

# Missing workers

Understanding trends in economic inactivity

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February 2023

**Learning and Work Institute**

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A company limited by guarantee, registered in England and Wales  
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Published by National Learning and Work Institute

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Company registration no. 2603322 | Charity registration no. 1002775

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# Contents

Executive summary .....	4
Long-term trends .....	6
Demographic headwinds .....	9
Trouble ahead? .....	11
Changes through the pandemic .....	13
Understanding recent rises in economic inactivity .....	13
Diversity of reasons for economic inactivity and the rise of long-term sickness .....	16
Differences by sector and occupation .....	20
Differences by region and country .....	24
Implications for policy .....	27
1. We need a long-term employment rate ambition and plan .....	27
2. Policy responses need to reflect the diversity of people who are outside the labour market .....	28
3. The Government can take practical and quick steps, as part of a longer-term employment plan .....	29
4. Provide better support and incentives for people .....	30
5. Employers need to think about how they recruit, design jobs, and help people stay in work .....	31

## Executive summary

**Recent rises in economic inactivity have been driven by a mix of reasons from early retirements to long-term sickness. Helping people outside the labour market who want to work is essential as our population ages. But policy and employers need to catch up with this new reality, widening support to find work, offering flexible working, and attracting people to return to or stay in the workplace.**

Much of the focus of debate has been on rises in economic inactivity during the pandemic. This has contributed to **labour shortages** for employers and the fact the UK has seen the biggest employment rate fall in the G7 since 2020, albeit from a relatively high base.

Until recently the UK's track record had been much better. Nine million people of working age are economically inactive, but one in four are students, predominantly young people, up 62% since 1993. Excluding students, 6.5 million people are economically inactive, 16% of the population and having fallen until recently. This is because of **policy successes increasing employment** for older people and those with caring responsibilities. In addition, some people cannot work because of disability or caring responsibilities: 1.9 million Universal Credit claimants have no requirement to work or look for work.

But in the years ahead we face an aging population: **1.4 million more older people will retire in the next 13 years than young people will enter the workforce.** Policy needs to address this by further widening access to work, **helping more people currently outside the labour force to work, migration and increased productivity.** Otherwise, there will be a decline in living standards and policy will need to decide how to share the pain.

Over 1.7 million people outside the workforce want to work. Helping them do so requires more support for disabled people (as the prevalence of health conditions rises) and people with caring responsibilities (including those looking after both children and elderly parents) to work, and help for more older people to stay in the workforce and work flexibly.

The challenges also vary across the country: the proportion of working-age people economically inactive due to **long-term sickness varies from 1 in 100 in parts of Surrey to 1 in 7 in parts of Merseyside.** Responses need to reflect local need and economies.

### Rising economic inactivity during the pandemic

Economic inactivity has risen by around 600,000 through the pandemic. This was driven by a large rise in people becoming economically inactive during 2020, particularly a **rise in early retirement for older people.** However, early retirement still accounted for just one in five labour market exits – there are many reasons people become economically inactive.

This pattern is not seen in other countries – the UK has the worst employment recovery from the pandemic in the G7 (albeit from a high base) and is one of a handful of advanced economies to see a rise in economic inactivity for older people. **Yet one in five people who've left the labour market in the last two years say they would like to work.**

Whatever people's reasons for leaving the labour market, the most common reason now for staying out of the labour market is long-term sickness. This is linked to rising ill health

as the population ages, the impact of the pandemic, and NHS waiting lists. But, again, people will have other reasons in addition to this meaning support needs to be tailored.

The data show the diversity of economic inactivity, with perhaps three broad groups beyond students: **unable to work** due to health or caring responsibilities; **don't need to work**, with people in better paid roles more likely to have retired early; **need help to work**, with 1.7 million economically inactive people wanting to work but needing health, childcare, skills or employment support to do so.

The data also show a **gender and class divide**. Better paid and male dominated roles like managers and directors, IT professionals and other professional roles account for around one in three people who took early retirement. By contrast, people from lower paid, often female dominated roles were more likely to give up work for health reasons: roles including housekeeping; caring personal services; cleaning; and other elementary services occupations accounting for over one quarter of such moves.

### What should we do?

1. **We should aim for an 80% employment rate, the highest in the G7, over the next decade, increasing employment by 1.7 million people to boost the economy by £23 billion.** Only one in ten out-of-work older people and disabled people get help to find work each year. We need to increase that, as well as investing in social infrastructure like health and social care, childcare, and transport.
2. **Policy must recognise the diversity of people who are out of work, avoiding one-size-fits-all solutions.** For example, some professionals have retired early and have sufficient resources; others have left jobs, particularly low paid work, due to ill health. Support needs to be tailored to individuals and engage them through trusted institutions like housing associations, councils and adult education services.
3. **To address recent rises in economic inactivity, the Government should expand access to Mid-life MOTs, widen eligibility to employment programmes like Restart and help employers understand how to tailor their recruitment and job design.** This will help ensure more people know their options, can access support and have local job opportunities that match their needs.
4. **The Government should improve support and incentives for people to work.** This should include improving retraining support for those switching careers and ensuring work pays, including by addressing any disincentives created by pension rules.
5. **Employers should think about how they recruit, design jobs and help people stay in work.** The Government should work with local employer groups to share best practice, promote its Access to Work scheme, and provide financial support for employers to provide or access occupational health support.

**Rises in economic inactivity during the pandemic should focus our attention on the long-term demographic imperative to help more of those who are outside the labour market to work if they want to. Policy and employer practices need to change.**

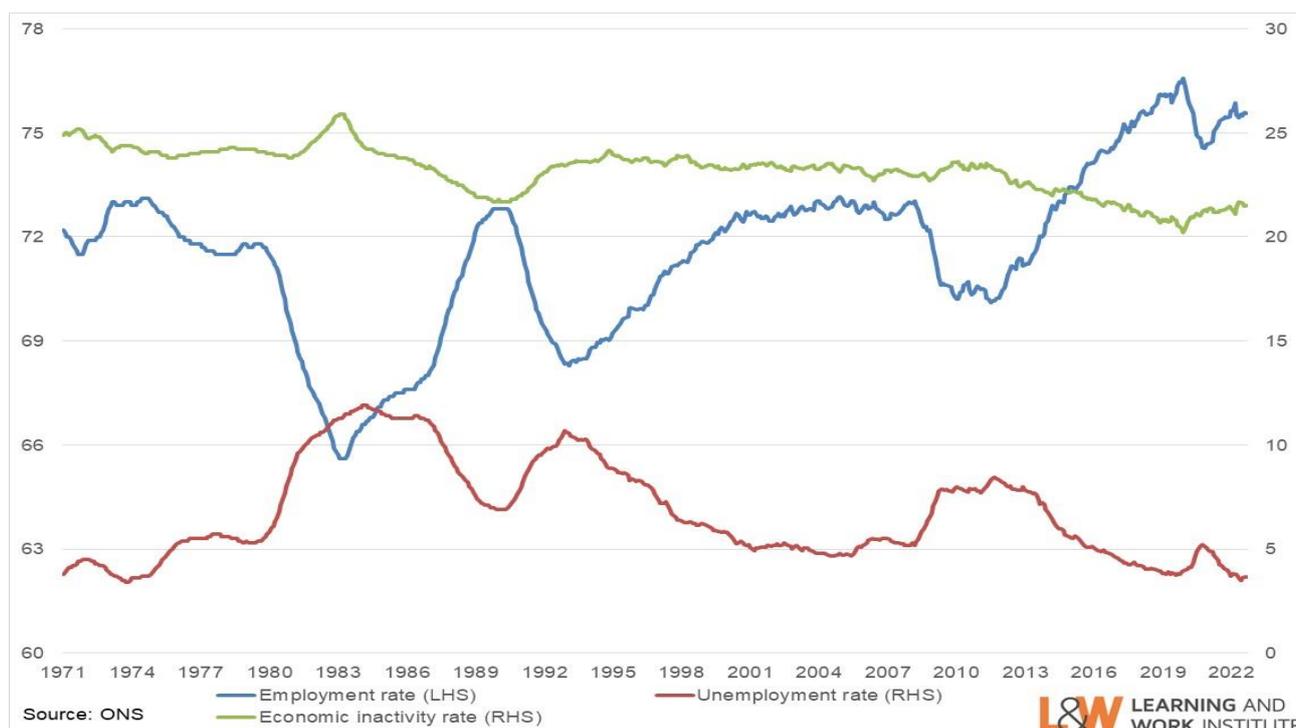
## Long-term trends

**Around 9 million people of working age are economically inactive, with disability and health conditions the main reason. An aging population – 1.4 million more people will retire than enter the labour market over the next 17 years – means helping more people in this group find work is ever more crucial.**

In the labour market, people can either be employed (including self-employment), unemployed (actively seeking work and available to start a new job) or economically inactive (either not actively seeking work or not available to start a new job).

The UK's employment rate has increased over time: almost three in four people aged 16-64 are in work. Unemployment rates tend to vary with the economic cycle, rising in recessions and falling in times of growth. Economic inactivity has generally trended down over time, though with a recent rise during the pandemic: just over one in five working age people are economically inactive, although 1.7 million of these say they want to work.

**Figure 1: Labour market summary, per cent<sup>1</sup>**

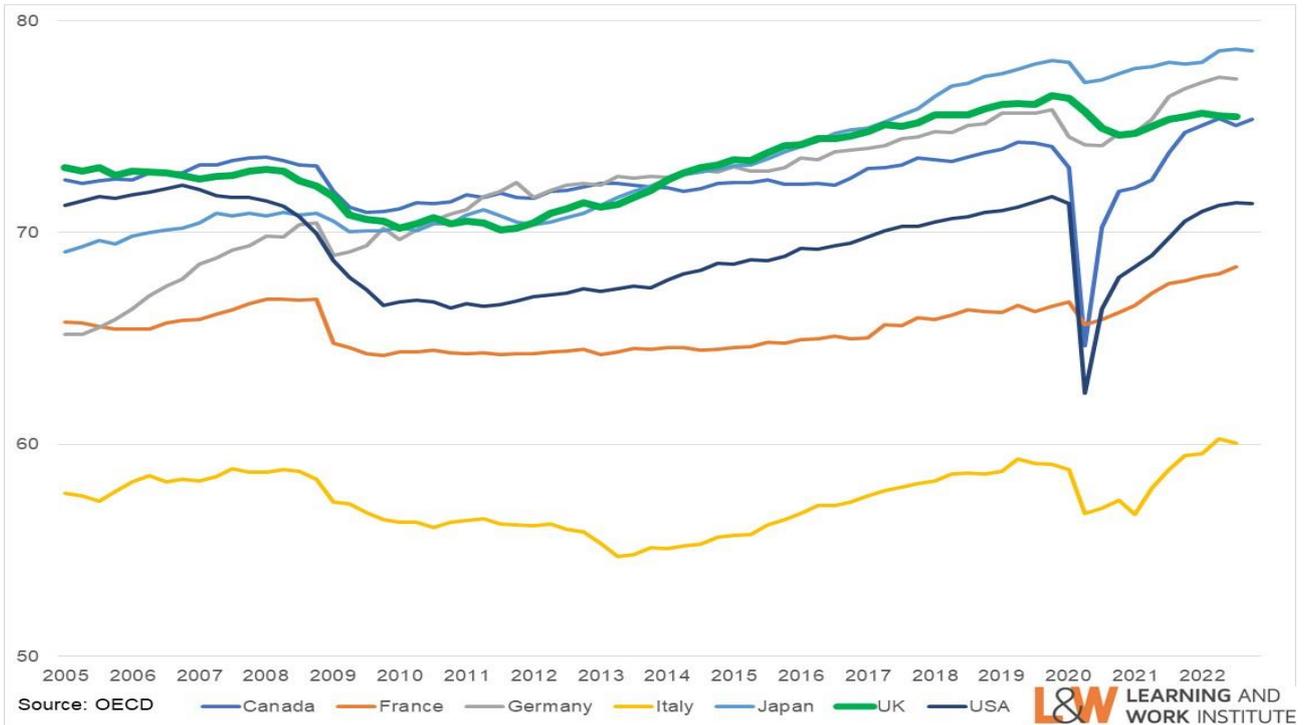


This compares relatively well internationally. The UK has the third highest employment rate in the G7, behind Japan and Germany and marginally ahead of Canada. However, from this relatively high base, the UK has had the poorest employment rate recovery in the G7 from the pandemic.<sup>2</sup>

<sup>1</sup> Labour Force Survey, ONS, 2023.

