

# Coping with Demographic Changes – Managing Ageing Workforce

**Hanam Phang, Ph. D.**

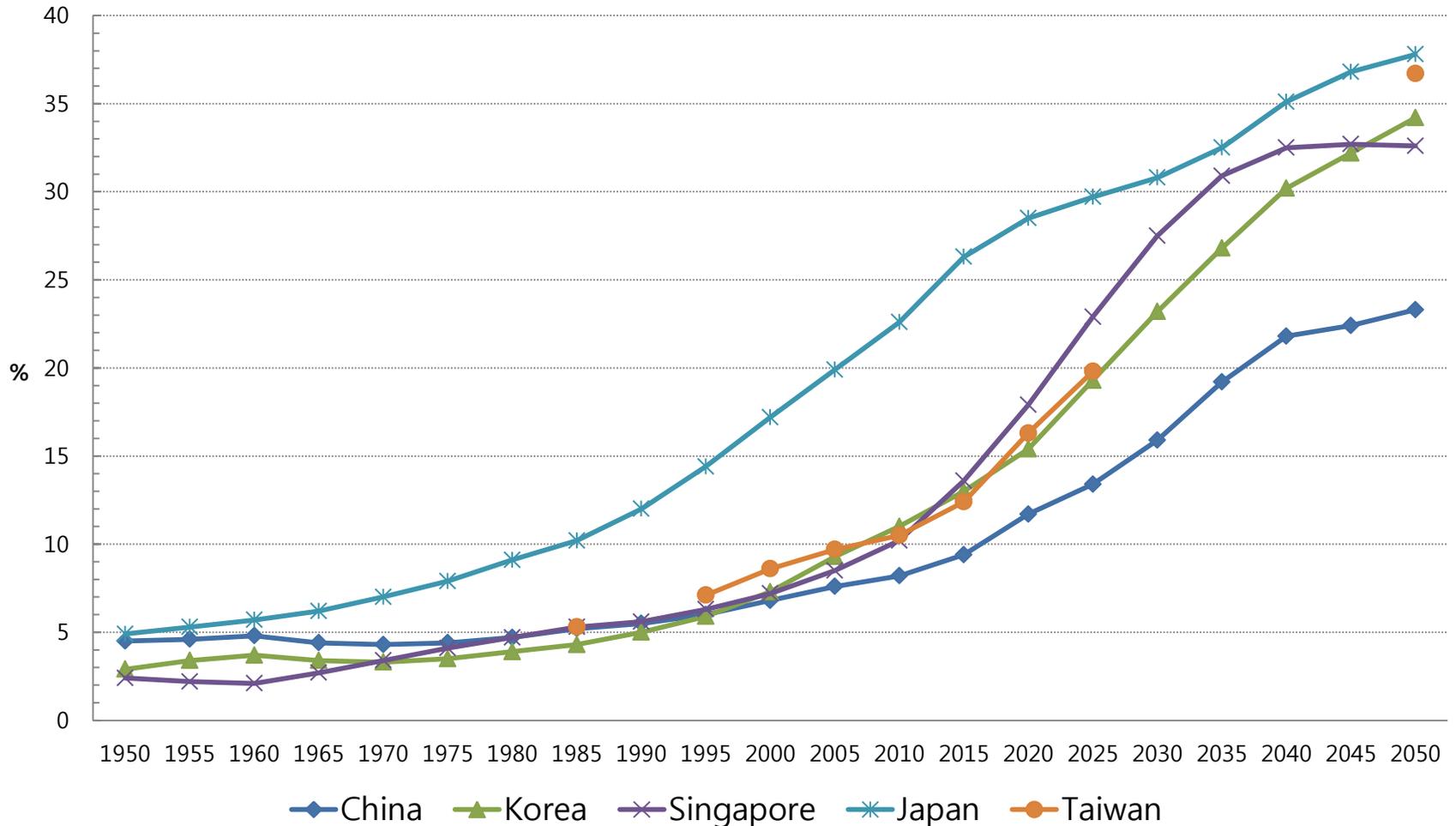
**Yonsei University**

**[hnphang@naver.com](mailto:hnphang@naver.com)**

# I. Population Ageing and its Impact on Economy and Society

# Figure 1: Asia Ageing: 1950-2050

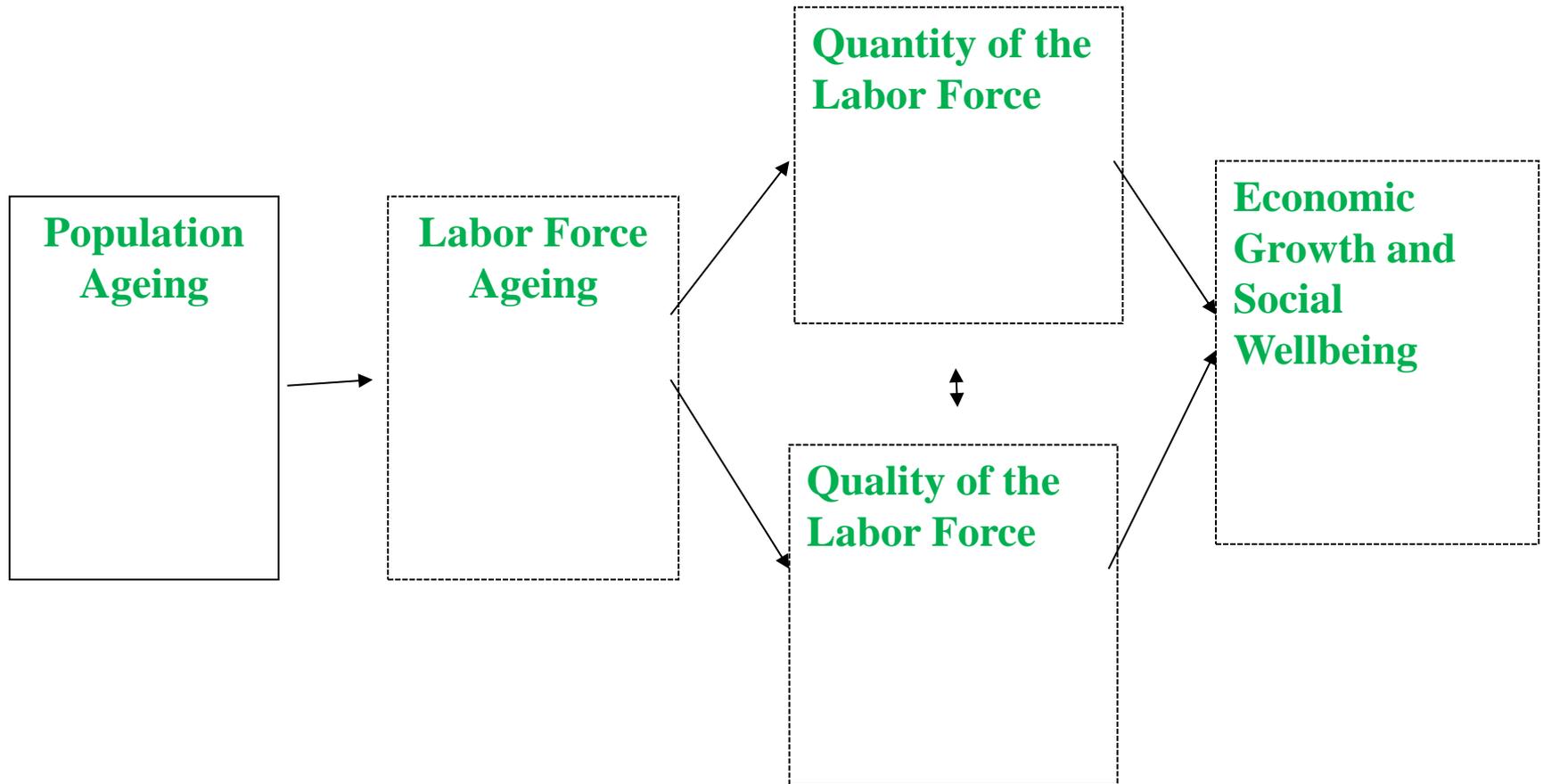
Percent of the Population Aged 65+



# How Population Ageing Matters?

- First, **accounting effect**:
  - because a **decreasing ratio of the working-age population** to the total population increases the ratio of consumers to producers
  - This contributes negatively to growth of output per capita
- Second, **behavioral effect**:
  - on growth of output per worker,
  - Negative or positive effects of an ageing population on economic growth as measured by output per worker
  - **Participation and Productivity changes** are the key!

Figure 2. The Impact Path of Population Ageing on Economic Growth



# Quantity vs. Quality of the Labor Force

- The labor force as the **mediating factor** between population ageing and economic performance
- **Stylized Fact**: Smaller and older labor force in the future
  - But critical variable: **quality (productivity) of the labor force**
- The impact of the population aging on economic growth
  - fair only when both sides of labor input: **quantity and quality**
- Stylized fact = unavoidable,
  - then, policy effort should be focused on the quality of the labor force (Borsch-Supan, 2003; Skirbekk, 2004)

# The Question is:

- Would it be possible to raise up the labor productivity to the extent that is **large enough to compensate for** the decreasing labor force and output growth?
- Korea: Labor productivity will reach plateau by around 2015
- D.I. Kims(2004)'s simulation: only 0.2~0.4% growth in labor productivity expected vs. average 2.0~4.0% growth rate in last 30 years

