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Employment and Labor Policies in Transition : Employment

# How to Improve Older Workers' Job Security and Increase Demand for Their Labor

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## I. Introduction

Korea's population is aging at a pace rarely seen in other parts of the world. Average life expectancy rose by 20 years in the past 45 years, reaching 82.1 as of 2015, much higher than the OECD average and one of the highest in the world. Coupled with the ultra low birthrate that has persisted for close to one generation, it has led to the productive population beginning to shrink from this year. Korea will become an aged society next year and a super-aged society in 2026. It has been accompanied by the aging of the labor force, with the average age of the employed going from 41.1 in 2004 to 44.4 in 2015. The resulting issues like fiscal sustainability and pension fund depletion may be problems of the future, but the impact on employment is a problem of today.

The older generations, most of whom have not saved enough to prepare for the longer post-retirement life, are already retiring from their main job in their early 50s, finding reemployment in non-regular jobs or sustenance-type self-employment. At the same time, about half of Korea's elderly population is in poverty, with reduced private transfers from their children as the traditional concept of family (based on the duty to support one's parents) disintegrates. At the national level, aging of the workforce could weigh down on growth potential going forward. Already, there are analyses not only in Japan, but also in the US and Europe that population aging is one of the fundamental causes of the prolonged stagnation that persists since the global financial crisis. Against this backdrop, focusing policy capabilities on putting older workers to appropriate place, expanding their opportunities

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for secure employment and enhancing productivity over the long run would open up one short-cut to improving distribution and growth at the same time. This paper first takes a look at the labor market for older workers today, and then reviews major policy challenges to improve their employment situation.

## II. Older Workers' Employment: Status and Issues

The labor market environment that older workers face today paints a complex picture of difficult challenges resulting from rapid changes in the demographics and industrial landscape.

First, workers in Korea tend to stay in a job for a shorter duration and retire earlier from their main job than in other developed countries. For those with employment experience, the average age of leaving the longest-serving job has fallen from 50 in 2005 to 49.1 in 2016. In contrast, old-age poverty rate in the over-65 group is 46.9%, much higher than the OECD average of 12.6%, due to shortage of old-age income such as pension. It has resulted in much stronger desire among Korean older adults to keep working, and in fact, their employment rate has been rising. Retirement from the labor market has been pushed back considerably, from 67.1 years of age for men and 65.9 for women in 2000 to 72.9 for men and 70.6 for women in 2014.

Second, unprepared for reemployment due to long working hours and insufficient career design opportunities, older adults after retiring from the main job mostly find reemployment in low-income jobs heavy on routine labor or sustenance-type self-employment. By occupation, the highest share is security guard and cleaning, followed by healthcare-related jobs, and food service, showing a disproportionate concentration in routine and menial

jobs. And the older they are, the likelier that they are displaced with no preparation, with 69% of the 50s workers leaving with no preparation. Oftentimes, older workers seeking sustenance-type self-employment without sufficient preparation would use up their retirement saving, become indebted and fall into poverty. According to the Bank of Korea and Statistics Korea, the average survival period of wholesale and retail business in 2006-2013 was 5.2 years, and for repair and other personal service business, 5.1 years. For restaurants and hotels, where sustenance-type self-employment is heavily concentrated, it is only 3.1 years.<sup>1)</sup>

Third, older workers are at a higher risk of job insecurity when seeking for reemployment. They are likelier than middle-aged workers to discontinue working due to health reasons, which gives little incentive for employers to allocate them in jobs requiring skill build-up through a long tenure. Thus they are likelier than not to be engaged in short-term or temporary jobs. In fact, among the over-60s wage workers, non-regular workers account for 68%. The share of this age group in total non-regular workers is also rising. Table 1 shows the age composition of all non-regular workers in 2009-2016, showing that the age 30-50 group's share in non-regular workers fell by 5%p, the 50s' share rose by 3.4%p, and the 60s' share by 7.6%p. It is partly owing to a higher number of older workers opting for part-time jobs. But given that retirement from the labor market keeps getting pushed back and that no small number of older workers relies on earned income as the main income, there is no denying that job insecurity is one major factor driving down the quality of life among older adults.