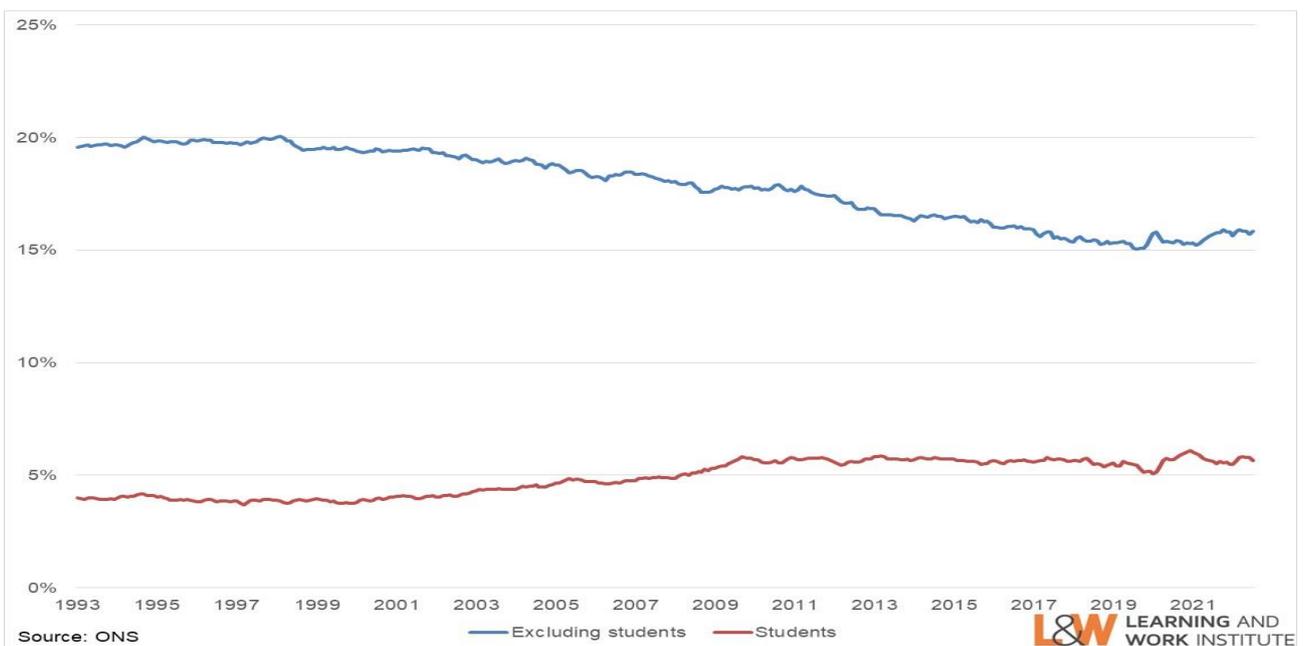
<sup>2</sup> The participation gap: the UK's labour market through the pandemic in international context, L&W, 2022.

**Figure 2: Working-age employment rates in G7 countries, per cent**



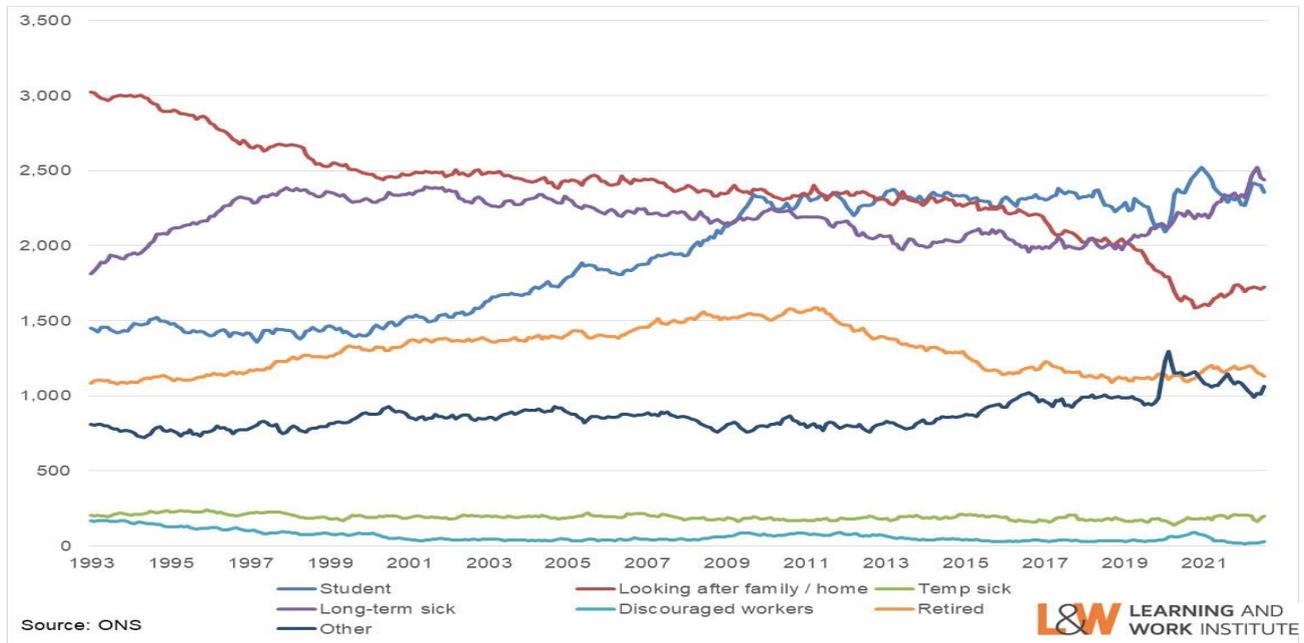
Over time, there has been a change in who is economically inactive. Students account for one in four economically inactive people, up 62% in the last 30 years largely as young people have stayed in education for longer. The number of people economically inactive excluding students is 6.6 million, 16% of the working-age population down from 20% in the 1990s. This is still a substantial number, but much lower than the 9 million headline figure and on a general downward trend (until the pandemic).

**Figure 3: Economic inactivity rates of 16-64 year olds, students and non-students**



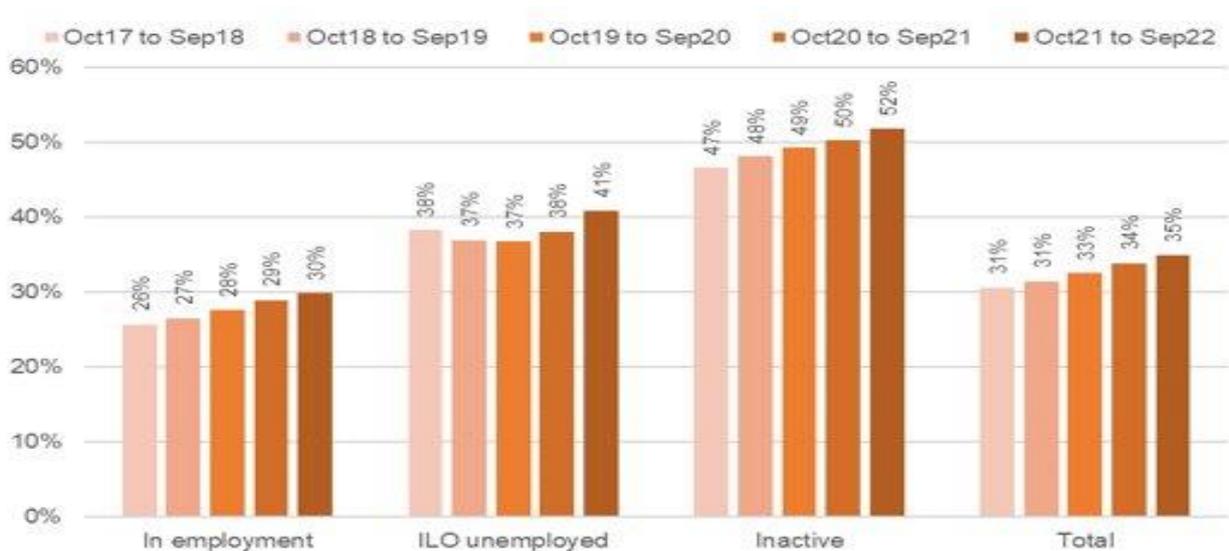
The number of people out of the labour market due to looking after family or home have almost halved since 1993. The most common reason, though, is long-term sickness, cited by 2.4 million people and up 34% since 1993.

**Figure 4: Reasons for economic inactivity**



This rise in long-term sickness is part of a wider rise in long-term health conditions due to an aging population. More than one in three people aged 16+ have a health condition lasting, or expected to last, at least one year while one in four people aged 16-64 say they have a work-limiting disability. Both are rising over time for both those in and out of work, and only around one in two working-age people with a work-limiting disability is in work.

**Figure 5: Proportion of people reporting a health problem lasting, or expected to last, at least one year, 16-64 year olds**



The most common conditions people have are: blood or circulatory conditions (46% of those with a long-term health condition); conditions affecting limbs, backs and necks (36%); and mental health conditions (30%).<sup>3</sup>

Not everyone who is economically inactive can work or needs to work. For example, 1.9 million people receive Universal Credit but have no requirements to look for work, usually because of health conditions or caring responsibilities.<sup>4</sup> A further 400,000 have limited work preparation requirements. Though note that there is not everyone in these groups will be classed as economically inactive – they are different data sets and definitions.

Removing students and Universal Credit claimants judged not able to work now, leaves more like around 4 million people economically inactive and potentially able to do some kind of work (though many may not need to financially or have other reasons for not looking for work currently with a planned change in the future).

Taken together, this analysis shows the diversity of people who are economically inactive. Put broadly, they break down into: **students**, grown over time as participation in education has risen; **unable to work** as a result of health or caring responsibilities; **don't need to work** for example because people have sufficient resources to retire early or have other plans; and **need help to work** such as job search, health, childcare and so on.

In other words, the 1.7 million economically inactive people who say they want to work is probably a better measure of minimum potential labour supply (though some people who say they don't want to work may change their mind when offered support or seeing the options available) than the headline figure of 9 million economically inactive people. But our analysis has shown this group gets relatively little help: only one in ten out-of-work older people and disabled people get help to find work each year.<sup>5</sup>

## Demographic headwinds

All else equal, an aging population would be expected to lead to falls in employment as the likelihood of being in work declines with age, particularly after the age of 50. Yet over the last decade the UK's employment rate has risen, despite sharp growth in the number of over 50s as the baby boomer generation ages. A key reason is that rises in the state pension age and changes in societal attitudes have meant a sharp rise in employment rates for over 50s, particularly women. These policy and attitudinal changes have mitigated the impact of demographics.

