



Economic Benefits of Employing Older Workers

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This is a short summary, for the full paper (in Hebrew) see
<https://www.idc.ac.il/he/research/aiep/pages/policy-papers.aspx>.

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Economic Benefits of Employing Older Workers

The average age of Israeli population, as in most OECD countries, is steadily rising. The proportion of the 55-64 age group has been increasing, and in 2019 it reached around a fifth of all primary work age population (ages 25 to 64). This policy paper utilizes data collected by the Israel Central Bureau of Statistics (CBS), as well as international data, to examine the economic implications of employing older workers in Israel, and the consequences of (lack of) employment on the healthy aging of the population, both for individuals and for the economy as a whole. A review of international research shows that different employment statuses (employment, unemployment, retirement) affect the individual as well as the wider economy. Research indicates that the workplace is an important environment which shapes aging processes throughout adult life. Extending working years and postponing retirement allow workers to continue saving towards retirement, thus increasing their pension savings and consequently their future economic security. Studies have shown that working has additional positive effects on individuals, such as a feeling of usefulness and social connectedness. At older ages, paid work was found to provide meaningful purpose, and direct relations have been consistently found between employment and enhanced feelings of life satisfaction and well-being among workers. As for health effects, there are inconclusive research findings on the impact of employment and extended working years on workers' health. Some studies claim that employment is beneficial to health, and also alleviates changes in health which occur with age, while other studies find that employment at older ages is detrimental to health and shortens life expectancy. In view of these conflicting findings, it is hard to determine whether work contributes to individual health or harms it. However, it should be noted that outcomes may be affected by the type of work (physical or otherwise), while also bearing in mind that the health variable is endogenous, which complicates our understanding of causality and correlation in this regard.

Employing older workers not only addresses the demand for workers which exists in the private sector; extending older workers' employment years also produces a range of macroeconomic and social advantages. Thus, extended working years and continued pension savings benefit the economy, since people in employment are not dependent on welfare allowances (old age benefits / unemployment / income support / pension payments), and may even continue to pay taxes. Continuing employment also expands the tax base and increases government income.

Beyond addressing the needs of workers and of the wider economy, employment of older workers may also be necessary for employers. Older workers are often in high demand due to the knowledge, the skills and the expertise they have acquired in their occupation, which make them highly sought after. In some fields (such as manufacturing), demand for skilled older workers is bound to remain high, since there are fewer younger workers to replace them. Extension of working years enhances the productivity of economic organizations due to better utilization, for longer duration, of the skills and capabilities of older workers.

Examination of the current situation in Israel reveals an upward trend in the employment rate of older men and women within the labor market, although Israeli men and women are still ranked relatively low compared to the benchmark countries.¹ The employment rates of Israeli men aged 55-59 are lower than those in benchmark countries. Among Israeli women aged 55-59, participation rates have exhibited an upward trend over the last two decades, in Israel as well as in benchmark countries, however the employment rate of Israeli women is still significantly lower compared to Denmark, Finland, Sweden, and The Netherlands. It should be noted that for the 65-69 age group, employment rates in Israel are higher than those in comparison countries, both for men and for women, and are considered high by global standards. The higher rates of late retirement in Israel may be explained by the large proportion of people who do not have pension insurance (such as immigrants) and the relatively low old-age benefits, while also taking into account that the mandatory pension law for salaried employees was only enacted in 2008 and the official retirement age was raised in 2004.

In order to assess the economic value of employing older workers, we analyzed outcomes such as an increase in GDP, a decrease in healthcare costs, a rise in pension savings, and reduced transfer payments.

Calculation of the **increase in GDP** shows that, based on a minimum hourly wage of NIS 30, an increase of 1% in the number of full-time employees across all age groups (45 to 75+) will lead to a GDP increase of around NIS 750 million per year. A further, more detailed analysis, which employs an econometric model to gauge employment and wages, delineates the differential contribution to the rise in GDP according to sector, gender, educational attainment level, and so forth.

¹ The benchmark countries are Austria, Denmark, Finland, Ireland, Sweden, and The Netherlands.

From the perspective of the economy as a whole, **costs of old-age benefits are expected to decrease as working years are extended.** According to our estimate, an increase of 1% in the number of employees in the relevant ages means a reduction of around NIS 75 million in old-age benefit payments.

Regarding healthcare expenses and their distribution between workers and non-workers, an analysis of data aggregated by the CBS did not provide conclusive results regarding the gaps in expenses between workers and non-workers, and no clear differences were found between the healthcare expenses of these two groups.

On the household level, **analysis of the benefits derived from increasing the household's pension payments** shows that postponing retirement and extending working years result in increased pension savings, thereby providing a financial benefit to households. For every year retirement is postponed, pension payment would rise by more than 6%.

Further analyses gauged the impact of changing taxation incentives on the labor supply of older workers and their economic contribution. In light of this effect, our first and foremost recommendation is to reduce the tax on work at older ages, in order to make retirement less financially attractive than it is today, making it more worthwhile to remain in the labor market for those who choose to do so.

Additional recommendations concern encouraging employers to employ older workers by introducing an age-friendly badge (see below) and enforcing anti-discrimination laws, while also encouraging workers through suitable vocational training courses (preferably having part of their cost covered by the worker and/or employer), and opening entrepreneurship tracks for older individuals with adequate proficiencies. In particular, schemes should be devised to incentivize maximum employment, in terms of both quantity and quality. These schemes should be based on low-cost measures, and focused on the market failures regarding information on appropriate positions, missing employability skills, and limited access to the labor market.