

Age is Just a Number

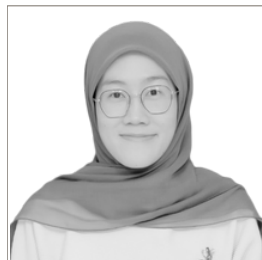
Rethinking Aging and Productivity in the Modern Workplace



Summary

- ◆ The times' change brings along the demographical shifts of ageing populations which contribute towards older workers that directly induce the labour market dynamics.
- ◆ Older workers may have different skills and competencies compare than younger worker. Individuals of all ages can possess a wide range of skills and competencies, and it's important to assess each workers unique strengths and weaknesses.
- ◆ An ageing population can also lead to an increase in labour productivity. As people age, they often become more experienced and knowledgeable in their field, leading to increased efficiency and productivity.
- ◆ To cope with the challenges of ageing population, this policy recommends the government focuses its attention on labour market policies through the empowerment of older workers by providing equal work incentives, opportunities, and regulations in the labour market. To cope with the challenges of ageing population, this policy recommends the government focuses its attention on labour market policies through the empowerment of older workers by providing equal work incentives, opportunities, and regulations in the labour market.

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Introduction

High productivity growth becomes one of the macroeconomic policies in any country as it translates into high economic growth and living standard. In the Twelfth Malaysia Plan (2021-2025), productivity growth is expected to expand at an average of 3.6% per annum, ensuring the targeted economic growth between 4.5% to 5.5% per annum throughout the plan periods can be achieved.

Productivity is affected by talent in various forms which include quality of education, skill and competency deficits, labour participation and wages. This has deals with demographic shifts and their influence on productivity by focusing on the impact of older workers.

Population ageing brings into focus the need for greater employment of older workers. The size of older workers that are still actively working in the economy rising over the years, expanding at an average of 3.7% per annum for the periods 2011-2021. When the size of older workers is increasing, this raises questions about their productivity. What can be done is to find out whether they are beneficial to a firm's productivity or are as productive as young workers. In that sense, the productivity of older workers should be examined more thoroughly.

It is widely believed that ageing may have a negative effect on productivity. In some industries or workplaces, however, older workers may provide more benefits to firms than younger workers due to their valuable experience. There are many papers on the relationship between ageing workforces and outcomes for organisations. In short, the

characteristics of older workers differ from those of younger workers; some are positive, and some are negative. This EU-ERA Policy Brief provides a short note on the impacts of older workers by concentrating focus on productivity.

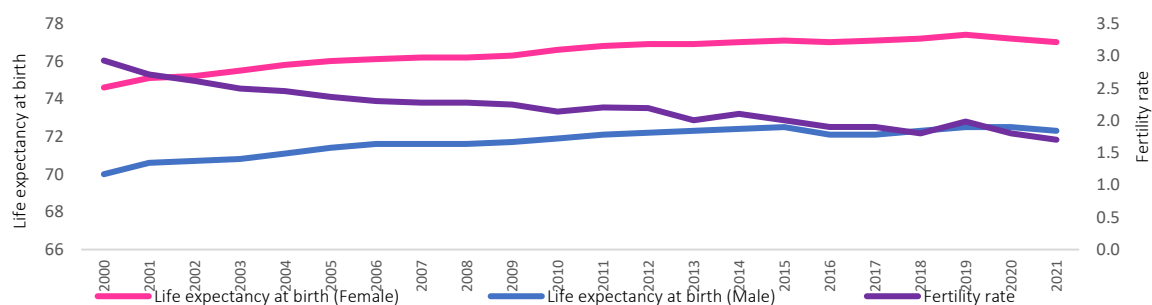
Demographic shifting towards ageing population

Malaysia reached an important benchmark in the country's progress by becoming an 'ageing society' in 2020. The percentage of the young age group 14 years and below decreased to 23.3%, while the old population aged 65 and above increased to 7.0% of the total population in 2020. Demographic shifts are expected to enlarge the gap between young aged population and old aged population as the former group is projected to decline by 18.6% and the latter is expected to increase by 14.5% in 2040.

