

Why don't people work longer – and what to do about it

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In the early 2000s I was a member of a British government committee tasked with investigating policies for extending working life. The first draft of the report by officials put considerable emphasis on age discrimination, but I suspected that that was over-simplified and therefore asked the following question: Why might it be rational not to employ older workers? This article offers some answers and policy responses. The opening section sets the context. The following two sections focus on diagnosis, asking in turn why individuals might not work longer or move to part-time work, and why employers might not hire older workers or provide more part-time work. The fourth section discusses the resulting policy directions. The final section concludes.

1 The backdrop

What is the problem?

The starting point are the twin roots of population ageing.

Longer lives: in England Wales, 'While [there were] 265 centenarians ... in 1950, there were 6,680 of them 50 years later In developed countries the number of people celebrating their 100th birthday doubled each decade between 1950 and 1980 ...' (Vaupel and v. Kistowski 2005).

Christensen *at al.* (2009, Table 1) estimate that someone aged 20 today in one of eight OECD countries (Canada, Denmark, France, Germany, Italy, Japan, UK and USA) has a better than 50% chance of living to be 100 years old.¹ That is all wonderful, good news but creates problems paying for pensions.

Lower fertility: the second element is that women are having fewer children. Data collected by the United Nations² show a steady decline in fertility in OECD countries from 3.3 children per woman in 1960 to 1.5 in 2023. That, too, can be regarded as good news in that women are empowered to make choices about their fertility, and also because good for the planet. But fewer births mean fewer workers in the future, which, again, creates problems paying for pensions.

Strategic policy directions

In tackling the problem, the best way forward is to increase the growth rate of national output, thus increasing the resources available both for workers and pensioners. Policies include more

¹ More fully, the table shows that for someone born in 2005 the oldest age at which at least 50% of a birth cohort is still alive ranges from 101 in Denmark to 107 in Japan.

² <https://data.worldbank.org/indicator/SP.DYN.TFRT.IN?end=2023&locations=OE&start=1960>

saving to finance more investment in physical and human capital to make each individual worker more productive (Barr 2021), and policies to increase the labour force.

Policies to increase the labour force include:

- Raising labour-force participation at all ages.
- Importing labour either directly through immigration or indirectly by exporting capital to countries with a younger population; and
- Extending working life.

Achieving the last (the topic of this article) involves later retirement and also more flexible retirement.

Later retirement

If people live longer and retirement age is fixed, the costs of a defined-benefit pension plan³ will increase, putting sustainability at risk. In a defined-contribution plan, a person has to spread their pension savings over more years, putting adequacy at risk.

An obvious part of the solution is that pension age should rise in a sensible way as life expectancy increases. Suppose that people on average work for 40 years and are retired for 20, i.e. two years of work for each year of retirement. If policy makers wish to preserve that relativity, then pension age should rise by 8 months for each year by which life expectancy increases.

Raising pension age, however, needs to recognise that that richer people generally live longer than poorer people. In the richest parts of the USA life expectancy is around 85 years, in the poorest parts up to 20 years lower. In the UK, the difference for men is 10 years.

Though there are no easy or quick answers, policies that can help include a mix of:

- Allowing early access to a reduced pension.
- Allowing early access to an unreduced benefit for workers with more than n years of contributions, hence a lower pension age for people who entered the labour force earlier, who tend to be lower earners. There might also be early access for someone with serious chronic health problems.
- Adjusting pension age in line with changes in the life expectancy of lower-income groups rather than of the population as a whole.

³ In a defined-benefit plan, a person's pension is based on their wage and length of service. In a defined contribution plan a person's pension is based on the size of their lifetime pension accumulation.

- Having a progressive pension formula such that people with lower earnings receive more pension per Euro of contribution than higher earners.
- Over time improving health care and introducing action on diet and lifestyle to reduce the difference between the life expectancy of different groups.

More flexible retirement

Alongside the argument for later retirement is the separate argument for more flexible retirement. When retirement was invented (for example, tax-financed non-contributory pensions in New Zealand in 1898), someone aged 65 was old and often infirm, and interfered with the productivity of younger workers. The purpose of pensions was to clear out unproductive older workers, so it made sense for retirement to be mandatory and complete.

