such programs typically include skills training and job placement, they are evolving with more innovative models that create opportunities for older adults to develop skills through real work or to address new challenges they face in the digital era.

There is perhaps no better way to develop skills than by working, and programs are being developed to collaborate with employers and create opportunities for older adults to obtain real-life work experience. One interesting model is the Senior Internship Program introduced by the Korean government in 2011, aiming to encourage private employers to provide internships to unemployed people age 60 and older through subsidies. The government contributes half of an intern’s wage for three months, and if an employer decides to extend the contract for another six months or longer, the government will provide the subsidy for another three months. This model has proven to effectively older adults’ self-confidence and ability to adapt to new jobs, while companies can also benefit from hiring experienced workers.

Job placement support is also evolving to address new challenges. Today, older job seekers in many countries tend to struggle with online job applications due to a lack of familiarity with the new digital tools. An innovative online job portal called “Experienced Wanted” (“Darush Nisayon”), which was recently launched in Israel and dedicated to people age 60 or older, could provide a solution. Using the online platform, registrants submit their résumés and can seek résumé guidance and advice through a hotline. Staff screen the résumés and pass them to relevant employers while maintaining contact with applicants throughout the process, as well as conducting follow-ups after placement. So far, more than 10,000 people have registered on the site, and 50 to 60 receive job placements every week.

**Tapping the Productive Potential of Skilled Older Workers**

Government support for older adults’ employability tends to be focused on vulnerable groups – such as low-income or long-term unemployed workers – and does not do enough to deliberately tap the productive potential of experienced workers. This is observed in ARC countries that have national programs in place to support older job seekers. In the U.S., the Senior Community Employment Program, which is the only federal government program that provides training and employment services for older adults, is targeting low-income, unemployed people age 55 and older. In Canada, the Targeted Initiative for Older Workers, funded by the federal government before it was integrated into a new comprehensive program in 2017, was focused on unemployed older workers, living in small, vulnerable communities of 250,000 or fewer. While important, these programs
leave large segments of the population underserved – particularly higher-skilled workers with greater potential to contribute economically over time.

In some cases, non-governmental organizations (NGOs) have stepped in to fill the gap, working to match older adults with productive endeavors and leverage their talents and skills to benefit society. A recent innovative example emerged from the UK in 2016, where an NGO-launched a program called Now Teach, which started to retrain experienced professionals to become teachers in schools, helping to address the dearth of math, science, and language teachers in the country. Similarly, the U.S.’s Encore Fellowship program, which was launched earlier in 2009, is working to match skilled older workers with fellowship opportunities at NGOs to help solve critical social issues (Box 3). While these programs provide potentially replicable models, simply relying on NGOs’ endeavors is insufficient to fully realize the productive potential of experienced professionals, and greater government support is needed.

Box 3. Encore Fellowship in the U.S.

The Encore Fellowship program in the U.S. is the most notable program identified in the ARC study that is aiming to address the gap in efforts to tap the productive potential in older workers, and provides a useful model.

First introduced by Encore.org in 2009, the program matches Encore Fellows, who tend to be age 50 or older, with nonprofits for six or 12 months, working full- or part-time. The fellowship’s goals are threefold: to provide older people who are considering transitioning into nonprofits with exposure to the sector and relevant experience; to change the perception of NGO employers about older people; and to strengthen NGOs’ capabilities to carry out their missions and solve critical social issues with the help of older workers’ talents. The work of the fellows is wide-ranging, depending on their experience and skill set, including volunteering for foster care advocacy, literacy tutoring, and non-profit management mentoring. Each fellow earns a stipend (ranging from USD 20,000 to 25,000 per year), which is typically financed by the NGOs. Some corporations, like Intel and Hewlett-Packard, also pay for partial or whole stipends for their retirees who participate in the fellowship.

