



## PENSION NOTES

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### EMPLOYABILITY OF SENIOR CITIZENS: THE CASE OF FIAP COUNTRIES IN LATINAMERICA

#### Executive summary

This paper examines the employability of senior citizens. This indicator's importance is based on two key points. First, overall health improvements have allowed senior citizens to remain in the labor market. Second, allowing senior citizens to continue working can reduce pressure on public finances and increase pension amounts. The main arguments put forward in this study are:

- The aging trend is glaringly evident in FIAP countries. According to CELADE data, the percentage of people aged 65 and over and the ratio of older people per 100 young people, have increased significantly since 1950 for these countries, and these numbers are projected to rise even further by 2050 and 2100. The most pronounced aging will occur in Chile, Costa Rica and Uruguay, where the 65-and-over population will be almost a quarter of the total in 2050. Similarly, it is worth mentioning that the number of senior citizens (65-and-over) will be more than twice the number of young people (0 - 15) by 2100 in most FIAP countries. All Latin American FIAP countries will see substantial increases in the dependency rate (defined as the ratio between the number of people aged 65 and over, and the number of people aged 15 to 64), and most of these countries will exceed the global and Latin American averages by 2050. The countries under study with
- the highest increase in the dependency rate will be Chile, Costa Rica and Colombia, which will have a rate close to 40% by 2050 and 70% by 2100.
- The labor participation rate analyzed by age brackets drops significantly for the 65-and-over group and varies considerably between countries. This figure ranges from 21.94% in Uruguay (10.12% among women) to 61.51% in Bolivia (47.69% among women) in the most recent period. Moreover, the data shows that there is an ongoing drop in the percentage of salaried employees as age increases, with a considerable drop between the 55-64 and 65-or-more age groups, whereas the number of employers and self-employed increase with age. Furthermore, the effective retirement age is higher than the official retirement age in most Latin American countries with available data, the only exception being women in Costa Rica.
- The OECD has proposed three measures to address this problem: (i) reward people who carry on working and take late retirement; (ii) encourage employers to retain and hire older workers; and (iii) promote the employability of workers throughout their working lives.
- A variety of good practices for the employability of senior citizens can be found worldwide. One example is the "Senior Citizens Tax Refund Program," which allows tax cuts for elderly residents working for the city of Bolton,

UK., of up to US\$1,500 per household. Another example is the "Toyama Rakuno Gakuen", an agency in Japan that helps older people start their own agricultural production and supports farmers through six-month courses and conferences.

## Introduction

Meaningful demographic changes have occurred worldwide in the 20th century and part of this century. In Latin America, this change is manifested in pronounced population aging. According to the most recent report of the Latin American and Caribbean Demographic Center (CELADE), people aged 65 and over in the region accounted for 3.5% of the total population in 1950, whereas this figure more than doubled to 9% in 2020 and is expected to reach 19% by 2050 and 31% by 2100.

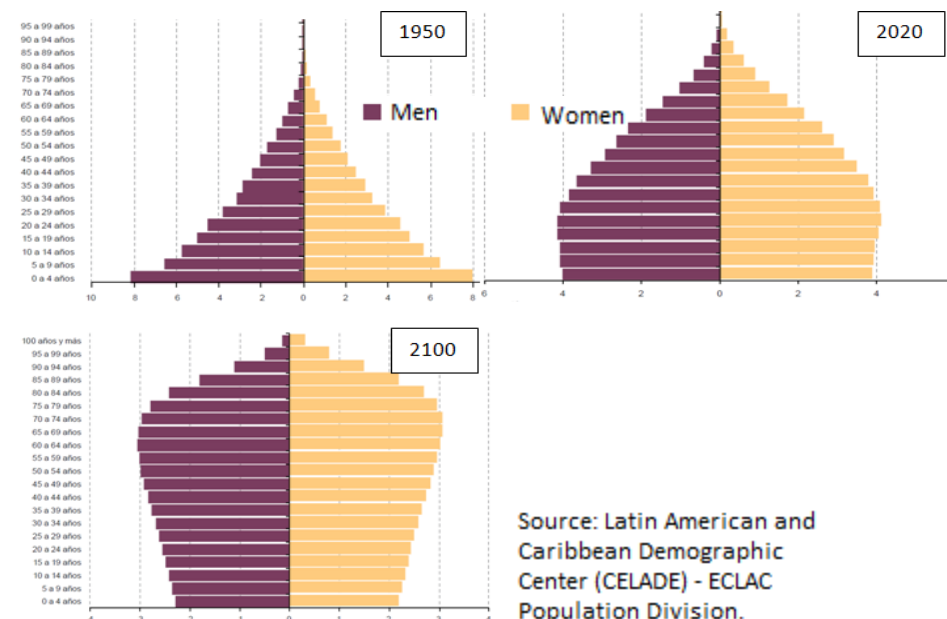
On the other hand, according to the same agency, the 65-and-over population was 8.7 per 100 aged 0 to 14 in 1950, 37.5 per 100 by 2020, and expected to reach 111.1 by 2050 (i.e. more

