

# **TRANSITIONS & RISK**

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## **Refereed Conference Paper**

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# **The role of training in preventing the labour market exclusion of older workers**

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This paper highlights preliminary research that explores financing models for vocational education and training to prevent the labour market exclusion of older workers. Governments in developed nations are focused on increasing the labour market participation of older workers to lessen the effects of the ageing population. The effects of an ageing population are likely to include a reduction in productivity due to a smaller labour pool, skills shortages and increased demand for government assistance in areas such as health care and pension payments. Measures currently employed in Australia to address the ageing population problem, such as increasing the pensionable age, will be of little use if older workers, deemed to be workers aged 45 or older, continue to 'involuntarily' retire due to labour market exclusion. This paper draws upon recent studies that highlight the economic benefits of training when undertaken later in life.<sup>1</sup> The paper looks at whether European governments, under the banner of the European Employment Strategy, are engaging in strategies targeted at increasing the labour market attachment of older workers. In particular, pilots and programs in Sweden, the United Kingdom and the Netherlands are investigated. This includes an investigation of programs whereby the government takes a more transitional labour market approach to enable mature age people to make the transition from precarious to more stable work, or to spread the cost of training across a period of time. Finally, the paper relates these examples back to the Australian context, and suggests possible policy implications.

### *Evidence about the labour market exclusion of older workers*

This paper begins with the basic premise that older workers, particularly those in Australia, are being excluded from the labour market. This fact is borne out in labour force participation data, which shows that only around 45 percent of 55-64 year old Australians are employed.<sup>1</sup> Although overall labour market participation of older workers is stable, this is largely due to the increase in the female workforce. Labour market participation rates have been declining for men for several decades. In 2001 workforce participation for males 35-54 was 7 percent lower than in 1973, 16 percent less for 55-59 year olds and 29 percent lower for 60-64 year olds.<sup>2</sup> This in itself is not necessarily concerning, as workers have every right to choose when to retire, particularly if they are able to fund their retirement.

Many older workers retire involuntarily – either through illness or redundancy.<sup>3</sup> Around 44 percent of men aged 45 and over retiring from the labour force are made redundant.<sup>4</sup> Disability benefits appear to be an avenue for early retirement, with one in nine Australians aged 50-64 currently receiving the disability support pension.<sup>5</sup> Rates of disability have increased dramatically for males aged 60-64, rising from 8 percent in 1972 to 25 percent in 1997.<sup>6</sup> The Australian Council of Social Service (ACOSS) argues the growth in disability pension reflects an increase in the

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<sup>1</sup> For the purpose of this paper, training is referred to in its narrow definition as formal, recognised training. This includes technical and further education and university education. As limited evidence exists about the benefits of short courses and skills grabs, training interventions mooted for adoption in Australia are those that lead to the achievement of a full qualification. Although pedagogy and learning environments are also important for older workers, due to space constraints this paper largely focuses on models to finance training.

identification of people with disabilities and the removal of other avenues of income support for people, rather than an increase in people seeking to avoid mutual obligation by claiming disability status. The removal of benefits such as the wife pension and age pension for 60-65 year old women means that women with disabilities on these redundant benefits are now accessing the disability support pension. Between 1990 and 2003 there was a 329 percent increase in the proportion of women aged 50 and over receiving the disability support pension.<sup>7</sup>

As working life has increased, so too has the proportion of people developing disabilities later in life. The problem of increasing levels of disability is also being faced by a variety of European nations. Rates of disability for older workers of around 17 percent have prompted countries such as Finland to adopt job rotation leave – up to twelve months of paid leave to enable workers to recover from the stresses of the workplace.<sup>8</sup> Such periods of leave may be important for older workers, particularly low skilled workers, who are less likely to be able to adapt to change and more likely to suffer from physical disabilities due to their manual labour occupations. They are also more likely to suffer from psychological stress due to the often precarious nature of their employment, and absence of support mechanisms.<sup>9</sup>

Patterns of labour market withdrawal for older workers vary across the world. Employment rates for older workers vary from 38 percent in Italy to 89 percent in Iceland.<sup>10</sup> Education affects the labour market outcomes of workers throughout the Organisation for Economic Co-operation and Development (OECD). '45 percent of working-age persons in the low-education group (having not completed high school) were neither working or looking for work, compared to 24 percent of medium educated (high school educated) and 15 percent of high educated (university educated) workers.'<sup>11</sup> In Australia, 67 percent of low educated 55-64 year olds are not in employment compared with an OECD average of 56 percent. This figure is similar for young women – 53 percent of low educated young women are not employed compared to an OECD average of 37 percent.<sup>12</sup> These figures indicate that education levels are an important determinant for labour market attachment, and are particularly important in Australia. This may be due to developments since the 1970's to make Australia more export oriented, which included a focus on utilising a highly educated, knowledge-based workforce.<sup>13</sup>

### *Why should governments intervene?*

#### Economic reasons

There are a variety of reasons why governments need to intervene to improve the labour market attachment of older workers. The International Labour Organisation has highlighted the paradoxical situation in industrialised countries, whereby longer life expectancy and improved living standards have been accompanied by a decline in the labour market participation of older workers, and a reduction in retirement ages.<sup>14</sup> Retirement ages have fallen by around eight years, whilst the time spent in retirement has increased to 16.8 years for men and 22.6 years for women.<sup>15</sup>

Governments, especially the federal government, cannot afford to fund this increased retirement period, especially as rising health standards should mean that more people can remain in the workforce for longer. The increase in the ageing population exacerbates these issues.

