Resolution Foundation
BRIEFING

Post-pandemic participation

Exploring labour force participation in the UK, from the Covid-19 pandemic to the decade ahead

Louise Murphy & Gregory Thwaites
February 2023

Acknowledgements

The authors would like to express sincere thanks to the many stakeholders involved in discussions around the content of this report. We also thank colleagues at the Resolution Foundation for their analytical contributions to this note and for comments on earlier drafts, particularly Torsten Bell, Mike Brewer, Molly Broome, Sophie Hale, Karl Handscomb and Jack Leslie. Any errors, of course, remain the authors' own.

Download

This document is available to download as a free PDF at:

https://www.resolutionfoundation.org/publications/

Citation

If you are using this document in your own writing, our preferred citation is:

L Murphy & G Thwaites, *Post-pandemic participation:*

Exploring labour force participation in the UK, from the Covid-19 pandemic to the decade ahead,

Resolution Foundation, February 2023

Permission to share

This document is published under the Creative Commons Attribution Non Commercial No Derivatives 3.0 England and Wales Licence. This allows anyone to download, reuse, reprint, distribute, and/or copy Resolution Foundation publications without written permission subject to the conditions set out in the Creative Commons Licence.

For commercial use, please contact: info@resolutionfoundation.org

Summary

In 2023, almost three years on from the advent of Covid-19, economists and policy makers are trying to understand the lasting impacts of the pandemic. One area of focus in recent months has been labour supply: despite unemployment reaching historic lows, a rise in economic inactivity means that the UK employment rate remains one percentage point lower than pre-pandemic (the employment rate for 16-64-year-olds is down from 76.6 per cent in December-February 2020 to 75.6 per cent in the final three months of 2022). This is now a key focus for policy makers, and so it is crucial to understand the causes properly.

This labour supply shock is particularly noticeable since it comes after a decade of fast-rising labour force participation, with the participation rate among adults aged 16-64 rising from 76.6 per cent in 2010 to 79.2 per cent in 2019. This rise in labour force participation played an important part in maintaining economic growth in the 2010s: between 2010 and 2019, average supply growth in the UK was just 1.7 per cent, but rising labour hours supplied (a combination of rising labour force participation and rising average hours of work) contributed to two-thirds of this growth (1.1 per cent). In this regard, the UK did better than many of our neighbours: in 2019, the labour force participation rate in the UK of those aged 15-64 was 6 percentage points higher than the OECD average, and 3.5 percentage points higher than the G7 average.

In 2023, the picture in the UK looks very different. The legacy of the Covid-19 pandemic in the UK has not been high unemployment as was feared in 2020, but an increase in economic inactivity of over half a million workers, concentrated among older workers and those with long-term health conditions. The Bank of England expects labour supply to contribute less than a quarter of potential GDP growth between 2023 and 2025. Notably, this rise in economic inactivity since Covid-19 has not been a universal experience – in fact, most OECD countries have seen their working-age labour force participation rate rise since the start of the pandemic. For example, while the participation rate for 15-64-year-olds has fallen by 0.8 percentage points in the UK between 2019 and 2022, it has risen by 1.5 and 1.8 percentage points respectively in France and Germany. The UK's labour force participation rate among 15-64-year-olds is still relatively high, but has fallen from the seventh highest, among the 38 OECD countries in 2019, down to fifteenth in 2022.

So why has the UK seen such a fall in labour force participation? Economic inactivity among all adults has risen by 830,000 since the start of the pandemic, with more than three-quarters (630,000, or 76 per cent) of this rise being among people aged 50 and above. This group is split evenly between those who are working age (50-64) and those who are aged 65 and above. There have been three key trends behind this rise in

economic inactivity. First, among the over 65s, the rise in economic inactivity is almost entirely down to an increase in the size of this age group; indeed, the labour force participation rate for the over 65s has remained unchanged at 11 per cent over the last three years. Second, among working-age people, there was an increase in flows from employment into economic inactivity due to retirement during the Covid-19 pandemic: quarterly flows from employment into retirement among 16-64-year-olds increased from 67,000 in the autumn of 2019 to peak at 120,000 in the autumn of 2021. Third, the UK is facing a longer-term, and more widespread, rise in economic inactivity due to long-term sickness: the number of working-age people who are inactive due to long-term sickness has risen by 460,000 since the start of the pandemic to reach 2.5 million in late 2022. This is part of a wider trend of rising disability and long-term sickness that is not limited to those out of the labour market: the number of working-age people with disabilities increased by 2.3 million between 2013 and 2022, with four-fifths (83 per cent) of this rise among people in employment.

This increase in economic inactivity has attracted significant attention in recent months from across the political spectrum, from the Chancellor lately telling recently-retired older workers that 'Britain needs you' to return to work, to the Shadow Work and Pensions Secretary vowing to amend the benefits system to encourage more people with long-term health conditions into employment. Attention is only set to increase, with next month's Budget expected to include a package of proposals to boost labour force participation. Although we should not blow this recent knock to the UK's labour market out of proportion – our employment rate remains significantly higher than most OECD countries, and the economy has other, more deeply embedded problems, such as low business investment and poor productivity growth – there are certainly areas where policy makers can make a difference.

Much of the recent commentary, and many of the related policy suggestions, relating to economic inactivity has centred around identifying the groups of workers who left the labour market during the Covid-19 pandemic and how we might encourage them to come back. But we should not focus solely on this group, since there are good reasons to think that policy will not reach many of them. The cohort of older workers who have left the labour market since the start of the Covid-19 pandemic have disproportionately come from high-paying, professional jobs; many of these adults will be living comfortably in their early retirement, and government policy is unlikely to prompt them to 'un-retire'. For example, in 2021, 35,000 more workers aged 50-70 from higher-paying professional and scientific roles flowed from employment to economic inactivity between the second and third quarter of the year compared to 2019. Conversely, in the lower-paying hospitality industry, the number of older workers flowing from employment into economic inactivity was actually 16,000 lower in 2021 than in 2019.

Not only have these workers come from high-paying jobs, they are also more likely than others to have access to wealth to fund their retirement. In the summer of 2022, almost half of 55-59-year-olds who had left the workforce since the start of the Covid-19 pandemic and not returned to work were funding their retirement through a private pension. This chimes with the wider trend that early retirees tend to be from wealthy households: between 2016 and 2020, one-in-ten adults aged 50-59 from households in the highest wealth quintile were inactive due to retirement, compared to just one per cent of adults from the lowest wealth quintile. Home ownership is also playing an important part: two-thirds of the 50-65-year-olds who have left the labour market since the start of the pandemic and not returned own their homes outright, and at age 60, 28 per cent of people who own their home outright or otherwise have no housing costs are economically inactive due to retirement, compared to just 5 per cent of those still paying rent or mortgage costs.

Notably, only 10 per cent of 55-59-year-olds who had left the workforce since the start of the Covid-19 pandemic and have not returned state that they are receiving state benefits to fund their time out of work. As a result, there is no easy mechanism through which the government can engage with this group of economically inactive people. And learning from history shows us that those who take early retirement rarely return to the labour market when they have been out of work for some time. For example, someone who took early retirement during the summer of 2020 has now been economically inactive for two-and-a-half years – historically, only 2 per cent of people in this situation return to work every three months, compared to 6 per cent of those who have been out of employment for three months or less.

So, if policy makers should not focus exclusively on the cohort of workers who left the labour market since the Covid-19 pandemic, how should they go about boosting labour force participation in the years ahead? Policy makers should be clear-eyed about the headwinds that are likely to push down on labour force participation in the 2020s, but also be optimistic about boosting participation in groups that saw significant improvements in the 2010s, both here and in other advanced economies. We outline three key areas of focus: older workers, women with children, and those affected by rising ill-health and disability. In the decade running up to the pandemic, the UK saw employment rates rise by 13 percentage points for women aged 55-64 (and four percentage points for men) and by five percentage points for coupled mothers, while the employment gap between those with or without a disability fell by five percentage points between 2013 and 2022.

While there has been significant attention paid to the specific cohort of older workers who have left the labour force since the start of the Covid-19 pandemic, there has been little in the way of policy suggestions about how to boost employment among older workers in general in the decade ahead. Policy makers' agenda should broaden out from narrow discussions of raising the State Pension age (SPA) to consider private pension policy choices that impact on early retirement decisions, and improving job quality so that there are jobs that older workers will want to do.

The ageing of the baby boomers, in combination with improvements to life expectancy, means that the number of people aged 65 and above is expected to increase by around 2.5 million (20 per cent) between 2020 and 2030. The employment rate among older adults may rise in the coming years even without any new policy interventions: the planned increase to the SPA, which is set to rise to 67 between 2026 and 2028, will reduce the proportion of older workers who are economically inactive. Moreover, the fraction of homeowners without mortgages in their 50s – who are much more likely to retire than those with housing costs – has fallen by over 2 percentage points in the past decade, pushing up on future participation rates by this group. And past increases in graduation rates should support participation in this age group. But proposals to accelerate the increase in the SPA to 68 must be carefully weighed – while doing so would bring fiscal benefits in the long-term, it would also bring significant consequences for inequality since life expectancies vary hugely between rich and poor people, and life expectancy is looking worse – not better – than expected a decade ago. And policy makers cannot continue to focus so narrowly on State Pension change when reforms to private pensions system are more pressing. Three areas stand out.

First, the age at which someone can access tax-relieved private pension wealth (the 'normal minimum pension age') is currently 55 and, while it is set to rise to 57 from 2028, it will remain ten years below the SPA. This supports early retirement, particularly for wealthier individuals. Policy makers should consider further raising this age, or at least slowing the rate at which money can be withdrawn before SPA. Second, alongside this we recommend that policy makers cap tax-free lump sums – under the existing system, 25 per cent of all private pension income can be taken with no tax due up front. This encourages early retirements far before the SPA for wealthy individuals, at considerable expense to the taxpayer. Third, there remain some Defined Benefit (DB) pension schemes in which people's pensions are affected if they re-enter employment after a period of retirement. We encourage policy makers to work with pension providers to consider how these conditions can be relaxed, so that affected workers are not discouraged from returning to employment. Moreover, policy makers and employers should focus on improving job quality: we know that work intensity has increased in the past few decades, particularly in lower-paying jobs in which older workers are overrepresented. The proportion of employees in the lowest-earning quartile who agree or strongly agree that they work "under a great deal of tension" has risen from 35 per cent to 50 per cent between 1992 and 2017.

But older workers are not the only group for policy makers to focus on. Efforts should also be made to boost the participation rate among women with children, and doing so will involve targeted reforms to the childcare system. There has been significant progress in recent years (for example, the employment rate for coupled mothers rose by over 5 percentage points between 2008 and 2019), but there is more room for improvement, especially for those on low incomes. By the end of the 2010s, the labour force participation rate among women aged 25-54 from the lowest household income quintile was 50 per cent, significantly lower than the participation rate among women from the highest household income quintile (94 per cent).

Unsurprisingly, policy debates on this topic often centre around the extension of free hours of childcare. But in so far as policy makers' key objective is boosting labour supply, this is unlikely to be a silver bullet. Previous research has shown that increasing the provision of free childcare hours had limited impact on mothers' employment rates: while free childcare hours successfully reduce costs for parents who are already working, take-up is low among lower-income households. Wider reforms to childcare support should address its complexity and the significant barriers it poses to people entering work. For example, low-income families have to choose between claiming childcare support within Universal Credit or via tax-free childcare, but it is often impossible to know which would be most financially beneficial. Within Universal Credit, childcare support is both administratively confusing on a month-to-month basis, and often off-putting in the first place since claimants must pay childcare costs upfront. Policy makers should consider radical policy changes, including moving childcare support for low-to-middle income households outside of the Universal Credit system altogether.

Other reforms targeted at increasing work incentives for low-income women should be on the table – such as introducing a work allowance in Universal Credit for second earners. At the moment, second earners in a couple on Universal Credit have a much lower work incentive to enter employment than the first earner. For example, were a typical second earner in a couple to move into 20 hours of part-time work on the National Living Wage, their total household income would increase by £4,600 per year – £2,900 less than if a first earner in a couple made the same move into work.

Finally, policy makers should focus on workforce health and its relationship with employment. The first priority must be to address underlying increases in ill-health and disability, for reasons that go far beyond increasing the size of the labour force. Beyond that, the goal must be to build on promising changes in the past decade in closing the employment rate 'gap' between those with and without disabilities, where the biggest improvement was seen among people with depression. But the gap remains large, with the employment rate for people with disabilities aged 16-64 just 54 per cent, compared to 82 per cent for those without. It is therefore welcome to see policy makers focus on further improvements.

Both the Government and the Labour party have suggested reforms to disability and illness benefits, for example by proposing that people's benefits are protected for a set period of time if they move into employment. There are good reasons to avoiding having a system that labels people as 'too sick to work', but hard questions remain. For example, both parties have hinted at abolishing the Work Capability Assessment altogether, but doing so would likely require eligibility for higher rates of out-of-work benefits to be determined by the Personal Independence Payment (PIP) assessment instead. That would mean many people who are ill but not disabled (for example, those recovering from an operation) losing out on support, while many people with disabilities who are capable of work (for example, many wheelchair users) would see increased support. How conditionality would be applied is also far from straightforward. Relying on Work Coach discretion rather than using the WCA is likely to lead to significant legal challenge, and could undermine the objectives of the reform if those considering entering work cannot be sure what impact this will have on their benefit entitlement.

Policy makers' focus should be on keeping those who become ill or disabled in work, rather than just on returning those out of work to employment via changes to the benefits system. Retaining the relationship between the worker and employer with early intervention is key, since we know that people who are economically inactive due to long-term sickness or disability are four times as likely to re-enter work after a few months of sickness leave than they are to re-enter work after a period of over two years. Policy makers should consider introducing a 'right to return' period, during which employers must keep jobs open to workers who are away from work due to sickness or disability.

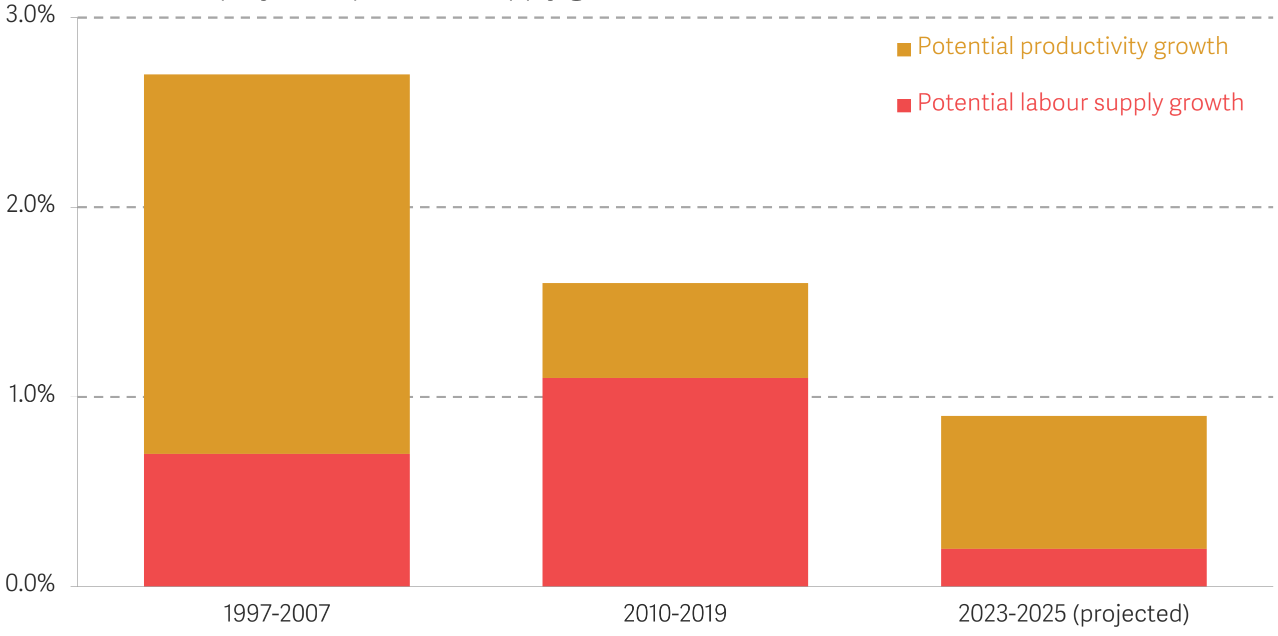
The upcoming Budget looks set to prioritise a policy response to higher economic inactivity. This is welcome, but it should avoid being narrowly focused on the 'Covid cohort' of early retirees who left employment during the Covid-19 pandemic. Instead, it should be a broader attempt to boost labour force participation in the decade ahead – prioritising the groups whose employment rates have proven to be responsive to policy changes in the past.

Labour force participation has changed from being an economic tailwind to a headwind

There was little to celebrate about the performance of the UK economy in the 2010s: real wages were £2 per week lower in 2019 than before the financial crisis[1], and productivity growth in the mid-2010s was just 0.8 per cent per year – well below the average annual rate of 2.3 per cent experienced between 1979 and 2009.[2] But rising labour force participation was one of the few positive features of the 2010s, which contributed to the small amount of growth experienced. As Figure 1 shows, average potential supply growth was 1.7 per cent between 2010 and 2019, and growth in labour supply contributed to almost two-thirds (1.1 percentage points) of this. However, looking ahead the Bank of England expects average supply growth to be lower in the 2020s, averaging just 0.9 per cent between 2023 and 2025, and labour supply is expected to account for a small portion of this (just 0.2 per cent).

