

OECD POLICY RECOMMENDATIONS ON EXTENDING WORKING LIVES

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Abstract

This Working Paper presents an overview of the OECD's approach to extended working life, in relation to pensions and employment policy. It briefly outlines the role of the OECD and traces the evolution of OECD policy recommendations on extended working life from 2005 onwards to 2018. It discusses how the OECD recommends policies targeted at governments in terms of pension reforms including raising state pension age and linking pension amounts more closely to earnings, and anti-discrimination legislation; at employers and at improving the employability of older workers. The series of publications *Pensions at a Glance*, published biennially from 2005 to 2017 contains very little explicit reference to gender inequalities in pensions or indeed to women, apart from some references to family responsibilities. The 2015 report included a chapter on how incomplete careers affect pension entitlements. The critique of the OECD's approach from a gender perspective in the academic literature is discussed. It is recommended that the OECD conduct gender-proofing to assess the implications of extended working life policy (OECD, 2017b).

Keywords: Gender; Extended working life; OECD; Pensions

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Introduction

The Organisation for European Economic Cooperation (OEEC) was established in 1948 in the aftermath of World War II to run the US-funded Marshall plan to re-build Europe and to encourage governments to cooperate and recognize the interdependence of their economies. Canada and the US joined in 1960 when the Organisation for Economic Cooperation and Development (OECD) was set up. There are now 36 member-countries of the OECD². It provides a forum that identifies global challenges, discusses and analyses them and promotes policies to address them. It compares policy experiences, seeks answers to common problems, identifies good practice and works to co-ordinate domestic and international policies. The OECD does not have disciplinary powers to compel governments to adopt its' policies; it achieves results mainly by convincing governments of the value of adopting policies that are in their collective self-interest. When policy proposals require international co-operation to be effective, agreement is reached by consensus.

Population ageing and the anticipated associated increase in pension and healthcare costs has been an issue of major concern for the OECD and other international policy organisations including the European Commission for over 20 years. The main policy response the OECD recommends is to extend working lives (EWL) by introducing a range of pension reforms and employment policy measures, as well as encouraging the privatisation and individualisation of pensions. This policy aim was outlined in some detail in the influential policy report '*Live Longer, Work Longer*' (OECD, 2006). In this report, the OECD strongly encouraged governments to introduce policies designed to extend working lives, including raising state pension age, linking state pension levels more closely to paid employment, discouraging early retirement, introducing financial incentives to encourage people to continue working, tackling barriers from employers, combatting age discrimination and improving the employability of older workers. In relation to pensions policy, the OECD pursued this EWL agenda proactively by publishing Pensions at a Glance reports, including country profiles, every two years (OECD, 2005, 2007, 2009, 2011, 2013, 2015, 2017). In relation to employment policy, country specific follow-up reports and/or 'score-cards' that monitor whether governments have followed OECD recommendations in relation to employment policies were published in 2013/2014 and in 2018 (OECD 2013a, 2013b, 2013c, 2013d, 2013e, 2013f, OECD, 2014, OECD, 2018a, 2018b, 2018c, 2018d, 2018e, 2018f).

2. The OECD Member countries are: Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The European Union takes part in the work of the OECD.

I. Early OECD policy on Extended Working Lives

As mentioned above, the first major articulation by the OECD of the extended working life policy agenda was in the 2006 report *Live Longer, Work Longer*, (OECD, 2006). In this report, the OECD proposes extending working life as the most important and appropriate way to respond to population ageing. This follows on from the publication one year before of the first edition of *Pensions at a Glance* (OECD, 2005) which assessed and compared pension systems across OECD countries. After noting and outlining the diversity in pension systems and employment arrangements and patterns across countries, the OECD report outlines a number of areas in which they believe reforms need to take place – retirement incentives and employment policies.