As highlighted in the *Intergenerational Report*, population ageing will mean that Australia's age dependency ratio will increase to around 44 percent by 2051.<sup>16</sup> It is predicted that health and aged care spending will increase from 4.7 per cent of gross domestic product (GDP) in 2001-02 to 9.9 per cent of GDP in 2041-42.<sup>17</sup> To fund these schemes, Australian governments will need to dramatically increase the financial burden on those who work.<sup>18</sup> The decline in the number of people active in the labour market means the participation rate will fall. As a consequence of these impacts, economic growth will slow to around 1.5 percent by 2030.

In order to alleviate future economic pressures, emphasis has been placed on improving productivity, participation and population.<sup>19</sup> Ken Henry, secretary to the Federal Treasury, discusses the need to address labour force participation by unskilled workers, as fertility and migration alone cannot address the population ageing issue. Henry suggests that retraining older workers will be essential to address future skills shortages (which may be exacerbated by the increasing older cohort's demand for services such as health care) and increase labour market participation.<sup>20</sup> Fitzgerald argues that if people worked until the age of 65 or 67, GDP would be 6 or 8 percent higher than forecasted in the *Intergenerational Report*.<sup>21</sup>

Although the full effects of the ageing population will not be felt for several decades, skill shortages are increasing. This is for two reasons – firstly there may be an issue of inadequate labour supply in some regions, for example remote locations. The second reason is that employers cannot find people with the appropriate skills set. The pace of technological change means that old occupations are disappearing and new occupations are emerging that require people with new skills, and people that are able to adapt and respond to an innovation economy. Adult learning is the key to enabling the existing workforce to meet these emerging requirements.<sup>22</sup>

### Social reasons

The second reason why the governments need to intervene is because of the social effects of labour market displacement of older workers. The effects of premature retirement are manifold. Early exits by low-income earners are likely to lead to poverty.<sup>23</sup> Frank Vandembroucke, Belgium Minister for Social Affairs and Pensions, argues that 'encouraging active participation is the best weapon against poverty and best guarantee for a fair income distribution.'<sup>24</sup> Further, he argues that 'participation in social life is crucial for gaining respect from others and self-respect, the opportunity to participate in society is one of the basic opportunities that should be the right of everyone.'<sup>25</sup> Thus, ensuring workers remain attached to the labour market is important for quality of life both for economic reasons and because people base their self-identity on their occupation.

However, in a market economy not all workers can compete equally. Low-skilled workers are most often denied employment opportunities. Given their low levels of training, they are more likely to retire early due to stress or disablement, to suffer from psychological stress due to the precarious nature of their employment and to be in poverty due to their inability to fund their retirement.<sup>26</sup>

The social reasons for supporting people to remain engaged in the labour market tend to blur with the economic arguments. Unemployed people are much more likely to suffer from depression and health problems. Enabling older people, who wish to, to participate in the labour market will help reduce future poverty and may help address impending skills shortages. However, current government policies have largely focused on the prevention of early retirement, rather than enabling policies that facilitate better attachment to the workforce.

### *What are Australian governments doing about the ageing workforce?*

Current government policies around intergenerational issues have focused on measures to curb spending on health care combined with incentives to delay retirement including restricting access to superannuation. Whilst these policies may increase the effective retirement age, they will do little to help low-skilled older workers who, if they retire, are likely to do so involuntarily. Government welfare policies focus on incentives and obligations, with little focus on opportunities for those most needy. Support provided under the Job Network is not sufficient to address workforce barriers for disadvantaged jobseekers.<sup>27</sup> Few policies address the needs of low-skilled workers whose skill levels make them at risk of becoming redundant.

Programs aimed at improving the labour market attachment of mature aged workers are in their early stages. This reflects a change in public policy as for decades in Australia, as in many other countries, older workers were encouraged to retire early as a method of labour market re-prioritising that made way for the younger generation.<sup>28</sup> This behaviour may have been based on a false premise, as there is increasing evidence that the growth in the employment rate of older workers goes hand in hand with an increase in employment of younger workers.<sup>29</sup> The ageing population and fear of skills shortages, combined with the growth in government welfare recipients, has compelled the federal government to focus on re-engaging older workers.

Under the Federal Government's 2003 *Australians Working Together* program, there was an increased focus on getting mature age people back in to work. One significant step was the closure of the Mature Age Allowance for unemployed people aged 50 and over. Mature aged unemployed people now receive Newstart Allowance and are subject to mutual obligation, although the participation requirements are relaxed.<sup>30</sup> This signifies a change from the previous system, whereby older unemployed people were essentially deemed to be unemployable –

they were not subject to any mutual obligation, had less rigorous reporting requirements to Centrelink and were not encouraged to access services that would help them to gain employment. Now mature aged workers are subject to mutual obligation, and can access additional help through initiatives such as the training credit and support through Job Network members.

