

A NOVEL WAY TO IMPROVE THE LABOUR MARKET ATTACHMENT OF OLDER AUSTRALIAN WORKERS

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Abstract

This paper investigates a novel way of improving the labour market attachment of older Australian workers. The paper employs a transitional labour market approach to investigate the best method governments may use to support people to actively engage in skill development. The paper looks to the U.K. Sweden and the U.S to examine individual learning accounts in addressing skill gaps and supporting older workers to acquire new skills. The paper argues that additional funding for training needs to come from industry, individuals and government. The paper proposes that a learning account pilot be run in the Victorian public service to establish learning accounts as a best practice model.

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INTRODUCTION

Three key factors will affect Australia's future economic prosperity: the three 'ps' – population, participation and productivity (Commonwealth Government 2004). Education and training play a key role in addressing the latter two. In this paper we propose a novel model to finance training to ensure that increased resources are available to meet Australia's future skills needs within the context of an ageing population¹. We maintain that labour force participation rates are linked to skill levels and that adult and life-long learning are the keys to enable the existing workforce to meet emerging skill requirements. Moreover given the rapid pace of change, flexibility is required to correct skill mismatches through training and re-training. Our first task is to draw on data demonstrating the low skills base of older workers along with the low levels of training that older workers undertake to argue that this cohort need to receive additional training to ensure that they have sufficient skills to meet future workforce demands. A second and related task is to explore training from a transitional labour market approach to argue that additional funding for training needs to come from industry, individuals and government via a learning account². Finally, we explore learning account schemes in the U.S., the U.K., and Sweden to determine similarities with our proposed model and draw out possible benefits and pitfalls.

THE DILEMMA OF AGEING

It is common knowledge that changing demographics have resulted in ageing populations in many OECD countries including Australia. There is a vast research literature on the dilemma caused by ageing populations. It is beyond the scope of this paper to analyse the extant research but put simply, population ageing is viewed by policy actors as a crisis that threatens future economic stability (Krenn & Oehlke 2001; Cooke 2003; Wagner 2003; Chappell, Hawke, Rhodes & Solomon 2004). Retaining older workers is regarded as crucial for the sustainability of social security systems and to some extent, to compensate for tight labour markets (Jepsen & Hutsebaut 2003). On a global scale, approaches are aimed principally at changing retirement policies to encourage older workers to remain working (Taylor 2002; Cooke 2003; Chappell *et al* 2004). Other strategies include training and incentive programs, the education of employers, and the elimination of age discrimination. In a key push, organisations throughout the European Union [EU] for example, have reconsidered personnel policies and training concepts by equipping older workers with skills needed and the knowledge on how to renew them (Eironline 2000).³

THE AUSTRALIAN CONTEXT

Australian birth rates are falling short of 'replacement' rates, and there is a continuous rise in life expectancy. The average life expectancy of Australians has increased to 77 years for men and 83 years for women, up from 55 years for men and 59 years for women a century ago and is likely to continue rising. By 2051 over 24 per cent of Australians will be older than 65 years (ABS 2005). Furthermore, demographers predict that the number of Australian centenarians will reach 38,000 by 2051. Such long term demographic changes, especially falling birth rates, indicates that there will be fewer younger people entering the labour market. The Australian labour force will contract

¹ For the purpose of this paper, older workers are individuals aged 45 years and above (ABS 2004).

² A learning account is an individual savings account dedicated to training, with matched funding available from employers and/or the government. The aim of a learning account is to ensure that individuals can undertake structured training to improve their skills, employability and productivity.

³ The March 2004 policy communiqué from the European Commission, set a target of an average labour market participation rate of 50 per cent by 2010 for EU workers aged between 55 and 64 years, and to increase the average exit age from the labour market by five years by 2010 (Eironline 2004).

over the next thirty years and workforce participation will be essential to maintain future productivity and economic growth. This realisation has led policy actors across the political spectrum to look at the older cohort to see how their contribution as a potential labour force can be enhanced and extended. In brief, interwoven complex policy changes and initiatives such as the expansion of education and training opportunities and improved participation by cohorts with low employment levels will be vital (see Hanley & McKeown 2005).