I.1. Pension and employment policy in 2005-2006

In the *Live Longer, Work Longer* report the OECD outlines pension reform as one major plank affecting the decision to work or retire, as well as the timing of retirement. The major pension policy levers they identify as key to extending working life are:

- reduction of pension replacement rates
- increasing both the official age of retirement and the minimum age of retirement
- altering the incentives for early and late retirement in terms of pension benefits
- designing actuarially neutral retirement systems
- promoting later retirement more actively

The stated intention of the OECD is to ‘increase choice’ in work-retirement decisions. Yet, the whole thrust of the policy appears to be to remove the choice of retiring at traditional retirement age. For example, it suggests that other welfare benefits should not be used as paths to early exit from the labour market (OECD, 2006, p. 85).

In the *Live Longer, Work Longer* report, the OECD notes that less than 60% of the population aged 50-64 had a job in 2004, compared with 76% for those aged 24-49. They recommended a series of policies to prolong working lives aimed at employers and employees under the following headings:

- **removing employer barriers**
 - removing mandatory retirement ages
 - promoting diversity in employment
 - removing seniority wage-setting
 - offering incentives to employers to employ older workers
 - providing flexible working arrangements for older workers
 - improving working conditions for older workers
- **removing barriers on the part of older workers**
 - promoting training of older workers
 - training employers in anti-age discrimination
- **rebuilding work incentives**

- targeting older workers in private and public employment agencies
- **removing obstacles to employment**
 - tackling myths stereotyping older workers
 - removing early retirement exit routes (OECD, 2006).

More recently, the OECD published a series of reports on policies to extend working life in the Czech Republic, Ireland, Sweden, Switzerland and the UK (OECD, 2018 a, b, c, d and e). These ‘Country notes’ summarise policy developments in relation to older workers from 2007 to 2017, in comparative perspective.

I.2. OECD Policy evolution 2009-2011

The OECD approach to Extended Working Life policy remained largely the same up to and including 2013 and there was little explicit reference to gender in the Pensions at a Glance reports. For example, in the 2011 *Pensions at a Glance* report, the OECD proposed a three-pronged approach to the problem of maintaining retirement income adequacy without endangering financial sustainability – very similar to that outlined in the *Live Longer, Work Longer* report.

The first arm is to prolong working lives. By 2011, most OECD countries have increased retirement age and the OECD is at this point pushing for further increases (OECD, 2014). They have also urged countries to remove incentives to early retirement in public pension systems and many OECD countries have done this. For example, Ireland abolished the Pre-Retirement Allowance (PRETA) in 2007. The OECD also recommends that government and employers need to take stronger action on age discrimination, training opportunities for older workers and improving working conditions (OECD, 2011). It warns against forcing older workers to leave the labour market during the global financial crisis to reduce public pay bills in the short term, for example. In fact, all *Pensions at a Glance* reports during the period of the global financial crisis are concerned with balancing sustainability with protecting the vulnerable members of the population (OECD, 2009, 2011, 2013).

The second arm of the strategy is to target public retirement income provision towards the most vulnerable. The idea here is to encourage greater re-distribution within public pension systems such as occurs in New Zealand or Canada – this involves a weakening if the link between individual contributions and benefits (OECD, 2011).

The third solution is to encourage people to save for their retirement to make up for reductions in public benefits and through increased coverage of and contributions to private pensions. The OECD recommends mandatory or quasi-mandatory auto-enrolment schemes as the best means of achieving this aim (OECD, 2011).

II. Current OECD Policy on Extended Working Lives

II.1. OECD pensions policy and gender

As noted above, until the 2015 edition of *Pensions at a Glance*, there was surprisingly little reference to the gender implications of pension reforms designed to extend working lives. The 2015 report devoted a chapter to the topic of incomplete careers and pension entitlements. This chapter assesses the impact of disrupted or shorter careers on pension entitlements from mandatory schemes. It is notable, however, that this is not flagged as a gender issue, although it is noted that women are more likely to be involved in caring roles that may lead to shorter or disrupted careers. Since this is the first in-depth discussion of gender-relevant issues in the *Pensions at a Glance* reports, the topics and recommendations in the chapter are discussed in some detail here.

