

Health and retirement

Policy conclusions

- Poor health is one of the strongest determinants of the timing of retirement
- Retirement has also been found to affect health, although its effects are mixed
- The effects of poor health on retirement are strongly related to socio-economic background
- The negative effects of health on retirement can be mitigated to some extent by factors at the firm-level and on the work floor
- Policies to promote postponing of retirement should take into account factors that mediate the effects of health, as well as focus more on what older workers *can* do according to their health situation instead of what they *cannot*

INTRODUCTION

Both common sense observations and research evidence indicate that health status plays a crucial role in retirement decisions. Regardless of age, poor health is likely to increase the disutility of work and has a negative effect on labour supply preferences and decisions at the individual level. Simultaneously, health problems may also hamper work performance and labour productivity and thereby act as a barrier to labour market entry, contributing negatively to labour demand. As people age and approach retirement, health is likely to play a more important role, since ageing typically brings with it an increasing number of health risks and makes individuals more susceptible to disability. This effect is strengthened by pension and social security systems that can include early exit options, reinforcing the effects of health deterioration on retirement.

During the last century, health and life expectancy among the older segments in industrialized countries have increased a great deal. At the same time, in almost any country employment rates of the population of 55+ are still much lower than among younger segments. In the past two decades, many countries have introduced reforms to postpone labour market exit and to increase labour market participation of older workers, in order to keep pension systems and the welfare state as a whole financially sustainable. Results of such reforms, however, have been mixed. This suggests that overall improved health does not automatically lead to more labour market activity, but that the context matters. This can also be seen in Chart 1, which indicates that at macro-level the relationship between self-assessed health and labour market activity is not a straightforward one.

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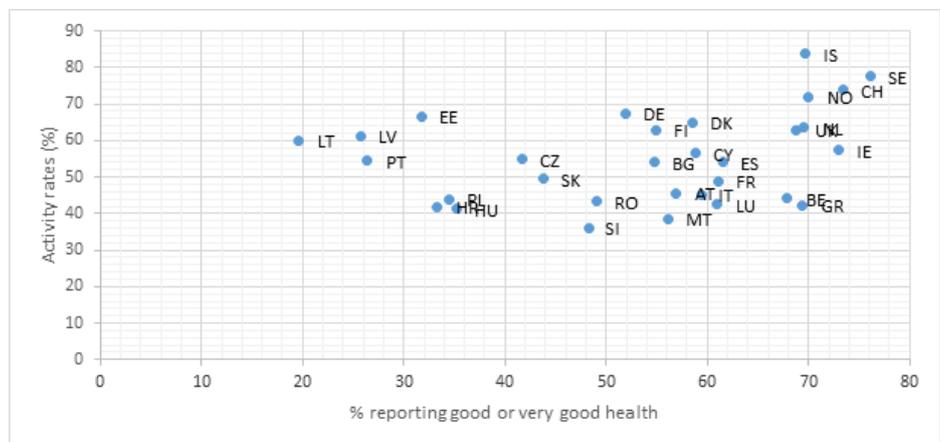


Figure 1. Percentage of population reporting good or very good health versus labour market activity rates in European countries, age group 55-64. Source: Eurostat.

Project: Cost-effectiveness of policies aimed at prolonging working careers - the role of health (EU-HEMP)

EU-HEMP is an EU-funded project studying the impact of health in increasing employment rate and labour market participation. This series of policy briefs is produced as part of the project.

The principal objectives of the project are the following:

1) Producing and gathering evidence on the cost-effectiveness of strategies aimed at reintegration of disabled people, people on sickness leave and long-term unemployed people into the labour market and policies aimed at prolonging careers of near-retirement people. In short, we study the role of health in increasing employment.

2) Policy recommendations for the design of more cost-effective social policies will be made based on data analyses, comparative policy analysis and review of best practices.

3) Creation of an international expert network in the field of rehabilitation, reintegration, disability and health policies in connection with labour markets and focusing on the cost-effectiveness of these policies.

Website

The project is funded by the European Commission (agreement no. VS/2014/0174) together with the National Institute for Health and Welfare.

Intervening factors shape the relationship between health and retirement. Moreover, there are major socio-economic inequalities in health and retirement. As population ageing will increase the pressure on the financing of pensions and social security in coming years, it is crucial to identify those intervening factors, target the relevant groups and fine-tune the policies accordingly.

EVIDENCE

The literature finds a clear relation between poor health among older workers and early labour market exit. Systematic reviews have found this relation to exist especially for early exit through unemployment and disability pensions/benefits.¹ Entering into disability or unemployment at older age often means permanent labour market exit, as workers with ill health are less likely to be re-employed.² Also in the case of non-disability early retirement, poor health can be a cause or at least act as a catalyst of labour market exit.

