

SPEECH

AGE CAN WORK – THE CASE FOR SUPPORTING OLDER WORKERS

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Raising the labour force participation of older individuals in Australia is an issue attracting increasing attention. It was the topic of a National Symposium held earlier this year, it is a key theme emerging in research from the Federal Department of Treasury, and has also become a policy priority for the Business Council of Australia (BCA).

Why has this issue become so prominent in the policy debate? The labour force participation rates of older Australians have been below their counterparts in other OECD countries for some time. The 'culture' of early retirement in Australia is not new. Yet now this is seen as a priority issue for Australia.

The short answer of course is that Australia's population is ageing, and this has significant adverse implications for labour supply, economic growth and the budget outlook in Australia. Raising the labour force participation of older individuals in Australia is an effective way to address these longer-term challenges and the economic implications of population ageing.

Recent research from the Department of Treasury shows that if we can achieve higher participation among mature-age individuals, especially males, this could translate to economic growth being nearly 10 per cent higher in 20 years time, with growth remaining that much higher for the next 20 years¹.

These economic factors are clearly an important reason for looking to increase the participation of older individuals. But they are not the only factors. There is a strong business case for better supporting the ongoing participation of older individuals, and, from the perspective of the individuals themselves, there are also important reasons to support the continued labour force participation for those who want to work.

¹ Gruen, D. and Garbutt, M. (2003) 'Output Implications of Higher Labour Force Participation', *Treasury Working Paper 2003 – 02*

Let me address the latter first. Earlier this year, the BCA, together with the ACTU commissioned research that examined the factors influencing labour force participation decisions of individuals – their low participation rates in particular – and policy responses both here and overseas. This research was released in our *'Age Can Work: The Case for Older Australians Staying in the Workforce'* report published in April.

One important message from this report was that, for some people, the decision to exit the workforce is not always an entirely voluntary one. In other words, while in Australia we like to adopt a rosy interpretation of early exit from the workforce – these are the workers choosing to retire and head to the coast – the reality is often markedly different.

Older workers can be discouraged from job search and they are sometimes discriminated against. From the perspective of older job seekers, there is evidence to suggest that age is seen as a major impediment to gaining employment. And we know that older workers, particularly males, have been vulnerable to downsizing and restructuring.

This suggests that reference to early retirement can be misleading and can distort our understanding of the important issues underpinning labour force participation and retirement decisions among mature-age Australians. Better supporting and enabling the participation of those who want to work is important in terms of ensuring that these people can maintain their incomes and financial security and the fulfillment they derive from work.

While many leave the workforce earlier than intended, there is also a strong 'culture' of early retirement in Australia. Surveys show that over 75 per cent of men and 95 per cent of women intend to retire from full-time employment before retirement age. As Australians are living longer, the indication is that they intend to spend longer periods of time out of employment. Unfortunately, these intentions do not match well with financial realities.

Australians' expectations for the lives that they will lead in retirement are higher than their current superannuation levels will provide them. The gap between the retirement people want and the retirement that current superannuation contributions and the pension will deliver them has been estimated at \$600 billion. That is more than the current total stock of superannuation savings².

Working longer will enable people to put away more for retirement, which delivers a double bonus – larger savings to be used further down the track.

There are clearly strong reasons from an individual perspective to better support the ongoing labour force participation of older Australians and there is a clear case for helping individuals to better understand what the financial implications of retirement are and how this compares with their provisioning for retirement. But as I said earlier, there is also a strong business case.

² Investment and Financial Services Association (2003), *Retirement Incomes and Long term Savings – Living Well in an Ageing Society*

There are at least three important reasons for business to better support older workers. They are:

- the prospects of a shrinking pool of labour;
- the benefits of diversity in the workplace; and
- the benefits of responding to the changing age profile of consumers.

