

Labour market transitions among the over-50s

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This report uses longitudinal survey data on 26,000 men and women aged between 50 and state pension age (SPA) over the period 1993-2003 to describe the characteristics of the over-50s and to examine their transitions between employment, unemployment and types of inactivity using econometric techniques. We focus on four labour market states:

- employment;
- unemployment;
- type 1 inactivity (inactive but with some desire to work);
- type 2 inactivity (inactive and with no desire to work).

These categories can be interpreted as a measure of distance to the labour market: employment is closest, type 2 inactivity furthest away. Some attention is also given to the issue of part-time work.

Characteristics of the over-50s

Size of the over-50s population

By Summer 2003, there were approximately 8.8 million individuals aged 50-SPA ('over-50s', for short). The data show that, since 1993, there has been an upward trend in the size of the over-50s population. The population is also very predominantly white and the majority live with their partner. There are few cases of dependent children in the family and even fewer below the age of 11. Most individuals either own their property outright or are in the process of buying it through a mortgage. Over-50s men tend to be more highly

qualified than women who are much more likely to hold no formal qualifications. This is partly explained by the greater tendency for men to have successfully undergone a recognised trade apprenticeship.

Health

With an older population, issues of health become increasingly relevant and roughly 40-45 per cent of the population suffered from a health problem for a year or longer. This was slightly more common among men than women. Most common problems were musculo-skeletal, circulatory and respiratory. Approximately a quarter of men and women received benefits.

Labour market status

About two-thirds of men and slightly fewer women were working. Unemployment is low in this population. More significant is inactivity: 29 per cent of men and 35 per cent of women. Type 1 inactivity is less common than type 2 inactivity. In about half of these cases, the reason for type 1 inactivity is health-related for both men and women. Within type 2 inactivity, health problems are again a common reason for men and women. However, women are more likely than men to cite domestic or caring responsibilities while men are more likely than women to have retired early.

Changes over time

For both men and women, there has been an increase in the employment rate over the period 1993-2003. For men, this was mainly fuelled by a fall in unemployment while for women there was a

corresponding reduction in type 2 inactivity. Overall, unemployment is a short-lived status for both men and women. Employment tends to have the longest duration for men while type 2 inactivity appears to be the most enduring status for women.

Characteristics of current and previous employment

Most people in employment usually work between 25 and 40 hours per week (64 and 55 per cent of male and female jobs respectively). Most working men who do not fall into this category usually work more than 40 hours per week while most working women who do not fall into this category usually work fewer hours per week. Men receive higher pay on average than women. Of those looking for work, most sought work as an employee. Sixty-two and 31 per cent of men and women respectively were explicitly looking for full-time work. The corresponding levels for part-time work were 13 and 49 per cent. Previous jobs for those unemployed people who had worked in the past were more often manual than for those currently working. Previous jobs were also more commonly in manufacturing than is true of current jobs. There is also an indication that current jobs are less likely than previous jobs to be in low-skill occupations. This highlights the potential importance of re-skilling for those who wish to enter the labour market.

Reasons for leaving work

Among both men and women, poor health was most often given as the reason for leaving their previous job. Men were much more likely than women to take early retirement. Women, on the other hand, were much more likely to cite family or personal reasons or simply to state that they had resigned.

Transitions between economic states

Relative stability of economic states

Employment is the most stable status for both men and women; most transitions are to type 2 inactivity (often retirement). Unemployment is usually short-term, especially for women. Those leaving unemployment are split evenly between those finding work and those becoming inactive. Type 1 inactivity is also an unstable status. Most of those leaving type 1 inactivity move into type 2 inactivity. Type 2 inactivity is a very stable state. Transitions from type 2 inactivity are mainly to type 1 inactivity.

Characteristics associated with economic states

A number of factors are associated with being in a given labour market state for the over-50s. Men and women become less likely to be employed and most likely to be inactive the older they are. This is particularly marked for those close to SPA. With regard to qualifications, the most highly qualified individuals are the least likely to be employed and most likely to be type 2 inactive. There is some indication that men with a managerial occupation are less likely to be employed and more likely to be type 2 inactive than men with other occupations. Interestingly, the opposite is true for women. Another interesting finding is that there appears to be no difference between men and women in the effect of dependent children in the household. Dependent children are associated with lower inactivity and greater employment. The same is true of having a partner. When the partner is working, the probability of inactivity is dramatically lower and that of employment is dramatically higher. Relative to those who owned their accommodation, those paying off a mortgage were less likely to be inactive and more likely to be employed. There appears to be something of a north-south divide for men, with those living in the north (including Wales) more likely to be type 2 inactive and less likely to be employed. No such pattern was found for women.

