The Age Audit:

Delivering a business response to ageing

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ICAEW

The International Longevity Centre - UK (ILC-UK) is an independent, non-partisan think-tank dedicated to addressing issues of longevity, ageing and population change. It develops ideas, undertakes research and creates a forum for debate.

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Foreword

Ageing poses both an opportunity and a threat to businesses around the world. With growth in the number of people aged 15-64 likely to slow over the coming decades, businesses will be forced to put emphasis on recruiting older talent and ensuring lower levels of “brain drain” from their organisations. At the same time, consumption of goods and services by the over 65s is likely to grow at a faster rate than any other demographic group necessitating innovations in design and marketing to tap into the “grey pound”. Businesses that anticipate and plan for these winds of change will be best prepared to flourish, while those that fail to prepare could struggle to survive and grow. Organisations are only just beginning to shift their practises in response to the challenge of age, partly because many top teams are yet to really engage in the debate. With this in mind, we have created this **“Age Audit”** which includes an 8-point action plan to act as a blueprint for change.

Baroness Sally Greengross

A rapidly ageing world: the numbers

- From 2010 to 2050 the proportion of the world's population aged 65 and over will rise from 7.7% to 15.6% and the numbers will swell from 600 million to 1.5 billion.
- Across more economically developed countries, the proportion aged 65 and over will rise from 16% to 26% and the proportion over 80 will rise from 4.3% to 10%.
- While many regions are set to age rapidly, Asia stands out with the proportion aged 65 and over set to rise from 7.5% in 2010 to 17.4% by 2050[1].

A glimpse into the future: economic and fiscal challenges

While the prospect of such a rapidly ageing world must be welcomed as a significant human achievement, it poses a challenge. If the over 65s are unable to find employment, those who are in work will account for a diminishing ***proportion*** of the population.

The fiscal challenge: Tax revenue from those in work may fail to keep up with demand for social security from an increasingly large proportion of people aged over 65 and out of work. This will force governments into making tough choices between taxing companies and those in work more (which seems unfair), or reducing welfare spending on the over 65s (many of whom may require welfare support to secure a basic standard of living).

The Economic challenge: In countries where the ***numbers*** (as distinct from proportion) of people aged 15-64 is projected to slow sharply or even fall, the economic challenge is particularly stark. For these countries, unless the productivity of those in work substantially increases or the numbers of people over 65 and in work rises, economic output will slow or even shrink (see focus box).

Focus box on Japan: "You can't print babies" (Martin Wolf, Financial Times Economics Editor)

Japan is an extreme case – its population is already shrinking. By 2030, its population will be 5% smaller than it was in 2010 and there will be 15% fewer people aged 15-64. To put this into perspective, over the same period the UK's total population is expected to rise by 10% while the number of people aged 15-64 is expected to grow by 2.6%. Whereas Japan was accustomed to yearly economic growth rates touching 6% in the 1980s, achieving even modest growth is going to be a significant challenge over the years ahead. While Japan's government and central bank have undertaken extraordinary policy measures (often referred to as "Abenomics") to boost economic output, including the [virtual] printing of money by the Bank of Japan, they are battling against a severe demographic headwind. Increasing the proportion of older people and women in the labour market will help slow its economic impact, but ultimately unless more babies are born, long-term prospects for growth look grim as the amount of labour contracts.

[1] All statistics taken from the United National Population Division

Why should businesses care? A land of opportunity

If businesses intend to grow in an ageing society, they will have to adjust their business practises to take advantage of changing demographics. Businesses need a constant supply of labour to produce goods and services as well as sustained demand for what they produce.

Take employment for instance; from now until 2037, the 15-64 age group in the UK will, on average, grow by just 29,000 per annum. By contrast, the number of people aged 65 and over will rise by 278,000 on average each year. If businesses focus exclusively on the under 65s, they will be missing out on a vast and growing talent pool. Indeed, just to fill the likely number of vacancies over the next decade will make the employment of older people a necessity rather than a luxury.

"…Spending by the over 65s will increase from 17% of total spending today, to 24% by 2037."

The story is similar regarding demand for products and services. The over 65s in the UK currently spend around £2.2 billion per week (£114 billion per annum) on goods and services. Assuming their weekly spending rises in line with annual inflation of 2%, they are likely to be spending over £6 billion per week (£312 billion per annum) by 2037. Using the same assumptions, spending by those aged 65 and over will increase from around 17% of total consumer spending today, to nearly a quarter by 2037[2].

How businesses can respond to ageing: introducing the eight-point action plan

1. Think strategically about ageing

Businesses must consider demographic change as part of their strategic planning. As the gatekeepers of recruitment, retention and remuneration, human resource departments are front and centre of this challenge. Yet there is a general perception amongst HR managers that businesses remain unprepared for issues associated with an ageing workforce and that many company boards do not recognise ageing as being strategically important[3]. A cultural shift is required if businesses of all sizes are to take the challenge of ageing seriously.