## II. Policy Measures and Initiatives

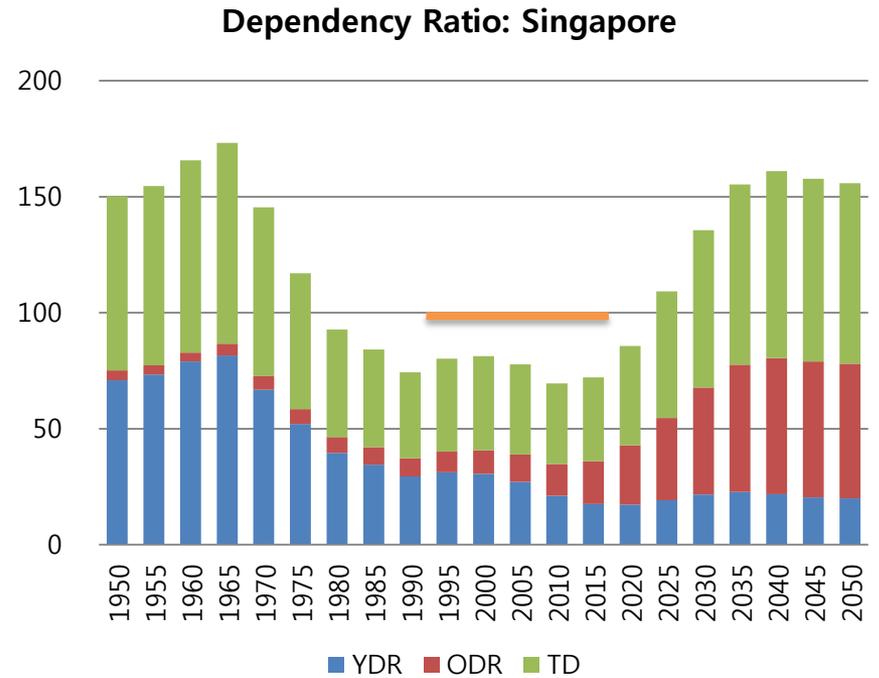
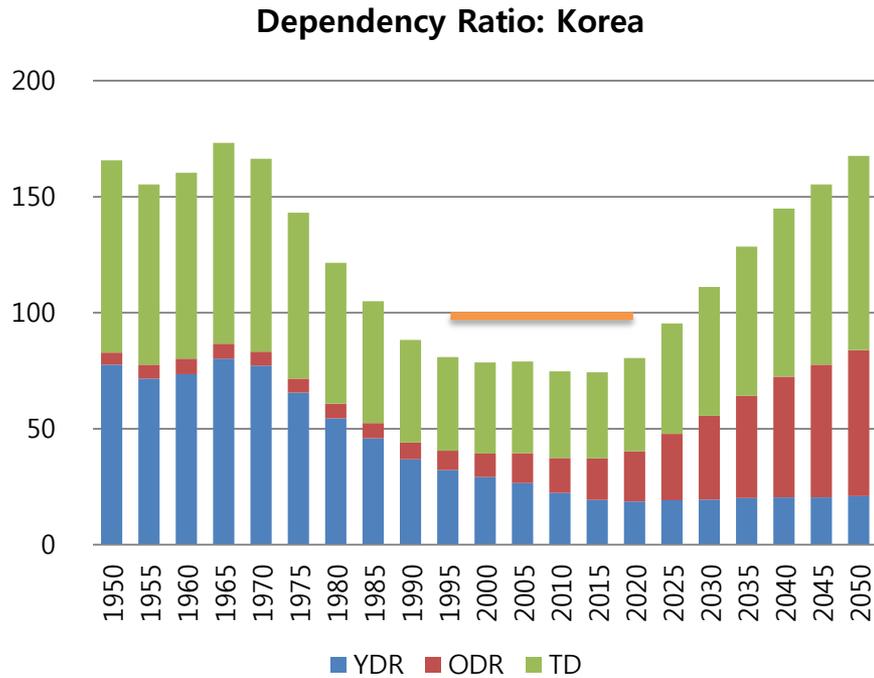
# Issues Summarized

- **Quantity Issue:**
  - How to boost up LFP of each stratum of work force
- **Quality Issue:**
  - How to boost up the Productivity of the participating labor force
- **Reform Issue:**
  - Education and Job Training system, Labor market institutions and Industrial relations, Social Security (esp. pension) system
  - Labor Market and Social institutions and culture

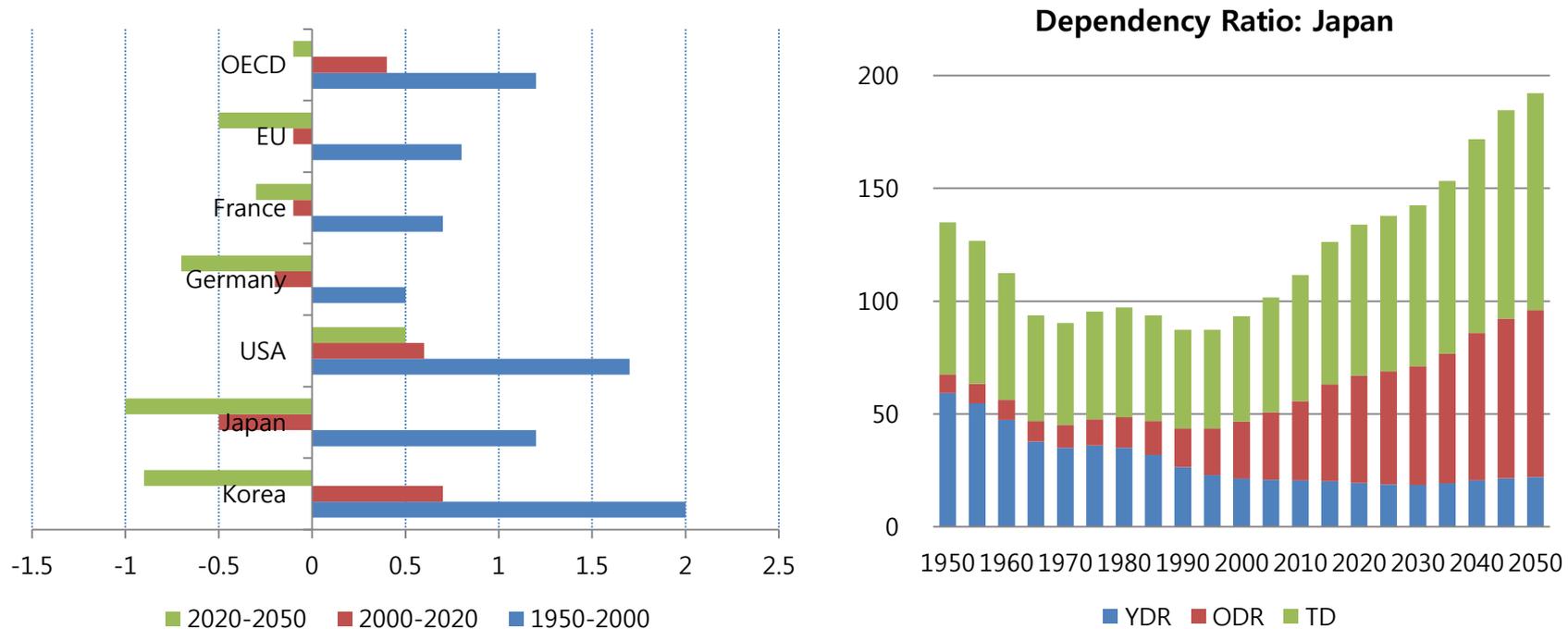
# Challenges

- **Labor Market Institutions**
  - The labor market may be inefficient and not flexible enough to accommodate the changing age structure of the work force and this may cause a productivity decline.
- **Industrial Relations**
  - Very rigid (esp. large, organized firms and public sectors)
  - Seniority wage system backed by strong Union prevailing
- **Age discrimination:**
  - detrimental to the employment of the old-aged

