A U-shaped crisis

The impact of the Covid-19 crisis on older workers

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Summary

When examining the economic effects of the Covid-19 crisis, a large degree of attention has been focused on the young. And with good reason: the impact on young people’s employment has been greater than on any other age group. But older workers have also been severely affected, more so than middle-career workers, if not as badly as the young.

This briefing note, produced as part of the Resolution Foundation’s Intergenerational Centre, examines the impact of the crisis on older workers (there is no set definition of ‘older’ – we will most often use the 50 plus age group, but for data reasons we will in some places use 55 plus, or those aged between 50 and the state pension age). It looks back at the impact of previous crises, and places this crisis in the context of longer-term trends in employment among older workers. It also raises questions about what comes next for those older workers that have lost work in this crisis, noting that older workers tend to take longer than younger workers to return to employment after losing work, and often face significant earnings reductions when doing so. It concludes with policy recommendations designed to help older adults back into the workforce after having experienced a spell of unemployment.

The last 50 years have seen major changes when it comes to employment among older adults. There have been two distinct periods. From the 1970s to the mid-1990s, employment among older adults fell, driven mainly by falling employment among older men. Causes included the changing sectoral composition of the economy and government policies in this period – such as the ‘Job Release Scheme’ – which explicitly discouraged employment among older adults. This trend changed direction from the 1990s, with strong increases in employment among older adults. The rise in older-age employment was mainly driven by rising employment among older women, boosted since 2010 by increases in the female state pension age. On the eve of the Covid-19 crisis, employment among older workers was at a record high (the 50-64-year-old employment rate in 2019 was 73 per cent, higher than at any point since comparable Labour Force Survey data begins in 1975).

The Covid-19 crisis has brought those trends to a halt. Since the onset of Covid-19 in the UK, employment rates have fallen by 2 percentage points among both men and women in their 50s. A year into the crisis, the impact on employment among women in their 50s has been worse than any of the major crisis periods dating back to the 1980s (at the same stage in those crises). For older men, the impact has so far been similar to the crises of the 1980s and 1990s. With the UK’s vaccine rollout proving a success, and with recent labour market data proving to be encouraging, the hope is that the Covid-19 crisis will be shorter than those previous crises, and the impacts on employment among older adults, in the end, smaller.
How have older workers fared so far in the current crisis, relative to their younger counterparts? Comparing the employment effects of the Covid-19 crisis across age groups points to a U-shaped impact, with the older and youngest workers affected more than those in the middle of their working lives (albeit with younger workers worse affected than older workers). A recent Resolution Foundation-commissioned survey found that, among those employed on the eve of the Covid-19 crisis (February 2020), 35 per cent of respondents aged 60 to 65 were either no longer working by January 2021, or if still working were furloughed or were earning at least 10 per cent less than they were before the crisis. This compares to 41 per cent among those aged 18 to 25, and to 20 per cent among those age 40 to 44. There is also a U-shape when it comes to furloughing, and to some extent also when comparing changes in employment and unemployment across age groups.

There are specific reasons to be concerned about the impact on older workers. First, older workers who lose their jobs tend to take longer to return to work. Over the period 1998 to 2020, after becoming unemployed, 62 per cent of those aged 50 and above have returned to work within 6 months, compared to 74 per cent among those aged 16 to 29, and 72 per cent among those aged 30 to 49. Second, once they do return they are likely to earn substantially less than in their previous job. Over the past 20 years, workers over the age of 50 who become unemployed have faced hourly earnings that are, on average, 9.5 per cent lower than their earnings in their previous jobs. This is more than double the earnings hit experienced by those aged 30 to 49 who experienced an unemployment spell. This greater wage hit facing older workers who return to work may be driven by the importance of job-specific skills that they are likely to have built up in their previous roles, and which may not be fully transferable to their new job.

Finally, there is also a risk that the crisis will affect older workers’ retirement decisions, and their resources in retirement. Previous work by the Institute for Fiscal Studies has shown that the crisis has already affected the retirement of some older workers, with 5 per cent planning to retire earlier and 8 per cent later, although the good news is that those changing their plans appear to have relatively-high incomes or wealth, suggesting they are not necessarily forced choices.1

The policy response to this crisis should be sensitive to the unique impact on older workers. A priority should be ensuring that older workers who do become unemployed are supported to return to work. The recently announced support scheme for the long-term unemployed (‘Restart’) carries the risk that older workers receive a lower quality of service than younger workers: this appeared to happen under the Work Programme, which had a similar funding model, where sustained job outcomes were much lower for

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older participants. The Government must monitor this closely. There is also a case, given the earnings hit that many older workers experience on returning to work, for piloting and evaluating a tax credit supplement for older work returners, as existed under the New Deal 50 plus programme in the early 2000s. Beyond dealing with the immediate effects of the crisis, policy should continue to support employment growth among older workers. Two priorities should be giving all workers the right to request flexible working from day one (currently it’s only available after six months) and offering a right to return to workers that take time off due to caring responsibilities or through ill health.

**Older-age employment has shifted markedly over the past five decades**

The last 50 years have seen major changes in the pattern of employment by age. For older people, the period divides into two, with older age employment falling from the 1970s to 1990s, and rising since. But these changes have been very different for men and women. Figure 1 shows the employment rate across the full age spectrum, comparing employment rates by single year of age in 1990, 2007 and 2019 with that in 1975 (those years are all at high points in the business cycle). Among both men and women, older-age employment has been growing strongly since the 1990s (which is clear from comparing the purple and light blue lines), although the growth among female employment has been greater. However, there is a clear difference between the sexes: between 1975 and 1990, older male employment fell drastically (by almost 30 percentage points among those close to state pension age). It also fell among older age women, but only for those over age 60, and only by a few percentage points.