2. Deliver flexible working

Increasing the prevalence of flexible working is another way to retain older workers. Some employees prefer to work more flexibly as they approach retirement, adjusting their work–life balance in order to better manage caring responsibilities for older relatives while continuing to work. As well as helping to retain older staff, flexible working can provide a number of efficiency benefits to organisations including better matching of the workforce to fluctuations in demand, and increasing the quality of outputs if staff are skilled in multiple business areas[4].

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[2] ONS Family Spending 2012 and own calculations.

[3] http://www.cipd.co.uk/binaries/Managing_Ageing_Workforce.pdf

[4] http://www.agilefutureforum.co.uk/AgileFutureForumReport/report.html#p=4

Around 60 per cent of over 50s say they would like to continue working after State Pension age, but on a part-time basis[5]. Phased retirement alongside more flexible working can help to make this a reality. For the employer this can help improve retention rates amongst older workers, while for the employee, continuing employment can provide a boost to pension income.

3. Become age neutral

Part of the response to ageing must include a drive towards becoming age neutral. This means that employers must reduce the potential for age discrimination within the workplace as well as within the recruitment process. There are relatively simple ways to level the playing field. Removing age from application forms for instance is one way to ensure that older applicants are treated equally, while better training and support for line managers should help to reduce discrimination at work.

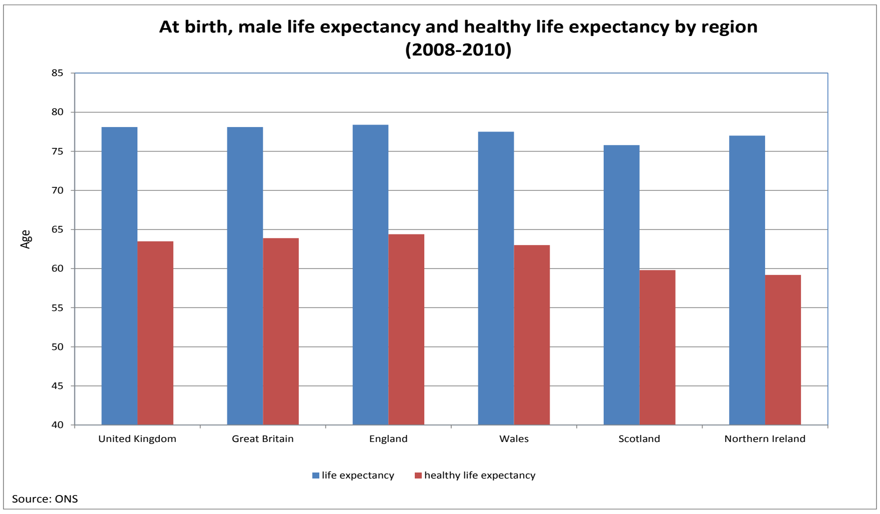
4. Support those with disabilities as well as the wider health and wellbeing of the workforce

Businesses must ensure that people with disabilities are given the appropriate support to enable them to continue working and to help prevent underlying conditions from worsening. Increasingly it is being recognised that early intervention and access to occupational health services provide an effective return on investment for employers[6]. But organisations also have a key role to play in improving the overall health of the workforce – particularly in the face of rising obesity which looks set to become one of the biggest public health challenges of this century[7].

More employers need to take a creative approach to the issue. Popular initiatives include encouraging employees to walk or cycle to work as part of raising money for charity, discounts on gym membership, encouraging the use of stairs and regular information on the benefits of physical activity[8].

Focus box: The difference between life expectancy and healthy life expectancy

There is a difference between the age that you are expected to die (also known as life expectancy), and the age at which you are expected to live to in good health (also known as healthy life expectancy). At birth, healthy life expectancy for men is just 63 year of age and 65 for women. Healthy life expectancy also differs by UK region with Northern Ireland healthy life expectancy just 59 compared to a life expectancy of 77. For those regions where healthy life expectancy is low, measures to improve the health of local populations and to support workers with pre-existing health conditions to continue working or re-join the labour force will be vital.



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[5] Working Better – The over 50s, the new work generation EHRC 2010
[6] http://www.cipd.co.uk/binaries/5754ManagingageingworkforceWEB.pdf
[7] http://www.nationalobesityforum.org.uk/media/PDFs/StateOfTheNationsWaistlineObesityintheUKAnalysisandExpectations.pdf
[8] For more information see: http://www.shu.ac.uk/business/sites/all/themes/shu_research/downloads/workplace-wellbeing.pdf

5. Embrace continuous learning

Continued learning and development must be built into job roles regardless of age. This will ensure that individuals are able to confidently fulfil their working requirements, even in the face of technical or organisational change. Investing in the training and development of people over the long term will undoubtedly be critical to the success of many organisations – particularly given that skills shortages are a potential consequence of a stagnating or falling working age population. As well as benefiting from improved skills and knowledge, businesses will also attract better talented applicants while encouraging greater loyalty amongst employees.

