

Labor Force Trends for Older Americans

Eugene Steuerle

Vice President

The Peter G. Peterson Foundation

New England Public Policy Center

December 3, 2008

Summary

- Trends: Not just supply but demand
- Obstacles to further work
- Some strategies

COMING TO FENWAY PARK



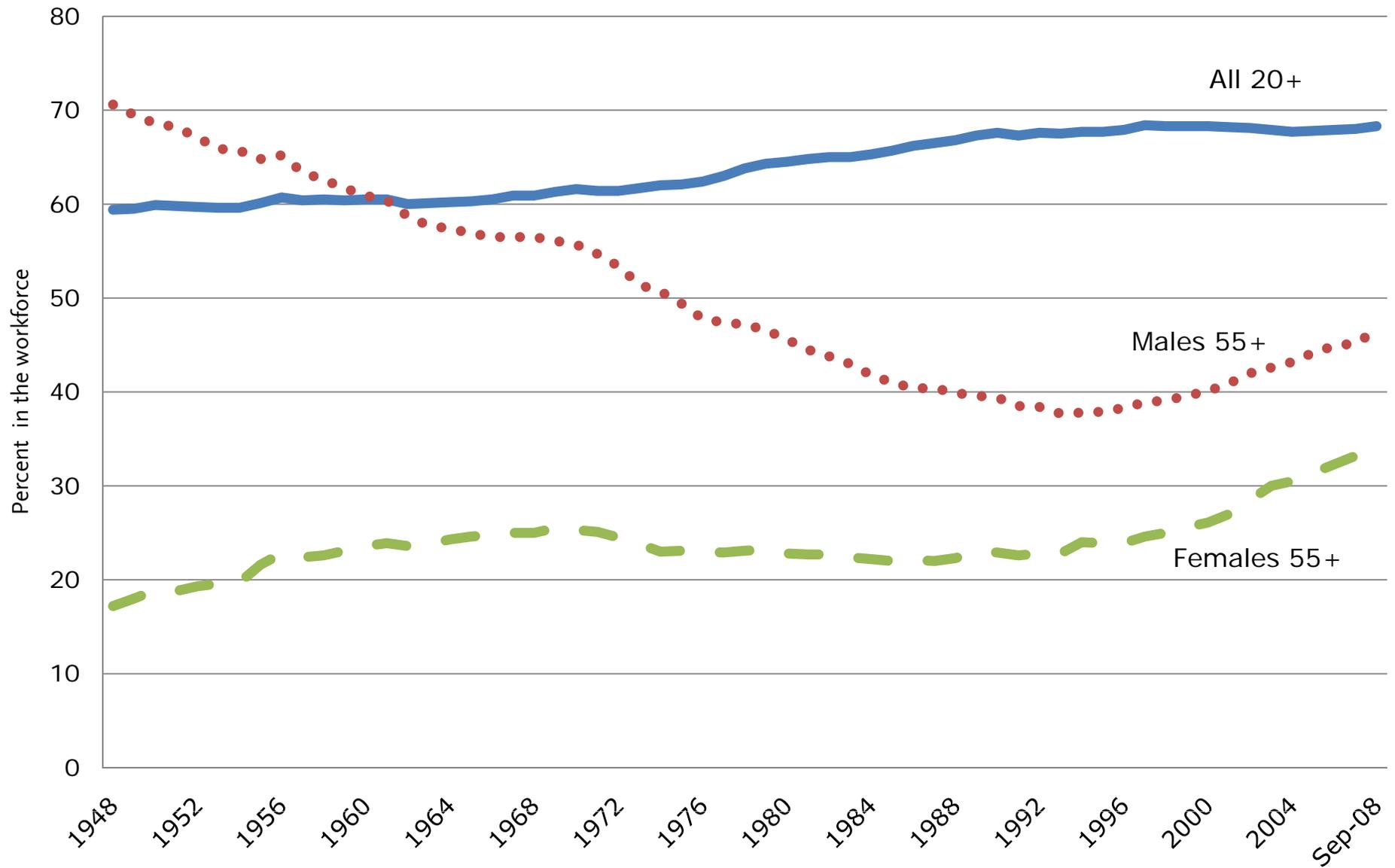
THE ROLLING STONES

HITCH
TELEGRAM
& GAZETTE

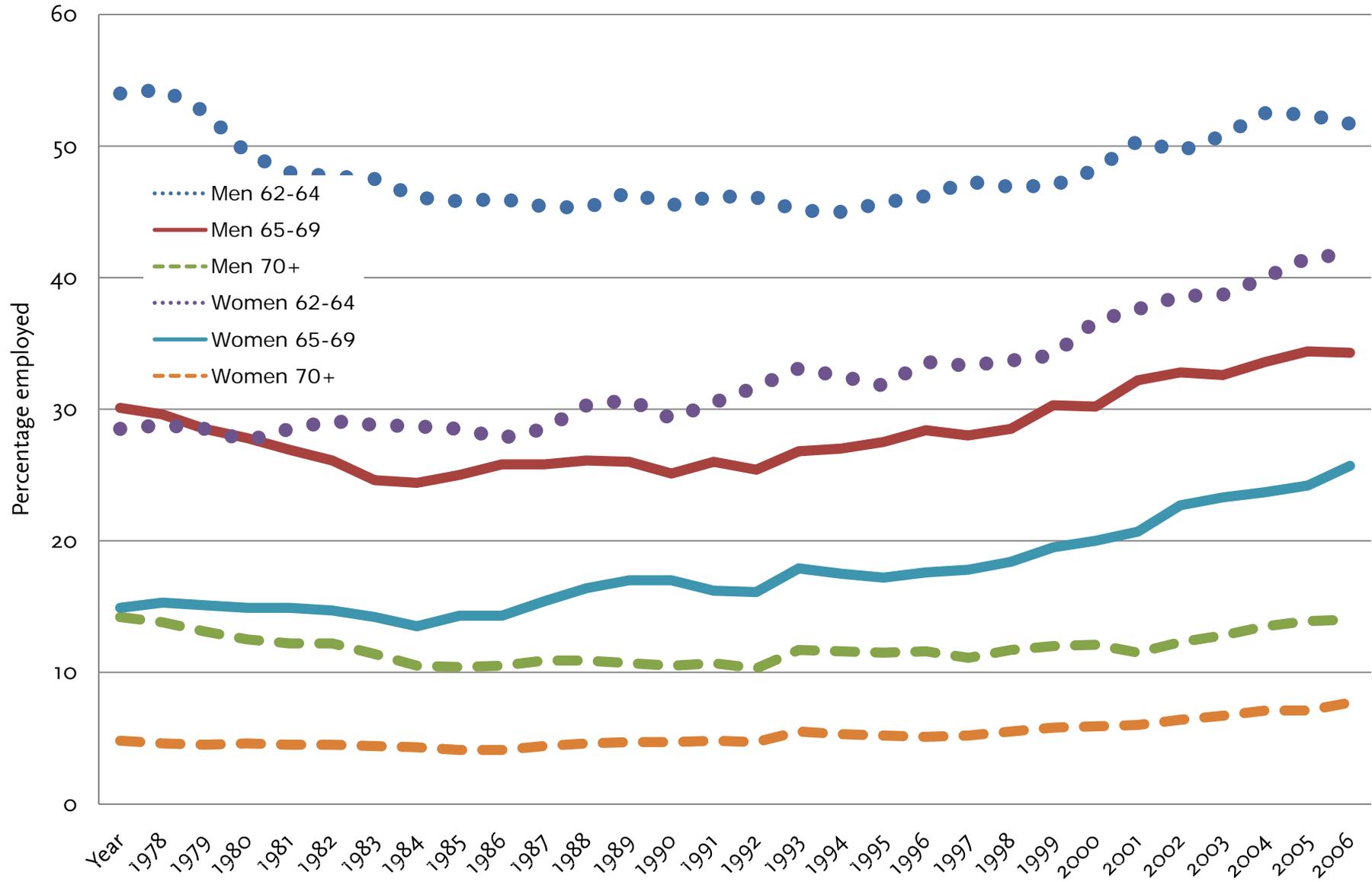
THAT REMINDS ME
— ANYTHING NEW ON
SOCIAL SECURITY
REFORM?