Encore.org has selected and partnered with several NGOs to host the fellowship programs and so far has achieved considerable success. Since the inception, the organization has placed more than 1,500 fellows in 42 metropolitan areas across the U.S., with 750 to 800 active fellows in 2017 alone. Cumulatively, the fellows have contributed 1.5 million hours of service at an estimated market rate ranging from USD 70 to 200 per hour – or USD 105 to 300 million in value. Encore.org plans to expand the program geographically over the next five years, although it acknowledges that NGOs’ financial ability to pay for the stipend could be the biggest challenge.
Continuing Education

Maintaining relevant knowledge and skills is a particular challenge for older workers, and one that has been exacerbated in recent years by the rapid pace of technological change. While older adults are more likely to face a decline in productivity than younger people, they do not have access to sufficient continued education and training to keep them at a necessary level of productivity to compete for good jobs. Employers are often reluctant to train older workers because of a perceived lack of return on such investments. According to the 2017 Aegon survey, only 15 percent of respondents reported that their employers provide retraining or continuing education to older workers to keep their skills up to date.16

Box 4. Korea Supports Lifelong Learning for Seniors

Korea is among the most rapidly aging industrialized countries and will overtake Japan to become the world’s most aged country by 2060, according to UN projections. While Korea has achieved significant improvement in education over the past several decades, and its population ages 20 through 40 has the highest average years of total schooling among the ARC countries, it also has the greatest disparity in educational attainment between older and younger populations. In response, the government has integrated continuing education for older adults into its national endeavors to promote lifelong learning.

The government introduced the First National Lifelong Learning Promotion Plan in 2002, aiming to augment national competitiveness and improve the quality of life of its citizens, and has updated it every five to six years. Realizing the potential of lifelong learning to improve older people’s economic participation and active aging, in the latest Third Plan for 2013-2017, the government places an emphasis on supporting later-life education, in coordination with relevant policy efforts with local governments.

The plan utilizes colleges and local schools as learning centers to provide greater access to educational opportunities for older adults. So far, a number of public and private universities, including Seoul National University of Science and Technology, Ajou University, Dongkook University, and Inha University, have provided classes for older adults, which cover topics like craft floral design to prepare students for national certification, barista-certification-preparation courses, and Chinese classes that prepare students for national certification tests to be officially certified as Chinese instructors. The Ministry of Education expects that this third plan will help to increase the learning-participation rate of the general population, including older adults, by 15 percent from the 2012 level.

Supportive policy is necessary to fill in this gap, but although government movements to provide continuing education and training are on the rise globally, there is a lack of attention to older adults. According to a 2016 UNESCO survey of more than 130 countries, 70 percent reported having enacted new policies on adult learning and education (ALE) since 2009. High-income countries are in the lead – 87 percent have introduced new ALE policies, compared with 62 percent for middle- and low-income countries. However, there is an overwhelming inclination among governments to focus on general groups – such as those with low levels of literacy or seeking to update skills – but not specific groups, with an exception of young people. In fact, only 9 percent of countries reported that seniors or retirees are an especially important group for their ALE policies.

While recognizing the need for continuing education for older people remains a global challenge, encouraging progress is being seen in countries that are aging rapidly. In Turkey, which is aging at the second-fastest pace among OECD countries, the first academic program dedicated to older adults, called “Renewal University,” was launched in 2015 in the city of Antalya. The program is offered by a public university and is free of charge for those age 60 or older. While such programs signal the rising awareness of supporting older adults’ continued education, best practices indicate the importance of top-down endeavors led by governments. Korea stands out as it integrates continuing education for older adults into national lifelong learning initiatives, serving as a potential model for the other countries (Box 4).

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Key Takeaways

Across the 12 ARC countries and around the world, despite variations in culture, economic development, and labor market structure, societies are looking for remedies to a clear and present challenge to their continued growth and competitiveness – the relative shrinking of their working-age populations. Today, the discussion of remedies is unduly focused on reducing the burden associated with a growing retired population, and marked by rigid conceptions of working and perceived zero-sum tradeoffs that only serve to exacerbate intergenerational tension. Comprehensive and enforced anti-discrimination policies are a vital but insufficient first step. While still limited in scope and scale, and often led by non-governmental actors, innovative programs from around the world are bearing fruit and demonstrating the value of a more holistic approach that:

- Introduces flexibility into work, allowing for phased retirement, entrepreneurship, and part-time work;
- Addresses the unique challenges and needs of older workers, offering tailored support and training; and
- Recognizes older workers as a rich resource that can be tapped to help address broader societal challenges.