Fourth, productivity of the rapidly growing older worker group might negatively affect Korea's potential growth in the future. While age-related changes in productivity could depend on the occupation, in general it improves

1) Yun-Mee Nam (2017), "Analysis of Determinants of Self-Employment Termination," BOK Economics Study, No.2017-5.

Table 1. Trends in Non-Regular Workers following age groups

(Unit: 1,000, %)

		2009	2010	2011	2012	2013	2014	2015	2016
Total		5,754	5,685	5,995	5,911	5,946	6,077	6,271	6,444
Share	Age 15-19	2.5	2.6	2.7	3.3	2.9	3.0	3.0	3.0
	20-29	19.1	18.8	18.1	17.2	17.3	17.9	17.8	17.5
	30-39	20.5	19.5	19.4	18.7	17.9	17.2	16.2	15.4
	40-49	24.5	23.8	23.6	23.0	22.2	21.3	20.4	19.8
	50-59	18.1	19.7	20.2	20.6	21.7	21.1	21.5	21.5
	60+	15.2	15.6	16.0	17.2	17.9	19.5	21.0	22.8

Source : Statistics Korea, *Survey by Employment Type Supplementary to the Economically Active Population Survey*, each year.

during youth and falls in older age. Unless older workers' productivity improves, population aging is bound to accelerate the slowdown in growth potential. In addition, rise in the share of low-income older workers will worsen income distribution and increase the working-poor population. It should be noted that older workers tend to find reemployment in menial jobs because their educational attainment and/or occupational expertise are relatively low due to the educational environment and labor-intensive industrial structure in the 70s and 80s when they entered the labor market. Thus, it is still possible to be optimistic about productivity improvement in older workers in the future, as the current cohort of workers is better educated and specialized. But for the present, among the 55-64 age group, participation in training/education other than formal education is only 10.4%, less than half of the 23.6% among the 25-34 group.

Fifth, while population aging is rapidly driving up the supply of older workers, demand is not catching up. Older workers can perform more efficiently at jobs that require skills and experience, rather than physical abilities. But even the skill-oriented jobs are not fully tapping into older workers' potential as they are not supported by age-friendly working environment. Moreover, older workers are generally at a disadvantage in responding to new jobs as they are relatively less tech-savvy and lacking in

lifetime education or vocational training. And even when the retirement age is extended, the hierarchical corporate culture makes it difficult for older workers in administrative or managerial positions to find appropriate jobs after they give up their titles.

### III. Challenges to Improve the Employment Environment for Older Workers

A number of policies have been planned recently to address the issues of older workers' employment. The main issues and policy tasks are summarized as follows.

#### 1. Extending the tenure at the main job

Despite the increasingly longer healthy life and labor market participation duration, the age of retiring from the main job has become lower, causing job insecurity for older workers, and productivity loss for the society. That is why in 2013 the Act on Prohibition of Age Discrimination in Employment and Aged Employment Promotion was amended, extending the retirement age to 60, applicable to all workplaces starting this year. But the eligible age for the National Pension has also been gradually adjusted upward to 65 today, still leaving a gap from the retirement age. Given the pace of aging, the retirement age should

also be gradually adjusted upward. There should also be back-up measures to ensure the effectiveness of the retirement extension, while trying to find solutions for the follow-up actions that had been under discussion so far.

One of them is to reform the wage system, including the adoption of the wage peak system. As of 2016, 46.8% of workplaces with over 300 employees have adopted the wage peak system, much higher than the 27.2% in 2015. But among all workplaces, it is only 17.5%. Wage peak system is designed to reduce the wage burden caused by pushing back retirement of older workers who tend to command higher wage. Part of its intent is to use the wage saving to hire more young people, but given that the wage peak system increases the sheer number of older workers in employment, it is questionable whether it can actually lead to more hiring. Rather, the wage peak system should be seen as an instrument to reduce the work intensity and hours of older workers as they prepare for reemployment while maintaining job security. Particularly for SMEs who tend to be short on outplacement services, part of the wage saved by adopting the wage peak system can be used to support their employees' reemployment. It is especially pertinent because for SMEs and micro enterprises, retirement age legislation has no real teeth as their adverse working conditions result in frequent displacement and shorter tenure.