Malaysia's rapid pace of ageing is driven by a declining total fertility rate and increasing life expectancy. The total fertility rate (TFR) is 1.7% births per woman in 2021 and this rate is below the replacement level of 2.1, which is the average number of children per woman needed to maintain a stable population size (see Figure 1). On the other hand, the life expectancy at birth in Malaysia has been steadily increasing over the years. The life expectancy at birth for total population of Malaysia is 74.7 years in 2020. This represents an increase of about 6 years since 2000, when the life expectancy at birth was 68.9 years. For instance, according to the same data, the life expectancy at birth for females in Malaysia is slightly higher than that for males at 77.5 years compared to 74.2 years in 2020.

Figure 1

Total fertility rate and life expectancy at birth for male and female, 2000-2021



Source: Calculated and tabulated based on data from Department of Statistics Malaysia (various years)

The dependency ratio in Malaysia is expected to change in the coming years as the population continues to grow. Figure 2 shows that the overall dependency ratio in Malaysia has been increasing

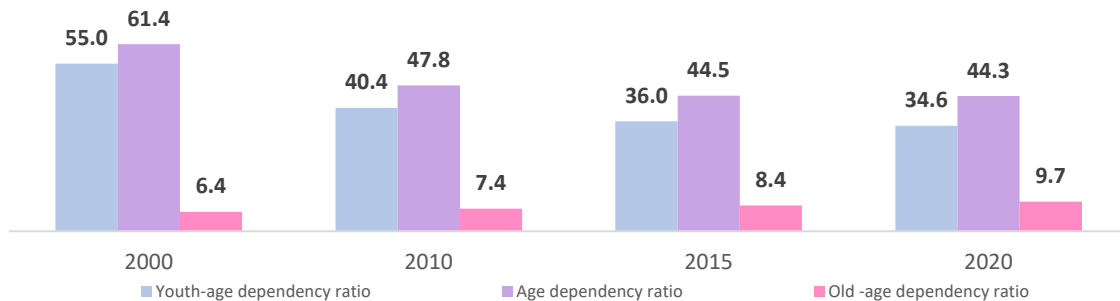
gradually over the years. In 2020, the overall dependency ratio was 44.3%, up from 42.9% in 2019. The young dependency ratio has been declining in recent years, from 55% in 2000 to 35%

in 2020. This trend reflects the declining birth rate in the country. In contrast, the old-dependency ratio has been increasing steadily. In 2000, the old-

dependency ratio was 7%, but by 2020, it has risen close to 10%—indicating a ratio of 10 pensioners for every worker.

Figure 2

Age dependency ratio, 2000-2020



Source: Calculated and tabulated based on data from Department of Statistics Malaysia (various years)

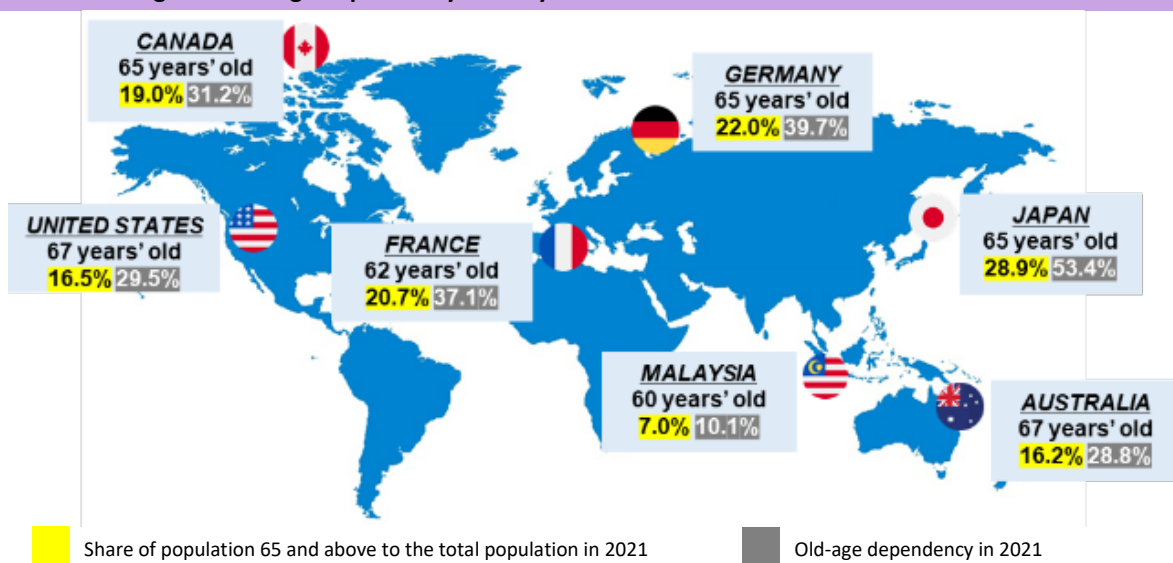
Malaysia rapid pace of ageing will take 20 years to reach aged society. Based on current estimation, Malaysia is projected to reach an "aged society" in 2040. The proportion of the older population will increase by more than 7.5% to 14.5% in 2040. Malaysia's transition from an ageing to an aged society is expected to take 20 years compared to experience of other aged nations such as France which took 115 years, 85 years in Sweden and 69 years in the United States.