Since then, people are living longer and so should work longer. But in addition, countries are richer and so can afford to give people a period of leisure at the end of their working lives. But that means that the purpose of retirement has changed – no longer a device for weeding out dead wood, but a social invention for dividing adult life between work and leisure. Thus, it is right to recognize that individuals vary widely in their preferences and personal circumstances. Many people do not want to retire fully as soon as they are allowed, because of the extra earnings, because of the resulting extra pension, because for many people their job is part of their identity and/or because they continue to enjoy working, either in their current job or another one.

Older workers – desirable as well as necessary

Though an essential element in addressing population ageing, it is mistaken to think of working longer as merely a regrettable necessity. As just indicated, there are gains for many workers in terms of individual well-being as well as financially. Equally, there are benefits to the wider economy, not just through having more workers but also in the skills and experiences that older people can bring to the workplace (Financial Times 2025).

In brief, older workers bring gains of at least three sorts

- Human interaction: while artificial intelligence will take over many routine tasks, emotional engagement, fostering teamwork, etc. requires people – emotional intelligence is different from and a necessary complement to digital intelligence. Older workers have not lost emotional intelligence – indeed are likely to have gained it over the life course.
- Older workers have experience of earlier technological upheavals, notably the spread of the internet, hence some knowledge of how to navigate the unpredictable impacts of rapid change.

- Diversity: it is now widely understood (see Indeed 2025, Teambuilding.com 2025) that diversity has benefits for the welfare of individual workers, for productivity and for profitability. Age is an important dimension of diversity.

The puzzle

Good policy design would (a) adjust pensions spending to aggregate resource pressures in part by raising the average retirement age and (b) accommodate diversity across individuals by offering choice over how a person moves from full-time work to full retirement.

Such choice and flexibility would be good economics, good politics and good social policy even if there were no problem paying for pensions, and so there is widespread agreement that flexible retirement is a good idea. But it has not happened on a large scale. Why?

2 Why might individuals not work longer or move to part-time work?

When evaluating an observed outcome – in this case limited options for flexible retirement – it is essential to distinguish whether the outcome is the result of choice or constraint. Below I identify constraints that impede longer working life and, in a subsequent section, the types of policy interventions that help to address them.

Decisions by workers about whether to work beyond earliest pension age are impeded by attitudes, labour-market rigidities and faulty pension design.

Attitudes and preferences

WELL-INFORMED PREFERENCES. Some workers retire as soon as they are allowed because they can afford to so and/or because they have other activities they wish to pursue (travel, golf, time with grandchildren). To the extent that this is the case there are no grounds for intervention.

ATTITUDES TOWARDS RETIREMENT. Some people retire at 65 because they think that that's when people always retire. But, as noted, the historical reasons for a retirement age of 65 go back to times when life expectancy was much lower. The UK Pensions Commission (2005) illustrates the important point that it is possible (a) to raise earliest pension age while (b) not giving anybody any short-run shocks. In addition, their recommendations made it possible to tell workers that, 'You will retire later than your parents, but you will still have more years of retirement than your parents.'

Raising pension age is an important signal. The key point, which younger cohorts now increasingly understand, is that pension age is a variable not a parameter. Reinforcing the

point that state pension age is a signal is the fact that we are all systematically badly-informed. When asked what 'old' means people naturally think of their grandmother. But with rising life expectancy that view goes out of date. In the past, 70 years was old; today many 70-year-olds (and older) are active and productive.

A second helpful change in attitude would be a weaker expectation that earnings will be highest just before retirement. It should not be regarded as unusual for earnings to reach a peak and then decline if a person chooses to downshift (fewer hours of work and/or less stressful work).

Rigidities in labour markets

LACK OF PART-TIME OPTIONS. A widespread problem is the lack of part-time options, caused in part by impediments facing employers, discussed below.

LOSS OF FRINGE BENEFITS. Bad design can create labour immobility where a move from full-time employment creates a step drop in fringe benefits. In the USA, for example, the potential loss of health benefits creates a direct disincentive for a worker to change employer or to downshift.

Faulty pension design

INCENTIVES THAT DISCOURAGE LATER RETIREMENT.

- Some plans offer a tax-free lump sum on retirement. In the face of present bias there is a clear incentive to retire earlier rather than later.
- A different problem arises if a plan fails to increase a worker's initial benefit sufficiently for a delayed start to retirement. In the extreme, someone who continues to work may get no extra pension when they eventually retire. Again, there is a disincentive to continuing work past earliest pension age.

INCENTIVES THAT DISCOURAGE WORKERS FROM SEEKING PART-TIME WORK.