Much of this decline was driven by a mix of industrial decline and employment policy: during the roughly 20 years between the mid-1970s and mid-1990s there was a shift in labour demand away from older men, partly linked to the fact that older men were more likely to be working in the industries hit hardest by the early 1980s recession and most affected by structural changes at that time, and employers’ use of early access to pension schemes as a way of making redundancies among older workers.

There were also government policies which actively pushed in this direction. Driven by mistaken ‘lump of labour’ thinking, these policies included a ‘Job Release Scheme,’ which operated from 1977 and 1988, where older workers were encouraged to retire early to ‘release’ jobs for the young. The scheme paid ‘released’ older workers an allowance which was higher than the state pension and unemployment benefits, and was conditional on the employer hiring a young unemployed person. Older adults were also encouraged to claim incapacity benefits instead of unemployment benefits (thereby improving the

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unemployment figures) and as a result, the number of incapacity benefit claimants aged between 50 and the state pension age rose from half a million in the late 1970s to 1.2 million by the mid-1990s.3 This is likely to have reduced older employment by reducing job search activity among non-working adults in that age group.

But these patterns began to shift from 1990, with employment rates among older men rising successively between 1990, 2007 and 2019 (when it finally exceeded the 1975 older male employment rate), and with employment rates among older women following a similar pattern of successive increases between 1990, 2007 and 2019. In fact, the backdrop to the Covid-19 crisis was one of record employment among older workers, at least since comparable data from the ONS Labour Force Survey (LFS) data begins in 1975. In 2019, the employment rate among 50-64-year-olds was 73 per cent, up from 60 per cent at the turn of the century. Older-age employment has been rising consistently since 1993, when the labour market started recovering from the early 90s recession. Between 1993 and 2019 there were only two years (2009 and 2010) when the 50-64-year-old rate did not increase, and even in those two recession years there was a cumulative fall in employment of just 0.6 percentage points. Figure 2 sets out these trends in greater detail.
FIGURE 2: Employment among older workers has been rising strongly since the mid-1990s, after two decades of falling employment among older men

Employment rate by sex and age band: UK

The growth in older-age employment from the mid-1990s onwards, shown in Figure 2, has been linked to the overall strength of the economy (although this only applies to the pre-2008 period), the rise of service sectors, and tighter regulations around ill-health related retirement in public pension programmes.4 Since 2010, the trend of rising older-age employment has occurred alongside a general increase in employment, a key feature of the post-financial crisis recovery period. It has also been pushed along by increases in the state pension age for women, which rose incrementally from 60 to 65 over the past decade.5

In 2019, the female 50-64-year-old employment rate was 15 percentage points higher than at the turn of the century (with 6 percentage points of that increase coming before the state pension age started rising in 2010), which was nearly twice the 8 percentage point increase in the male 50-64-year-old employment rate over the same 19-year period. These post-1990s increases in employment rates among older workers, combined with the demographic bulge of the baby boomer generation, mean that older workers now comprise a greater share of employment today than at any point since 1975 (the period

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5 Research has shown that the higher female state pension age increased employment among women in their early 60s independent of broader employment growth. See: J Cribb et al., Signals matter? Large retirement responses to limited financial incentives, Institute for Fiscal Studies, 2016.
from which we have consistent data). In 2020, 21 per cent of the workforce was aged 55 or above, up from 13 per cent in 2000.

**Rising older-age employment has been a common experience among rich countries, and the UK is average in this respect**

The UK is not unique in having experienced a recent and large increase in older age employment. Rising older-age employment has been a common experience across rich countries, as shown in Figure 3, which plots the employment rate among 55-to-69-year-olds in a range of countries in the years 2000 and 2019. The UK’s rate was 54 per cent in 2019, slightly above the Organisation of Economic Cooperation and Development (OECD) member state average (52 per cent), and further above the average across the 28 EU member states (46 per cent). In 2019, the UK’s older age employment rate was 19th highest out of the 43 countries. This is very close to where the UK stood among this group 20 years ago, when it ranked 17th. Even still, employment among older adults is substantially higher than the UK in some other countries: in 2019 the 55-69-year-old employment rate was 70 per cent in Iceland, 67 per cent in New Zealand, and 66 per cent in Japan, all more than 10 percentage points higher than the rate in the UK. This suggests the UK has further to go in increasing employment among older adults. But how will the Covid-19 crisis affect the level of older-age employment in the UK? We turn next to a high-level review of how previous crises affected older-age employment in the UK.

**FIGURE 3: The rise in older age employment over the past 20 years has been a common experience among rich countries, leaving the UK in the middle of the pack**

Employment rate among 55-69-year-olds in 2000 and 2019

So far, the Covid-19 crisis has been worse for older women than previous crises

Despite progress over recent decades, the Covid-19 crisis has brought to a stop recent increases in employment among older adults. Before coming on to those impacts in more detail, we take one more look at history, and compare the impact of the Covid-19 crisis on older employment to the impact of the four main downturns the UK has experienced since the 1980s. So far, the impact on female employment has been worse than the first year of any of those previous crises, while the impact on employment among older men has been similar to the 1980s crisis.

