



Retirement Policy by the Numbers

Older Americans in the Labor Force

As the Baby Boomers approach retirement age, older Americans' work decisions will have profound effects on the economy and the solvency of U.S. retirement systems. This chartbook provides snapshots of Urban Institute research that addresses five key questions about older Americans in the labor force:

- How are labor force participation rates changing for older Americans?
- What are potential consequences of an aging workforce?
- Why might people work longer?
- What difficulties confront older workers and the employers who hire them?
- What are the benefits of working longer?

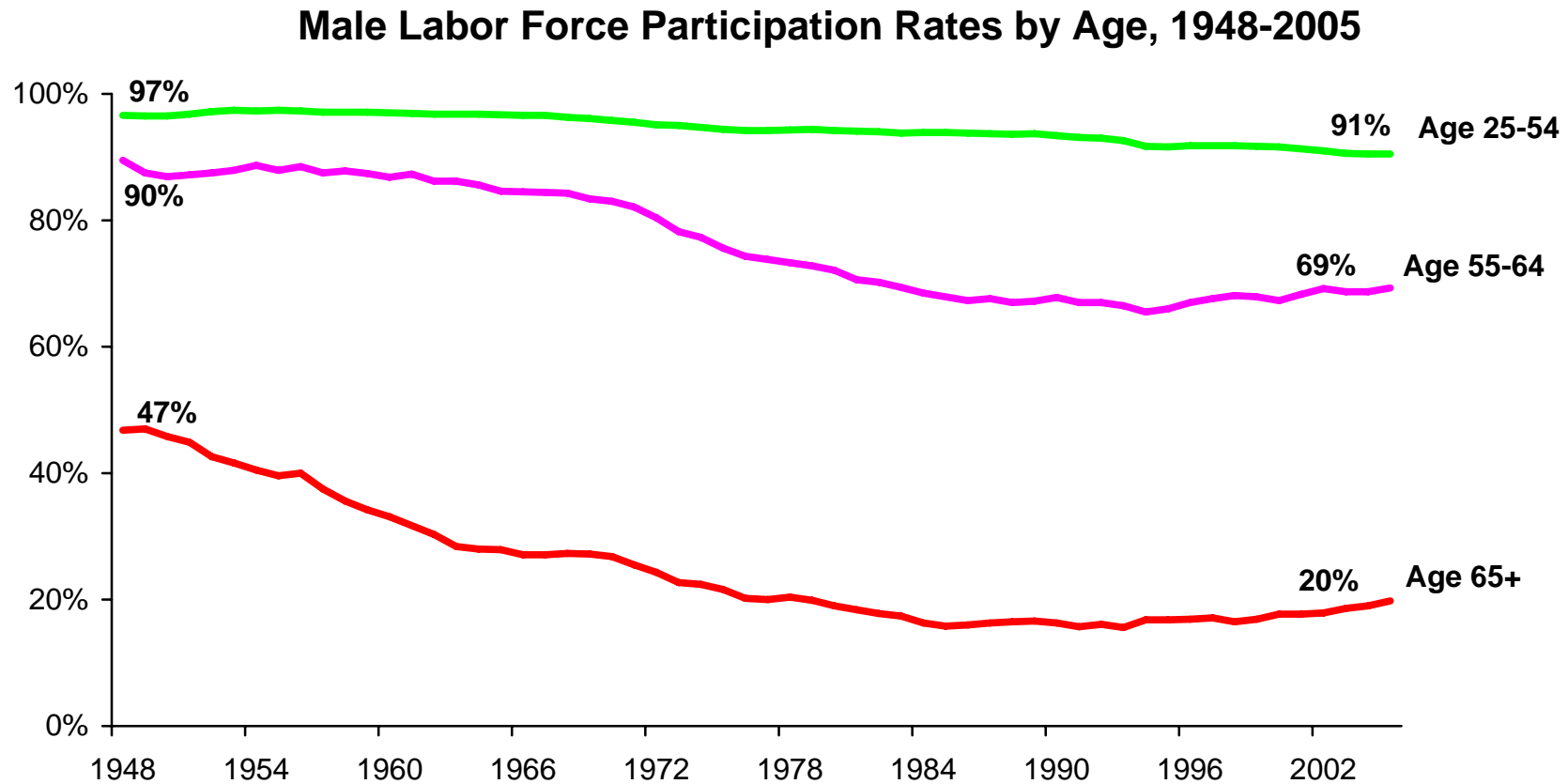
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How are labor force participation rates changing for older Americans?

Older men are less likely to work today than in previous generations. Between 1948 and 2005, the labor force participation of men over the age of 65 declined from 47% to 20%, although the current figure represents a slight increase from lows in the 1980s.

Figure 1



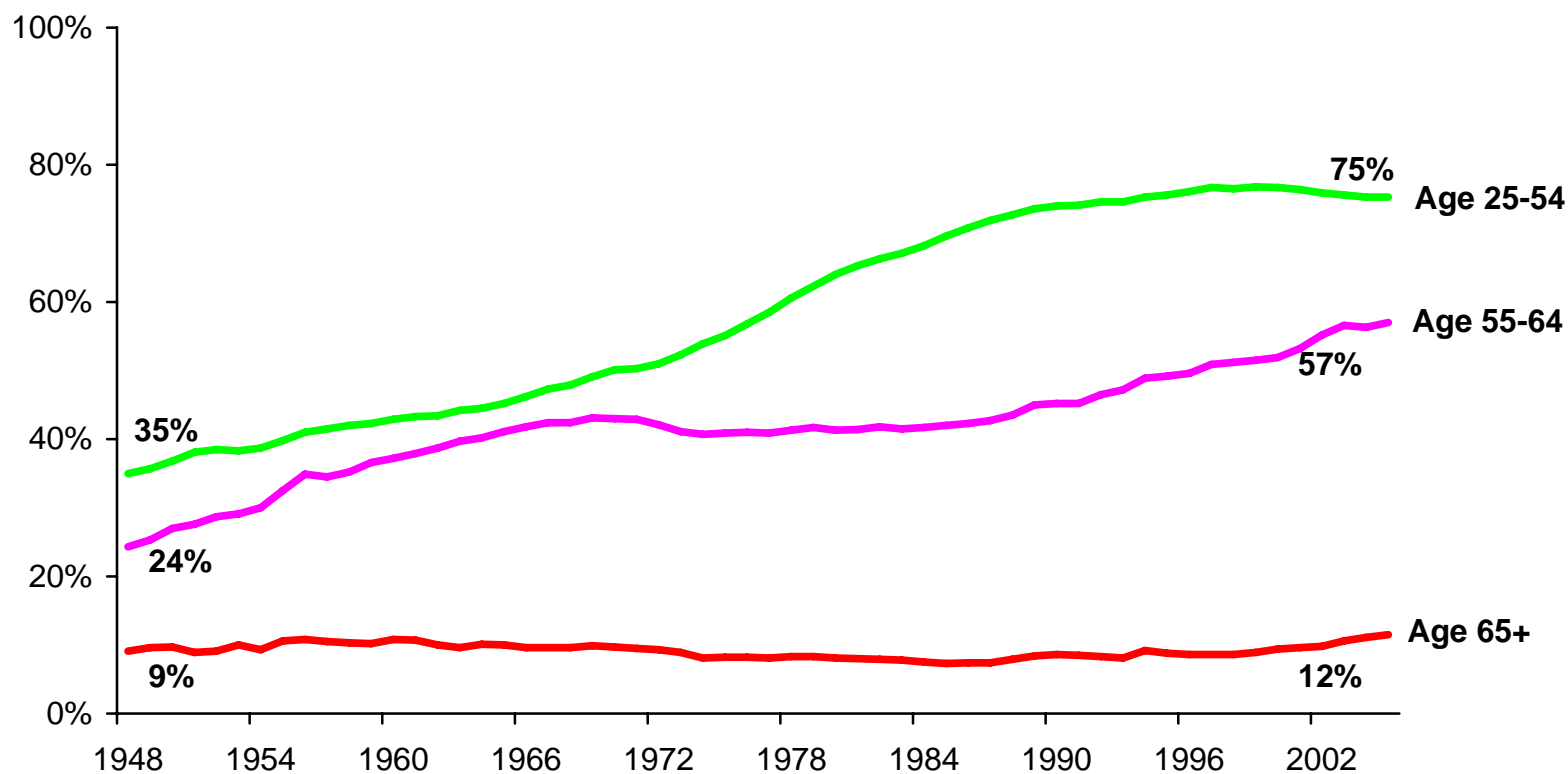
Source: Bureau of Labor Statistics. 2006. "Labor Force Statistics from the Current Population Survey." <http://data.bls.gov/PDQ/outside.jsp?survey=ln>.

