

COVID-19 Recovery Committee

**25th Meeting, 2022 (Session 6), Thursday
17 November 2022**

Road to recovery: impact of the pandemic on the Scottish labour market

Introduction

The Committee's inquiry into the COVID-19 pandemic's impact on the Scottish labour market aims to:

[...] consider the impact of COVID-19 on labour market inactivity and the prospects for recovery in the short, medium and long-term. We are specifically focused on the long-term sick component of economically inactive people, as well as people who have chosen early retirement.

In considering these issues, the inquiry will also focus on whether the pandemic has disproportionately impacted the prospects of certain groups in the labour market, such as young people, older people, women and ethnic minorities, and certain parts of the country.

A [Call for Views \(CfV\)](#) was issued on 30 June 2022 and closed on 9 September 2022. SPICe have produced a summary of the responses to the CfV. SPICe have also produced a context paper which sets out the data we have on the labour market over the last few years, highlighting the key trends.

In this second formal evidence session, the Committee will hear from two panels looking at early retirement from 1) a statistical and research perspective, and 2) an employee support and skills-based perspective. The witnesses are:

Panel 1

- Bee Boileau, Research Economist, and Jonathan Cribb, Associate Director at IFS and Head of the Retirement, Savings, and Ageing Sector, Institute for Fiscal Studies
- David Fairs, Executive Director of Regulatory Policy, Analysis and Advice, The Pensions Regulator
- Marek Zemanik, Senior Policy Advisor, Chartered Institute of Personnel and Development
- Dr Liz Cameron CBE, Director and Chief Executive, Scottish Chambers of Commerce

Panel 2

- Anna Ritchie Allan, Executive Director, Close the Gap
- Chris Brodie, Director of Regional Skills Planning and Sector Development, Skills Development Scotland
- Anjum Klair, Policy Officer, and Jack Jones, Policy Officer, Trades Union Congress

SPICe have [published a blog summarising the data on Scotland's labour market over the last decade](#). SPICe have also published analysis of the [annual survey of hours and earnings](#).

Early retirement

Notable evidence on data from previous meeting

Data on early retirement

John Burn-Murdoch (Financial Times) was unable to attend the previous evidence session but has conducted significant research into early-retirement in the labour market which is relevant for the 17 November meeting.

In his [report on research by the Institute of Fiscal Studies](#), it is suggested that the recent rise in health-related inactivity was in fact concentrated among people who had already been out of the labour force for at least five years. This research used longitudinal data and found that most of those leaving the labour market in their 50s or 60s, the key group driving the increase in inactivity, had retired. The article highlights that this challenges the view that the shrinking workforce is being driven by an increase in the long-term sick, and also suggests there might be less opportunity to attract those who have left the workforce back.

[In their analysis](#), the IFS note that:

“However, the rise in the number of people who are inactive due to ill-health does not necessarily imply that all these people have left the labour force as a result of ill-health. More people may be leaving the labour force for other

reasons – for example, because they are taking early retirement – and, simultaneously, those already out of the labour force may be getting sicker. This explanation would imply that there are two problems for policymakers: first, the rise in movements from employment into inactivity; second, the increasing levels of sickness among inactive people.”

[Public Health Scotland in its submission](#) also referred to analysis by the Institute for Fiscal Studies which found that retirement is largely responsible for the increase in economic inactivity among people in their 50s and 60s, with health-related reasons accounting for just 5 per cent of growth in inactivity in this age group.

Economists from the **Institute for Fiscal Studies**, Tom Waters and Tom Wernham, were also in attendance at last week’s session to provide further analysis and comments on the labour market. On what the main drivers are for inactivity, they stated that the reason so many believed ill-health to be the main driver was because many inactive people when surveyed would give ill-health as the reason. However, analysing this data in more detail suggests a different conclusion, stating:

“If you look at the data on who is moving in and out of inactivity, our colleagues have found that most of the people who have started saying they are inactive due to health reasons, have already been inactive for a very long time. They are not people who are moving out of the labour force at the moment. If you look at the people moving out of the labour force, the main reason they are doing so is for retirement.”

