

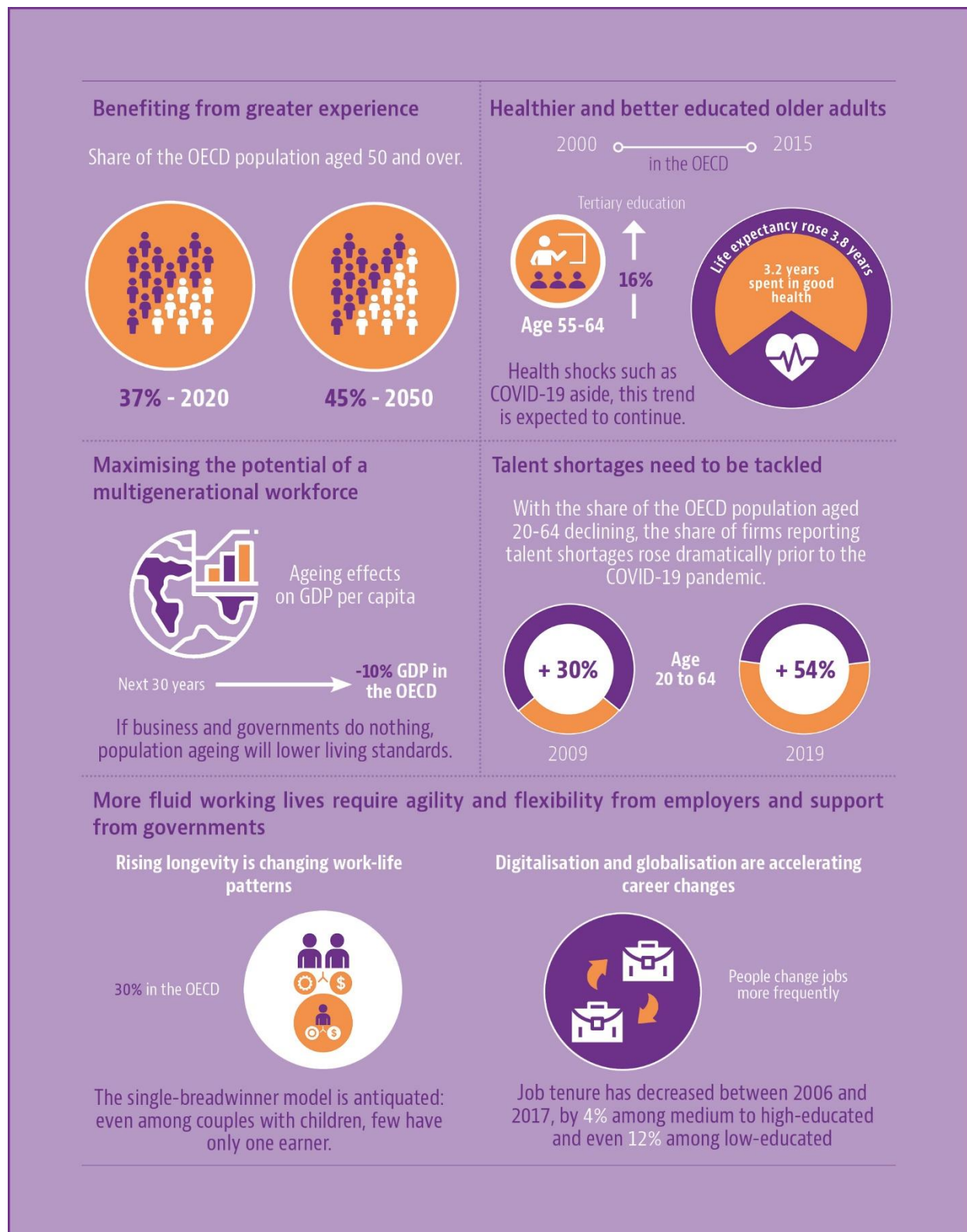
# **1** Key trends: The future workforce is more age diverse, and offers large potential

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The COVID-19 pandemic and megatrends in the global economy are rapidly shaping the way people work today and the future workforce. Rising longevity and falling fertility will considerably reduce the population share at traditional working ages but will also allow individuals to work and contribute to society much longer. New technologies are both a challenge and opportunity for a more age diverse workforce. In the new world of work, the ability to build businesses around a multigenerational workforce that recognises the value and contribution of workers of all ages will be crucial for prosperous and resilient companies. This chapter highlights some of the major changes in the world of work and identifies arising challenges and opportunities for business.

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## Infographic 1.1. Key facts: The future workforce will be more age-diverse, healthier and better educated



## Introduction

The workplace is ever evolving – and at a far greater pace today than ever seen before. The long-term trends of population ageing and technological advances have been accelerating in recent years contributing to skills deficits and shortages for many firms, and changing the nature and type of work and how businesses operate. Amid the COVID-19 pandemic, employers and workers are facing the greatest public health crisis in more than a century that has led to millions of job losses, business closures and widespread economic uncertainty. These developments put business resilience and flexibility at the centre stage for companies world-wide. Developing the right employer tools and practices to use the potential of an all age-inclusive workforce will be a strategic priority for any organisation – large or small – in the light of these transformations.

## Population ageing is profoundly changing the workplace

The coming decades will be marked by strong demographic changes. Since 2010, the large baby boomer cohorts have been reaching older ages and successive generations are of smaller size or grow at a slower pace (Figure 1.1, Panel A). By 2050, the share of the population aged 50 and older will increase from 37% in 2020 to 45% on average in the OECD. Similarly, the old-age dependency ratio – a demographic indicator that measures the size of the population aged 65 and over relative to that of people at classic working ages 20-64 – is projected to increase by two-thirds in OECD economies, from 30% in 2020 to 50% in 2050. Many countries with a comparatively young population structure today, like Chile, Korea or the Slovak Republic will face a particularly strong transformation process (Figure 1.1, Panel B).

These demographic trends are working in favour of multigenerational workplaces with a greater mix of workers at all ages rather than a pyramid of much larger numbers of younger workers and relatively few older workers. This diversity of experience, generations and skills mix brings several benefits to the workplace. However, today, large companies with more than 250 employees report that only 6% of their employees are above age 64 according to AARP's 2020 Global Employer Survey. This could rise substantially in the coming decades if companies' recruitment would follow the change in the age composition of the adult population. Workplaces will change their faces and employers will have to adapt their human resources (HR) strategies and workplace practices.

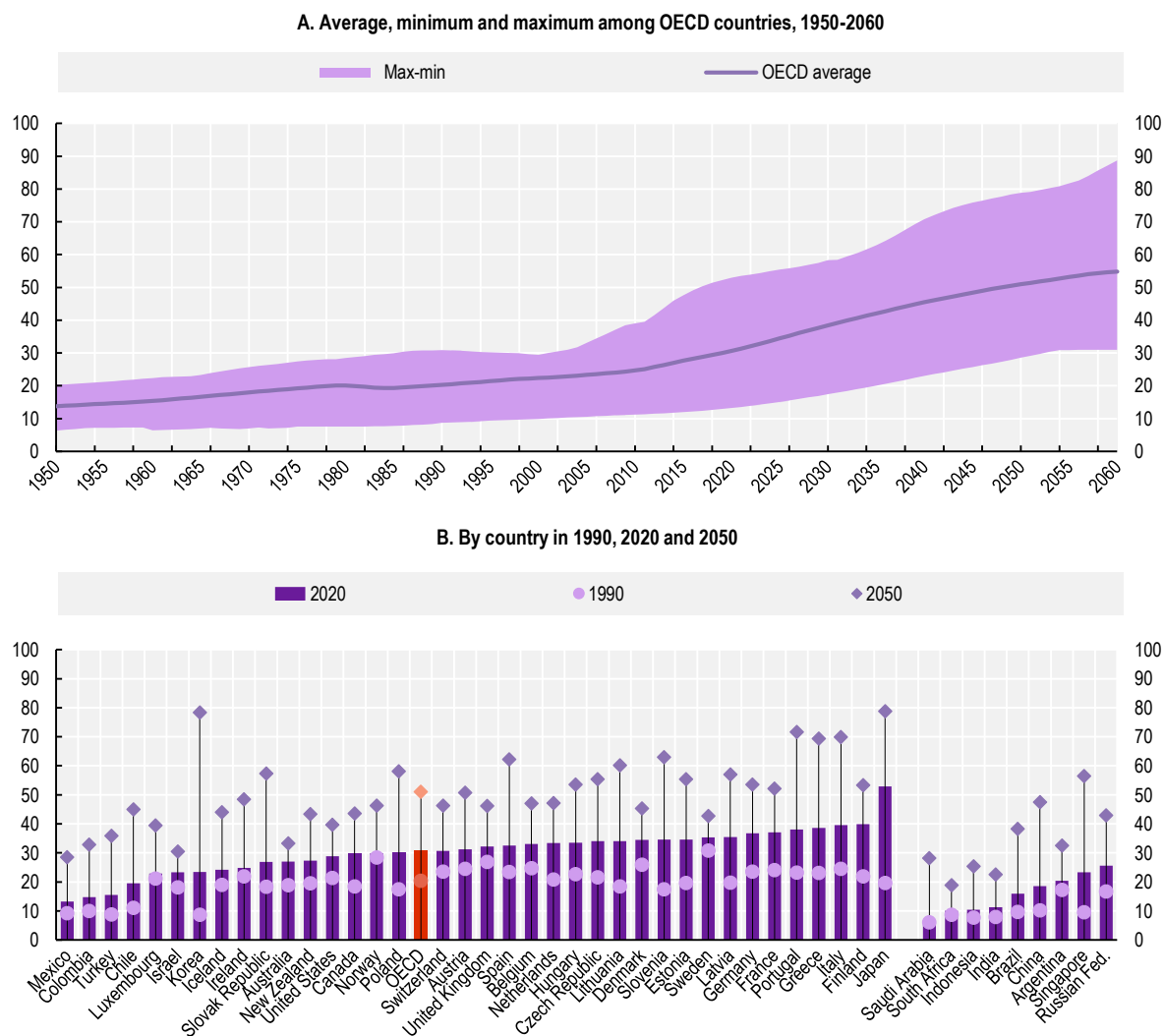
### ***In the medium-term, demographic change may lead to labour shortages reported already in pre-COVID-19 times***

The COVID-19 crisis has led to massive turbulence on labour markets across all OECD countries from the second quarter of 2020. Unemployment rates have surged and numbers of workers under short-term compensation schemes have skyrocketed in some countries, with disruptive consequences for economies (OECD, 2020<sup>[1]</sup>). In the short to medium term, labour markets will need to recover from this sudden shock, which may temporarily put a halt to labour shortages or change sectors in which they appear (OECD, 2020<sup>[1]</sup>). However, the crisis will not change the long-term dynamics induced by demographic change, which primarily work through the supply-side of the labour market. The pressure to react to population ageing and low fertility rates will hence prevail.

After decades of a slow but steady increase, the share of the population aged 20 to 64 in OECD countries has been declining since 2010 and will continue to do so (Figure 1.2). By 2060, OECD populations will grow by about 200 million persons compared to 2010 of which only less than 10% will be at traditional working ages, 20 to 64. Offsetting this trend by longer working lives would need very big efforts by countries and companies. Population dynamics in Korea, for example, suggest that by 2050 people would have to work a stunning 13 years longer to keep the population share at working age constant (Box 1.1).