# Figure 3. But Now is the Right Time



# Figure 4. Labor Force Growth and Dependency: Japan, 1950-2050

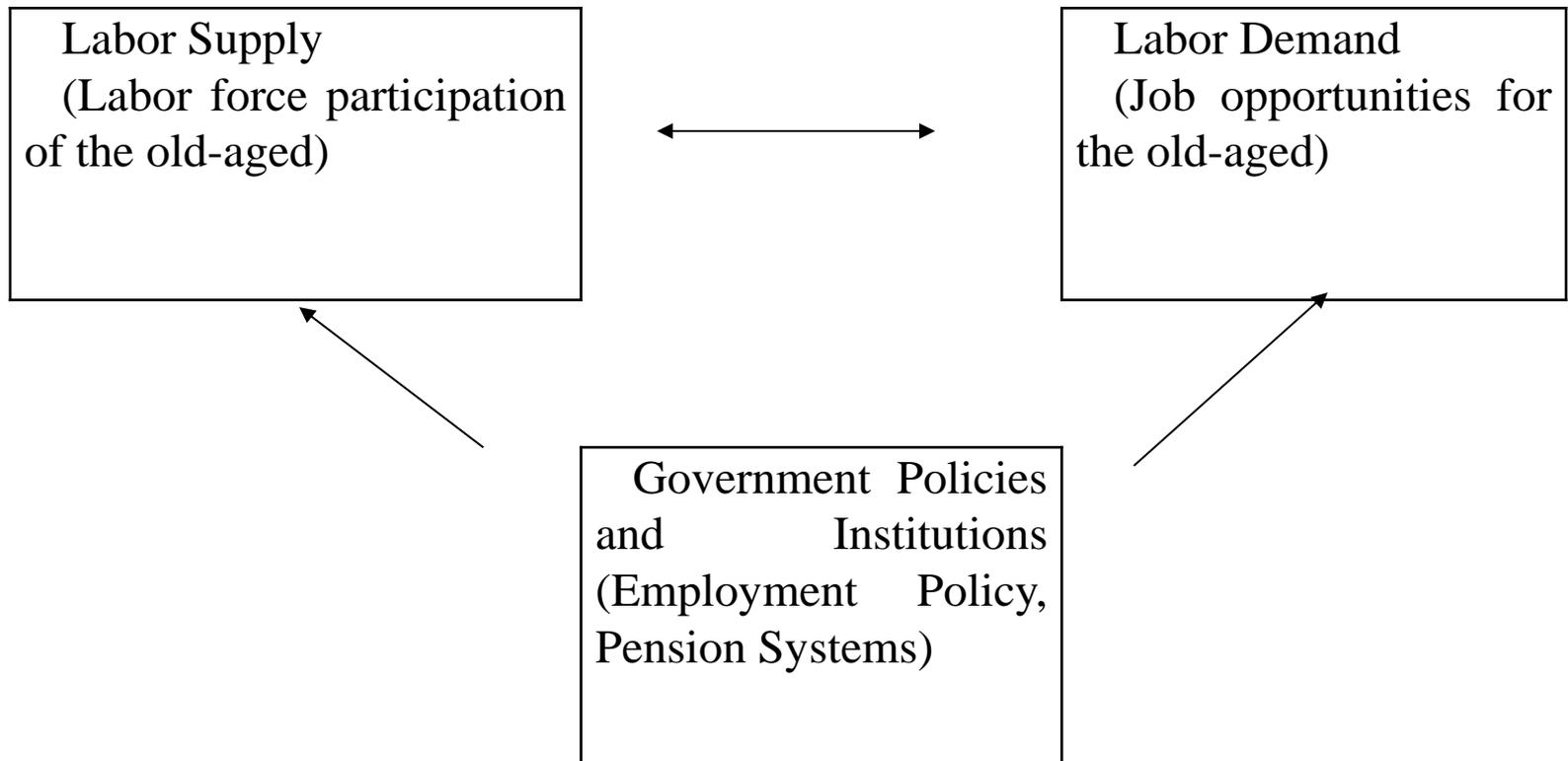


In Japan, the size of the ageing problem is such, that neither the quality adjustments nor the increased participation scenarios considered here are sufficient to prevent an absolute decline in the labor supply by 2050.

# Conceptual Path

- we can conceptualize
  - the path of interacting influence between factors that impinge on employment and retirement of the old-aged as follows
- Under this conceptual framework,
  - we could effectively delineate limits and opportunities with which each country is faced while pursuing the ‘keep the old-aged at work’ against population and labor force ageing.