How are labor force participation rates changing for older Americans?

Older women, on the other hand, are more likely to work today than in previous generations. As more women of all ages entered the labor force, participation rates for older women increased.

Figure 2

Female Labor Force Participation Rates by Age, 1948-2005



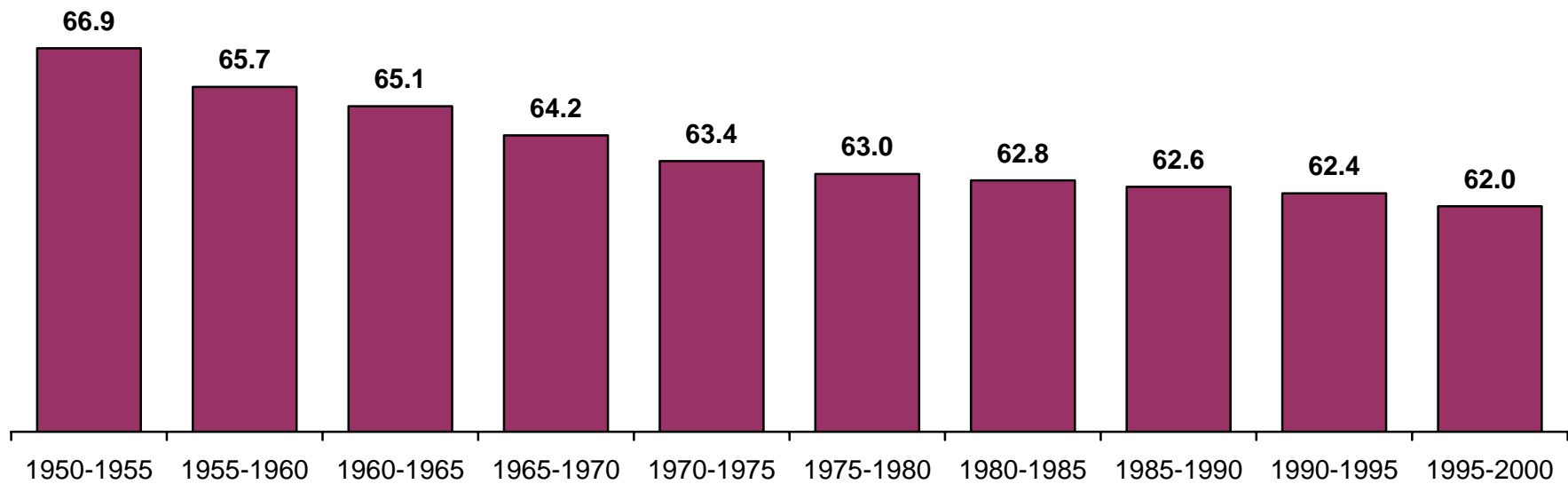
Source: Bureau of Labor Statistics. 2006. "Labor Force Statistics from the Current Population Survey." <http://data.bls.gov/PDQ/outside.jsp?survey=ln>.

How are labor force participation rates changing for older Americans?

People are retiring at younger ages. Between 1950 and 2000, the median age of exit from the labor force steadily decreased.

Figure 3

Median Age of Exit from Labor Force



Source: Gendell, Murray. 2001. "Retirement Age Declines Again in 1990s." *Monthly Labor Review* 124(10): 12-21.

How are labor force participation rates changing for older Americans?

People are spending more time in retirement as they live longer and retire earlier. Between 1950 and 2002, the number of years spent in retirement increased for both men and women.

Figure 4

Expected Years of Retirement, by Retirement Year & Gender



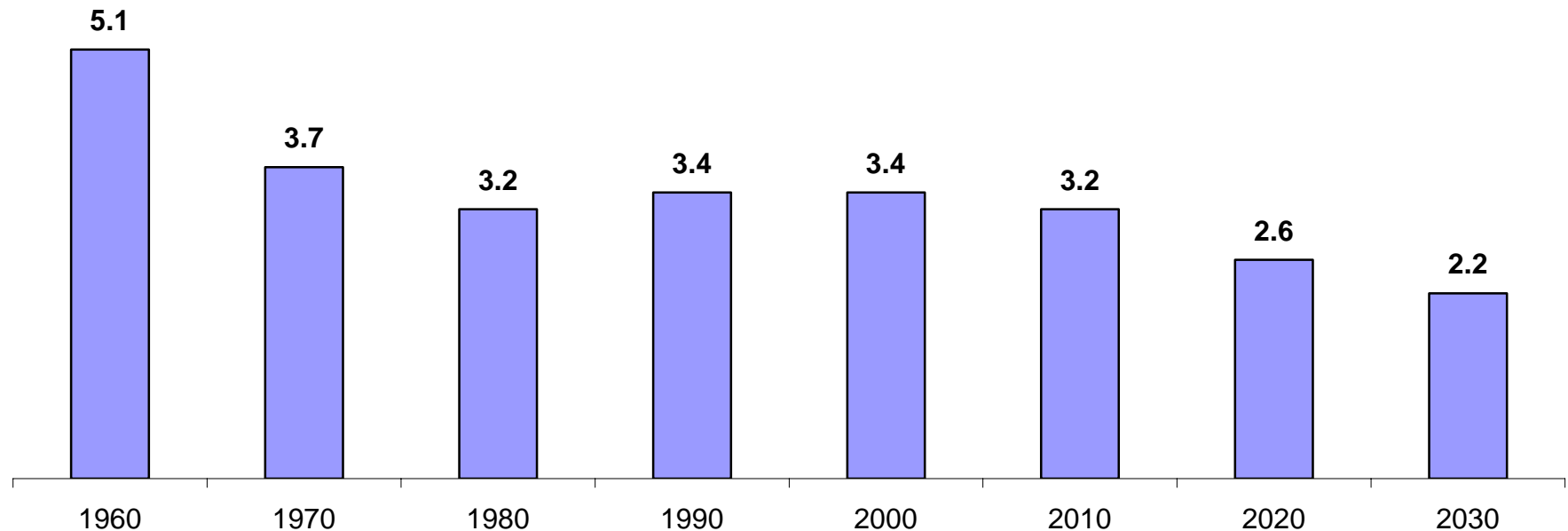
Source: Urban Institute calculations, from U.S. House of Representatives, Committee on Ways and Means. 2004. *2004 Green Book*. Washington, D.C.: U.S. Government Printing Office; and Social Security Trustees. 2006. *The 2006 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*. <http://www.ssa.gov/OACT/TR/TR06/tr06.pdf>.

What are the potential consequences of an aging workforce?

Demographic shifts may threaten the solvency of the Social Security system. Between 1960 and 2005, the number of workers per Social Security beneficiary fell from 5.1 to 3.3. By 2030, that ratio is projected to fall to 2.2.