**Figure 1.1. Population ageing is accelerating**

Number of people 65 years and over per 100 people aged 20-64



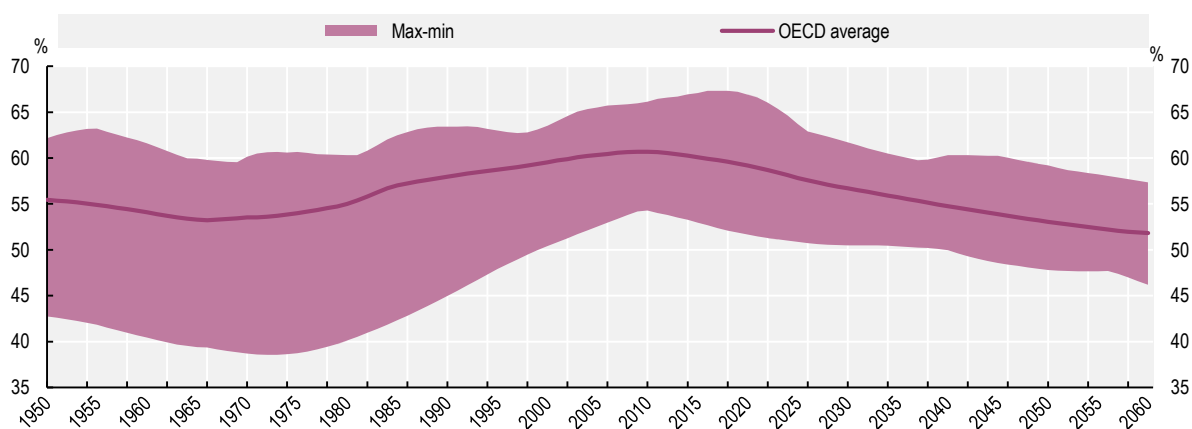
Note: In Panel A, the shaded area indicates the range between the country with the lowest and the country with the highest value. OECD is an unweighted average.

Source: OECD population projections database (unpublished).

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**Figure 1.2. Share of people at traditional working ages is declining for the first time in decades**

Share of people aged 20-64 in the total population, average, maximum and minimum among OECD countries 1950-2060



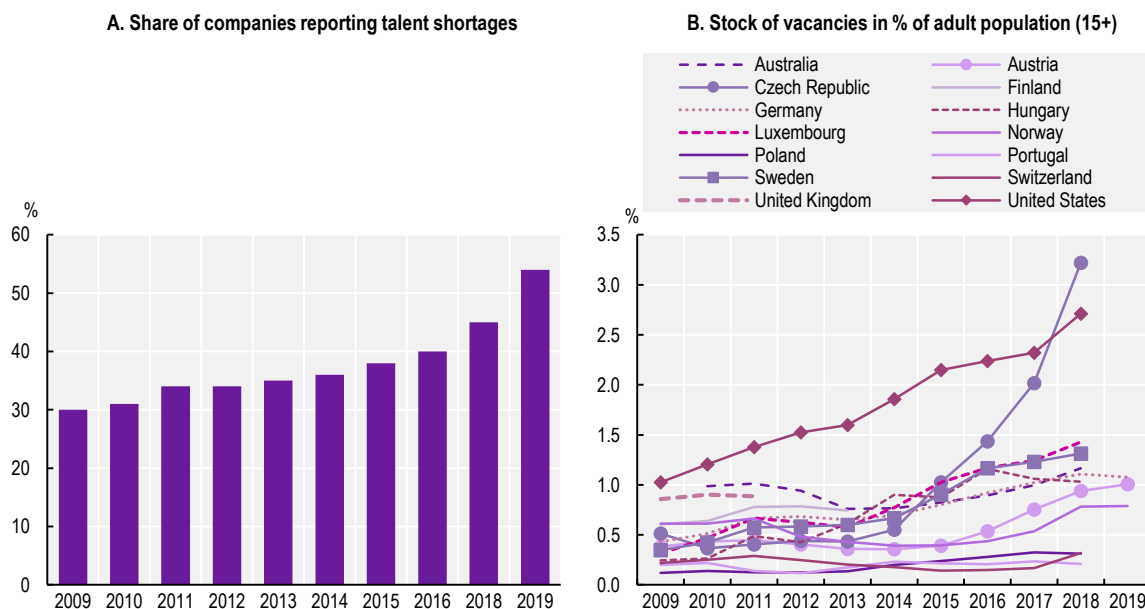
Note: The shaded area indicates the range between the country with the lowest and the country with the highest value. OECD is an unweighted average.

Source: OECD population projections database (unpublished).

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Therefore, the demographic transition may, in the medium to long term, reinforce rising labour shortages that many companies and countries already reported in pre-COVID-19 times (Figure 1.3, Panel A). Employers in Finland, Hungary, Slovenia, Sweden and the United States reported the strongest increase in labour shortages in 2019 (Manpower Group, 2020<sup>[2]</sup>). Skilled trades e.g. electricians and mechanics, sales and marketing, and technicians were on top of the list of occupation groups that were in under-supply (Manpower Group, 2020<sup>[2]</sup>). Health care professionals also entered the top ten most in-demand roles reflecting ageing populations and the growing need for health care. In the Czech Republic unfilled vacancies have grown considerably over the last decade based on a strong economy (Figure 1.3, Panel B). Many companies dealt with the labour shortages by hiring workers from abroad, in particular the Ukraine; relying heavily on foreign workers will be difficult to follow for many countries in a globally ageing world. The need for companies to prepare for dramatic and intergenerational transition is becoming increasingly urgent.

**Figure 1.3. Labour shortages had been rising before the COVID-19 crisis hit**



Note: Panel A is based on about 24 000 employers of six industry sectors in 44 countries across the globe including most OECD countries, Argentina, Brazil, China, India, Peru, Singapore and South Africa.

Source: Manpower Group (2020<sup>[2]</sup>) (Panel A), OECD dataset: *Registered Unemployed and Job Vacancies* (<http://stats.oecd.org/Index.aspx?QueryId=96823>) and UN World Population Prospects (2019), medium forecasts (Panel B).

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### Box 1.1. Did you know?

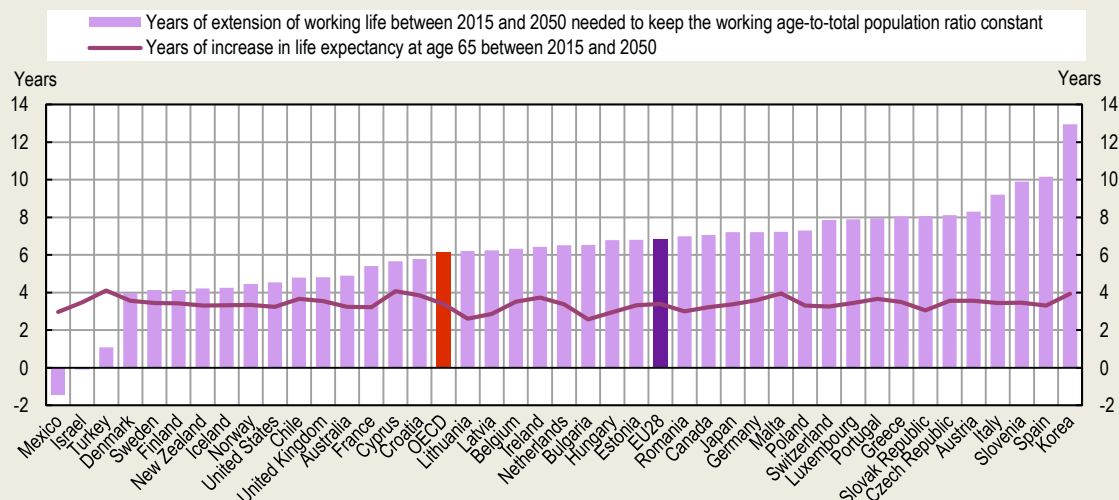
#### **The upper age boundary of working life – using 65 as a reference – will have to increase substantially to prevent the decline in the relative size of the labour force**

Today, working age is generally defined as 20-64 (or 15-64). Due to low fertility and as populations are ageing, the share of the population at ages 20-64 will drop while the 65 and older will grow putting pressure on pension systems and living standards. An extension in the definition of the “prime working” years age span by about six years by 2050, from 20-64 to 20-70, would maintain the current population share of people at working age and better capture true work contributions of older adults. This is an average in the OECD; countries like Korea and Spain face much stronger population ageing.

Longer working lives are already happening. Effective labour market exit ages in the OECD have increased by about 2½ years for men and 3 years for women between 2000 and 2019. Women and men in Estonia, the Netherlands, New Zealand and Portugal extended work life even by more than 5 years. Against this background, current definitions of working ages appear increasingly arbitrary and signal antiquated ideas of productive years thereby reinforcing negative stereotypes.


However, the extension of working age by six years over the next three decades would clearly exceed the life expectancy gains over the same period indicating the big challenge to make this large extension of working lives happen. Large efforts through both public and private policies will be needed to allow and incentivise workers to extend work life as long as they can, want and need. Investments in workers’ financial and health security across the life course as well as skill-building and lifelong learning will be enable workers resilient up to high ages.

**Figure 1.4. The number of additional working years required to stabilise the share of the population at working age**



Note: OECD is an unweighted average and excludes Colombia. EU28 is an unweighted average and includes the United Kingdom. Working age is defined as 20-64 years.

Source: OECD calculations based on Boulhol and Geppert (2018<sup>[3]</sup>), "Population ageing: Pension policies alone will not prevent the decline in the relative size of the labour force", VOX-EU, June.

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## People live a longer, healthier and a more diverse life

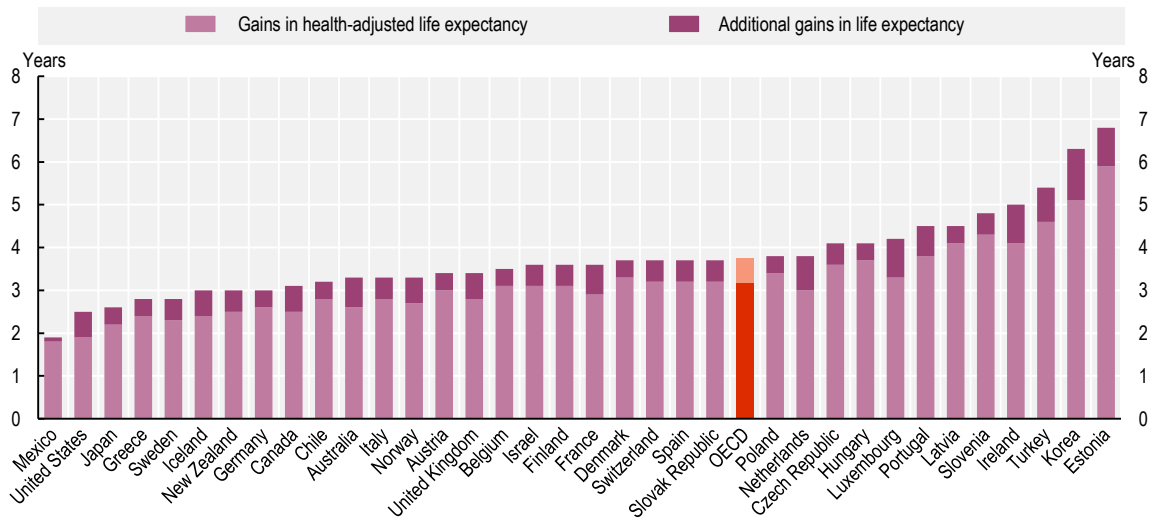
Continued economic and social progress over the past decades has raised living standards and life expectancy. A baby born today is expected to live to be almost 81 years old i.e. on average, six years longer than her grandparents. Yet, longer working lives require healthy older people that wish to remain in the labour market. Recent gains in healthy life length suggest that health, on average, is not the main obstacle to working longer. Life expectancy at birth increased by 3.7 years in the 15 years to 2015; of these, 3.2 years are years that will be lived in good health (Figure 1.5). Nevertheless, for decades, people had left the labour market at an even earlier age although those generations constantly benefitted from longer lives than their parents (Figure 1.6). Since the turn of the century, however, labour market participation at older ages is on the way up again, indicating additional potential for firms to alleviate the labour market pressure in the demographic transition.