Figure 5. The conceptual framework for employment of the old-aged



# Policy Concerns:

## Demand and Supply Side of the Labor Market

- In many countries with ageing population policy concerns for the quantity of labor force tend to precede that for the quality
- However, the effectiveness of supply-side measures is always conditioned by market demand (Fürnkranz-Prskawetz & Fent, 2004).
  - If enough decent jobs are not offered to old-aged job seekers, then, the supply-side measures would not be much effective.
- Actually demand-side condition could be more serious than supply-side issue in many Asian countries (Korea), where job opportunities for the old-aged are quite limited.

# Important !

## Retirement Policies and Pension Systems

- On the demand side perspective:
  - retirement policies and practices at firm level are an important issue to be discussed for extended employment of the old-aged workers.
  - While retirement policies constitute a ‘push’ factor for non-employment of the old-aged workers, pension systems and policies is a ‘pull’ factor.
- In many countries,
  - mandatory retirement at fixed age is forced at firm level and the old-aged workers are forced to quit their main job even when they are still healthy and productive.
- How and to what extent pension systems in respective countries affect workers’ retirement choice is thus an important research topic to be explored.

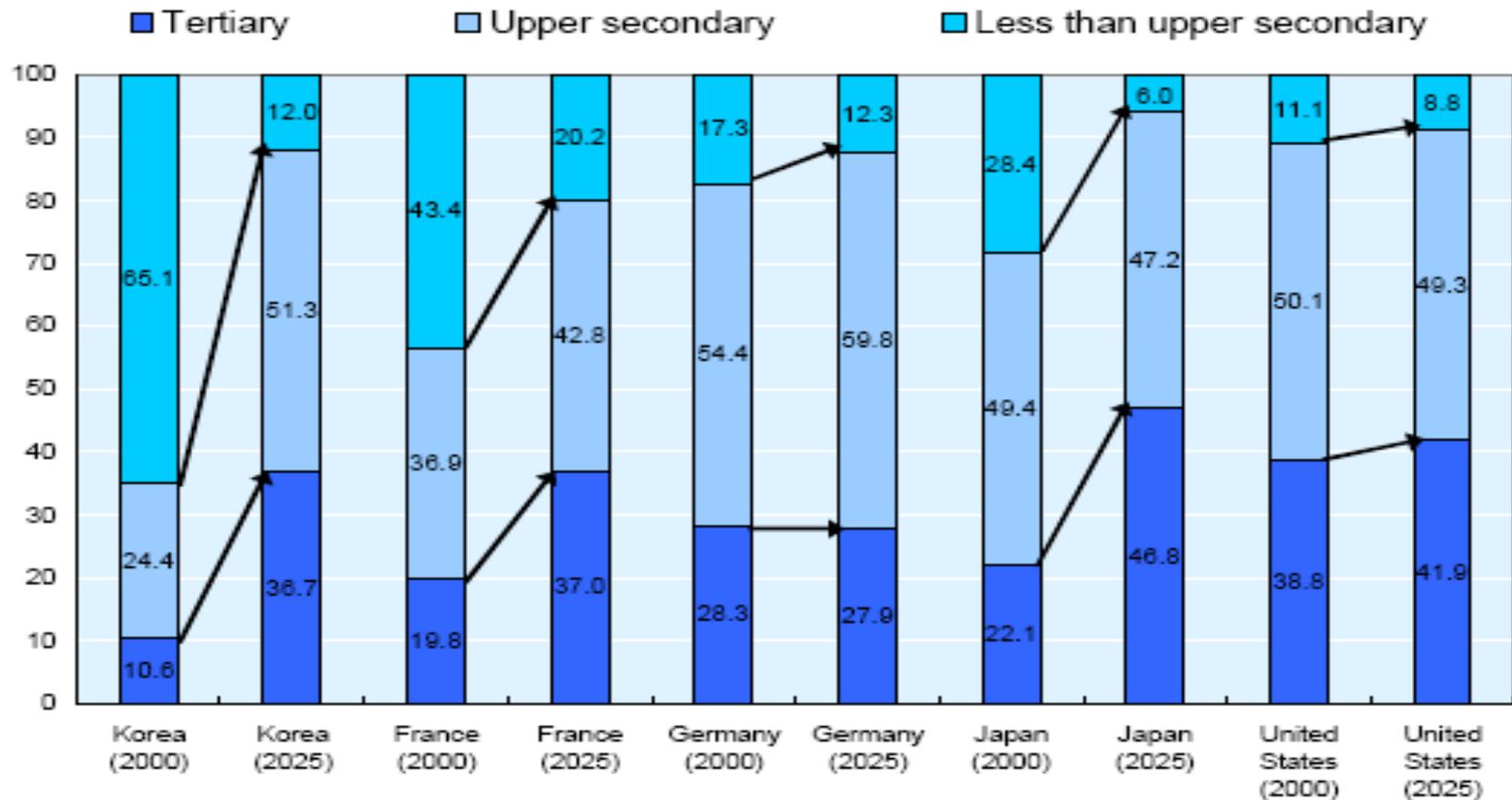
## (1) Mobilizing Potential Manpower of Women and Older People

- ① Promotion of **Women's Participation** in Economic Activities: strengthening active employment policies for women, and developing workability of women and support their employment/continued work career
- ② Pursuing “**Active Ageing**” to Utilize Elderly Manpower: legislation prohibiting age discrimination and improving mandatory retirement system, reform of wage system of corporations and diversification of working hours and conditions, strengthening work incentives of older workers

## (2) Improving Skills and Productivity

- Ongoing shift away from manufacturing to service industry together with technological change increased the need for more skilled and flexible work force
- Challenges for government to reform education and training system, for employers to provide more on-the-job training, and for individuals to engage actively in life-long learning
- Educational upgrade expected will be off-setting part of the potential adverse impact of population ageing on productivity in following decades.
- For the potential gains in productivity to be realized, will have to put more effort in upgrading not just the quantity but also the quality of education (Kim D.-I., 2004)

Figure 6. Educational Level of Older Workers(50-64) in Selected OECD Countries: 2000, 2025.