The Federal Government increased its focus on older workers in the 2004-05 Budget. The Government announced the *Mature Age Employment and Workplace Strategy*, worth \$12.1 million over four years. This strategy is a package of initiatives, including:

- workshops targeting job seekers and workers looking to retire. The workshops will provide information labour market issues, and link attendees with service providers. Self help groups will be part of this initiative,
- labour market seminars for employment service providers,
- projects to facilitate job growth for mature age workers, and
- benchmarking and showcasing best practice for employment of mature age people.<sup>31</sup>

These initiatives may assist mature age people to make more informed decisions about when to retire, and to address issues around age discrimination. However, they do not address the issue of older workers possessing redundant skills.

Whilst the focus of government policies is on re-activating unemployed older workers, there are a few initiatives focused on re-skilling older workers. The Basic IT Enabling Skills (BITES) for Older Workers is a Commonwealth Government Program that provides low-income older workers with basic information technology skills. The recently announced Department of Education, Science and Training Vocation Education and Training Priority Places Programme, which provides free certificate II level training, includes low-income older workers as a target group.<sup>32</sup> However, these programs are limited in scope. For example, the Priority Places Programme is for 7,500 participants who may be people with disabilities, low income older workers or parents returning to work. Nonetheless, future evaluations of this policy will be useful to determine if it has an impact on employment rates of participating older workers.

### *Why do we need a new approach?*

Current initiatives are aimed at increasing obligations on jobseekers and providing limited training to re-activate workers once they become unemployed. These initiatives include services provided to older jobseekers through Australians Working Together, as well as state based programs such as Skill Up in Victoria that focus on retraining people that are going to be retrenched.<sup>33</sup> Skill Up is a rapid response re-training program that provides retraining to workforces that are made redundant. However, funding under this program has not been fully expended, as mass redundancies have been relatively uncommon. The program does not provide

early intervention to workers who need to retrain in order to maintain their employment prior to industry restructuring.

Evaluations of initiatives aimed at re-engaging unemployed older Australians reveal that it is difficult to achieve outcomes for jobseekers with additional barriers to employment. It is difficult to re-engage older workers, who are more likely to have low levels of literacy and numeracy.<sup>34</sup> The new Job Network under the Active Participation Model does not appear to have increased the level of training provided to jobseekers. Job Network members report mixed approaches to providing training – with many only providing training if they are confident that it will deliver an employment outcome.<sup>35</sup> This philosophy is likely to be problematic for older workers with literacy and numeracy problems, that need to be first addressed prior to contemplating vocational training. Evaluations of the Job Network highlight that it is effective in assisting jobseekers that are likely to gain employment of their own accord anyway, but that the system is failing older, disengaged and disabled jobseekers.<sup>36</sup>

Existing approaches to older workers are not effective as they are premised on a 'work-first' model rather than a preventative approach that addresses causes of labour market detachment. Interventions are applied too late, and are too limited. Interventions need to be applied before a person becomes unemployed, to improve employment outcomes, and prevent or reduce the duration of periods of unemployment. The experience of the labour market adjustment program for the Textile, Clothing and Footwear Industry highlights the problem with remedial training. This program, which provided up to two years training for displaced textile workers, resulted in only one-third of all workers being employed in full-time stable jobs four years on. The majority of workers continued the cycle of precarious employment and unemployment.<sup>37</sup> It must be noted that this training took place during the recession, hence the labour market outcomes of the workers were diminished due to the economic climate. However, as redundancies increase during a recession, the effects of training provided at this time will always be marginal. If textile workers had received training to improve their skill base whilst employed, they could have applied these skills prior to becoming retrenched. Training strategies need to be implemented to prevent or minimise labour market detachment. As Esping-Anderson acknowledges, 'even the best designed activation policies work poorly if they are primarily remedial. Active training and mobility policies can only be effective if they complement a strategy of prevention.'<sup>38</sup>

### *The benefits of lifelong learning*

The need for an early intervention approach to re-skill older workers has been highlighted by many academics. Michael Keating argues that in order to meet future skills shortages, increase economic demand and keep workers in the workforce longer, a focus on lifelong learning is essential.<sup>39</sup>

Although training levels for older workers in Australia are high - 27 percent of people participating in formal training are aged 40-64, Australia is ranked 17<sup>th</sup> in OECD standards that measure completion of at least upper secondary education. Thus, Australia is starting off a low base, and workers are not benefiting equally from the provision of training. Under the market model, highly skilled workers tend to receive the bulk share of employer funded training. Around 7 percent of low-skilled workers receive training in contrast to more than 25 percent of high-skilled workers.<sup>40</sup> There is a growing divide between the knowledge rich (and generally well paid) and the knowledge poor who are at the fringes of the labour market.