At the same time, not everyone is able to work longer. Self-reported health differs between socio-economic groups and inequalities in life expectancy between high and low educated people amount to several years. Especially those with physically demanding jobs may neither be able nor willing to work longer in the future (Box 1.2). Preventing poor health before it begins, providing sound working conditions and supporting workers to manage chronic illness is thus key to ensuring productive and long working lives.



**Figure 1.5. Extra years of life expectancy are spent largely in good health**

Gains in life expectancy at birth, 2000-15



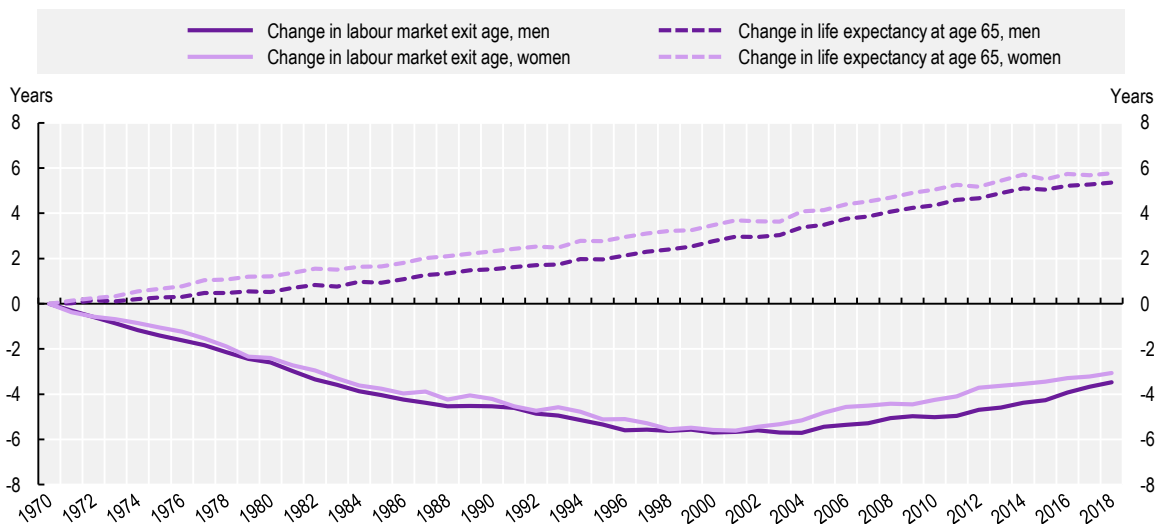
Note: Countries are ranked in ascending order of life expectancy gains. Health-adjusted life expectancy is defined as the number of years that people can expect to live in "full health" by taking into account years lived in less than full health due to disease and/or injury. OECD is an unweighted average and excludes Colombia and Lithuania.

Source: OECD (2017<sup>(4)</sup>), *Preventing Ageing Unequally*, Figure 2.6, <https://doi.org/10.1787/9789264279087-en>.


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**Figure 1.6. Labour market withdrawal increasingly happens later in life**

Changes in labour market exit ages and life expectancy at the age of 65 since 1970, OECD average



Source: OECD dataset on *Average effective retirement ages* (<https://www.oecd.org/els/emp/average-effective-age-of-retirement.htm>) and OECD Dataset *Health Status* (<http://stats.oecd.org/Index.aspx?QueryId=96804>).

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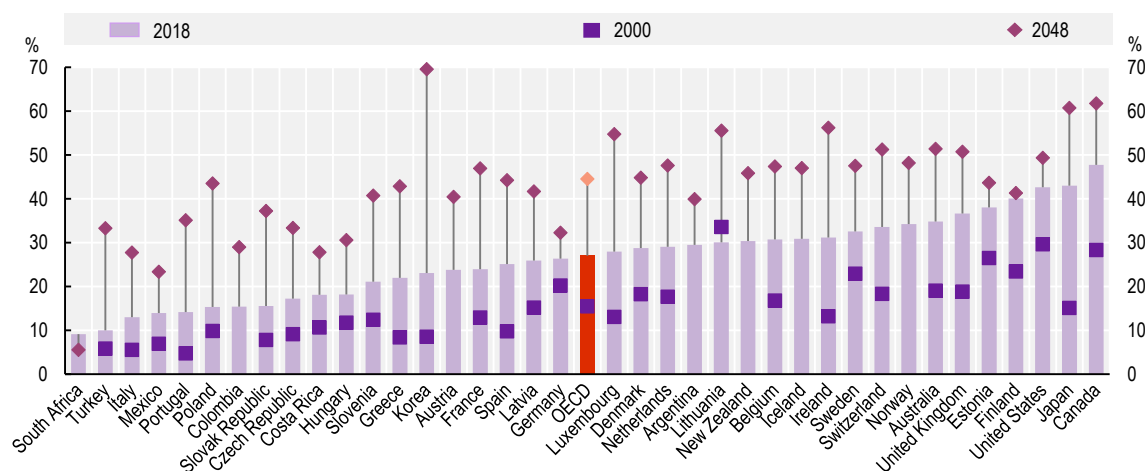


## The future workforce is healthier and better educated

These future older workers of all generations will, on average, not only be in better health but will also be better educated than current generations of 50-plus workers. The share of tertiary-educated older workers, so broadly speaking the share of those with a college degree, has already substantially increased over recent decades but will further surge as today's well-educated younger workers age (Figure 1.7). Turning their high formal education into productive skills on the job will be key for their long and continuous employability and prosperous business.


**Figure 1.7. Older workers in the future will be better educated than older workers today**

Share of population with tertiary education, age group 55-64 (various years)



Note: Data for 2048 corresponds to the share of the population aged 25-34 in 2018 with a tertiary education. Population with tertiary education is defined as those having completed the highest level of education, by age group. This includes both theoretical programmes leading to advanced research or high skill professions such as medicine and more vocational programmes leading to the labour market. The OECD unweighted average excludes Austria, Chile, Iceland, Israel, New Zealand and Norway, for which at least some data points are missing.

Source: OECD Data, Population with tertiary education <https://data.oecd.org/eduatt/population-with-tertiary-education.htm> (accessed on 23 January 2020).

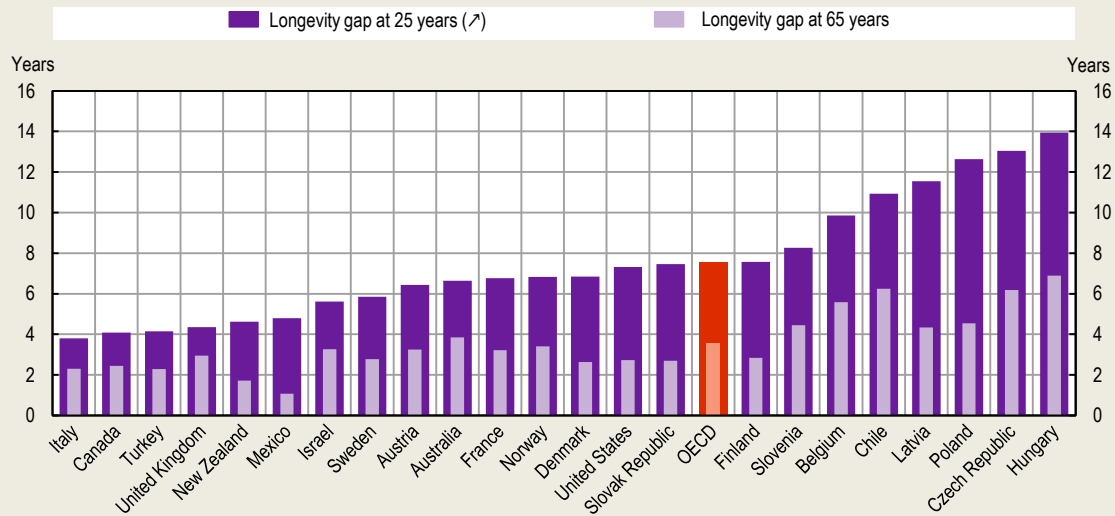
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### Box 1.2. Working longer might not be for everyone

A large gap in employment rates between people in bad and good health suggests that health is an important limiting factor to participate in the labour market, and more so for the low-educated than for the high-educated individuals (OECD, 2017<sup>[4]</sup>). Carpenters or tile setters work in physically demanding jobs and might lack the health capacity to work at older ages. Life expectancy that falls several years short of their better-educated peers indicates potential limitations in certain occupations. Inequalities in longevity between socio-economic groups have been reported for many countries, the gaps being particularly large in Central and Eastern European countries; such as a seven-year gap for men at age 65 in Hungary and a three-year gap in the United States (Figure 1.8). Generally, education-related gaps are larger among men than women (Raleigh, 2019<sup>[5]</sup>).


**Figure 1.8. Large life expectancy gaps between low- and high-educated groups**

Life expectancy gap between low-educated and high-educated men by age, around 2011



Note: Data was newly collected – although from 2011 – to improve on available data by better accounting for mortality differences across educational groups at older ages. The OECD is an unweighted average of the 23 countries shown.

Source: OECD (2017<sup>[4]</sup>), *Preventing Ageing Unequally*, <https://doi.org/10.1787/9789264279087-en>.

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In nearly all OECD countries, employment rates for older workers across education levels have been rising over the last two decades. Geppert et al. (2019<sup>[6]</sup>) suggest that better health of older people reflected in higher life expectancy belonged to the key drivers of this development. Whether living longer, working longer will be an option for everyone, depends on whether gains in life expectancy will be shared among all socio-economic groups.

The overall trend in life expectancy gaps between socio-economic groups across countries remains unclear. However, for some countries – like the United States (Chetty et al., 2016<sup>[7]</sup>) – evidence points to an increase in this life expectancy gap over recent decades that may continue in the future. Life expectancy differences between the income-richest and income-poorest regions in Central and Eastern European countries more than doubled for men between 1999 and 2008, from 1.8 to 4.2 years, while remaining stable overall in the EU (Richardson et al., 2013<sup>[8]</sup>). In England, the life expectancy gap between the most and least deprived decile of areas increased from 9.0 (6.9) years for men (women) in 2011-13 to 9.3 (7.4) years in 2014-16 despite several government initiatives to reduce them (Raleigh, 2019<sup>[5]</sup>).