## ■ Promoting Competitive Power of Human Resources and Their Utilization

### ① Development of Virtuous Circle of Workability and Life-long Education:

- by strengthening linkage between school education and labor market, expanding opportunities for vocational training life-long learning, modernizing vocational training facilities and national licensing system

### ② Preventing Loss of Workforce by improving safety and health conditions of workplaces, and strengthening occupational rehabilitation

### (3) Enhancing Job Training and Life-long Learning

- Whether older workers have greater difficulty learning new skills and thus whether they tend to be overpaid
- Critical for older workers' extended employment especially in the context of policies designed to gradually raise up the effective age of retirement
- Life-long learning and job training systems need to be reformed in a way that increases old workers' incentive to participate and employers' incentive to provide them fair training opportunities
- Job training subsidies being provided under the Employment Insurance (Occupational Skill Development scheme)
- But participation rates are still low and largely dependent on employers' choice.

## (4) Creating Jobs for the Elderly and Improving their Employability

### ① Policy Assistance to Provide Work Opportunities to the Needy Elderly

- esp. decent part-time jobs and flexible work arrangements

### ② Job training opportunities for mid-career and older workers

– Target-specific Public Employment Service

– ‘good’ part-time jobs with flexible work hours

– Improve working conditions and safety for older workers

Table 1. Old but Willing to Work: 2008, 2009

	<b>Economic Need</b>	<b>To be Active</b>	<b>Other</b>	<b>Don't want</b>
<b>Korea 55-64</b>	40.5	24.6	6.3	28.5
<b>Korea 65-79</b>	21.4	14.6	5.7	58.3
<b>Taiwan (50+)</b>	70.6	38.7	Multiple choice	
<b>Singapore (50+)</b>	77.9	12.4	9.7	

## (5) Reforming Retirement and Seniority Wage System

- Restricting the use of early Mandatory Retirement
- Rationalize further the Wage Subsidy for Older Workers
- Boost-up Wage-peak arrangement for longer work life of the old-aged

# III. Summary and Conclusion

- Two contrasting perspectives on population ageing:  
Pessimistic vs. Optimistic
- What will happen to Asian countries?
- Critical Variables can be changed by national strategies and responses
- In sum, 21<sup>st</sup> Century: not Quantity, but Quality

- Investment into Human Capital and Productivity (both Micro- and Macro-level)
- Encouraging Female LFP and Providing Decent Work Opportunities to the Old-aged – basic requirement
- Reform needed on Labor Market Institutions and Culture, esp. Retirement Policies and Age Discrimination
- National Initiatives for Active Ageing and Social Partnership

*The "problems" of an aging population, or "challenges" if one prefers, are not going to go away in a few years, to be replaced by others. They will be with us for a long time. Short-term "solutions" should be suspect. Think long (Denton and Spencer, 2003).*

*The possibility of a second demographic dividend arises because some of the gain in per capita income can be diverted to raising productivity and thereby raising the standards of living for future generations (Mason, 2008).*

**Thank You !**

# Supplement

# **Policy Measures and Initiatives Needed: Korean Case**

# 1. Rationalizing the Wage-Compensation System

- The Wage and Compensation Policy : “Back-loaded” & Wage and Productivity Gap Becoming Large as Seniority Grows
- Assumes a Fast Growing, Developing Economy (L.M.) of the Past, where well-educated and skilled workers are in short supply
- But future labor will be no more the same
- Difficulties could arise for older workers attempting to delay retirement or getting reemployed
- b/c Employers will find it costly to hire older workers: Fixed cost of hiring (OECD, 1998)

- To Extend their Employment or Re-Employment after Retirement
- Need Wage-Adjustment Option for the Old-aged Workers
- From Seniority-based one to Performance- and Job-based one
- Currently [Subsidy for Peak-Wage Option for Extended Employment for Older Workers] is provided under [Employment Insurance System]
  - But not well-received in the L.M. and take-up rate is very low

## 2. Reforming Firms' Retirement Policies

- Measures against Forced Early Retirement policies and practices
- Reducing Employers' Burden: Mandatory Retirement Allowances
- Incentives to Extend Mandatory Retirement Age
- Trading Seniority-Wage for an Extended Employment
- Setting Up Institutionalized Paths to Normal Retirement through Measures against Age-discrimination in Training and Retirement

### 3. Subsidising Wages of Older Workers

- Another way of making it more attractive to employers to hire and retain older workers is to subsidise the cost of employing and keeping them
- In Korea, under the Employment Insurance System (introduced in 1995), four types of wage subsidies are available
- (1) subsidy to promote over-quota(6%) employment of older workers, (2) subsidy to promote newly employing older workers, (3) subsidy to promote extended employment of retiring workers, (4) subsidy to promote employment of older workers upon completion of subsidized job training.