There is strong empirical evidence that workers who receive training have a greater chance of keeping their job than their non-trained counterparts, and in the event of unemployment are likely to have their duration of unemployment reduced.<sup>41</sup> 'On average, a 10 percent increase in the time spent by an adult individual on education or training is estimated to be associated with a fall in the likelihood of being unemployed by 0.2 percentage points. This is even when accounting for selection bias.'<sup>42</sup> Data shows individuals who participate in training have a higher probability of being employed. Women and older workers who receive training are more than 20 percentage points more likely to be participating in the labour market, and older workers have a 0.3 to 0.5 percentage point less chance of being unemployed if they undertook training in the last 2 years.<sup>43</sup> Analysis shows that training reduces involuntary separation rates by 1.2 percentage points for workers aged 35 years or more, or those with less than upper secondary education. However, these figures must be viewed with caution, as they could partially reflect the fact that employers invest in the workers they wish to retain.<sup>44</sup>

The National Centre for Vocational Education and Research (NCVER) draws on recent Australian statistics to highlight the benefits of lifelong learning. A key contention is that people need to continually update their skills to keep pace with technological change, and that education can act as a form of insurance against unemployment. As was highlighted earlier, this ability to adapt to changing technological requirements is also vital to meet impending skills shortages. NCVER interrogates data to show that qualifications acquired later in life have as good, and in some cases, better, pay-off as qualifications obtained at a younger age.<sup>45</sup> NCVER concludes that education is a successful tool to gain, re-enter or remain in the labour market. However, as is discussed below under barriers to training, the opportunity cost associated with training may deem it too costly for older workers. In particular, workers who need to take unpaid leave may not perceive that they receive a return on investment, as they may purely maintain their labour market position.

The return to the individual varies according to the level of the qualification. Data largely shows that additional qualifications assist mature age workers to keep their employment, even if they do not result in workers earning additional money. This may be because, as the OECD concluded, workers need to become increasingly productive purely to retain their position in the labour market. If workers do not

increase productivity, industries may relocate offshore due to lower labour costs, or younger skilled workers may replace older workers.

### *Barriers to training for older workers*

Whilst motivation and engagement of older workers is important in any consideration of training and further development – the key barriers to training are time and cost. A recent survey highlights that time is the key reason why people do not participate in training, followed by direct course costs and then family responsibilities.<sup>46</sup> One reason why people may cite time as their main barrier is related to the associated cost of training, both opportunity cost regarding loss of family time and loss of paid employment. The OECD has evaluated the effects of this loss of paid employment.

The OECD has conducted a simulation on the rates of return for a 40 year old acquiring a higher educational qualification (a three year degree) which highlights the effects of opportunity costs. The OECD looked at three scenarios – that an individual pays all course costs and foregoes earnings; that an individual does not pay costs but forgoes earnings; and that an individual pays course costs but does not forego earnings. The results show that, for a higher education qualification, the return to the individual is almost five times higher if the employer continues to pay wages whilst the individual studies rather than if the study is paid for. For secondary level qualifications, a person would have a negligible gain unless the employer continued to fund their wages whilst they were studying. A similar scenario was conducted assuming that an individual gained recognition of prior learning for half of their degree. The result of this was that individuals doubled their rate of return, as they were not foregoing income for as long.<sup>47</sup>

It is difficult to attract low-skilled, mature age workers to training, given their likely literacy and numeracy problems. Whilst these workers may gain from training by staying employed, returns from training in terms of noticeable financial incentives are minimal, so there is little incentive for these workers to invest.<sup>48</sup> These workers face dual barriers – both individual obstacles as workers with barriers to learning are reluctant to train, and employer barriers as employers often fail to train older workers fearing the workers will leave the workforce, thus their return on investment will be lower.<sup>49</sup>

This analysis provides a useful insight for examining the European initiatives, as it highlights that the solution to the skills deficit of older workers is not simply related to lowering direct tuition costs. A co-financing mechanism, whereby employers, individuals and governments all contribute based on their individual rates of return, may help increase the level of investment and ensure equity in the distribution of training.

### *Lifelong learning and transitional labour market theory*

The planned provision of lifelong learning can be viewed as part of a transitional labour market system, whereby the governments support people to transition from precarious employment to permanent employment, from low skill to high skill industries and from full time work to a combination of work and training. Schmid and Schomann argue that by embracing a risk management approach that combines flexible working hours and training, employment could increase to the level of full employment.<sup>50</sup> Education can act as protection against social exclusion – initial education differences can only be overcome through active future measure to redress disadvantage.