senior citizens than children). The change of shape of the population pyramid is evident in Graph 1.

Although population aging reflects progress in medical, health and food issues in the region, it also poses serious challenges for societies, which will have to financially sustain a number of increasingly older retirees. According to organizations such as the Credit Suisse Research Institute (CSRI) and the OECD, using these factors to advantage is part of the solution, since people of a certain age who were previously seen as tired and unable to work, today are not only capable, but also enthusiastic about continuing to make a productive contribution to society.

In view of the above, the State is obligated to foster the development of a labor market open to the integration of senior citizens wishing to work. With this goal in mind, the magnitude of the demographic problem in Latin American FIAP countries, the OECD's recommendations and international good practices in this area, are studied in depth.

Graph 1.- Distribution of the Latin American population by sex and age, 1950, 2020, and 2100.



### Demographic trend in FIAP countries

The trend observed in Latin America is also evidenced in FIAP countries. According to Table 1, the percentage of people aged 65 and over, and the ratio of older people per 100 young people, have increased significantly since 1950 in these countries, and these indicators are projected to

continue to increase by 2050. The most pronounced aging will occur in Chile, Colombia, Costa Rica and Uruguay, where the 65-and-over population will be almost a quarter of the total by 2050. The study refers to the need to implement appropriate public or market mechanisms for replacing traditional family networks of support for the elderly.

Table 1.- Demographic indicators in FIAP countries. Respective years.

Demographic indicators		Year		
		1950	2020	2050
Bolivia	65-and-over (% of the total).	6.1	7.5	12.7
	Ratio of seniors / adolescents (per 100)	15.5	24.8	58.2
Chile	65-and-over (% of the total).	3.4	12.2	24.9
	Ratio of seniors / adolescents (per 100)	9	63.6	174.7
Colombia	65-and-over (% of the total).	3.2	9.1	21
	Ratio of seniors / adolescents (per 100)	7.4	40.8	139
Costa Rica	65-and-over (% of the total).	3	10.3	23.7
	Ratio of seniors / adolescents (per 100)	6.9	49.2	164.9
El Salvador	65-and-over (% of the total).	4	8.7	16.3
	Ratio of seniors / adolescents (per 100)	9.3	32.5	91.6
Mexico	65-and-over (% of the total).	3.5	7.6	17
	Ratio of seniors / adolescents (per 100)	8.1	29.5	96.1
Peru	65-and-over (% of the total).	3.5	8.7	18.9
	Ratio of seniors / adolescents (per 100)	8.3	35.3	105.1
Dominican Rep.	65-and-over (% of the total).	2.7	7.5	16
	Ratio of seniors / adolescents (per 100)	6	27.4	83.9
Uruguay	65-and-over (% of the total).	8.2	15.1	21.7
	Ratio of seniors / adolescents (per 100)	29.5	74.2	131.4

Source: FIAP with data provided by the Economic Commission for Latin America and the Caribbean (ECLAC)

\* Seniors/adolescents ratio (65-and-over population / 0-14 population) \*100

Another important indicator in the measurement of demographic changes is the old age dependency rate. This is the ratio of the 65-and-over population (retirees) to the population aged 15 - 64 (active) per 100. As shown in Graph 2, all the FIAP countries under study will see substantial increases in their dependency rates, most of them exceeding the global average by 2050. The countries under study with the highest increase in the dependency rate will be Chile, Costa Rica and Colombia, which will have a rate close to 40% by 2050 and 70% by 2100.