# Employment Subsidies Paid for Older Workers in Korea: 1998-2007

	<b>1998</b>	<b>2000</b>	<b>2002</b>	<b>2004</b>	<b>2006</b>	<b>2007</b>
<b># Firms benefited</b>	<b>2,134</b>	<b>50,466</b>	<b>66,566</b>	<b>63,972</b>	<b>48,424</b>	<b>53,691</b>
<b>#Workers benefited</b>	<b>96,334</b>	<b>225,711</b>	<b>270,902</b>	<b>266,119</b>	<b>229,092</b>	<b>259,357</b>
<b>Amount Paid (in Million Won)</b>	<b>1,999</b>	<b>36,758</b>	<b>39,980</b>	<b>41,299</b>	<b>36,025</b>	<b>40,880</b>

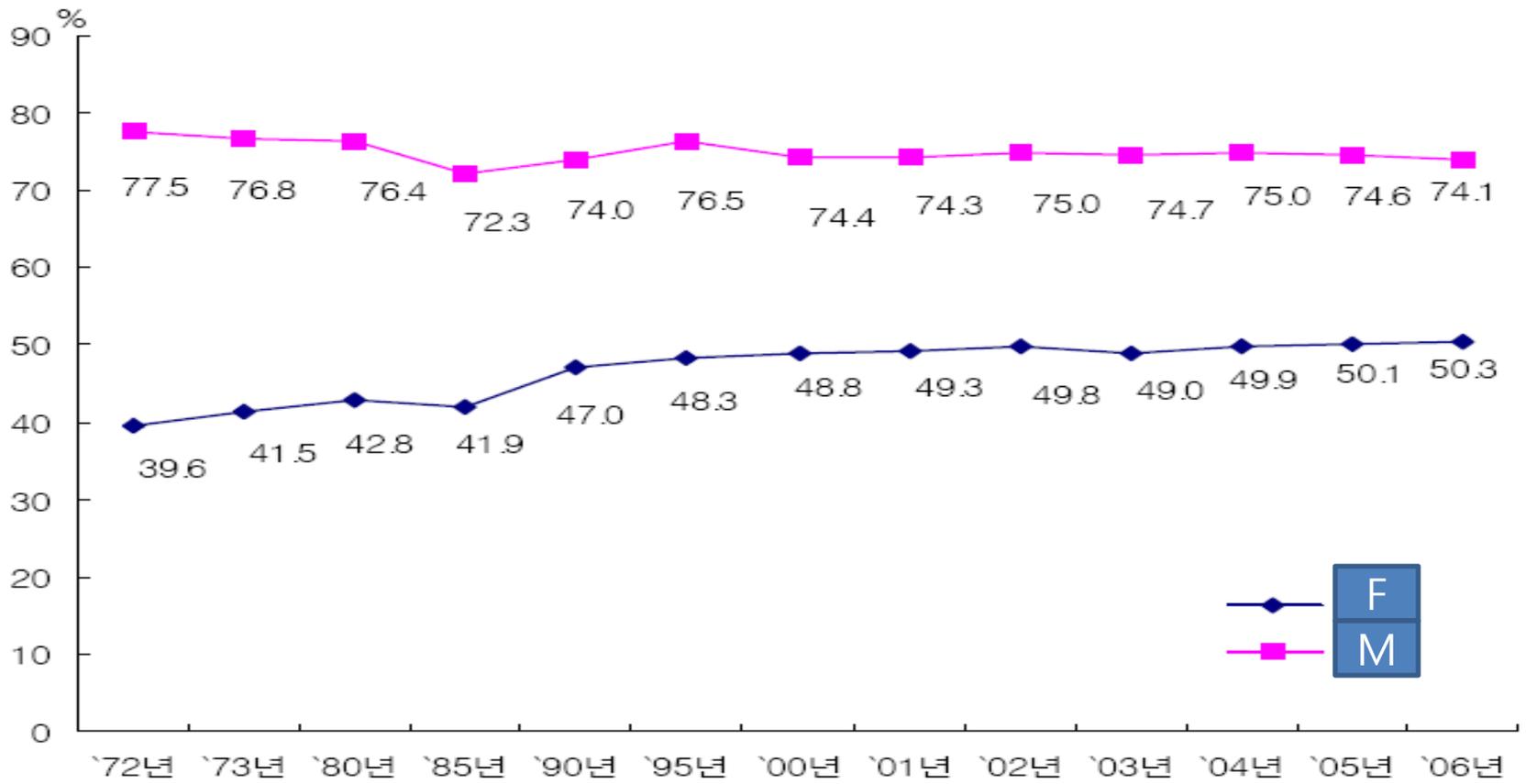
- One single scheme, [wage subsidy for employing older workers above the legally required proportion (6%) - variant], comprises an absolutely large proportion in terms of the beneficiary (more than 90%) and the expenditure (more than 60%)
- The least attractiveness of the other subsidy programs may be explained by the weakness of the incentive to employers or by the qualification conditions and restrictions (OECD, 2004)
- Need to be better targeted and more efficiently delivered

## 4. Increasing Labor Force Participation of Women (esp. Married Women)

- Currently FLFP Rate is considerably low relative to other advanced countries: has been increasing over the long term but is still staying below 50% level.
- Women could be the most valuable source of the future labor force for Korea.
- Advised to strengthen its sex-fair policy to keep the threshold to labor market lower so that first entry (after schooling) and re-entry (after childbearing) to the labor market could be achieved without much transition costs incurred.