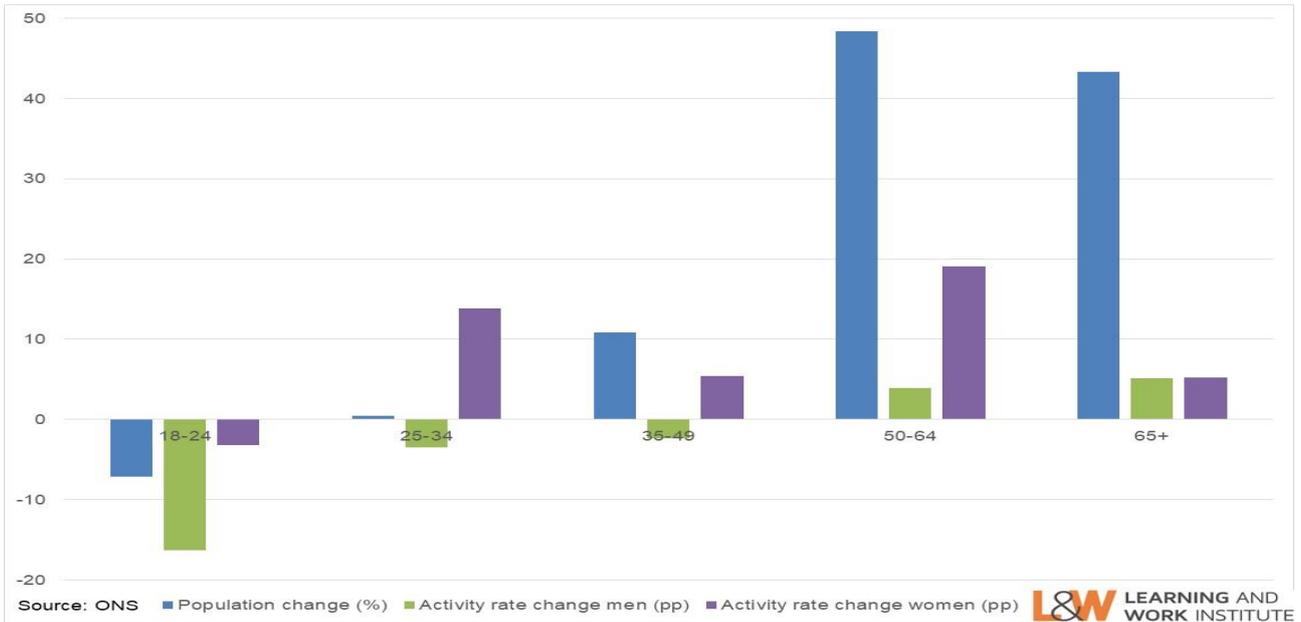
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<sup>3</sup> Figures sum to more than 100% as people can have more than one condition.

<sup>4</sup> Universal Credit statistics, DWP, 2023.

<sup>5</sup> Towards full employment: how the UK can increase employment by widening opportunity, L&W, 2022.

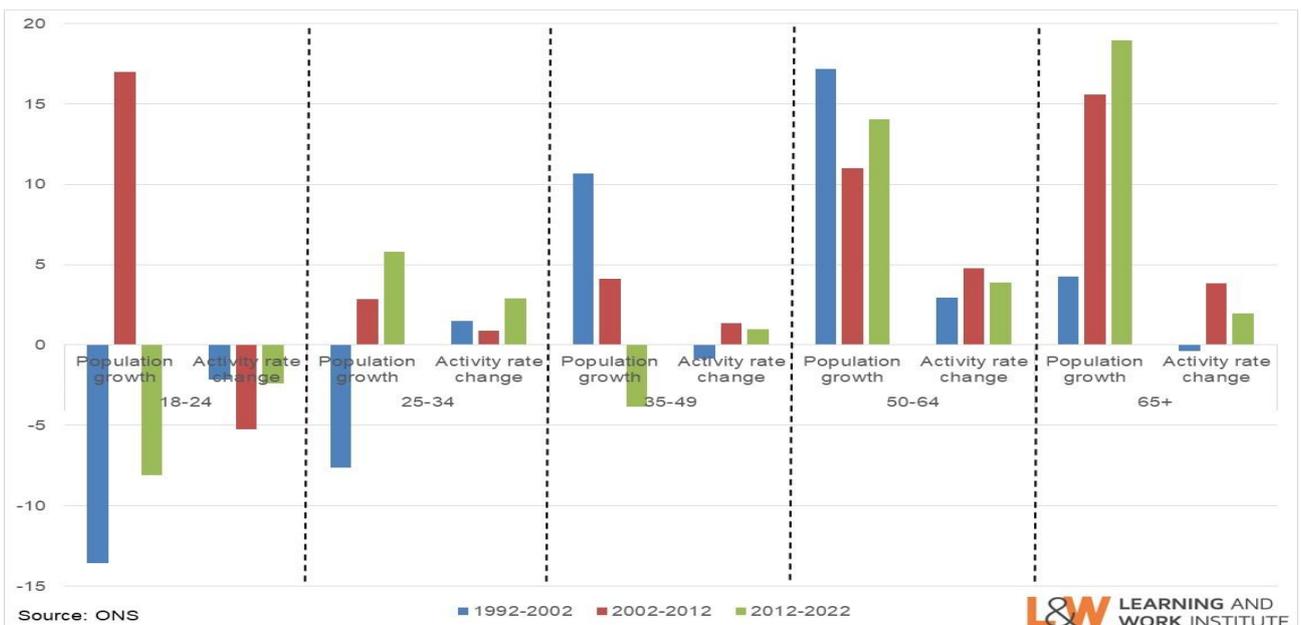
**Figure 6: Changes in population and activity rates by age, 1992-2022<sup>6</sup>**



The 50-64 and 65+ age groups grew fastest in each of the last three decades. But they also saw the biggest rises in economic activity rates, helping to keep overall employment rates up. By contrast, the number of young people shrank (except in the 2000s) and their economic activity rates fell as they became more likely to stay in education.

In other words, there are fewer young people and they are more likely to be in education and less likely to be in work, and more older people and they are more likely to be in work.

**Figure 7: Percentage change in population and activity rates by age over time**

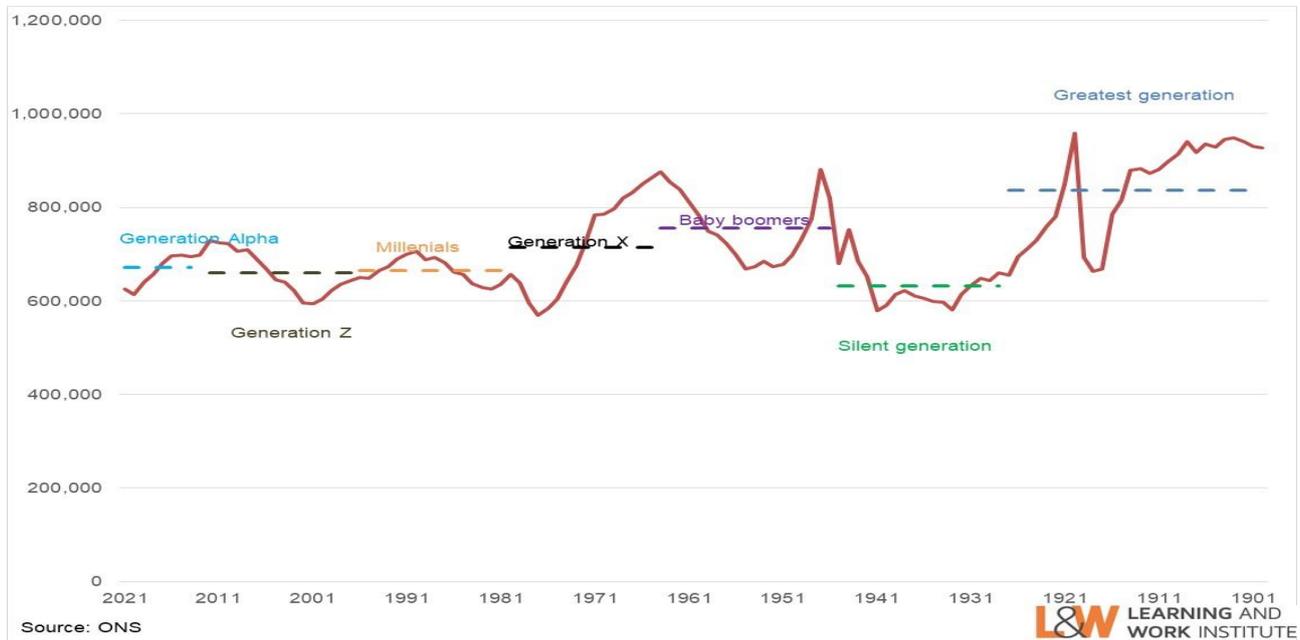


<sup>6</sup> Labour Force Survey, ONS, 2023.

## Trouble ahead?

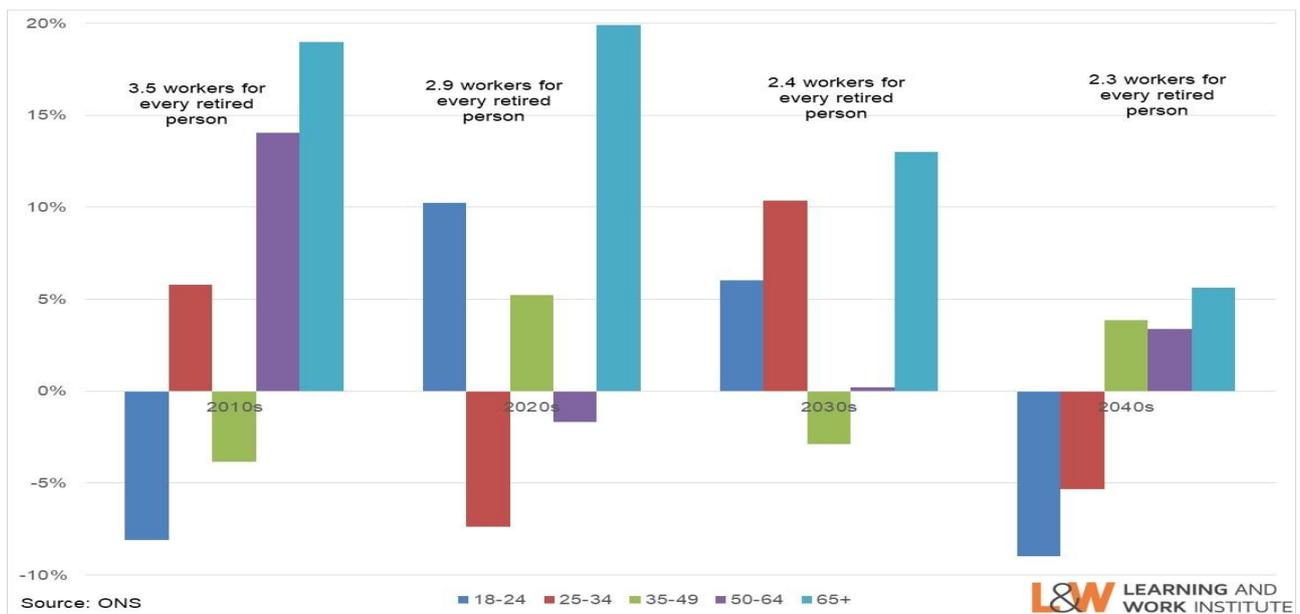
Demographic trends vary over time according to changes in the birth rate and other policy and population changes.

**Figure 8: Numbers of births in England and Wales per year<sup>7</sup>**



This data, along with assumptions about mortality and migration, builds population projections by age group, though with greater uncertainty due to the pandemic.<sup>8</sup>

**Figure 9: Projected population by age, UK**



<sup>7</sup> Births in England and Wales: 2021, ONS, 2022.

<sup>8</sup> Population projections: 2020 based, ONS, 2021.

The majority of baby boomers will retire during the 2020s, with sharp growth in the number of over 65s. Thereafter, there will be growth in the number of young people in the 2030s (following the 2010s mini-baby boom seen in Chart 6) before falling back in the 2040s. But the impact of aging remains: the number of people of working age per person aged 65 or over is projected to fall from 3.5 in the 2010s to 2.3 in the 2040s.

In fact, by 2040 15.2 million people will reach State Pension Age while only 13.8 million young people will have entered the labour market. So over the next 17 years, 1.4 million more people will retire from the workforce than young people will enter it.

This raises the question of how the UK will meet its workforce needs. The options are:

- **Expand** the workforce by increasing migration;
- **Widen** the workforce by raising the state pension age further or supporting more people with disabilities or caring responsibilities to work;
- **Increase** the amount each worker is able to produce, e.g. through automation; or
- **Face** a reduction in living standards with choices about how this should be shared between groups.