Schmid and Schomann highlight the need for early intervention, drawing on an East German study that found that education is most valuable when provided whilst people are still in employment – even if they lose their jobs shortly thereafter.<sup>51</sup> They argue that this model of provision is cost-effective, even if Government has to identify future skill needs, as it reduces the number of people on unemployment benefits and the associated social costs. They argue that government intervention is needed to equalise access to training. This is reinforced by Ziguras et.al who argue that we need a new approach that encourages an active labour market by using skill development to make workers more adaptable and employable. 'Rather than protection by preventing change, risk management needs to emphasise adaptability, support and protection whilst responding to change.'<sup>52</sup> There are a variety of transitions that could be supported, including transitions from part time or temporary employment to full time, transitions from one job to another and transitions from full time work to a combination of work and study. Schmid and Schomann argue that aspects of modern policy interventions, such as flexible working hours to accommodate studies and co-financing arrangements, conform to the transitional labour market model.<sup>53</sup>

### *The European Employment Strategy*

The remainder of this paper looks to Europe to provide insight into training interventions that broadly fit in to the transitional labour market model. Europe has been chosen, because under the European Employment Strategy (EES), European Union (EU) countries have agreed to common goals for employment, and a common reporting platform.

The Luxembourg Jobs Summit in 1997 launched the EES, with the initial ambition of achieving in the fields of long term and youth unemployment.<sup>54</sup> Subsequent meetings of the employment council added to these goals. The Lisbon European Employment Council set a goal for Europe to become the most competitive and dynamic knowledge based economy in the world capable of sustainable economic growth, with more and better jobs and greater social cohesion. Employment targets for older workers were set at the Barcelona and Stockholm meetings. Employment targets of key relevance to older workers include:

- an employment rate of 50 percent for older workers (55-64) in 2010,
- an average increase by five years, at the European Union level, of the effective average exit age from the labour market, and
- the European Union average level of participation in lifelong learning should be at least 12.5 percent of the adult working age population.<sup>55</sup>

National policies under the EES are subject to the Open Method of Co-ordination. This includes an element of peer review, and is centred on sharing innovations, policies and learning, to enable other countries to learn.<sup>56</sup> This process provides a wealth of information, as countries produce National Action Plans, which report on their policies and programs aimed at achieving the employment targets. The European Council and Commission review these policies, and respond in a joint report providing employment guidelines broadly to all countries. Each year the council also adopts a number of country specific recommendations.<sup>57</sup> Progress towards the employment goals is monitored in both a qualitative and quantitative manner.

The five-year review of the EES highlights progress made towards achieving the employment goals, and more broadly the impact the open method of co-ordination is having on policy making across the European Union. The five year report revealed that employment had grown by 6.5 percent across the EU, and unemployment fallen by 25 percent. These rates cannot be directly attributed to the EES – however there was both a growth in employment and in labour productivity.<sup>58</sup> This is significant as in previous periods of high productivity unemployment has increased – similar to Australia's jobless growth in the early 1990's. The five year review highlights that all member states now accept the need for lifelong learning. Interestingly, the EES has moved away from being purely focused on employment to focusing on the entire life cycle, ranging from school to work transitions to enhancing the capacity of low-skilled workers to enable them to stay connected to the labour market. The five year review acknowledges that work on preventing people becoming unemployed is occurring, but that it needs a greater focus. The review also raises issues about the future of the strategy, including highlighting a key role in increasing human capital and managing transitions.<sup>59</sup>

### *European Transitional Labour Markets in Practice*

As was highlighted above, the EES has encouraged countries to increasingly focus on providing services to people throughout their life course, rather than addressing employability as a short term issue. A variety of initiatives are being piloted or implemented that fit within the transitional labour market framework. Throughout Europe initiatives are being tested, from credit matrices and training leave in France to training vouchers in Belgium.

Due to time and space requirements, this paper will only examine initiatives in three countries – Sweden and the United Kingdom and the Netherlands. Sweden has been

chosen because it has a raft of initiatives and is a leading nation in terms of productivity, employment levels, and engagement of older workers. The United Kingdom has been chosen as it has a number of significant initiatives, and Australian politics tends to lend from British examples. The Netherlands has been selected as they have a low, but steadily improving, participation rate of older workers and have implemented a variety of initiatives aimed at retaining their older workforce. Netherlands has similar employment and training levels to Australia. The impact of policies in Netherlands to create a training culture could be transferable to the Australian context.

The graph below highlights the level of training participation and the employment rates in Sweden, the Netherlands, Great Britain and Australia. Countries with higher training rates tend to have higher employment rates. However, there are exceptions to this rule such as the United States, whereby low labour costs rather than productivity through training drives the employment rate.



Source:

2004 OECD employment outlook

The second graph shows the employment rate of older workers (55-64) and average exit ages of older workers. Interestingly, the average exit ages are all well above the EU average of 60. However, the employment rates of older workers varies markedly, with the Netherlands' employment rate of 42 percent (similar to Australia's rate of 45 percent) falling below the EU goal of 50 percent by 2010. All three countries have been increasing the employment rate of older workers, with the Netherlands increasing the most, by over 8 percent, due to their low starting base.



Source: Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Regions 3.3.2004 *Increasing the employment of older workers and delaying the exit from the labour market.*

Training policies in Europe will be examined to determine what types of interventions may be helping to increase the employment and delay the retirement of older workers.