FIGURE 1: **Rising labour force participation contributed to the small amount of growth the UK experienced in the 2010s – but it is expected to play a smaller part in growth in the 2020s**

Actual and projected potential supply growth: UK



SOURCE: RF analysis of Bank of England Monetary Policy Report, February 2023.

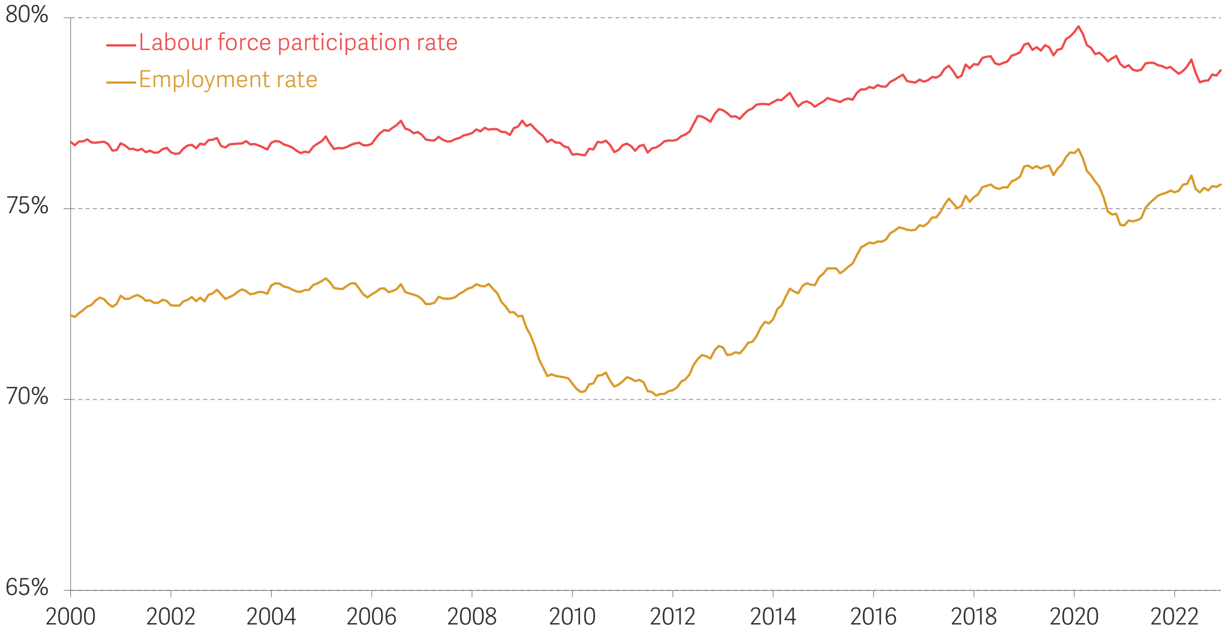
What form did this growth in labour supply in the 2010s take? Rising hours of work is one part of the story: one way that workers responded to the stagnation in living standards that resulted from the financial crisis was by working longer hours, with 2014 marking the

1 T Bell & L Gardiner, Feel poor, work more: Explaining the UK's record employment, Resolution Foundation, November 2019.
2 G Bangham, The times they aren't a-changin': Why working hours have stopped falling in London and the UK, Resolution Foundation, January 2020.

first year since the Second World War that average working hours were longer than ten years before.[3] But working hours were not the only thing to rise: although unemployment took a hit after the financial crisis (with the unemployment rate rising from 5.7 per cent in 2008 to reach a peak of 8.1 per cent in 2011), many more people entered than exited the labour market in the 2010s. As shown in Figure 2, the employment rate among 16-64-year-olds rose substantially in the years following the financial crisis, up from 72.6 per cent in 2008 to 76.2 per cent in 2019, a record high.[4] The labour force participation rate increased too, reflecting that the employment growth in the 2010s was as much about people entering employment from economic inactivity as it was from unemployment. The labour force participation among adults aged 16-64 peaked on the eve of the Covid-19 pandemic, at a record high of 79.8 per cent. This was a remarkable achievement by international standards too: in 2019 the working-age labour force participation rate in the UK was 6 percentage points higher than the OECD average, and 3.5 percentage points higher than the G7 average.

FIGURE 2: **The employment rate rose substantially in the 2010s**

Employment rate and labour force participation rate, adults aged 16-64: UK



RF analysis of ONS, Labour Market Statistics.

This rise in employment was most pronounced among women: the female working-age employment rate was 4.7 percentage points higher in 2019 than in early 2008, compared to a 1.1 percentage point increase among men.[5] Among women, both single mothers and

3 G Bangham, The times they aren't a-changin': Why working hours have stopped falling in London and the UK, Resolution Foundation, January 2020.
4 RF Analysis of ONS, Labour Market Statistics.
5 T Bell & L Gardiner, Feel poor, work more: Explaining the UK's record employment, Resolution Foundation, November 2019.

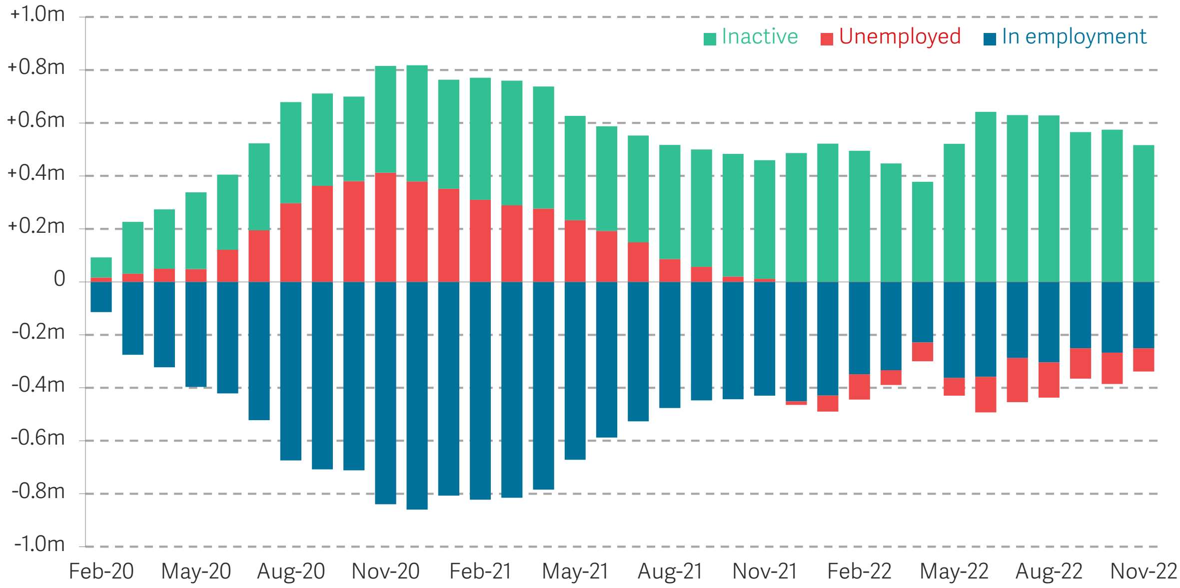
mothers living with partners saw big changes. For single mothers, this was a continuation of a longer-term rise in employment growth, largely related to changes in the social security system.[6] For coupled mothers, the trend of rising employment in the 2010s was much more closely related to rising education levels and to the financial crisis: many women responded to their 'main earner' partner's wages taking a hit in the aftermath of the financial crisis by entering employment.[7]

One of the legacies of the Covid-19 pandemic in the UK is a rise in economic inactivity

The 2020s started with a different economic crisis – the Covid-19 pandemic. However, largely thanks to the introduction of the furlough scheme, the impact of the pandemic on unemployment was much better than feared: despite the pandemic leading to the worst recession for 300 years, the unemployment rate peaked at just 5.2 per cent, the smallest rise in any recession in living memory.[8] In fact, by 2022, the UK labour market was tight, with the unemployment rate falling below pre-pandemic levels to reach its lowest level since 1974, of just 3.6 per cent.[9]

FIGURE 3: **The legacy of the Covid-19 pandemic is high economic inactivity, not high unemployment**

Change in economic inactivity, unemployment and employment since Dec-Feb 2020 for adults aged 16-64: UK



SOURCE: RF analysis of ONS, Labour Market Statistics.

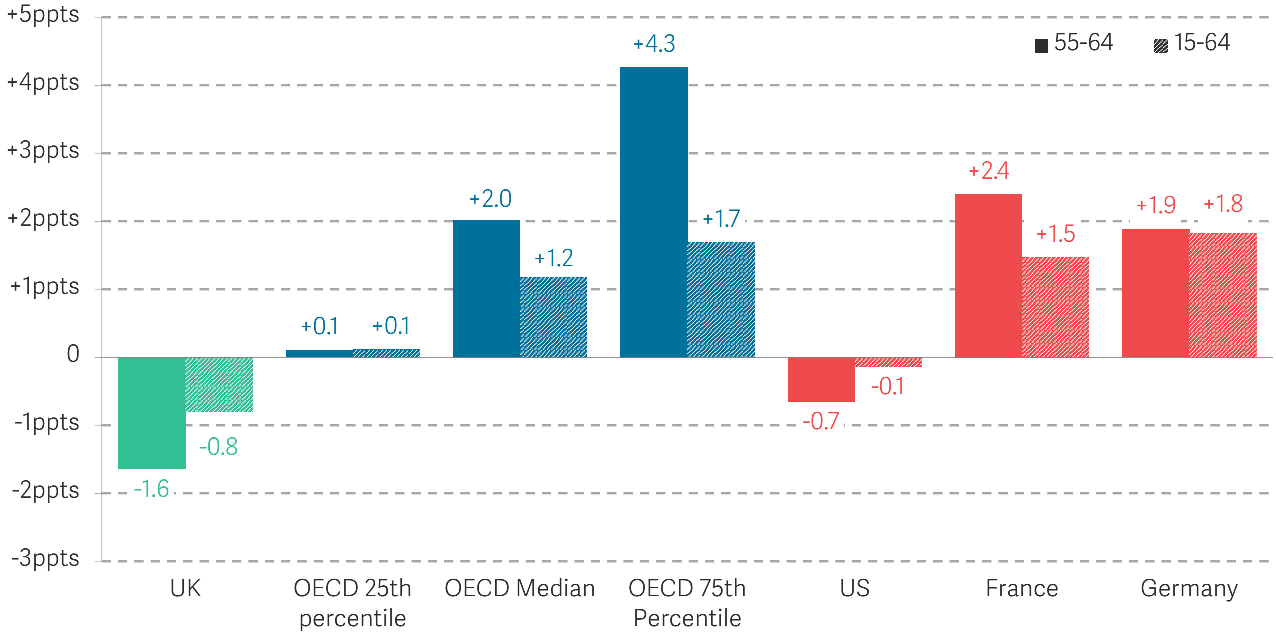
6 For detailed discussions of social security reform and employment among single parents, see: P Gregg, S Harkness & S Smith, Welfare Reform and Lone Parents in the UK, The Economic Journal, Volume 119, Issue 535, February 2009; S Avram, M Brewer & A Salvatori, Can't work or won't work: Quasi-experimental evidence on work search requirements for single parents, Labour Economics Volume 51, April 2018; M Alexandru Codreanu & T Waters, Do work search requirements work? Evidence from a UK reform targeting single parents, Institute for Fiscal Studies, February 2023.
7 T Bell & L Gardiner, Feel poor, work more: Explaining the UK's record employment, Resolution Foundation, November 2019.
8 D Tomlinson, Job well done: 18 months of the Coronavirus Job Retention Scheme, Resolution Foundation, September 2021.
9 G Thwaites, Britain's pay squeeze continues as sickness shrinks the workforce, Resolution Foundation, September 2022.

The lasting impact of the Covid-19 pandemic has instead been an increase in economic inactivity, putting an end to the past decades trend of rising participation rates, with 520,000 more working-age adults economically inactive in the final three months of 2022 compared to the pre-pandemic period, as well as 310,000 more adults aged over 65. As such, despite record-low rates of unemployment, the total number of working-age people in employment is down 250,000 compared to pre-pandemic (see Figure 3).

So, it is clear that the UK is grappling with a participation problem, one which was not expected at the start of the pandemic. Some have wondered whether this rise in economic inactivity is an inevitable consequence of a health-driven economic crisis like the Covid-19 pandemic. However, when we look at the labour market experience of other countries, it is clear that this is not the case. As we can see in Figure 4, the labour force participation rate has fallen for adults in the UK between the autumn of 2019 and autumn of 2022, by 0.8 percentage points for all working-age adults (aged 15-64) and by 1.6 percentage points for older adults (aged 55-64). This goes against the trend seen in most developed countries: the median labour force participation rate for OECD countries actually increased by 1.2 percentage points for working-age adults, and by 2 percentage points for those aged 55-64.

FIGURE 4: **Since the start of the Covid-19 pandemic, the UK has seen larger falls in labour force participation than most OECD countries**

Change in labour force participation rate for adults aged 55-64 (solid bars) and aged 15-64 (shaded bars) between Q3 2019 and Q3 2022: UK and selected OECD countries



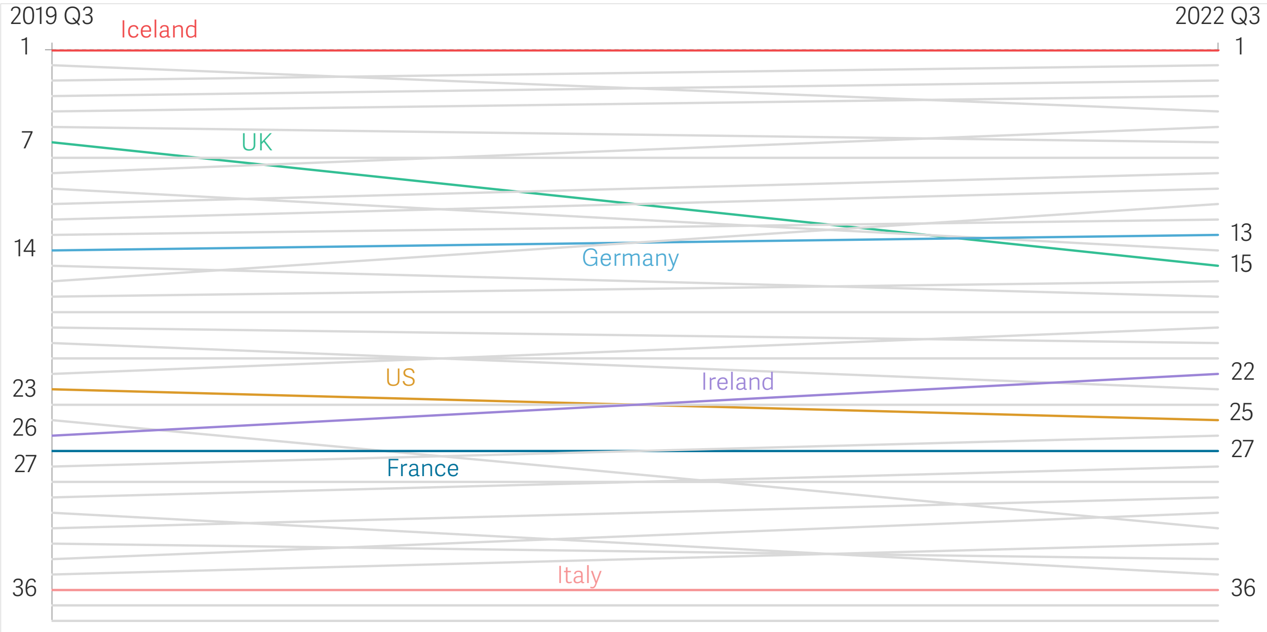
SOURCE: RF analysis of OECD, Short-Term Labour Market Statistics.

Notably, the fall in labour force participation in the UK is greater than that in the US, where stories of the 'Great Resignation' or 'Great Retirement' are well-discussed.[10] In fact, the 16-64-year-old labour force participation rate in the US has remained stable (falling by just 0.1 percentage points between the autumn of 2019 and 2022), and the participation rate among older adults has fallen by a smaller amount than in the UK (decreasing by only 0.7 percentage points).

However, as well as looking at changes to participation since the pandemic, we should also consider how the level of the UK's labour force participation rate compares to our neighbours. As Figure 5 shows, despite the downward trend since 2019, the UK's labour force participation rate is still higher than most OECD countries. The UK's ranking has fallen from seventh highest out of the 38 OECD countries in the autumn of 2019, down to fifteenth highest in the autumn of 2022. Although this is a big change in rankings, and illustrates how differently the pandemic has affected countries' labour markets, it's worth remembering that the labour force participation rate in the UK remains considerably higher than many countries we might compare ourselves to, such as France, Ireland and the US.

FIGURE 5: **The UK's labour force participation rate remains higher than many of our neighbours**

Selected OECD countries, ranked from highest labour force participation rate to lowest labour force participation rate, adults aged 15-64: 2019 Q3 and 2022 Q3



SOURCE: RF analysis of OECD, Short-Term Labour Market Statistics.