Figure 5

Covered Workers per Social Security Beneficiary, 1960-2030



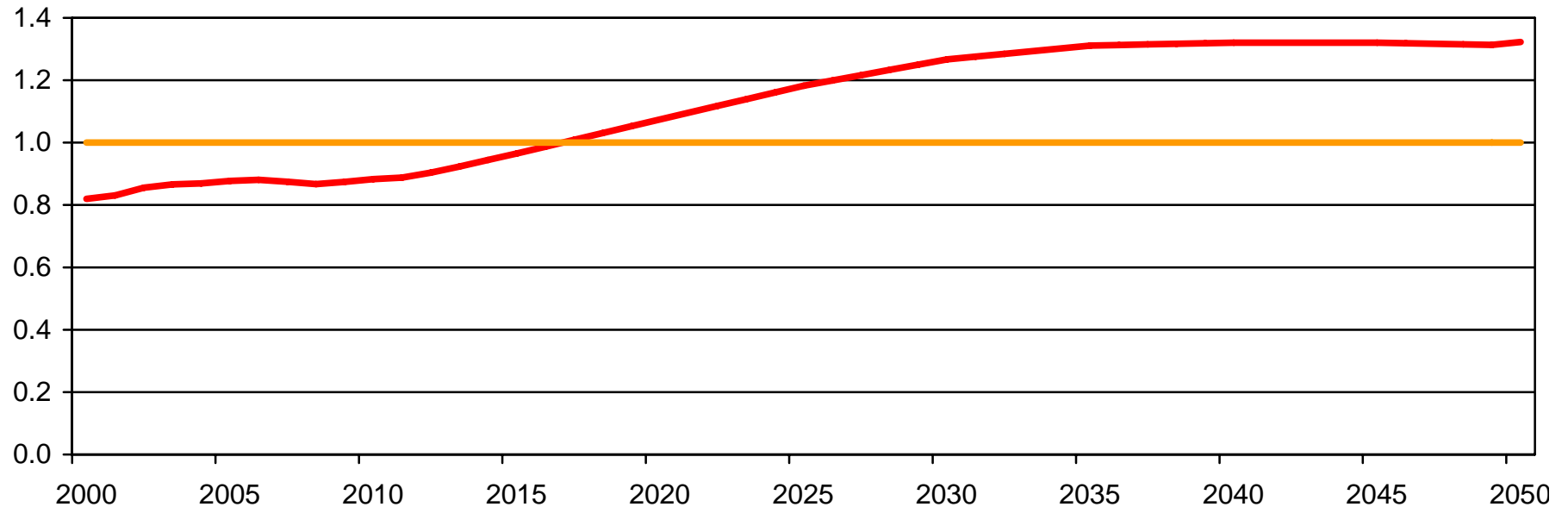
Source: Social Security Trustees. 2006. *The 2006 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*. <http://www.ssa.gov/OACT/TR/TR06/tr06.pdf>.

What are potential consequences of an aging workforce?

With fewer workers paying into Social Security for each beneficiary receiving payouts, the financial balance of the program is at risk. In 2017, Social Security is scheduled to begin paying more in benefits than it collects in taxes, although the trustees project that accumulated surpluses will enable Social Security to continue paying full benefits until 2040.

Figure 6

Social Security Cost-to-Income Ratio Under Current Law, 2000-2050



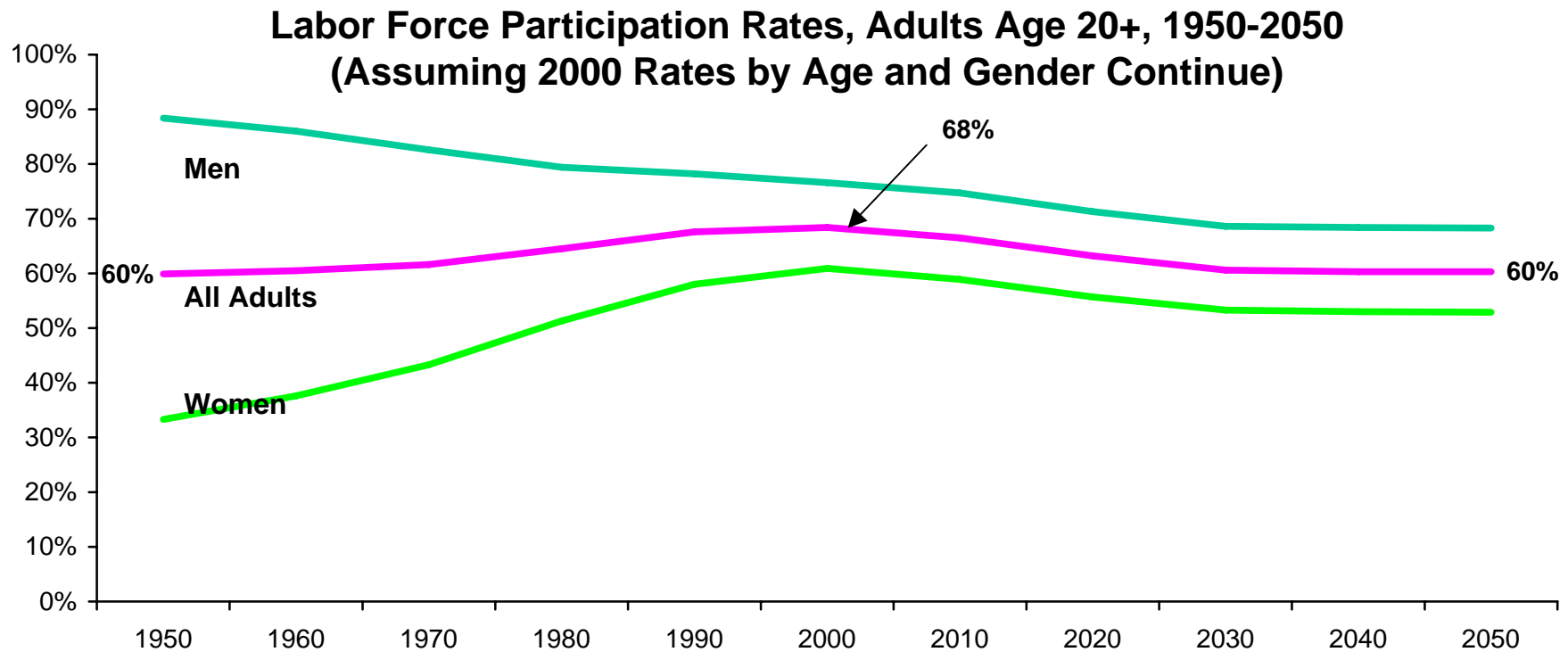
Note: The graph shows Social Security costs (primarily benefit payments) as a fraction of income (primarily tax receipts) in each year. For example, in 2000 Social Security costs consumed only 82 percent of income received.

Source: Social Security Trustees. 2006. *The 2006 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*. <http://www.ssa.gov/OACT/TR/TR06/tr06.pdf>.

What are potential consequences of an aging workforce?

Between 1950 and 2000, the entry of women into the labor force more than offset the earlier retirement of men, raising the share of adults 20 and older in the labor force. Today, however, women's labor supply has leveled off. If current gender- and age-specific participation rates remain steady, overall labor force participation rates will soon decline.

Figure 7



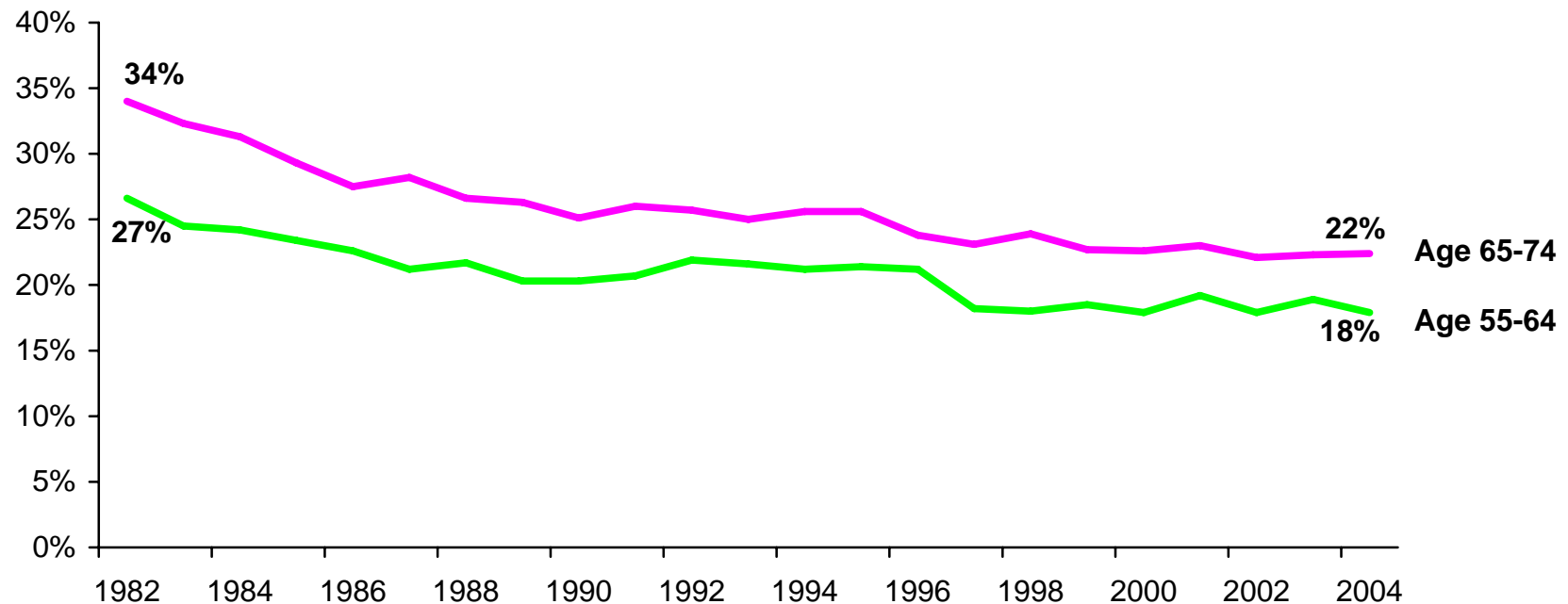
Source: Johnson, Richard, and Eugene Steuerle. 2004. "The Role of Hybrid Pension Plans in an Aging Population." Available at <http://www.urban.org/url.cfm?ID=410932>.