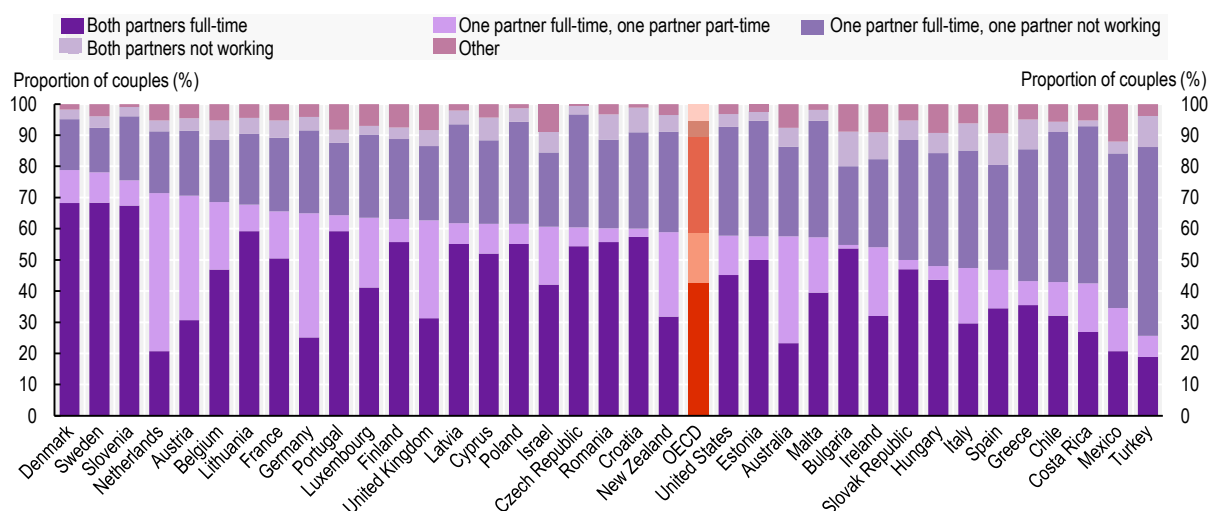
### Changing work life patterns

Longevity has crucial implications for all ages and contributes to new patterns of how people spend their time throughout their life cycle. In general, people go to school longer, marry later and less frequently, have children at later ages and expand more often their working lives beyond the statutory or mandatory retirement ages, be it in full-time or in part-time (OECD Society at a Glance, various editions<sup>[9]</sup>). Subsequent periods are often designated to family and volunteer work, so longer lives also mean a longer period in which people contribute to society even if by formal definition they are economically inactive.

The traditional single-breadwinner model in which the one spouse goes to work while the other stays at home and takes care of children and other family members is becoming less common. Even among couples with children, only 30% have a single breadwinner (Figure 1.9). That is an average of 30 OECD countries; in Denmark or Sweden it is even only every sixth to seventh couple. This has direct implications for career paths, which are becoming more fluid (Figure 1.10). Nowadays, women return to work more often and more quickly after giving birth while men are more likely to pause their job to care for their children or older, frailer family members, though women still take the majority of family care responsibilities (OECD, 2017<sup>[4]</sup>). Changing life patterns will thus require flexibility from employers and support from governments. In particular, shifting age-specific features towards more lifetime-oriented approaches such as life-long learning and more flexible work opportunities for better work-life balance will be crucial to help workers manage these transitions.

**Figure 1.9. Only a minority of couples with children has a single breadwinner**

Distribution of employment patterns in couples with at least one child aged 0-14, 2014

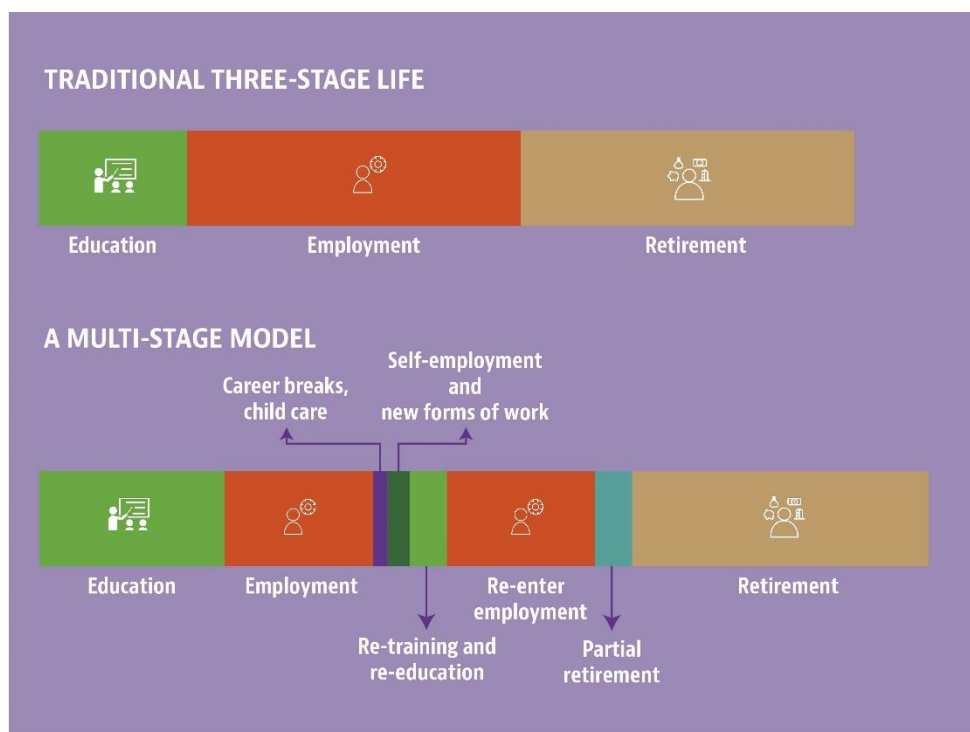


Note: The OECD is the unweighted average of the 30 member countries shown. Data refer to 2012 for Denmark, Finland and Sweden and to 2013 for Chile, Germany and Turkey. For detailed notes, see <http://www.oecd.org/els/family/LMF-2-2-Distribution-working-hours-couple-households.pdf>.

Source: OECD Family Database, indicator LMF2.2, [www.oecd.org/els/family/database.htm](http://www.oecd.org/els/family/database.htm) (accessed 3 November 2020).

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**Figure 1.10. Career paths are becoming more fluid**



Source: OECD adaptation from Mercer (2019<sup>[10]</sup>), *Next Stage: Are you age-ready?*, <https://www.mercer.com/our-thinking/next-stage-are-you-age-ready.html>.

## New technologies shape the future of work

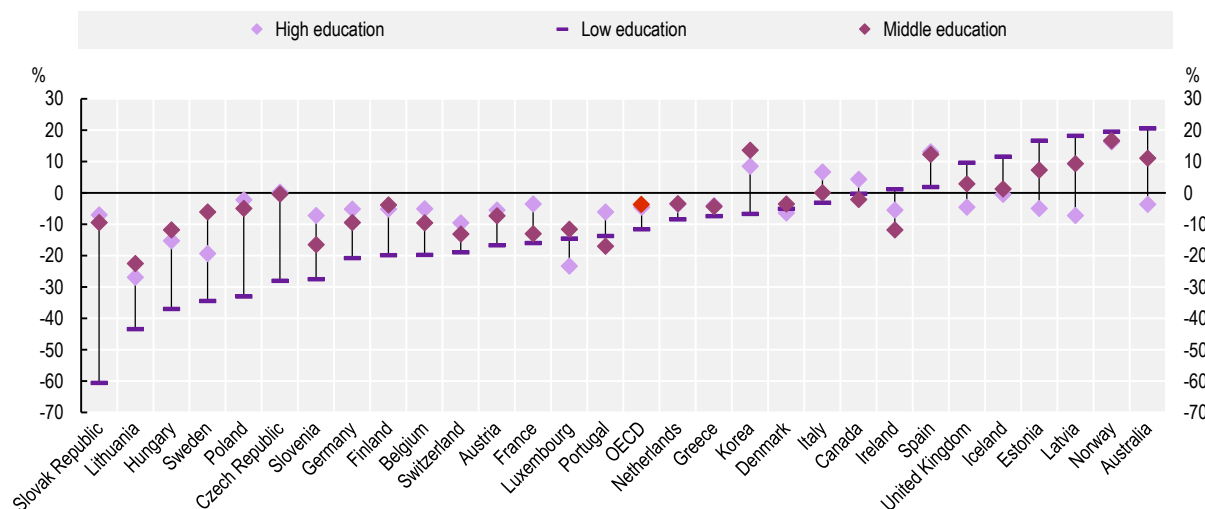
Changes in work-life patterns are further accelerated by globalisation and technological change. In particular, they are changing the nature of work and the skill composition of the labour force. Over the past decades, a process of job polarisation has reduced the share of middle-skilled jobs relative to the share of workers in high- and low-skilled occupations and this process is likely to intensify in the future (OECD, 2019<sup>[11]</sup>). Over the next 15-20 years, 14% of existing jobs could disappear due to automation and another 32% are likely to change radically as individual tasks are automated, so almost every second job could be affected (OECD, 2019<sup>[11]</sup>).

While workers feel much anxiety about the potential risk of job loss and skills becoming obsolete, employers face the challenge of keeping up with the pace of technological and organisational change to stay competitive. However, the new technologies are also game-changers, amplifying the capacity to promote higher productivity growth, better services and improved well-being.

Working habits have changed too. Temporary work and other diverse forms of work have become more common in many countries and workers switch jobs more frequently. Job tenure, a direct indicator of job stability, measuring the amount of time spent in one's current job, has decreased in the majority of OECD countries, in particular among less educated workers. Between 2006 and 2017, job tenure declined by 4% among medium to high-educated workers and 12% among the low-educated (Figure 1.11). More frequent changes of jobs over careers may rise as people start to fully embrace more flexible ways of working (e.g. teleworking) and forms of work (e.g. gig work). This raises challenges for traditional models of adult learning provision that depend heavily on employer-provided training to keep the skills of workers up to date. Training participation of workers in temporary jobs or other forms of employment tend to be lower than for full-time employees in permanent jobs (see Chapter 5 for more discussion).

**Figure 1.11. Workers are changing jobs more frequently**

Percentage change in years of job tenure between 2006 and 2017, adjusted for demographic structure



Note: The OECD is the unweighted average of the 30 countries shown. Data are adjusted to control for the composition of the labour force by age, and gender. High education workers have completed a tertiary education. Middle education workers have achieved an upper secondary education and possibly some additional education but less than a bachelor degree. Workers with low education have not completed upper secondary education. Data for Australia, Germany and the United States refer to 2016.