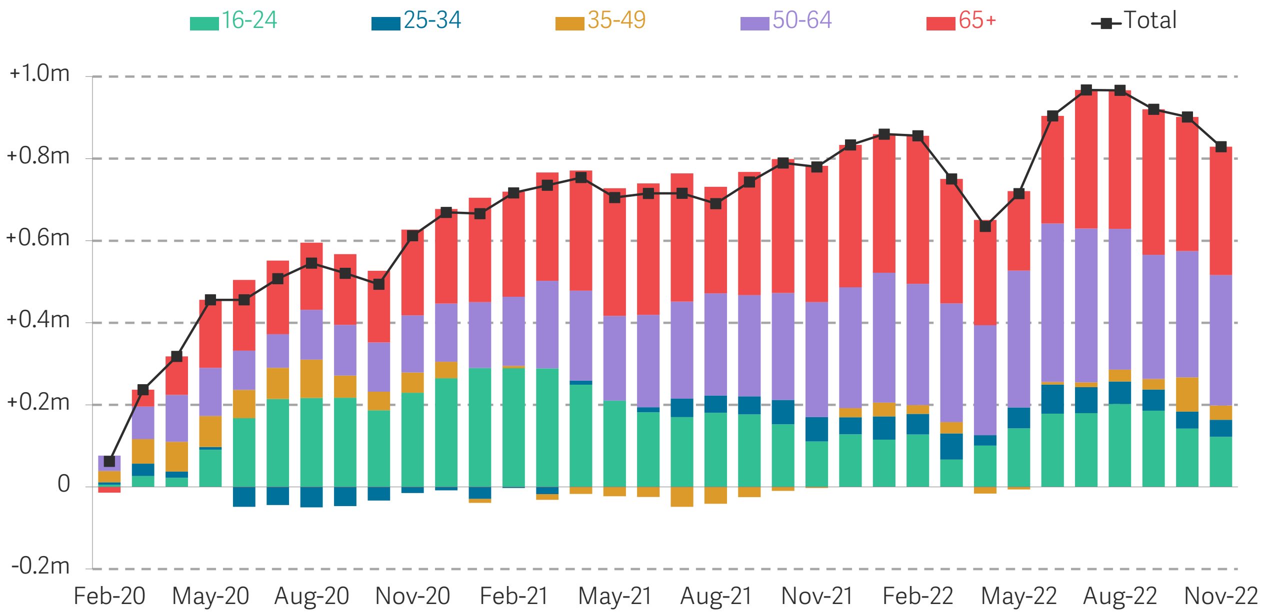
10 US Bureau of Labor Statistics, Empirical evidence for the "Great Resignation", November 2022.

The rise in economic inactivity since the start of the Covid-19 pandemic has been concentrated among older adults and people with long-term sickness or disability

Higher economic inactivity is a legacy of the Covid-19 pandemic in the UK, one that differentiates the pandemic from many previous recessions, and that differentiates the UK from other advanced economies. It is therefore important to understand what is driving this rise in economic inactivity: who are the people not participating in the labour market, and what are their reasons for doing so? The rise in economic inactivity since the start of the pandemic is well-documented, with most research focusing on trends by age and reason for economic inactivity.[11] In this section, we offer a short summary of the key trends, before discussing where policy makers seeking to grow the workforce should focus.

FIGURE 6: **Over two-thirds of the rise in economic inactivity since the start of the Covid-19 pandemic has been among adults aged 50 and over**

Change in economic inactivity since December-February 2020 for adults aged 16 and over, by age band: UK



SOURCE: RF analysis of ONS, Labour Market Statistics.

The first important dimension of the rise in inactivity since the start of the pandemic is age: Figure 6 shows that more than two-thirds (70 per cent) of the rise in inactivity among adults of all ages (i.e. not just those of working age) between the winter of 2019

11 For thorough discussions of economic inactivity in the UK before, during and after the Covid-19 pandemic, see: J Haskel & J Martin, Economic inactivity and the labour market experience of the long-term sick, July 2022; D Finch, A Major & A Tinson, Is poor health driving a rise in economic inactivity, The Health Foundation, October 2022; B Boileau & J Cribb, Is worsening health leading to more older workers quitting work, driving up rates of economic inactivity?, Institute for Fiscal Studies, October 2022.

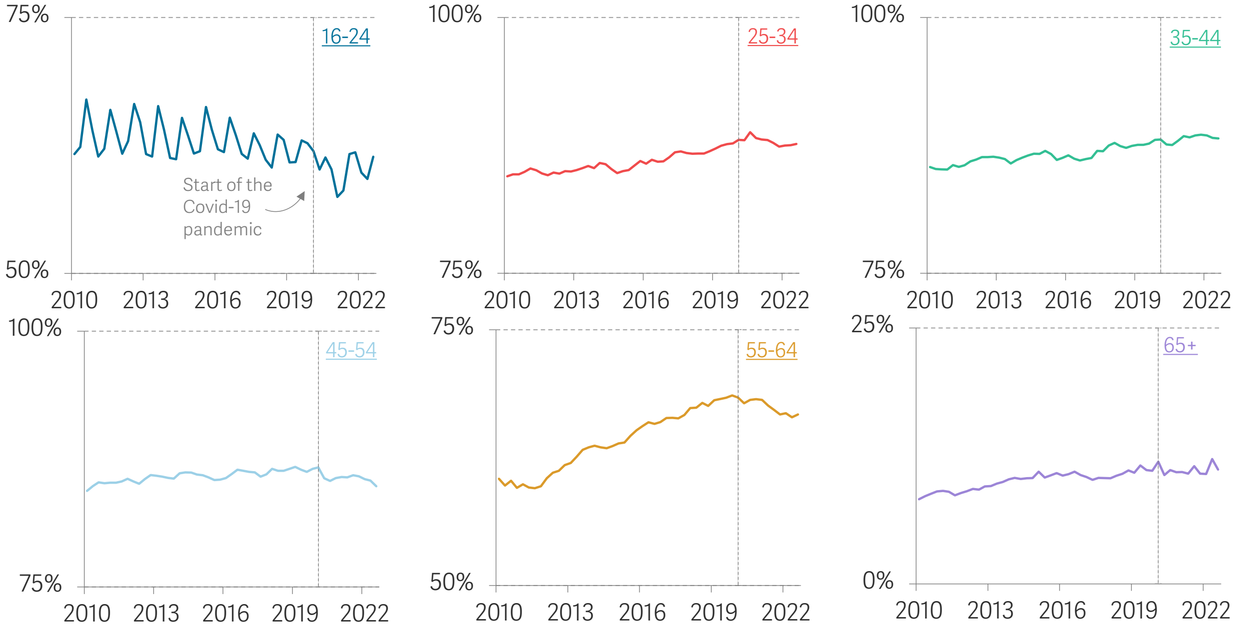
and the autumn of 2022 has been among adults aged 50 and above. This is fairly evenly split between those who are between 50 and 64 (34 per cent of the rise) and those who are older (36 per cent of the rise has been among those aged 65 and over). There has been less change among 'prime-aged' adults aged 25-49: only 14 per cent of the rise in inactivity has been among adults in this age group.

However, looking only at net changes in the number of people who are economically inactive masks a large part of what is going on. For example, although the number of over 65s who are economically inactive has risen substantially (by 310,000) since the start of the pandemic, this reflects an essentially unchanged rate of economic inactivity but a larger population of adults aged 65 and over.[12]

Looking at rates of economic inactivity shows this clearly. Figure 7 shows the labour force participation rates for different age groups over time: the 55-64 age group has seen the biggest drop off in labour force participation since the start of the pandemic, down from 69 per cent at the end of 2019 to 67 per cent in the autumn of 2022. Meanwhile, among those aged 65 and over, the participation rate has stayed consistently low, at 11 per cent in both time periods.

FIGURE 7: **The labour force participation rate has fallen most dramatically for adults aged 55-64 since the Covid-19 pandemic**

Labour force participation rates, by age group: UK



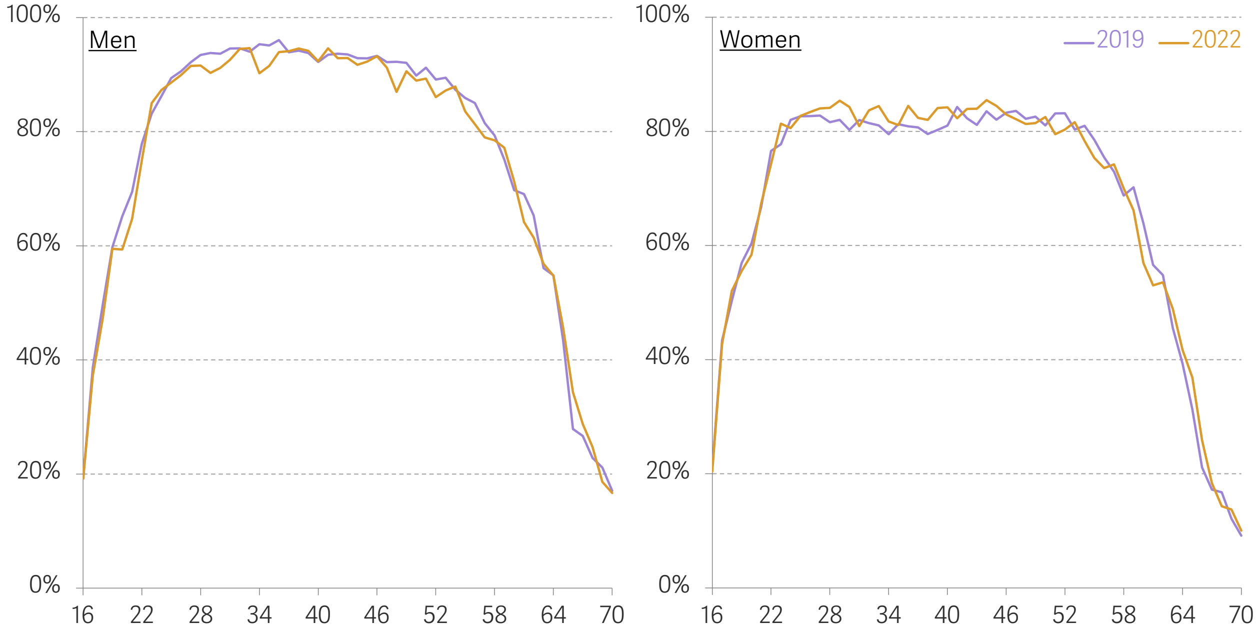
NOTES: Last data point is Q3 2022.
SOURCE: RF analysis of ONS, Labour Force Survey.

12 For a fuller discussion of the impact of demographic changes on economic inactivity, see: J Boys, Can demography explain the missing older workers? CIPD, December 2022.

Figure 7 also shows how there has been little change among younger workers – for example, for both 25-34-year-olds and 35-44-year-olds, the labour force participation rate has remained constant at around 88 per cent. However, this masks considerable change beneath the surface. For women, there has been a continuation of the trend of rising labour force participation witnessed in the 2010s. For example, as Figure 8 shows, the labour force participation rate for women aged between 20 and 50 has increased between 2019 and 2022, up by an average of 2 percentage points from 80 per cent to 82 per cent.[13]

FIGURE 8: **Although labour force participation has decreased overall, participation among women in their 20s, 30s and 40s has risen.**

Labour force participation rate of 16-70-year-olds in the first three quarters of the year, by age and sex: UK



SOURCE: RF analysis of ONS, Labour Force Survey.

There is some evidence to suggest that the 'feel poor, work more' effect that was seen during the 2010s (in which women's labour supply increased in response to their partner's earnings taking a hit) continued during the Covid-19 pandemic. For example, people whose partner was furloughed during the pandemic were more likely to enter the workforce than those whose partner's earnings were unchanged.[14] However, there is also evidence that the increased prevalence of working from home has allowed more women to enter the labour force, with one-in-ten coupled mothers aged 25-44 surveyed in

13 Figure 8 is an updated version of a chart previously included in: M Brewer, C McCurdy & H Slaughter, Begin Again: Assessing the permanent implications of Covid-19 for the UK's labour market, Resolution Foundation, November 2021.
14 M Brewer, C McCurdy & H Slaughter, Begin Again: Assessing the permanent implications of Covid-19 for the UK's labour market, Resolution Foundation, November 2021.

autumn 2022 reporting that remote working had allowed them to enter work or increase their hours since February 2020.[15]

Meanwhile, there has been a sizeable increase in economic inactivity among men in early and middle adulthood. Although the unemployment rate for men aged 25-34 has remained low (at just 3 per cent), the labour force participation rate for this group has fallen by 2 percentage points between 2019 and 2022, from 90 to 88 per cent. Of the men in this age group who are not participating in the labour market, almost half (46 per cent) have a long-term sickness. This trend, of rising labour force participation among women offsetting falling labour force participation among men, is similar to the longer-term pattern in economic inactivity among young people aged 18-24.[16]

Alongside these differences between age groups, the recent rise in economic inactivity varies considerably between the nations and regions of the UK – this is discussed in Box 1.

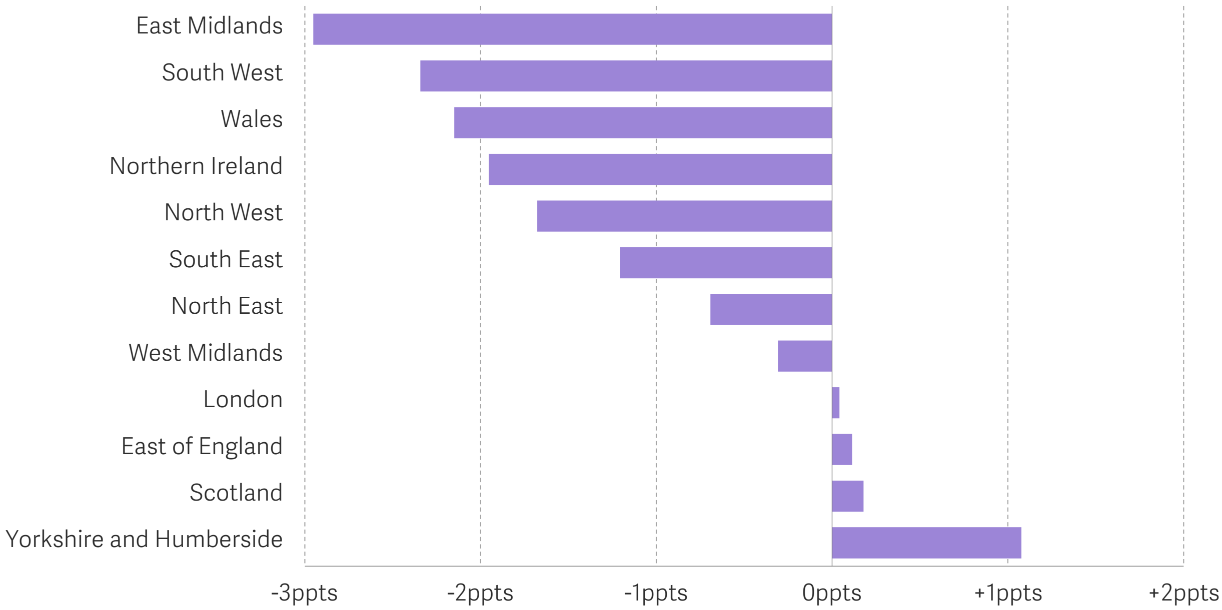
BOX 1: **Trends in labour force participation look different across the regions and nations of the UK**

Although there has been significant discussion of the recent rise in economic inactivity, there has been relatively little discussion of the differences between the regions and nations of the UK. Figure 9 shows that the changes in economic inactivity between the middle of 2019 and the middle of 2022 look very different across the UK, with the labour force participation rate for adults aged 16-64 falling by 3 percentage points in the East Midlands (from 81 per cent to 78 per cent) but rising by 1 percentage points in Yorkshire and Humberside (up from 77 per cent to 78 per cent). When we look at changes in different types of economic inactivity, there is also significant variation. Inactivity due to long-term sickness or disability has risen fastest in the North East and the East Midlands, while inactivity due to retirement has risen fastest in London and the South East.

15 M Brewer, C McCurdy & H Slaughter, Begin Again: Assessing the permanent implications of Covid-19 for the UK's labour market, Resolution Foundation, November 2021.
16 L Murphy, Not working: Exploring changing trends in youth worklessness in the UK, from the 1990s to the Covid-19 pandemic, Resolution Foundation, June 2022.

FIGURE 9: **Although the labour force participation rate has fallen in most regions and nations since the start of the pandemic, it has risen in London, the East of England, Scotland and Yorkshire and Humberside**

Change in labour force participation rate for adults aged 16-64 between April-September 2019 and April-September 2022, by region/ nation: UK



SOURCE: RF analysis of ONS, Labour Force Survey.