It seems that Australia is in an ironic, Catch 22 situation: we have the beginnings of skill shortages, yet a significant number of people want to work more hours than they currently do. There is a mismatch between the types of skills these marginalised workers possess, and the skill needs of emerging industries. The pace of technological change means that old occupations are disappearing and new occupations are emerging that require people with new skills, and people who are able to adapt and respond to an innovation economy (O'Connell 2005b).

Labour force participation rates have changed significantly over the past forty years: male employment rates have fallen from 88 to 72 per cent while female employment rates have risen from 40 to 55 per cent from 1966 to 2003. These changes are partly attributable to the decline in blue-collar jobs: these jobs accounted for two-thirds of total male employment in 1971 but less than half three decades on. Part-time employment has increased in the last two decades from 15 per cent in 1978 to 29 per cent in 2004 (Keating 2004). These figures suggest that a significant proportion of the Australian labour market is under-utilised. It is well known that low-skilled workers are most often denied employment opportunities. Further, given their low levels of training, low-skilled workers 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 (Gaillie 2002).

The Role that Qualifications Play in Employability

The following table displays employment rates in Australia by highest qualification level and demonstrates clearly the role that qualifications play in increasing employability.

Table 1 about here

One interesting observation to be made is that vocational qualifications can have comparable outcomes to university level qualifications. For example, certificates III and IV have similar outcomes as a bachelor degree. This trend may continue in light of growing demand for labour in traditional trades and other areas best serviced by vocational education and training. However as Table 2 reveals, older workers are the least likely to possess post-school qualifications, and indeed to have finished secondary school: nearly half 55-64 years left school before completing year 12, whilst over half of 45-54 year olds cite Year 12 as their highest qualification. And as will be discussed shortly, low skilled workers are least likely to receive training under the current training model.

Table 2 about here

Table 2 indicates that skill levels have increased over time, with over half of people aged 25-34 years possessing post school qualifications, compared with forty per cent of 55-64 year olds. This highlights some challenges for policy actors in bridging the skills gaps those who have not completed Year 12, and may have finished formal training long ago. Low skill levels are a problem: low skilled workers are less able to adapt to changing economic circumstances, are more likely to be made redundant or acquire a disability. In Victoria for example, only 55 percent of 45 to

54 year olds hold a non-school qualification and 44 percent of 55-64 year olds have a non-school qualification (ABS 2004). O'Connell's research (2005a) reveals a strong relationship between the educational attainment of older workers and their employment rate: 67 per cent of 55-64 year old Australians with low educational attainment are unemployed. This presents a significant barrier for this cohort as educational qualifications are often closely related to earning capacity and job stability: those with lower qualifications (and thus lower earnings) have a greater propensity to 'retire' earlier (Auer & Fortuny 2003). Furthermore, rapid rises in secondary school retention rates in the 1980s and 1990s have now worked through the labour market, disadvantaging older workers vis a vis better qualified younger workers (Chappell *et al* 2004). And, as the Education and Training Experience Survey (ABS 2001) shows, employees with the highest level of educational attainment also have the highest level of ongoing training.

DIFFICULTIES FACED BY OLDER AUSTRALIAN WORKERS: AN OVERVIEW

The older cohort faces considerable difficulties in the labour market. These can be distilled into several explanations: consistent disadvantage in the recruitment/retention cycle; limited access to promotional opportunities; over representation in 'old economy' occupations; outdated skills; perceptions that they don't 'fit' with the culture of modern fast paced business environments; and stereotypical biases such as being unwilling to take on new challenges (see Hanley & McKeown 2005). Other barriers that are particularly relevant are low levels of education and no tradition of undertaking extra training (National Economic and Social Forum 2003). Moreover, it seems that many older workers have doubts about the return on investing their time and effort in training: financial constraints are one of the main reasons that more older people had not embarked on study (Kerr, Carson & Goddard 2003; Murphy 2005), particularly as 'user pays' principles are systematically implemented in vocational training/higher education courses.