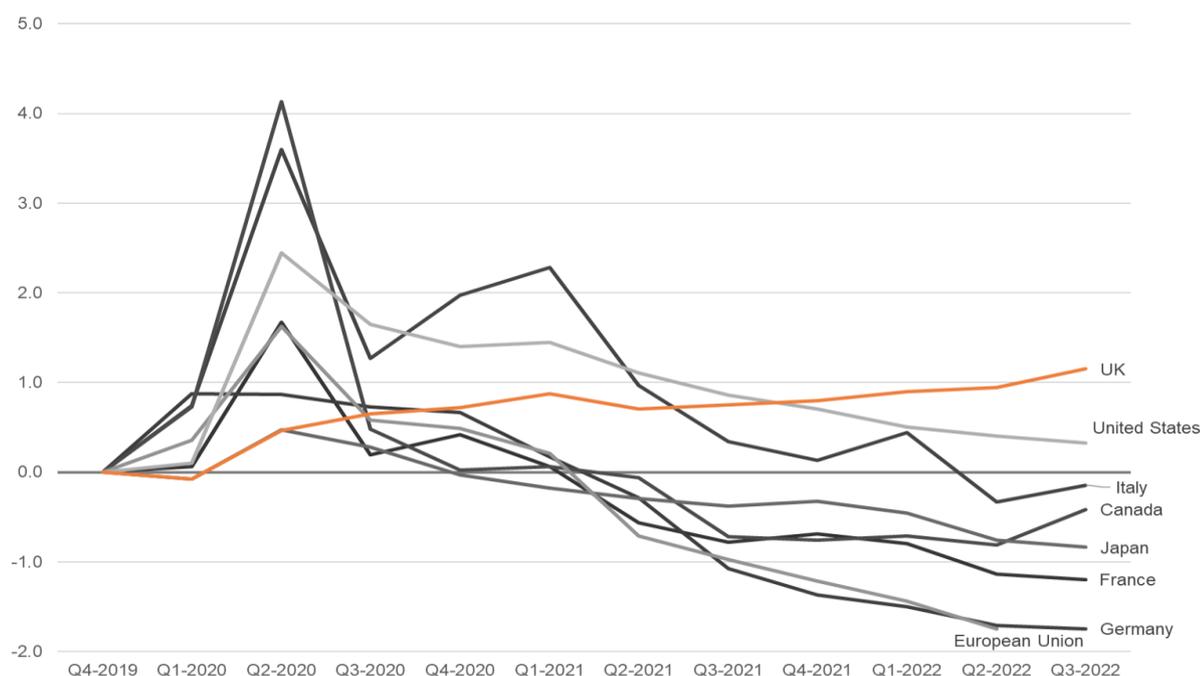
**These are the big workforce choices of the decades ahead, which we would face regardless of the pandemic. They require changes in the focus of both policy and employers so we can manage them effectively.**

## Changes through the pandemic

Rises in economic inactivity were driven by a rise in early retirement (though this still only accounts for one in five labour market exits), and subsequent growth in people citing long-term sickness. However, people have multiple reasons for not working, and there is a gender and class divide: people in lower paid caring roles are more likely to have left due to long-term sickness; those in better paid professional roles are more likely to have retired early.

The UK's employment recovery from the pandemic has been the slowest in the G7 (albeit from a relatively high base). Employment is 300,000 lower than pre-pandemic, with a rise in economic inactivity not seen in most other countries meaning the workforce (those in work or looking for work) would be one million higher had pre-pandemic trends continued.

**Figure 10: Percentage point change in economic inactivity (cumulative) since Q4 2019 (G7 countries and EU)**



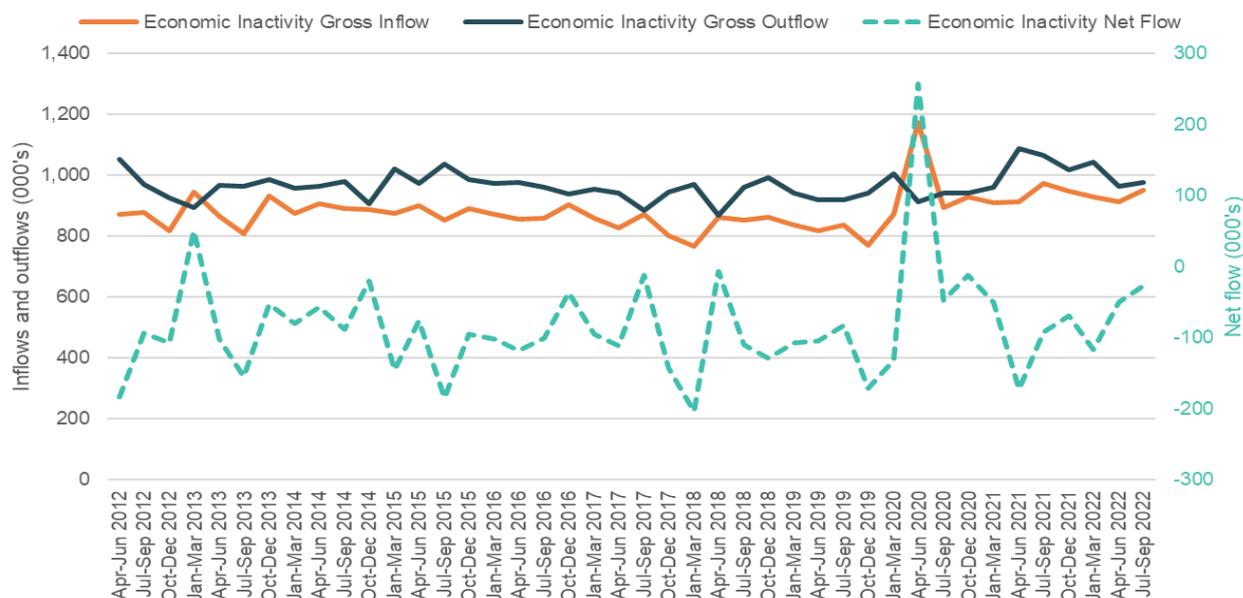
Source: OECD, 2023.

### Understanding recent rises in economic inactivity

**There was a rise in people becoming economically inactive in 2020, largely due to a rise in early retirement. But there are many reasons for economic inactivity, and early retirement only accounts for one in five labour market exits.**

There was a sharp rise in people becoming economically inactive in spring and summer 2020 as the pandemic started. Since then, flows into and out of economic inactivity have returned more to pre-pandemic levels, though inflows remain somewhat higher.

**Figure 11: Flows into and out of economic inactivity each quarter<sup>9</sup>**



Source: L&W analysis of the Labour Force Survey, two quarter longitudinal, ONS

This suggests a large part of recent rises may be a specific pandemic effect, rather than a long-term structural change. However, we still need to consider how to help those in that group who want to work, as well as how to increase the number of economically inactive people finding work given the demographic shifts described in the previous chapter.

**Over 50s account for a large share of the increase in economic inactivity, both as they are getting older on average and due to rising inactivity rates for this group.**

The number of economically inactive over 50s was likely to rise in the last three years anyway as a result of the demographic trends outline in the previous chapter. However, there has also been a reduction in economic activity rates for this group. There are both more older people and they are more likely to be economically inactive.

There are 630,000 more economically inactive people aged 50 or over than pre-pandemic. Our analysis suggests that one half (325,000) of this is due to an increased number of older people and one half (307,000) due to higher economic inactivity rates for this group.

However, there is a clear split between age groups. For those aged 50-64, 80% (245,000) of the 305,000 rise in economic inactivity is due to an increased likelihood of that group being economically inactive, but this explains only 19% of the rise for those aged 65+. In other words, for those over 65 most of the rise in inactivity is due to population growth for that age group, for those 50-64 most of the rise is due to increased inactivity rates. The CIPD have suggested that part of the latter may be due to an increased share of people in

<sup>9</sup> The differences between the net flows and quarterly changes in stock for inactivity are mainly the result of excluding entrants to, and leavers from, the population in these estimates. This effect normally increases the number of people who enter inactivity because the increase in inactivity from those people turning 16-years-old is greater than those leaving inactivity due to becoming 65-years-old.

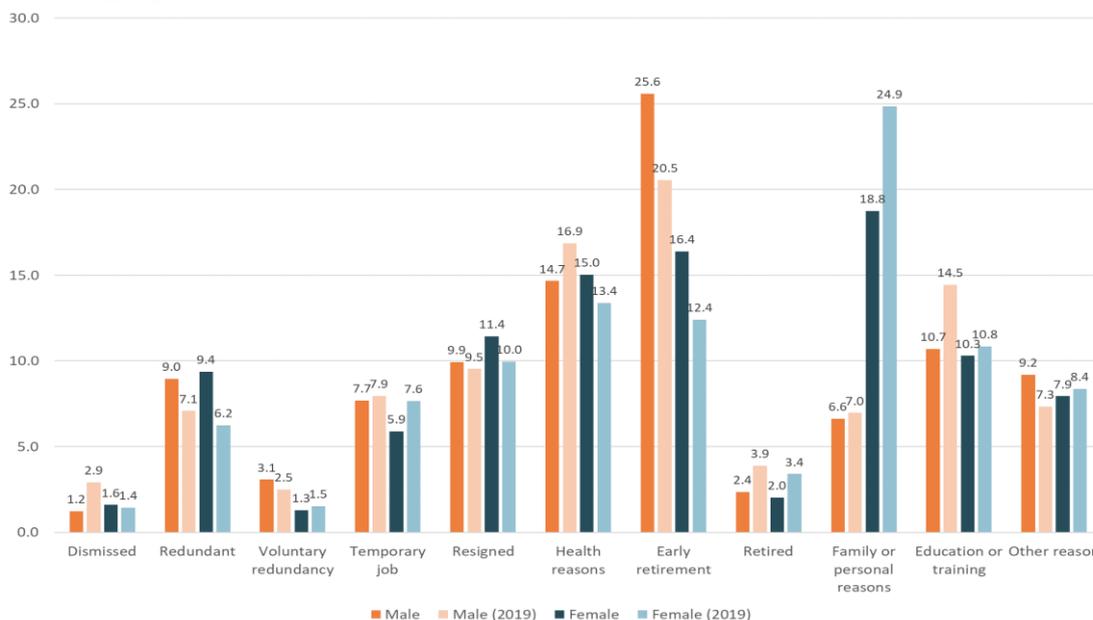
their early 60s in the 50-64 age group, given that people’s likelihood of leaving the labour market increases with age, but that this can only explain a minority of the rise.<sup>10</sup>

**The initial increase in flows into economic inactivity was largely driven by people taking early retirement.**

Our analysis of Labour Force Survey and Annual Population Survey shows that one fifth of working age people who are economically inactive and left their last job in the 2-3 years prior to September 2022 took early retirement. This compares to 15.6% of those who left their job in the 2-3 years prior to September 2019 – an increase of 4.5 percentage points. This is consistent with analysis, looking at flows in and out of the labour market, showing retirement was the biggest driver in people in their 50s and 60s leaving the workforce.<sup>11</sup>

Men are more likely to take early retirement – one quarter of economically inactive men who left work in the last 2-3 years took early retirement, up 5.1 percentage points compared to the period prior to the pandemic. The second largest increase was in the share of people who had left work due to redundancy – a 2.6 percentage point increase compared to 2-3 years prior to the pandemic. Women were more likely to have been made redundant, with a 3.1 percentage point increase. Women were *less* likely to have left work due to family or personal reasons, compared to pre-pandemic, which may reflect the impacts of remote working on enable people to meet caring responsibilities.

**Figure 12: Reasons for leaving the labour market in the last two years**  
Economically inactive and left job in last two years by reason and gender, 2019 and 2022 (working age only)



Source: Annual Population Survey, October 2018 to September 2019 and October 2021 to September 2022.