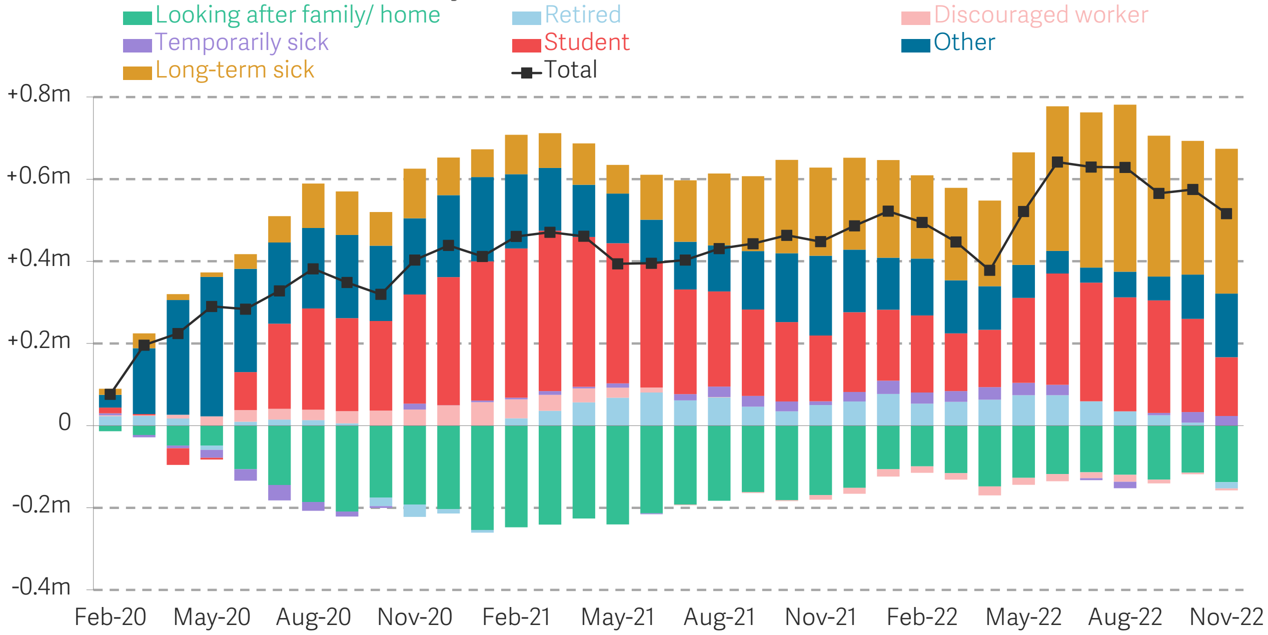
Of course, changes since the start of the pandemic are only part of the story – there were also big pre-existing differences in rates of economic inactivity between the regions and nations. For example, by the middle of 2022, the labour force participation rate for adults aged 16-64 varied from 73 per cent in Northern Ireland up to 82 per cent in the East of England.

Turning now to the reasons people give for being economically inactive, there are two main dimensions to the recent increase: retirement and poor health. Among adults aged 65 and above, unsurprisingly, retirement is the dominant reason for being out of the labour market: in both 2019 and 2022, 96 percent of economically inactive adults aged 65 and above stated retirement as their main reason for being inactive.

Among adults aged 16-64, the picture is more nuanced. The biggest increase has been among people with long-term sickness or disability: economic inactivity in this age group has risen by 520,000, with inactivity due to long-term sickness or disability making up the biggest contribution to this rise (see Figure 10). This is part of a wider trend of rising disability and long-term sickness that is not limited to those out of the labour market or to the pandemic period: for example, the number of working-age people with disabilities increased by 2.3 million between 2013 and 2022 (we discuss this long-running trend in more detail later in this note). A development that is unique to the Covid-19 pandemic was the rapid rise in the number of people aged 16-64 who are inactive for 'other' reasons: in the spring of 2020, this was up 340,000 compared to the end of 2019. This is unsurprising, given that many people were out of work (and not able to look for work) due to lockdown restrictions. The number of working-age adults who are economically inactive due to 'other' reasons has fallen back since then but remains 150,000 higher than pre-pandemic levels. The other significant rise has been among people who are economically inactive due to being in full-time education: the number of economically inactive students is up by 140,000 since the start of the pandemic. Although a substantial increase, this is unlikely to be of concern to policy makers – these students tend to be young people, many of whom were 'riding out' the pandemic by staying in full-time education.[17] Finally, the number of working-age adults who are economically inactive in order to look after family remains below pre-pandemic levels: there are 110,000 fewer adults in this category than at the end of 2019. This is consistent with the trend of rising employment among prime-aged women discussed above.

FIGURE 10: **Among adults aged 16-64, most of the rise in economic inactivity since the start of the Covid-19 pandemic has been among those who have a long-term sickness or disability**

Change in economic inactivity since December-February 2020 for adults aged 16-64, by reason for economic inactivity: UK



SOURCE: RF analysis of ONS, Labour Market Statistics.

17 K Henehan, Class of 2020: Education leavers in the current crisis, Resolution Foundation, May 2020.

From looking at Figure 10, it might appear that 'early retirement' among people aged 16-64 is not a big part of the Covid-19 inactivity story. Indeed, by the autumn of 2022, the number of 16-64-year-olds who give retirement as their main reason for inactivity is only 10,000 higher than pre-pandemic. Why, then, are we hearing so much about a wave of Covid-19-related early retirement? First, it is worth remembering that people's reasons for being economically inactive are not binary: it is possible that someone who answers a questionnaire saying that they have taken early retirement also has a long-term illness or disability that affects their ability to work (or vice versa). People do not always carry their initial main reason for economic inactivity with them over time: for example, between 2021 and 2022, more than two-thirds of those who became economically inactive due to long-term sickness were previously inactive for another reason, for example due to looking after family or home, being temporarily sick or injured, or being retired.[18]

Second, to fully understand changes since the start of the Covid-19 pandemic, we must look at flows from employment to economic inactivity, as well as changes to the stock of people who are economically inactive. As Figure 11 shows, there has been a sizeable rise in the number of 16-64-year-olds flowing from employment to 'early retirement' since the start of the Covid-19 pandemic.[19]

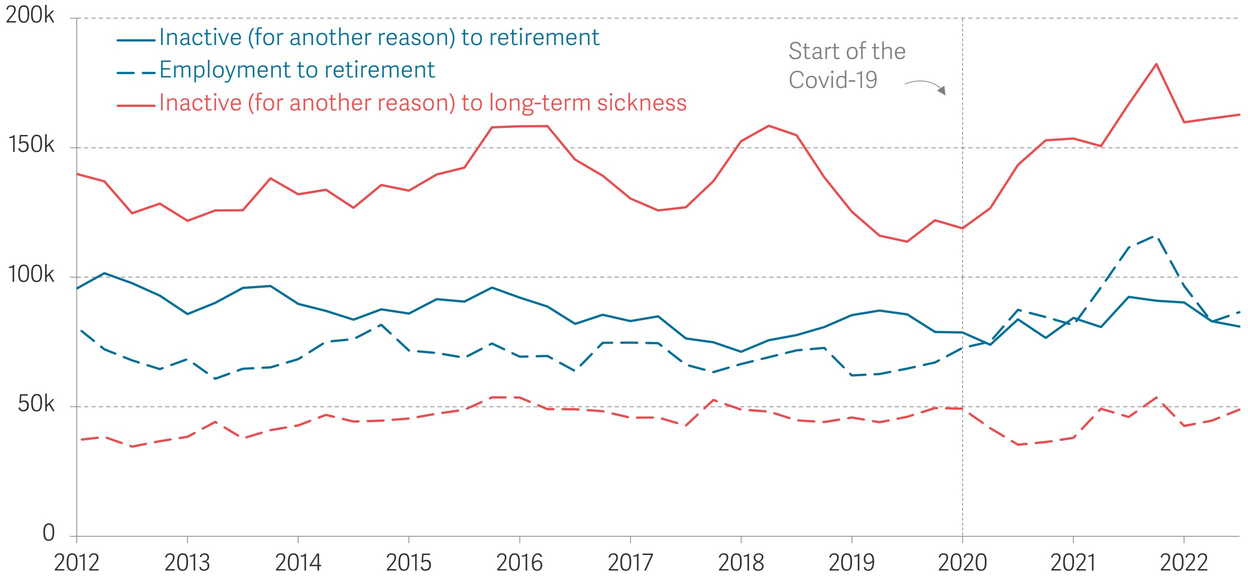
On the other hand, Figure 11 shows that while the stock of people who are economically inactive due to long-term sickness has increased substantially, they came from other kinds of inactivity rather than employment. Consistent with this, research from the IFS shows that the uptick in people inactive due to long-term sickness is among people who have been inactive for several years. The upshot is that overall there are more working-age people inactive due to ill health, but no more due to early retirement, even though the increased flow out of employment and into inactivity was dominated by increased rates of early retirement during the Covid-19 pandemic.

18 The ONS has looked into flows between different types of economic inactivity, and found that in 2021 and 2022, among 16-64-year-olds, flows into economic inactivity due to long-term sickness or disability came from a wide range of other types of inactivity. For example, 22 per cent were previously inactive in order to look after family, 21 per cent were temporarily sick or injured, and 18 per cent were retired. See: ONS, Half a million more people are out of the labour force because of long-term sickness, November 2022.

19 For more on this, see: B Boileau & J Cribb, Decisions to retire early are driving growing economic inactivity among people in their 50s and 60s, Institute for Fiscal Studies, June 2022; C Carrillo-Tudela et al, Policy Briefing Note: Rising Inactivity in the Over 50s post-COVID, University of Essex policy briefing note, October 2022.

FIGURE 11: **Since the start of the Covid-19 pandemic, there has been an uptick in flows from employment into retirement, and from other inactivity into long-term sickness**

Number of adults aged 16-64 who flow into economic inactivity each quarter, by reason for economic inactivity and economic status three months ago: UK



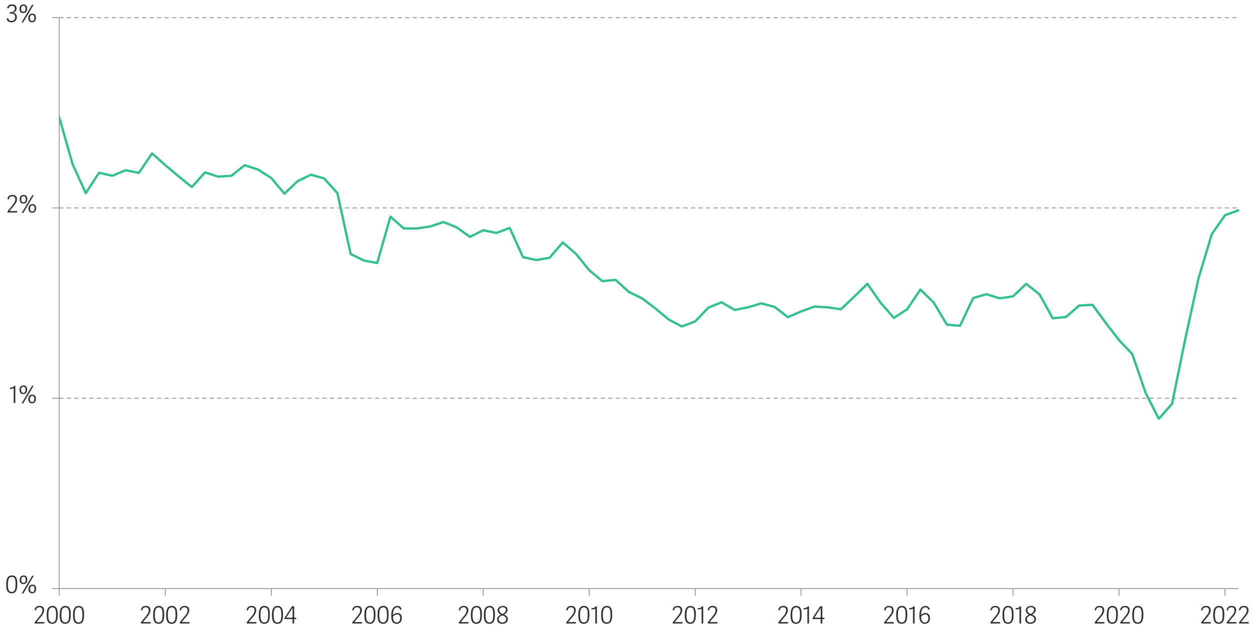
NOTES: Data is smoothed over three quarters.
SOURCE: RF analysis of ONS, Labour Force Survey Two-Quarter Longitudinal Datasets.

We shouldn't just focus on economic inactivity – working hours and temporary absence from the workplace have also reduced labour supply since the start of the pandemic

The impact of poor health on labour supply goes beyond its impact on labour force participation. Since the pandemic, there has also been a material rise in the fraction of workers off sick from work in any given week – from around 1.5 per cent in late 2019 to over 2 per cent in late 2022 (Figure 12). This represents a partial reversal of a 1 percentage point decline in the two previous decades.

FIGURE 12: **The proportion of workers temporarily off sick fell during the two decades before the pandemic, but has risen since then**

Proportion of workers of all ages who report working fewer than normal hours because of sickness: UK



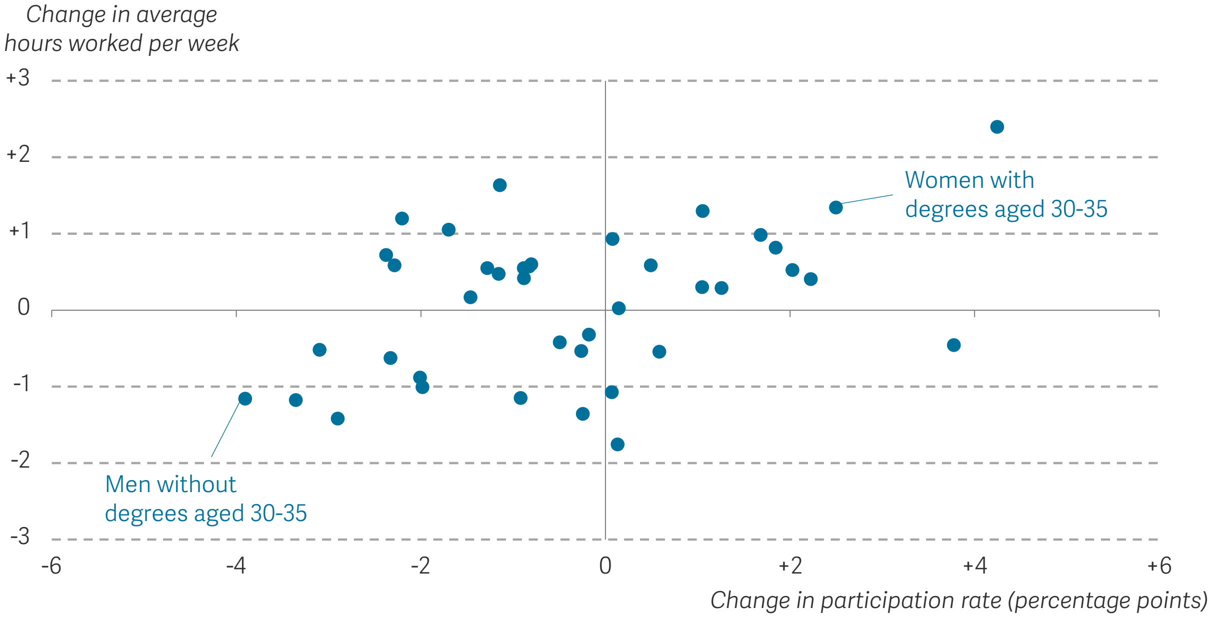
SOURCE: RF analysis of ONS, Labour Force Survey.

Moreover, labour supply depends not only on whether or not people are available for employment, but also on how many hours they are willing and able to work on their jobs. Hours worked fell 1.6 per cent between December 2019-February 2020 and October-December 2022, with the number of workers and average hours per worker contributing equally to this fall. While the contribution of average hours to total labour input has been volatile in recent months, there is some evidence that similar factors have been at play as with changes in participation.

Figure 13 shows that changes in hours and changes in participation between 2019 and Q3 2022 are correlated across age-sex-education groups – those groups which experienced a fall in participation also saw hours fall for those that remained in work. For example, both participation and average hours rose among women with degrees aged 35-39, while both fell for men without degrees aged 50-54.

FIGURE 13: **Changes in participation for different groups have tended to move in the same direction as changes in average hours for those in employment**

Change in average hours and change in participation rate between 2019 Q1-Q3 and 2022 Q1-Q3, by age-sex-graduate groups



NOTES: Each dot represents a different combination of degree status, sex and 5-year age group
SOURCE: RF analysis of ONS, Labour Force Survey.

Taken together, evidence from both temporary sickness and average hours of work suggests that the same factors that have reduced participation – including but not limited to workforce health – have also reduced labour supply through higher rates of temporary sickness and shorter hours of work.

Policy makers should not solely focus on encouraging those who have recently left the labour market to re-enter

Given the unexpected rise in economic inactivity since the start of the pandemic, it is understandable that policy makers have turned their focus to reversing this trend. And while the political focus is set to increase as we approach next month's Budget, most commentary and policy proposals have centred around re-engaging the cohort of workers who have left the labour market in the last few years, with the Chancellor recently telling older workers who retired early after the pandemic that 'Britain needs you' to return to work.[20] This approach is, however, unlikely to succeed. Policy makers should certainly aim to boost labour force participation in the decade ahead – but their efforts to do so should spread more widely than just trying to engage with the cohort of older workers who left employment since the pandemic, for three main reasons. First, there

20 HM Treasury, Chancellor Jeremy Hunt's speech at Bloomberg, January 2023. See also: Department for Work and Pensions, Government drive to help those aged 50 and over re-join the jobs market, November 2022; H Stewart, The long battle to get Britain's lost employees back to work, The Guardian, October 2022.

is good reason to think that, even with significant government intervention, this cohort is very unlikely to return to work, since a disproportionate fraction have come from high-paying, professional jobs, and have access to private pension and housing wealth. Second, the cohort of workers who left the labour market during the pandemic did so well over a year ago, and the fraction of people in this age group returning to employment from inactivity after that length of time is normally very small. Third, by focusing solely on this cohort, policy makers will fail to address other pressures that are expected in the decade ahead, such as our ageing population and the rising incidence of disability and ill-health. We provide more evidence on each of these reasons below.