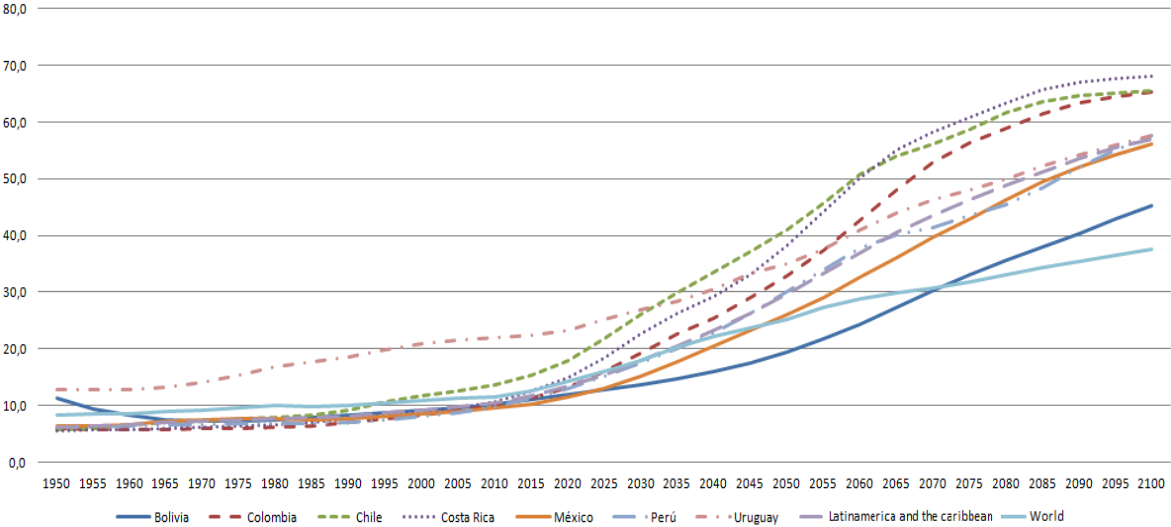
The drop in the dependency rate is due, on the one hand, to the drop in the fertility rate, and on the other hand, to a sustained increase in life expectancy at retirement. While the latter is a significant achievement, demographic changes pose major public policy challenges:

- First, these trends make the public PAYGO pension systems unviable, since

they are based on intergenerational solidarity, in which the contribution of active workers finance the pensions of retirees. Thus, countries with these systems will see their incomes fall and their costs increase continuously, creating enormous pressure on their public finances. Proof of this is the implicit pension debt of the PAYGO systems in countries such as Greece, which owes 9 times its GDP, Portugal, which owes 5 times its GDP and Spain, which owes 2.5 times its GDP.

- If people are going to live progressively longer, it is important to ask what measures can be taken to finance this longer passive period, so as to ensure decent retirement conditions, also ensuring their sustainability over time.

Graph 2. 1950-2020 old age dependency rate and 2021-2100 projections. Selected FIAP countries.



Source: FIAP with data provided by the Latin American and Caribbean Demographic Center (CELADE) - ECLAC Population Division. [Online Database] <https://population.un.org/wpp/>.

## Are traditional aging indicators adequate?

### Chronological vs biological age

Chronological age is determined by the calendar date on which a person was born, and is measured in days, months, and years. Since this has been the conventional way of measuring age for several centuries, it is comparable over different periods. However, according to the Credit Suisse Research Institute (CSRI), certain difficulties arise when using chronological age as a measure of population aging, particularly the fact that chronological age is incapable of measuring a person's skills and well-being. Hence, a distinction should be made between chronological and biological age, a measure that better links age with the well-being of the individual.