- A literal final-salary plan pretty much kills the idea – if halving working hours and hence pay means halving one's pension nobody will move to part-time work.
- A second impediment is the lack of partial pensions. In Sweden, a worker who reaches earliest pension age can choose to take all of their pension or none, or to take 25%, 50% or 75%. If a worker takes (say) 50% of their pension and continues to work part time, they continue to pay pension contributions on their earnings; when they eventually retire, the second half of their pension is larger both because of the

additional contributions and because claimed later. Norway has a similar arrangement. Those countries, however, are outliers. Other countries should follow their example.⁴

- Some firm and industry plans restrict a worker from taking partial retirement while remaining at the same firm.

3 Why might employers not hire older workers or provide more part-time work?

Older people's willingness to work – the supply side of the labour market – is important. But the demand side is equally important, with policy to date focussing mostly on reducing age discrimination.

Age discrimination

The problem is real and should be addressed. But it is a mistake to think that is all that is necessary.

Imagine an enlightened employer whose instinctive attitude is willingness to employ older people, but who has to remain profitable. Thus, the issue is not one of inappropriate discriminatory attitudes. The right question is to ask is what factors an employer would legitimately and rationally regard as impediments to employing older people. Policy that takes insufficient account of those impediments will create indirect discrimination – regulation (i.e. against discrimination) and incentives to employ older workers need to be aligned.

The following paragraphs cover issues that have been inadequately explored and which merit further investigation.

Labour market impediments

Employers want to hire people at a wage that reflects their productivity, which in turn depends, *inter alia*, on their skills, hours of work and health. To the extent that rigidities interfere there is an impediment to employing older workers.

FIXED COSTS OF EMPLOYMENT. Suppose that each worker costs \$4,000 per year in medical insurance premiums, as broadly in the USA. The incentive for employers is to minimise the number of workers and maximise the number of hours that each works. A related problem arises where insurance premiums (e.g. medical, travel) rise with age. In both cases, the incentive against offering part-time work is clear.

⁴ I tried and failed to persuade the UK government to introduce such an arrangement.

Any non-proportional employer contribution has a similar effect, e.g. the flat-rate weekly National Insurance contribution ('the stamp') in the UK between 1948 and 1975.

LEGAL IMPEDIMENTS TO DOWNSHIFTING. There are also indirect costs to offering part-time work.

- Transactions costs: labour law may be unclear. If a worker wants to downshift at their existing employer, time is needed to negotiate the deal. The problem arises where downshifting involves a move to part-time work, and particularly for a move to a different, perhaps less stressful, type of work.
- Uncertainty: legal uncertainties add to transactions costs, e.g. whether it is legitimate to reduce the wage of a worker who has either become less productive or wishes to reduce stress by moving to a lower productivity job.

Such problems create a hassle factor for employers in contract design.

Skills of older workers

Employers may worry that, given technological progress, older workers do not have the necessary skills. On the face of it, the payoff to training earlier in life is higher because the payoff period is longer. A mitigating factor is that with more rapid technical change the shelf-life of skills is shorter. If skills go out of date in 5 years rather than 10 it becomes more worthwhile to retrain older workers.

Or employers may think that older workers have lower cognitive ability. However long experience can be a countervailing factor and, as discussed earlier, may bring skills that complement those of younger workers.

Health of older workers

Employers may think that older workers have more health problems. The reality is more equivocal (Petery *et al.* 2023). Older workers may have more long-term health problems such as high blood pressure, but such problems often have no impact on work performance. There is also some evidence that health-related absences by older workers tend to be longer than for younger workers but less frequent (older workers are less likely to fail to turn up on Monday morning after a weekend partying).

4 Policies to assist later and more flexible retirement

It is important to identify these multiple impediments because they provide a roadmap of interventions that help to address them. What follows is a list of interventions set out only in embryonic form – all require more detailed attention in light of different country experiences

and institutions. Later and more flexible retirement are not only nice-to-have – they are essential elements in addressing population ageing.

Policies to change attitudes

RAISING PENSION AGE. Gradually raising state pension age is an important signal to workers and employers. Box 1 sets out principles for doing so – principles that assist the politics of reform, and principles with which the recommendations of the UK Pensions Commission (2005) complied.

Box 1: Principles for raising pension age

Automatic adjustment should be based on three principles.