MAINTAINING SKILLS AND EXPERIENCE

As we know, population ageing is being compounded by low rates of participation among older Australians. This means growth in the labour supply will shrink significantly. Business needs to think about how it will maintain the relevant skills and experience needed in its workforce and how to maintain required staff levels in a shrinking labour market. As the baby-boomers have just begun to hit 'early retirement' age, the reality is that this is a challenge for business to be addressing now. Better supporting the labour force participation of older Australians will increase the supply of labour and the pool of skills and experience available to companies – which is a plus for business, and obviously the broader economy.

To put this into perspective, one BCA Member company currently has around 25 per cent of its workforce aged 50 or over. Over the next five to ten years that company faces the prospect of significant exit from its workforce. Maintaining skills and experience and attracting new staff in a competitive labour market will be an important challenge and key to their ongoing success.

THE BENEFITS OF DIVERSITY

Diversity in a workforce, including age diversity, can provide competitive advantages to a business. In increasingly competitive and complex markets, it is unlikely that a largely homogenous workforce will provide the depth and breadth of skills necessary to deal with new challenges and problems as they emerge. In other words, diversity of skills and experiences can increase confidence in the ability of an organisation to respond to, and manage well, the risks they face in increasingly complex business environments and markets. Greater diversity increases the range of ideas, experiences and possible solutions to draw upon. To put it directly, the question for business is how confident can an organisation be of obtaining the best workers if the available pool of potential workers is arbitrarily limited on the basis of age?

The BCA has not yet surveyed its Members on the strategies they are adopting to support older workers and the benefits of those strategies. We have however, surveyed our Members on the work-family strategies they are adopting to support working parents. The issues are of course similar. Both involve developing flexible strategies to enable employees to balance work with their wider commitments and aspirations over different stages in their lives. Both aim to support diversity and ensure that a company has access to the widest possible pool of labour and hence the best people for the job.

The BCA's *Balancing Work and Family* survey showed that the vast majority of our Member companies are adopting strategies to support working parents. Many of those strategies, such as flexible start/finish times, job share and working from home, may also enable older workers to stay in the workforce, but perhaps at a different level of intensity as they approach retirement.

Importantly, the BCA's *Balancing Work and Family* survey showed that there is a clear business case for adopting these types of strategies, with many reporting improved staff morale, increased productivity, lower staff turnover, and a greater ability to attract and recruit new employees.

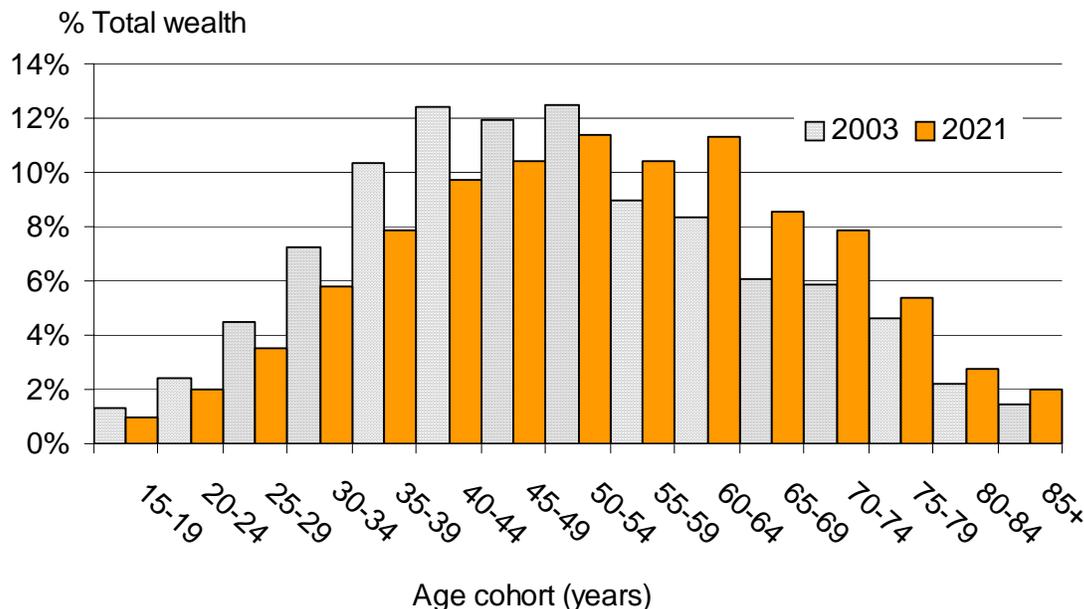
CUSTOMER DEMOGRAPHICS

While there is a growing awareness of the changing demographics facing Australia, particularly in the context of labour supply and the taxation and spending implications for the Federal Government, the implications of population ageing for business in terms of demand for products and services is less often discussed.