FIGURE 4: So far, among those in their 50s, the Covid-19 crisis has been as bad for men’s employment as the 1980s and 1990s crises, and worse for women

Percentage point change in employment, inactivity and unemployment rates among men and women in their 50s, in the four years after the start of recent economic crises: UK

NOTES: Charts show four years from the start of each period. Periods covering the 1980s and 1990s don’t perfectly align with the start of those downturns due to data availability. Periods shown date from: 1979 full year (1980s crisis), 1990 full year (1990s crisis), 2008Q1 (financial crisis) and 2019Q4 (Covid-19). The employment and inactivity rates are expressed as a proportion of the population; the unemployment rate is expressed as a proportion of the economically inactive, i.e. those that are either employed or unemployed. SOURCE: RF analysis of ONS, Labour Force Survey.
Figure 4 shows the change in the employment rate, the inactivity rate, and the unemployment rate for those aged in their 50s in the four years from the start of each of the previous four recessionary periods (including figures for one year of the Covid-19 crisis). We focus on workers in their 50s to avoid trends being affected by the changing state pension age.\(^6\) The panels all use the same x- and y-axes so as to be comparable.

The differing experiences had by men and women in their 50s during previous crises is striking: the employment rate of men in their 50s has tended to fall significantly during both, while female employment has either fallen only slightly (as in the case of the 1980s crisis) or continued rising. (This doesn’t mean female employment wasn’t affected by those crises – they may have slowed long-term growth in female employment even if they didn’t lead to a reduction in the level of female employment). This means the Covid-19 crisis compares to previous crises in different ways for men and women. For women in their 50s, the Covid-19 crisis stands out as having had a worse impact on employment (again, so far) than any of those previous crises. For men in their 50s, the fall in employment has, so far, been similar to the fall that followed the 1980s and 1990s crises, and worse than the more modest fall that followed the financial crisis.

It remains to be seen whether the impact on older workers in this crisis will continue on its current path (in line with the damaging crises of the 1980s and 1990s) or improve. Recent labour market data has been encouraging: despite the lockdown in force in December 2020 and January 2021, the number of employee jobs grew over the winter,\(^7\) the unemployment rate stopped rising, redundancies fell, and the number of online job adverts had returned to its pre-crisis level by February 2021.\(^8\) But with large parts of the labour market still reliant on the Job Retention Scheme (4.6 million workers were still on furlough at the end of February) it’s hard to know how strong the labour market really is, and the Office for Budget Responsibility (OBR) expect unemployment to rise when the Job Retention Scheme is finally withdrawn later this year.\(^9\)

**Part-time work, low-paid work and self-employment are more common among older workers**

Of course, the impact that the Covid-19 crisis will have on workers depends heavily on the type of work that they do – including for example the sectors they work in and the contracts they have signed on to. And, like employment rates, many of these factors vary considerably across age groups. Part-time working, self-employment, and low hourly and

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\(^6\) However, there is little reason to suggest that including those in their early 60s would significantly change the trends set out here.

\(^7\) The number of paid employee jobs, according to HMRC’s real-time PAYE dataset, showed positive growth in December, January, and February, although were still down 2.4 per cent on the year in February, and fell slightly in March.

\(^8\) As measured by Adzuna online job adverts, via: ONS, Coronavirus and the latest indicators for the UK economy and society, 15 April 2021, April 2021.

\(^9\) OBR, Economic and Fiscal Outlook, March 2021.
weekly pay become steadily more common from age 50 onwards (see Figure 5, which shows selected job and person characteristics among those in employment, broken down by age, for 2019 and 2020). Above the state pension age, part-time work constituted the majority of older-age employment, and this also explains why low weekly pay (which is the combined result of hours worked and hourly pay) also becomes the normal experience. Older workers are also more likely than their younger counterparts to report that they have a disability.

**FIGURE 5:** Older workers are much more likely than other workers to work part-time, to be self-employed, and to experience low pay

Selected employment characteristics among those in employment, by age band: UK, 2019-20

What may be somewhat surprising is that, despite the large expansion of older-age employment, in those measures just shown, the characteristics of older-age employment have changed very little over the last 25 years. As Figure 6 sets out, the proportion of workers aged 55 to 70 that are in part-time jobs, that are self-employed, or that work in temporary contracts has changed very little since 1995, suggesting the experience of employment in older age has remained fairly consistent, at least on these measures. There has also been little change in the proportion of older workers that say they have poor health or a disability, although this measure has tended to fluctuate. There has been some improvement when it comes to pay, with the proportion of older workers in low hourly or weekly pay (defined as earning less than two-thirds of the all-age median) having fallen by a few percentage points over the period.
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FIGURE 6: Apart from falling rates of low pay, the employment characteristics of older workers have been stable over time

Selected employment characteristics among those in employment age 55 to 70: UK

NOTES: Low hourly and low weekly pay defined as earning less than two-thirds of the all-age median.

The Covid-19 crisis has set back the employment of older workers by more than mid-career workers

We might expect that some of the employment characteristics set out in Figure 5 and Figure 6 will have rendered older workers particularly vulnerable to the Covid-19 crisis. And indeed, it has been well documented that the employment effects of the Covid-19 crisis have been felt more acutely by the youngest and oldest workers, compared to those in the middle of their careers.10 This lends many of the charts below to show a U-shaped impact across the age distribution (albeit an uneven ‘U’, with the impacts on the young worse than those on older workers).