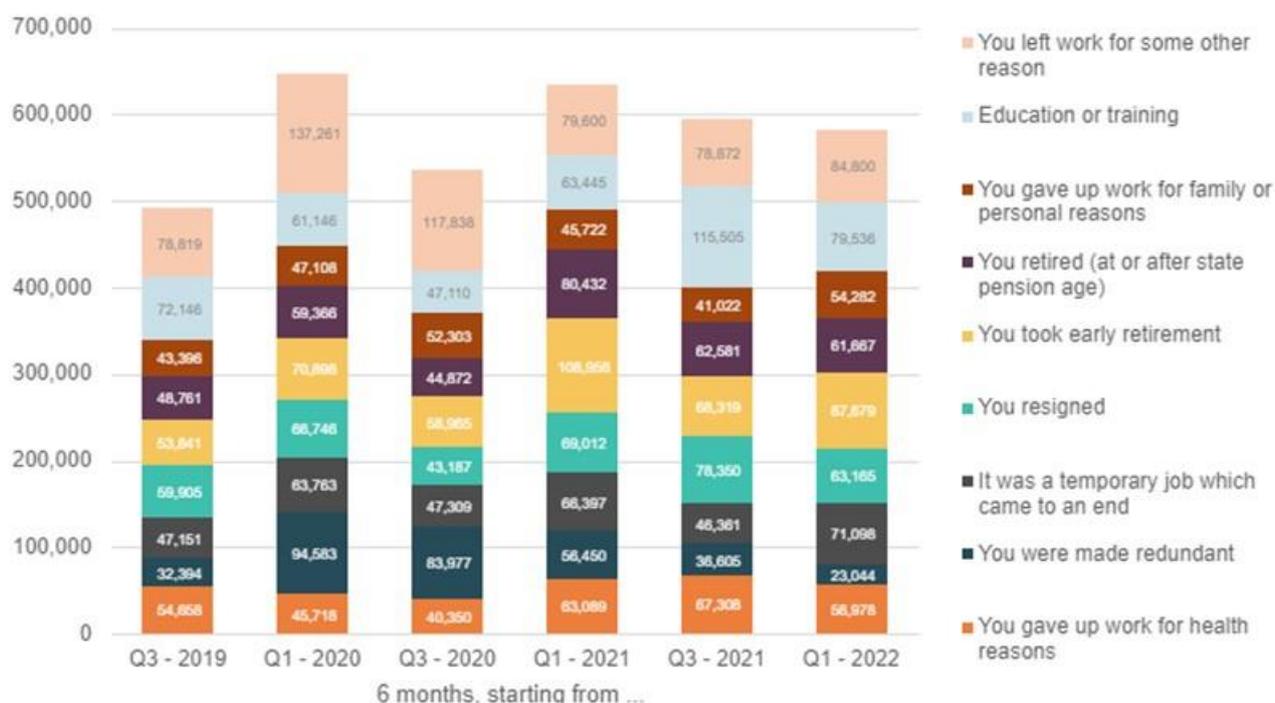
<sup>10</sup> Can demography explain the missing older workers, Boys, CIPD, 2023.

<sup>11</sup> The rise in economic inactivity among people in their 50s and 60s, IFS, 2022.

The reasons for people leaving work varied over the course of the pandemic. Movements into economic inactivity due to redundancy increased during 2020, accounting for 15% and 16% of people who moved from employment to economic inactivity in Q1 and Q3 2020, respectively. The first six months of 2021 saw an increase in those taking early retirement, with 109,000 people taking early retirement and becoming economically inactive (17% of those moving from employment to inactivity) during this period. The last six months saw a substantial increase in those going into education or training, partly relating to many courses starting in the autumn but also an overall rise in education participation.

**Figure 13: The first half of 2021 saw an increase in people taking early retirement**

Reasons for leaving employment into economic inactivity



Source: L&W analysis of the Labour Force Survey, two quarter longitudinal, ONS  
Two quarters of data combined to increase sample size.

## Diversity of reasons for economic inactivity and the rise of long-term sickness

**While the number of early retirements rose early in the pandemic, this is just one reason people left the labour market and there has been subsequent growth in people citing long-term sickness.**

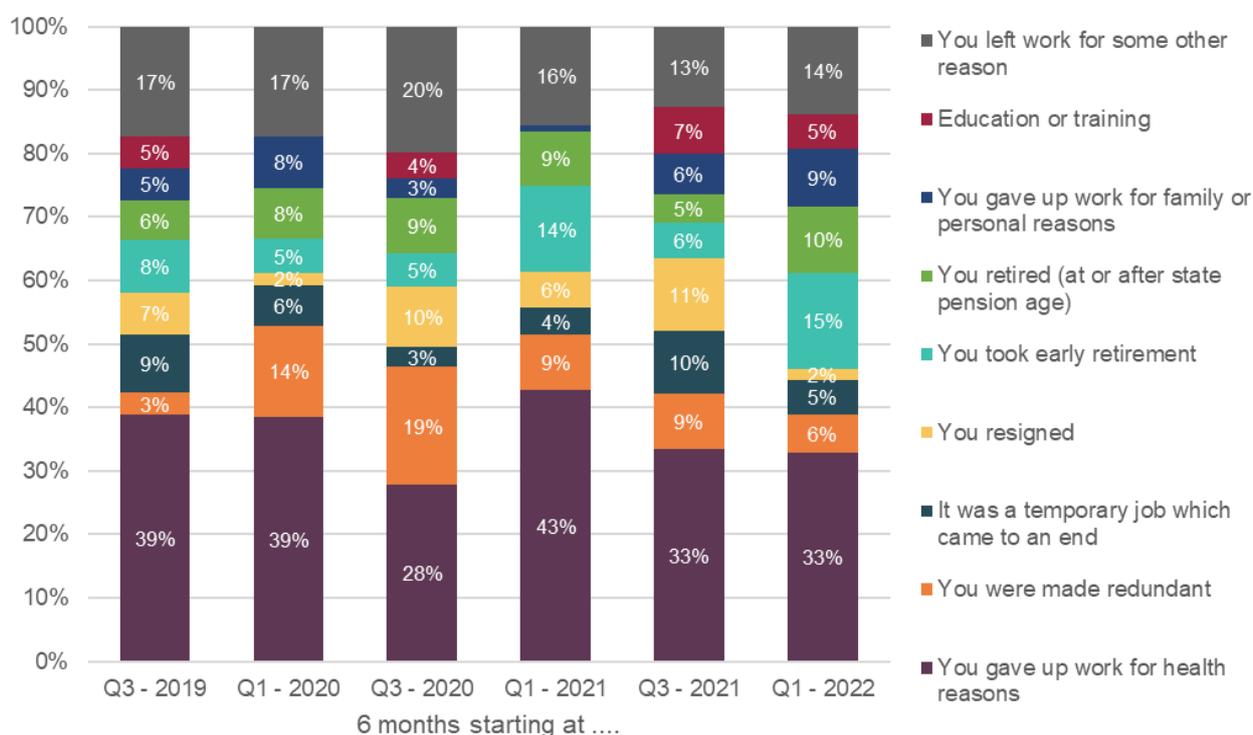
While early retirement, and to a lesser degree redundancy, have driven *increases* in flows into inactivity early in the pandemic, people continue to leave the labour market for a variety of reasons. This includes health reasons, accounting for 9% of total flows from employment to inactivity between Q3 2019 and Q3 2022, 10% becoming inactive due to a temporary job coming to an end, 8% giving up work for family or personal reasons and 17% leaving employment and becoming inactive due to ‘other’ reasons.

Analysis on the rise in economic inactivity has focused on the main reasons people leave employment. In reality, people’s decisions to leave work are likely to be influenced by several factors. This is evident when looking at the reasons why people with work limiting health conditions left employment over the last three years. Around one third to two fifths of people with work limiting health conditions who left employment and became economically inactive cite ‘health’ as a the ‘main reason’ for leaving work. The latest flow data (from the first six months of 2022) shows that 25% of people with work limiting health conditions who left work say they ‘took early retirement’ or ‘retired at or after state pension age’. A further 14% left for ‘other’ reasons and 9% for ‘family or personal reasons’.

Focusing on the main reason alone masks the degree to which other factors impact on whether people leave the labour market – or choose to ‘retire’. In total, nearly 60% of people who are economically inactive and left work in the last 2-3 years, for a variety of reason, have a work limiting health condition, including one third of people who took early retirement.

**Figure 14: Two thirds of people with work limiting health conditions cite non-health related reasons for leaving employment**

Reasons for leaving employment into economic inactivity for those with a work limiting health condition



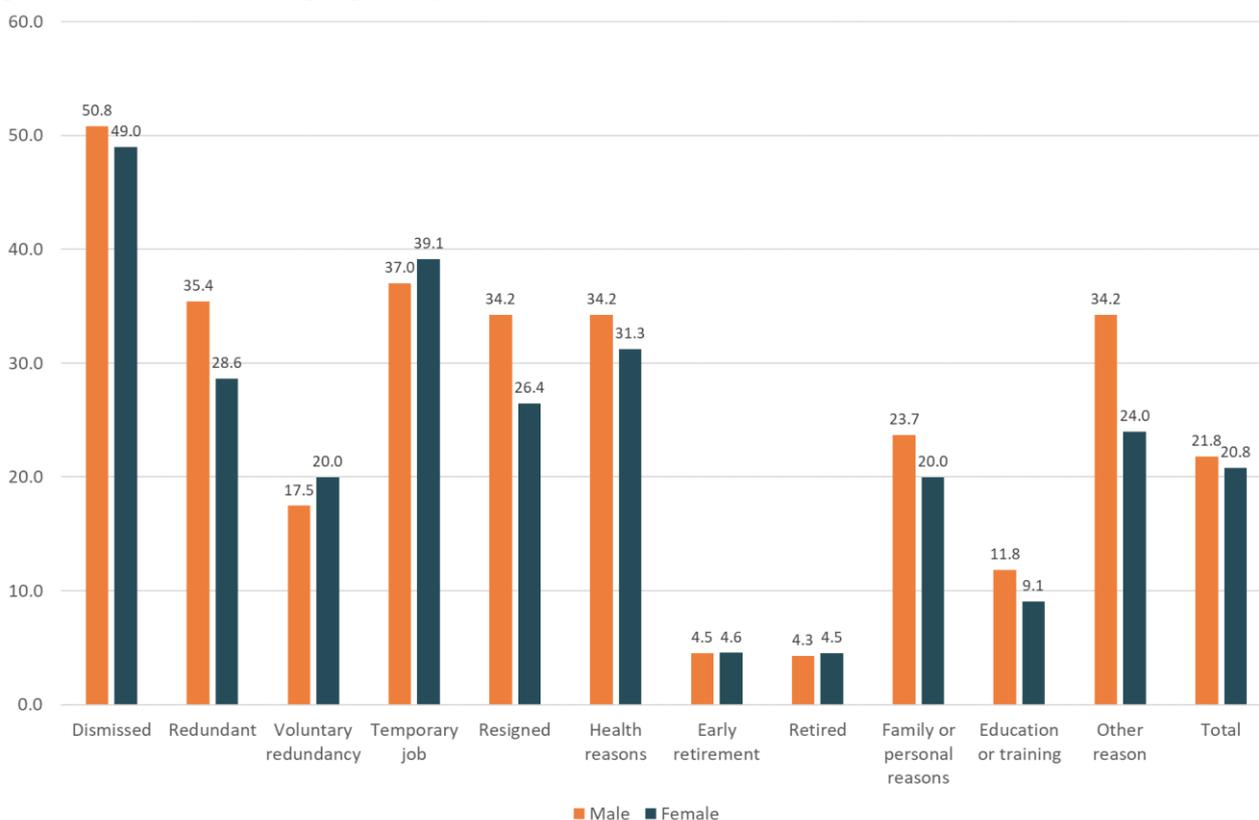
Source: L&W analysis of the Labour Force Survey, two quarter longitudinal, ONS  
Two quarters of data combined to increase sample size.