On the reasons as to why more people are taking early retirement, Tom Waters highlighted that this topic is not well understood but various factors may be at play. One thought might be that people got used to the experience of not working over the pandemic, so have retired early out of preference. The other would be that an individual may have lost their job and are simply unable to find another one, hence being forced out the labour market. He also stated:

“I think it is fair to say we don’t have definitive answers on these things. One thing that is important though is that most of the newly inactive people say that they don’t want a job. They aren’t looking for one, hence them being inactive, but they actually say they don’t want one – quite a large proportion of them. That then perhaps suggests it is less of the ‘unable to find a job’ explanation, I am sure that is going on in some cases but is perhaps not the primary driver. But yes, this is definitely something where more research and more analysis would be welcome.”

Witnesses also highlighted during previous evidence sessions that, during the pandemic, many of the elderly workforce placed on furlough ended up taking early-retirement. However, this may begin to be offset by the ongoing cost-crisis; where people who were previously able to retire early, may be forced to re-enter the labour market given rising costs. The IFS also stated during last week’s session that we may be getting to a point where we can see this trend in the data, particularly for next year given the time-lag associated with labour force survey publications.

Panel 1

The Institute for Fiscal Studies

In their submission to the Committee's call for views, the witnesses from the **Institute for Fiscal Studies (IFS)** who gave oral evidence last week highlighted their recent research which found that 1 in 10 workers who develop long covid stop working, which is largely accounted for by them going on sick leave and therefore does not feed through to higher levels of inactivity. In last week's evidence they explained that this shows that while there is an increase in the number of inactive people reporting poor health as their primary reason for being inactive, this largely occurred in the population who were already inactive.

To help to explore these wider/existing trends, this week's IFS witnesses can speak specifically to two reports on labour market trends in older workers:

[Is worsening health leading to more older workers quitting work, driving up rates of economic inactivity? | Institute for Fiscal Studies \(ifs.org.uk\)](#)

[The rise in economic inactivity among people in their 50s and 60s | Institute for Fiscal Studies \(ifs.org.uk\)](#)

IFS state in one of these reports that the net increase in economic inactivity following the pandemic is largely driven [as a result of early retirement](#):

When looking at only the cross-sectional data, it is tempting to conclude that deteriorating health amongst the older population has been the key reason for higher levels of economic inactivity and lower levels of employment. A closer look at the data suggests that in fact there seem to be two distinct issues at stake: increasing levels of ill-health amongst the older non-working population (which is concerning as an issue in its own right), and increased levels of inactivity driven in large part by people leaving work for non-health related reasons – in particular because they have decided to retire.

Members may wish to explore the following themes with the IFS:

1. Can the IFS give an idea of what the early retirement trends were pre-pandemic? Had there been changes to trends previously following global "shocks" (such as the 2008 global recession)?
2. Does the IFS think that the shift into early retirement will be sustained, or is the cost of living crisis likely to reverse this trend at all?
3. Does the deteriorating health of the inactive working age population suggest that it will be more challenging to encourage those who want a job back into the labour market?
4. The rise in economic inactivity appears to be a trend which is somewhat unique to the UK among developed economies. Do the IFS have any suggestions as to why this is being experienced to a greater degree in the UK?

Pensions Regulator

The **Pension Regulator (TPR)** are responsible for regulating the UK's workplace pension schemes; ensuring that employers enrol their staff and make adequate contributions and ensure that the schemes are administered properly. TPR did not respond to the Committee's call for views, however the regulator do publish analysis of the market looking at [long term affordability](#) and funding needs, [defined benefit schemes](#) and [auto enrolment schemes](#).

Members may wish to explore the following themes with TPR:

5. Do older workers enjoy greater pension freedoms in the UK than in other European countries, and could this be contributing to the rise in economic inactivity driven by retirement since the pandemic?
6. Does a greater proportion of older workers leaving the labour market at a younger age put the business model of the UK pension sector under strain?