Labor Force Participation Rates: Males and Females Aged 55+ vs. the Adult Population, 1948-2004

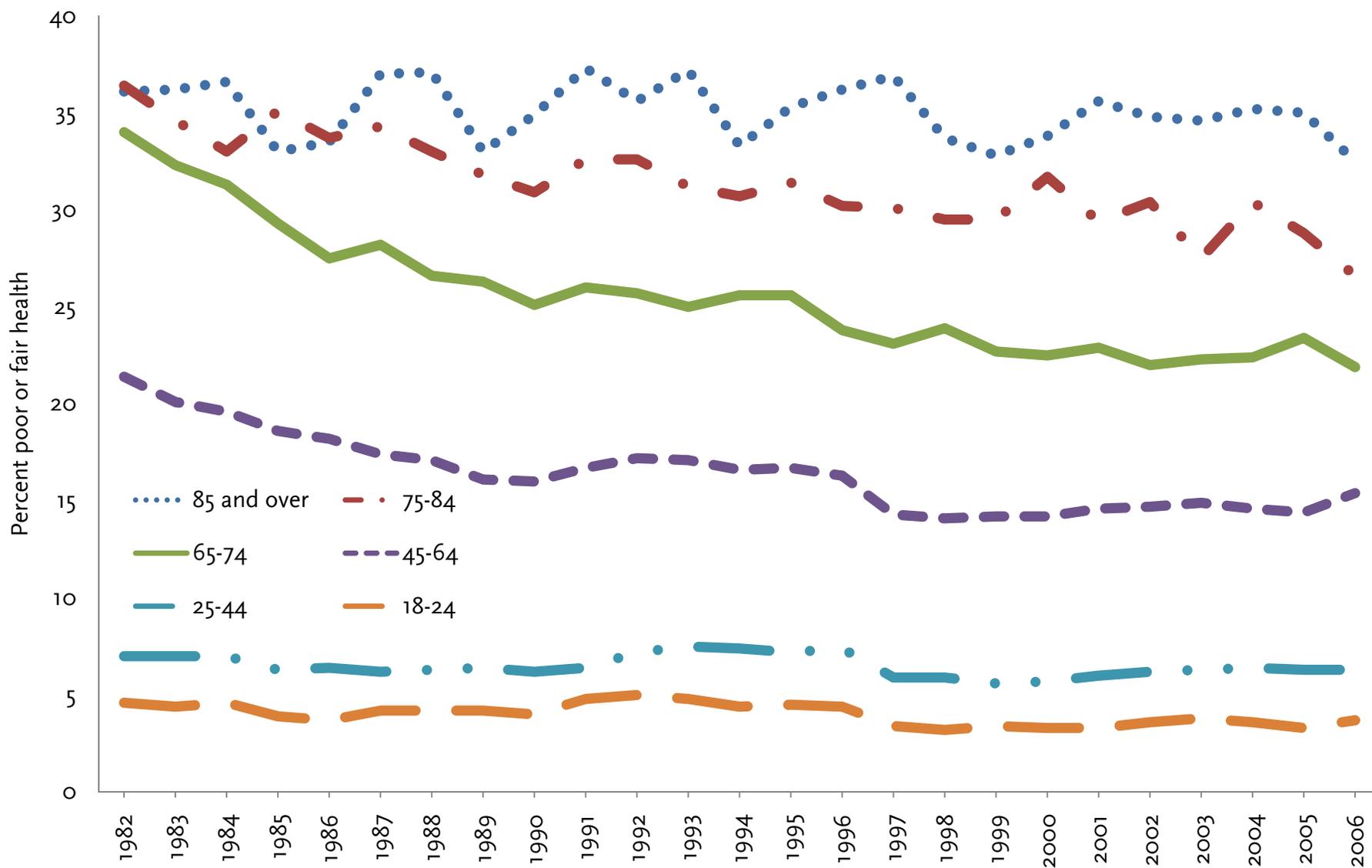


Older workers employment rate

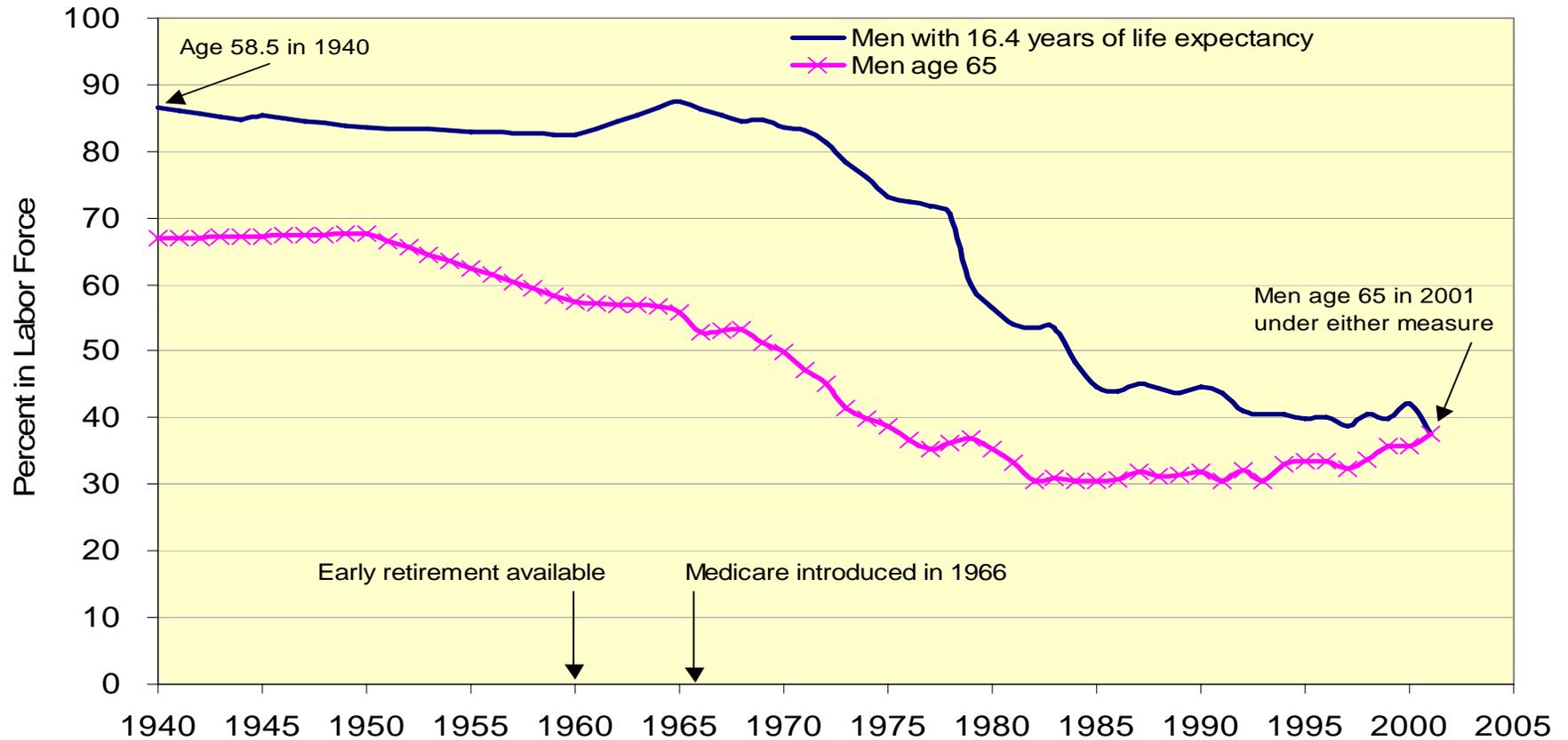


Source: Bureau of Labor Statistics (2008)

Share of Older Adults Reporting Poor or Fair Health



Male Labor Force Participation Rates, 1940-2001



Source: C. Eugene Steuerle, Adam Carasso and Meghan Bishop, The Urban Institute, 2002. Based on data from the U.S. Social Security Administration, the Bureau of Labor Statistics, and the U.S. Census of Population.