Why might people work longer?

People live longer and healthier lives today than they have in the past. A 62-year-old man in 1940 could expect to live 14.6 more years. In 2000, a man of the same age could expect to live 18.9 more years. Similarly, life expectancy for 62-year-old women increased from 17.0 in 1940 to 21.9 in 2000. (Social Security Trustees. 2005. "United States Life Table Functions and Actuarial Functions.") Health at older ages has also improved; the share of older adults reporting fair or poor health declined substantially between 1982 and 2004, although improvements have slowed in recent years.

Figure 8

Share of Older Adults Reporting Fair or Poor Health, 1982-2004



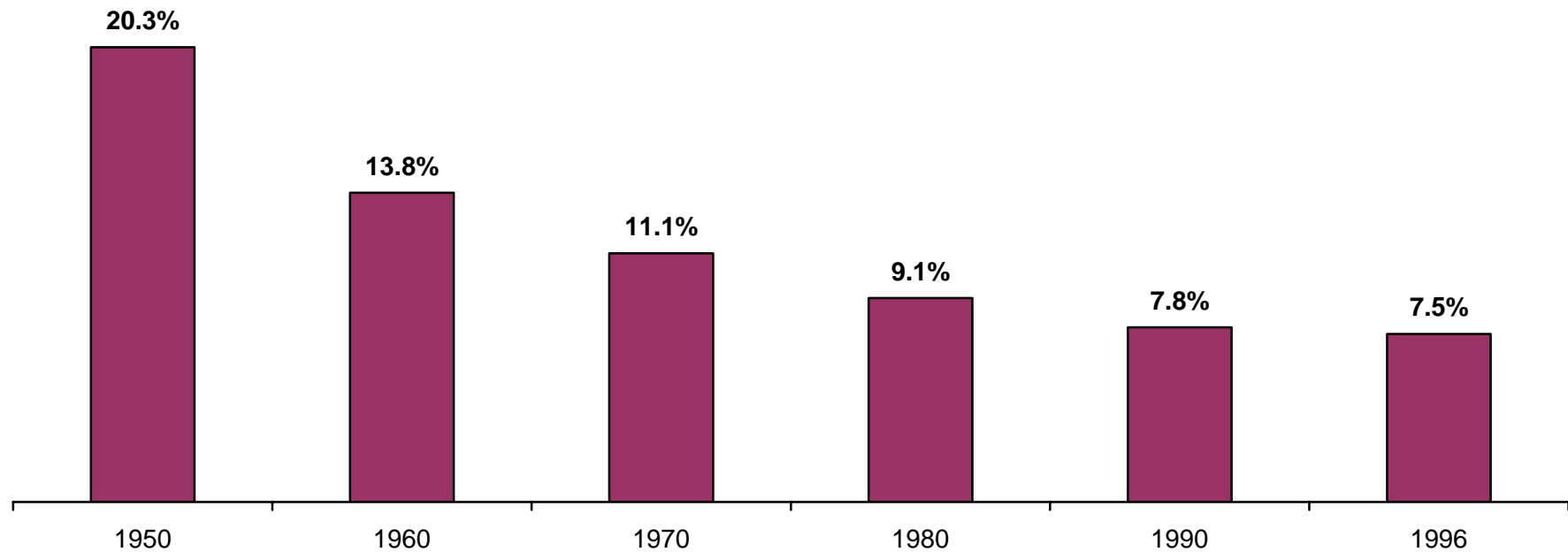
Source: National Center for Health Statistics. 2006. "Trends in Health and Aging." <http://www.cdc.gov/nchs/agingact.htm>.

Why might people work longer?

Work is not as physically demanding as it used to be, as fewer workers now hold physically strenuous jobs.

Figure 9

Share of U.S. Workers in Physically Demanding Jobs



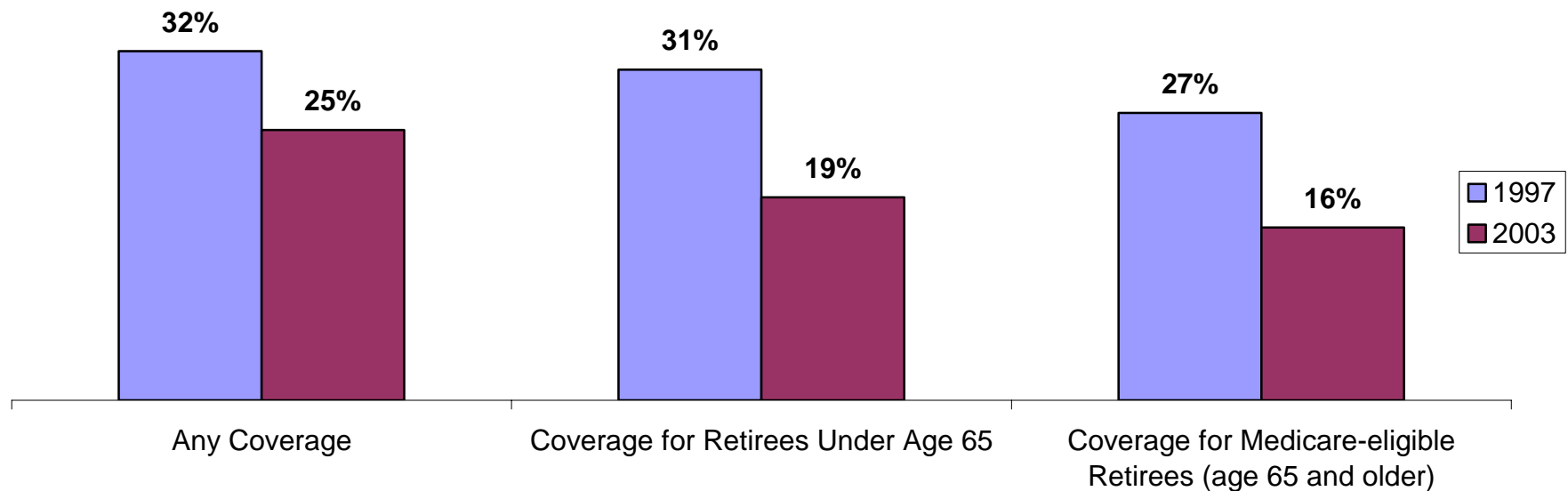
Source: Steuerle, Eugene, Christopher Spiro, and Richard Johnson. 1999. "Can Americans Work Longer?" Available at <http://www.urban.org/url.cfm?ID=309228>.

Why might people work longer?

The share of workers employed at firms that offer retiree health benefits has been falling steadily in recent years. The lack of retiree health benefits discourages early retirement by raising the cost of stopping work before Medicare eligibility begins at age 65.