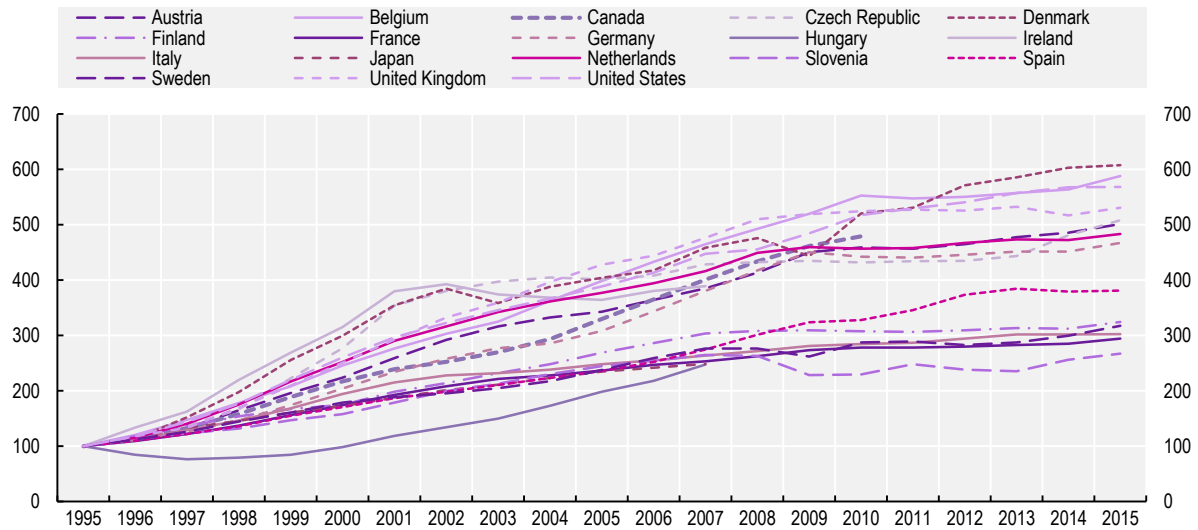
Source: OECD (2019<sup>[11]</sup>), *OECD Employment Outlook 2019: The Future of Work*, Annex Figure 3.A.1, <https://doi.org/10.1787/9ee00155-en>.

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The growth in information and communication technologies (ICT) used in the workplace provides a clear indication of how quickly new technologies permeate the workplace. Over the last two decades, the level of ICT capital services per hour worked more than quadrupled in the majority of countries analysed (Figure 1.12).<sup>1</sup> The COVID-19 crisis has been an accelerator in the adaption of technologies that allow collaboration between co-workers while complying with the governmental rules of physical distancing to contain the pandemic. Many employers have expanded their remote-working technologies and the number of teleworkers surged during the COVID-19 pandemic, equalling up to 60% as recorded in New Zealand in mid-April 2020 (OECD, 2020<sup>[1]</sup>). Keeping the skills of the workforce up-to-date will be key for companies' success in the ongoing technological transformation. Especially for workers, whose main education period dates back several decades, it will be of high importance to invest in workers and systems that help constantly adapt to the quickly changing work environment.


**Figure 1.12. The rapid spread of information and communication technologies in the workplace**

ICT capital services per hour worked in 1995 to 2015, normalised to 100 in 1995



Note: ICT: information and communication technologies.

Source: OECD (2019<sup>[11]</sup>), OECD Employment Outlook 2019: The Future of Work, Figure 2.1, <https://doi.org/10.1787/9ee00155-en>.

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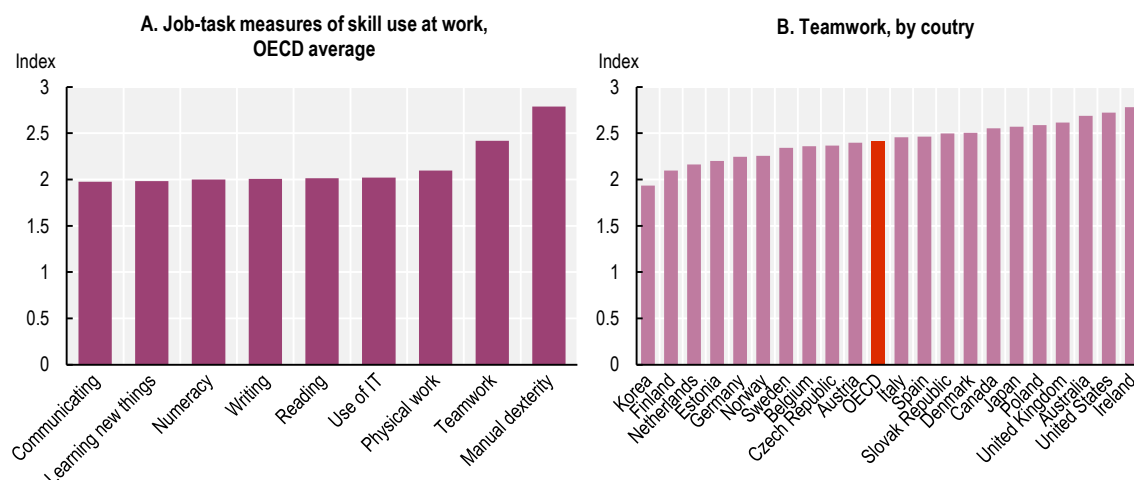
### ***Technology changes how teams collaborate and operate***

The new technologies also allow for new business models and innovative ways of working to emerge, providing more flexibility to both employers and workers. For instance, information and communication technologies facilitate teleworking, which has proven to provide crucial flexibility in the COVID-19 pandemic to keep businesses operating and allows for easier combination of work and care tasks, not only during crisis situations but in general. This is to the benefit of workers of all age groups in dealing with family responsibilities and their employers who manage to retain their employees under maximum working hours possible as commuting time from and to the workplace is saved.

These technologies also change the nature of how teams collaborate and operate. Teamwork is among the most frequently used skills at work, in particular in Anglo-Saxon countries (Figure 1.13). Networked ways of working foster collaboration between co-workers from disparate parts of the organisation, both in terms of content and geographical location. Effectively, this sets up undefined work groups next to the traditional team structure, so-called “hidden teams”. Older workers that exhibit good moderation skills based on their long-standing experience play a vital role here. Yet, older workers may not be getting the credit they deserve for improving team performance (Mercer, 2019<sup>[10]</sup>). A less defined nature of teams may make this even more likely. Making collaboration incentives and performance assessment age-inclusive is thus a crucial factor for strong teamwork, relevant performance measurement and successful business.

**Figure 1.13. Teamwork is one of the skills most used at work**

Job-task measures of skill use at work, indicator, 2012



Note: The OECD is an unweighted average of the 21 countries shown in Panel B.

Source: OECD Database World Indicators of Skills for Employment, <https://stats-3.oecd.org/Index.aspx?DataSetCode=WSDB> (accessed on 31 January 2020).

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## A large potential for the future

A multigenerational workforce can yield a stronger pipeline of talent, higher productivity and more resilience. It also improves workforce continuity, stability and retention of intellectual capital.

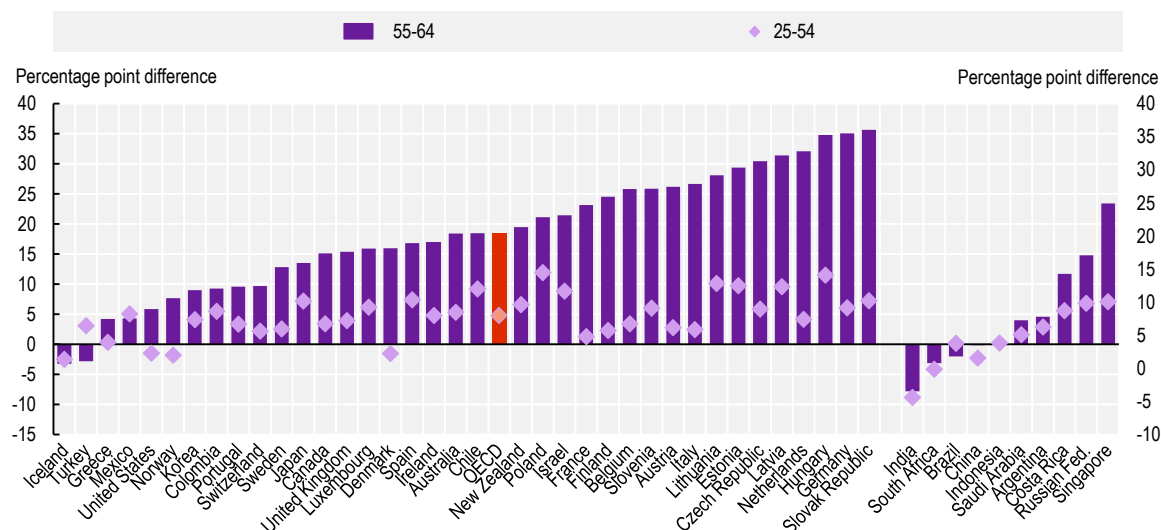
Older workers are key to addressing the challenges brought by ageing and new technologies. Labour market participation at older ages has substantially increased since the turn of the century and companies are using this new potential – employment rates of older workers have risen much more strongly than for the rest of the population (Figure 1.14) and this rise is marked across all education levels.

Employment rates for older workers are very high in countries like New Zealand, Iceland or Japan. As highlighted in (OECD, 2019<sup>[12]</sup>) and Figure 1.20 below, these countries perform well in the three dimensions put forward in the OECD Council Recommendation on Ageing.<sup>2</sup> In most parts of the OECD, however, labour market attachment of older workers remains still far below those top-performing countries. Especially low-educated people often have low employment rates at older ages that suggest a large potential for longer working lives (Figure 1.15). In fact, physical strain and health limitations can make it difficult for older workers to work in some occupations at older ages while a lack in skills and incentives for a longer working life through early-retirement schemes may prevent older workers from prolonging their career. In addition, perceptions of age discrimination remain very common despite it being banned in virtually all OECD countries which hinder employment prospects of all workers (see Chapter 3 for more discussion).



**Figure 1.14. Growth of employment rates of older workers has been strong**

Change in employment rates, 2000-19



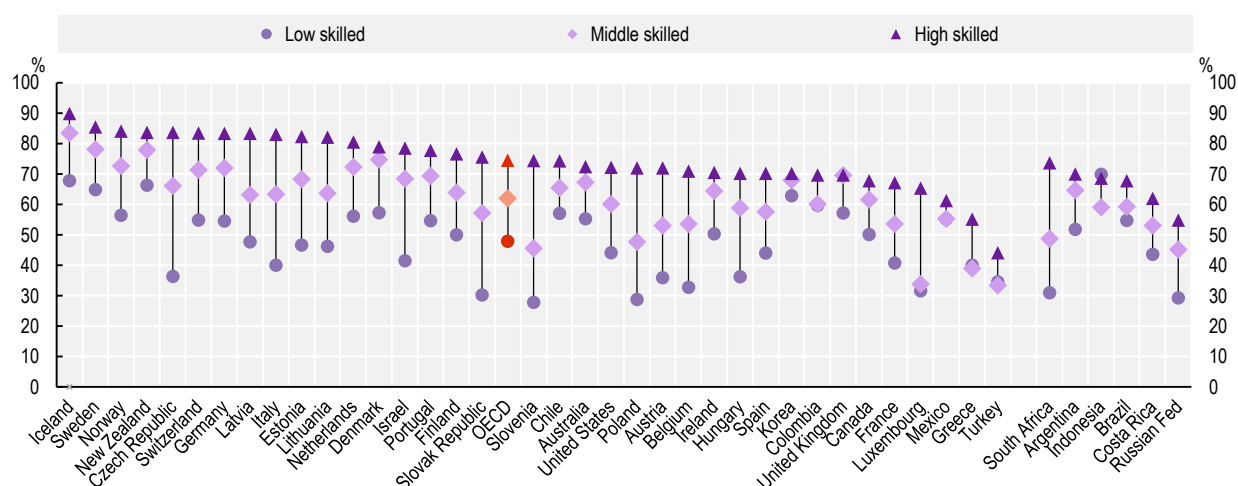
Note: Data refer to the period: 2000-10 (China), 2000-18 (India), 2001-19 (Brazil, Colombia, Singapore, South Africa), 2004-19 (Argentina) and 2009-18 (Saudi-Arabia). OECD is an unweighted average.