Chartered Institute of Personnel and Development

The **Chartered Institute of Personnel and Development (CIPD)** are the professional body for HR and people development. CIPD published their '[Working Lives Scotland](#)' report in June 2022, which reports on job quality in the country. This report found that:

- Since the pandemic there has been little change across fair work dimensions, suggesting that both good practice and barriers are resilient to change.
- 55 per cent of all employees would like to work from home at least some of the time, but 31 per cent of employees are in jobs which cannot be done from home. 14 per cent of workers do not want to work from home.
- The number of employees expressing a desire to switch roles has returned to pre-pandemic levels, but there is no evidence of a 'great rethink'.

In their [Labour Market outlook for summer 2022](#), CIPD highlighted that:

- Nearly half (47 per cent) of employers have hard to fill vacancies, with education (56 per cent), transport and storage (55 per cent) and the voluntary sector (53 per cent) reporting the highest levels.

Scottish Chambers of Commerce (SCC)

The Committee received written evidence from the **Scottish Chambers of Commerce (SCC)**, whose Director and Chief Executive, Dr Liz Cameron CBE will be attending the 17 November meeting. The SCC is the umbrella organisation for the 30 Chambers of Commerce in Scotland, representing more than 12,500 member companies in Scotland.

In their written submission, the SCC make five key recommendations to tackle rising inactivity:

1. Tailor elements of the current careers service offering specifically to older workers, from 50-64, to ensure that they can access opportunities and be encouraged to re-enter or stay in the labour market.
2. To tackle economic inequality, the Scottish Budget should continue to secure funding to Skills Development Scotland's various schemes which target economically disadvantaged individuals.
3. Quicker progress must be made on the Programme for Government commitment to develop a Talent Attraction and Migration Service to bring in skilled workers and help individuals to make Scotland their home and work in Scotland.
4. Greater consideration of the productivity impact of changed working patterns because of COVID: assessing the impact of home working on productivity.
5. To support sufferers of long-COVID, ensure that these people have high standards of the support that they need and continue to support the vital work of the third sector who have a key role to play in providing those services, in addition to health and social care.

The **British Chambers of Commerce (BCC)** also submitted a response to the Committee's call for views. While it is important to note the distinction between the BCC and the SCC (the BCC has a focus on businesses across the UK and internationally), the following information may assist members when discussing topics with Dr Cameron.

In its response, the BCC highlighted that labour and skills shortages already existed in UK businesses, but that these existing shortages had been exacerbated by Brexit and the pandemic. The sectors most impacted by these shortages have been construction, retail and wholesale, engineering, production and manufacturing. The BCC highlight recent survey data which illustrates the tightness of the UK labour market:

“In October 2022, the findings of the BCC's UK-wide Quarterly Recruitment Outlook revealed that 76% of businesses who had attempted to recruit had experienced problems finding skills and labour. Manufacturing and hospitality firms were most likely to report recruitment difficulties. More than half of all businesses (56%) said they were operating below full capacity with the problem most widespread in hospitality (71%).”

The BCC note that prior to the pandemic some sectors were already expressing concerns about an aging workforce. The BCC call for targeted support to assist employers in attracting economically inactive older workers back into the workforce, including support for SMEs to provide affordable occupational health services, and to provide training opportunities in shorter term, more modular formats which many firms say would better fit their needs.

As part of their inquiry into Scotland's supply chains, the Economy and Fair Work Committee held two evidence sessions on skills and labour shortages in the Scottish economy in October 2021. The Committee's [report was published in April 2022](#), and

it made 12 recommendations in relation to the supply of skills and labour. These included:

- That the Scottish and UK Governments address the concerns of industries that have experienced the most acute shortages such as the logistics sector, and in particular HGV drivers;
- That the Scottish Government work with the UK Government to ensure greater flexibility around the occupational shortage list; and
- That the Scottish Government set out a clear road map for how it intends to ensure skills are developed, maintained, and retained.