However, the relation between health and retirement is not always straightforward. A qualitative study found that good health can motivate older workers to enter into early retirement, in order to enjoy the good and health years they still have.³ Early retirement can also be motivated by health preservation, especially when working conditions are poor and detrimental to the worker's health. Furthermore, the relationship between health and retirement is often investigated by using self-assessments of health and this relationship can suffer from the so-called justification bias. This bias arises if retired persons overstate their health problems to justify their non-employment status and this potential endogeneity of self-assessed health should be taken into account in the analysis.⁴

Conversely, retirement can also affect health, although the evidence is mixed and effects are heavily contextualised. Retiring can, on the one hand, mean ridding oneself of the stress and anxieties related to work.⁵ Having more leisure time can improve one's healthy habits, such as giving up smoking and drinking.⁶ On the other hand, retirement as a stressful life event in itself can induce poorer health. A recent systematic review concluded that retirement is beneficial for mental health, but detrimental for self-perceived general health and physical health.⁷ Moreover, the type of retirement matters. Health status has been found to improve after statutory retirement and voluntary early retirement, but deteriorate when retirement has been due to ill-health.⁸

SOCIO-ECONOMIC DIFFERENCES IN HEALTH, LIFE EXPECTANCY, AND RETIREMENT BEHAVIOUR

Good health is not equally distributed in society. Typically, diseases affecting employment possibilities are more common among people with lower levels of education and occupational status. Analysis carried out with EU-SILC data indicates that whichever indicator of socio-economic status is considered, reporting of poor or very poor general health and long-standing health problems tend to be most frequent in the most disadvantaged group and they become less common as socio-economic status increases.⁹ Socio-economic inequalities tend to diverge over the life course and become more pronounced at older age.¹⁰ Labour market exit for health reasons is also strongly related to socio-economic factors. Low education increases the risk for exit through disability and unemployment, with poor health, unhealthy life-styles, and poor work conditions as mediating factors.¹¹

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Using Finnish data, Myrskylä et al. found that the differences in life, work and retirement expectancies can be relatively high between different socio-economic groups.¹² Furthermore, especially early exit channels have been used more intensively by lower socio-economic groups. When early exit channels are being abolished or phased out, lower socio-economic groups with higher risk of poor health are facing an increased risk of long-term unemployment instead of better employment prospects. Policies that aim at a more even distribution of health are thus becoming more important also from the point of view of fair pension policies.

EMPLOYERS, WORK ABILITY, PRODUCTIVITY, AND AGE DISCRIMINATION

Reduced work ability is a good predictor for long-term sickness absence, disability and early retirement.¹³ However, even if older workers do not themselves feel that poor health affects their work ability, they might retire early because they feel pushed out by their employers.³ Leijten et al. found that chronic health problems can affect productivity negatively.¹⁴ Nevertheless, these effects can be buffered if resources and demands at work are adapted to the needs and abilities of the older worker.

Age discrimination and ageism are also a problem. Experiencing age discrimination increases the risk of mental health problems. This risk has been found to be higher among men than among women.¹⁵ In turn, age discrimination has been found to increase the risk of long-term sickness absence among older workers.¹⁶ Long-term sickness in many cases results in labour market exit through disability benefits or pensions.

WORKPLACE FACTORS

Much of the research finds that factors at the workplace can mitigate or mediate the impact of health on retirement. Less psychosocial resources, including low autonomy and low support from a supervisor, increase the likelihood of exit in case of having chronic diseases, whereas social support and appreciative leadership may serve as buffers.¹⁷ Lack of control over one's job is a predictor of exit through disability, unemployment and early retirement.¹¹ Control over one's working time may contribute to longer working lives beyond the pensionable age, irrespective of an employee's somatic disease status.¹⁸ Moreover, psychosocial support can buffer the mental health effects of age discrimination.¹⁵

COMBINATIONS OF WORK AND RETIREMENT AND THE RELATION TO HEALTH

In recent years, a trend reversal from passive compensation towards activation policies has been visible. In addition to providing income compensation for people suffering from disabilities, the aim of these policies is to provide also incentives and supports to those who can participate in the labour market to some extent. The support given to individuals consists then typically of "participation packages" adapted to individual needs. In addition to cash benefits the packages can contain rehabilitation and vocational training, job search support, and subsidized or sheltered work.¹⁹

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In many countries partial-disability benefits are used as a way to encourage labour market participation of older people with decreased work ability. If work-oriented disability policy functions well, it can strengthen the labour market integration of disabled people and at its best it can also increase their well-being as active members of society. However, a relatively large part of individuals receiving partial disability pensions are actually not working at all. Accordingly, measures enhancing the employability of people with decreased work ability are also needed. Also mechanisms to stimulate labour demand like wage subsidies can be used. In addition to wage subsidies there are accommodation subsidies that cover the costs related to required changes at the workplace level.¹⁹