Figure 10

Share of Private-Sector Workers at Firms Offering Retiree Health Benefits, by Age Group Targeted by Plans, 1997 and 2003

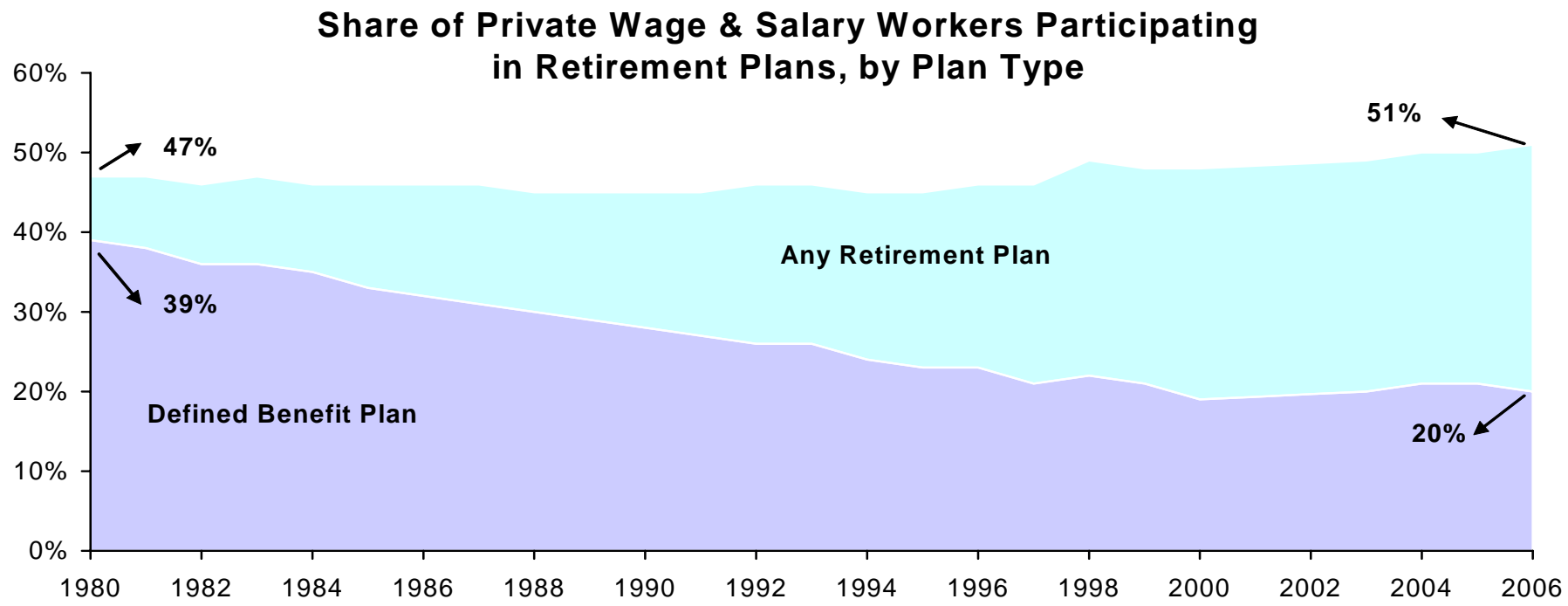


Source: Buchmueller, Thomas C., Richard W. Johnson, and Anthony T. Lo Sasso. 2006. "Trends in Retiree Health Insurance, 1997 to 2003." *Health Affairs* 25(6): 1507-16.

Why might people work longer?

The share of private-sector workers participating in traditional employer-sponsored defined benefit pension plans has been falling steadily over the past 25 years. These plans generally penalize work at older ages, because participants must sacrifice a month of pension benefits for every month they work past the plan's retirement age.

Figure 11



Note: Defined Benefit plans include both traditional defined benefit plans and cash balance plans.

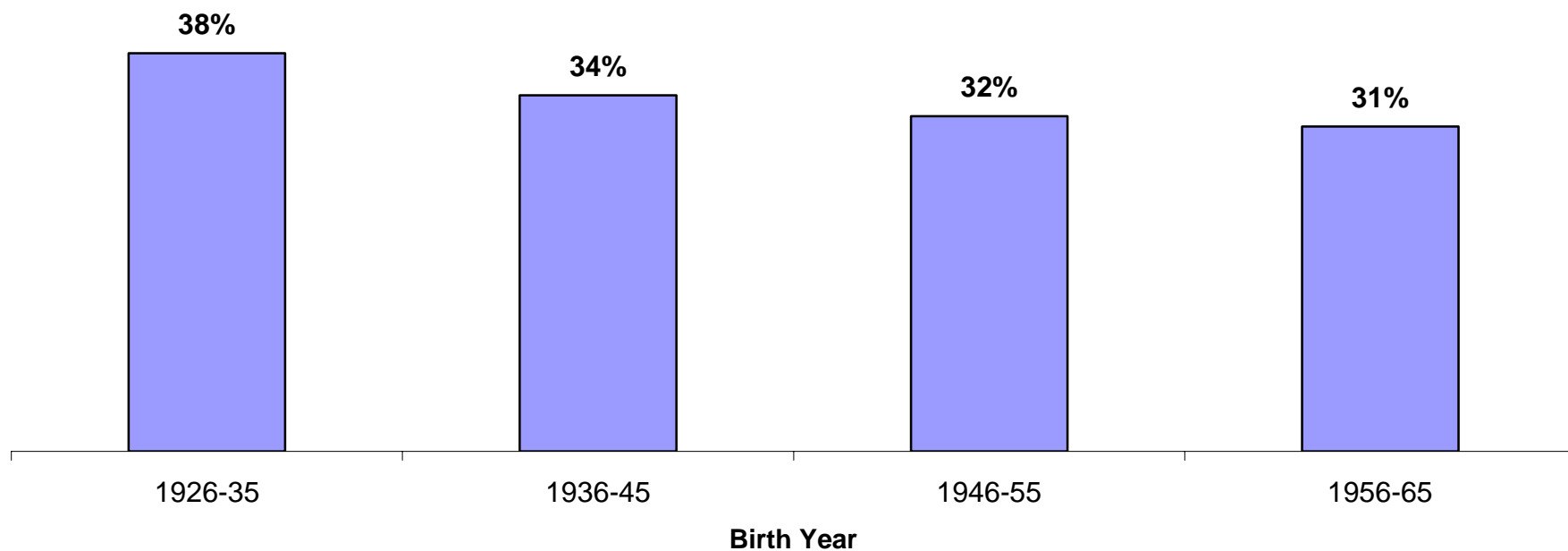
Source: U.S. Bureau of Labor Statistics. 2006. "Employee Benefits Survey." <http://data.bls.gov/cgi-bin/dsrv>; and Pension and Welfare Benefits Administration. 2001-2002. *Private Pension Plan Bulletin: Abstract of 1998 Form 5500 Annual Reports*. <http://www.dol.gov/ebsa/PDF/1998pensionplanbulletin.PDF>.

Why might people work longer?

Recent Social Security reforms make work at older ages more lucrative. The Senior Citizens' Freedom to Work Act of 2000 eliminated work penalties on Social Security beneficiaries past the program's normal retirement age. Congress increased benefits for those who wait to claim Social Security. And the Social Security normal retirement age is slowly increasing to 67 for those born after 1959, reducing the share of pre-retirement income replaced for baby boomers.