The EFW Committee recently held a [follow up session with the Minister for Business, Trade, Tourism and Enterprise](#) to discuss the Scottish Government's response to this report.

Members may wish to explore the following themes with the CIPD and SCC:

1. Which sectors in Scotland have been particularly exposed to skills and labour shortages, and will the recent movement into retirement have a disproportionate impact on any sectors?
2. In response to hard to fill vacancies, many employers plan to upskill the existing workforce. Does the loss of experience limit the capacity of employers to upskill their existing workforce?
3. Are there sectors in the economy particularly ill prepared for a sustained shift into early retirement, perhaps due to a disproportionate reliance of the skills and labour of experienced workers or due to an acutely aging workforce?
4. Given Scotland's acute demographic challenge, does a structural shift into economic inactivity present a particular challenge for Scottish businesses?
5. Has the pandemic and the disruption to education had an impact on the pipeline for the skills that employers need now, or in the near future? *(this question could also be posed to the second panel)*

Panel 2

Close the Gap

Close the Gap (CtG) is a Scottish based policy advocacy organisation working on women's labour market participation. They work with all sectors to enable action that will address the causes of women's labour market inequality.

In their written submission, CtG highlight that the impact of the pandemic on women's labour market inequality has been a core focus on their work since 2020. Their analysis shows that women's employment has been impacted in multiple ways – with a [disproportionate impact on the employment of black and racialised women, disabled women, and single mothers.](#)

On early retirement, CtG note that it is a key contributor to rising inactivity – with 70 per cent of the increase in inactivity since the start of the pandemic being driven by those aged 50 to 64. This level of inactivity, they state, had not been anticipated, with several factors contributing to a rise in early retirement including:

- Changes to working practices in response to COVID-19.
- The fear of the virus and ill-health.
- Lack of high-quality part time and flexible work.

They stated that while falls in inactivity for older workers were always likely to slow due to 2021 being the first year in a decade where the state pension age did not rise, the level of increase of inactivity was unexpected.

While CtG cite [research from the IFS](#) which suggests people taking early retirement were making a “lifestyle choice” due to changing priorities and preferences, with a small number being forced out due to redundancy or short-term health problems, they postulate that this may also reflect a lack of flexibility in the labour market – with remote working also making employment less appealing to the older workforce due to lack of social interaction.

Concerns were also raised regarding pensioner poverty, particularly for women. They state that older women are more likely to experience pensioner poverty, with [research by Age UK](#) finding that 1 in 5 female pensioners in 2021 were living in poverty. Leaving the labour market early may therefore have far-reaching implications for older women’s financial security – especially in the context of the cost crisis.

In terms of data regarding the current state of the labour market, CtG cite [ONS data](#), stating:

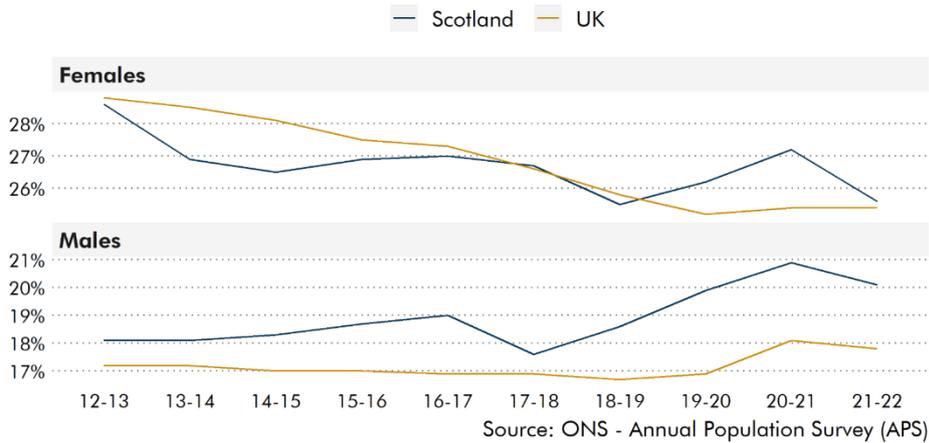
“Men are more likely (7%) to state that they left the labour market because they no longer needed money from their job than women (3%). Moreover, men were more likely (51%) to use savings and investments to fund their retirement than women (33%). By contrast, women were more likely to receive financial support from a partner or family (26%) than men (27%).”