It is hard to encourage older workers who have left the labour market to return

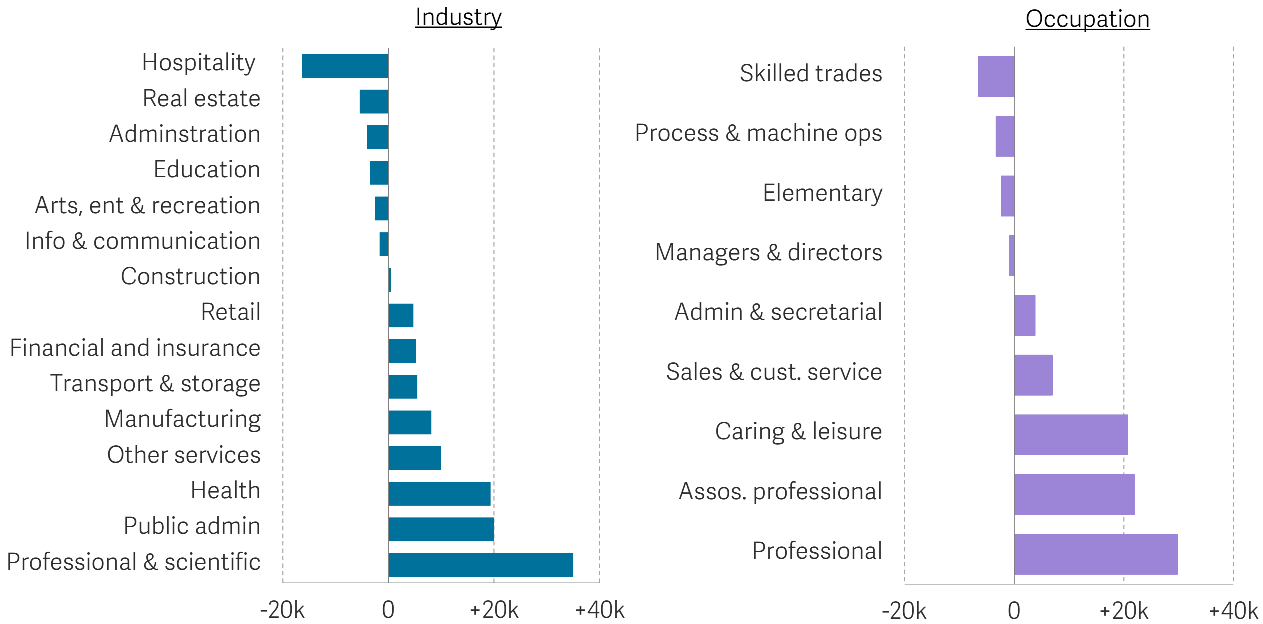
When we look at the cohort of older workers who moved from employment into economic inactivity since the start of the pandemic, or at the normal pattern of these exits, we observe three important characteristics: recent exits are disproportionately from high-paying industries and occupations, that retirees typically have high wealth and low housing costs, and that labour-market returns by older workers are rare and get rarer as time since exit passes. These facts suggest that returns to the labour market by the 'Covid cohort' of early retirees will be relatively rare and, most importantly, insensitive to policy changes.

Starting with the first of these, the recent increase in inactivity comes disproportionally from professional occupations, and high-paying industries (as shown in Figure 14). In 2021, 35,000 more workers, aged 50-70 from the high-paying professional and scientific industry, flowed from employment to economic inactivity between the second and third quarter of the year compared to 2019. On the flipside, among older workers from lower-paying industries like hospitality, the number of older workers flowing from employment into economic inactivity was 16,000 lower in 2021 than in 2019.[21]

21 Analysis from the Low Pay Commission similarly found that there has been a bigger increase in flows from employment into inactivity among those from higher-paying occupations compared to those from low-paying occupations. However, they also find that when all worker movements are considered, the net decrease in employment in low-paying occupations has been larger than in higher-paying occupations, for example because low-paying occupations have lost workers to better-paying occupations. See: Low Pay Commission, How has the increase in economic inactivity affected low-paying occupations?, January 2023.

FIGURE 14: **The increase in flows from employment into economic inactivity among older adults have been concentrated among those from professional jobs**

Total change between 2019 and 2021 of people aged 50-70 moving from employment into economic inactivity between the second and third quarter of the year, by previous industry (left) and occupation (right): UK



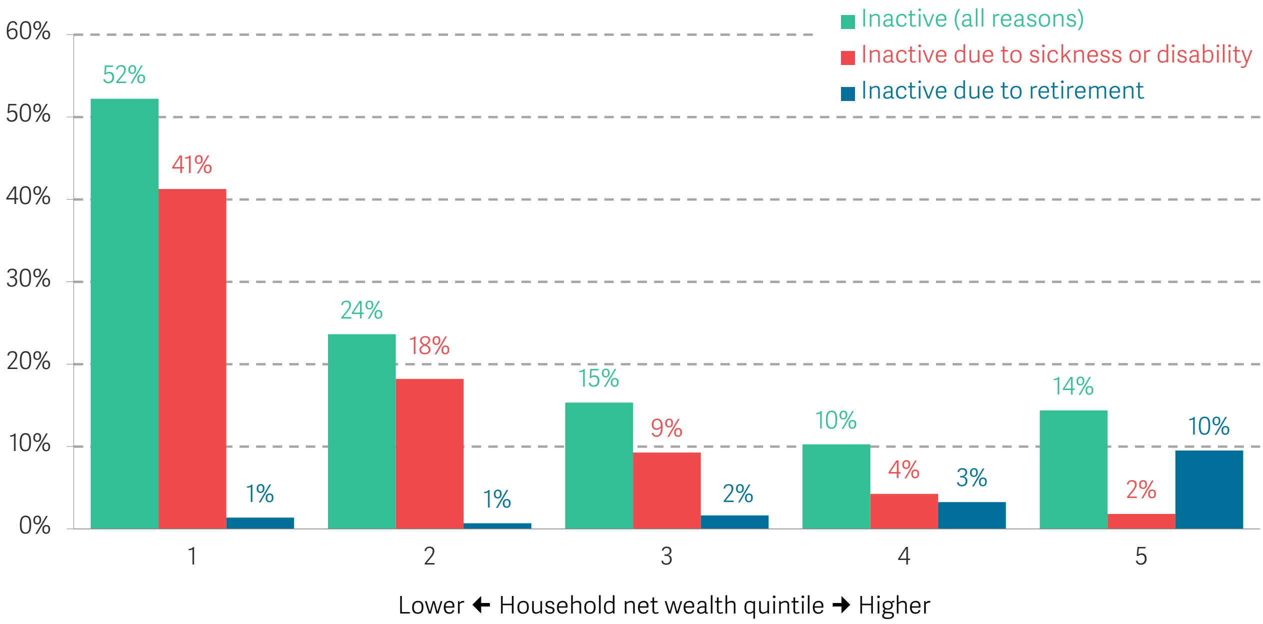
NOTES: Some occupation and industry names are abbreviated for readability.
SOURCE: RF analysis of ONS, Labour Market Statistics.

Not only have these newly inactive adults come from higher-paying jobs, they are also likely to have access to income from private pensions or investments. In the summer of 2022, almost half (45 per cent) of 55-59-year-olds and two-thirds (66 per cent) of 60-65-year-olds who had left the workforce since the start of the Covid-19 pandemic and not returned to work were funding their retirement through a private pension. Notably, only 10 per cent of 55-59-year-olds, and 8 per cent of 60-65-year-olds, were relying on state benefits to fund their retirement.[22] Indeed, when we look at the circumstances of adults under State Pension age who are economically inactive due to retirement more generally (rather than just the cohort who have taken early retirement during the pandemic), it is clear that these adults tend to come from high-wealth households. As Figure 15 shows, one-in-ten adults (10 per cent) aged 50-59 from households in the highest wealth quintile are inactive due to retirement, compared to just one per cent of adults from the lowest wealth quintile. The opposite trend is true when we look at economic inactivity due to long-term sickness: two-in-five adults (41 per cent) aged 50-59 from the lowest wealth quintile are economically inactive due to long-term sickness or disability, compared to just 2 per cent from the highest wealth quintile.

22 ONS, Reasons for workers aged over 50 years leaving employment since the start of the coronavirus pandemic: wave 2, September 2022.

FIGURE 15: **Older adults from low-wealth households are most likely to be inactive due to sickness, whereas those from high-wealth households are most likely to be retired**

Proportion of 50-59-year-olds that are economically inactive, economically inactive due to sickness or disability, or economically inactive due to retirement, by wealth quintile: 2016-2020, GB



SOURCE: RF analysis of ONS, Wealth and Assets Survey.

There are two important aspects to older adults' household wealth. First, people from higher-paying jobs are likely to have access to private pension wealth to help finance their early retirement. Private pension wealth is very unequally shared in the UK, more so than income: when measured using the Gini coefficient, private pension wealth was more than twice as unequally distributed as disposable income in 2018-2020, with a Gini coefficient of 0.73 compared to 0.36 for disposable income.[23] We also know that household wealth and earnings are closely correlated, with the highest earnings households also having the highest wealth levels.[24]

Second, those with housing wealth (who own their homes outright) are much more likely to take early retirement than those without. As Figure 16 shows, at age 60, there is a 24 percentage point gap in the chance of being economically inactive between those who own their homes outright and have no housing costs (28.4 per cent of this group are retired) and those who are paying housing costs (i.e. those who have a mortgage or are renting where just 4.6 per cent are retired). Consistent with this, the share of households who own their houses outright is negatively correlated with labour force participation at

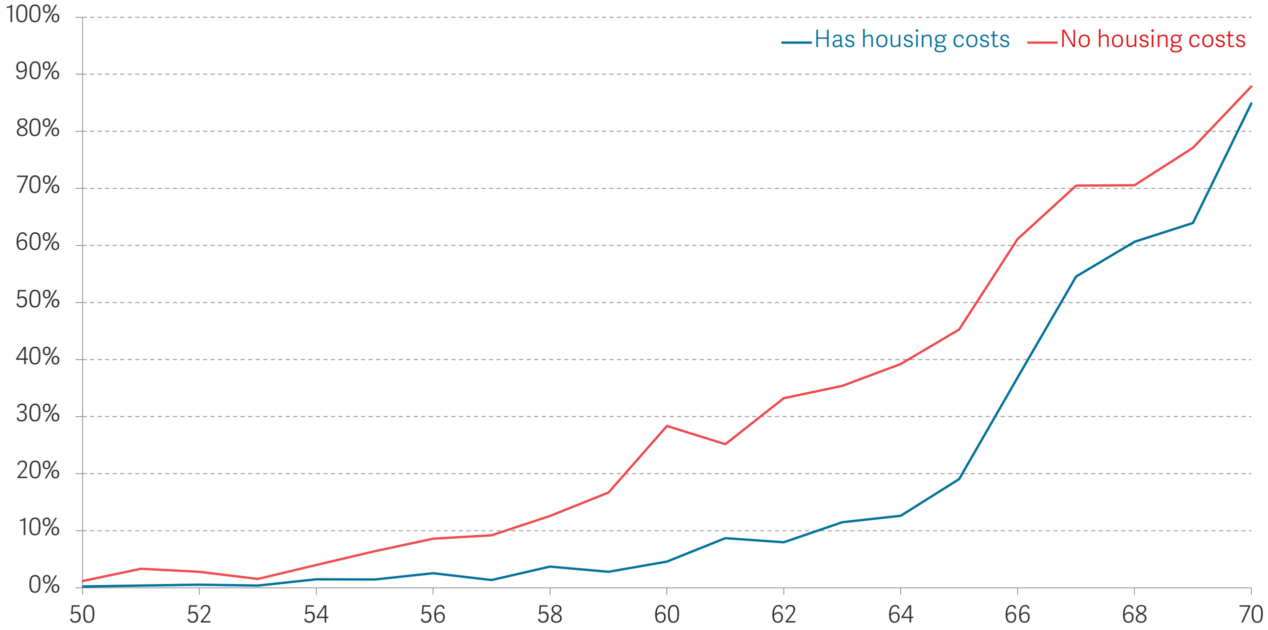
23 The Gini coefficient measures inequality on a scale from 0 to 1, where 0 is perfect equality and 1 is perfect inequality (a situation where one person has all the wealth).See: M Broome & J Leslie, Arrears fears: The distribution of UK household wealth and the impact on families, Resolution Foundation, July 2022.

24 G Bangham & J Leslie, Who owns all the pie? The size and distribution of Britain's £14.6 trillion of wealth, Resolution Foundation, December 2019.

age 55-64 across OECD countries.[25] Looking specifically at the cohort of older workers who have left the labour market recently, two-thirds (66 per cent) of these 50-65-year-olds own their homes outright.[26]

FIGURE 16: **Older adults who have no housing costs are much more likely to be retired than those with housing costs**

Proportion of adults aged 50-70 who are economically inactive due to retirement, by age and whether they have housing costs: UK, 2022 Q1-Q3.



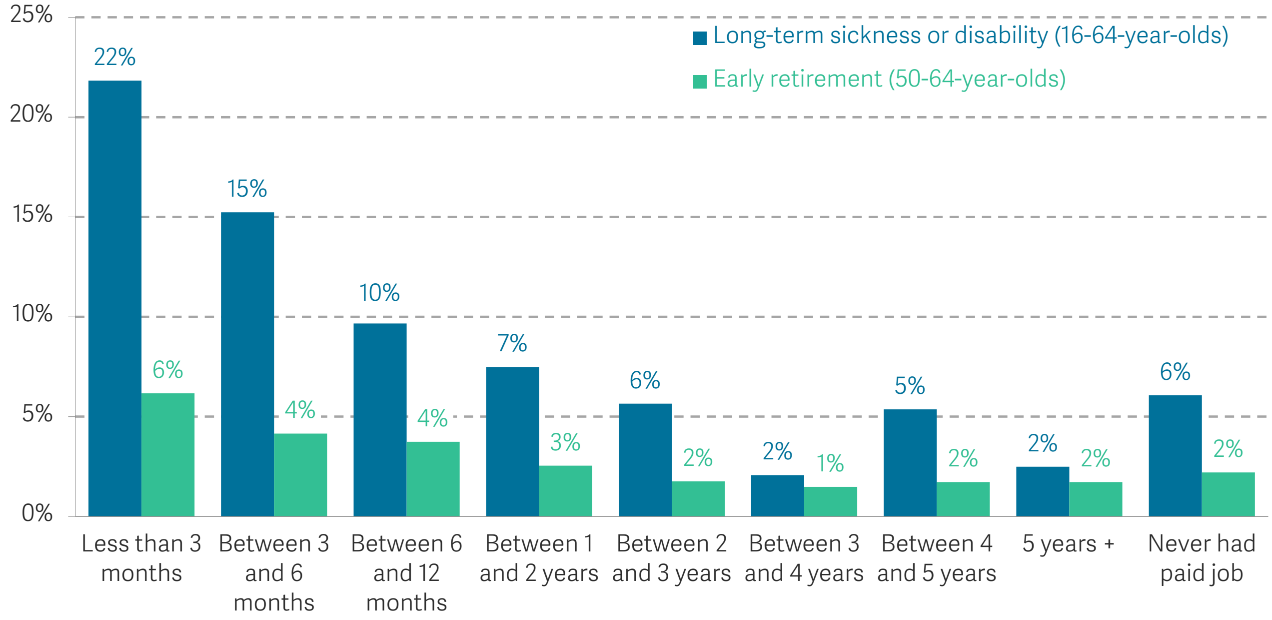
SOURCE: RF analysis of ONS, Labour Force Survey.

Not only do the characteristics of the cohort of older workers who left the labour market during the Covid-19 pandemic make them relatively unlikely to return to employment – history also tells us that the chances of older workers re-entering work after a period of early retirement are in general very small, with other groups of economically inactive people much more likely to flow into employment. Figure 17 shows that people who are economically inactive due to long-term sickness or disability are consistently more likely to return to employment than early retirees: for example, among those who have been out of work for less than three months, one-in-five of those with long-term sickness (22 per cent) flow back to employment each quarter, compared to just 6 percent of retirees aged 50-64. Crucially, as Figure 17 also shows, the chance of re-entering work gets even lower over time: the chances of a retiree aged 50-64 returning to work are three times lower for those who left their last job between two and three years ago (i.e., during the summer of 2020) than those who left work less than three months ago.

25 RF analysis of OECD data
26 ONS, Reasons for workers aged over 50 years leaving employment since the start of the coronavirus pandemic: wave 2, September 2022.

FIGURE 17: **Chances of re-entering work are very slim after two or more years of economic inactivity**

Proportion of adults aged who were economically inactive three months ago and are now in an employee job, by length of time since they left their previous job and reason for economic inactivity: UK, 2015-2019.



SOURCE: RF analysis of ONS, Labour Force Survey Two-Quarter Longitudinal Datasets.