Meanwhile in large companies, older workers whose working life was extended by the legislative amendment might still see their job security weakened if they cannot find suitable jobs in a more hierarchical corporate culture. In addition, if objective dismissal (on grounds of performance) is to be allowed, the effect of retirement age guarantee could be undermined. Thus to live up to the intended purposes of the retirement age extension, which are to ensure job security and facilitate reemployment preparation for older workers, it is necessary to improve the hierarchical job structure and ensure that whenever there is going to be change at a workplace that could realistically

affect the retirement age guarantee, its justification will be thoroughly reviewed and endorsed by labor-management agreement.

## 2. Well-prepared reemployment

One important challenge is to prevent a significant drop in the wage and working conditions that older workers would face after retiring from the main job. Ill-prepared reemployment might place them in jobs that involve menial labor that have nothing to do with their career experience. Such mismatch in reemployment is a major cause for lower productivity and wage among older workers. Policy support for well-prepared reemployment is largely twofold: career design and employment support service. There are currently policies under preparation to provide lifetime career design service and expand the Employment Success Package to include older adults. But given the importance of reemployment preparation, the career design service planned now falls far short of expectations, to be available for only 3 sessions throughout one's working life. Lifetime career design service should be made more systematic and continuous, to be provided from the start of one's career at the main workplace. But few companies in Korea provide such lifetime career design service. It is necessary to identify how lifetime career design service can be provided efficiently in Korea by analyzing cases on Japan, Germany, among others.

The Act on Prohibition of Age Discrimination in Employment and Aged Employment Promotion made it mandatory from 2016 for firms with over 300 employees to provide outplacement service. Providing training and outplacement service before honorary retirement or dismissal would be a win-win for both the labor and management as it reduces conflicts and heightens the probability of successful outplacement. It should be more actively adopted in SMEs where turnover tends to be higher.

An expanded version of the Employment Success

Package, a comprehensive set of services where career counseling, job placement and labor market information are provided together, to include older adults will go into effect this year. By providing improved services customized for older individuals, the quality of services will be much improved. But for such program to be successfully entrenched, the most important would be to ensure effectiveness. There are some issues that remain unresolved: insufficient expertise in providing career design consulting or employment service in outplacement cases, and lack of adequate performance in the delivery system of the Employment Success Package. As the program is gradually expanded, more efforts should be made to train and evaluate competent professionals. And more fundamentally, it is equally important to reduce working hours to secure time for workers to participate in such programs. As older workers tend to work long hours in several low-income jobs, it is not easy for them to make time for counseling or training on a continuous and regular basis.