Source: The Urban Institute 2002. Based on data from the U.S. Social Security Administration, the Bureau of Labor Statistics, and the U.S. Census of Population.

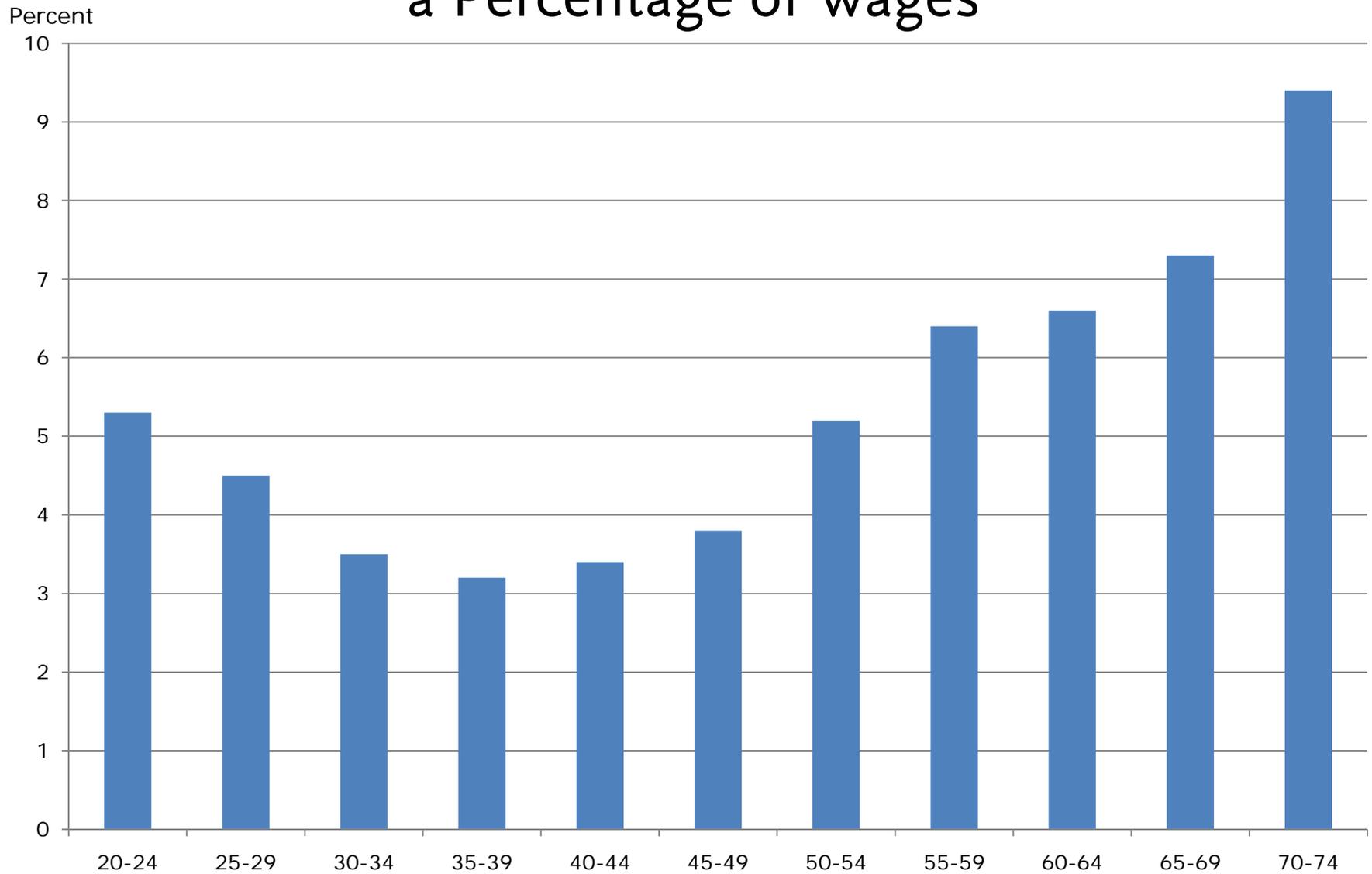
Jobs Are Less Physically Demanding

- Between 1971 and 2007 the share of jobs involving high physical demands declined from 8.0 to 6.6 percent.
- The share involving any physical demands declined from 54.2 to 44.9 percent.
- The proportion with difficult working conditions (such as outdoor work, high noise levels) fell from 39.8 to 29.8 percent.