Demographic changes will also push down on labour force participation rates in the 2020s

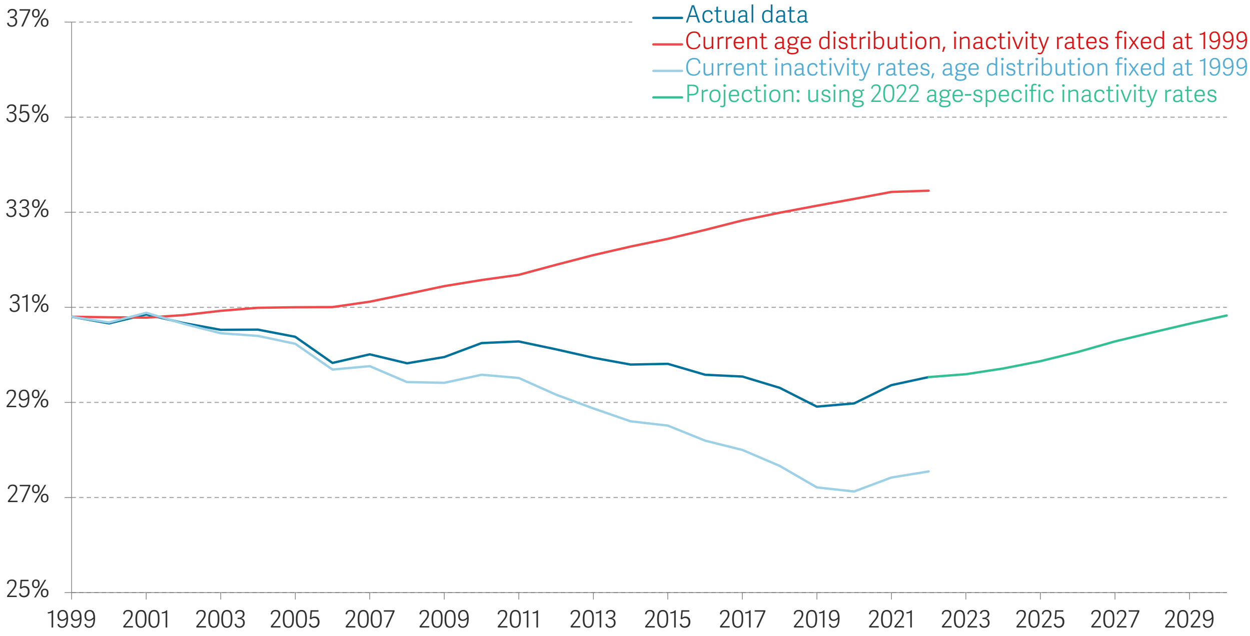
The UK's strong performance on labour force participation over the past two decades is all the more impressive when considered in the context of the demographic headwinds it has faced. The UK population has been ageing, with rising numbers of adults aged 70 and over, but also a shift in the age distribution within the aged 15-75 population – outside of which employment rates are very low – towards age-groups with lower employment rates. Figure 18 shows the impact of both factors. Ageing pushed up on inactivity – the light blue line shows that the ageing population would have seen the overall inactivity rate increase by 2.5 percentage points if the inactivity rate of each age group had stayed the same. The red line shows that overall inactivity would have fallen about 4 percentage points if the population hadn't aged, but with age-specific inactivity rates increasing as they did. What actually happened – the dark blue line – is the sum of these partly offsetting trends.

The remainder of the 2020s will see an intensification of these demographic headwinds to participation through changes in the age structure of the population, with growth in the share of both under-25s and over-60s, both of which have lower-than-average participation rates. As shown in the green line, at current age-specific inactivity rates, the

15-75 economic inactivity rate is expected to rise by 1.3 percentage points over the rest of the decade, from 29.5 per cent at present to 30.8 per cent by 2030.

FIGURE 18: **Our ageing population has been pushing up inactivity for the past couple of decades – but policy responses, including the rising State Pension age, have reduced the overall impact**

Economic inactivity rates for adults aged 15-75, under various scenarios: UK



SOURCE: RF analysis of ONS, Labour Force Survey; ONS, population data.

Ageing is not the only demographic change set to affect labour force participation in the decade ahead. As discussed, long-term sickness and disability is one of the main contributors to the recent rise in economic inactivity. However, we should not see this as a one-off, Covid-19-related trend – the rise in ill-health started before the Covid-19 pandemic. For example, the number of adults aged 16-64 who are economically inactive due to long-term sickness or disability started to rise in 2019, around a year before the start of the Covid-19 pandemic.

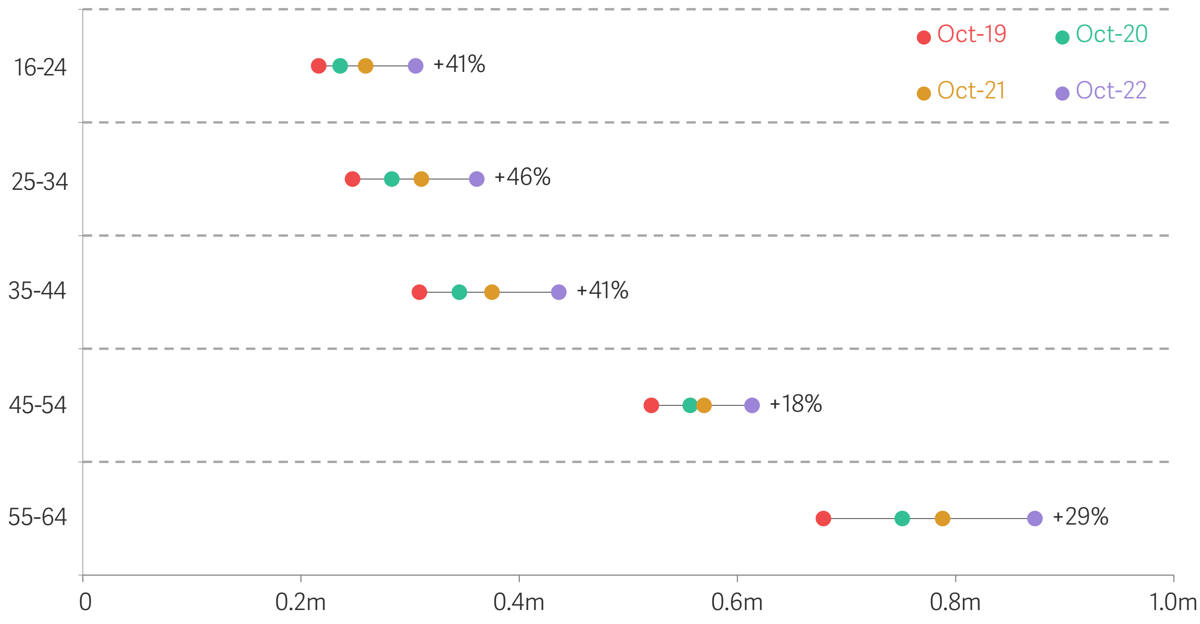
This rise in sickness and disability isn't just a story of economic inactivity – our country is getting sicker more generally. For example, the number of claims for PIP (the main non-means-tested disability benefit for working-age people) have grown considerably since 2019. This seems to be the result of increased sickness and disability rather than an increase in awareness or a change in benefit eligibility: the application process for PIP remains just as stringent as in the 2010s, and the success rate for PIP claims has remained fairly stable since 2016.[27] Concerningly, Figure 19 shows that this rise in

27 R Joyce, S Ray-Chaudhuri & T Waters, The number of new disability benefit claimants has doubled in a year, Institute for Fiscal Studies, December 2022.

disability benefit claims has been experienced across all age groups, with the fastest rises since 2019 actually being seen among younger people - the number of PIP cases with entitlement among 25-34-year-olds rose by 46 per cent between October 2019 and October 2022.

FIGURE 19: **The number of PIP cases with entitlement has risen sharply since 2019**

Number of PIP cases with entitlement, and change between Oct-19 and Oct-22, by age band of recipient: England, Wales and Northern Ireland



NOTES: Data is for England, Wales and Northern Ireland only, since PIP is being replaced with the Adult Disability Payment (ADP) in Scotland, which has a knock-on impact on PIP caseloads.
SOURCE: RF analysis of DWP, Stat-Xplore data.

This has worrying implications for labour force participation, both now and in the future. While the increase in early retirement among the 'Covid cohort' of older workers has contributed to the current rise in economic inactivity, this is unlikely to have long-term impacts; most of these workers would have exited the labour force at some point in the 2020s regardless of the pandemic. On the other hand, the rise in economic inactivity due to long-term sickness and disability among workers in early adulthood is likely to have longer-term consequences for the labour market, since we know that young people who are inactive due to health problems tend to remain out of the labour market for a long time. For example, among 18-24-year-olds who are economically inactive due to long-term sickness, four-in-five (79 per cent) have been out of work or study for two or more years – a much higher rate than is seem among all economically inactive young people (61 per cent) or unemployed young people (26 per cent).[28]

28 L Murphy, Not working: Exploring changing trends in youth worklessness in the UK, from the 1990s to the Covid-19 pandemic, Resolution Foundation, June 2022.

The rise in mental health problems among young people is of particular concern: in 2022, one-in-four 17-19-year-olds had a probable mental disorder – up from one-in-ten young people in 2017.[29] This has knock-on consequences for labour force participation – for young men and women aged 18-29, having a common mental health disorder (like anxiety or depression) increases the chances of becoming workless.[30]

Set against these headwinds from ageing and potentially from health, it is important to note some beneficial tailwinds. First, the fraction of women with a degree will continue to rise somewhat as previous increases in the flow continue to work through the stock. Women's participation rates are more sensitive to education than men's, and this could raise the aggregate participation rate by 0.3 percentage points by the end of the decade. This would build on the progress experienced in recent decades: for example, the labour force participation rate among women aged 45-54 increased by 6 percentage points between 1999 and 2019, in part because of higher educational attainment (the participation rate of graduate women between 45-64 is 13 percentage points higher than non-graduate women, while the share of women graduates in this age group has risen from 16 to 30 per cent between 2009 and 2022).

Second, past rises in house prices and the bigger loans that result are likely to reduce the fraction of homeowners in their 50s who will be mortgage-free; the median outstanding loan-to-income ratio for homeowners with a mortgage age 45-49, having remained flat for most of the 2010s, rose from 1 to 1.2 between 2017 and 2019.[31] As we have seen, carrying these bigger mortgages later into their 50s and 60s will tend to encourage labour force participation.

To summarise this section: too much time has been dedicated to trying to encourage the Covid-19 cohort of early retirees back to employment, given the characteristics of this group make them unlikely to return to work and insensitive to the policy levers available. Instead of looking backwards, attention should be refocussed on the wider challenges that will affect labour force participation in the years ahead. For the remainder of this report, we offer some suggestions for how policy makers can plausibly boost participation in the 2020s, first considering older workers, and then moving on two other groups where there is both a track record of increasing participation, and scope to increase participation further: women with dependent children, and people with disabilities.

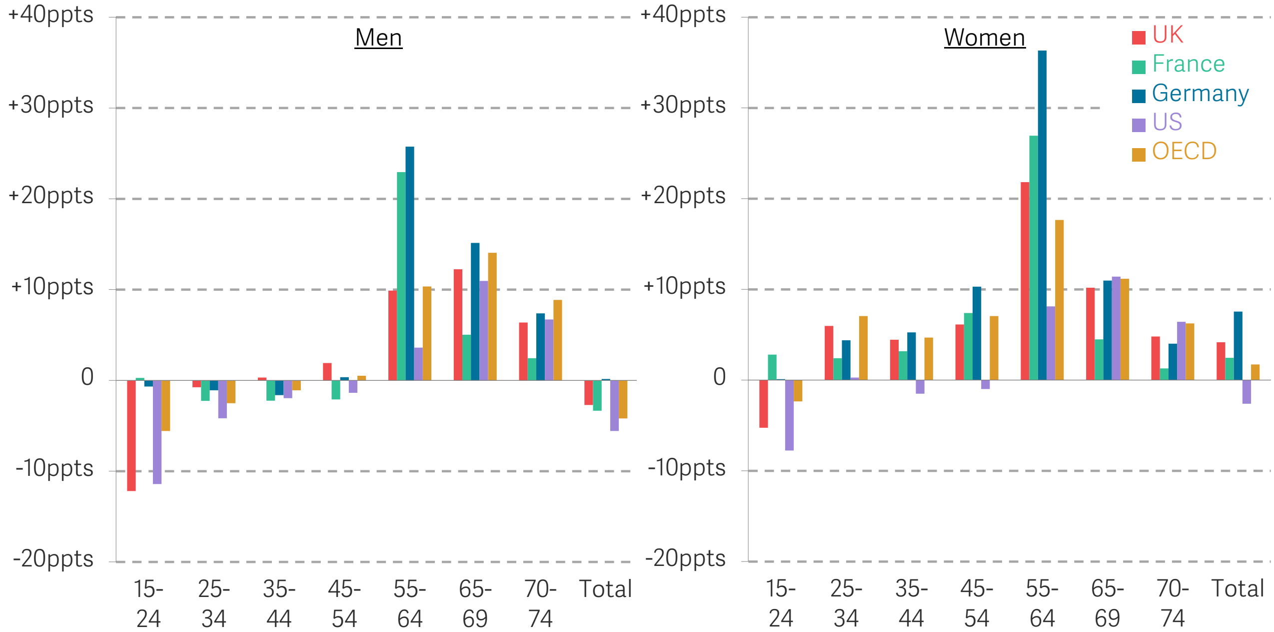
29 NHS Digital, Mental Health of Children and Young People in England 2022 - wave 3 follow up to the 2017 survey, November 2022.
30 L Murphy, Not working: Exploring changing trends in youth worklessness in the UK, from the 1990s to the Covid-19 pandemic, Resolution Foundation, June 2022.
31 RF analysis of ONS Wealth and Assets Survey

Policy makers have levers to boost labour force participation among older workers in the 2020s

As we saw above, demographic pressures are not new, and behavioural and policy changes have in fact had a large positive impact on labour force participation of older adults in recent years. Figure 20 makes this clear: both in the UK and internationally, the labour force participation rates of older adults have increased dramatically in the past two decades. In the UK, largely as a result of the rising State Pension age (SPA), the most dramatic rise has been among women aged 55-64: the labour force participation rate for this group has increased by 22 percentage points between 1999 and 2019.

FIGURE 20: **The labour force participation rate for older men and women increased significantly in the past couple of decades**

Change in labour force participation rates for men (left) and women (right) between 1999 and 2019, by age group: selected OECD countries.



SOURCE: RF analysis of OECD, Labour Force Statistics.

And there are reasons to think that, despite the fall in labour force participation experienced since the Covid-19 pandemic, some of the tailwinds of the past few decades will continue into the 2020s. Further rises to the SPA will have a small impact: the SPA is currently 66 for both men and women, and will gradually rise to reach 67 between 2026 and 2028. This could raise the participation rate among adults aged 16 and over by around 0.2 percentage points.[32] It is currently set to rise again to 68 between 2044 and 2046, but this timeline will be brought forward – the Government's latest review of the

32 RF analysis of ONS data, applying observed changes in female participation rates in affected age groups around increases to share of 16+ population at age 67.

SPA must be announced by May this year, and it is expected that the SPA will rise to 68 in the 2030s instead, with the policy decision being focused on whether that should be during the middle or end of the decade.[33]

The fiscal attractions of a higher SPA are easy to see, given the taxes foregone when a worker retires and the cost of the State Pension and other pensioner benefits: in 2019-20, State Pension spending made up 4.4 per cent of UK GDP, and this is set to rise to 4.9 per cent by the middle of the decade in 2025-26.[34] However, policy makers should consider these changes carefully. Life expectancies vary widely between richer and poorer people, and between different parts of the UK: male life expectancy in Glasgow is just 73, 11 years below that in Kensington – and this gap has grown over the past decade. [35] Differences in healthy life expectancies – the number of years an individual is expected to live in good health – are even more stark. Between 2017 and 2019, 44 local authorities (21 per cent of the total) had both male and female healthy life expectancies lower than 60 years. Of these, 15 are in the North West of England or in Wales – strikingly, none are in the South West or East of England.[36] These large variations in people's ability to work into their late 60s, or enjoy a significant length of time in healthy retirement, mean that policy makers must act carefully when making changes to the SPA. In addition, the case for accelerating increases to the SPA – usually based on keeping pace with rising longevity - is weaker in 2023, with life expectancy looking worse, not better, than was forecast ten years ago.

But whatever their view on the right time for the SPA to reach 68 in the 2030s, policy makers need to stop taking such a narrow approach to policy that affects when people retire by only focusing on the State Pension. This has led to the incoherence of the past decade, with politicians raising the SPA (delaying retirements for those on lower incomes with lower longevity) while proactively making it easier to access tax-relieved private pension wealth (disproportionately held by richer households with longer longevity) earlier.

This is very material because the level of private pension wealth is relatively high in the UK, at around 130 per cent of GDP in 2020 – close to the 90th centile among OECD countries.[37] Tax rules mean that people can currently start accessing their defined contribution (DC) private pension from the age of 55, while some of those with defined benefit (DB) pensions can also do so. Although this is set to rise to 57 from 2028, it is then due to remain ten years below the SPA.[38] This aspect of the British pensions system,

---

33 Department for Work and Pensions, Proposed new timetable for State Pension age increases, July 2017; R Jones, UK state pension age may rise to 68 in 2030s, reports say – what is going on?, The Guardian, January 2023.
34 M Brewer et al, Social Insecurity: Assessing trends in social security to prepare for the decade of change ahead, Resolution Foundation, January 2022.
35 M Broome, Britain's inheritance boom could further decouple people's retirement age from their state pension age, Resolution Foundation, January 2023.
36 The Health Foundation, Map of health life expectancy at birth, January 2022
37 RF analysis of OECD data.
38 House of Commons Library, Minimum pension age, Research Briefing, November 2021.

which allows people to access a great deal of pension wealth in their mid-50s, sets us apart from many other advanced economies. For example, in Germany, private pension wealth is relatively low (only 8.2 per cent of GDP in 2020, compared to 126.8 per cent in the UK[39]), with little flexibility to access the (more generous) German state earning-related pension scheme early.[40] Not only can British people access a great deal of private pension wealth in their 50s – they can do so without paying tax on a significant portion of this wealth. Many early retirees finance the first few years of retirement by taking a tax-free lump sum of up to 25 per cent of their pension pot. This amount is uncapped, meaning it is highly regressive with some wealthy individuals receiving tax-free lump sums running into hundreds of thousands of pounds. This is hard to justify, and so we recommend that policy makers consider capping these tax-free lump sums. Policy makers should also explore further raising the age at which people can begin to access their pensions (the British private pensions system is discussed in more detail in Box 2 below). Policy makers can learn from other countries about how to make this work without increasing poverty and hardship: for example, exceptions could be made for those with long-term health problems (as is already the case in the UK[41]), or at risk of entering poverty.