**One fifth of people who left the labour market since the start of the pandemic say they want to work.**

In total, 1.7 million economically inactive people say they want to work. This includes one in five people who left the labour market in the last 2-3 years. The likelihood of someone wanting to work varies according to the reason they left their last job, with people who were dismissed or in a temporary job more likely to say they want to work than someone who retired. One third of people who left work since the start of the pandemic for health reasons would like to work. And of course even some of those who say they do not want to work may change their view when presented with local job options or if their circumstances change.

**Figure 15: One fifth of those who left employment and became economically inactive in the last two years want to work**

Economically inactive, would like paid work, left job in last two years by reason and gender, 2022 (working age only)



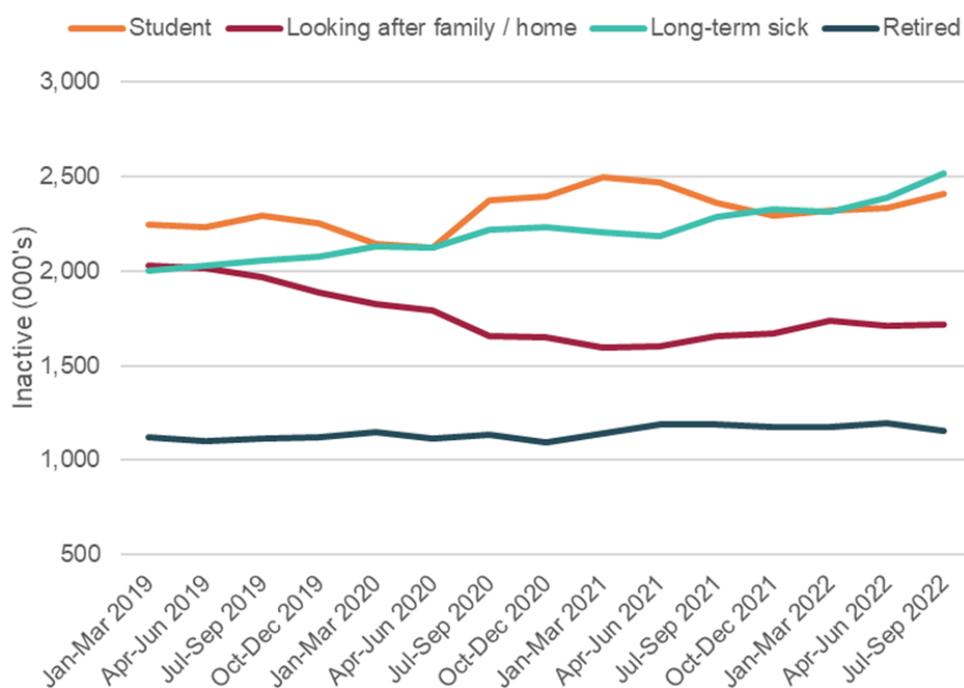
Source: Annual Population Survey, October 2021 to September 2022

## Long term sickness is increasingly cited as the main reason for people being economically inactive.

There has been an increase in the number of people who are economically inactive due to long term illness: another half a million people since the beginning of 2019. Long term illness accounts for 28% of those who are economically inactive, an increase of nearly 5 percentage points since the beginning of 2019.

### Figure 16: Half a million more people are economically inactive due to long term sickness

Economic inactivity by reasons for economic inactivity



Source: L&W analysis of the Labour Force Survey, ONS

Most people (69%) who became economically inactive due to long-term sickness in 2021 and 2022 were already economically inactive for another reason.<sup>12</sup> Around one in five (19%) were in employment before becoming economically inactive due to long-term sickness. So, while people may not report ill health as the main reason why they've left the labour market, it is a barrier to going back to work for many. The latest data suggests that over 560,000 working age people who are economically inactive due to long-term sickness want to work.

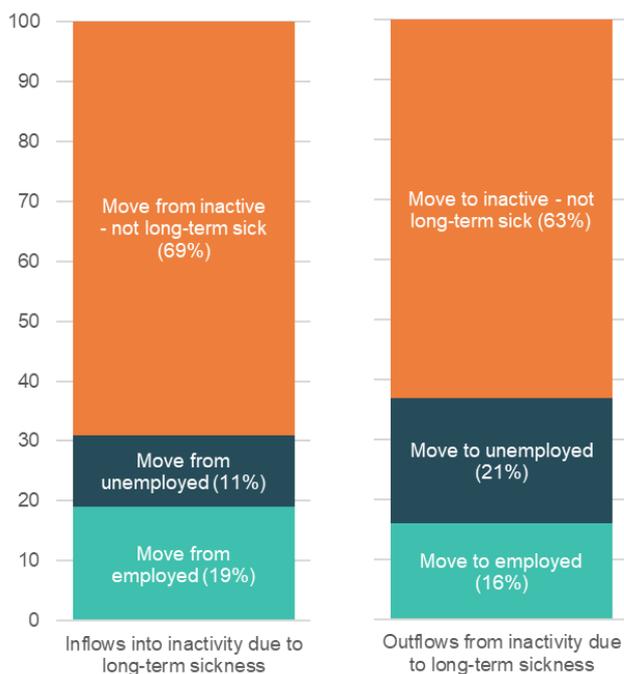
This rise will be partly related to the long-term rise in the prevalence of long-term health conditions (see previous chapter), but also the impacts of the pandemic (we previously estimated one third of the rise in economic inactivity due to long-term sickness may be

<sup>12</sup> Labour Force Survey, ONS, 2022.

related to long Covid), and NHS waiting lists (an ONS survey suggested 20% of newly economically inactive over 50s were on NHS waiting lists).<sup>13</sup>

**Figure 17: Most of those who became inactive because of long-term sickness were already out of the labour market for another reason in the three months prior**

Inflows into and outflows from economic inactivity due to long-term sickness by employment status, 2021 to 2022



Source: Labour Force Survey, two quarter longitudinal, ONS

**Differences by sector and occupation**

People in higher paying occupations are far more likely to have left the labour market due to early retirement. Two fifths of managers and senior officials and over one third of professionals who left the labour market in the last 2-3 years took early retirement. Around 1 in 15 people who were in sales, customer service and elementary occupations (which includes jobs such as labourers, cleaners and postal workers) took early retirement.

In contrast, those who were in lower paying occupations were more likely to leave work for health reasons. More 1 in 4 of people who were working as process, plant and machine operatives left their last job due for health reasons, compared to fewer than 1 in 12 previously working in professional occupations.

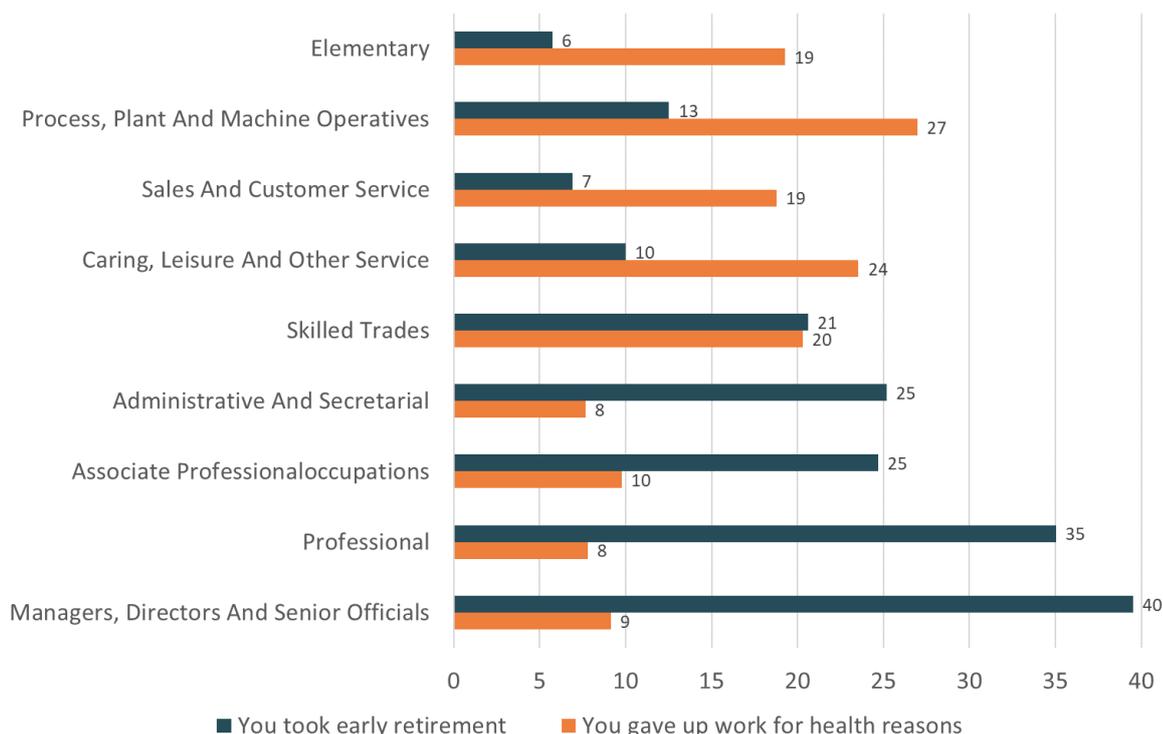
These trends are evident in the quarterly flow data that shows functional managers and directors, who have an average salary of over £57,000, accounted for 6% of all those that moved from employment to inactivity due to early retirement. Meanwhile, housekeepers,

<sup>13</sup> The participation gap: the UK's labour market through the pandemic in an international context, L&W, 2022.

with an average salary of £19,000, accounted for 8% of those that left the labour market due to ill health.

**Figure 18: People in lower paid occupations are more likely to have left the labour market due to ill health**

Proportion of people who are economically inactive and left job in last two years who cite either long-term sickness or early retirement as their reason for economic inactivity, 2021-22



Source: Annual Population Survey, October 2021 to September 2022. Working age only.

**Figure 19: People on higher salaries are more likely to have retired, while those on lower salaries are more likely to have left due to ill health reasons**

Top ten previous occupations (SOC2020, 3 digit level) of those moving from employment to economically inactive by reason, 2020 to 2022

Took early retirement	Volumes (average per quarter)	% of total volumes	Average median salary
<b>Total (all occupations)</b>	<b>81,816</b>		
Functional Managers and Directors	4,590	6%	£57,337
Teaching Professionals	4,425	5%	£36,961
Information Technology Professionals	3,901	5%	£45,826
Business, Research and Administrative Professionals	3,530	4%	£41,257
Nursing Professionals	3,437	4%	£31,676
Managers and Proprietors in Other Services	2,673	3%	£33,013
Secretarial and Related Occupations	2,383	3%	£17,542
Engineering Professionals	2,275	3%	£43,362
Welfare and Housing Associate Professionals	2,054	3%	£24,312
Caring Personal Services	2,013	2%	£18,205

Gave up work for health reasons	Volumes (average per quarter)	% of total volumes	Average median salary
<b>Total (all occupations)</b>	<b>60,573</b>		
Housekeeping and Related Services	4,821	8%	£19,346
Caring Personal Services	4,083	7%	£18,205
Elementary Cleaning Occupations	2,475	4%	£9,781
Functional Managers and Directors	2,396	4%	£57,337
Other Elementary Services Occupations	2,345	4%	£9,798
Road Transport Drivers	2,323	4%	£26,776
Food Preparation and Hospitality Trades	2,099	3%	£20,283
Teaching and Childcare Associate Professionals	1,935	3%	£15,606
Managers and Directors in Retail and Wholesale	1,624	3%	£30,000
Welfare and Housing Associate Professionals	1,546	3%	£24,312

Source: L&W analysis of the Labour Force Survey, two quarter longitudinal, ONS  
 Combined 11 datasets from January/March 2020 to July/Sept 2022 – volumes are average per quarter  
 Salaries from the Annual Survey for Hours and Earnings, 2022, ONS