Jobs Have More Nonphysical Demands

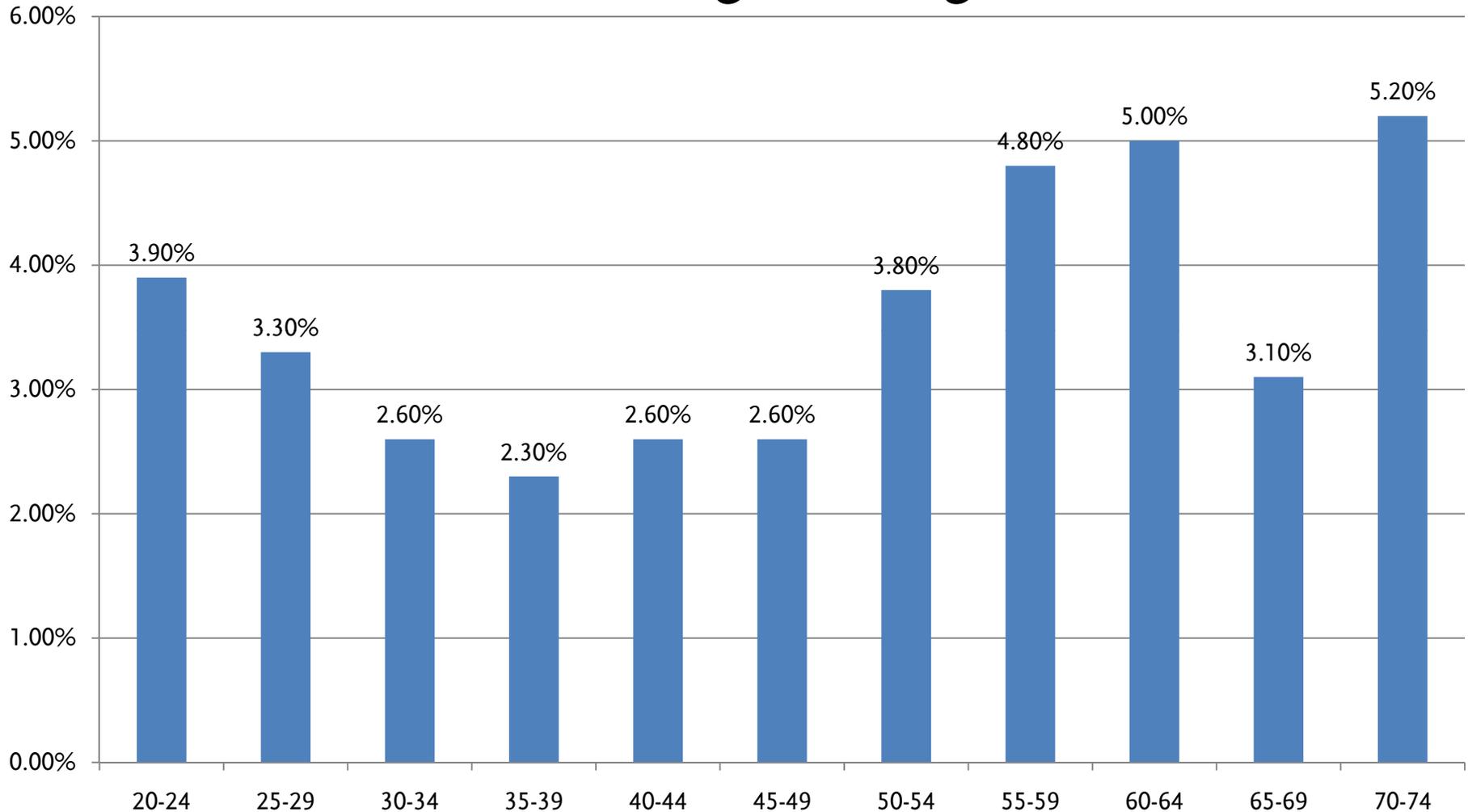
- Jobs increasingly require reasoning, written expression, decision making and strong interpersonal skills.
- Between 1971 and 2007 the share of jobs requiring high cognitive ability increased from one-quarter to one-third.

Health Care Expenditures as a Percentage of Wages



Source: "Legal and Institutional Barriers to Partial Retirement and Part-Time Work by Older Workers" Penner, Perun, and Steuerle (2002)

Private Health Insurance Expenditures as a Percentage of Wages



Source: "Legal and Institutional Barriers to Partial Retirement and Part-Time Work by Older Workers" Penner, Perun, and Steuerle (2002)

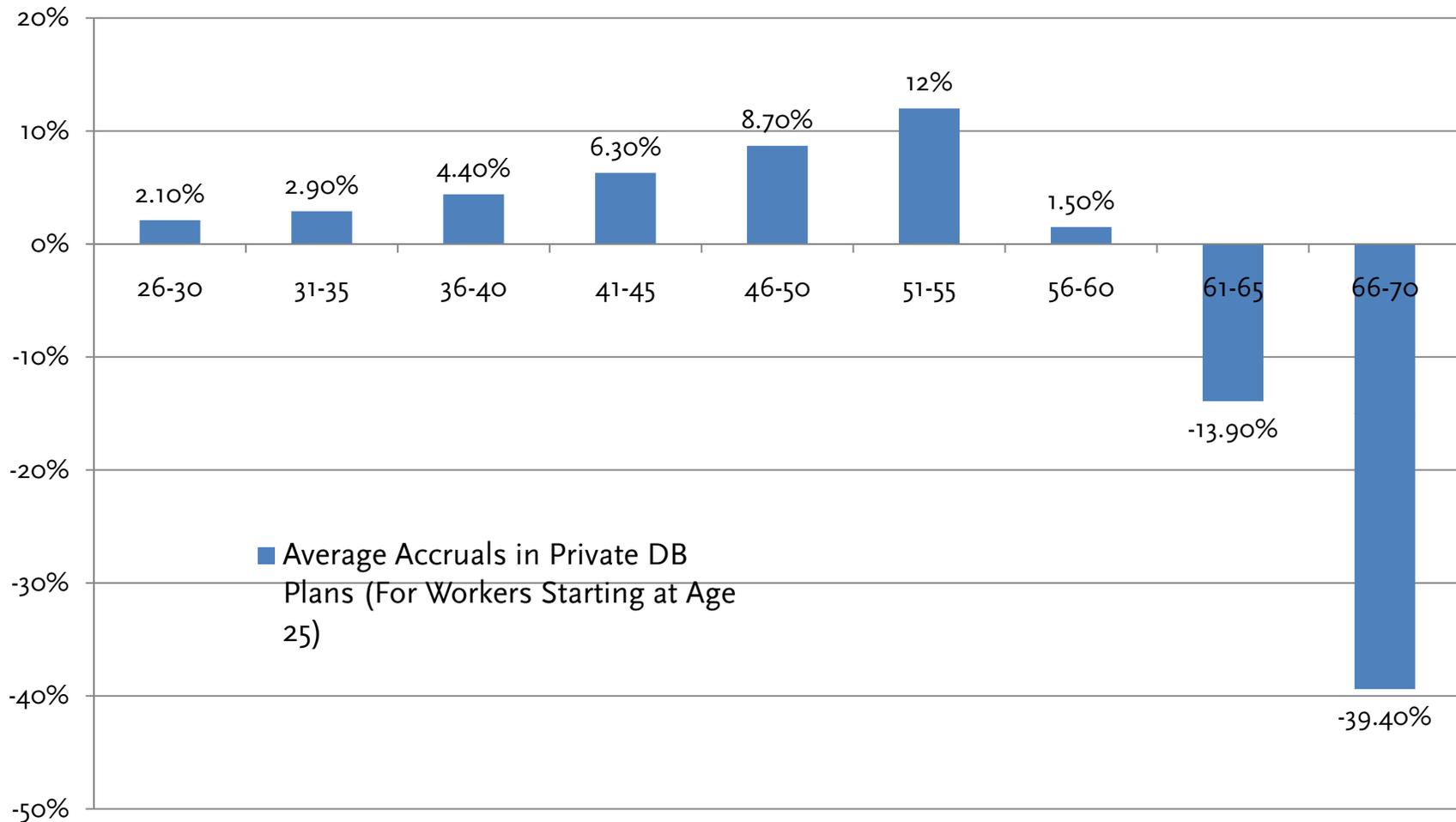
Bias Against Older Job Applicants?