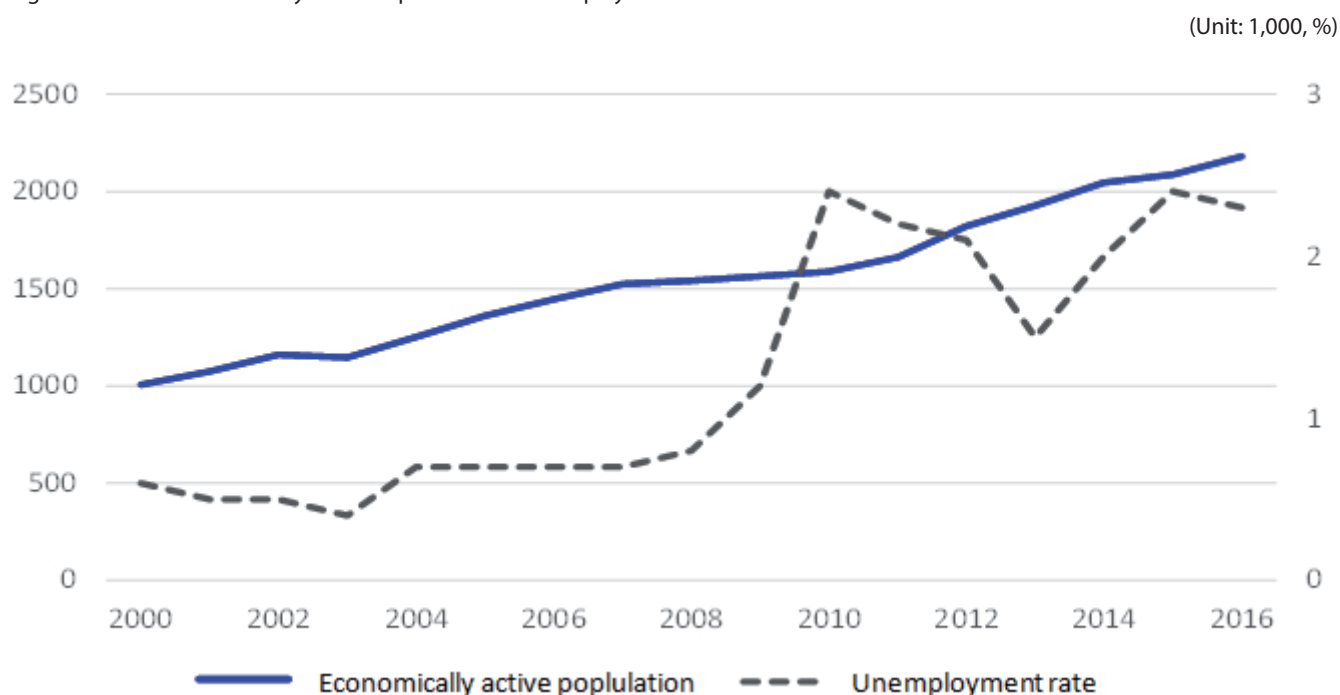
Meanwhile, given that self-employment is at a saturation point, and that in the event of business failure older

workers tend to be less capable of recovering by earning labor income, sustenance-type self-employment should be discouraged. If they still wish to start their own business, it is necessary to diversify the areas away from the already-crowded field of restaurants, by providing support for technology entrepreneurship. And more opportunities should be created in social enterprises or social franchises where retirees' experience can be put to use, so as to reduce the risk of failure and help create greater social value.

### 3. Improving job security

It is necessary to improve on the reality where older workers generally find reemployment in non-regular positions, having to move from one precarious job to another. There is no reason why the principle of hiring regular workers for permanent work should not apply to older workers. But at this moment, policies to promote regular employment for older workers are rare. Instead, there are moves to expand the occupations where older workers can be used as temporary agency workers ("dispatch work-

Figure 1. Over-65 Economically Active Population and Unemployment Rate



Source: Statistics Korea, *Economically Active Population Survey*, each year.

ers”). Rather than increasing jobs for older workers, such change is feared to replace existing jobs with more precarious ones. There are arguments that it is still better to replace legally uncovered service jobs or contracting jobs with legally protected temp agency jobs. But if temp agency jobs become the norm among older adults, the current spread of precarious labor could become even more deeply entrenched. Temp agency workers, who move around different workplaces, find it difficult to demand better wage or working environment, a condition that is highly likely to exacerbate their overall working conditions. Thus, rather than seeing the current precarious low-income jobs as the niche market for older workers, it is necessary to reduce the gap between regular and non-regular work, encourage direct hiring as much as possible, and promote part-time jobs more suitable for older workers.

Where temp agency work for older adults has already been allowed, the role of non-profit groups should be more actively utilized, and cooperation with local authorities should be strengthened. In the case of Japan, there is a non-profit organization called Silver HR Center whose mission is to contribute to regional development in cooperation between the local community and elderly population. It develops occupations suitable for elderly workers and provides job matching service. Profits gained by winning project contracts are distributed to the participating elderly, which encourages them to be active in contracting and publicity activities.

As seen in Figure 1, the over-65 economically active population grew from around 1 million in 2000 to 2.18 million as of 2016, and the unemployment rate also rose from 0.6% to 2.3% in the same period. This raises the need to upwardly adjust the maximum age for unemployment benefit which is currently 65, set at a time when older adults were generally not economically active, to ensure stable livelihood and promote reemployment.