Malaysia's retirement age is relatively lower compared to some other countries. The statutory

retirement age in Malaysia is set at 60 years' old which is relatively lower compared to other countries. This is also due to the small size of the older age people in the country. For example, the retirement age in Japan is set at 65 years old with the highest size of older people in the country (Figure 3). In Australia, the retirement age has been gradually increased from 65 to 67 years old. In some European countries, the retirement age is even higher. For example, in France the retirement age is set at 62 years old, while in Germany, it is set at 65 years old.

Figure 3

Retirement age and old-age dependency ratio by selected countries



Sources: Malaysia Employers Federation (MEF) (2021), Department of Social Services Australia (2023), Japan Pension Services (2022), Canada Pension Plan (2023), Social Security Administration (2023), The French Social Security System (2022), European Commission (2022).

Increasing size of older workers as a consequence of ageing population

Ageing population means ageing workforce where the profiling of ageing workforce or older workers with age 55 – 64 years old. In addition to population ageing, the labour force structure is heading towards a greater ageing workforce, which requires specific interventions.

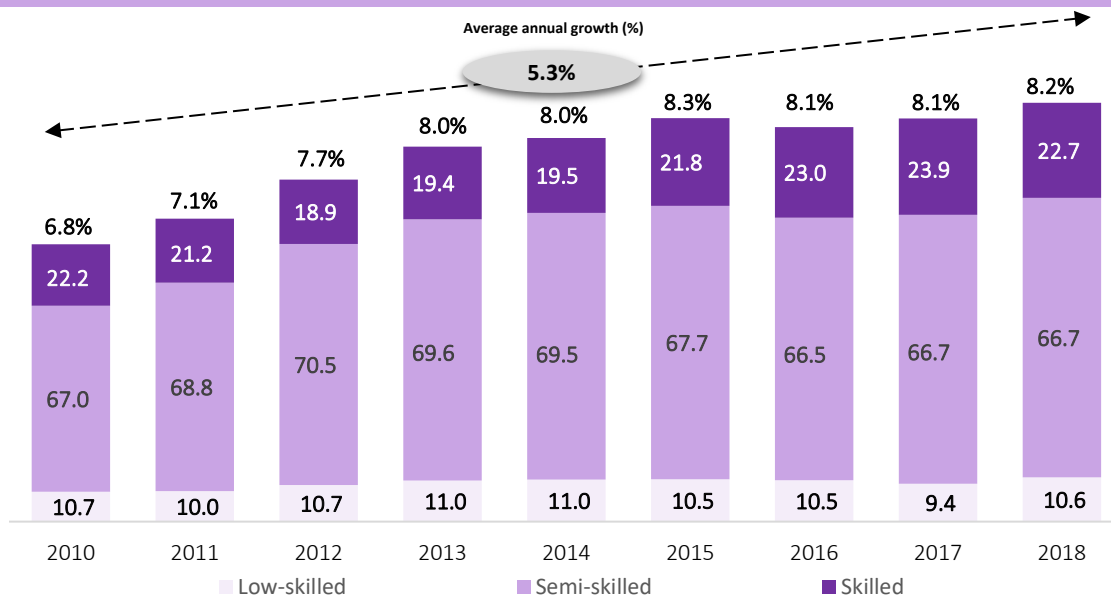
The total older workers of 55-64 years old shows an increasing trend from 6.8% in 2010 to 8.2% thousand in 2018, as shown in Figure 4. The involvement of older workers aged 55-64 is still needed to mitigate the economic growth effects of ageing. As the population ages and life expectancy rises, fewer young people enter the labour force to replace retiring employees. This may result in labour shortages, lower productivity, and slower economic growth.