The demographic make-up of a company's customer base can be an important factor influencing the appropriate composition of a company's workforce. Customers like being served by people who understand them and their preferences. The types of services and products that people demand will also change as the population ages. Age diversity in the workforce can give businesses access to workers who better understand the preferences of those in the wider community.

These are important changes that once again business needs to be responding to. Chart 1 below shows the proportion of wealth held by each age cohort now and the projected distribution in 2021. The shift in wealth distribution towards older Australians will be pronounced. At present around 50 per cent of total wealth is held by people aged under 50 years. In less than 20 years it is estimated that 40 per cent or less of total wealth will be held by people aged under 50. Increasingly buying power will reside in the hands of older Australians.

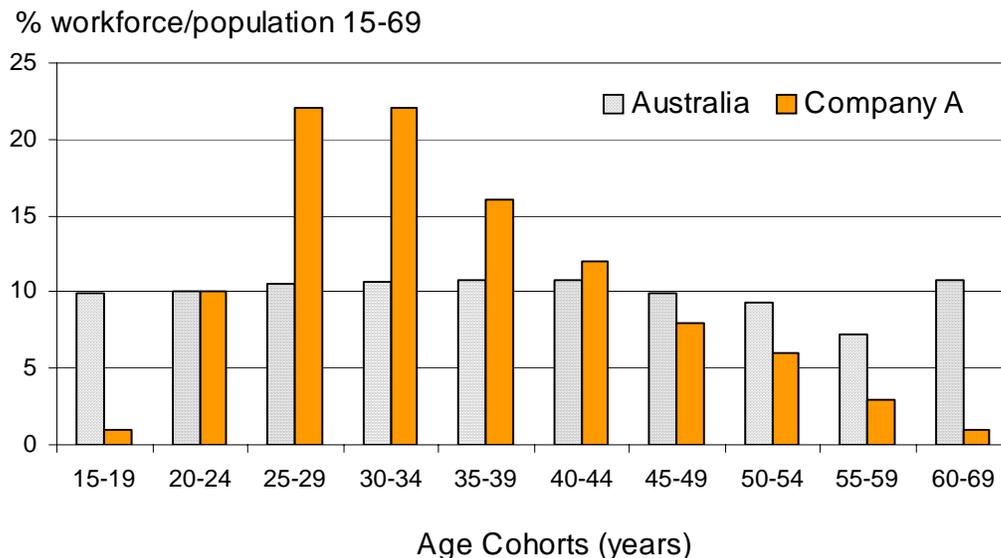
CHART 1: WEALTH INCREASINGLY IN THE HANDS OF OLDER AUSTRALIANS



Looked at another way, Chart 2 below shows the distribution of the working age population across cohorts now and compares it with the age profile of one BCA Member company. You can see that the age profile of this company is significantly younger than that of the wider population. This raises interesting questions for that company including:

- Whether the current workforce profile matches well the age profile of their client base?
- Whether the current age profile can be sustained as the population and labour force ages?
- How will the company attract and retain staff to achieve an appropriate age profile as the population ages?

CHART 2: AGE DISTRIBUTION - POPULATION VS WORKFORCE



Some companies are already responding to these challenges. A number of BCA Member companies have recognised the importance of better aligning their staff with customers. For example, this was a key driver in Westpac's decision to more actively recruit mature-aged individuals into their workforce. This is welcome progress, but more needs to be done.

The point that I hope I have made is that there is a strong business case for better supporting the ongoing participation of older workers. It is a business case that extends beyond the broader macroeconomic imperatives related to our capacity to sustain economic growth and provide the level and quality of aged care and health services that Australians aspire to.