Such an uneven U-shape is somewhat present in the first of these charts, Figure 7, which shows how the crisis has changed the headline rate of employment, as measured in the ONS's Labour Force Survey. The largest impact has been felt by the young, where the proportion in employment fell by 3.9 percentage points between 2019 Q4 and 2020 Q4. But the impact on employment has also been significant among older workers – more so

than those of middle working age. The employment rate among those age 50 to 69 has fallen by 1.4 percentage points, compared to a 0.7 percentage point fall among those age 25 to 49.

The impacts on unemployment and (non-study) inactivity are less-clearly U-shaped. Significant increases in unemployment are found among both the youngest and older groups, but also for those in their early 40s, while (non-study) inactivity is down for the youngest workers and up for the oldest workers, apart from those in their early 60s. The reason the U-shaped pattern breaks down for those measures is that participation in full-time education among the young has partly offset the fall in employment, meaning it has not fully translated into higher unemployment or non-study inactivity. Older groups don’t (as readily) have the same ability to shelter from a tough labour market, and so falling employment feeds fully into either non-study inactivity or unemployment.

FIGURE 7: The employment effects of the Covid-19 crisis have been borne most heavily by the young, but older workers have also experienced rising unemployment and falling employment

Change in the proportion of each age group that is employed, unemployed, in full-time study, or otherwise economically inactive: UK, 2019 Q4 to 2020 Q4

NOTES: Individuals are classed as employed or unemployed whether or not they are also in full-time study. The groups constructed are mutually exclusive, and all expressed with the total population as the base, meaning the categories sum to zero within age bands.


11 The proportion of those aged 16 to 25 in full-time study (but not employed or unemployed) was up 2.7 percentage points compared to a year previously – we noted in recent work that 2020 saw a significant increase in both entries to university and in the number of young people studying for qualifications at NVQ level 3 (A-level or equivalent). See: K Henehan, Uneven Steps: Changes in youth unemployment and study since the onset of Covid-19, Resolution Foundation, April 2021.
One of the standout features of this crisis is that the impact on employment has been muted thanks to the availability of the Job Retention Scheme, which has allowed shuttered businesses or those facing low demand to retain workers on their books. Rates of furloughing (more obviously than changes in employment) follow a U-shape by age, with the youngest workers by far the most likely to have been furloughed, but with older workers also more likely than middle-career workers to have been furloughed. HMRC did not begin publishing age breakdowns until July 2020, at which point overall rates of furloughing had fallen from their May peak, as the economy reopened after the first wave. However, the purple line in Figure 8 shows that significant numbers of workers were still furloughed at that point, especially among the young (44 per cent of workers aged under 18, and 25 per cent of workers aged 18 to 24, were furloughed in July 2020), but also the oldest workers (27 per cent of workers aged 55 to 64, and 35 per cent of workers aged 65 or above were furloughed in July 2020). The same U-shape persisted at later points in the crisis, even as the overall rate of furloughing changed.

![Figure 8: A greater share of older workers than those of middle-working age have been placed on furlough](image)

A different way of measuring employment impacts is to ask what has happened to those who were employed at the start of the crisis. A survey commissioned by the Resolution Foundation in January 2021 (with a sample of 6,389 adults aged 18 to 65) found clear
evidence of a U-shape across the age distribution. For example, among all respondents aged 18-65 who were employed in February 2020, one-in-four (25 per cent) were either no longer working by January 2021 (the pink bars in Figure 9), were employed but furloughed (blue bars), or were employed but had seen their earnings fall by at least 10 per cent compared to February 2020 (yellow bars).12 The proportion of workers facing one of those impacts rises to 41 per cent among the youngest workers (age 18 to 24), but is also high among the older workers (27 per cent among those aged 55 to 59, and 35 per cent among those aged 60 to 65. (Our sample did not cover those over the state pension age).

FIGURE 9: The Covid-19 crisis has had a larger impact on older workers than middle-career workers

Proportion of those in employment in February 2020 who in January 2021 were either no longer working, were furloughed, or were working and not furloughed but with at least 10 per cent lower earnings than February 2020


Our previous work, focused on all who are working age, found that although age is clearly a very significant factor in predicting which workers have been affected, it’s actually not a significant direct driver of those effects.13 Instead, the negative employment impacts across workers of all ages are driven mostly by the sectors that individuals work in; of

12 Apart from furloughing those effects can’t solely be attributed to the crisis, since in any given period of time some workers will leave employment and face lower pay. We don’t have pre-pandemic data to compare to, but the magnitude of the effects, and the fact that (as shown in the following chart) those effects are more commonly experienced in workers from sectors which were shut down during the lockdowns, makes us confident in attributing the majority of those effects to the crisis.

13 This is explained more fully in: Cominetti, N. et al., Long Covid in the Labour Market, Resolution Foundation, February 2021.
second order importance are individuals’ contract type (self-employment and atypical contract types are associated with worse individual outcomes) and pay (where the low paid have been worse affected). Individuals’ age and other personal characteristics are actually playing very little role in driving the employment effects once those factors are accounted for.

It turns out that these results hold when we limit our analysis to those aged 50 to 65. In particular, older workers are much more likely to have experienced one of the three negative outcomes outlined above (stopped working, been furloughed, or lost pay) if they: were working in a ‘shutdown’ sector (including hospitality, non-supermarket retail, and leisure); were low paid; or were self-employed or employed on an atypical contract type. Differences by personal characteristics are somewhat smaller, although it’s notable that our survey finds that older workers from a Black or minority ethnic background (full disaggregation by detailed ethnic groups was not possible due to sample size) were worse than those from a White background. Figure 10 sets out the proportion of older workers who have experienced a negative employment effect according to various personal and work-related characteristics. It shows that as with workers of all ages, older workers who had been employed in hard-hit sectors like hospitality or leisure, were substantially more likely to have experienced a negative employment change. For example, nearly seven-in-ten older workers who worked in hospitality on the eve of the Covid-19 crisis had experienced a negative employment change by January 2021 (compared with just over one-in-four older workers overall).