A good example for understanding the disconnection between biological and chronological age, is the difference between real and nominal prices. If one considers the price of a watermelon in 1950, which was US\$ 0.6 at the time and US\$ 5.98 in 2019, one finds that the nominal price of watermelons actually increased, but when comparing variables adjusted for inflation (real prices), watermelons are in fact cheaper.

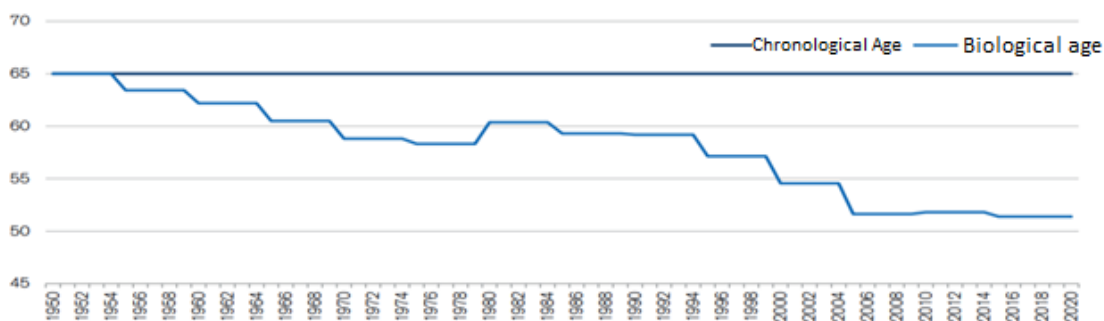
Similarly, chronological age is not a good measure when comparing ages over time. If one compares

a 65-year-old man in 1950 with a 65-year-old man in 2020, the latter may be biologically younger. The reason is that due to a healthier lifestyle, a 65-year-old today would probably be in better physical and mental shape than a 65-year-old 70 years ago. For example, adjusting for the mortality rate shows that a 65-year-old man in Switzerland is now comparable to a 51-year-old man in 1950 (see Figure 3). In other words, "65 is the new 51."

If people were to live continuously longer, and in better conditions than previous generations, it is important to question the role that senior citizens should have in society, and in their communities, in the future. Current OECD recommendations for the workplace recommend providing work for senior citizens, in conditions suitable to their characteristics and requirements. However, when analyzing the labor participation rates of senior citizens worldwide, it is evident that they are low in developed countries and increase as a country's income declines (Staudinger, 2016).

Thus, questions arise regarding the challenges currently posed for public policy in this regard: How to promote the re-insertion or retention of the elderly in the labor market? Under what conditions is it desirable for them to keep on working?

Graph 3.- Chronological age (65) compared to biological age in Switzerland; biological ages adjusted for mortality rates from 1950-1955.



Source: Credit Suisse Research Institute (CSRI).

## **Labor participation and type of employment among the elderly**

Table 2 shows the labor participation rate by age and gender for FIAP countries. As expected, the participation rate drops significantly after the age of 65 and varies considerably between countries. This indicator varies for men of 65-and-over from 21.94% in Uruguay (10.12% among women) to 61.51% in Bolivia (47.69% among women).

In most cases, the participation rate of women is half of that of men, or less. However, in younger age brackets, differences in gender participation are lower, so if these women maintain their greater propensity to work, the labor participation of older women could possibly rise in the future.

Table 3 shows the percentage of employed workers in each age bracket, and the percentage of workers who are employers or self-employed in FIAP countries. An important observation is that the percentage of employed workers is falling as age increases, and there is a considerable drop between the 55-64 and 65-or-

more age brackets, while those who are employers or self-employed, are increasing.

While part of the explanation for the drop in employees after age 65 is that many workers opt for retirement at that age, while those who own their own businesses decide to carry on operating, this does not explain why the trend occurs across all age brackets. This is worrying, because employers may be avoiding hiring older workers, believing that they are less capable of doing the job.

Drops in percentages of employees between age brackets are abrupt in all FIAP countries. However, the steepest drop occurs in Uruguay, where the percentage of employed workers drops from 63.88% in the 55-64 bracket to 37.90% in the 65-or-more bracket. On the other hand, the least pronounced drop occurs in Bolivia, where the percentage of employees drops from 19.13% in the 55-64 bracket to 6.76% in the 65-or-more bracket. However, salaried employment in this country is very low in all brackets, so this is not a valid indicator.