The composition of employment in an economy depends on the level of economic activity and labour productivity. Despite the economy of Malaysia showing a continuous expansion at the aggregate level, skill and sectoral employment provide important information to illustrate the trend toward older workers.

The composition of older workers consistently increasing throughout the years. The distribution of older workers with semi-skilled made up the most composition of employment, but with steady growth rates at 5.3% (2010-2018). The older worker with semi-skilled dominated with 66.7% in 2018. The composition of skilled and low-skilled older workers being relatively lower than semi-skilled where the trend for this category indicates a stagnant, echoing a reduced dependency on low-skilled jobs.

Figure 4

Older workers (55-64) by occupation, 2010-2018



Source: Calculated and tabulated based on data from Department of Statistics Malaysia (various years)

Based on a report by the Malaysian Employers Federation, the sectors that have traditionally employed older workers in Malaysia include manufacturing, construction, agriculture, and services. These sectors are likely to continue to employ older workers in the future, as they tend to have less emphasis on technological skills and more

emphasis on experience and physical labour. It is worth noting that the Malaysian government has taken steps to encourage employers to hire and retain older workers, including providing incentives such as tax breaks and training programmes. These initiatives may help to increase the number of older workers in all sectors of the economy.

Expansion at the aggregate level, skills and sectoral employment shows the impacts of older workers on labour productivity and economic growth.

To estimate the impact of demographic factors on labour productivity, we employ the seemingly unrelated regression (SUR).

Working-age workers (15-54 years) show positive impacts on labour productivity, while older workers (55-64 years) indicate negative impacts on labour productivity at the national average. When combining both workers in growth equation, labour productivity has a positive impact on Malaysia’s economic growth for the period 1982-2021.

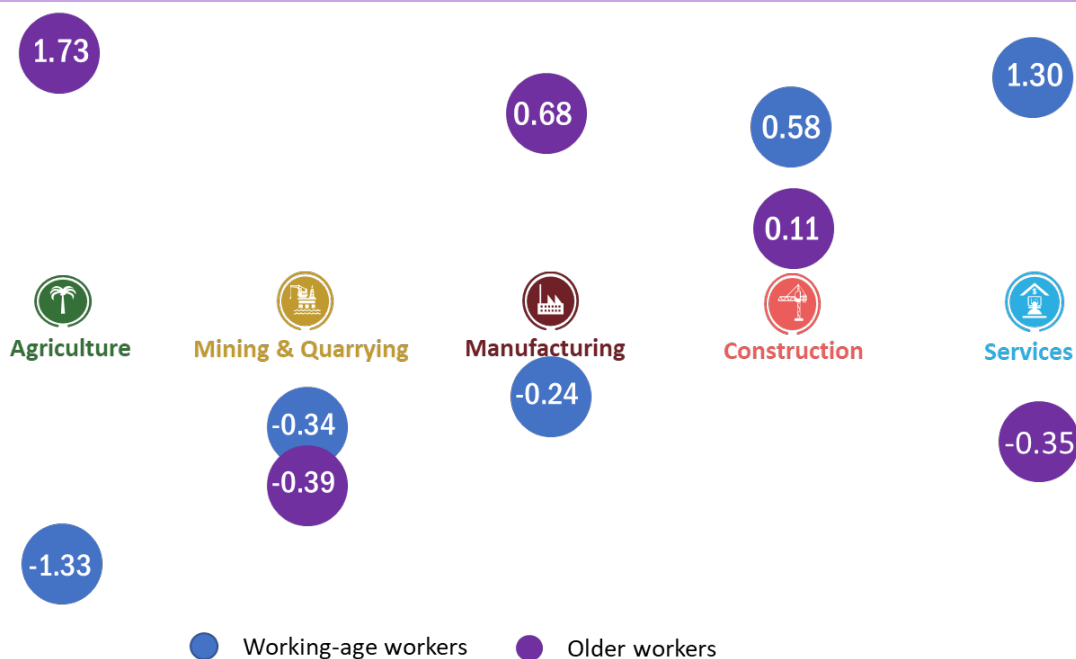
At sectoral level, working-age workers have positive effects in the construction and services sectors while negative effects are observed in the agriculture, mining & quarrying, and manufacturing sectors (Figure 5). On the other hand, older workers show positive impacts in the agriculture, manufacturing and construction sectors. Nevertheless, in all sub-sectors, the impact of labour productivity on economic growth is consistently positive. These findings suggest two remarkable observations.