- Mixed research results: main effect seems to be in hiring
 - Resumes of women aged 35 or 45 interviewed 5.3% of the time,
 - Resumes of women aged 50, 55, or 62 interviewed 3.8% of the time (Lahey 2005):

Investing in Older Workers

- Employer-sponsored job training
 - 51% of workers over 55
 - 79% of workers 25-34
 - 65% of workers 45-54 (Frazis et. al. 1998)
 - Also less intensive training for older workers

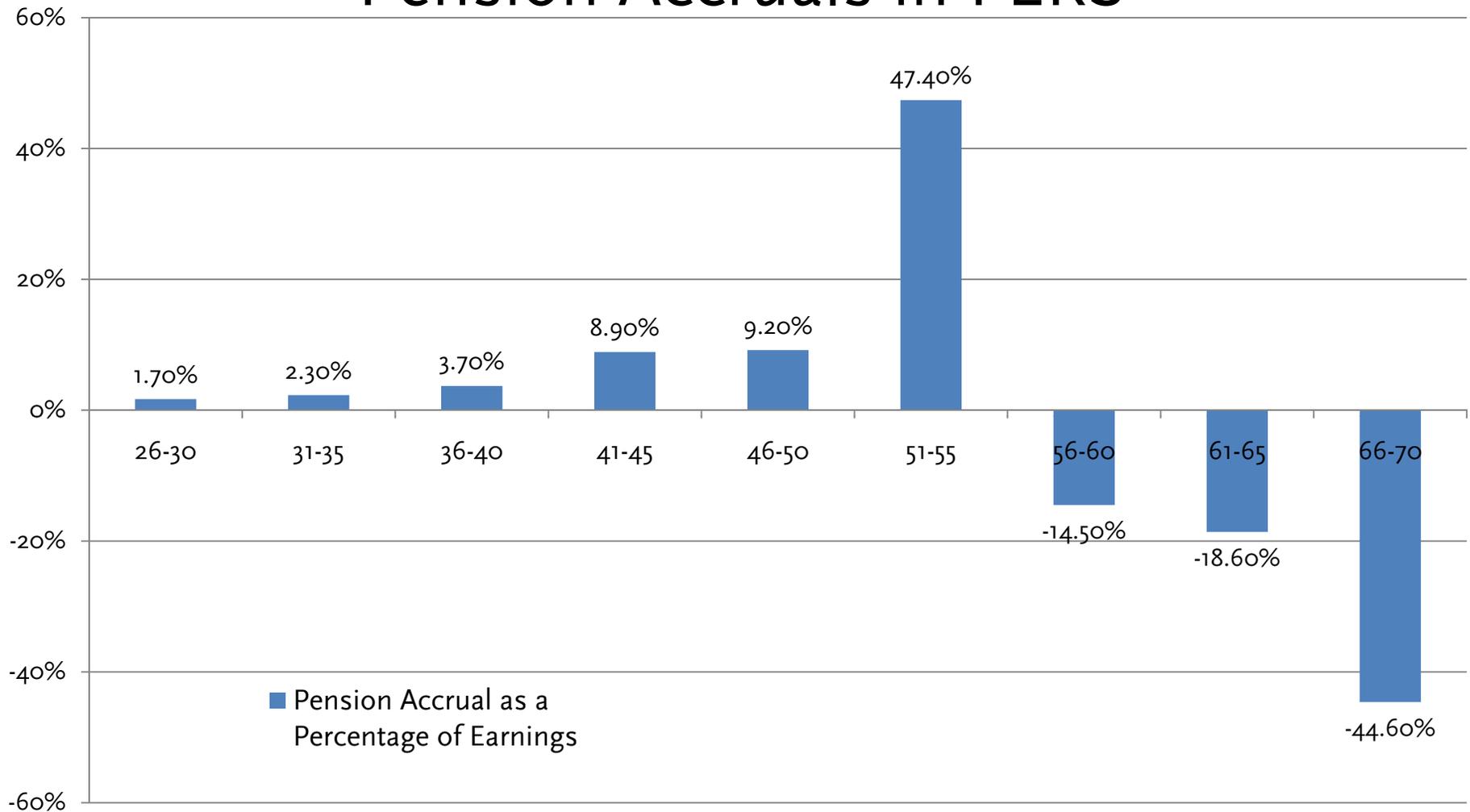
Average Accruals in Private DB Plans



Note: The analysis is based on a sample of 340 salary-based DB plans in the private sector. Accrual estimates assume that workers join the firm at age 25 and leave at the age that maximizes the present discounted value of pension benefits (or age 70). The analysis assumes that wages grow at the average age-specific rate for college-educated male workers with DB plans as reported in Toder et al. (2002). The real interest rate is set at 3 percent and the inflation rate at 3.3 percent. Estimates are weighted by firm size.

Source: "Legal and Institutional Barriers to Partial Retirement and Part-Time Work by Older Workers" Penner, Perun, and Steuerle (2002)