Figure 10 also highlights large negative employment effects among workers with a Black or minority ethnic background: 36 per cent of workers age 50 to 65 from a Black or minority ethnic background had stopped work, were furloughed, or lost pay, compared to 26 per cent of workers of the same age from a White background. These ethnicity-related differences in employment effects are somewhat corroborated by results from ONS the Labour Force Survey: between Q2-Q4 2019 and Q2-Q4 2020 the proportion of Black adults aged 50-64 who were unemployed rose nearly 2 percentage points (from 4.4 to 6.2 per cent), compared with a less than 1 percentage point rise among older White adults (from 1.6 to 1.9 per cent). These effects were particularly stark for older Black women: the proportion of Black women aged 50-64 who were unemployed more than doubled from 3 to 7.6 per cent, compared against a rise of less than one-third a percentage point (from 1.6 to 1.9 per cent) among their White counterparts.

14 The share of Black 50-64-year-old who were employed rose less than one percentage point over this period, from 78.7 to 79.2 per cent, while the share who were inactive fell from 16.9 to 14.3 per cent. Among White 50-64-year-olds, employment fell from 80.2 to 78.4 per cent, while inactivity rose from 17.9 to 19.2 per cent.

15 Among 50-64-year-old Black women, employment held flat over this period, at 77 per cent, while the share who were inactive fell from 19.8 to 15.4 per cent. Among 50-64-year-old White women employment fell from 77 to 74.9 per cent, while the share who were inactive rose from 21.2 to 23.2 per cent.
Having shown that older workers have, in the current crisis, experienced negative employment effects at a higher-than-average rate (with those who previously worked in hard-hit sectors especially worse off), we turn next to the age-related implications of unemployment for returning to work.

### The short-term impacts of job loss on employment and pay are greater for older workers than on other workers

Another reason for the focus on older workers, other than the fact that they have been more heavily affected than middle-career workers, is that older workers tend to have worse experiences after a spell of unemployment than their younger counterparts. Although it is too soon to look at the outcomes from this crisis, data from recent decades
focused on older workers who have become unemployed – can provide a clue. The key findings, which we discuss below, are that the experiences of older workers after becoming unemployed differ from those who are younger in two important respects. The first is that older workers take longer to return to employment after becoming unemployed than younger counterparts. The second (likely related) fact is that when returning to work, older workers, on average, earn substantially less than they did in their previous job, including when compared to those who are younger.

Starting with the first point, one way of measuring the speed of return to work is to use longitudinal data that follows individuals after they become unemployed.16 Figure 11 shows the proportion of adults who, having moved from employment to unemployment in previous quarters, then moved back into employment in the following quarters. It covers the period 1998 to 2020. There is no difference in the proportion of young (aged 16-29) and middle-career (aged 30-49) workers that returned to employment within three quarters of having become unemployed. However, a lower proportion of older workers (here defined as those aged 50 and above) returned to work within three quarters after becoming unemployed. For example, on average across the 2008 to 2020 period, two quarters after becoming unemployed, 74 per cent of 16-29-year-olds and 72 per cent of 30-49-year-olds had returned to employment, compared to 62 per cent of those aged 50 plus.

There will be many factors affecting the rate at which the unemployed move into work – in particular the length of time spent unemployed, and the state of the labour market. Personal characteristics are likely to be important too. Recent ONS analysis looking at the period 2007-2020 found, for example, that rates of transition back into work were lower for those with lower-level qualifications and for those with disabilities.17 However, differences in the rates at which older and younger unemployed adults returned to work remain even after non-age factors are accounted for. In the ONS’s analysis, unemployed individuals in their 50s were 3 percentage points less likely than those in their 30s to move into work in the next quarter, and those in their 60s 7 percentage points less likely, while controlling for unemployment duration and a range of personal characteristics.

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16 The purpose to look at trajectories in this way is taken from an article which undertook the same analysis for workers in the US following the financial crisis: R Johnson & B Butrica, Age Disparities in Unemployment and Reemployment during the Great Recession and Recovery, Urban Institute, May 2012.

17 ONS, Which groups find it hardest to find a job following a period out of work?, March 2021.

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FIGURE 11: After losing work, older workers take longer to return to work – even if we control for factors like pay and qualification level

Proportion of adults in employment by the number of quarters after becoming unemployed, by age group: 1998-2020, UK

NOTES: The chart shows the proportion of individuals who, after becoming newly unemployed in quarter 0 (that is, they were employed in quarter -1 and unemployed in quarter 0), had re-entered employment by the following quarters. People having re-entered employment in those quarters do not necessarily stay in employment. Predicted values are based on the results of an ordered logistic regression on the above outcomes, including sex, highest qualification level, within-age-band and within-period hourly pay quartile, a period dummy, along with the interaction of the age group variable with those other variables (apart from the period dummy).


In our analysis, which looks at employment trajectories after workers become unemployed, we find that the difference between older (age 50 plus) and middle-working age workers (and 30 to 49) narrows (from 10 percentage points to 7 percentage points) after controlling for various personal characteristics, but does not disappear. This is shown in Figure 11 by the fact that the predicted rates of return between age groups based on non-age factors (including for example, sex, qualifications and pay), which are shown with dotted lines, are closer together than the observed rates of return, shown with solid lines. We also find that differences between age groups in the rates of return are similar if we only include those who left their previous employment for demand-related reasons: for example, if we exclude those who say they quit, or who retired from their previous job. This is a useful check because we might expect those that choose to leave employment will have less need or desire to return to work quickly, and for this to be more common among older workers, who are nearer to retirement age.