First, both working-age and older workers show variations at sectoral levels. Their contribution to the labour productivity does not necessarily positive for both younger and older workers. For example, the contribution of younger workers in agriculture and mining & quarrying is negative while the contribution of older workers is positive in agriculture and manufacturing sectors. Some sectors show the opposite impact—working-age workers contribute negative impacts in the manufacturing sector while older workers generate positive impacts.

Second, the impacts of combined working-age and older workers are positive in promoting economic growth. It is important to note that productivity is also contributed by non-labour factors such as technology and capital input. Even though younger and older workers contribute negatively to productivity in the mining & quarrying sector, the contribution labour productivity to economic growth is positive. This is an example of a sector in which non-labour factors are dominant.

Figure 5

Age on Labour Productivity



Source: Calculated and tabulated based on data from Department of Statistics Malaysia (various years)

Charting labour market policies for older workers

Six recommendations are prepared which include retraining older workers, extending retirement age, expanding sector of employment services, legal

framework, sectoral and occupational reallocation and development of sectoral framework.

Reskilling and upskilling for older workers to enhance productivity and employability.

Training and retraining are important programs for enhancing the productivity and employability of older workers. So far, on- and off-the-job training has concentrated on younger workers. However, with the average age of the workforce is rising, older workers will inevitably be involved in training schemes. Sometimes firms are unaware that retraining an older employee may be less expensive to them because of higher cost efficiency. Age is no handicap to learning. In some countries there are universities for older persons, proving this point.

Extending the retirement age with enough job creations.

The possibility of retirement age extension may not be avoided in the next few years. The retirement age in a country is an important labour and social indicator, being a policy instrument too. Raising the retirement age would promote the financial stability and welfare of workers, increase the labour supply, producing increased revenues from work (in a situation of employment growth), higher tax revenues for the government, and, simultaneously, lower financial pressure for pension disbursements.

Role of employment services to address employability of older workers.

Employment services can contribute significantly to providing older workers with suitable employment, through the provision of training and retraining, and by preventing discriminatory age treatment of applicants by employers. With respect to training and retraining the role of employment services can be especially important as employers calculate the amortization costs of training investments, and older workers have fewer years to recoup. Also, the stereotypes can work against older workers who may be considered as slower or more difficult to train. The proper functioning of labour markets depends to a considerable extent on the successful operation of employment services. Employment services can play a great role in equalising the chances of applicants seeking jobs.

Supportive legal framework for older workers in the labour market.

The growing size of older workers in the labour market demands supportive employment regulations and guidelines. The regulations and guidelines are necessary to ensure the benefits and welfare of older workers are protected without any discrimination compared to younger workers. In addition, the regulations and guidelines may be different from one sector to another, considering the specific sectoral requirements. The most important principle behind the regulations and guidelines is that "one fits all" may not be practical.

Sectoral and occupational reallocation.

Our estimation results show that the productivity of older workers is different according to sectors. In the agriculture sector, older workers contribute positively to productivity while in the services sector they contribute negatively. The employment profiling of older workers indicates that the majority of older workers work in the services sector with 58.5% in 2018. This evidence implies there is a need for the reallocation of older workers across sectors and also across occupations to ensure efficiency in the use of labour input. In addition, reskilling and upskilling programs should be accompanied by the reallocation of older workers.

Development of generational dimension of demographic accounts.

With the growing size of older workers, it is important for Malaysia to have a database that can monitor and evaluate the impact of older workers on the labour market and the economy. In the current state, Malaysia only focuses on monitoring active workers while workers who are still active after retirement age receive less attention. Likewise, mobility and transition within school levels and from schools to universities are not fully emphasized although they are important and part of the labour market ecosystem.

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EU-ERA Policy Brief


EU-ERA Policy Brief offers a short note with combined analysis and policy recommendations in addressing developmental issues that are directly and indirectly affect the labor market in Malaysia. This policy brief aims to generate a forward-looking and proactive discussion among policymakers, researchers and stakeholders in identifying emerging trends, challenges, and opportunities in the economy. The orientation is toward the real-world policy challenges and opportunities, with an emphasis on providing practical recommendations that can help guide decision-making.


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