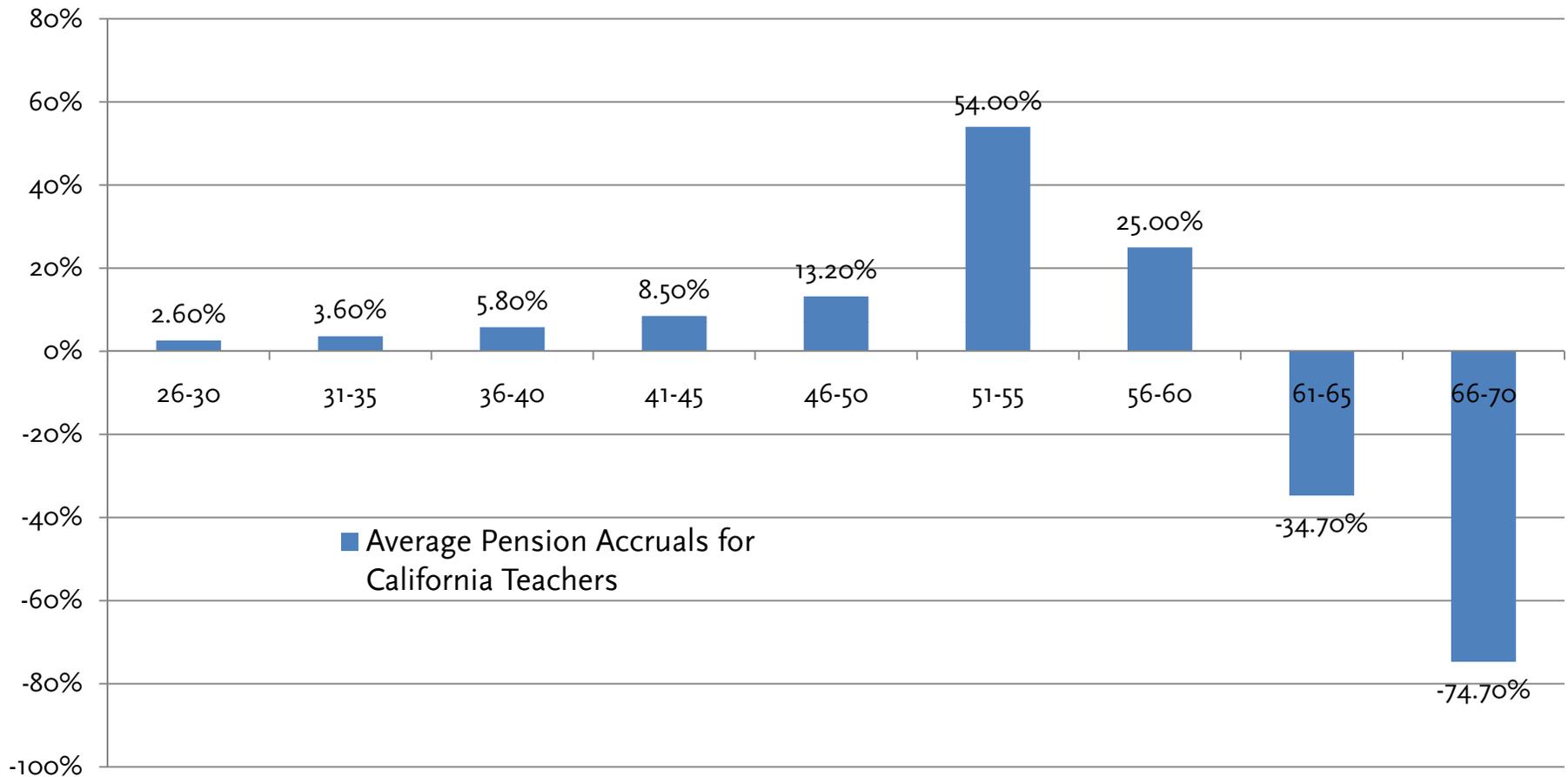
Pension Accruals in FERS



Note: Accrual estimates assume that workers join the plan at age 25 and leave at the age that maximizes the present discounted value of pension benefits (or age 70). The analysis assumes that wages grow at the average age-specific rate for college-educated male workers with DB plans as reported in Toder et al. (2002). The real interest rate is set at 3 percent and the inflation rate at 3.3 percent. Estimates exclude accruals from the Thrift Savings Plan.

Source: "Legal and Institutional Barriers to Partial Retirement and Part-Time Work by Older Workers" Penner, Perun, and Steuerle (2002)

Average Pension Accruals for California Teachers



Note: Accrual estimates assume that workers join the plan at age 25 and leave at the age that maximizes the present discounted value of pension benefits (or age 70). The analysis assumes that wages grow at the average age-specific rate for college-educated male workers with DB plans as reported in Toder et al. (2002). The real interest rate is set at 3 percent and the inflation rate at 3.3 percent. Estimates exclude accruals from the Thrift Savings Plan.

Source: "Legal and Institutional Barriers to Partial Retirement and Part-Time Work by Older Workers" Penner, Perun, and Steuerle (2002)

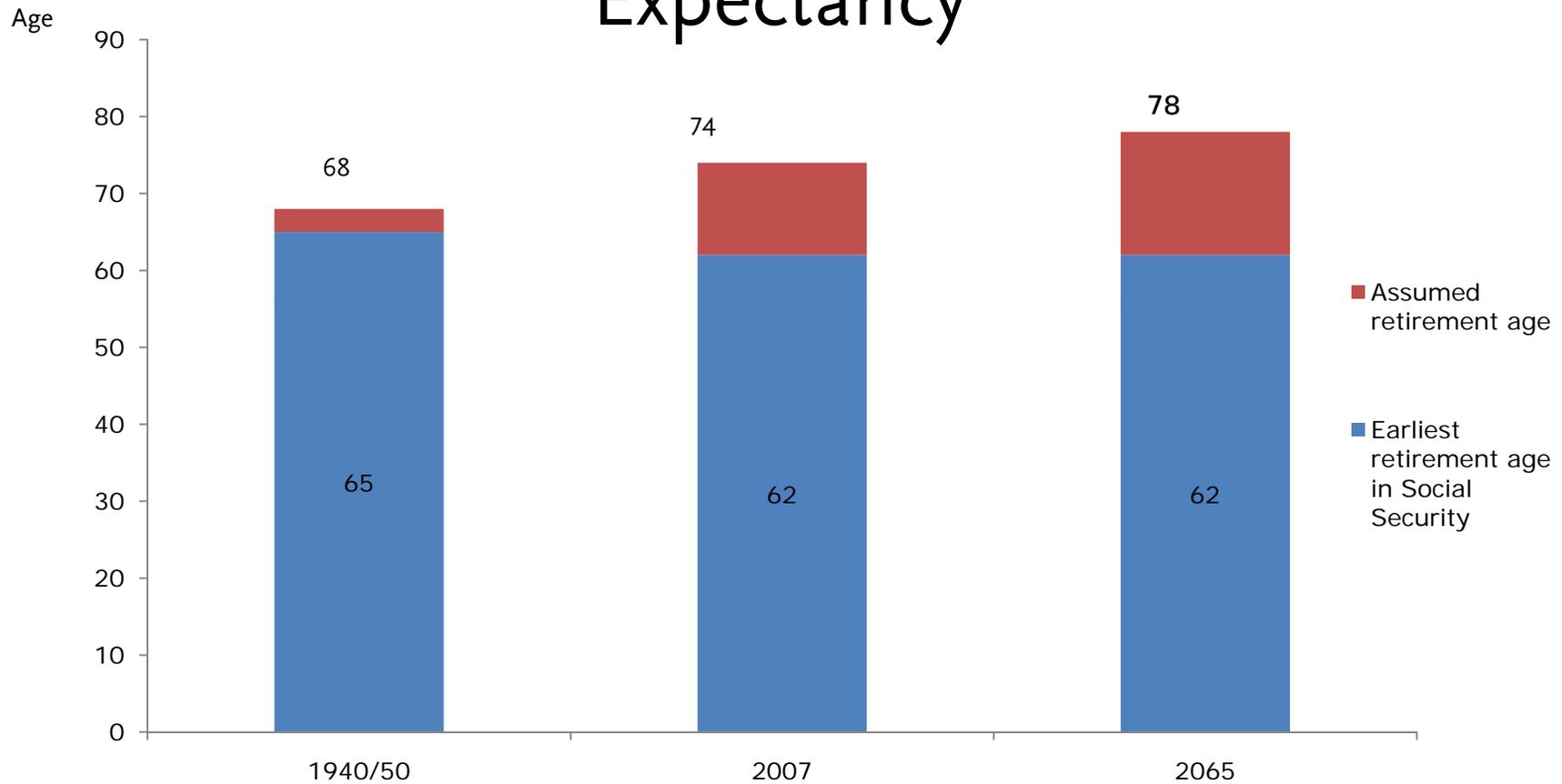
Implicit Tax on Work at Older Ages, Under Alternative Policy Reform Options (Percent)