The following issues are discussed in the chapter and the situation across OECD countries is compared. There is an overview of differences in career paths across gender, age group and cohort. The age of entry to the labour market, career interruptions related to unemployment and care are compared. It has a section entitled ‘Specific features of women’s careers: Employment and children’, which compares employment rates, part-time employment, maternal employment rates, duration and benefit entitlements to parental and home care leave, age of labour market exit and exit paths by gender. There is a discussion of how disrupted careers affect pensions and this is followed by a series of policy recommendations.

It is acknowledged that many pension systems penalise people for disrupted careers. It is also recognised that inequalities may be increased by current pension developments including the rise of individual private pensions and the trend towards closer links between individual benefits and contributions. Yet, it is interesting that these policies were actually recommended by the OECD in 2006 and subsequently.

The chapter sets out the following policy messages: Reflecting the growth of the gig economy, it suggests that policy-makers should cushion the effects of involuntary unemployment and short breaks for childcare on pension losses. The OECD suggests, however, that governments should avoid over-generous benefits as this may encourage people to stay away from the workforce and may be too costly. Alternatively, they should:

- strike a balance between length of leave from work and benefit entitlements to ensure that people return to work and don’t lose out too much from long interruptions.
- develop pension credits as effective instruments to offset the effects of career interruptions
- consider the limitations of current pension schemes in the light of the increase in precarious employment
- devise an integrated approach to the challenges faced by individuals with precarious incomes and stop-go career paths through effective labour market, education, family and pension policies.

It is notable that the rhetoric used in this chapter and in previous issues of *Pensions at a Glance* is that ‘people are increasingly free to construct their own biographies’ (OECD, 2015: p.101). This does not account sufficiently for the impact of gendered social norms and structural constraints on the employment patterns and pension building of workers. In general, in the *Pensions at a Glance* series, there is an absence of gender proofing of the proposed pension reforms up to 2015 and of reference to the gender inequalities in pensions prior to the reforms. In 2015, the OECD produced data revealing a widening gender pension gap in OECD countries, based on 2011 data.³

Perhaps this stimulated the gender-focussed chapter in the 2015 edition of *Pensions at a Glance*.

II.2. Current OECD Employment policies

Ageing and Employment policies by the OECD in 2018

The OECD’s Strategy for Employment sets out a general position on the future of Employment in the OECD countries (OECD, 2016, OECD, 2018). However, the OECD has a series of publications focusing specifically on Ageing and Employment, summarised above. The most recent policy document by the OECD on ageing and employment is entitled *Recommendation of the Council on Ageing and Employment Policies* (OECD, 2018f). It outlines the current recommendations, which are similar to the policies outlined in 2006. These identify a series of stakeholders for policy reforms that include:

1. Governments

Who are encouraged to enhance incentives to continue working at older age, notably by:

- promoting more flexibility in work/retirement, including by promoting phased retirement, better balancing work and care and permitting a combination of pensions with work income
- ensuring access to welfare benefits, such as unemployment and disability benefits, for all workers, irrespective of age, and monitoring that these benefits are used for their original purpose, not to encourage early retirement for those still able to work.

2. Employers

Who are encouraged to retain and hire older workers, notably by:

- addressing discrimination in employment on the basis of age by legislation preventing age discrimination and public-awareness campaigns, to eliminate discrimination in the recruitment, promotion and training process, and in employment retention in collaboration and consultation with employers’ and workers’ representatives;
- taking a balanced approach to employment protection by ensuring that age is not a criterion in determining the level of employment protection while promoting better access to quality jobs for older workers;

3.<http://www.oecd.org/gender/data/newoecdanalysisrevealingthewidegapinpensionbenefitsbetweenmenandwomen.htm>

- discouraging or restricting mandatory retirement in collaboration with employers and trade unions;
- encouraging employer and worker representatives to identify mechanisms to facilitate the retention and hiring of all older workers;
- adopting good practice in managing an age-diverse workforce including adjusting work responsibilities and working-time arrangements to the changing capacities of workers and their family responsibilities over their life course as well as to take account of improvements in the education, health and physical capacities of older workers.