Source: OECD Employment Database, <https://www.oecd.org/employment/labour-stats/onlineoecdemploymentdatabase.htm>, Argentina and Saudi-Arabia: International Labour Organization, ILOSTAT, <https://ilostat.ilo.org> and Singapore: Ministry of Manpower, <https://stats.mom.gov.sg/Pages/EmploymentTimeSeries.aspx>.

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**Figure 1.15. Older workers' labour market potential is still large in most countries**

Employment rates by skill level<sup>1</sup> for persons aged 55-64, 2019<sup>2</sup>



Note: The OECD is an unweighted average and excludes Japan for which data are not available.

1. Low skilled refers to Below upper secondary education, Middle skilled to Upper secondary or post-secondary non-tertiary education and High skilled to Tertiary education.

2. Data refer to 2017 for Chile and Indonesia and to 2018 for Argentina, Brazil, the Russian Federation and South Africa.

Source: OECD Education at a Glance, 2020, [http://stats.oecd.org/wbos/default.aspx?datasetcode=EAG\\_NEAC](http://stats.oecd.org/wbos/default.aspx?datasetcode=EAG_NEAC).

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At the same time, there is considerable scope for employing young people and especially so following the COVID-19 pandemic which has hit younger workers particularly hard (OECD, 2020<sup>[1]</sup>). That older workers are taking the jobs of the young, thereby causing youth unemployment and loss of career perspective remains a fallacy driven by a few exceptions (Box 1.3). In sum, younger workers benefit from the experience that older workers bring to the table augmenting the productivity of age-diverse teams (see Chapter 2 for more details).

### Box 1.3. Young and old workers are not substitutes but complements

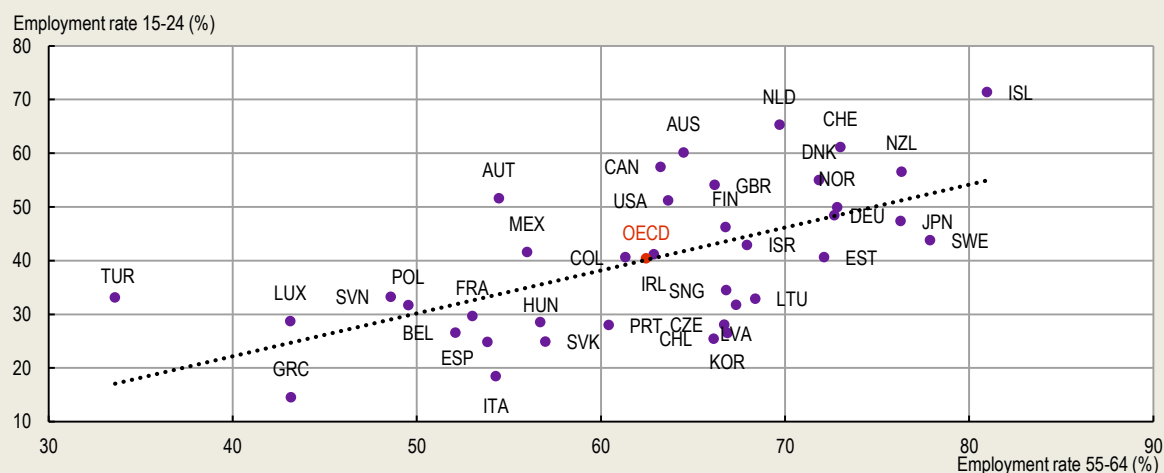
A conventional wisdom is that demand for labour is fixed so that older and younger workers compete for jobs. This is often referred to as the lump-of-labour argument. 30% of respondents to the 2015 ISSP survey said that employed people aged 60 or older take jobs away from the young.<sup>1</sup> This is a non-negligible number even if half of respondents disagreed with the statement and the remaining 20% were neutral. Such perceptions are nurtured by short-term crisis situations in which companies need to reduce or at least not expand their workforce while workers seek to remain in their jobs as the future seems uncertain. An example is the public debt crisis in Italy in which the Fornero reform in 2011 postponed over night the retirement age of cohorts that were about to retire. Boeri, Garibaldi and Moen (2017<sup>[13]</sup>) argue that the reform leveraged the negative impact of the crisis on youth unemployment by keeping older workers in the workforce who otherwise would have made space for the young to move up.

In general, the wisdom of the young and the old being substitutes rather than complements is a fallacy. The empirical literature that specifically analyses for many different countries the relationship between younger workers' employment and that of older workers does not find a crowding-out effect (OECD, 2013<sup>[14]</sup>). One indicator is the positive correlation between the employment rates of older and younger workers among OECD countries (Figure 1.16). This positive relationship between employment of the young and the old is not the results of factors that commonly affect all jobs in an economy in the same way, like public labour market policies or the business cycle (OECD, 2013<sup>[14]</sup>).

The reason is simple; younger and older workers differ in skills and experience, the closest substitute for an older worker is another older worker rather than a younger worker. Situations of low labour demand will always create difficulties to enter the labour market and younger workers are more likely to search for a new (maybe the first) job and may thus suffer more in crisis situations than their older peers. This is, however, no indication of being substituted by an older colleague. As a consequence, past policies to promote early retirement in the hope of lifting youth employment in OECD countries have proven ineffective (Böheim and Nice, 2019<sup>[15]</sup>).


**Figure 1.16. Employment rates of the young and old are positively correlated**

Employment rate by age group, 2019



Note: The OECD is an unweighted average.

Source: OECD database on *Labour Market Statistics by sex and age – indicators: employment-population ratios*, <http://stats.oecd.org/Index.aspx?QueryId=64196> (accessed on 3 November 2020) and the Ministry of Manpower, <https://stats.mom.gov.sg/Pages/EmploymentTimeSeries.aspx> for Singapore.

StatLink  <https://stat.link/27cvsf>

However, both public and employer policies need to be well designed to fully benefit from the skills and experiences of both younger and older workers. In some countries like Korea, concerns that delaying the mandatory retirement age may reduce youth employment persist (OECD, 2020<sup>[16]</sup>). This is due to widespread seniority-based wages that may exceed productivity and affect companies' competitiveness and therefore ability to hire younger workers, and the labour market with high-quality jobs in the public sector and in large firms in limited supply (Hwang, 2013<sup>[17]</sup>). A performance-based wage setting system and public policies against labour market duality are crucial components to benefit fully from the advantages of the multigenerational workforce.

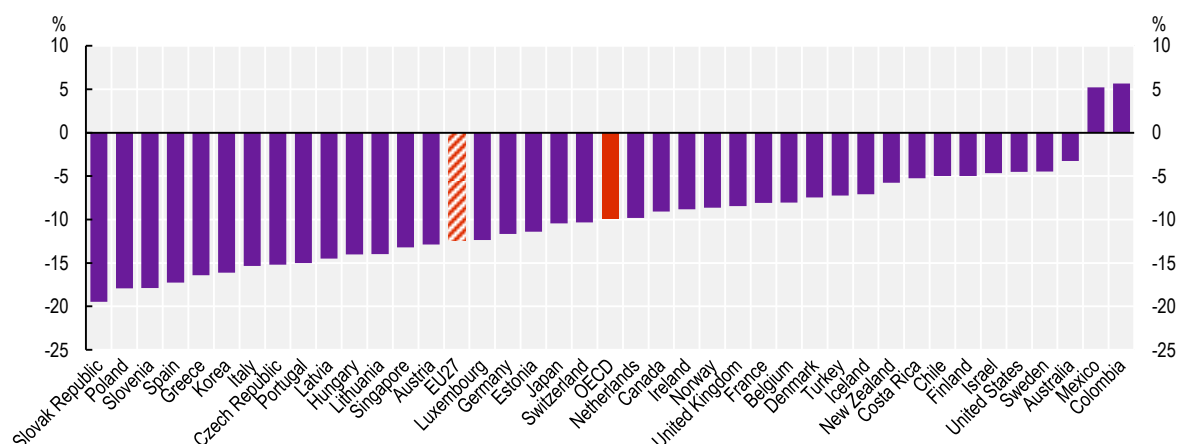
1. International Survey of Social Protection (ISSP), 2015, Work Module IV, question O6 "To what extent do you agree or disagree with the statement: When people aged 60 and over are employed, they take jobs away from the young?"

### **Further integrating women and older workers can boost GDP**

Were employment rates in all age groups to remain at today's level, ageing and low fertility rates would reduce the share of the labour force in the total population. Abstracting from productivity gains due to technological progress or other factors, real GDP per capita would drop by 10% on average by 2050 in all OECD countries except Colombia and Mexico. Countries like the Slovak Republic, Poland, Slovenia, Spain, Greece, Korea and Italy would be hit particularly hard with a loss in real GDP per capita of more than 15% (Figure 1.17).

**Figure 1.17. Population ageing and low fertility rates will lower living standards if employment rates remain unchanged**

Change in real GDP per capita in 2018-50 if employment rates in all age groups remained constant



Note: This calculation abstracts from productivity gains due to technological progress or other factors and assumes that firms adapt the capital stock along with changes in labour input to keep the capital-labour ratio constant. OECD and EU27 are unweighted averages. EU27 excludes the United Kingdom.

Source: OECD calculations based on the model described in 0 using employment rate data from national labour force surveys and the European Union Labour Force Survey.

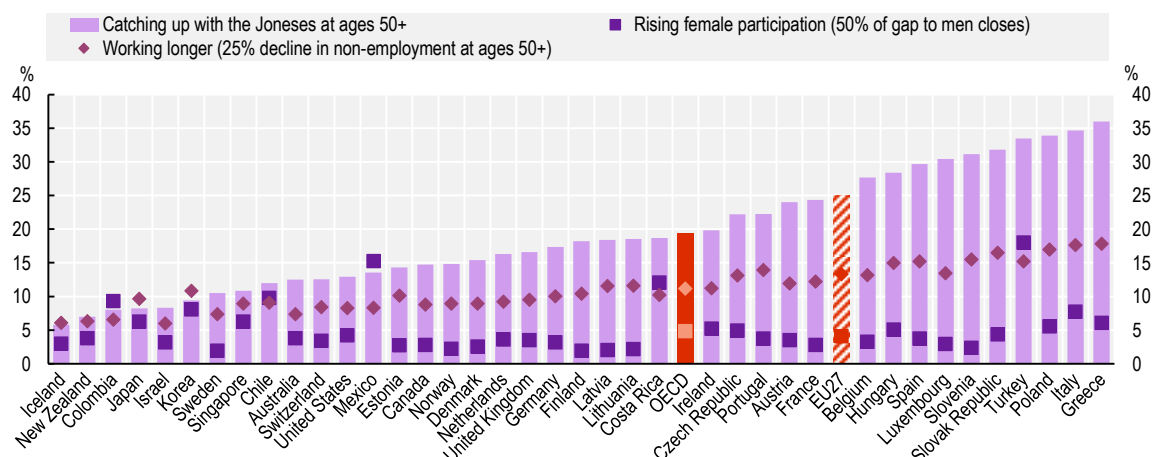
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However, in all countries there is scope for mitigating or even overcoming this negative trend if companies and governments would fully tap into the potential of female and older workers. Three scenarios are considered (see 0 for details on scenarios and methodology):

- A scenario where the 2018 gap in employment rates between men and women is closed by half by 2050 (i.e. closing half of the gender gap) would raise real GDP per capita in 2050 by 5% on average in the OECD and by about 15% in Mexico and Turkey where women still participate substantially less in the labour market than men (Figure 1.18).
- If, alternatively, countries manage to turn the projected longevity gains of the coming decades into longer working lives this would boost living standards even more. In a “working longer” scenario, an 11% rise in real GDP per capita in 2050 could be expected on average in the OECD if a quarter of those people aged 50 to 79, who are not in work today (2018), would be working in 2050.
- Finally, a “catching up with best in class countries” scenario in which all countries match the employment rates of the 50-year-olds and above to the top-performing countries, could add, on average in the OECD, nearly 20% to 2050 real GDP per capita. This exemplifies the significant potential that lies in the extension of working lives for economic performance.