Age	Current Law	Elimination of Income Tax on Social Security Benefits	Elimination of Payroll Tax After Normal Retirement Age	Designate Medicare as Primary Payer Regardless of Work Status
62	24.7	22	24.7	24.7
63	20.8	16.7	20.8	20.8
64	23.9	20.8	23.9	23.9
65	39.4	35.2	39.4	30
66	37.4	32.9	27.2	27.1
67	40.9	37.1	31.1	29.6
68	44.2	41	34.7	31.9
69	47.5	44.8	38.3	34
70	49.5	36.5	40.6	35

Source: Author's Estimates

Note: Estimates are for our base-case worker, defined as an unmarried man in good health who takes up Social Security benefits at age 62 or when he stops work (whichever comes later, but no later than age 70). He earns moderate wages and has a DC pension plan and employer-sponsored health insurance, but no retiree health insurance. Computations for any given age assume that workers retire at the end of the year.

Program Retirement Age, Indexed for Life Expectancy

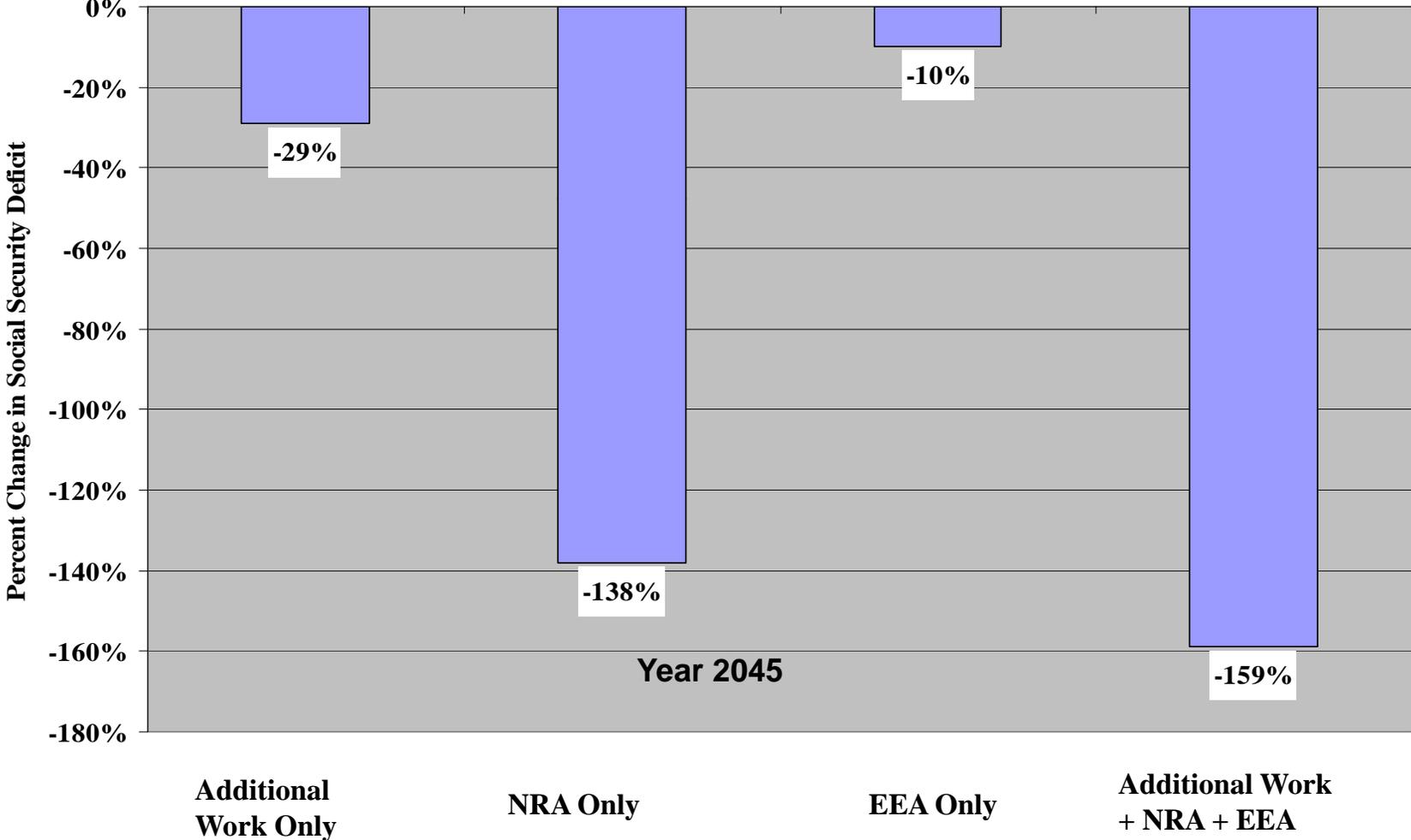


Source: The Urban Institute, 2005. Based on data from the Social Security Administration, Birth Cohort Tables, 2005.

Summary of New Research on More Work: (Social Security Too Narrow a Focus)