3. Workers

Who are encouraged to maintain their employability over time, particularly through measures designed to :

- enhance participation in training by workers throughout their working lives
- provide effective employment assistance to jobseekers
- improve working conditions through a broad-based strategy to enhance job quality for workers at all ages, in terms of strengthening workplace safety and physical and mental health, reducing the incidence of hazardous and arduous work, balancing professional and family responsibilities, and facilitating job mobility as a function of the changing experience and capacities of workers.

Source: (OECD, 2018g).

This document does not explicitly refer to gender, although it does mention ‘family responsibilities’, again indicating a ‘gender-blindness’ in the approach of the OECD.

Conclusion: Assessment of OECD approach to Extended Working Life

This approach by the OECD of uncritically promoting Extended Working Life policies has been critiqued by commentators on a number of grounds.

Firstly, it has been described as promoting a neo-liberal policy agenda that includes pension privatisation and individualisation and being overly focused on cost containment (Foster, 2012, Mouleart and Biggs, 2013). In other words, the policies promote welfare state retrenchment urging governments to transfer responsibility for providing pensions onto individuals themselves and to some extent onto employers.

Secondly, some of the policies (notably raising state pension age) are crude one-size-fits-all measures which do not consider the implications for groups of workers in specific categories. They assume that all older workers are in good health and can easily continue to work if they choose to do so, and that employment is readily available to them (Phillipson, 2018). For example, there is evidence that workers in physically-demanding occupations tend to develop chronic health problems earlier than other workers and it may be very difficult, if not punitive for them to have to work past traditional state pension age (Marmot et al, 2010).

The recent OECD report on gender revealed that older women aged 50-64 are more likely to suffer from ill-health than are men of that age (OECD, 2017b).

Thirdly, workers in precarious employment may not be able to find employment at older ages or during times of economic recession, such as the recent global financial crisis (Lain et al., 2018).

There has also been a critique of extended working life policies from a gender perspective in the academic literature (Ní Léime and Street, 2016, and Loretto, 2017). First, OECD policies in favour of EWL assume an 'adult worker' model of employment and do not appear to recognise the continuing gendered impact of unpaid caring on pension outcomes. Women typically have very different employment trajectories from men with time spent out of the labour market in unpaid care for family members and lower pension contributions (Foster, 2012, Ginn and MacIntyre, 2013, OECD, 2017b). They are often concentrated in lower paid occupations, in the middle and lower areas of organisations and in part-time work (OECD, 2017b). Even before the introduction of EWL policies, women tended to have a pension disadvantage with gender pension gaps in all OECD countries. Recent research suggests that the proposed pension reforms are likely to exacerbate women's existing disadvantage (Ginn & MacIntyre, 2013, Ní Léime and Loretto, 2017).

The OECD is a good source of comparative information on the main headline statistics relating to pensions, work and retirement particularly in the PAG series and on employment policies in the Country Notes series. The OECD's gender portal regularly publishes statistics relevant to analysing extended working life including on the gender wage gap.⁴ However, in general, there is an absence of gender proofing of the proposed pension reforms up to 2015 and even of much reference to the gender inequalities in pensions prior to the reforms. Another relevant recent OECD publication is *The Pursuit of Gender Equality: An Uphill Battle*, published in 2017. This strongly promotes greater gender equality in the labour market and reducing the gender pay gap. However, although it does refer to divorce increasing women's economic vulnerability, there is remarkably little discussion of pension inequality (OECD, 2017b).

In the 2015 edition of *Pensions at a Glance*, there is an acknowledgement by the OECD that women face disadvantages when pensions are linked more closely to earnings across the life-course (OECD, 2015). However, they do not make any recommendations to address these issues (OECD, 2013). The review of the Irish pension system does explicitly recognise that women are more likely to be disadvantaged by some of the proposed pension reforms (OECD, 2014). It would seem the OECD is becoming increasingly aware of the importance of taking a life-course approach to analyse the outcomes of pensions. It also appears that the organisation would be well-placed to perform simulations of the gender implications of Extended Working Life policies. We recommend that the OECD begins to gender-proof its policy recommendations for Extending Working Life thus integrating the approach taken in the report on Gender Equality and resulting in a coherent and more comprehensive policy perspective (OECD, 2017b).

4. See: <http://www.oecd.org/gender/>

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