BOX 2: **Private pensions – the system in the UK**

Private pension saving is crucial to sustaining living standards in retirement. There are two main types of private pension schemes – defined benefit (DB) and defined contribution (DC). DB is a pension that provides a guaranteed income for life based on an employee's salary and length of time at the employer, while a DC pension is based on how much is paid in. Participation in DB schemes peaked in 1967 at 12.2 million members. Since then, DB schemes have been in decline, both in terms of the number of schemes and members, and the vast majority of schemes are either closed to new members or to new accrual.[42] One of the main reasons for the decline of DB pensions was that improvements to life expectancy increased the cost of these schemes as employers were required to provide pension payments for longer.

The decline of DB pensions, combined with the introduction of automatic

39 Source: OECD Funded Pensions Indicators
40 As of 2021, early retirement with a penalty is possible at age 63 compared to the standard age of 67 (see OECD, Pensions at a Glance 2021.) Some UK defined benefit schemes allow retirement at age 55, also the age at which people can currently access their DC pension pots.
41 MoneyHelper, Ill-health retirement: early medical retirement, Money & Pensions Service, accessed 9 February 2023.
42 M Baker & J Adams, Approaching the endgame: The future of Defined Benefit pension schemes in the UK, Pensions Policy Institute, October 2019.

enrolment in 2012, means that DC pensions are now the norm. In 1997, over 45 per cent of employees had a DB workplace pension, but by 2021 this had fallen to 28 per cent. Over the same period, the proportion of employees with a DC pension increased from 10 per cent to 50 per cent.[43]

The crucial difference between DB and DC pensions is who bears the risk. Younger generations with DC pensions are exposed to a multitude of risks that are typically borne by employers under a DB scheme. These risks include lower-than-expected investment returns resulting in a smaller pension pot than expected, and the risk that an individual lives longer than budgeted for and runs out of retirement income. Contrary to the popular narrative, though, there is nothing intrinsic about DC pensions that makes them less generous than DB pensions. For example, previous Resolution Foundation analysis found that if the country returns to more favourable economic conditions, and assuming constant investment returns, the shift from DB to DC pensions does not preclude future pensioners from having the potential to achieve broadly similar pension outcomes to recent retirees.[44] However, in reality both employee and employer contributions to DC pensions are well below the rates historically seen with DB schemes. As a result, as well as being burdened with more risk, it is likely that future generations will reach retirement with much lower private pension wealth than their predecessors.

Finally, although younger cohorts face greater uncertainty than in the past around what their pension will deliver in retirement, it is worth remembering that more of them will reach retirement with private pension savings: in 2021, 79 per cent of employees had a pension compared to just 55 per cent in 1997.[45]

In many cases, DB pensions cannot be accessed until age 60 or 65, at least without significant reductions in annual pension entitlements, but there are other aspects of them that policy makers should consider changing. For example, under certain DB pension schemes (like the civil service pension scheme), your pension can be affected if you re-enter employment after being fully retired.[46] We encourage policy makers to work with pension providers to consider how these conditions can be relaxed, so that older workers who have retired are not discouraged from returning to employment because of the terms of their DB pension scheme.

43 ONS, Employee workplace pensions in the UK: 2021 provisional and 2020 final results, April 2022.
44 Resolution Foundation, A New Generational Contract: The final report of the Intergenerational Commission, May 2018.
45 ONS, Employee workplace pensions in the UK: 2021 provisional and 2020 final results, April 2022.
46 Civil Service Pensions, Re-employment after retirement - Section 05G, accessed 9 February 2023.

Of course, changes to pension systems (be it the State Pension or private pensions) are not quick fixes and nor are they all that matters for older workers decisions about how long to remain part of the workforce. The nature of the work on offer to them is also important.

The normal focus in this regard is what more government, and employers, can do to make work more flexible. This flexibility is especially important for older workers, who are more likely than younger people to have health problems or disabilities or be juggling work with caring responsibilities. [47] For example, research from the Centre for Ageing Better found that over two-in-five people in their 50s and 60s who are working also have caring responsibilities.[48] In recent focus groups, participants told us how caring responsibilities make it difficult to do certain types of jobs, particularly full-time jobs[49]:

> *"That choice to work full time and do that sort of gets taken away from you 'cause there's times they need you to be there drop of the hat, and if you're always at work you can't do that."*

(Focus group participant)

In contrast to the common focus on flexibility, there is not enough recognition that the type of work on offer to older workers may be discouraging them from working longer hours or remaining in, or re-entering, employment. Overall, work has become more intense in recent decades, with the share of employees that "strongly agree" that their job requires they work "very hard" increasing from 30 per cent in 1992 to 46 per cent in 2017, driven by interactions with customers and supervisors.[50] But while all workers have seen work become more intense and stressful, this is especially pronounced for workers in lower-paid jobs: for example, it is the lowest-earning quartile who have seen their levels of tension at work increase the most, with the proportion of employees who agree or strongly agree that they work "under a great deal of tension" rising from 35 per cent to 50 per cent over the period. This is concerning, given that older workers are more likely to be in low-paid jobs than middle-aged workers.[51]

In recent focus groups, older workers spoke about how the intensity (in the physical and mental sense) of many low-paid jobs made it difficult to keep working full time, but spoke positively about doing part-time work:

47 ONS, Disability by age, sex and deprivation, England and Wales: Census 2021, February 2023.
48 Centre for Ageing Better, Boom and bust? The last baby boomers and their prospects for later life, November 2021.
49 Focus groups were held in October 2022, and the findings are explored in more detail in: L Murphy, Constrained choices: Understanding the prevalence of part-time work among low-paid workers in the UK, Resolution Foundation, November 2022.
50 K Shah & D Tomlinson, Work experiences: Changes in the subjective experience of work, Resolution Foundation, September 2021.
51 N Cominetti, A U-shaped crisis: The impact of the Covid-19 crisis on older workers, Resolution Foundation, April 2021.

> *"Physically, I couldn't carry on doing full time, I was in agony. Obviously then I had an operation and there's no way I could have done full-time then, so I went down to part time, and it suits me now, it's quite nice."*

(Focus group participant)

Indeed, many older workers from low-paid jobs spoke about how they see part-time work as preferable to retirement: many older workers valued the well-being benefits of working part-time, even if they do not need to work for financial reasons:

> *[Why do you work part time?] "To keep the mind active, socialise with old friends and so on. Not to have a goal in life, just to have something to do... I fancied getting out the house"*

(Focus group participant)

> *[What do you like about working part time?] "There's so many different topics of conversation, so it always keeps you like fired up really, and involved, because you want to be part of things."*

(Focus group participant)

The role of employment support to help older workers find suitable employment opportunities should not be ignored. Although we do not think that policy makers should expect many older workers who have become economically inactive to re-enter work (and we should certainly not expect such transitions to make a dent in our overall rates of labour force participation), there is certainly more that can be done to facilitate job entry for older people who are able and would like to do so. Employment support should be tailored towards the needs of older people, and work advisers should be trained to deal with the full range of older jobseekers they might meet, including those from managerial or professional backgrounds. This is rarely the case at present, and previous employment support programmes have proven much less successful for older workers than younger workers: under the Work Programme, the employment support scheme that ran between 2011 and 2017, participants in their 60s were only a third as likely as the youngest participants to experience a successful job outcome.[52]

Finally, policy makers should not be complacent about the incidence of age discrimination. While there is no evidence this has got worse recently, the importance of the problem will increase as the workforce ages. For example, recent Resolution Foundation research found that age discrimination is the most common type of

52 N Cominetti, A U-shaped crisis: The impact of the Covid-19 crisis on older workers, Resolution Foundation, April 2021.

workplace discrimination, with 3.7 million people aged 18-65 reporting discrimination based on their age in 2022, with older workers aged 55-65 almost twice as likely to say they have experienced workplace discrimination than those towards the middle of their careers (aged 35-54).[53] And certain groups of older workers are further disadvantaged: those with disabilities and people from ethnic minority backgrounds are significantly more likely to experience age-related workplace discrimination than those without disabilities and those from White backgrounds,[54] and older Black British applicants were 9.4 times less likely to be invited to an interview compared to an older White British applicant.[55] Even if there is no evidence to suggest that age discrimination has become more of a problem in recent years (so should not be seen as a major driver of the rise in economic inactivity since the start of the Covid-19 pandemic), the current political focus on older workers should be seen as an opportunity to fix some longer term problems which affect older workers' employment – discrimination included.[56]

More can be done to boost the labour force participation rate among prime-aged women

If policy makers are to boost labour force participation in the decade ahead, however, they must look beyond older workers. There are other groups of the workforce where labour force participation is low, but recent history here and abroad shows it has the potential to rise.

From their mid-20s onwards, the labour force participation rate for women is markedly lower than for men: for example, in 2022, the labour force participation rate for women aged 35 was 10 percentage points lower than men of the same age (at 81 per cent and 92 per cent respectively). This is largely due to the sharp reduction in labour force participation that occurs when women have children (whereas the presence of children has little impact on men's participation).[57]

As Figure 20 earlier in the report shows, there has been substantial progress in recent years. Apart from the 15-24 age group (among whom higher education participation – a form of economic inactivity – has become increasingly common), the female labour force participation rate has increased in the past two decades. For example, while the labour force participation rate among men aged 25-34 was virtually unchanged between 1999

53 H Slaughter, Policing prejudice: Enforcing anti-discrimination laws in the workplace, Resolution Foundation, November 2022.
54 H Slaughter, Policing prejudice: Enforcing anti-discrimination laws in the workplace, Resolution Foundation, November 2022.
55 Centre for Ageing Better and Institute for Employment Studies, Shut out: How employers and recruiters are overlooking the talents of over 50s workers, January 2021.
56 In fact, there have been some positive improvements to reduce age-related workplace discrimination in recent years. For example, before 2011, the Default Retirement Age allowed employers to make staff retire at 65, regardless of the employee's preferences or circumstances. The Default Retirement Age was phased out between April and October 2011. There are some exceptions where employers can ask employees to retire, but they must give a good reason why, for example if the job requires employees to have a certain level of mental or physical abilities.
57 A Andrew et al., Women and men at work, IFS Deaton Review of Inequalities, December 2021.

and 2019 (at 93 per cent in both periods), for women it increased by 6 percentage points, up from 75 to 81 per cent.

Policy discussions in this area tend to centre around the provision of free and subsidised childcare. This is understandable for two reasons. First, the huge difference in labour force participation between prime-aged women with and without children, and second the sheer costs of childcare which for young children is high and rising: the cost of a part-time nursery place for a child under two rose by 60 per cent in cash terms between 2010 and 2021 – twice as fast as average earnings.[58] But it is important for policy makers to distinguish between these two potential objectives when deciding what additional childcare support to provide. Polices that redistribute from the rest of society towards parents (including those who would be working anyway) are desirable in terms of supporting the living standards of those families during an expensive phase of life, but may not be the most effective way to raise the participation rate of mothers. In addition, there are strong reasons for thinking that the complexity of the current childcare support landscape is in of itself now a problem. Tax free childcare, the most recent addition to the complex landscape, has seen terrible rates of take up. Of an estimated 1.3 million eligible families in the UK, only 282,000 families were using it in spring 2021, highlighting that this may be an area where resources could be freed up for more effective use elsewhere.[59]

Most recent policy proposals for additional childcare support do not then tend to focus on expanding tax-free childcare (indeed there is a strong case for simplifying the system by more effectively using the resources it requires elsewhere), but instead on extending the entitlements to free hours of childcare (currently available to parents of 2- and 3-year-old children). This has attractions, but when thinking about boosting women's labour force participation, it is not the silver bullet it is often presented as. In fact, evidence from the 2000s shows us that the provision of free part-time childcare in England had little causal impact on the employment rate of parents, whereas the provision of longer hours of childcare (such as when children start school) had a greater impact. There were benefits of introducing free part-time childcare, such as allowing some working mothers to switch from part-time to full-time work, and boosting the disposable income of families previously paying for childcare, but there was an insignificant effect on labour force participation.[60]

If the policy priority is raising workforce participation there is a case for looking again at the nature of support for low-income households who rely on childcare support through the Universal Credit system. At present, the childcare policy landscape is even more complex for these households, since low-income parents can receive support through

58 C Farquharson & H Olorenshaw, The changing cost of childcare, Institute for Fiscal Studies, May 2022.
59 HMRC, Tax-Free Childcare: barriers to sign up, September 2021.
60 M Brewer et al., Does more free childcare help parents work more?, Labour Economics Volume 74, January 2022.

Universal Credit or through the tax-free childcare system, but there are problems with both systems and it is near-impossible for parents to know which option would be more beneficial.

Universal Credit is paid monthly and in arrears, and support for childcare costs is part of this overall monthly payment. As such, there is no support within Universal Credit for the initial upfront costs of childcare – this is a clear barrier to entering work. While the existence of the Flexible Support Fund (a discretionary fund that can fund the first childcare payment) may make a difference to some households, it should be seen as a sticking plaster rather than a full solution. Importantly, because the Flexible Support Fund is a grant that is often paid directly to childcare providers, it is separate to the Universal Credit childcare element, and so Universal Credit claimants must find the money to pay for the second month's childcare costs before this is paid in their next Universal Credit award.[61]

In addition, the very fact that childcare costs are covered as part of people's overall Universal Credit award, which is subject to an earnings taper and often varies from month to month, causes complexity. It can be very hard for a household to know how much childcare support they will receive each month, especially if Universal Credit is being claimed by a couple with two earners, each with potentially fluctuating pay. And, unlike other payments which are covered by Universal Credit (such as rent costs, which for most families remain constant throughout the year), childcare costs often fluctuate significantly from month to month, for example rising during school holiday periods. Under the Universal Credit system, fluctuating earnings and fluctuating childcare costs combine to create complexity and unpredictability that is highlighted by women as being a barrier to entering employment, or moving from part-time to full-time work. [62]

Of course, policy makers may be hesitant to return to a system where childcare costs are paid in advance (as was the case under Working Tax Credits) due to the higher risk of fraud and error. We recommend that policy makers consider methods of supporting low-income households with childcare costs, potentially outside of monthly Universal Credit payments – for example through a system like Tax Free Childcare where parents have an online account in which they receive government support that is earmarked for childcare payments.

We would encourage policy makers to look beyond the childcare system, especially when thinking about how to boost the labour force participation rate of women on lower incomes. Women from low-income households have a much lower labour force participation rate than those from higher-income households, but are significantly less

61 For a detailed discussion of childcare costs within Universal Credit, see: House of Commons Work and Pensions Committee, Universal Credit and childcare costs, December 2022.
62 R Griffiths et al, Couples Navigating Work, Care and Universal Credit, Institute for Policy Research, January 2022.

likely to use formal childcare. By the end of the 2010s, the labour force participation rate among women aged 25-54 from the lowest household income quintile was 50 per cent, significantly lower than the participation rate among women from the highest household income quintile (94 per cent).[63] But only 13 per cent of eligible low-income households were in receipt of the childcare element within their Universal Credit award in 2022.[64]

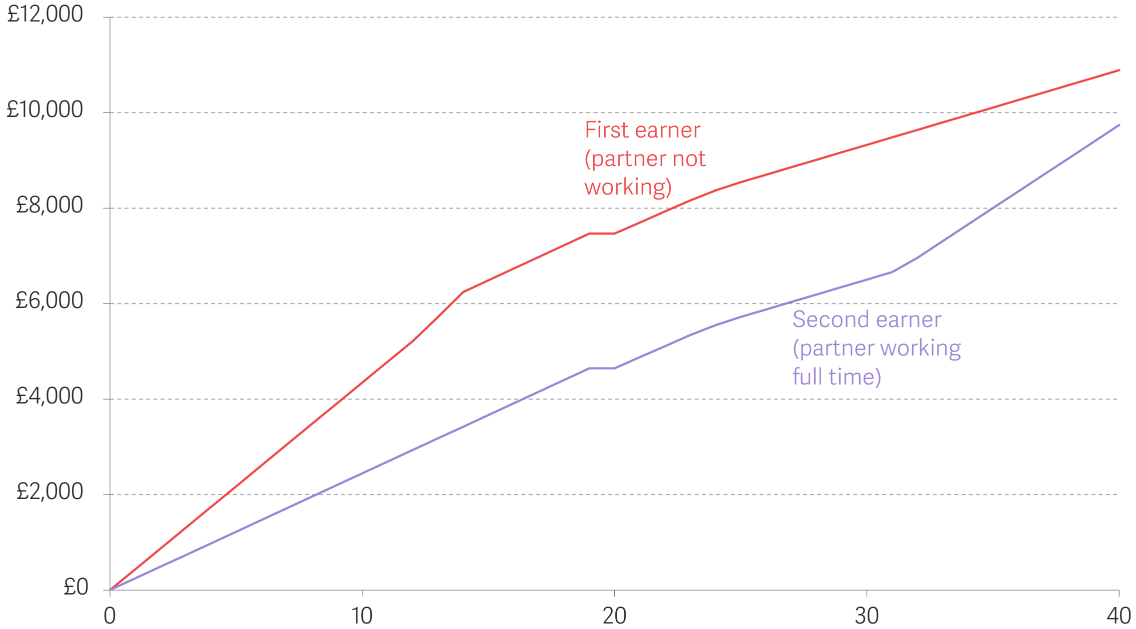
Policy makers should revisit the fact that they have created a system with significantly weaker work incentives for second earners – disproportionately women - from low-income households, as Figure 21 shows.[65] This is because the second earner has no work allowance within Universal Credit so that, for example, when a mother whose partner is already working full time enters employment, the entire value of the woman's earnings reduce the Universal Credit award. On the other hand, a first earner in a couple with children can earn up to £344 per month (or £573 if they are not receiving housing support within Universal Credit) before their Universal Credit award is affected. This has material impacts on people's total household income.