### *Training policies in Sweden*

Sweden is the home of innovative training policies – both government and privately financed. Most accredited vocational education and training and higher education is fully government funded. Given the absence of tuition fees, training policies are largely aimed at supporting the opportunity costs of studying.

### Skandia

One of the most exciting and innovative initiatives is run through Skandia, a private insurance company. This initiative, called a competence account, originally involved Skandia matching its employees contributions to a learning account on a one for one basis, and three for one basis for low-skilled employees (employees with nine years of education or less) those 45 or older and those who had been with Skandia for 15 years or more. Both employers and employees have a vested interest in the account, so training needs are decided jointly through the employee's personal development plan which is focused on the employee gaining a new position, or improving productivity in their current role. Money in the account is saved until there is enough for 12 months study at full wage rates. Common courses include languages, law, economics and marketing.

It was originally argued by trade unions that low-skilled workers would not have the disposable income to set aside. However, after three years the results were surprising:

- 43 percent of people with less than upper secondary education had established accounts,

- 20 percent of those with upper secondary education had established accounts, and
- 48 percent of those with tertiary education had established accounts.<sup>60</sup>

These results clearly show that low-skilled workers are willing to invest in their education, provided they are given the right incentives. Importantly, the scheme was employer sponsored, which may have lessened the issue of time as a key barrier to study. Skandia has now rolled out this scheme as an insurance product. Around 6000 people now access accounts through around 120 employment agreements.

### Adult Education Initiative

Another initiative, the Adult Education Initiative, directly addresses issues around the costs of training. This initiative provides grants, equal to the level of unemployment benefits, to 25-55 year olds to complete upper secondary education as part of a strategy to rapidly raise adult qualifications. The initiative was initially aimed at 100,000 participants annually, with around 800,000 adults (around one fifth of the Swedish population) being trained in the period from 1997-2002.<sup>61</sup> Although the scheme was largely focused on unemployed adults, employed individuals were also eligible.

### Adult Education Recruitment Grant

From 2003, the Adult Education Recruitment Grant has been available to co-finance the education of 25-50 year olds with little previous education. Courses are available at basic and upper secondary levels. The recruitment grant covers a student's living costs, as well as study related expenses. Students with higher earnings prior to commencing studies receive a higher grant.<sup>62</sup> Students ineligible for the grant may receive a student loan to fund their living costs.

This scheme was established as an alternative to individual learning accounts which, despite two years of debate, were finally withdrawn from the policy debate in 2004. However, support has been garnered for the introduction of an individual learning account scheme in 2006.

## *Training policies in the United Kingdom*

### Individual Learning Accounts

The English Individual Learning Account Initiative began in September 2000. Individuals contributed 25 pounds to establish an account, which was matched by a government contribution of 150 pounds. The government compensated providers to offer 80 percent discounts for maths and information technology courses, and 20 percent off all other courses. The English Learning Account Program had modest returns, 16 percent of students had no formal learning whilst 22 percent had not participated in formal learning in the preceding 12 months.<sup>63</sup> There were over 2.5 million account holders. The program was disbanded in November 2001 because of reports of robbing, with providers collecting funds whilst not delivering training.

The individual learning account system is operating in Wales. It has a variety of regulations and safeguards – including that applicants must have their course approved, and their prior level of study must not be higher than a certificate II. This program provides a variable amount of funding for a course – up to 300 Euros, depending on whether the applicant is unemployed, on a working credit or a low-skilled wage earner. The program was initially heavily subscribed, with 50,000 accounts being established.<sup>64</sup>

#### Career Development Loans

Similar to the Australian HECS system, career development loans provide an interest free loan for the period of the course. Around 18,000 people per annum take out these loans, for an amount between 300 and 8000 pounds, which may also cover the cost of living. Median income for loan recipients increased by around 100 pounds per week following their course of study.<sup>65</sup>

#### Skills Strategy

In 2002, Employer Training Pilots were created in the United Kingdom. The pilots aimed to provide qualification at certificate II level for low-skilled employees, and included a combination of paid training leave and employer reimbursement for loss of staff, counselling and tuition. In the first year, over 3000 employers and 14,000 learners registered. An evaluation of the first year showed around 29 per cent of learners were aged over 45.<sup>66</sup> The training pilots were successful in engaging learners and employers who previously may have resisted formal training. The number of adults with a certificate II and above has risen by around 0.6 percent in a year, which may be partially attributable to this program.