CtG stressed that it is therefore important for the Committee to consider these figures in the economic context, as women’s inequality, exacerbated by Covid, means they are being disproportionately affected.

For further information on the data, members may wish to refer back to the [SPICe labour market stats](#) briefing contained in the first session.

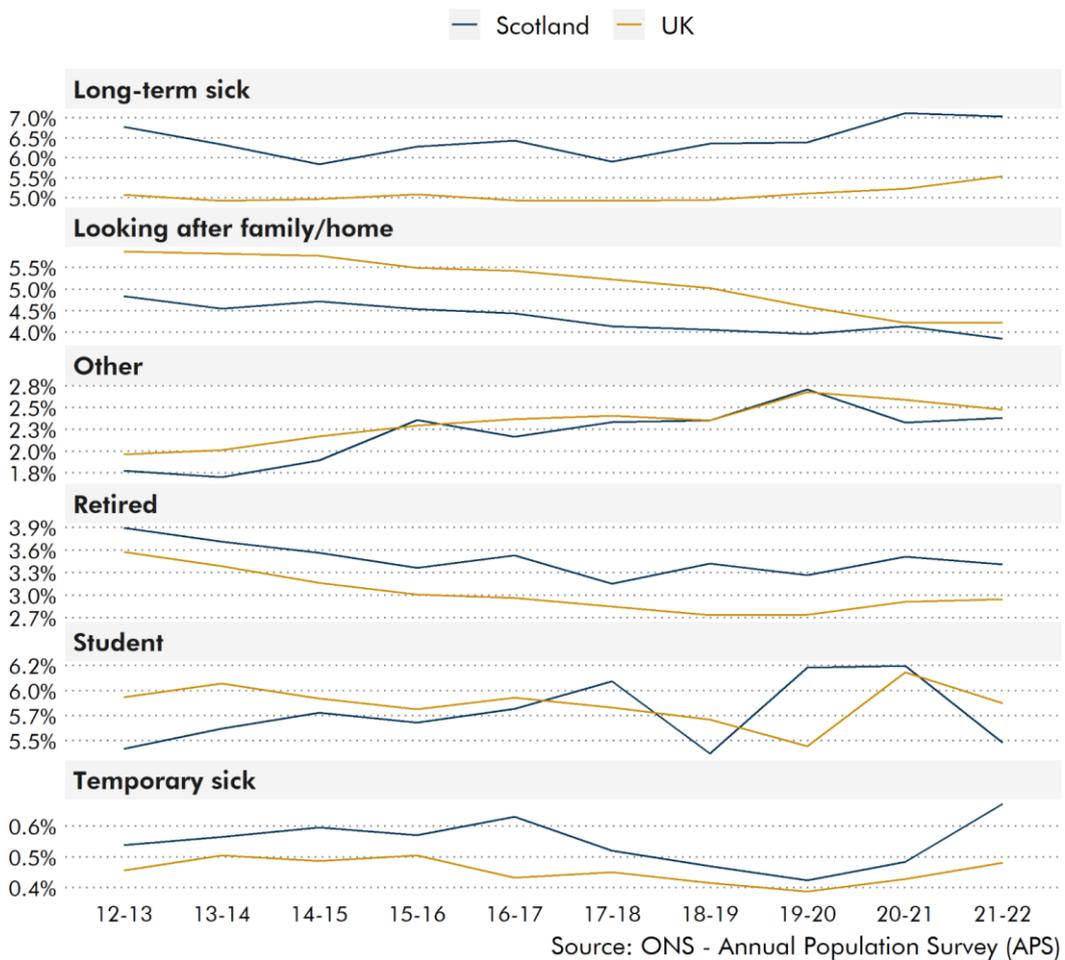
Comparison of Scottish and UK inactivity rates by sex

Time period: Jul to Jun



Comparison of Scottish and UK inactivity reasons

Time period: Jul to Jun | Proportion of 16-64 population



The above figures from the briefing break down not just inactivity by sex, but also trends in the data between Scotland and rUK inactivity reasons. For further context around this data, members are encouraged to consult the briefing linked above.