Modelling transitions between economic states

When considering transitions over time, the importance of personal characteristics is outweighed by the effects of previous labour market status. The results for both men and women are suggestive of the presence of substantial persistence in labour market state. That is, the probability of being in a given state is larger for individuals already observed in that state in the previous quarter than for anyone else. This is known as 'state dependence'. Entering employment is most common among unemployed people, followed by type 1 inactive people and lastly the type 2 inactive people.

Part-time work as a 'bridge'

Drawing a distinction between part-time and full-time employment, it seems that, for men, part-time work operates as a bridge between non-employment and full-time employment. This bridge operates in both directions. That is, part-time work can operate as an intermediate step for those out of work who wish to work full-time and for those working full-time who partially withdraw from the labour market. For women, on the other hand, there is no evidence of part-time work operating as a bridge to full employment. Part-time work appears to function more as a stable long-term state. However, the results still support the idea that part-time work may act as a bridge for women wishing to reduce the extent of their engagement with the labour market.

Modelling spell durations

There was strong evidence of duration dependence. That is, the likelihood of making a transition from a state declines the longer the individual stays in the starting state. Roughly, transitions appear to be concentrated in the first three years of a spell. Individuals who remain beyond this point, remain for a much longer period after that.

Leaving type 2 inactivity

Older men and women are slower to leave type 2 inactivity and those close to SPA are even less likely to leave. Men with a temporary health problem or disability leave more quickly. Not owning one's house outright and having dependent children both speed transitions from type 2 inactivity. Considering just those who were not retired when first observed there are three notable findings. First, there are clear differences between men and women: non-retired women leave type 2 inactivity more slowly than non-retired men. Second, transitions are not concentrated so heavily towards the start of the spell but are spread over a longer period. Third, fewer transitions occur than for type 2 inactive men and women as a whole. That is, type 2 inactivity appears more permanent for those men and women with a reason other than retirement for not wanting to work.

Leaving type 1 inactivity

For men, activity and type 2 inactivity are equally important destinations upon leaving type 1 inactivity while, for women, type 2 inactivity is found to be the more important destination. The speed of transition from type 1 inactivity was affected by age, level of qualification, disability, accommodation tenure type, partnership status (especially the economic status of the partner), industry, occupation and region.

Leaving unemployment

The main characteristics affecting the speed with which men left unemployment were age, type of accommodation, tenure and region. For women, there were too few observations to consider transitions from unemployment.

Leaving employment

Older men and women in the sample are likely to leave employment more quickly than those who are younger. Those closest to SPA leave employment faster. No effect of qualification or occupation is found for men or women, nor is there an effect of having a dependent child. Having a

mortgage reduces the time taken to leave employment. Having a working partner slows transitions from employment.

Conclusion

To be effective, policy must be tailored to the specific needs of the over-50s. The policy objective of extending working lives is most likely to have an impact by concentrating on the twin aims of encouraging those in work to remain longer in employment while, at the same time, trying to develop an interest in work among those with no such interest.

The analysis has shown evidence of both state dependence and duration dependence. This implies there is the potential for any individual to become trapped in inactivity and, ideally, policy should intervene as soon as an individual experiences a period of non-employment. In view of the stability of employment status among the over-50s, the deadweight costs associated with this should not be too great. However, the combination of state dependence and duration dependence also suggests there is scope for policy to exert a long-lasting and beneficial effect, particularly if support is offered on a sustained basis for those helped into work.

The potential role of part-time employment in extending working lives is also apparent. It offers an intermediate step for those wishing to reduce the level of their engagement with the labour market. For men, it also appears to offer a bridge from non-employment to full-time work. For women, it is less of a bridge to full-time work but more of a long-term employment status.

The full report of these research findings is published for the Department for Work and Pensions by Corporate Document Services (ISBN 1 84123 912 7. Research Report 296. November 2005).

It is available from Paul Noakes at the address below.

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