6. Support intergenerational fairness

Focus box: Older workers "crowding out" younger workers and the "lump of labour fallacy"

It is often suggested that rising youth unemployment has been caused by rising employment amongst older age groups with older workers somehow crowding out their younger counterparts. There is little academic research to indicate that this is the case. Indeed there is evidence to suggest that the opposite is true – increased employment amongst older age groups is associated with greater youth employment and reduced youth unemployment. The crowding out argument is based on the premise that there are a fixed number of jobs in an economy – an argument that a number of leading economists have termed the "lump of labour fallacy". These economists disagree that there is a set amount of labour because over time the number of jobs will change in line with technological improvements which help to deliver new products and services, boost national income, and ultimately increase demand for labour throughout the economy.

There is increasing concern of a generational split between the older "haves" and the younger "have nots". According to this argument, the haves are able to find work and hold considerable pension and housing wealth, while prospects for the "have nots" are poor on all of these fronts. In reality, such a neat split does not exist. There are substantial differences within as well as between generations and crucially the problems affecting one generation also impact on another. For example, rising youth unemployment and the high cost of living has led to additional income pressures on older generations as an increasing number of younger, working age adults, have chosen to stay at home and live with their parents. Businesses must work with Government to ensure that the standard of vocational training improves for people across the life course and that there is meaningful employment for people of all ages.

7. Help people afford a good retirement

As private-sector employers have recognised the full costs of final salary schemes, including those associated with rising life expectancy, they have closed them to new entrants and have increasingly stopped accrual for existing members[9]. But the defined contribution pension schemes that have replaced defined benefit plans are riskier for members and are less generous since they typically suffer from lower employee and employer contributions[10].

While Automatic Enrolment will increase the numbers of people saving into a Defined Contribution (DC) pension, the challenge is to ensure that people will save enough to secure an adequate retirement income – this will require tackling the low level of understanding about the need to save

[9] ONS Occupational Pension Schemes Survey 2012 http://www.ons.gov.uk/ons/dcp171778_328287.pdf

[10] ONS Occupational Pension Schemes Survey 2012 http://www.ons.gov.uk/ons/dcp171778_328287.pdf

for the future and how to go about doing it. Employers have a significant role to play in this regard – informing their workforce about the benefits of saving over the long term, providing links to professional financial advice for those who might need it and incentivising higher pension saving by their employees through matching contributions[11].

In this way, employers can help to facilitate greater overall savings and better financial literacy. The quality of the information and guidance provided by employers to their staff will be particularly important given the substantial increase in freedom and choice that individuals will have in accessing their pension pots starting in April 2015[12]. These reforms will enable all individuals from age 55 to take all the money from their pension pot as a lump sum at their marginal tax rate or enter into income drawdown. The changes are likely to reduce the incentives to invest in an annuity which has, up until now, been the norm for those with DC pensions.

8. Tap into the “grey pound”

With the number of older consumers set to accelerate, there is a need for businesses to understand how they can support this growing market. Changes to physical and mental health are likely to have an impact on the demand for specific types of goods and services but there is currently an unwarranted mismatch between the designed world and the changed capabilities of older people. We must ask fundamental questions about the design faults of our most familiar and important home products in order to make them more accessible to all[13].

Concluding remarks: towards the end of retirement?

Even without changes to State Pension age, an increasing proportion of individuals will continue working long after 65 – some will be drawing on their pension and working part-time through phased retirement, while others will continue to work full time into their 80s and beyond. Some will be doing this while caring for others - including the provision of accommodation and financial support for younger members of the family who may be out of work - while others will be living alone. Given such a difference in the actual experiences of those over 65 compared with the retirement stereotype, is it now time dispose of the concept of retirement altogether? If businesses make the right decisions to support increasing flexibility in the workplace, to raise the health and wellbeing of the workforce, to counteract ageism and to embrace continuous learning, the concept of retirement as we think of it today will no longer have any use – though the strong cultural attachment to the term is likely to remain a key sticking point.

[11] For more on the role of small and micro employers see: https://www.cii.co.uk/media/4794166/are_we_in_yet_cii_auto-enrolment_report_27aug2013.pdf

[12] For more details about the new freedoms and choice for pensioners read: HM Treasury (2014), Freedom and Choice in Pensions: https://www.gov.uk/government/consultations/freedom-and-choice-in-pensions

[13] See ILCUK (2010) *The Golden Economy*: http://www.ilcuk.org.uk/images/uploads/publication-pdfs/pdf_pdf_155.pdf

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