Also measures to make the take-up of other, i.e. non-disability, pension types more flexible to the needs of ageing workers have been introduced in many countries. Also, working after the official retirement age is on the rise. Especially when non-retirement is for non-financial reasons, good health is a necessary precondition.²⁰ Possibilities to change from a full-time job to part-time work or part-time retirement can help older workers cope with the physical or mental strain of excessive working hours. Moreover, shifting from a career job to a less-demanding 'bridge job' in the years before definite exit from the labour market has been found to potentially improve well-being.²¹ However, there is some evidence that an individual's sense of 'control' over such decisions is important in achieving positive effects on well-being. Hence, the freedom to choose and shaping the conditions where various options, including suitable jobs, are available for all is of utmost importance.

CONSIDERING COST EFFECTIVENESS

Further research is needed into the cost effectiveness of different measures. Whereas increasing the retirement age and limiting entitlements to various pensions might increase employment rates among older workers and decrease expenditure on pension benefits, the long-term costs of the health effects of extended careers are unknown. These might include costs from increased use of (occupational) health care, as well as the incidence of sickness absenteeism and presenteeism.²²

Firm-provided training can be an effective instrument to retain older workers in the labour market.²³ Moreover, those who acquire new and relevant skills might gain greater control over their work situation, allowing them to better cope with the effects poor health and continue working longer. Training of older workers is usually considered to be cost-inefficient, as net returns on such investments are low, due to the relatively short period that the employer and employee can benefit from them. However, if possibilities for early retirement are reduced and working lives are extended, these returns will increase.²⁴

Finally, good management practices and work health promotion are likely to be cost efficient, as they often require relatively few resources compared to the benefits that are gained from them.²² Work health promotion has been found to decrease sickness absences, especially if it takes the form of promoting exercise and healthy lifestyles, as well as improving ergonomics.²⁵ However, in the end, the effectiveness of each measure and policy should be assessed in its context and in combination with others.

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CONCLUSIONS AND RECOMMENDATIONS

In the face of ageing societies, reforms to increase labour market participation and prevent early exit of older workers are implemented all over Europe. Two types of reforms dominate. First, in many countries the official retirement age is being raised with the aim of increasing the labour market participation among older workers. The evidence presented in this policy brief, however, suggests that such reforms might not automatically have the desired effects. There is a whole set of other factors that influence the retirement behaviour of older workers, among which health is very prominent.

Second, early exit through alternative exit pathways, such as unemployment benefits or disability pensions, is becoming more restricted. This is done by making benefits less generous, making access to benefits more selective, and reinforcing measures and policies that aim at reintegration.¹⁹ If the key assumption is that nobody becomes disabled out of their own choice, less attention in reforms should be paid to making benefits less generous and more focus should be put on prevention, rehabilitation and reintegration.

One might also consider changes in the pension system, so that retirement is not set at a fixed age, but is determined by the number of years in working life. In France, for example, this is already taken into account. This would be fair in the sense that those in lower educated manual jobs often enter the labour market much earlier than those in higher educated office jobs. For those in heavy or risky occupations that more heavily induce poor health, deductions in required years of employment could be considered, whereas voluntary continuation of work beyond the retirement age for those in good health should be promoted. However, defining the particularly strenuous occupations is challenging and the schemes used in practice need to be evaluated as the basis for further possible reforms to this direction.

The role of employers in these and future reforms is crucial. In several countries employers have increased responsibilities in the reintegration of workers in sickness and disability. Moreover, as work-related and psychosocial factors have been found to buffer the effects of health on retirement in many instances, employers can take preventive measures to combat early exit. Various types of support should be lent to ageing workers with health problems, ranging from providing adequate supervision to increasing their control over their own working hours and work pace. Those in mentally or physically heavy jobs should be offered the chance to move to bridge jobs or combine work with a partial retirement or disability pension. Age discrimination at the workplace should be countered in all possible ways.

Health problems in an individual's later life often have a long history. Therefore, policy should opt for a life course approach, where health inequalities are detected and addressed in earlier life. Education and training plays an important role here. Studies have found a divergence of health statuses by educational attainment over time,¹⁰ while workers with lower education are at increased risk for health-based selection out of paid employment.² Hence, life-long learning strategies should be integrally part of healthy ageing strategies. Such strategies should take into account socio-economic differences between groups in societies, as it has been found that lower social classes are less receptive to campaigns aimed at improving healthy behaviour.¹¹