Maintaining older people in the labour force is essential to productivity and economic growth as our workforce ages and the number of new labour force entrants contracts. It is estimated that by 2016, nearly 60 per cent of the Australian labour force will be aged 45 years or older (Rolland 2004). Leading economists such as Michael Keating and Ken Henry agree that a key to Australia's economic future is engaging underemployed and unemployed people. To alleviate future economic pressures, Australia needs to improve productivity and retraining older workers will be essential to address future skills shortages which may be exacerbated by the older cohort's demand for services such as health care (Commonwealth Government 2004; Henry 2004).

SKILLING THE WORKFORCE: AUSTRALIAN GOVERNMENT APPROACHES

Current Government approaches to skilling the workforce are fragmented and sporadic, as responsibility for skilling is diffused. Funding for education and training is split between State and Territory Governments and the Commonwealth government. The Commonwealth Government provides around 30 per cent of the government funding for education, with State, Territory and Local Governments providing the remaining two thirds of Government funding. In 2004, total Government funding for vocational education and training was around \$5 billion, of which around \$1.1 billion was Commonwealth funding (O'Connell 2005b).

A clearer demarcation of responsibilities is needed to ensure government is responsible and accountable for education outcomes. This can be more easily achieved by clearly apportioning responsibility for financing aspects of financing training to the appropriate body. Under the market model, highly skilled workers tend to receive the bulk share of employer funded training: around 7 per cent of low-skilled workers receive training in contrast to more than 25 per cent of high-skilled workers. In a 2001 survey of education it was found that only 3.5 per cent of people aged 45-64 years participated in education or training in the previous twelve months (Rolland 2004). Older workers are less likely to finance their own training, as training does not have a large effect on

wage levels of older workers. Employers may be less likely to train older workers, as they believe their employee's age will diminish the return on their investment.

CAN TRANSITIONAL LABOUR MARKET THEORY HELP DEVELOP A DIFFERENT PARADIGM?

Transitional labour market theory provides a framework to support people to combine vocational and non-vocational activities, including training. Transitional labour markets have four key elements:

- organisational – allowing people to combine employment with other activities such as caring or education;
- income – a system of wages and transfer payments, paid sabbatical leave that is spread across several work years is an example of this;
- social policy – contracted entitlements to transitional employments, such as government support to gain an entry level position, or to transition between jobs; and
- fiscal – finance employment instead of unemployment, looking at risk management approach that supports people to keep employment, rather than solely focusing on welfare (Schmid 1998).

Transitional labour markets are about encouraging and supporting people to transition between part and full-time work, study, caring and other responsibilities or interests. They acknowledge that the male-breadwinner model of society is no longer relevant. Both men and women seek to enter and leave the workforce, and combine working with other activities such as caring and studying. However, people undertaking part-time or casual work often find themselves on the margins of the labour market. Transitional labour markets are about securing and maintaining people's standard of living and employability, by sharing the cost of transitions. Transitional labour markets are focused on preventing the labour market exclusion of workers, which will be particularly beneficial to low skilled workers who are far more likely to be unemployed or underemployed (O'Connell 2005b).

Some argue that the best approach to skilling is early intervention (Schmid & Schomann 2003). In a case study concerning an East German enterprise, Schmid & Schomann 2003) highlight that training has the most successful outcomes when provided to people who are employed. This holds true even if these workers subsequently lose their jobs. This notion calls for a new response from governments: rather than providing retraining once a person becomes unemployed, it may be more cost effective to retrain people to prevent them becoming detached from the labour market. This idea accords with the notion of an active labour market model that manages the risk of low skills to make workers more employable. Aspects of modern policy interventions, such as flexible working hours to accommodate studies and co-financing arrangements, conform to the transitional labour market model (Schmid & Schomann 2003).

WHY SHOULD GOVERNMENTS FOCUS ON TRAINING?: SOME ISSUES

Governments need to focus on training in the context of an ageing workforce. Employers in Australia are already reporting difficulties in attracting skilled workers [white and blue-collar]. This situation will be exacerbated as the population ages and the labour force contracts. The option for employers to hire fully trained staff is likely to become less realistic, and employers will need to look at recruiting and training staff, or retraining their own workforce to fill vacancies. Given the changing nature of industry including the demand for more highly skilled workers, training will play a key role in ensuring people have the skills to enter or stay in the workforce (O'Connell 2005a).