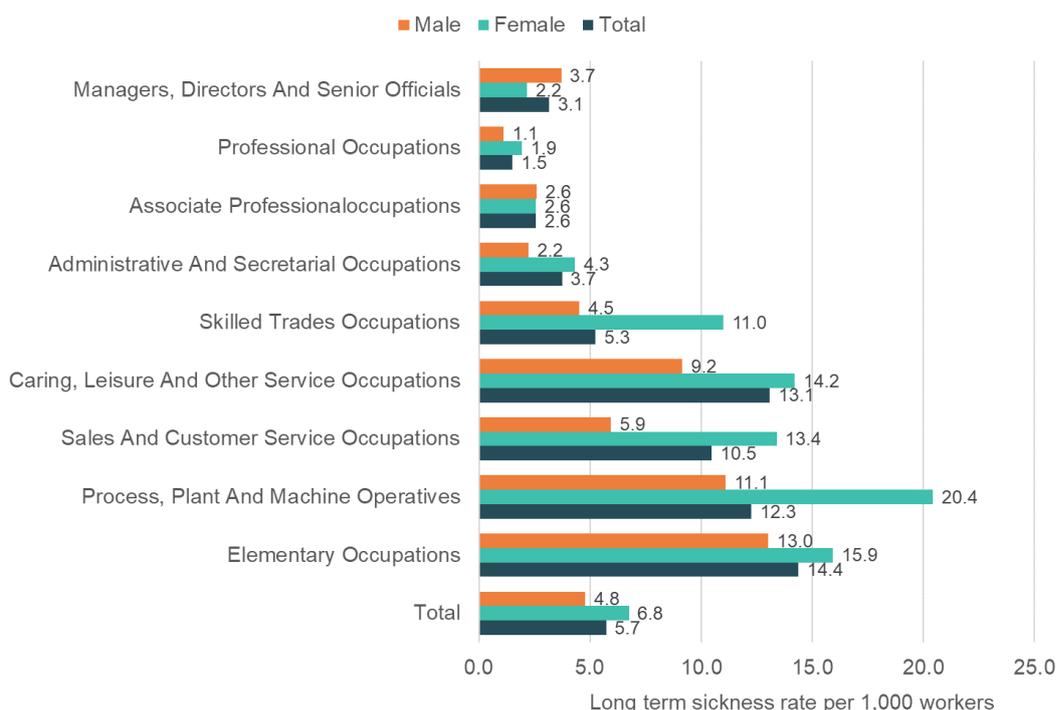
**Rates of economic inactivity due to long term sickness are higher in lower paid occupations and industries.**

Based on people had been employed in a particular sector or occupation within the last two years, there were just over 14 former workers economically inactive due to long-term sickness for every 1,000 current workers from elementary occupations and just over 12 per 1,000 workers in process, plant and machinery operative occupations.

Rates of economic inactivity due to long term sickness are higher still for women in these occupations, 20 per 1000 female workers in process, plant and machinery occupations and 16 per 1000 female workers in elementary occupations. Rates are also high for women who had previously been in caring occupations. Rates of inactivity due to long term sickness are generally much lower among higher paid occupations. There were 1.5 former workers economically inactive for due to long-term sickness for every 1,000 current workers in professional occupations, and just 1.1 per 1,000 male professional workers. Sectors with the highest rates of inactivity due to long term sickness are highest in the logistics (12.6 per 1,000 workers) and admin (11.7 per 1,000) sectors. These trends may reflect to occupation- and sector-specific health risks, e.g. higher rates of musculoskeletal disease in caring occupations, and differences in the quality of work.<sup>14</sup> Overall patterns are likely to reflect the links between income and health.<sup>15</sup>

**Figure 20: Rates of long-term sickness by former occupation are far higher in the lowest paid occupations**

Previous occupation (SOC2020 major) of those economically inactive due to long-term sickness, by gender, 2021/22



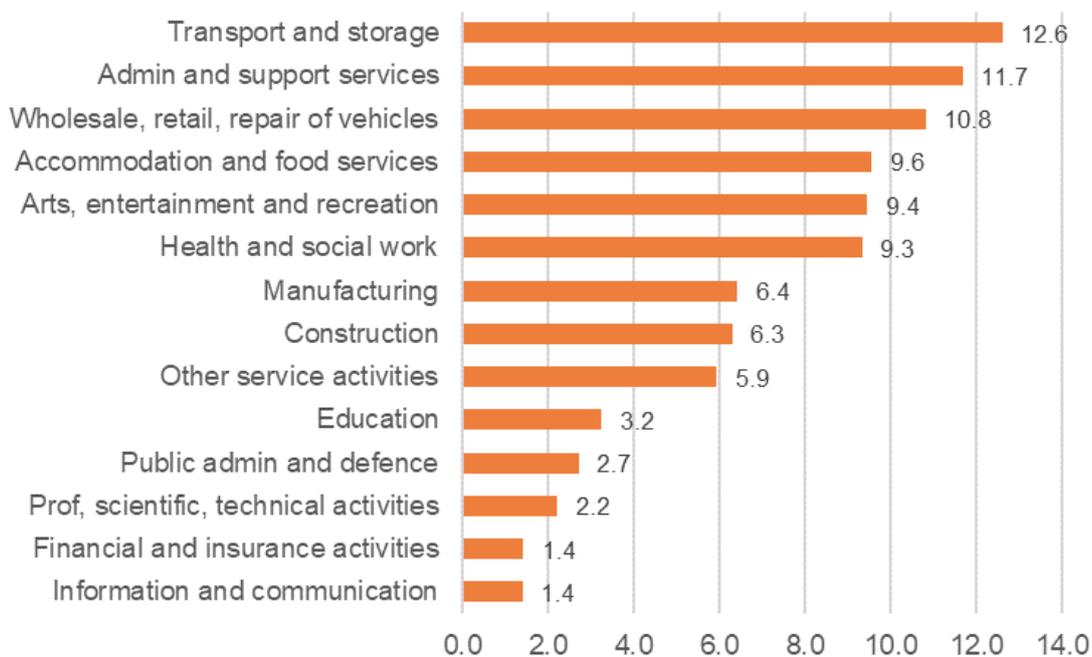
Source: L&W analysis of the Annual Population Survey, October 2021 to September 2022, ONS  
 The long-term sickness rate per 1000 workers is calculated by dividing the number of people who are economically inactive due to long-term sickness and were employed within the last 2 years by the total number of employees in those industries/occupation currently.

<sup>14</sup> <https://www.health.org.uk/publications/long-reads/the-quality-of-work-and-what-it-means-for-health>

<sup>15</sup> <https://www.health.org.uk/evidence-hub/money-and-resources/income/relationship-between-income-and-health>

## Figure 21: Rates of economic inactivity due to long term sickness are highest in the logistics industry

Previous industry of those economically inactive due to long-term sickness (per thousand workers), 2021/22



Source: L&W analysis of the Annual Population Survey, October 2021 to September 2022, ONS  
The long-term sickness rate per 1000 workers is calculated by dividing the number of people who are inactive due to long-term sickness and were employed within the last 2 years by the total number of employees in those industries/occupation currently.

### Differences by region and country

Early retirement was the most common reason working age people left the labour market in most regions and countries, though still a minority. The exceptions were London, Wales and Northern Ireland. People in Wales and Northern Ireland (1 in 5) were more likely to leave the labour market for health reasons. People in London left the labour market for a range of reasons, with 1 in 7 resigning and an even spread leaving to take early retirement, for health, family and personal reasons, and to go into education or training.

## Figure 22: People were more likely to have left the labour market for health reasons than to retire early in Wales and Northern Ireland

Proportion of people economically inactive having left job in last two years citing different reasons for economic inactivity, 2021-22

	Dismissed	Redundant	Voluntary redundancy	Temporary job	Resigned	Health reasons	Early retirement	Retired	Family or personal reasons	Education or training	Other reason
North East	2	10	1	7	10	15	24	1	14	9	7
North West	2	8	1	8	10	14	20	2	15	10	10
Merseyside	0	7	1	10	13	20	27	5	8	6	2
Yorkshire & Humberside	0	5	1	5	10	18	19	2	18	10	12
East Midlands	3	9	2	5	10	14	26	2	12	8	9
West Midlands	2	8	1	8	12	17	19	1	16	8	8
Eastern	1	9	2	4	11	12	20	4	20	9	9
London	1	11	2	11	15	12	12	2	12	12	9
South East	2	11	2	6	11	13	22	2	13	10	8
South West	1	8	2	5	10	15	21	2	13	15	7
Wales	1	9	2	6	8	21	18	3	11	12	8
Scotland	3	11	4	4	8	17	23	3	10	12	6
Northern Ireland	1	9	1	7	7	21	17	3	14	11	10

Source: Annual Population Survey, October 2021 to September 2022. Working age only.

## Potential barriers to work also vary by country and region.

Most economically inactive people who want to work in most regions and countries cite ill health, for example 55% in Scotland cite long-term sickness. In London, caring responsibilities (29%) is more commonly cited than ill health (26%).

## Figure 23: Reasons for inactivity among those who want to work vary across regions and countries

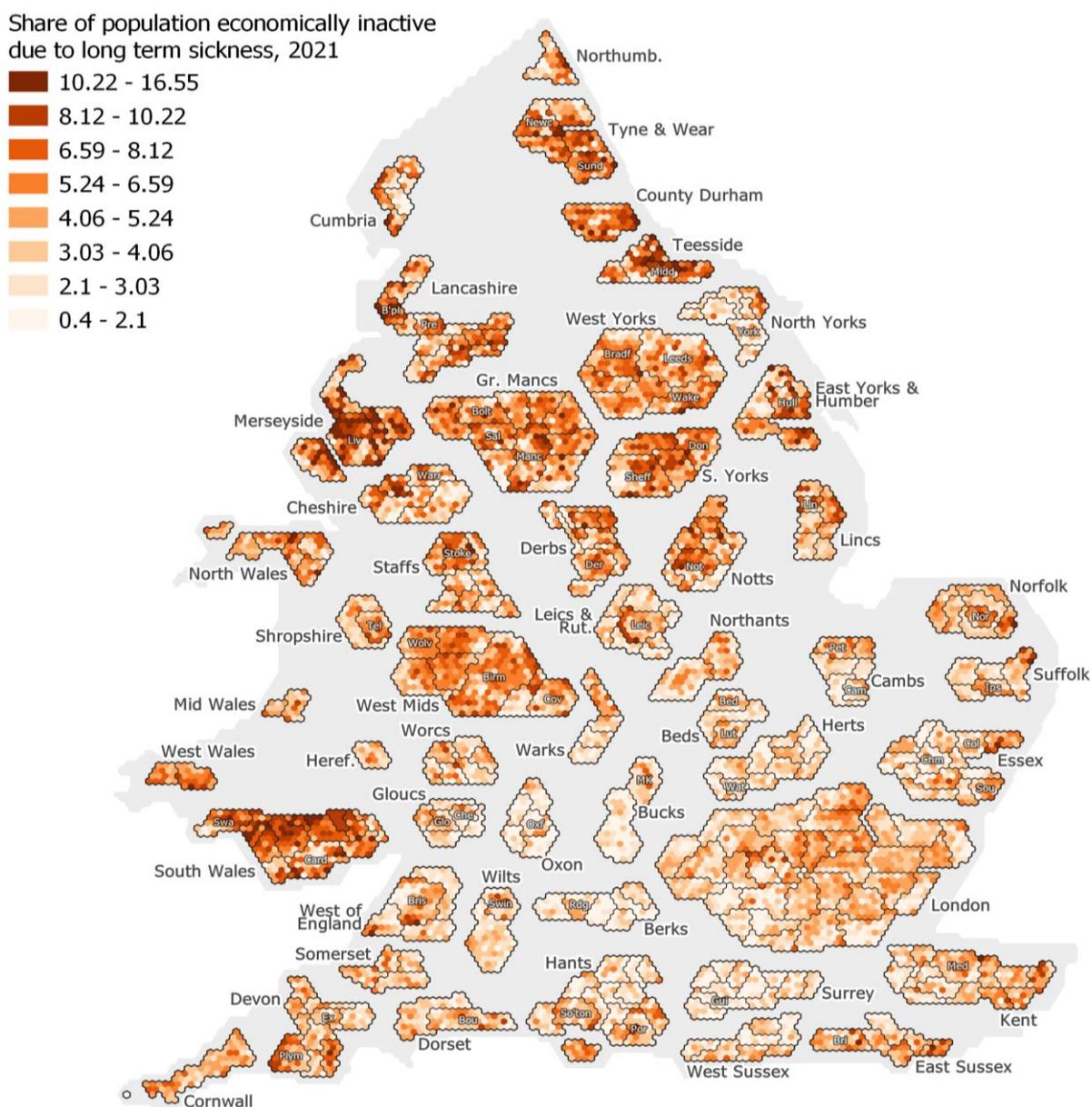
Share of economically inactive people who want to work by reason for inactivity, 2021-22