**Figure 1.18. Longer working lives would boost living standards substantially**

Change in real GDP per capita in 2050 from increased labour market participation among older workers



Note: Data display the increase in real GDP per capita in 2050 that results from the respective scenario compared to the baseline scenario in which employment rates in all countries remain at their 2018 level: i) "Catching up with the Joneses" refers to achieving employment rates for people aged 50 or more in each 5-year age group and for both genders in line with countries such as New Zealand and Iceland, which have the highest rates in 2018; ii) Rising female participation assumes the gap in employment rates between men and women observed in 2018 closes by half in each 5-year age group by 2050 and iii) Working longer assumes that rates of non-employment (which equal 100% minus the employment rate) for people aged 50 to 79 decline in each 5-year age group and for both genders by one-quarter compared to 2018. More details on scenarios and methodology in 0. OECD and EU27 are unweighted averages. EU27 excludes the United Kingdom.

Source: OECD calculations based on the model described in 0 using employment rate data from national labour force surveys and the European Union Labour Force Survey.

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All three scenarios would have substantial positive effects on living standards, here measured as real GDP per capita. Depending on scenario and country, these positive effects would mitigate, offset or even overcompensate the detrimental effects from population ageing and low fertility rates by 2050 (Figure 1.19).

Overall, a wider labour pool from longer working lives and more women in the workforce would be of significant benefit to countries that face pressure on their supply of labour due to population ageing and low fertility rates. In addition, a more diverse workforce has the potential to elevate firm productivity, e.g. through skill complementarity of workers from different generations and lead to positive effects on various business outcomes as shown in Chapter 2.

**Figure 1.19. Longer working lives would (more than) compensate the loss in living standards from population ageing and low fertility rates**

Change in real GDP per capita between 2018 and 2050 for several alternative scenarios



Note: Data display the change in real GDP per capita between 2018 and 2050 induced by population ageing and – except for the baseline scenario in which employment rates in all countries remain at their 2018 level – changes in employment rates in accordance to the respective scenarios (described in more detail in note of Figure 1.18 and 0). This calculation abstracts from productivity gains due to technological progress or other factors and assumes that firms adapt the capital stock along with changes in labour input to keep the capital-labour ratio constant. OECD and EU27 are unweighted averages. EU27 excludes the United Kingdom.

Source: OECD calculations based on the model described in 0 using employment rate data from national labour force surveys and the European Union Labour Force Survey.

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### **Countries and companies need to set the right policies to unleash the future potential**

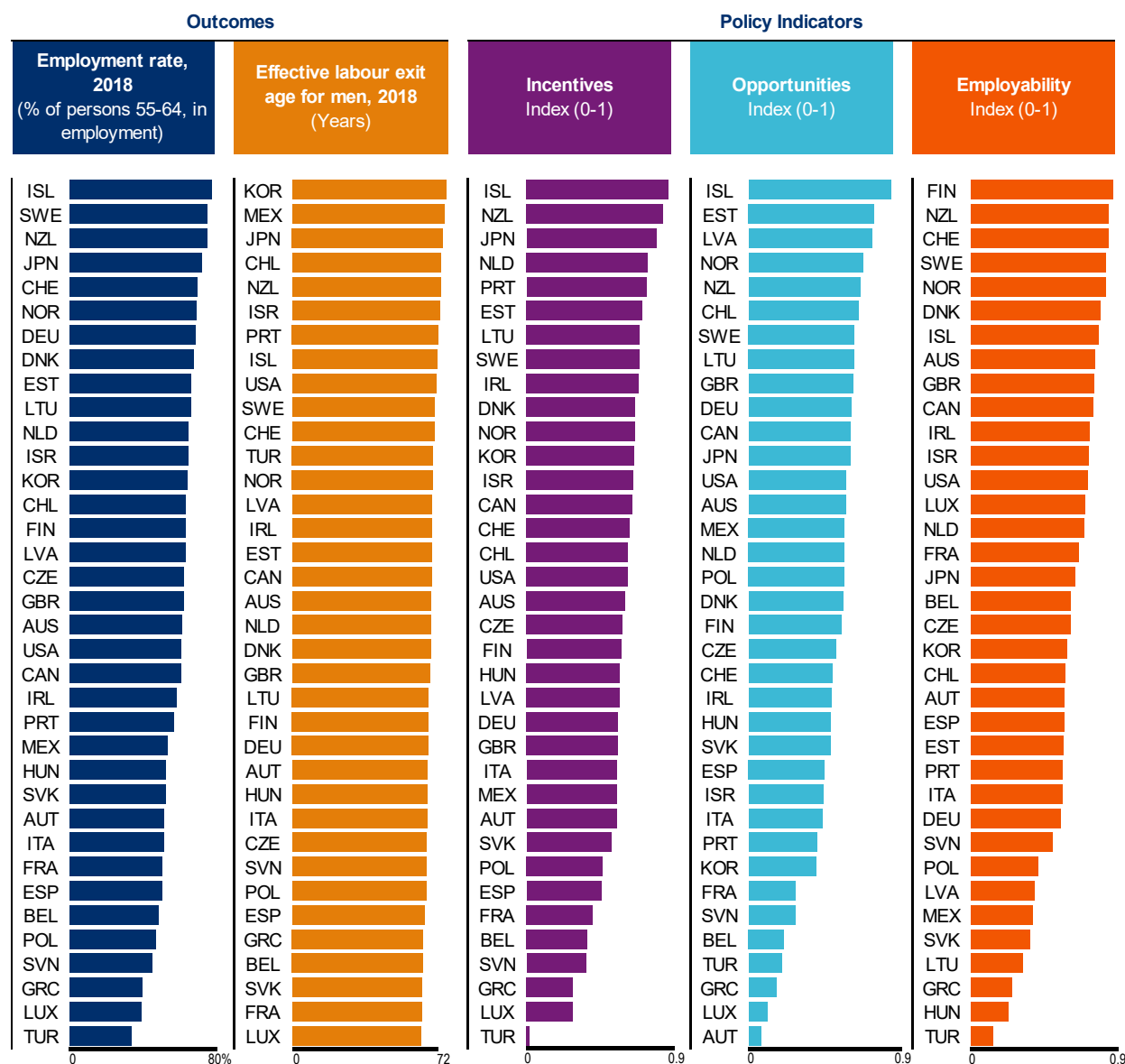
Unleashing the large future potential that longer working lives and multigenerational workforces offer, will need solutions and interventions across public, private and non-profit sectors to help workers get the supports across the life course to ensure their ability to work as long as they want or need.

Today, large differences in incentives, opportunities and employability of older workers across countries exist leading to different labour market outcomes (Figure 1.20). Essentially countries which provide better incentives (e.g. reward work and later retirement), better opportunities by successfully hiring and retaining workers and invest more in employability of workers via training and good quality jobs do better in promoting employment for older workers. Moreover, many of the obstacles that make working longer difficult are rooted in the disadvantages that people experience earlier in their lives – in health, in education, in employment, in earnings. Unfolding the potential of longer and more productive lives therefore calls for a life course approach.

Governments will set the frame of what is possible and determine the policy context for companies (OECD, 2019<sup>[12]</sup>). Employers need to adapt to the given circumstances to harness the large potential that multigenerational workforces provide for the future. Chapters 3 to 5 of this report focus on the role of employers and show that policies affecting recruitment, hiring, assessment, retention, compensation, life-long learning, health and retirement all need to be age and stage inclusive to strengthen the future of business in ageing societies.

**Figure 1.20. Public and employer policies determine incentives, opportunities and employability for older workers**

Employment rate (%), Effective labour exit age (years) and Indices for incentives, opportunities and employability



Note: The effective labour market exit age is defined as the average age at which older workers exit the labour force according to labour market participation rates at older ages. The indicators build on the OECD's Older Workers Scoreboard as well as information from OECD Pensions at a Glance and other data regularly collected on job quality and life expectancy. The indicators included for each dimension are as follows: Incentives: i) current statutory retirement ages (men); ii) gross replacement rates; and iii) impact on benefits when working and deferring pensions. Opportunities: i) retention rates; and ii) full-time earnings ratio 55-64/25-54. Employability: i) participation in training; ii) job strain; and iii) life expectancy at 65. All indices are normalised between 0 and 1 for all countries for the latest year available, and averaged across each dimension. Each index is constructed so that higher values correspond to employment promoting policies for older workers. For instance, the highest normal retirement age and the lowest gross replacement rate have the highest value on the scale. Similarly, higher seniority wages as measured by the full-time earnings ratio 55-64/25-54 and higher levels of job strain have lower values on the scale.

Source: OECD (2019<sup>[12]</sup>), *Working Better with Age, Ageing and Employment Policies*, Annex Figure 2.A.1, <https://doi.org/10.1787/c4d4f66a-en>.



## Key takeaways

- Long-term trends of ageing populations and digitalisation, and the ongoing COVID-19 crisis make it imperative for employers to rely on the diversity and skills of all workers to ensure business continuity, organisational resilience and success.
- The good news is that on average today's older adults are healthier and better educated than any generation before and – health shocks such as COVID-19 aside – this trend will continue. Many of them who can also work or plan to carry on working well past traditional retirement ages.
- This is a trend to celebrate and employers who take the right steps can leverage the multigenerational workforce as a key to success. Yet, employees aged 65 and above are underrepresented in companies' workforces, compared to the overall labour force. Among other factors, ageism continues to hinder employment prospects of all workers.
- Rising longevity is challenging traditional work-life patterns. People go to school longer, marry later and less often, have children at later ages and expand their working lives beyond the statutory or mandatory retirement age, in full-time or part-time. In addition, women return to work more often and more quickly after giving birth while some men pause their job to care for their children. The traditional single-breadwinner model is outdated.
- More fluid working lives require agility and flexibility from employers and support from governments. Technological change can also help organisation of work and aid smoother transitions as illustrated by the high-take up of teleworking during COVID-19 crisis which enabled many workers to continue to work in combination with care tasks or education.
- If no action is taken to improve employment rates in all age groups, population ageing would reduce living standards in the OECD. Yet, despite the overall positive trend of rising employment among older workers, their talent remains underutilised in too many countries and companies.
- With the right employer practices and government support, more can be done to integrate older workers, which can boost economic performance and living standards.

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# Annex 1.A. GDP growth calculations – methodology, scenarios and results

## Methodology

Calculations of future GDP growth rely on three factors: (i) the development of capital input, (ii) labour input and (iii) productivity. The scenarios in this report focus on how changes in labour input driven by ageing and changing employment rates of women and at older ages in the coming three decades could contribute to growth. In order to do so, it abstracts from changes in productivity gains due to technological progress or other factors and assumes that firms adapt the capital stock along with changes to labour input to keep the capital-labour ratio constant. Under these assumption the growth in real GDP equals the growth in labour input while real GDP per capita grows with the rate of labour input growth minus the rate of total population growth as further explained in Annex Box 1.A.1.