Lack of Investment in Training

There is a lack of private investment in training; neither older workers nor their employers invest in training. Recent OECD work highlights that older workers may perceive that the financial benefits of training are minimal. Whilst training helps older workers to remain in employment, workers may not perceive this as an adequate return on investment as there is little return in terms of noticeable financial incentive (OECD2004a). Whilst publicly funded training is available at minimal cost, workers rate time as the key reason they do not participate in training, followed by direct course costs and finally family responsibilities (OECD2004b). Without employer support to undertake training, for example by providing paid study leave, older workers are unlikely to train. Older workers face dual barriers – both individual obstacles such as lower levels of literacy and numeracy, 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 (Snel & Cremer 1994).

Market failure appears to be a key reason why older workers are not receiving their share of training. Older workers lack information on, or incentives to, invest in training, and employers are less willing to invest in lower skilled workers, particularly if they are older. 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 (Council of the European Union 2002). Older workers are more likely than younger workers to have left school before Year 12, and far less likely to have higher level qualifications (Noonan 2004). 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.

The Role of Training in Improving Employability

There is a clear link between skills and employment rates. 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 (OECD2004c). Data shows that 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 (OECD2004c). Academics from the National Centre for Vocational Education and Research, Tom Karmel and Davina Woods, draw 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. Karmel and Woods (2004) show that qualifications acquired later in life have as good, and in some cases, better, pay-off as qualifications obtained at a younger age.

CURRENT ROLE OF AUSTRALIAN GOVERNMENTS

The Victorian Government funds employment and job creation programs through the Department for Victorian Communities, including the Youth Employment Scheme and Regional Migration Incentive Fund. However, the key focus of these programs is to engage young people or attract already skilled workers to regional Victoria. Other programs, such as the Community Regional Industry Skills Program funded by the Department of Innovation, Industry and Regional Development, are aimed at communities developing short term, small scale solutions to regional skill issues. Through the Department of Education and Training, the Victorian Government funds vocational education and training. Training levels for older workers in Australia are high compared with other OECD countries: around a quarter of all people in training are over 40 years (ANTA 2005). However, nearly half of the working age population is aged 40 or above. Furthermore, older workers are starting off a much lower base than other workers.

The Commonwealth Government funds a variety of programs aimed at keeping mature aged

people in workforce. This includes the *Mature Age Employment Strategy*, which was announced in the 2005-06 Budget. This strategy is aimed at encouraging employers to recruit and retain older workers. The strategy is a largely promotional exercise, with key seminars being held across the country to educate employers about the benefits of recruiting older workers.

Policy Context Opportunities for Victorian Government Intervention

The time is opportune for the Victorian government to intervene and ensure high quality training is targeted to older workers. Skills and training are gaining a greater focus at both Commonwealth and State levels. Both are seeking to address issues around the perceived shortage of skilled labour. Industry has expressed concern that given the strong economic climate and ageing population they can no longer easily recruit fully trained staff. The Victorian Government could use the current economic climate as an opportunity to work in partnership with industry to engage in workforce planning, including reskilling the existing workforce to meet emerging skill needs. The Department of Education and Training's *Inquiry in to VET* and the Department of Premier and Cabinet *Skill Statement*, are aimed at positioning the State Government as a national leader in addressing skilling issues.

Possible Policy Options to Address Skill Needs

In the EU, policy responses to address the need for increased investment in training have varied. These range from levies on employers or industries, largely through collective agreements, in countries including Germany, France and the Netherlands, to Government funded education in Denmark and Sweden, to loan schemes in Britain. Aside from resourcing initiatives, new initiatives are also aimed at making skills more transparent and recognising existing skills, and supporting people who re-enter the labour market to remain attached (O'Connell 2005b). These notions warrant attention as follows:

- **Levies** – The Victorian Government could compel businesses to devote a certain sum of money to staff development targeted at older employees. This would place the burden of training on to businesses.
- **Regulation** - Regulation is a key way of compelling industry to invest in training. Compulsory standards, such as licensing requirements, encourage training in a variety of industries. Regulation could be used to ensure all workers have up to date skills.
- **Promotion** - The Victorian Government could actively promote the benefits of training an older workforce. A key to the success of this campaign would be the capacity of the government to demonstrate the economic benefits of training.
- **Piloting Learning Accounts as Best Practice**
The Victorian Government could, for example, via the Public Service, pilot learning accounts for mature-age employees and promote this as a tool for managing professional development.⁴ An advantage of this scheme is that it may provide a portable model for industry to mirror. It may not be more expensive than current personal development programs, particularly if it is able to minimise attrition. However, this system could be administratively complex in its inception, and political criticism could arise if parallels are made with the failed British Learning Account System.

Any of these initiatives warrant consideration, nevertheless, any strategy would need to have strong industry support to be feasible in the long run. For this reason, we propose that *learning*

⁴ A learning account is an individual savings account dedicated to training, in which individual contributions are often matched by the employer and/or government.

accounts be explored as a way of capturing data about the benefits of training and devising a portable model for ensuring all workers receive their share of training. This option provides for an incremental roll-out of learning accounts, with findings from the pilots used to promote industry to adopt the model. The remainder of this paper considers the dimensions of the learning account system, followed by an assessment of the strategy. This assessment is based on a jurisdictional comparison with the United States, the United Kingdom and Sweden.⁵

DESIGNING A LEARNING ACCOUNT SYSTEM

The key issue associated with designing a new learning account system is to ensure it is effective, politically feasible, economically efficient and socially equitable. Political feasibility and economic efficiency are two important factors that need to be considered when designing any policy targeted at the public sector. The public generally regards the public service as well paid, and are unlikely to support any large injection of funding into the public service. It is vital that learning accounts provide sufficient funds to achieve educational outcomes, but have strict limits to guarantee the proper use of taxpayer funds. Publicity of the scheme needs to be carefully managed to ensure it achieves its goals. Learning accounts use a mechanism that enhances social effectiveness, as they are targeted at individual learners. This should ensure that training is not concentrated in relatively few, higher skilled older employees. As will be outlined in the jurisdictional analysis that follows, learning accounts have been successful internationally in engaging people who have not undertaken learning for an extensive period of time. In a broader sense, industry support will be crucial if the scheme is to be extended beyond the public service. Stakeholders remain open to the concept of individual learning accounts. Recent government inquiries (currently unpublished) have found that learning accounts are becoming an accepted mechanism for focusing training on particular cohorts, and for encouraging greater individual, and potentially industry, investment in training. Stakeholders want the government to invest more funds in training, but accept that this needs to be matched by private funding sources to ensure sufficient resourcing to meet high level future skill needs.

Key Dimensions of the learning account pilot

The aims of the learning account system are: to increase the level of training undertaken and skills attained by older [45+years] workers; to maintain workforce participation of older workers, and to act as a best practice model for private enterprise. In the following section we provide a jurisdictional comparison analyses of the proposed learning account. Specifically we look at similarities and differences to assess applicability to an Australian setting.

Table 3 about here

As the table highlights, the proposed Victorian model has elements of each jurisdiction. Like the U.S. model, it is targeted, although based on age (and occupation in the first instance) rather than on income. A key distinction between the two jurisdictions is the capacity of low income earners to save. Although \$2000 in matched funding was available in the U.S., most people managed to save only \$350 and access \$350 in matched funding. It is hoped that given higher wage levels in Australia, the level of saving would be higher. The U.S model is prescriptive in that it places people on savings plan. The proposed Victorian model is more open, with the hope of attracting more subscribers as they are not locked in to a savings plan. The key lesson from the U.K. example is how to prevent maladministration. The Victorian model differs from the U.K. model as training funding is matched on a dollar for dollar basis – rather than an individual receiving seven times their original investment. Hence, it is hoped the individual is more responsible for their

⁵ Sweden has been chosen as it is a leading nation in terms of productivity, employment levels, and engagement of older workers. The US & UK have been chosen as they has a number of significant initiatives, and Australian politics tends to lend from British examples.

choice of training (guided by an adviser) as they have a significant financial investment in the account. The Victorian model also restricts training to accredited training, to ensure that providers comply with the Australian Quality Framework standards. This should help minimise the likelihood of roting, although consideration could be given to developing a preferred provider list if identified as necessary in the interim review.