Figure 12

**Mean Social Security Income at 67,
as Percentage of Pre-Retirement Income**



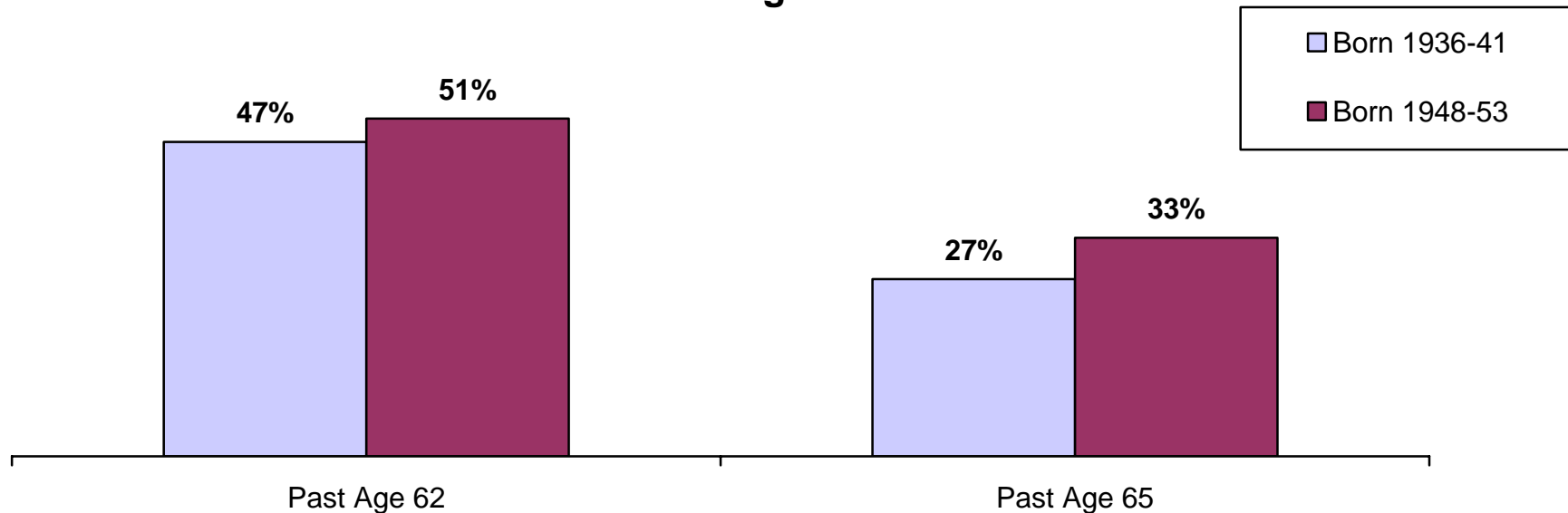
Source: Butrica, Barbara A., Howard M. Iams, and Karen E. Smith. 2003/2004. "The Changing Impact of Social Security on Retirement Income in the United States." Available at http://www.urban.org/UploadedPDF/1000783_changing_impact.pdf.

Why might people work longer?

People say they're planning to work longer. Compared to those born 12 years earlier, Baby Boomers born between 1948 and 1953 are more likely to say they plan to work past the age of 65.

Figure 13

Average Probability of Working Past Ages 62 and 65, Adults Ages 51-56



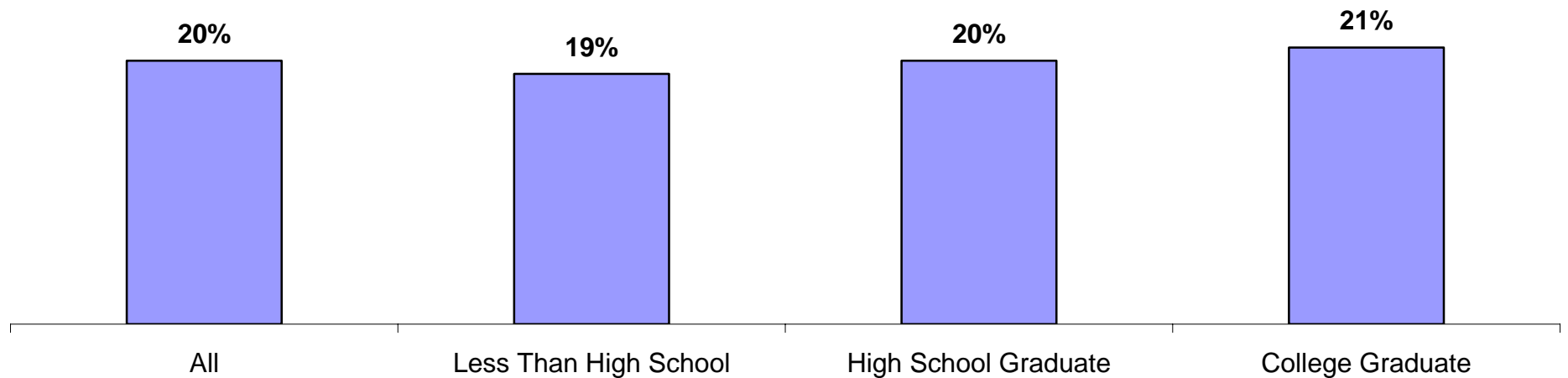
Source: Mermin, Gordon, Richard Johnson, and Dan Murphy. 2006. "Why Do Boomers Plan to Work So Long?" Available at <http://www.urban.org/url.cfm?ID=311386>.

What difficulties confront older workers and the employers who hire them?

Many older workers experience layoffs and face special difficulties finding new jobs. About a fifth of workers who were between 51 and 61 in 1992 lost their jobs in the next 12 years.

Figure 14

Share of Adults Ages 51-61 in 1992 Who Lost a Job Between 1992 and 2004



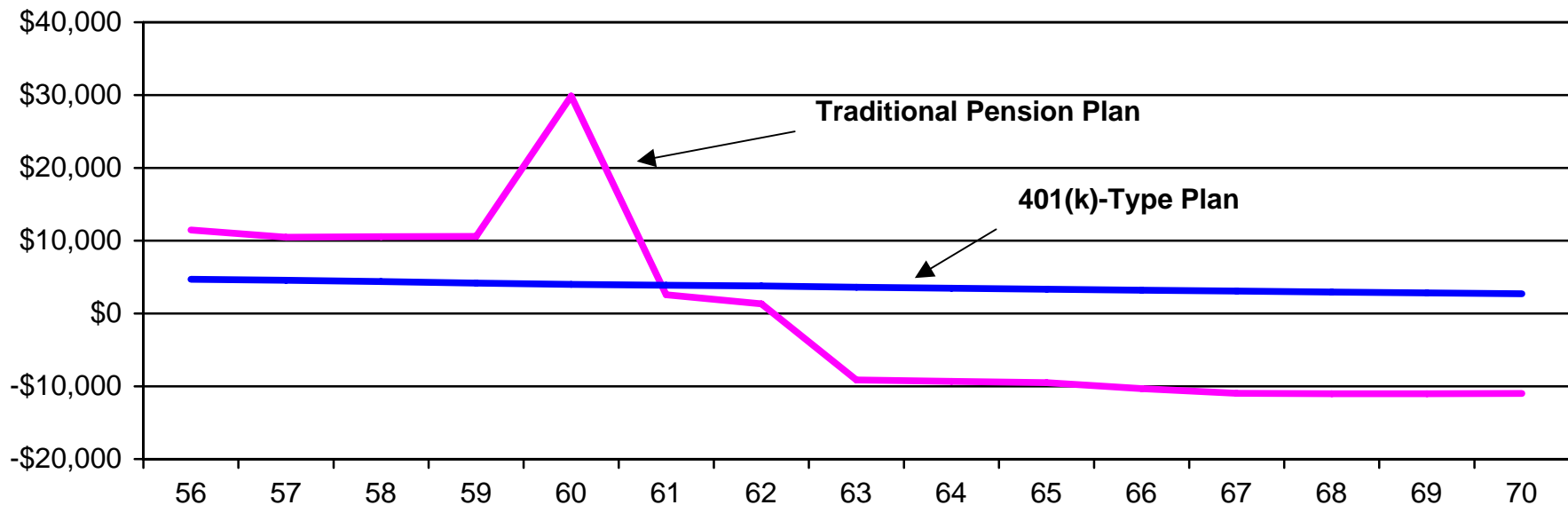
Source: Urban Institute calculations from the Health and Retirement Study.

What difficulties confront older workers and the employers who hire them?

Older workers may lose out on pension money they would receive if they left the labor force. Traditional defined benefit pension plans penalize workers who remain on the job after they qualify for pension benefits. In the example below, the traditional plan participant loses future benefits if he works past 62, the plan's normal retirement age.

Figure 15

Annual Increment to Value of Future Pension Benefits in Typical Plans, by Age and Plan Type (2004 Dollars)



Note: The simulated traditional plan pays benefits equal to years of service times 1% of final salary. Full benefits begin at age 62; reduced benefits are available at age 60. Contributions to the 401(k) plan equal 8% of salary and earn 3% real interest each year.