For example, when a typical second earner in a couple on Universal Credit enters part-time employment (working 20 hours per week earning the National Living Wage), their annual household disposable income increases by £4,600. On the other hand, when the main earner in the couple takes this step into employment, their annual household disposable income increases by £7,500 – £2,900 more than for the second earner. One way to tackle this problem of weak work incentives for second earners – the group whose workforce participation rates have been most sensitive to such incentives -would be to introduce a work allowance for second earners within Universal Credit, a reform that is estimated to cost £2.1 billion.[66]

63 Source: RF analysis of DWP, Family Resources Survey.
64 DWP estimates that 13 per cent of households with all parents earning and children aged between 0 to 16 were paid the childcare element in February 2022. See: House of Commons Work and Pensions Committee, Universal Credit and childcare costs, December 2022.
65 When thinking about possible benefit changes that boost the labour market prospects of women on Universal Credit, there are of course other options. For example, lowering the taper rate within Universal Credit is likely to be a better option if thinking about encouraging women to move from part-time to full-time work, or to improve women's long-term career progression. However, if policy makers' aim is to incentivise women to move from economic inactivity into employment, the introduction of a second earner work allowance will have a greater impact. See: D Goll, R Joyce & T Waters, Intensive margin labour supply and the dynamic effects of in-work transfers, IFS Working paper, January 2023.
66 Source: RF analysis of DWP, Family Resources Survey, using the IPPR tax-benefit model. This reform is estimated to cost of £2.1 billion once Universal Credit is fully rolled out – under the current system, this would cost a lesser amount of £1.5 billion.

FIGURE 21: **Second earners in couples have weaker work incentives than first earners**

Change in annual family disposable income (after housing costs) for a couple with children in which one or both adults earn the National Living Wage, by number of weekly working hours: UK, 2022-23.



NOTES: For the first earner, it is assumed that the second earner is not working. For the second earner, it is assumed that the first earner is working full-time (37.5 hours per week). The family is not renting, so the first earner has a higher Work Allowance of £573 per month. For both the main and second earner, pension contributions kick in between 19 and 20 hours.
SOURCE: RF Case Study Model.

Finally, when thinking about prime-aged women's participation in the labour market, it is important to also think about hours worked. We know that many women with children are in jobs that have both low hourly pay and low weekly hours of work – and despite improvements since the pandemic (with average weekly hours worked among female workers above pre-pandemic levels at the end of 2022), there is still work to do.[67] Women's working hours, unsurprisingly, reduce significantly upon having children: by the age of 28, women with children work on average 15 hours fewer per week than women without children.[68] This problem is particularly acute for women in low-hourly-paid jobs – in 2021, the gap in working hours between women from the top and bottom hourly pay quintiles was 10 hours per week.[69] To address this, as well as focusing on childcare costs (as outlined above), policy makers should also aim to improve low-paid work itself: many women have no option but to work part time given that low-paid jobs often do not offer the flexibility that parents in higher-paid jobs take for granted, such as having a

67 In December-February 2020, the average actual weekly hours worked for female workers (in their main and second job) was 27.3 hours; by October-December 2022, this had risen to 27.7 hours. Source: RF analysis of ONS, Labour Market Statistics.
68 G Bangham, The times they aren't a-changin': Why working hours have stopped falling in London and the UK, Resolution Foundation, January 2020.
69 L Murphy, Constrained choices: Understanding the prevalence of part-time work among low-paid workers in the UK, Resolution Foundation, November 2022.

guaranteed shift schedule or the ability to work flexibly around childcare commitments.

The disability employment rate rose substantially in the 2010s – but more can be done to support people with disabilities to enter and remain in employment

A final group that policy makers should focus on is people with long-term ill-health or disabilities. As explored earlier in this note, the incidence of disability and illness among the working-age population is rising, and this will push down on rates of labour force participation. It is therefore welcome that there has been renewed focus among politicians on improving employment prospects for people with disabilities and health problems. But while many of the recent policy suggestions correctly identify problems with the benefits system, they miss an important step – trying to improve the health of our population. Rising economic inactivity among people with long-term sickness or disability is of course not a labour market problem, but rather a symptom of the worsening health of our population, and policy makers should focus on improving the provision of healthcare to curb future rises in health-related economic inactivity.

Recent policy suggestions from both the Government and the Labour Party have focused on the benefits system, and the general direction of change has been to examine ways to allow people in receipt of disability or ill-health-related benefits to retain some or all of their benefits when they move into employment.[70] Although well-intentioned, these proposals have skirted around the hard questions that come with disability benefit reform. Discussion of proposals have often conflated non-means-tested disability benefits (Personal Independence Payment, or PIP) and ill-health-related out-of-work benefits (most commonly, the Limited Capability for Work Related Activity (LCWRA) element within Universal Credit, entitlement to which is assessed via the Work Capability Assessment (WCA)) – we explore the differences between these two benefits in Box 3 below.

It is already the case that people with disabilities in receipt of PIP can enter work without their PIP being reduced, since it is a benefit intended to help with the extra living costs incurred by having a disability and is not affected by people's income or wealth. But the muddled reporting of disability and ill-health-related benefits in recent weeks highlights the confusion that many claimants experience. As such, we recommend that the Government improves its communication with benefit claimants to clarify that PIP is a non-means-tested benefit that will not be withdrawn if people move into employment, since this is a common misconception which understandably discourages some from considering employment.[71]

70 J Ashworth, Speech at the Centre for Social Justice, January 2023; C Smyth & S Swinford, People could return to work but keep claiming sickness benefits, The Times, January 2023.
71 Social Security Advisory Committee, Out of work disability benefit reform, August 2022

Within Universal Credit, however, entering employment can affect people's entitlement for the LCWRA element, and this is this area that reform proposals are actually focused on. The problem at present is that the rules surrounding this are complex, and whether or not people will lose their LCWRA element upon moving into work is ultimately at the discretion of DWP decision makers. When someone in receipt of the LCWRA element enters employment, a decision maker can choose to schedule an additional, earlier-than-scheduled WCA – and if the outcome of this is that the claimant is no longer deemed as being too ill to work, they will lose the LCWRA element earlier than expected.[72] This can have knock-on consequences for claimants, such as being affected by the benefit cap or losing eligibility for free prescriptions. As such, for those in receipt of the LCWRA element, moving into employment is a risk that they may well decide is not worth taking: people cannot be certain that entering employment will not lead to a large loss of benefits. We therefore recommend that policy makers amend this aspect of Universal Credit and remove decision makers' ability to apply an earlier-than-scheduled WCA, so that people with illness and disabilities can move into employment without fearing an immediate hit to their finances.

BOX 3: **An overview of disability- and illness-related benefits in the UK**

In the UK, there are two main types of benefits for people with disabilities or ill-health. Those with a long-term health condition or disability which affects their day-to-day life (and is expected to do so for at least 12 months) are likely to qualify for PIP, a non-means-tested benefit that is not affected by earnings, other income or savings. To apply for PIP, people must complete an application form, before usually having an assessment in which a health professional assesses how their illness or disability affects them.

Separately, those on low incomes who are in receipt of Universal Credit may qualify for an additional element within Universal Credit if they are deemed to have 'Limited Capability for Work Related Activity' (LCWRA). This is awarded to people with a health condition which prevents or limits people's ability to work, and to qualify for this element, most people must complete another application form and go to a 'Work Capability Assessment'. This is separate from the PIP assessment process, and is focused on finding out how much people's health condition or disability affects their ability to work (rather than their day-to-day life or mobility more generally).

72 DWP, Advice for Decision Makers Chapter G1: Work capability assessment, March 2013.

It has been reported that the Government is considering much more radical reform, potentially scrapping the WCA altogether, with ministers thinking it is undesirable to have an assessment that labels people explicitly as being too ill to work.[73] They are right to highlight the dangers of such a binary distinction, not least when the last decade tells us that large changes are possible in who does and does not work. But such a change would need to happen gradually, not only because of the requirement for primary legislation, but also due to the very real policy design and implementation challenges it will pose, with large numbers of losers – as well as winners – among poorer groups in society.

In practice, removing the WCA would likely mean relying on the PIP assessment to determine eligibility for a higher rate of Universal Credit. But while there is significant overlap between the people in receipt of these two benefits, they are not synonymous: in 2015, for example, 67 per cent of those claiming disability benefits (like PIP) and 56 per cent of those claiming out-of-work sickness benefits (like those receiving the LCWRA element) claimed both sets of benefits.[74] There are certainly groups of people whose disability or illness will affect their day-to-day life but not their ability to work, or vice versa. For example, many wheelchair users will qualify for PIP (to help with the additional costs associated with using a wheelchair to get around), but may not qualify for the LCWRA element within Universal Credit (since many wheelchair users do not have a disability or health condition that affects their ability to work). On the other hand, someone who is out of work and recovering from an operation may qualify for the LCWRA element (if they are deemed too unwell to work), but would be unlikely to qualify for PIP (since they may be expected to make a full recovery within the next 12 months).

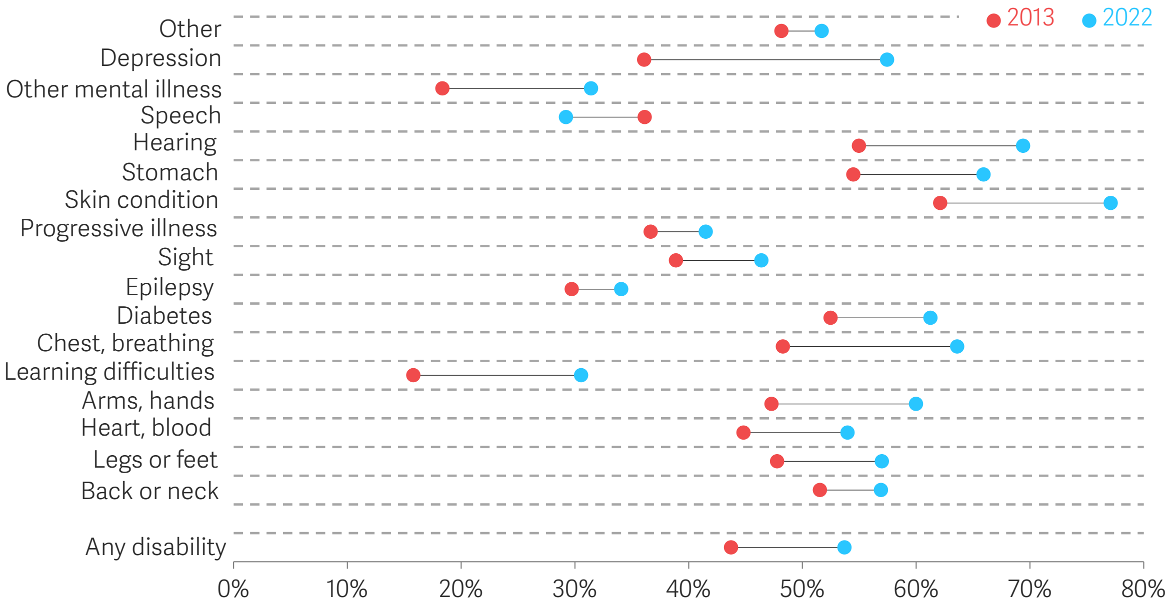
A second challenge is that the WCA is used not only to determine whether people can receive the additional LCWRA element within their Universal Credit, but also to determine whether or not people are expected to prepare for and search for work (and engage with a Work Coach) in order to receive Universal Credit. If the WCA was scrapped, the Government will need to examine alternative ways of make this judgement, all of which have challenges. For example, if the alternative is to rely on the PIP assessment instead of a Work Capability Assessment, many of the challenges of the existing conditionality regime will remain. If instead the alternative is to rely on Work Coach discretion, doing so fairly and lawfully without a formal assessment for decision makers to fall back on will be difficult. And relying on Work Coach discretion may backfire, since doing so may reinforce recipients' caution to consider entering work if they cannot be sure what impact this will have on their benefit entitlement.

73 C Smyth & S Swinford, People could return to work but keep claiming sickness benefits, The Times, January 2023.
74 Source: DWP, Stat-Xplore, Benefit Combinations; recent evidence on the overlap is complicated by the existence of Universal Credit.

History tells us that reforms to disability- and illness-related benefits should be taken carefully. Many of those affected will see significant hardship if they are, intentionally or unintentionally, adversely affected: in 2020-21, one-in-three disabled people (34 per cent) reported being in material deprivation – this is almost three times the share among non-disabled people (13 per cent).[75] With median household income among people with disabilities standing at just £21,405 in 2020-21, the loss of PIP (up to £8,160 per year) or the LCWRA element within Universal Credit (£4,240 per year) would be a huge living standards shock to most claimants. And, on a practical level, we should not see disability benefit reform as a quick way to boost labour force participation. Reforms to the benefits system which require primary legislation are slow: for example, Universal Credit was launched in 2013 and was hoped to be fully rolled out by 2017, but by 2023, only around two-thirds of eligible households are estimated to be on Universal Credit rather than legacy benefits, with full Universal Credit rollout not expected to be complete until 2024.

FIGURE 22: **There has been good progress on boosting employment for people with disabilities – but the disability employment gap is still sizeable**

Employment rate by health problems among 16-64-year-olds with disabilities: UK, 2013-2022



NOTES: For readability the chart abbreviates health problems. The full categories are as follows: Depression (depression, bad nerves or anxiety), Other (other health problems or disabilities), Other mental illness (mental illness, of suffer from phobia, panics or other nervous disorders), Progressive illness (not included elsewhere e.g. cancer, multiple sclerosis, symptomatic HIV, Parkinson's disease, muscular dystrophy), Arms, hands (including arthritis or rheumatism), Sight (difficulty seeing while wearing spectacles or contact lenses), Speech impediment, Skin condition (severe disfigurement, skin conditions, allergies), Hearing, Severe or specific learning difficulties, Stomach (stomach, liver kidney or digestive problems), Epilepsy, Leg or feet, Back or neck, Chest or breathing (asthma, bronchitis), Diabetes and Heart, blood (heart, blood pressure or blood circulation problems).
SOURCE: RF analysis of ONS, Labour Force Survey.

75 O El Dessouky & C McCurdy, Costly differences: Living standards for working-age people with disabilities, Resolution Foundation, January 2023.

Finally, policy makers should not think that the benefits system is the only way to boost the employment rate of people with disabilities and health problems. Unlike a decade ago, the majority of people with disabilities are already in employment, and, although rarely discussed as part of the recent debate on economic inactivity, the employment rate among people with disabilities has increased substantially in the past decade (see Figure 22). Indeed, while the number of working-age people with disabilities increased by 2.3 million between 2013 and 2022, four-fifths (83 per cent) of this rise was among people already in employment.[76]

But there is still room for improvement. Despite the employment rate among people with disabilities rising from 44 per cent in 2013 to 54 per cent in 2022, it still remains 28 percentage points below the employment rate for those without disabilities, which was 82 per cent in 2022. Policy changes outside of the benefits system could include increasing funding for the successful Access to Work scheme to increase awareness and reduce waiting times for people who have made applications. Policy makers should also focus on improving people's attachment to work, for example by a 'right to return' period, during which employers must keep jobs open to staff who are away from work due to sickness or disability. Doing so is likely to be effective, since we know that people who are economically inactive due to long-term sickness or disability are four times as likely to re-enter work after a few months of sickness leave as they are to re-enter work after a period of over two years.

Conclusion

This note has shown that, after a strong performance in the pre-pandemic decade, the UK's labour force participation rate has gone into reverse. But the commentary and policy attention has been too focused on Covid-19-induced early retirement. This is misguided, since many of the older workers who have recently retired are unlikely to ever come back to the workforce. Furthermore, powerful headwinds from population ageing lie ahead and will push down on labour supply, potential GDP and incomes over the remainder of this decade and beyond – these headwinds risk being ignored if policy makers keep this myopic focus on the 'Covid cohort' of older workers.

However, our past success in swimming against this demographic tide gives us hope that we can do so again in the future. Policy must contend with a world in which a larger fraction of the potential workforce will be in more 'elastic' groups, where policy can make a difference: older workers, women and people with long-term illnesses and disabilities.

76 C McCurdy, Labour Market Outlook Q3 2022, Resolution Foundation, October 2022.

The country will need a considered, multi-faceted and long-term approach to raising labour force participation across the board. The upcoming Budget offers the Government a chance to introduce a package of policy proposals to set this in motion, and prevent the current post-pandemic participation problem from becoming a defining story of the 2020s.

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged.

We do this by undertaking research and analysis to understand the challenges facing people on a low to middle income, developing practical and effective policy proposals; and engaging with policy makers and stakeholders to influence decision-making and bring about change.

For more information on this report, contact:

Louise Murphy
Economist
louise.murphy@resolutionfoundation.org

Resolution Foundation

2 Queen Anne's Gate
London SW1H 9AA

Charity Number: 1114839

@resfoundation
https://www.resolutionfoundation.org/publications/