The Skandia model provides a guide for how to transfer the model to the corporate sector. The Skandia model was successful in engaging workers in training and helped to reduce attrition and increase productivity. Importantly, it was successful as it engaged lower skill employees who lacked Year 12 completion. This may be because it funded study leave as well as training, thus alleviating a key barrier to training – time. For this reason, the proposed Victorian system includes paid study leave. If these benefits can be mirrored in the Victorian Public Sector for example, the benefits of training and the learning account model could be promoted to industry. Although jurisdictional differences may mean that companies in Australia are less willing to invest in employee development, in a time of labour shortage, employers may need to invest in training to reduce attrition.

CONCLUSION

This paper highlights policy options to ensure older workers receive training to improve their labour market participation. The paper does not explore policies to coerce older workers to stay in the workforce, such as pension reform but argues for the development of individual learning accounts as an incremental policy step in ensuring the public service has access to a skilled workforce, and to provide a best practice model for industry to adopt. Further work could be conducted around the mechanism of the learning account scheme, including the types of training and delivery methods best suited to older workers. The jurisdictional analysis shows that learning accounts are a model worth pursuing as they have resulted in increases in training, particularly by low skilled employees.

The population is ageing and the labour force contracting, yet Australians are retiring earlier than ever before. Low skills are a key reason why older workers are forced out of the workforce early. Many older workers are made redundant, lack sufficient income to retire early but are unable to gain employment. A learning account model can provide the necessary government, industry and individual investment needed to fund to training to ensure older workers have the skills to work for longer.

Table 1: Levels of qualification

Qualification Level	Percentage employed
Postgraduate degree	87
Graduate diploma/certificate	86
Bachelor degree	84
Advanced diploma/diploma	80
Certificate III/IV	83
Certificate I/II	71
Completed Year 12	71

Source: ABS Survey of Education and Work 6227.0 2004

Table 2: Highest level of educational attainment by age

	25-34 yrs	35-44yrs	45-54yrs	55-64yrs	Average
Postgrad & Grad. Diploma	5.65%	6.9%	8.1%	5.6%	6.6%
Advanced Diploma/Bachelor	30.8%	24.7%	22.9%	17.8%	24.0%
Cert III/IV	17.9%	18.1%	17.4%	16.5%	17.5%
Cert I/II	0.7%	0.8%	1.1%	1.5%	1.0%
Year 12	22.7%	15.2%	13.5%	9.8%	15.3%
Year 11 or below	22.2%	34.2%	36.7%	48.7%	35.5%

Source: ABS Survey of Education and Work 6227.0 2004

Table 3

	United States	United Kingdom	Sweden	Australia
Funding/ Administration	Government run and funded	Government run and funded	Employer run and funded-Skandia	Government run/government as employer funded.
Access	Means tested	Open access	Access for all employees	Access for people aged 45+
Funding Level	Government contributes up to \$2000 in matched funding	Individuals contributed 25 pounds, matched by a government contribution of 150 pounds.	Matched contributions, (3:1) for older workers and low skilled	\$1500 matched funding available
Operation	Individuals are placed on a set savings plan Funds may be used to acquire assets or for education Approx. \$700 per year per account (\$350 matched)	Government compensated providers to offer discounts on maths and information technology courses Funds to be used for training of any type	Savings accumulate until enough for 12 months study on full wage, study agree between employer and employee	Training must be agreed by company to access study leave. Training must be accredited.
Outcomes	Around 20% of people used account to fund post-secondary education (only 2% to fund job training) (European Learning Account Partners Network 2004) Continuing on a state by state basis	Over 2.5 million people held accounts, including 16% with no formal learning (OECD2004b) Program disbanded in 2001 due to reports of mass rorting.	43% of people with less than upper secondary established accounts (OECD2004b) Reported benefits include reduced attrition and increased productivity Now rolled out as an insurance product	

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