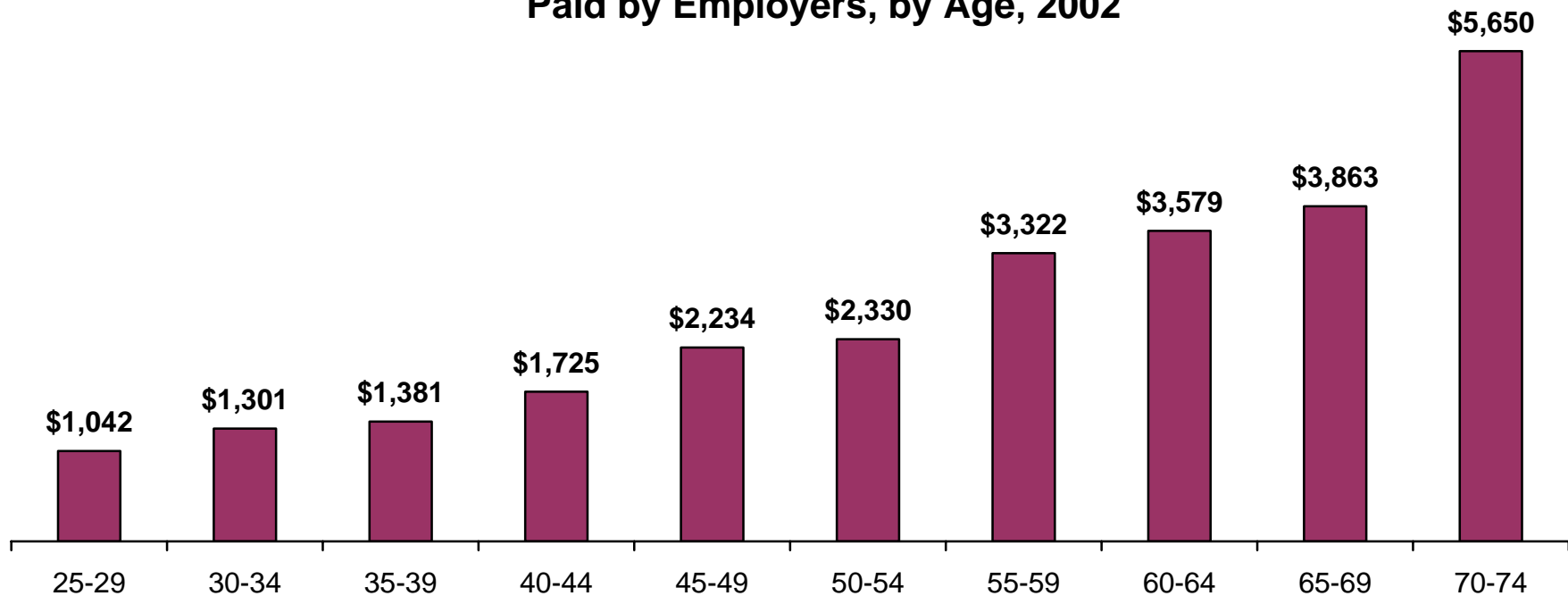
Source: Johnson, Richard W., Gordon Mermin, and C. Eugene Steuerle. 2006. "Work Impediments at Older Ages." Available at <http://www.urban.org/url.cfm?ID=311313>.

What difficulties confront older workers and the employers who hire them?

It is often costly for employers to hire and retain older workers. Health insurance expenses, for instance, rise sharply with age, increasing employment costs for firms that provide health insurance to older workers.

Figure 16

Average Annual Health Insurance Costs Paid by Employers, by Age, 2002



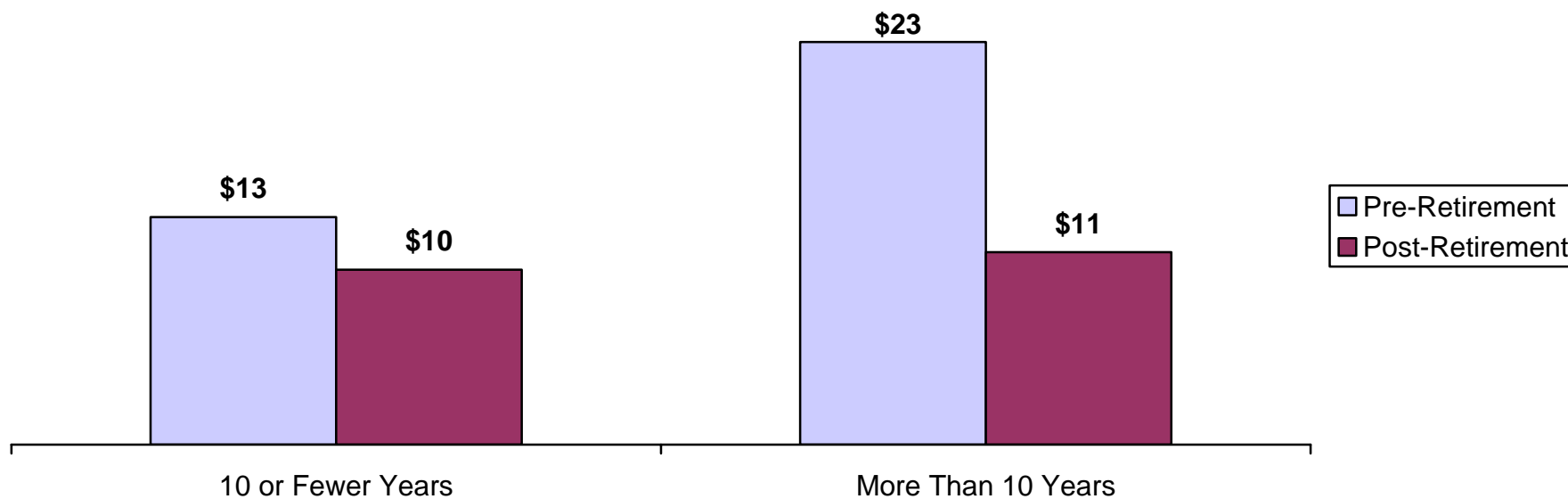
Source: Johnson, Richard, Gordon Mermin, and Eugene Steuerle. 2006. "Work Impediments at Older Ages." Available at <http://www.urban.org/url.cfm?ID=311313>.

What difficulties confront older workers and the employers who hire them?

Many older Americans who choose to remain in the labor force after leaving their career jobs take lower-paying employment. In general, post-retirement jobs pay only about half as much as long-term career jobs, although they typically offer more flexible hours and involve less stress.

Figure 17

Median Hourly Wage on Pre- and Post-Retirement Jobs, by Tenure on Pre-Retirement Job



Note: The sample consists of workers ages 45 and older who changed jobs between 1985 and 2004 and reported that they retired from their former job.

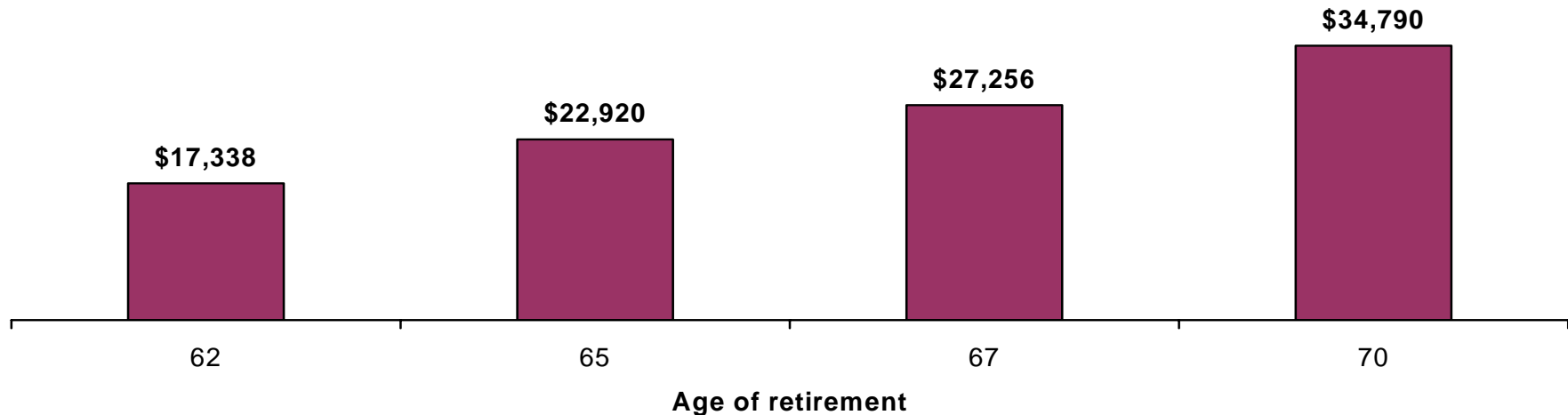
Source: Johnson, Richard W., and Janette Kawachi. Forthcoming. "Job Change at Older Ages: Impact on Wages, Benefits, and Other Job Attributes."