Table 2.- Participation rate by age bracket and gender. FIAP countries. Most recent data.

Country	Age bracket	Men's participation rate	Women's participation rate
Bolivia	15-24	55.14	44.12
	25-54	95.77	75.23
	55-64	89.51	72.66
	65+	61.51	47.69
Chile	15-24	36.52	30.29
	25-54	91.37	69.93
	55-64	87.24	51.31
	65+	37.66	13.53
Colombia	15-24	60.45	44.84
	25-54	95.69	72.76
	55-64	84.71	49.82
	65+	43.00	17.69
Costa Rica*	15-24	51.22	37.80
	25-54	95.23	68.54
	55-64	81.98	43.20
	65+	26.33	10.29
The Dominican Republic	15-24	56.26	32.98
	25-54	94.57	68.93
	55-64	84.10	44.52
	65+	43.92	13.56
Mexico*	15-24	57.26	32.35
	25-54	94.01	57.50
	55-64	77.16	39.79
	65+	40.91	15.87
Peru	15-24	55.72	52.42
	25-54	95.80	76.06
	55-64	88.18	59.06
	65+	41.67	21.95
El Salvador	15-24	60.33	33.04
	25-54	92.46	59.09
	55-64	80.46	41.59
	65+	43.57	17.37
Uruguay	15-24	52.68	42.29
	25-54	95.11	80.75
	55-64	74.81	55.20
	65+	21.94	10.12

\*The 2018 data is the most recent available for all countries, with the exception of Mexico and Costa Rica, for which the 2019 data is the most recent.

Source: FIAP with data provided by the Latin American and Caribbean Demographic Center (CELADE).

Table 3.- Percentage of employees and employers plus self-employed, by age bracket. FIAP countries. Most recent data.

Country	Age bracket	% of employees	% of employers or self-employed
Bolivia	15-24	35.67	22.10
	25-54	35.85	51.34
	55-64	19.13	64.83
	65+	6.76	72.70
Chile	15-24	85.16	13.26
	25-54	76.93	22.22
	55-64	65.10	33.54
	65+	44.94	53.03
Colombia	15-24	56.54	34.69
	25-54	51.88	45.72
	55-64	33.43	63.55
	65+	14.92	80.31
Costa Rica*	15-24	86.16	8.79
	25-54	76.67	21.89
	55-64	59.22	38.82
	65+	38.26	59.12
The Dominican Republic	15-24	66.22	28.34
	25-54	58.71	40.15
	55-64	42.88	56.08
	65+	32.13	66.70
Mexico*	15-24	80.30	7.92
	25-54	70.91	26.09
	55-64	51.68	45.04
	65+	31.05	64.32
Peru	15-24	70.39	16.06
	25-54	62.47	34.84
	55-64	45.86	50.61
	65+	28.13	64.47
El Salvador	15-24	72.85	10.06
	25-54	64.15	32.31
	55-64	43.10	53.66
	65+	27.36	68.92
Uruguay	15-24	83.20	15.26
	25-54	73.34	25.84
	55-64	63.88	34.86
	65+	37.90	60.71

\*The 2018 data is the most recent available for all countries, with the exception of Mexico and, for which the 2019 data is the most recent.