As a result of the success of these pilots, from 2005 under the new *Skills Strategy*, all adults without a level II qualification will be entitled to free tuition to the certificate II level. In addition, adult learning grants of up to 30 pounds per week are being piloted to see if they encourage low-income people to engage in education. Another strategy, The Skills for Life Strategy, is likely to provide 750,000 adults with basic literacy and numeracy training by 2004.<sup>67</sup>

#### New Deal Demonstration Projects

The New Deal Demonstration Projects are not aimed at older workers – with a focus on 25 plus, lone parents and parents with working tax credits. However, it is likely that some older people will participate. The projects involve a controlled experiment – a control group will receive help and support from an advisor once they gain employment. Participants will be encouraged to enrol in training, including receiving a grant of up to 1000 pounds to pay for training, and will be financially rewarded, up to 1000 pounds, if they complete training. The aim of this program is to break the cycle of precarious work and unemployment, as people entering work from unemployment are three times more likely to lose their job. This program, to be

run through 8 sites with 27,000 people split between the control group and the pilot group, will be evaluated on 2006.<sup>68</sup>

### *Training policies in the Netherlands*

#### Individual Learning Accounts

Individual learning account schemes were piloted in the Netherlands from 2001-2003. This involved the government providing a subsidy of around 450 Euros per account, with the training organisation providing a subsidy of around 115,000 Euros per project. Around 120 companies participated in the program, contributing between 150 and 450 Euros per participant. Participants received training following counselling and completion of a personal development plan. There were two rounds, in March 2001 and October 2002. When it was found that the first round were not largely targeted on the unemployed, a second round were deliberately targeted on this cohort. The pilots were viewed to be generally effective, with around 86 percent of participants having an educational level no higher than secondary education.<sup>69</sup> Around 58 percent of the participants were aged over 38, highlighting the attractiveness of these pilots for older workers.<sup>70</sup>

#### Reintegration Programs for Workers Threatened With Unemployment

The Netherlands Government, in light of growing unemployment, decided in 2003 to extend its unemployment program to workers at risk of unemployment. As part of this, these workers will be eligible for training or re-training, to enable them to gain alternative employment. This pilot will be evaluated in 2005.

#### Recognition of Prior Learning

The Netherlands has established a centre with the task of developing recognition for prior learning (RPL) processes for non-traditional groups including low-skilled workers. This centre is aimed at giving credit and knowledge for experience gained in the workplace. RPL also forms part of training policies in a number of collective agreements. Given the OECD work, which highlights the importance of minimising time out of the workplace, policies that fast track older workers to attain qualifications may be successful in lessening impediments to study.<sup>71</sup>

### *Analysis of European training policies*

As was highlighted in the introduction to this paper, the paper highlights current work that is being undertaken to investigate whether European training policies could be applicable to the situation with Australian older workers. Many of the policies to be examined are only in their initial stages and formal evaluations are not yet available. However, it is possible to look at the structure and intentions of the policies, to determine if they are likely to address barriers to training.

All three countries have experimented with Individual Learning Accounts. Despite administrative hurdles that have seen these policies not progress, they appear to play a major role in addressing barriers to training including cost. They may also address

the key barrier to training, time, as they often involve employer contributions including paid study leave. Participants drawing on learning accounts were often older workers, and low-skilled workers were particularly well represented both in the Netherlands and in Skandia in Sweden. This may reflect the nature of the companies participating in these accounts – including the fact that workplaces with low-skilled workers are increasingly realising they need to improve their skill base to remain productive.

Other approaches piloted in both Sweden and the United Kingdom include governments funding both education and study leave to promote staff with low levels of education to gain basic skills and to ensure that employers support this strategy. Furthermore, under the New Deal, the government will provide training to move people from precarious to more stable employment. These approaches are aimed at skilling people whilst ensuring they maintain their labour market attachment.

The variety of approaches may form part of a transitional labour market model, whereby governments provide assistance to enable people to gain basic qualifications and to move from precarious to permanent employment, whilst partnerships between industry, individuals and government by way of learning accounts promote lifelong learning.

### *Could these models be applied in Australia?*

Can these policies be applied to Australia, or are policies from Nordic welfare states inapplicable in liberal democracies? Esping-Anderson answers this question, arguing that modern day regimes are increasingly borrowing from each other. For example, Britain's third way is about giving people training and education so they can compete in the marketplace. This is similar to what Nordic welfare states, with a strong emphasis on lifelong learning, have always done.<sup>72</sup> The discussion of training policies highlighted the coalescence of policies between regime types. Indeed, probably the most liberal training response is shown through the use of corporate funded individual learning accounts in Sweden. The adoption of social insurance models in Australia, such as workers compensation and compulsory superannuation, also shows how the divide between regimes is fading. However, some differences between regimes do still remain, in particular 'a preoccupation with welfare dependency rather than a sense of the positive role that income security may play.'<sup>73</sup> For example, it is doubtful that the Finnish scheme of work rotation, whereby the Government allows a worker to swap their job with an unemployed person for a year, would be acceptable. Nonetheless, the muddling of regime politics means that many policies would be applicable, even if modifications were necessary to make them politically feasible.

The three options below suggest that future investments in training must be shared between the Government, individuals and industry depending on levels of

disadvantage and relative returns on investment. A variety of models are needed to tailor programs to unskilled workers and low-skilled workers, and to increase the uptake of training generally. The proposals below are not particularly targeted at older workers but, by removing barriers to training, they would facilitate older workers to participate in skill development. They represent early thinking around future training models.

### Individual Learning Accounts

Individual Learning Accounts are a key example of a policy that could be readily adopted in Australia. This policy could be adopted at an individual company or industry level, or across a jurisdiction.