The second key fact about the prospects facing older workers that become unemployed is that on returning to work they (on average) experience a significant reduction in
earnings compared to their previous job.\textsuperscript{18} Those in the middle of their careers experience a smaller earnings hit, while the youngest workers experience pay growth (on average) after a period of unemployment. Figure 12 shows the median change in individuals’ earnings among all workers currently employed and employed a year ago, and among those that were employed currently and a year ago but who experienced at least one period of unemployment within the past year (data availability means the analysis only includes those in employee jobs).

\textbf{FIGURE 12: Older workers are particularly likely to face a pay penalty on returning to work}

Median annual change in hourly pay, by whether have experienced some period of unemployment in the past year: UK, 1995-2020

\begin{figure}
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\includegraphics[width=\textwidth]{figure12}
\end{figure}

\textbf{NOTES:} Pay data in the Labour Force Survey is only available for employees, so this figure does not include the self-employed, who as shown earlier in the briefing note comprise a significant portion of the older age workforce.

\textbf{SOURCE:} RF analysis of ONS, Five-quarter Longitudinal Labour Force Survey.

In the 25 years from 1995 to 2020, the typical annual pay growth experienced by individual workers was 5.4 per cent among those age 16 to 29, 2.0 per cent among those age 30 to 49, and 0.8 per cent among those age 50 or above, reflecting the fact that younger workers tend to experience the fastest career progression, which then levels off in middle and later age. If we look only at those that experienced at least one period of

\textsuperscript{18} This is not a new finding, although we haven’t seen this shown recently for the UK. The Urban Institute paper referenced above shows this to be the case for older workers in the US during the Great Recession. See: R Johnson & B Butrica, \textit{Age Disparities in Unemployment and Reemployment during the Great Recession and Recovery}, Urban Institute, May 2012. A Treasury report from 2000 mentions this tendency as a rationale for introducing an extra tax credit for older work-returners – discussed more in the final part of this briefing note. See: HM Treasury, \textit{Tackling Poverty and Making Work Pay – Tax Credits for the 21st Century}, March 2000.
unemployment in the past year, typical pay growth was still strongly positive for the youngest workers (5.1 per cent, not much below the overall rate of pay growth). Among middle-career workers, typical pay growth for those that had experienced hourly pay growth was negative (-4.0 per cent), 6 percentage point below the overall rate of pay growth among that age group. But among the over 50s the earnings hit for work returners is greater still, with those returning to work after unemployment facing typical pay growth of -9.5 per cent.

Although Figure 12 shows changes in hourly pay, the impact on weekly pay is greater because, on average, older workers returning to work after a spell of unemployment tend to work fewer hours in their next job. Among those aged 50 and above that experienced a period of unemployment in the prior year (across the period 1995 to 2020), median hours worked were 37 in the pre-unemployment job, and 32 in the post-unemployment job. Hours worked pre- and post-unemployment for those in the middle of their careers (age 30 to 49) were the same (36 hours), while young people (age 16 to 29) tended to increase their hours after a spell of unemployment (from 33 to 35) on average. These changes, combined with the change in rates of hourly pay post-unemployment, mean that the median change in weekly pay for those aged 50 and over who return to work after a spell of unemployment is a fall of 17 per cent.

The fact that older workers tend to earn less on returning to work is not surprising, even if the size of the reduction is. Some of the skills and experiences people develop in work are specific to their job or their employer, and these may either not be transferable to a new job. There is also the risk that a worker can’t find a new job in the same occupation or the same sector, which means a further set of skills and experiences aren’t transferred. To the extent that individuals’ pay reflects their productivity, which is at least partly related to the extent of their job-relevant skills and experiences, we would expect these processes to result in lower earnings. And with longer careers than younger workers, we would expect older workers to have built up greater reserves of skill and experience specific to their job, and therefore to be especially vulnerable to not being able to use these skills in a future job after losing work.

This line of thought also suggests that the risk of facing lower earnings on returning to work would be greater the more specialised an individual’s skills prior to becoming unemployed. There is some evidence that this is the case. Figure 13 repeats the above analysis (comparing individual’s pay with that of a year ago among those that have

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19 As a caveat to this analysis, it’s worth noting that pay data in the Labour Force Survey, which this is analysis is based on, is only available for employees, meaning the self-employed are not included. This is an unfortunate omission given the large number of older workers who are self-employed. Workers age 50 and above who are self-employed are more likely to be employed in the highest-earning occupations than employees of the same age, so leaving out the self-employed would likely under-estimate earning levels. This might also be true for individual-level changes in earnings, since those who move from employee work to self-employment may be disproportionately those who are able to protect their earnings status.
spent some time unemployed in the interim) but breaks this down by how highly paid the individual was in their pre-unemployment job (pay quintiles are measured within age groups, since we want to compare the high and low paid within the same age groups). There is a strong relationship between an individual’s pre-unemployment pay and the earnings reduction they face on returning to work after unemployment, and this relationship is particularly strong for older workers.