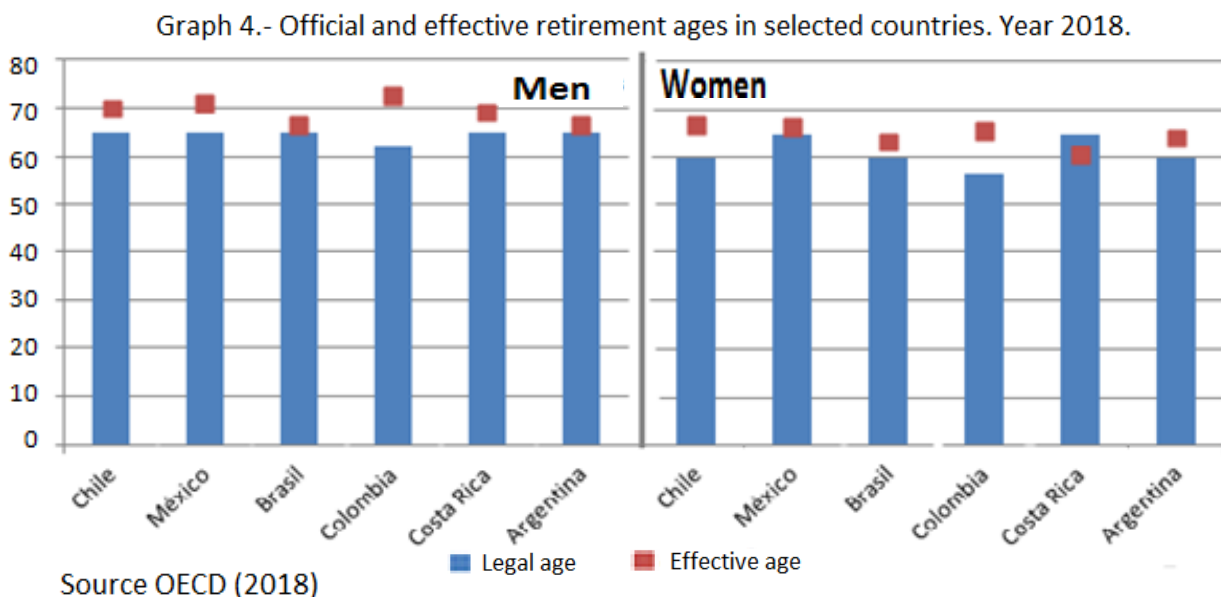
Source: FIAP with data provided by the Latin American and Caribbean Demographic Center (CELADE).



## Official and effective retirement ages

Another way to analyze the trend is by comparing the official and effective retirement ages. To this end, the OECD considers the effective retirement age to be the average age at which individuals exit the labor market, over a period of 5 years. Graph 4 shows that in the majority of the available data for Latin American countries, the effective retirement age is higher than the official retirement age, with women in Costa Rica being the only exception.

There are differences between countries for both men and women. The effective retirement age for men ranges from 66.6 (Argentina and Brazil) to 72.7 (Colombia). The effective retirement age for women, on the other hand, ranges from 60.8 in Costa Rica to 66.7<sup>1</sup> in Chile.



<sup>1</sup> It is worth mentioning that the effective retirement age for women in Chile may be influenced by the provision of the bonus per child-born-live, which provides incentives for women to pay contributions on their salaries, which they would not have done if it had not been for the bonus.

## OECD policy recommendations

Recognizing the need to act in this regard, the OECD member countries adopted the Council's aging and employment recommendations in 2015. These recommendations are based on reform experiences in countries and can be summarized in three areas, namely:

I. Reward work beyond the retirement age and late retirement:

- Improve incentives to continue working at more advanced ages, ensuring that: (i) the old-age pension system encourages and rewards late retirement in line with higher life expectancy; and (ii) encourage longer and more satisfying careers through greater flexibility in transitions to retirement. Restrict the use of publicly funded early retirement schemes, which encourage workers to leave employment while in good health and able to work.
- Discourage or restrict mandatory retirement imposed by employers, in close consultation with employers and workers' representatives.
- Ensure access to social benefits, such as disability and unemployment benefits, while reducing incentives for early retirement for those who can still work.

II. Encourage employers to retain and hire older workers:

- Address age discrimination in recruitment and promotion, and promote senior worker retention policies.
- Seek better compatibility between the cost of work and the productivity of older workers, as well as eliminating special labor protection and unemployment benefit rules for older workers.

- Inspire social stakeholders to review their wage policies to reflect people's skills and productivity, and not their age.
- Encourage employers' good practice when managing workforces of varying ages, through public and private initiatives that provide guidelines on job organization, training and health policies.