*Why would employers invest?*

Employers could be compelled to invest for a number of reasons. It could be legislated, or form part of certified agreements. For example, study leave could be mandated. Employers could invest to attract the best staff in a climate of skills shortages, or as a retention strategy to ensure they keep their existing workforce. Many large employers are currently investigating ways to train their staff – learning accounts could provide a solution that enables both employers and staff to contribute and plan training requirements.

*How would it run?*

The accounts could be run on an industry-wide basis through a scheme similar to Incolink – the building industry's portable redundancy and entitlements fund. Employers could provide funding to an individual's account on a regular basis, which could be used to purchase training and/or to fund paid study leave. Individuals could also contribute to the account. As a first step, the public service, as an exemplar of best practice, could implement individual learning accounts targeted at older workers. This could produce key learnings, and highlight its applicability across all fields.

*How would it be financed?*

This learning account may not cost more than individual's normal personal development plans. It would be possible to have matched funding from the employee, and potentially from the government if the training was in skill shortages areas or other areas of economic priority.

### Entitlement to Year 12 or Equivalent

The link between education and employment is proven. Given that education provided once a person becomes unemployed is less effective, funds currently reserved under the Commonwealth Job Network jobseeker and training accounts could be diverted to provide training to low-skilled existing workers, including funding paid study leave.

*How would it run?*

A controlled study could be conducted to determine if this could, as was found in Germany, be a cost-effective way of minimising unemployment. A group of low-skilled workers could receive employment counselling and be offered the chance to undertake a qualification, potentially in areas of skill shortage. The worker would be

assisted to receive recognition of prior learning for their existing skills, and receive paid study leave to study part time to achieve the qualification. This is important, as workers retaining their labour market attachment gain the most from training.

*How would it be financed?*

This pilot could be financed through Job Network unspent training funds. The results could be monitored to determine if the workers increased their labour market attachment, and if they gained monetarily from the training. It could be evaluated to determine if this type of preventative approach is successful.

*Is it politically feasible?*

A key question, not dealt with in this paper, is who is actually responsible for vocational education and training? State and Commonwealth Governments currently share the funding of VET, but this proposal and paper suggests that training can impact positively on unemployment. Thus, it is contended that the Federal Government should play a larger role in financing training, particularly for unskilled workers as they are most likely to face unemployment.

### Learning Grants for Vocational Education and Training

The final area where these policies could be readily adapted to Australia is through a learning grant. This could take the form of paid study leave – the costs of which, alongside course costs, could be deferred.

Currently in Australia, the Higher Education Contribution Scheme enables students to defer the cost of higher education study until their income reaches a certain threshold. Several reviews of HECS have now been conducted, and have found little negative effect on deterring students from disadvantaged backgrounds.<sup>74</sup>

The notion of HECS in TAFE has been often dismissed, as TAFE students may not reap the private rewards that higher education students do. This argument appears to assume that any deferred fee arrangement would see TAFE fees rise to university fee levels. The issue of deferred fees needs to be debated separately to issues of whether fees should rise. Another argument against loans in TAFE is that TAFE students are far less likely to complete full qualifications, thus a scheme could be costly to run as TAFE fees are often marginal.

There is a strong need to examine financing of future vocational education and training. Growing demands on the training system cannot be met without additional revenue, and upfront TAFE fees are prohibitive to low-income students. Any discussion of deferred fees should examine the possibility of deferring materials and amenities fees in addition to tuition fees, and the inclusion of study leave grants.

*What is proposed?*

Implementing a deferred payment scheme for vocational education and training. Under this scheme, students could defer all costs of study, including materials and amenities fees. Students could apply for an additional grant as paid study leave.

### *What would it achieve?*

The program would enable older workers to leave the workforce part time or full time to study, and to re-pay the costs of study over a longer period of time. It would lessen both barriers of time and cost, as students would repay their debt as they reaped the rewards of their study. The proposal could work with the learning accounts to fund any additional costs of study.

### *Could it be politically feasible?*

This policy could be politically feasible, particularly if students were funded for a basic first qualification to Year 12 or equivalent. Further training above this level is likely to have economic rewards, hence it is reasonable to expect students to make a contribution to the cost of study.

The scheme could help encourage older workers to study, by ensuring they have sufficient paid time whilst keeping their labour market attachment. However, the scheme would need to be introduced with a clear understanding that it was aimed at expanding training provision, rather than merely increasing the level of student contributions.

### *Issues for future investigation*

The policies in Sweden, the United Kingdom and the Netherlands need to be carefully evaluated to determine if they have an impact on re-skilling older workers, and thus increasing older workers' labour market attachment. Future work will involve further research in to these policies, with the aim of being able to provide a more comprehensive rationale for the application of these policies to Australia. This work will include an examination of the types of training provided and relative outcomes. Further work will also be conducted to model the likely effects on Australia, including possible costs and benefits, and looking more closely at issues of who should fund this additional investment.

Vocational education and training has a clear role in improving the labour market attachment of older workers. Further time and research is needed to determine whether recent European policies have been successful in engaging, retraining and retaining older workers.

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