CULTURAL CHANGE IS ESSENTIAL

Having established that there is a business case for supporting older workers, the obvious question is where to from here.

The Government has a significant role to play. Adopting anti-discrimination legislation and ensuring that superannuation, welfare and taxation policies do not provide disincentives to participate are very important.

Ultimately, however, if Australia is to respond effectively to the challenges presented by population ageing, we must achieve significant and widespread cultural change regarding the benefits of older individuals staying in the workforce. Business – large and small – and the wider community must understand and relate to the challenges brought by population ageing. Not in terms of concepts like a Budget deficit which is equal to 5 per cent of GDP, but in terms of:

- higher taxes;
- straining health and aged care services;
- the challenges of attracting and retaining staff in the face of rising global competition for labour; and
- the very real prospects of living in retirement for 20 years or more on an income significantly less than people are accustomed to.

Australia needs to ensure that the value that older workers bring to the workforce and wider community is better recognised.

Tackling false and negative stereotypes about older workers that underpin discrimination in the labour market is an important part of this. In many ways, we need to bring about a shift in attitudes towards older workers, similar to that achieved in regard to the participation of women in the workforce.

From a business perspective, this change must be led from the top, but to be successful it will need to flow through all levels of a company.

To promote discussion and debate about the need for ongoing participation of older individuals in the workforce as well as possible strategies for business to achieve this, the BCA released a business guide for supporting older workers in August this year³.

This guide does not seek to provide answers or recommend specific strategies – it is simply not possible to articulate strategies that will work for all companies and all individuals. Rather the BCA has sought to raise questions for businesses and their employees to consider, as a means of initiating responses appropriate to a company and its employees.

³ Age Can Work: A Business Guide for Supporting Older Workers, available at www.bca.com.au

Without wanting to go into too much detail, the guide focuses on three key themes:

Diversity - highlighting the importance of diversity, the communication of diversity policies, and raising questions about the ways in which discrimination may arise in recruitment, retention and redundancy strategies;

Planning for the Future – focussing on the need for businesses to plan for the future in terms of their workforce, management of skills and experience, and the ageing customer base; and

Creating Opportunity – highlighting the importance of supporting ongoing skill development, and raising issues around the possibilities for, and benefits, of greater flexibility to support ongoing participation, for example through part-time work and phased retirement.

The BCA hopes that this guide will play a significant role in assisting business to better support older workers.

It is important to recognise however, that supporting ongoing participation is a shared responsibility. Individuals must also take responsibility for planning for their financial security and ensuring that they remain productive and valued members of the workforce. This means taking responsibility for, and being pro-active in, maintaining skills and training and overall employability.

Disengaging from work and opting out of training or new job opportunities will not enable ongoing participation and tends to reinforce negative stereotypes. Unfortunately, however, this is all too familiar a story – many employees do disengage, often from as early as their 40s, when they begin to feel that their career may have peaked. This is not a recipe for ongoing employment in an increasingly competitive and rapidly changing business environment.

NEXT STEPS

A priority for the BCA over the next 12 months is to work closely and actively with the Prime Minister's Community Business Partnership, to develop practical ways to improve understanding of the need to better support older workers and ways in which business might be encouraged to do this.

We believe the Prime Minister's Community Business Partnership will play a key role in bringing together a wide range of groups and encouraging collaboration. Such collaboration is fundamental if we are going to achieve a significant shift in attitudes and behaviour. This is not a challenge for big business only. It is a challenge for all employers, for Government and the wider community. It is important that we work collectively and do not duplicate one another in our efforts to drive change.

The BCA will also continue to work closely with organisations such as the Australian National Training Authority to address the training and skill development needs of older workers. Maintaining relevant skills is clearly fundamental to workers being able to maintain their ongoing participation, and to move from one job to the next, both within and across organisations.

Finally the BCA will continue to actively promote and communicate the messages that I have articulated today, and encourage best practice by our Members and more broadly in the business sector.

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