- The rules should relate to date of birth, not to the date of retirement, otherwise there will be a wave of retirements just before any increase in pension age.
- Changes should be made annually, to avoid large changes in eligibility across nearby cohorts. Large changes are inequitable and likely to cause political difficulties, since benefits could differ significantly between people born in successive years, sometimes only days apart.
- As far as is sensible, rules for changing benefits should be explicit. Automatic adjustment linking pension age to changes in life expectancy leads to greater predictability and decreased political pressure. Nevertheless, as with the indexation of income tax brackets, it is always possible for legislation to change whatever the automatic rules produce.

Source: Barr and Diamond (2010, Box 5.4).

THINKING MORE INTELLIGENTLY ABOUT AGE. The customary measure of the age of a society is average age since birth and, as noted, people's views about how old is old tend to be out of date. A different measure is remaining years of life expectancy.

‘Measured by average years left the UK population today is probably the youngest it has ever been. It is three years ‘younger’ now that it was in 1840, despite a doubling in the average years lived (age) of the population (from 21 to 41 years)’ (MacInnes and Spijker 2014, and for fuller discussion Spijker 2020).

Public communication has an important role in this aspect.

Policies to encourage older people to continue to work

A range of policies help.

ENSURING ACCESS TO SKILLS TRAINING AND RETRAINING. Workers, including older workers, need access to training and retraining that is both available and affordable. Thus, thought needs to be given separately (a) to delivery, e.g. what training, decided by whom, delivered by whom? and (b) to finance, e.g. extending student loans to vocational training (Barr 2018, 2023).

SUPPORT IN THE WORKPLACE. As an example, Porsche provides workers doing heavy work in car assembly with exo-skeletons (Financial Times 2019), analogous to power steering in cars. Other dimensions of support – also relevant to younger workers – include flexible working arrangements and health and well-being support.

COMPATIBLE PENSION DESIGN. An important starting point are designs that avoid a pension penalty from continuing part-time or full-time work. For example, in a final-salary defined-benefit plan if a person moves to half time work on half pay, the year should be counted as half a year of service on full salary, hence the move to part-time does not have a pension penalty. Similarly, pension benefits should increase suitably for a delayed start.

A second aspect is to allow partial pensions, for example the option initially to draw 25%, 50% or 75% of pension, while the deferred element continues to grow.

Policies to facilitate employers hiring older workers

Again, multiple policies are needed.

ADDRESSING AGE DISCRIMINATION. Age discrimination is illegal. The policy response is to enforce the law rigorously.

SUPPORTIVE LABOUR MARKET INSTITUTIONS.

- Avoiding fixed costs of employment: employer costs should be broadly proportional to a worker's pay. Any employer contribution, including social insurance, has a dampening effect on employment, but social insurance contributions that are a percentage of wages avoid the more powerful incentives against part-time work that fixed costs create.
- Lowering transactions costs and legal uncertainty: the issues are particularly relevant where a worker wishes to downshift at his/her existing employer. One approach would be to design sample contracts agreed between employer organisations and trade unions. A second aspect are any necessary changes to regulation and/or legislation.

ENSURING THAT WORKERS HAVE THE NECESSARY SKILLS. The separate issues of delivery and finance were outlined above. For employers what is essential is that delivery provides workers with

relevant skills and that the finance side does not discourage hiring older workers. If employers finance training on a voluntary basis the incentive is for each employer to free-ride on training financed by their competitors. That problem can be avoided by financing training in other ways, for example through one or more of a levy (say 2% of wages) applying to workers of all ages, through some taxpayer support for training, perhaps targeted at older workers, and/or through a system of student loans (though the last is more relevant to younger workers).

ADDRESSING ANY AGE-RELATED DIFFERENCES IN HEALTH. If health-related absence from work is greater for older workers, consider some form of subsidy for employing older workers to level the playing field, e.g. a reduced social security contribution or a wage subsidy.

5 Conclusion

For the purposes of later and more flexible retirement, a well-designed pension should have four strategic elements:

- An initial earliest pension age that makes it possible to provide an adequate pension on a sustainable basis;
- A subsequent earliest pension age that increases with rising life expectancy in a way that is rational and transparent, so that people know well in advance broadly when they will be able to retire;
- Supportive labour market institutions and pension design that allow people to move from full-time work towards full retirement along a phased path of their choosing;
- Efforts to increase public understanding of the simple economics of pensions.

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