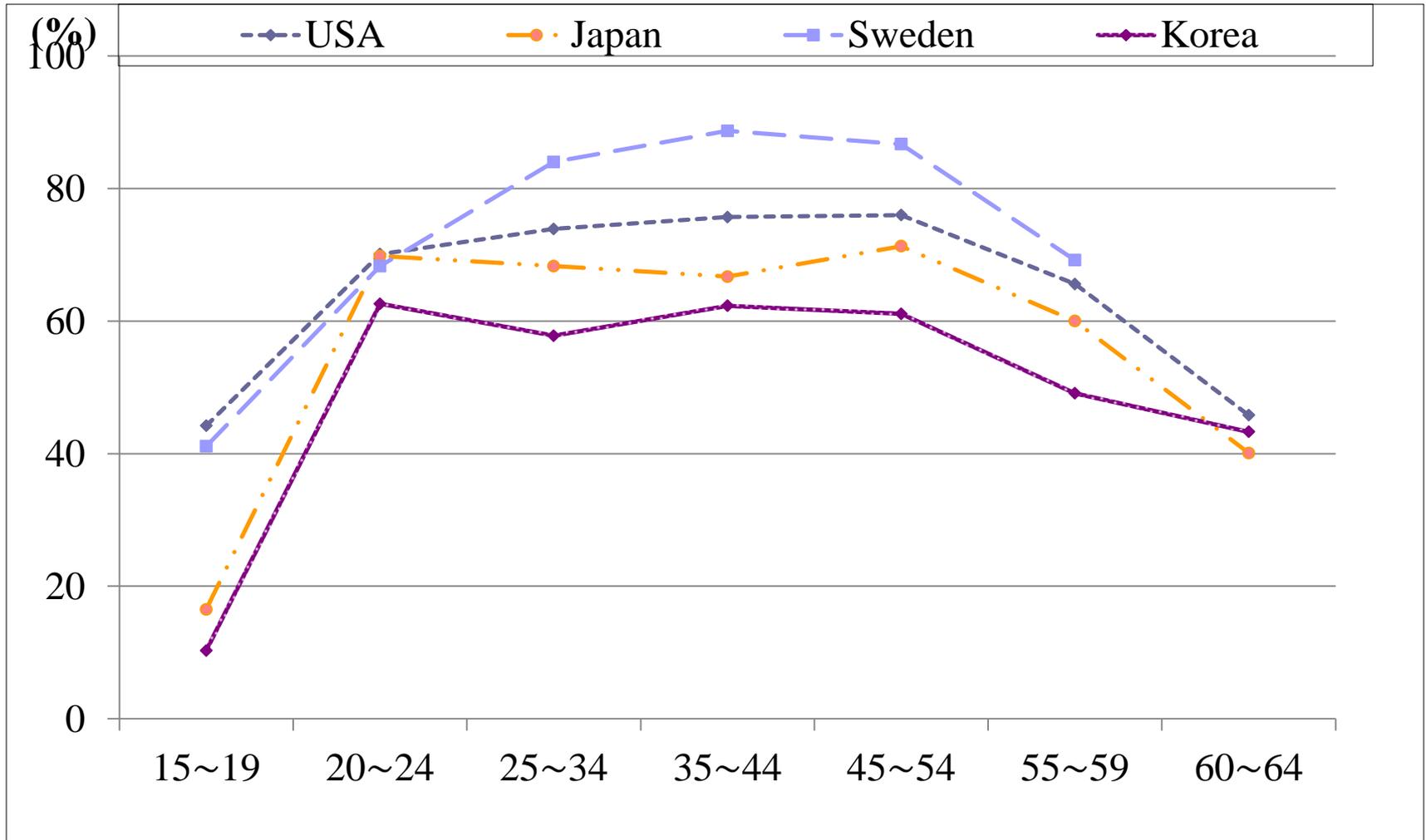
- Also Korean labor market institutions and practices need to be reformed
- Enable working women to successfully harmonize work and family and to develop their work career more consistently. T
- Korean government has recently enacted a Sex-Fair Employment Act and arranged a set of necessary follow-up measures to ensure a fair opportunity for female participants (but, Policy Initiatives/Regulations  $\neq$  Market Reality)

# Labor Force Participation Rate: Male and Female



# Female LFP Rate: International

OECD(2005), *OECD Labor Force Statistics*.



## 5. Improving Skills and Productivity

- Ongoing shift away from manufacturing to service industry together with technological change increased the need for more skilled and flexible work force
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## Participation in Job-related Training and Life-long Learning Activities in OECD Countries (%)

	Life-long Learning Activities (all persons)			Job-related Training (employees)		
	Total	age		Total	age	
		25-49	50-64		25-49	50-64
<b>Korea</b>	<b>18.8</b>	<b>21.6</b>	<b>10.8</b>	<b>14.3</b>	<b>15.7</b>	<b>9.6</b>
<b>USA</b>	<b>43.6</b>	<b>47.2</b>	<b>35.7</b>	<b>44.3</b>	<b>45.9</b>	<b>39.9</b>
<b>Denmark</b>	<b>56.2</b>	<b>63.6</b>	<b>41.4</b>	<b>52.5</b>	<b>55.6</b>	<b>44.5</b>
<b>Sweden</b>	<b>54.2</b>	<b>58.1</b>	<b>45.9</b>	<b>.</b>	<b>.</b>	<b>.</b>
<b>UK</b>	<b>44.9</b>	<b>47.2</b>	<b>35.7</b>	<b>44.3</b>	<b>45.9</b>	<b>39.9</b>
<b>Italy</b>	<b>22.1</b>	<b>27.1</b>	<b>12.6</b>	<b>24.6</b>	<b>25.2</b>	<b>22.5</b>

## 7. Building Stable Old-age Income Security System

- National Pension System, young (20 yrs old) and immature, high rate of non-contribution (40% among the self-employed) & Retirement allowance (8.3%), mostly lump-sum payment
- Improving the Coverage and Adequacy of the Old-age Income Security through Public – Private Pension Schemes
- Extending Unemployment Benefit for the Older-workers for Reemployment and Job Training