Members therefore may wish to explore with Close the Gap:

1. To what extent has the pandemic exacerbated ongoing issues of women's inequality within the workplace?
2. What steps can be taken by employers to encourage the older workforce, particularly women, to re-enter the labour market?
3. Are there differing trends in age when it comes to new ways of working? For example, is hybrid working is seen as a barrier to younger demographics?
4. Given the economic context, do they believe women who have left the labour market early will be forced to re-enter employment?
5. To what extent has the greater damage to certain sectors during the pandemic, i.e. retail and hospitality, meant a disproportionate impact on women over men?

Skills Development Scotland (SDS)

SDS is Scotland's skills planning agency, responsible for engaging with industry to assess their skills needs and delivering a pipeline of labour equipped to meet this need through policy like Modern Apprenticeships and through employability support. SDS collects evidence on the labour market to help inform policy direction and investment in response to labour market conditions. This is enhanced by their engagement with Industry Leadership Groups (ILGs).

Notably, SDS produce monthly ["Economy, People and Skills" reports](#), which include spotlight articles on the impacts of the pandemic. These are shared with partners and are freely available online. Skills planning is informed by [regional and sectoral skills assessments](#). SDS also produced [COVID-19 Labour Market Insights](#) throughout the pandemic which provide in depth data analysis of trends, the latest of these being published in July 2022.

The reports highlight that job postings in Scotland remain exceptionally high – with the highest demand for vacancies being in the social care and health sectors, and high skilled worked such as programming and software development. They also highlight that economic inactivity in Scotland has grown during the COVID-19 pandemic, particularly for certain groups.

The latest Economy, People and Skills report states that while the expected high levels of unemployment did not materialise due to the mitigating effect of business and employment support schemes, the first year of the pandemic saw the [largest fall in labour market participation at any point in the last 40 years](#). While the latest Labour Force Survey suggests that the gap in economic inactivity in Scotland compared to rUK is falling, it is too early to determine whether this is indicative of a longer-term trend.

The increase in economic inactivity during the last three years, they state, has been primarily driven by men who no longer participate in the labour market. However, they also highlight that women who are economically inactive are more likely than men to not want a job. This gap has widened over the pandemic, with the figures for economically inactive males not wanting a job decreasing from 79.1 per cent to 78.7 per cent between June 2019 and June 2022, compared to an increase for women from 79.8 per cent to 82.2 per cent over the same time period.

While the SDS submitted a written response to the Committee's call for views, they did not comment specifically on the question regarding early retirement. However, their submission comments on the nature of defining those who are economically inactive, stating:

“Economically inactive people are not in employment, but do not satisfy all the criteria for unemployment. This group is comprised of those who want a job but who have not been seeking work in the last 4 weeks, those who want a job and are seeking work but not available to start and those who do not want a job. For example, students not working or seeking work and those in retirement are classed as economically inactive. It can be useful for some purposes to consider only those who are both economically inactive and not of state pension age.”

They also highlight in their submission that interest in working is at the lowest amongst the inactive population. Fewer than one in five (17.6 per cent) of those inactive indicated they would like a job despite not currently looking, below the 17-year average of 24.1 per cent as per Annual Population Survey statistics.