Labour input is computed based on employment rates and population numbers, both by country, 5-year age group and gender. Employment rate data for 2018 stem from national labour force surveys and the European Union Labour Force Survey. Population data for 2018 and projections for future periods stem from OECD population projection database (unpublished), which is based on national sources, Eurostat population projections and UN World Population Prospects.

### Annex Box 1.A.1. Methodology of calculating GDP growth

The growth effects from changing labour inputs are projected based on a standard Cobb-Douglas production function with constant elasticities to scale:

$$Y = K^{\alpha} (A L)^{1-\alpha}$$

where  $K$  and  $L$  are capital and labour input respectively and  $A$  is the parameter of (labour-augmenting) technology.  $\alpha$  is the elasticity of the production to capital input. Abstracting from growth effects from technological change one can normalise – without loss of generality –  $A$  to unity. Re-writing the function in logarithms (indicated by small letters) shows that growth in real GDP composes of changes in capital intensity  $I$  ( $:= K/L$ ) and labour input  $L$ :

$$y = \alpha i + l$$

How firms will adapt capital input in response to changes of labour input in the future depends on how technological development will affect the degree of substitutability or complementarity between capital and labour which is highly uncertain. Also, changes in capital intensity have shown to contribute comparatively little in explaining economic growth in the last decades (see, e.g. Jones (2016<sup>[18]</sup>), for the United States).

The calculations in this report rely on the assumption that the capital intensity in the production remains constant in all scenarios of the future which means that firms adapt their capital stock proportionally to changes in labour input. Hence,  $i$  equals 0 and growth in real GDP equals labour input growth while real GDP per capita grows with the rate of labour input growth minus the rate of total population growth.

## Labour market scenarios for 2050

Several scenarios exemplify how population ageing may hit on economic growth in the coming decades and how both longer working lives and additional labour input from more female labour market participation may contribute to continued growth. A short description of the considered labour market scenarios for 2050:

- **Baseline:** employment rates in each group defined by country, gender and 5-year age interval remain at the 2018 level.
- **Rising female labour market participation:** in each country and for each 5-year age group, the observed 2018 gap in employment rates between men and women closes by half.
- **Working longer:** in each country and for each gender, rates of non-employment decline for the age groups 50-54, 55-59, 60-64, 65-69, 70-74 and 75-79 by one-quarter compared to 2018. For example, an employment rate of 60% rises to 70% ( $= 100\% - 40\% * 0.75$ ) and a rate of 80% rises to 85% ( $= 100\% - 20\% * 0.75$ ). Employment rates in all other age groups remain at 2018 level.
- **Best performing countries:** In each country and for each gender, employment rates for all 5-year age groups at 50-54 or above equal the maximum employment rate in this group in 2018 among all OECD countries. Employment rates below age 50 remain at 2018 level.

## Labour market scenarios for 2030 and 2040

To compute GDP growth by 2030 and 2040, the 2050 scenarios are assumed to be fulfilled stepwise with the steps becoming smaller over time. This resembles that it gets harder to make further progress the more already is achieved. In more detail:

- **Rising female labour market participation:** the gender gap is assumed to close as follows: 25% by 2030, 40% by 2040 and 50% by 2050.
- **Working longer:** non-employment rates at older ages are assumed to decline as follows: 12% by 2030, 20% by 2040 and 25% by 2050.
- **Best performing countries:** the catch-up with countries that have highest employment rates at older ages in 2018 is assumed to evolve as follows: 45% by 2030, 80% by 2040 and 100% by 2050.

## Change in GDP between 2018 and 2030, 2040 or 2050 for all scenarios


Annex Table 1.A.1 collects the change in real GDP per capita between 2018 and 2030, 2040 or 2050 for all considered alternative scenarios described above. For the baseline scenario, listed changes in real GDP per capita are a result of population ageing while for the other scenarios they result from the combination of population ageing and changes in employment rates.

**Annex Table 1.A.1. Change in real GDP per capita (%) between 2018 and 2030, 2040 or 2050 for several alternative scenarios**

Baseline (A), rising female labour market participation (B), working longer (C), catching up with the Joneses (D)

%	2018-30				2018-40				2018-50			
	(A)	(B)	(C)	(D)	(A)	(B)	(C)	(D)	(A)	(B)	(C)	(D)
Australia	-2.7	-0.8	0.7	2.6	-3.3	-0.3	2.3	6.2	-3.3	0.4	3.8	8.8
Austria	-8.0	-6.4	-2.9	1.6	-10.9	-8.4	-2.1	6.1	-12.9	-9.8	-2.5	8.1
Belgium	-5.1	-3.5	1.0	6.8	-6.7	-4.3	3.3	14.0	-8.1	-5.1	4.0	17.4
Canada	-6.7	-5.4	-2.6	-0.5	-8.3	-6.3	-1.8	2.6	-9.1	-6.5	-1.1	4.3
Chile	0.3	4.9	3.7	4.5	-1.7	5.6	4.5	6.6	-5.0	4.3	3.6	6.4
Colombia	3.6	8.2	6.2	6.7	6.9	14.7	11.9	13.0	5.6	15.5	12.6	14.1
Czech Republic	-5.1	-3.1	-0.6	2.0	-10.1	-6.7	-1.9	4.4	-15.2	-11.0	-4.1	3.6
Denmark	-4.8	-3.5	-0.6	1.9	-8.5	-6.6	-1.4	3.5	-7.4	-5.1	0.8	6.8
Estonia	-3.9	-2.7	0.0	1.0	-6.7	-4.7	0.1	2.8	-11.4	-9.0	-2.4	1.3
Finland	-2.9	-1.9	1.9	4.8	-3.3	-1.7	4.4	9.9	-5.0	-3.1	4.9	12.3
France	-4.8	-3.4	1.0	6.1	-7.7	-5.6	1.8	11.1	-8.1	-5.5	3.1	14.3
Germany	-7.9	-6.4	-3.1	-0.6	-10.7	-8.4	-2.7	2.3	-11.7	-8.9	-2.8	3.7
Greece	-7.0	-4.0	0.1	7.0	-12.8	-8.3	-0.2	13.0	-16.4	-11.4	-1.5	13.7
Hungary	-3.8	-1.5	1.6	5.9	-10.0	-6.3	-0.3	9.2	-14.0	-9.7	-1.2	10.4
Iceland	-3.6	-2.3	-1.2	-1.5	-5.0	-2.8	-0.7	-0.9	-7.1	-4.3	-1.4	-1.7
Ireland	-0.7	1.7	3.6	6.8	-3.9	0.0	4.0	10.6	-8.8	-4.1	1.4	9.2
Israel	-2.7	-1.2	0.0	0.9	-3.5	-1.1	1.0	2.9	-4.7	-1.6	1.0	3.3
Italy	-6.3	-2.5	1.0	7.6	-12.6	-7.0	0.5	12.7	-15.4	-8.8	-0.4	14.0
Japan	-3.6	-0.7	0.0	-0.5	-7.2	-2.5	-0.5	-1.6	-10.4	-4.8	-1.8	-3.1
Korea	-4.1	-0.2	-0.2	-0.4	-10.7	-4.9	-3.4	-4.4	-16.1	-9.4	-7.1	-8.3
Latvia	-8.1	-7.2	-3.4	-1.5	-10.4	-9.1	-2.5	2.0	-14.5	-12.7	-4.6	1.3
Lithuania	-9.4	-8.4	-4.4	-2.4	-11.6	-10.0	-3.1	1.5	-14.0	-12.1	-4.0	2.0
Luxembourg	-4.3	-3.0	0.8	6.6	-8.3	-6.2	0.7	11.9	-12.4	-9.8	-0.6	14.3
Mexico	4.0	11.8	7.1	9.2	5.4	18.1	11.6	15.8	5.2	21.3	14.0	19.5
Netherlands	-6.2	-4.5	-1.8	0.9	-10.4	-7.8	-3.1	2.1	-9.8	-6.6	-1.5	4.9
New Zealand	-3.6	-1.7	-0.8	-0.9	-5.4	-2.6	-0.6	-0.3	-5.8	-2.2	0.2	0.8
Norway	-3.2	-2.1	0.6	2.6	-7.0	-5.4	-0.4	3.7	-8.6	-6.6	-0.5	4.9
Poland	-6.9	-4.7	-1.2	3.7	-11.7	-8.0	-1.8	9.3	-17.9	-13.4	-4.0	9.9
Portugal	-4.9	-3.3	0.4	3.5	-11.1	-8.5	-1.6	4.6	-15.0	-11.8	-3.2	3.9
Slovak Republic	-6.6	-4.8	-1.4	2.7	-12.2	-9.4	-2.8	6.7	-19.5	-15.9	-6.2	6.1
Slovenia	-8.7	-7.6	-2.7	2.6	-13.7	-11.9	-3.3	7.5	-17.9	-15.9	-5.2	7.7
Spain	-6.3	-4.5	-0.6	4.5	-13.1	-10.5	-2.6	7.8	-17.3	-14.2	-4.7	7.3
Sweden	-2.5	-1.5	0.8	1.9	-3.6	-2.1	2.1	4.5	-4.5	-2.6	2.6	5.6
Switzerland	-5.4	-3.8	-1.9	-0.5	-8.1	-5.6	-1.8	1.0	-10.4	-7.3	-2.8	0.9
Turkey	-2.4	6.3	3.0	9.5	-5.0	8.6	5.4	18.8	-7.2	9.5	6.9	23.8
United Kingdom	-4.5	-2.8	-0.3	2.3	-6.5	-3.9	0.8	5.8	-8.4	-5.2	0.3	6.7
United States	-3.4	-1.3	0.5	2.1	-4.4	-1.1	1.9	5.3	-4.5	-0.5	3.4	7.8
<b>OECD</b>	<b>-4.4</b>	<b>-2.1</b>	<b>0.1</b>	<b>3.0</b>	<b>-7.4</b>	<b>-3.8</b>	<b>0.5</b>	<b>6.3</b>	<b>-9.9</b>	<b>-5.5</b>	<b>0.0</b>	<b>7.2</b>
Costa Rica	0.0	5.5	3.4	5.9	-1.5	7.7	5.3	11.1	-5.2	6.2	4.4	12.5
EU27	-5.2	-3.4	0.0	4.0	-9.1	-6.2	0.0	8.2	-12.5	-8.9	-0.9	9.2
Singapore	-5.5	-2.6	-1.9	-1.4	-10.4	-5.9	-4.2	-2.8	-13.2	-7.8	-5.4	-3.8

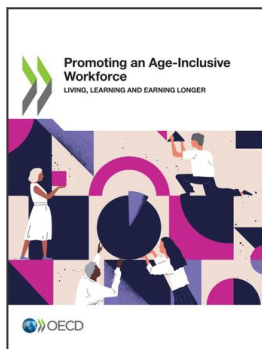
Source: OECD calculations.

StatLink  <https://stat.link/myw16j>

## Notes

<sup>1</sup> Capital services measure the role of the capital input, such as machinery and equipment, in the production process and equal, in principle, the rental price of such goods that could be directly observed if markets existed for all capital services (OECD, 2019<sup>[19]</sup>).

<sup>2</sup> The OECD Council recommendation on Ageing and Employment adopted in 2015 puts forward an age-friendly agenda in three broad policy areas to promote employment at an older age: 1) improving incentives to work at an older age; 2) tackling employer barriers to hiring and retaining older workers; and 3) improving the employability of older people through a lifecycle approach.



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