**FIGURE 13: The return-to-work pay penalty is higher for higher-paid workers, particularly for older workers**

Annual change in hourly pay among those that have experienced at least one period of unemployment within the last year, by starting hourly pay quintile: UK, 1995-2020

On average, across all age groups, the lowest-paid workers (within their age group) tend to see a strong positive change in their hourly pay on returning to work after unemployment, while the change is negative at all other points in the (within-age-group) pay distribution. For young workers and those in the middle of their career, the highest-paid workers face typical hourly pay reductions on returning to work of 13 per cent and 17 per cent respectively. But the highest-paid workers within the older-age category face a typical hourly pay reduction of 36 per cent on returning to work.
The impact of the crisis on retirement decisions is not yet clear

Older workers that lose work in this crisis therefore face two risks: that returning to work will take longer than it does younger workers, and that they will earn less once they do so. But it is also possible that some older adults will drop out of the labour market altogether, opting for early retirement, which has negative implications for both present incomes and incomes in retirement.

However, it’s too early to say what the impact of this crisis will be on the labour supply of older workers. Analysis by the Institute for Fiscal Studies (IFS) last year found that 5 per cent of older workers (age 50 and above) in paid employment immediately before the crisis planned to retire earlier as a result of the Covid-19 crisis, while 8 per cent planned to retire later.¹⁰ This suggests there will be a mixed impact, with the net effect of the crisis if anything tending towards increasing labour supply among older workers.

It’s worth bearing in mind that altering a planned retirement date could be a negative or a positive change, depending on the circumstances of the individual. Where early retirement is driven by a perceived lack of opportunity, or (particularly pertinent in this crisis) due to health worries, then it is likely to be a bad thing, given the negative implications for incomes through retirement. And where older workers are working longer to make up for an income shock or a loss of value of their retirement savings, this is obviously not to be celebrated. But early retirement may be a more positive choice for some, borne out of a preference for leisure and a newly-realised lack of necessity for ongoing paid work. And similarly, working longer can be a good thing, not only for its positive effects on individuals’ present and future income, but also for the potential health and wellbeing benefits.²¹

The good news is that the IFS’s analysis found that planning to delay retirement was more common among those who had been working from home in the crisis, and with those on higher incomes, suggesting that such individuals are making a positive choice in the light of new information about the ease of continuing to work at older ages (although there was also an association with the value of an individual’s pension having fallen, implying a choice forced on them by outside circumstances). Planning to retire earlier was associated with higher wealth, and there was no association with an individual’s health - again suggesting that these were not forced choices.

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²¹ For example, this Swedish study finds those working past the state pension age are more likely to report good health in retirement (after controlling for a range of personal characteristics including pre-retirement health): D Anxo et al, Impact of late and prolonged working life on subjective health: the Swedish experience, September 2018.
Flexible working can help older workers stay in work, and employment support programmes should be tailored to meet their needs

For many older workers in the current crisis, falling out of work will have negative implications for the income and retirement savings – and this begs the question of what policy can do to help. Policy has clearly played a significant role in the long-term trends in employment among older workers. The most direct impact is through changes to the state pension age, but other policies are also important. This includes those policies which affect older workers’ financial incentives (such as the fact that workers above the state pension age do not pay National Insurance contributions); the design and implementation of social security policies (such as the effort in the 1980s to push older workers away from unemployment benefits and towards incapacity benefits); and employment regulation which affects older workers (for example, as laws against discrimination on the basis of age, but also examples such as the 2011 law change which made it illegal for employers to force older workers to retire at the state pension age, thereby delinking the formal connection between the state pension age and retirement age).

Policy levers should continue to be used to promote employment among older workers. We have previously argued – in conjunction with the Centre for Ageing Better – that further increases in employment among older age groups could come from two policy changes. First, given that around half of workers over the age of 50 said the option to work part-time or flexible hours would encourage them to work longer, workers should be offered the right to request flexible working from day one in a job, rather than after six months, as at present. Second, given that caring responsibilities and health problems are major reasons for early retirement (for example, analysis of the 2012 English Longitudinal Study of Ageing found 1 in 3 workers who retired before the state pension age gave their own ill health or the ill health of a relative friend as the reason), workers should be offered a ‘right to return’ to work following periods of absence for caring or for health problems, similar to the rights of those on maternity leave.

Greater rights around flexibility and additional support for carers or those experiencing ill health would be valuable for all workers, not just older workers. And offering flexible working options is something employers can and should do, whether or not they are forced to do so by government. It is hoped that the large increase in working from home brought about by the pandemic will have proved to doubtful employers that such flexibility can work, and should be made available to workers.

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23 International Longevity Centre, The Missing Million: Illuminating the employment challenges of the over 50s, October 2014.
Education and training policy also has an important role to play. Policy makers and employers should jettison any idea that older workers are too old to develop new skills or to retrain. We found in analysis last year, for example, that whether or not an individual received training was an important factor for both work re-entry and rates of moving between industries among older men.\textsuperscript{24}

What about policies to respond to the immediate challenges posed to older workers by this crisis? An important policy area is helping the unemployed to find work. The Government’s response here has three main strands: expanding the support available to job seekers in Job Centre Plus by hiring additional work coaches, intensive support for the long-term unemployed (the ‘Restart’ scheme), and subsidised jobs for the young unemployed (the ‘Kickstart’ scheme).