Members therefore may wish to explore with Skills Development Scotland:

1. Should data regarding inactivity be disaggregated to only include those who are both economically inactive and not of state pension age?
2. Has the SDS seen an increase in requests for skills training from older demographics to reflect changing ways of working following the pandemic? Is this a barrier for those who retired early to re-enter the workforce?
3. Have employers or sectors expressed any concerns regarding workers taking early-retirement? What could be done to encourage those taking early-retirement to re-enter the labour market?
4. Has early-retirement been a major factor in the drastic shift of those inactive being not interested in working? To what extent can this be attributed to the pandemic?
5. Is a different approach needed from employers and Government to encourage inactive workers from different demographics to re-enter the labour market? For example, between male and female prospective workers?

Trades Union Congress (TUC)

The [Trades Union Congress](#) (TUC) is a national trade union centre, a federation of trade unions in England and Wales, representing the majority of trade unions. There are 48 affiliated unions with a total of around 5.5 million members. It should be noted that the Scottish Trades Union Congress (STUC) is independent from the TUC, but [they do work closely together](#).

The TUC did not submit a written response to the Committee's call for views but have published numerous reports into the impact of the pandemic on the labour market across the UK. Of particular interest to the committee would be their "[Older workers after the pandemic: creating an inclusive labour market](#)" report, published in February 2022. This report is an analysis of the Labour Force Survey discussed extensively throughout previous evidence sessions.

This report highlights there has been a significant increase in the number of older workers leaving the labour market before they reach state pension age – with the number of people aged 50-65 not actively looking for work increasing by 200,000 between Q3 2019-2021.

Along with an increase in long-term health conditions, the other major factor to account for this trend has been people taking early retirement. The TUC state this increase in early retirement is a concern for two main reasons -

- Older people are at increased risk of having to rely on inadequate working age benefits, potentially plunging them into poverty.
- Older workers may struggle to re-enter the labour market due to a lack of skills to adapt to new ways of working – exacerbating the skills and labour shortage seen in the wider UK economy.

They state that ensuring older workers participate, and indeed remain, in the labour market will require changes to the workplace and employers must meet the needs of an ageing workforce.

In addition to workplaces improving health and safety guidance to ensure their workforce is protected from Covid, and adapted to support those with long-term health issues, the TUC also suggest changes centred around the economy, notably:

“Ensuring older workers have the skills needed to thrive in the labour market by giving them a right to a mid-life career and skills review and right to access funded retraining and providing tailored support for older workers at risk of long-term unemployment in the labour market.

Reforming the state pension and benefits system so that people of all ages who are unable to work can maintain a decent standard of living and tackle the issues that affect older workers most acutely. As well as de-coupling the eligibility age for pension credit from the state pension age and giving early state pension access to some people, this means shelving planned state pension age increases in response to stalling longevity improvements and growing longevity and labour market inequalities.”

The TUC suggests that by addressing structural inequalities present in the labour market, the older workforce will be encouraged to stay in work and mitigate the numbers being 'pushed out' of the labour market. This includes establishing a ["right to retrain" as well as enshrining strong flexible working provisions in law](#).

Members therefore may wish to explore with the Trades Union Congress:

1. Have there been any policies introduced during or after the pandemic that have mitigated the rise in older workers leaving the labour market?
2. There have been suggestions from witnesses in previous sessions that less focus should be given to encourage those taking early retirement to re-enter the labour market, as in many cases this is a voluntary decision. Does the TUC share this view? Should efforts be targeted elsewhere?
3. To what extent do trends in inactivity and early-retirement differ depending on industry sector?
4. One of the suggestions mentioned in their report is that more tailored support is needed for the older workforce. Can the TUC describe what this support might look like? How would this support differ across different sectors and demographics within the labour market?
5. Is it likely that many workers who have taken early-retirement over the pandemic will be forced back into the labour market given the current economic outlook? Are these concerns reflected by the TUC's membership?

Ailsa Burn-Murdoch, Andrew Feeney-Seale, Scott Mackay, SPICe Research

14 November 2022

Note: Committee briefing papers are provided by SPICe for the use of Scottish Parliament committees and clerking staff. They provide focused information or respond to specific questions or areas of interest to committees and are not intended to offer comprehensive coverage of a subject area.
The Scottish Parliament, Edinburgh, EH99 1SP www.parliament.scot