#### 4. Improving older workers' productivity

Older adults have more skills than the younger generation (accumulated at their main job), but such firm-specific skills could lose their relevance when finding reemployment. Thus they should go through additional job training to improve productivity, either before or after finding reemployment. But from the cost-benefit perspective where the benefit to be gained from training is expected to outweigh the efforts and cost spent, job training for older workers might not incite much motivation from either the firm or the workers themselves. This is why there should be incentives for older workers to engage in job training and lifetime education, along with a more active public training and education system. Importance of job training for older workers is heightened when seen from a more comprehensive perspective: it is not only to improve their job skills or employability, but also to improve their quality of life through self-development. Relevant programs should be developed that can be organically linked with the public lifetime education system.

A number of initiatives are currently under works to promote workers' self-led skill development. One is to encourage more older-adults to join the “job training card system for workers” available today, and another is a support package where work hour reduction is linked with training. These initiatives are premised on active involvement by older workers, but for a cohort that is relatively less tech-savvy, it is difficult to find the right information at the right time to be used to their advantage. To ensure more take-up among them, there should be more vigorous communication activities, provision of training information, as well as easier accessibility.

Meanwhile, at a time when many workers spend over 20 years in the labor market after retiring from the main job, and when the retirees' educational attainment is becoming higher, there is a growing need for vocational certificates or degrees to help their transition into a second “main



job,” rather than short-term vocational training or reeducation that will lead to a precarious job. But the training or certificate available in the private sector are often hardly useful in getting employed, because of the subpar quality of the training and over issuance of certificates. Private sector certificates registered under the Korea Research Institute on Vocational Education and Training (KRIVET) jumped from 5,898 in 2013 to as many as 23,572 in 2016. And private sector certifying agencies went from 441 in 2010 to 4,359 in March 2016, close to a tenfold increase. Going forward, it is necessary to help users make the right choice among them, by strengthening evaluation of certifying agencies and analyzing their impact on employment.

## 5. Increasing demand for older workers

If above suggestions are carried through, i.e., improving older workers’ productivity by reinforcing support for job training and lifetime education and developing jobs appropriate for older workers, it will be immensely helpful in increasing demand for older workers. It would be even more effective if there is a comprehensive approach, where such initiatives are linked with improvement in the Workplace Innovation Program to develop work arrangements, HR management and work organizations more suitable for older workers.

Meanwhile, the government’s job creation project for older workers, the Elderly Job Project, can be divided into direct job creation and market-based job creation. About  $\frac{2}{3}$  of the jobs created under the Elderly Job Project are public-interest type, whose job quality is low, with wage limited to only 200,000 Korean won. Private sector jobs created under the market-based program offer better

compensation, but there is a need to build a legal basis to ease controversies over the participants’ status as an “employee” and to alleviate the burden of Employment Insurance contributions. But for the mid/long-term, the most important task is to increase job supply itself.

One way of easing job shortage worth considering is investing in and creating jobs in the public service sector. The service industry is relatively underdeveloped in the Korean economy, long characterized by the gap between the trading sectors (dominated by large manufacturers) and non-trading sectors like service (populated by SMEs and self-employed). The service sector is heavily concentrated with wholesale/retail and restaurants/hotels. In contrast, public service still remains short of supply compared to other developed economies. Whereas the OECD average of the public sector’s share out of total employment is 21.3%, Korea’s is only 7.6% as of 2013. Given that public services are directly related to the quality of life, such as welfare, healthcare and education, it could at least partly explain the Korean public’s low life satisfaction relative to their income level. Thus opportunities to increase demand for older workers can be found by expanding public services that would improve the general quality of life.

Another way of creating demand for older workers can be found in the form of social service jobs to provide welfare and care-giving in rural areas, where the population is aging at a particularly rapid pace. Those with the experience could set up social enterprises or social service cooperatives in the field of social services for the elderly or children’s education. There should be active support for such endeavors, particularly for those who have the necessary career experience and expertise and wish to retire to rural areas.