For the first two of these policies (the support provided to the unemployed through job Centre Plus and the more intensive support through the ‘Restart’ scheme) the factors that make for effective support for older workers are little different to what makes for effective support for all age groups. Support should, as far as possible, be tailored to the needs, capabilities and circumstances of the individual. The Centre for Ageing Better undertook a review of the evidence relating to employment support for over 50s in 2019 and, among other recommendations, argued that: work advisors should be trained to deal with the full range of older job seekers they might face, including those from managerial or professional backgrounds; that job seekers might benefit from being supported by an advisor of a similar age; that it may be appropriate to provide employment support outside of Jobcentres and alongside other services; and that advisors should fully recognise an older job seeker’s skills, experiences and prior learning.\textsuperscript{25} These remain sensible recommendations.

Similar lessons apply to the new Restart Scheme, but here there is a risk that older workers will receive a lower quality of support than younger job seekers. This stems from its design, where the ‘payment-by-results’ funding model gives providers an incentive to put less effort into those participants, such as older workers, who have a lower probability of finding work. Under the Work Programme, a payment-by-results employment support scheme that ran from 2011 through to 2017, participants in their 60s were a third as likely as the youngest participants to experience a successful job outcome (see Figure 14). This will at least in part have been driven by the fact that older participants received a lower quality of support (evaluations found that older participants experienced less frequent meetings with advisors and less continuity of support).\textsuperscript{26} The good news is that the new

\[\text{\textsuperscript{24}}\text{ K Henehan, Can training help workers change their stripes? Retraining and career change in the UK, Resolution Foundation, August 2020.}\]
\[\text{\textsuperscript{25}}\text{ D Parsons & K Walsh, Employment support for over 50s: Rapid evidence review, Centre for Ageing Better, June 2019.}\]
\[\text{\textsuperscript{26}}\text{ Learning and Work Institute, A mid-life employment crisis, August 2020.}\]
Restart scheme specifies minimum service standards, such as relating to the regularity of meetings, and milestones for delivering assessments and action plans. These should lead to better standards of service and outcomes for older workers. However, this is an area the government will have to monitor closely.27

FIGURE 14: The Work Programme was less effective for older workers

Successful job outcomes as a proportion of referrals to the Work Programme: UK, 2011-17

The third strand of the Government’s new employment support policy package, Kickstart, is, by design, not available to older job seekers. This may seem unfair, but it makes sense to focus this kind of support (that is, support which involves paying for young people to gain work experience) on the young, because lack of experience is much less likely to be a barrier to employment for older workers.

Instead, policy makers may want to consider the second of the ‘risks’ facing the older unemployed we outlined above, which is that older workers tend to face significantly lower earnings in their post-unemployment job, which may act as a disincentive to returning to work. One response to this risk is to minimise the earnings reduction facing older work-returners by helping them find work that is well-matched to their skills and experiences, and the application of conditionality to older workers should be mindful that it seems to take older workers longer to find a suitable job match.

But there may also be a case for tackling the wage disincentive facing older work-returners more directly. This has been done in the past. As part of the ‘New Deal’ for the over 50s, which was in place during the early 2000s, older workers who returned to work after having been unemployed for six months were paid a tax-free ‘Employment Credit’ of £60 a week (£40 if the work was part-time), with payments continuing for a year. A similar return-to-work bonus for older workers became part of the Working Tax Credit from 2003. This policy was explicitly intended to overcome the “acute” work incentive problems faced by older unemployed workers whose “wage on re-entry is often low relative to what they earned in their previous job”.28

The effectiveness of that scheme is unknown, as evaluations which were conducted did not include control groups.29 Studies of the scheme pointed to its popularity among older workers, and there is a suggestion that it encouraged some recipients to take work at a lower wage than they would have otherwise done. They also indicate the programme helped recipients cope with any costs associated with returning to work. On the other hand, one study also found that just under half of recipients would have moved into work without the extra payments, suggesting significant deadweight costs.30

Universal Credit (UC) was intended to remove the need for such payments, by tapering away benefits at a consistent rate, and thereby providing smooth work incentives. This has improved work incentives for re-entering work on a low number of hours, whereas individuals had to work at least 30 hours (or 16 hours for those aged 60 or over or with a disability) under Working Tax Credit. However the move to UC has changed the overall incentive of moving into work full-time, in particular individuals without housing costs now face a steeper withdrawal of benefits than compared with tax credits.31 On the other hand, the increases in the minimum wage have strengthened the incentives to re-enter work. It is also worth mentioning that UC work allowances (the amount individuals can earn before benefits are withdrawn) were cut in 2016, and removed altogether for non-disabled single adults and couples without children (a group which will include many older unemployed adults).32

Given the changes in financial incentives for returning to work, alongside the pay penalty that older workers face, there may be a case for returning to the idea of such a return-to-work payment for older adults. Any future such initiative should be properly trialled and evaluated so as to properly quantify its effectiveness.

30 Ibid.
31 The withdrawal rate for tax credits is 41 per cent, compared to 63 per cent for Universal Credit.
At the onset of the Covid-19 crisis, employment among older workers had been on a strong upwards trajectory for the best part of 25 years. But there is still further to go, both to match the employment rates among workers in the middle of their careers, or to match countries such as Iceland, New Zealand and Japan where older-age employment rates are several percentage points higher. Policy can support that by ensuring that widespread access to flexible working is a legacy of this crisis, and by protecting the jobs of those older workers that need time off for caring responsibilities or because of ill health. In the short-term, there is a risk that the Covid-19 seriously derails that long-term progress. The impact on older age employment has so far been as bad as the crises of the 1980s and 1990s for men, and worse for women. The Government’s response to this crisis must ensure a successful end to the furlough scheme, and that any employment support provided to older adults is tailored to meet their needs, and is of as a good a quality as that provided to younger adults.
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