	Student	Looking after family/home	ST or LT sick	Discouraged worker	Retired	Other
North East	15.7	22.8	43.6	4.6	2.5	9.3
North West	18.3	18.4	49.0	2.7	0.7	8.6
Merseyside	16.2	25.2	49.5	0.0	3.1	4.8
Yorkshire	16.4	20.6	47.9	5.3	2.0	5.3
East Midlands	13.3	24.4	43.5	5.7	1.1	10.0
West Midlands	15.2	21.2	42.3	6.6	2.2	9.0
Eastern	11.7	26.0	40.5	3.9	2.0	10.0
London	18.9	29.0	25.9	7.2	1.9	13.9
South East	16.0	24.7	37.4	8.1	2.7	6.9
South West	17.0	22.8	40.1	6.8	1.4	10.3
Wales	10.2	21.0	49.0	5.7	1.1	11.1
Scotland	12.8	15.7	54.7	6.9	1.7	7.0
Northern Ireland	14.8	19.3	50.5	3.9	1.8	9.0
Total	15.5	22.7	42.3	5.8	1.8	9.1

Source: Annual Population Survey, October 2021 to September 2022. Working age only.

Rates of economic inactivity due to long-term sickness vary significantly. Generally, they are lower in the South East: in parts of Surrey, just 1 in 100 people are economically inactive due to ill health. In contrast, in some parts of Merseyside (or Liverpool City Region) 1 in 7 people are economically inactive due to long-term sickness. These differences highlight the importance of avoiding one-size-fits-all approaches and ensuring support is joined-up locally and tailored to different circumstances.

**Figure 24: Rates of economic inactivity due to long-term sickness are highly uneven**  
Share of 16+ population economically inactive due to long term sickness, 2021



Source: Census, 2021

## Implications for policy

**We need to extend employment support to all those who want to work, to boost growth and respond to demographic changes, and take action in light of the pandemic's impact. This requires action from the government and employers.**

The analysis in this report has shown that an aging population means we need to think about how to meet our labour supply needs. More of our potential workforce is older and more likely to be disabled or have a health condition, and the proportion of people over State Pension Age is growing.

Of course, not everyone needs to work, and we should ensure high quality support for those who cannot work. But the experience of other countries, plus the number of people who are out of work who say they would like to work, suggests we can do better.

In addition, the pandemic led to an increase in economic inactivity and many of those who left the labour market say they would like to work and may need to for financial reasons. Policy and practice from the Government and employers needs to respond to both this short-term crunch and long-term shift. This chapter highlights five implications for the response.

### 1. We need a long-term employment rate ambition and plan

Over the next 13 years, 1.4 million more people will retire than young people will enter the workforce and the workforce will become older. We need a broad strategy to growing the economy and managing this shift, including thinking about how to grow employment. This is not just about rises in economic inactivity during the pandemic.

The good news is we can do this: the UK has a relatively high employment rate, but other countries do better. To match Japan as the G7's highest employment rate would mean an extra 1.2 million people in work, and matching the Netherlands 80% employment rate would mean an extra 2.4 million people in work. The UK has scope to do this: three million people are either unemployed or economically inactive people but would like to work.

The even better news is that a higher ambition would help to boost economic growth –an 80% employment rate could boost our economy by £23 billion per year, save the taxpayer £8 billion per year, and increase the incomes of households by an average £830 per year.<sup>16</sup>

Extending access to help to find work must be part of delivering this ambition. Only one in ten out-of-work 50-64 year olds and disabled people get employment support each year, compared to one in three 18-24 year olds.<sup>17</sup> This saves the Government money in the short-term, but costs us all in the long-term.

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<sup>16</sup> Towards full employment: how the UK can increase employment by widening opportunity, L&W, 2022.

<sup>17</sup> Towards full employment: how the UK can increase employment by widening opportunity, L&W, 2022.

Similarly, for people to work they need accessible to high quality, affordable childcare, social care, transport, and for swift treatment of health conditions. This social infrastructure is as essential to our country as physical infrastructure, but in many places is currently creaking at the seams.

**The Government should aim for an 80% employment rate, the highest in the G7 in the next decade, widen access to help to find work and investing in the social infrastructure of health, childcare and transport to help achieve this.**

## **2. Policy responses need to reflect the diversity of people who are outside the labour market**

Many people who are or might be interested in work are not in receipt of Universal Credit or not required to actively seek work. Simply increasing the requirements of those who are already looking for work or relying on expanding the role of Jobcentre Plus alone will not be enough. Instead, we need to engage people via public services and institutions they trust and are in contact with such as adult education services, local authorities, housing associations and community groups.

Those who are not in the labour market are a diverse group, as the preceding chapters have shown. People in their 60s are more likely to say they have retired early and do not wish to return to work than those in their 50s. People who worked in financial services and professional jobs are more likely to have taken voluntary redundancy and may feel (in some cases correctly, in others not) that they have sufficient resources not to need to work.

Others, particularly people who worked in low paid service and caring roles, are more likely to cite long-term sickness and will need different support again to find work that suits them if they are well enough to return to employment. People across these groups may be interested in work, but only if it pays sufficiently, is available flexibly and fits with any caring responsibilities they may have.

There are many people who are economically inactive who can work and want to work, but there is no one-size-fits-all solution to helping them. We also, of course, need to recognise that some people either cannot or do not need to work.

**Policy needs to be based on a clear understanding of the diverse range of reasons people are not in work, providing tailored support to find work for those who can and high quality support for those who cannot work.**

### 3. The Government can take practical and quick steps, as part of a longer-term employment plan

There are quick steps the Government can take to make a difference, tailored to the different groups of people who are economically inactive.

- a. **Provide more information and support.** Many people outside the labour market may not know the opportunities available, the support open to them, or have a clear picture of their long-term finances and options. Mid-life MOTs are one way to provide this. They are already offered to some people by Jobcentre Plus and by some pension companies. A 2013 trial by Learning and Work Institute showed they were popular and useful, and could be delivered by careers advisors, unions learning reps, housing associations and others.<sup>18</sup> The Government should expand the number of Mid-life MOTs it offers, and provide resources for other organisations that wish to offer them. It should also consider a challenge fund for those with innovative ideas to engage and support over 50s in employment support.
- b. **Widen access to employment support.** The Government should open up access to employment programmes already in place. This should include:
  - **Opening up Restart and other DWP programmes** so that providers can recruit economically inactive participants to a proportion of places and are paid according to the numbers they support into work;
  - **Funding an expansion of other employment programmes run by local government, housing associations and others**, like Greater Manchester's Working Well, to widen help and where local government and partners shows a clear plan to engage more residents and align existing funding; and
  - **Bringing forward UK Shared Prosperity Fund investment in people and skills**, currently due to start in 2024-25, one year after similar European Social Fund programmes end. Programmes that support the groups the Government wants to help are currently closing and staff being made redundant.
- c. **Work with employer groups to spread best practice** in job design and recruitment approaches for the over 50s, and tackling ageism and other discrimination (see below for more details).

**The Government should expand advice and employment support for those outside the labour market who want to work, and support employers to recruit and retain a more diverse workforce.**

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<sup>18</sup> Mid life career review: final report to the Department for Business, Innovation and Skills, NIACE, 2015.

#### 4. Provide better support and incentives for people

For some people, staying in the labour market longer or returning to it will require a career change. That can be because their previous sector is declining, because they want a change, or because the nature of the work (e.g. manual work) may no longer be suitable for them. Yet support for people to retrain is relatively limited at present, with disjoints between the employment and skills systems, and in 2025 the Government will be spending £1 billion less in real terms on adult skills in England than in 2010.<sup>19</sup>

For others, pensions rules may affect their decision making. Being able to access pensions from age 55 can give people more freedom to retire early or reduce the hours they work, but comes with the risk that people may face shortfalls later in life. In addition, additional tax charges on total pension pots above the Lifetime Allowance of £1.073 million or those saving more than £40,000 into their pension each year may encourage some higher earnings to retire early. This may be a particular challenge in some sectors, such as those with defined benefit schemes, for example leading some doctors to retire early.<sup>20</sup>

This is part of a broader theme of the importance of making sure that work pays and pays sufficiently for people. The Government has rightly increased the minimum wage, and a growing number of employers are signed up to pay the voluntary Living Wage rate. The Government has also reduced the Universal Credit taper rate, the amount that claimants lose for every extra pound they earn, to 55p and raised the National Insurance threshold. It should look at what else it can to make work pay for all those out of work.

For others still, health support to work will be crucial. That means both tackling NHS waiting lists, but also looking at how we can better join up work and health services, building on the excellent projects already in place.<sup>21</sup>

Tackling problems with the UK's social infrastructure (see above), like health, social care, childcare, skills and transport are all also essential to make work a more viable choice for many people.

**The Government should provide more help for people to retrain and effective financial incentives to stay in or return to employment.**

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<sup>19</sup> The impact of higher inflation on skills budgets, L&W, 2022.

<sup>20</sup> [NHS consultants 'turning down work to avoid huge pension tax' | NHS | The Guardian](#)

<sup>21</sup> Evidence review: employment support for people with health conditions and disabilities, L&W, 2019.

## 5. Employers need to think about how they recruit, design jobs, and help people stay in work

A changing potential workforce means employers need to think about their recruitment strategies and job design, as well as how they help groups such as older people and disabled people to stay in work.

That includes thinking about how to attract and support people during longer careers, potentially with dual caring responsibilities for children and older parents, and how they value skills and experience gained in other sectors. In addition, we need to tackle ageism and other forms of discrimination – a survey by the Chartered Management Institute found that only 42% of managers were open ‘to a large extent’ to employing people aged 50-64, compared to 74% who were open to employing 18-24 year olds.<sup>22</sup>

More immediately, many employers are struggling to meet their recruitment needs. They need to think about the recruitment approaches and job roles that might attract the 58% of people in their 50s who have left the labour market but say they would be interested in returning.<sup>23</sup> The pandemic has led to a step change in flexible and hybrid working, but these could be extended and harnessed further to attract and retain workers.

Helping people who are older or disabled to stay in their jobs can also help employers to meet their workforce needs. The Government already provides financial help for reasonable adjustments for disabled employees through Access to Work, and many employers offer support well above statutory minimums for family and carers leave, sick leave and so on. However, we should look at what works best, how to go further, and how to make best practice standard practice.

National and local governments can help employers by communicating the demographic changes and therefore need to change, working with business groups to develop and spread best practice, and making local links between employers with vacancies and groups working with people who are economically inactive, such as health services and housing associations. The Government can also help with staff retention by ensuring Access to Work is sufficient to meet demand, considering how best to expand provision of occupational health support particularly in small firms (whether by direct provision, or by financial incentives for firms to provide it), and delivering on its commitment to providing the right to request flexible working from day one of employment.

**Employers should think about job design and recruitment approaches to attract potential workers and retain their workforce, and local and national governments should help them to do so including tackling ageism and encouraging more employers to offer occupational health support.**

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<sup>22</sup> [Over-50s at work: 'You feel your usefulness has passed' - BBC News](#)

<sup>23</sup> Reasons for workers aged over 50 years leaving employment since the start of the coronavirus pandemic, ONS, 2022.