III. Promote the employability of workers throughout their working lives

- Improve access to lifelong learning, especially for low-skilled and older workers, and improve recognition of skills acquired throughout a working life.
- Improve working conditions and quality of work at all ages, through a variety of measures including: (i) better regulations during working hours and job safety; (ii) promotion of healthy working conditions; (iii) implementation of well-designed systems of protection against diseases; and (iv) improve the role of labor inspectorate and healthcare services.
- Limit the impact of job loss by providing effective employment assistance through a package of occupational counseling and training measures aimed at those most at risk of becoming unemployed in the long run.

## Good employability practices and seniors

Different initiatives and practices have been employed internationally to respond to the challenges posed by societies in which the over-60s are an increasingly relevant group. Actions and initiatives are presented that can be considered good practices in response to the challenges posed in the area of employability and the elderly. One must bear in mind that although examples of how other societies have resolved some of these issues have been put forward, they need to be assessed in terms of their relevance

and viability for each country, and possibly adapted to local culture and custom when implemented.

**1. Senior Citizens Tax Refund Program:** A local services program which allows tax cuts for elderly residents working for the city of Bolton, United Kingdom, of up to US\$1,500 per household.

**2. New employment possibilities for older workers:** Program that seeks to improve knowledge of the job and skills to create employment opportunities for middle-aged and older workers (Wan Chai, China).

**3. 60s-and-over Center:** Employment assistance center for residents aged 60 and over, providing job training workshops, assistance in seeking employment after retirement, and skills development workshops with new technologies. The workshops provide older people with individual and group assistance and guidance (Jerusalem, Israel).

**4. TimeBanksNYC:** Program that seeks to encourage the exchange of services between the elderly in the city, in which money is not used as a means of payment. It is a free reciprocal exchange network in which people provide skills and services to others using their time instead of money as a means of payment. The model is based on individual strengths and resources, aimed at strengthening the community at large (New York, USA).

**5. Senior's University:** consists of a university aimed at adults over the age of 50, in which classes are taught by professors who are also elderly volunteers. It offers courses in 52 disciplines, highlighting languages, stories, ICT, arts, music, dance and science, among others. It is part of the network of Senior Universities of Portugal (Gondomar, Portugal).

**6. Toyama Rakuno Gakuen:** An agency that teaches new agricultural techniques. Rakuno

helps older people start their own agricultural production and supports farmers through one, two and three-year courses and conferences every six months for companies that are new to agriculture. (Toyama Japan).

**7. Friendly University:** This university consists of an online database that allows seniors to browse, search, compare and connect with most free educational opportunities at local colleges and universities. It is intended to be an easy way to learn about courses, programs, events and activities available to senior citizens in New York (New York, USA).

**8. Tripartite agreement for more inclusive workplaces:** This agreement seeks to reduce absenteeism, increase employment rates among people with disabilities, and raise the average effective retirement age. This third objective is part of a broader approach to active aging, since it aims to extend the working lives of older people. Companies that sign this agreement receive support, resources and advice from the Inclusive Workplace Support Centers, in exchange for introducing clear policies governing the three objectives of the agreement. Each company is responsible for designing its own objectives (Norway).

**9. 50-plus Perspective:** Program aimed at increasing the participation rate of older workers in the labor market through individual support to those who have been unemployed for long periods of time and the activation of local institutional networks to promote the employment of older workers (Germany).

**10. PEARL – Platform for workplaces friendly to the elderly based on information and communication technologies:** The purpose of this platform is to create ergonomic and inspirational workplaces for older workers, aimed at promoting the extension of working life and intergenerational exchange (European Union, Canada and Israel).

## Conclusions

Demographics in Latin America are in a process of rapid change. These changes will significantly increase the numbers of senior citizens. Although this will put more pressure on public finances, it also means that the enhanced health of senior citizens can be used as an opportunity to leverage their experience and skills to the benefit of the region.

Some senior citizens do not seek protection or care, but continue to live the life they have chosen autonomously and independently. This

entails a major change in public policy aimed at this segment of the population, which together with providing protection, should promote the independence and personal development of senior citizens.

Labor policy and other aspects must be redesigned for senior citizens, in order to implement supply and demand incentives that encourage labor retention and reinsertion. Existing training methods must be reconsidered for this age group, in order to enhance their skills, also assessing the promotion of greater job flexibility as an incentive for employing them.

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