What are the benefits of working longer?

Working longer can make retirement more comfortable. Our simulations indicate that a representative male worker turning 55 in 2005 can double his retirement income by postponing retirement from age 62 to age 70.

Figure 18

Income for a Representative Male Worker at Age 75, by Retirement Age (2004 Dollars)



Note: Amounts are in constant 2004 dollars. Estimates refer to an unmarried man who turned 55 in 2005, spent some time in college, worked continuously after age 22 earning average wages, participated in a 401(k)-type retirement plan since age 35, and does not save outside of Social Security or his pension plan. At retirement, he purchased a single-life annuity with the proceeds from his private retirement plan. He paid premiums for Medicare and a supplemental Medigap policy. Estimates of federal income taxes assume that the tax cuts enacted in 2001 and 2003 expire in 2010.

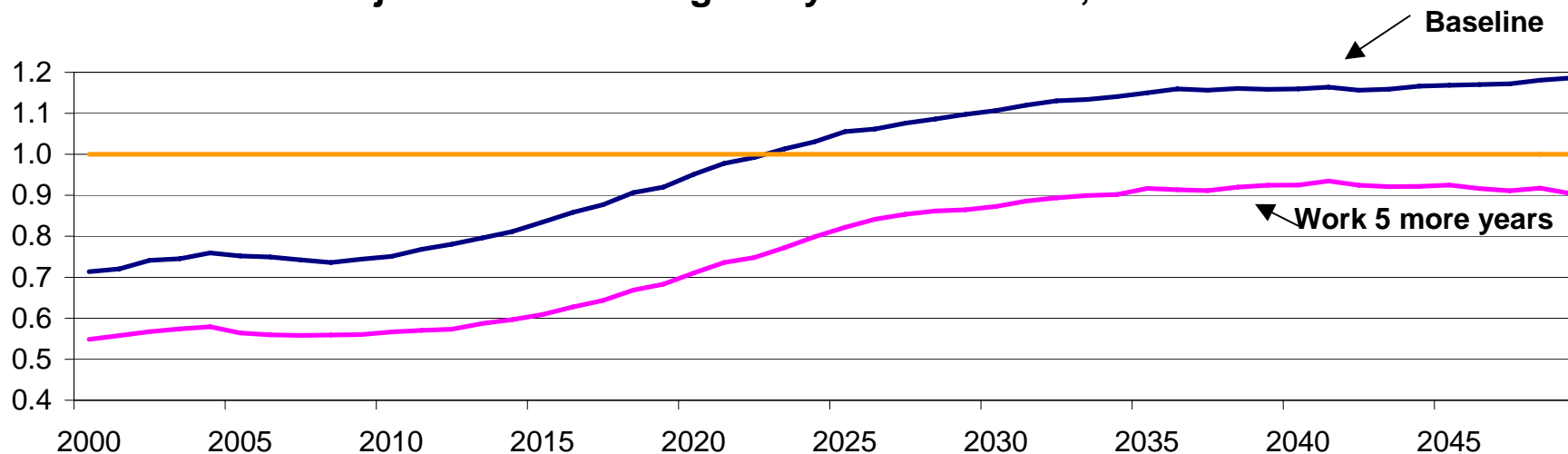
Source: Butrica, Barbara, Richard Johnson, Karen Smith, and Eugene Steuerle. 2006. "The Implicit Tax on Work at Older Ages." Available at <http://www.urban.org/url.cfm?ID=1001021>.

What are the benefits of working longer?

Older Americans could safeguard Social Security's solvency by delaying retirement. If all workers delayed retirement by five years and all the additional tax revenue generated (including income tax receipts) went to the Social Security system, Social Security would maintain a surplus for the foreseeable future.

Figure 19

Social Security Cost-to-Income Ratio: Baseline Projections vs. Projections Assuming Delayed Retirement, 2000-2049



Note: Cost-to-income ratios under baseline and delayed retirement scenarios were computed using the Urban Institute's DYNASIM model. Baseline results differ slightly from Social Security Administration projections.

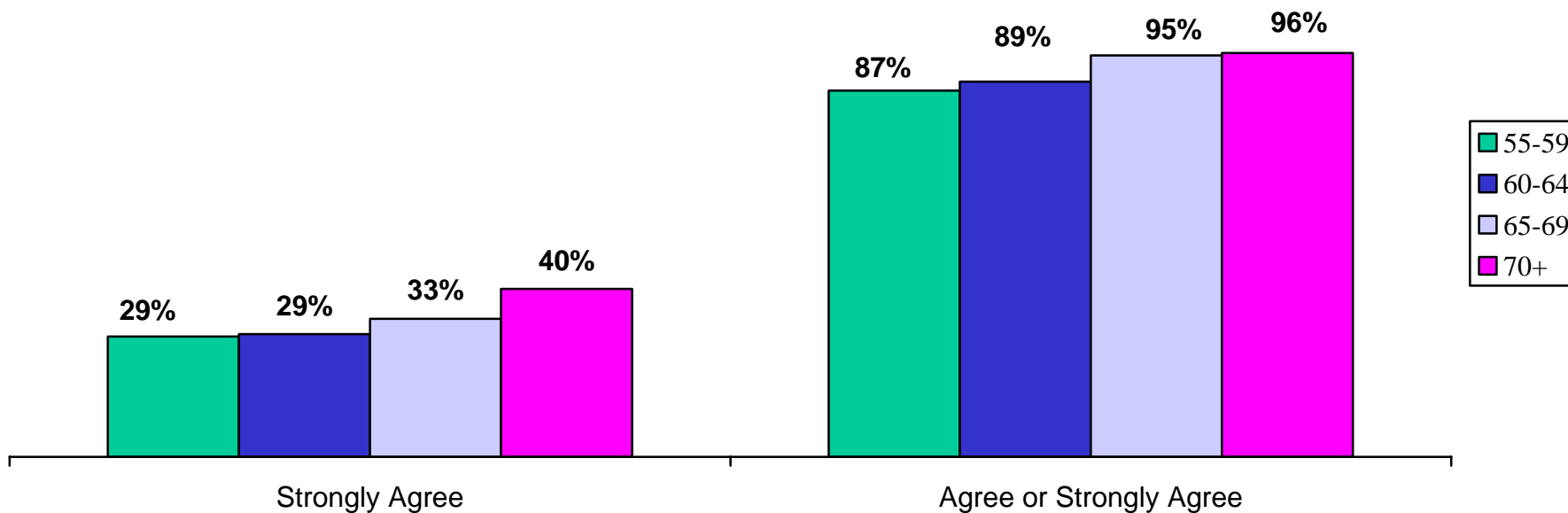
Source: Butrica, Barbara, Karen Smith, and Eugene Steuerle. 2006. "Working for a Good Retirement." Available at <http://www.urban.org/url.cfm?ID=311333>.

What are the benefits of working longer?

Many older Americans enjoy working, including the vast majority of workers over 65. Work also appears to improve physical health and emotional well-being.

Figure 20

Share of Workers Who Agree With Statement, "I Really Enjoy Going to Work", by Age, 2004



Source: Butrica, Barbara A., Simone Schaner, and Sheila R. Zedlewski. 2006. "Enjoying the Golden Work Years." Available at <http://www.urban.org/url.cfm?ID=311324>; and unpublished Urban Institute calculations for the Health and Retirement Study.