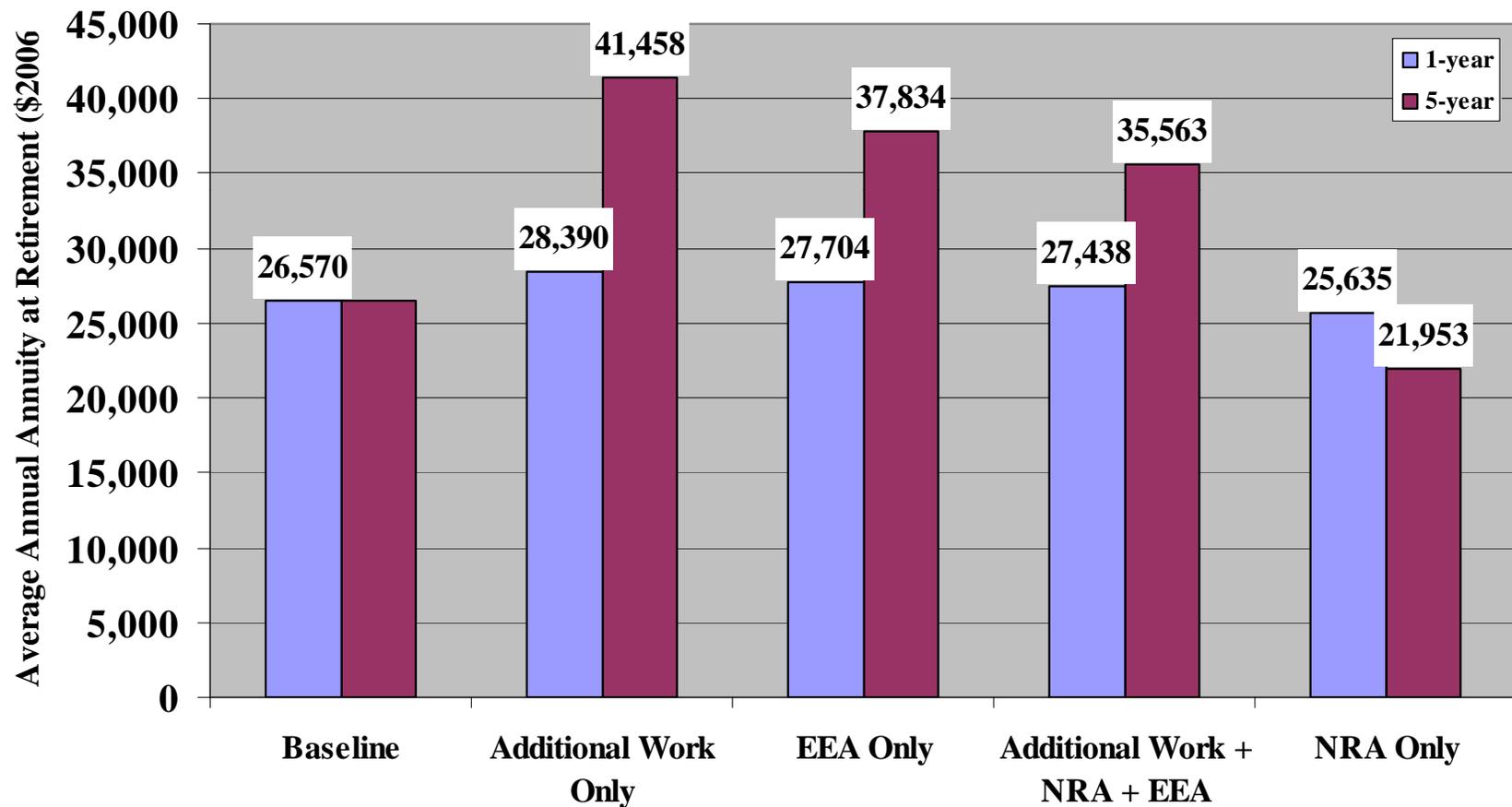
- Increases National Income
 - More to share, no matter how distributed
- Increases Personal Income
 - Social Security, employer benefits, and earnings themselves
- Increases Taxes (at any given tax rate)
 - Social Security and income taxes
- Reduces pressure on other workers
 - To support all government programs

The Impact on Social Security Deficits of 5 Year Increases in NRA/EEA and/or More Work in 2045



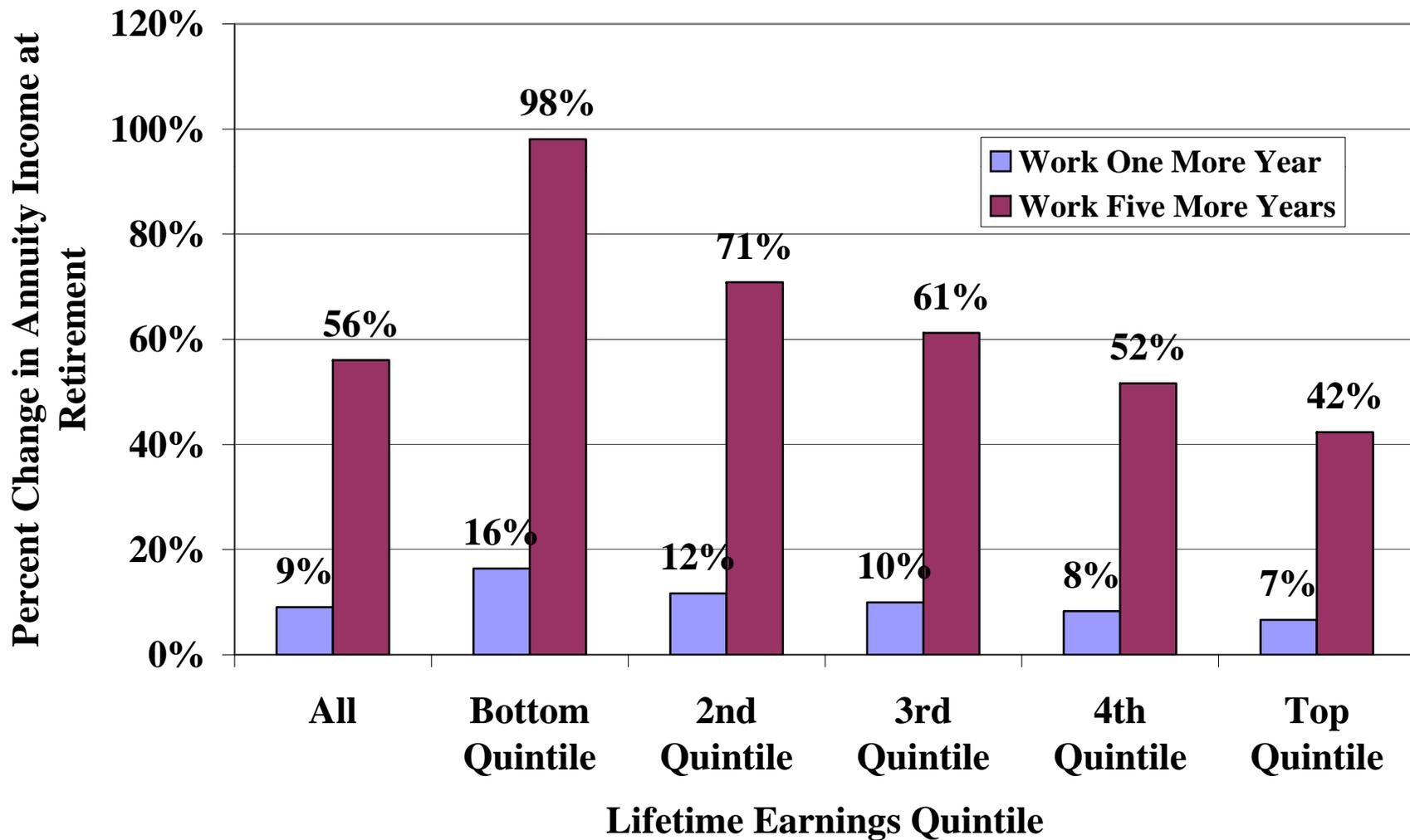
Butrica, Smith, and Steuerle (2006)

Average Annuity Income at Retirement in 2049 (by Reform Scenario, \$2006)

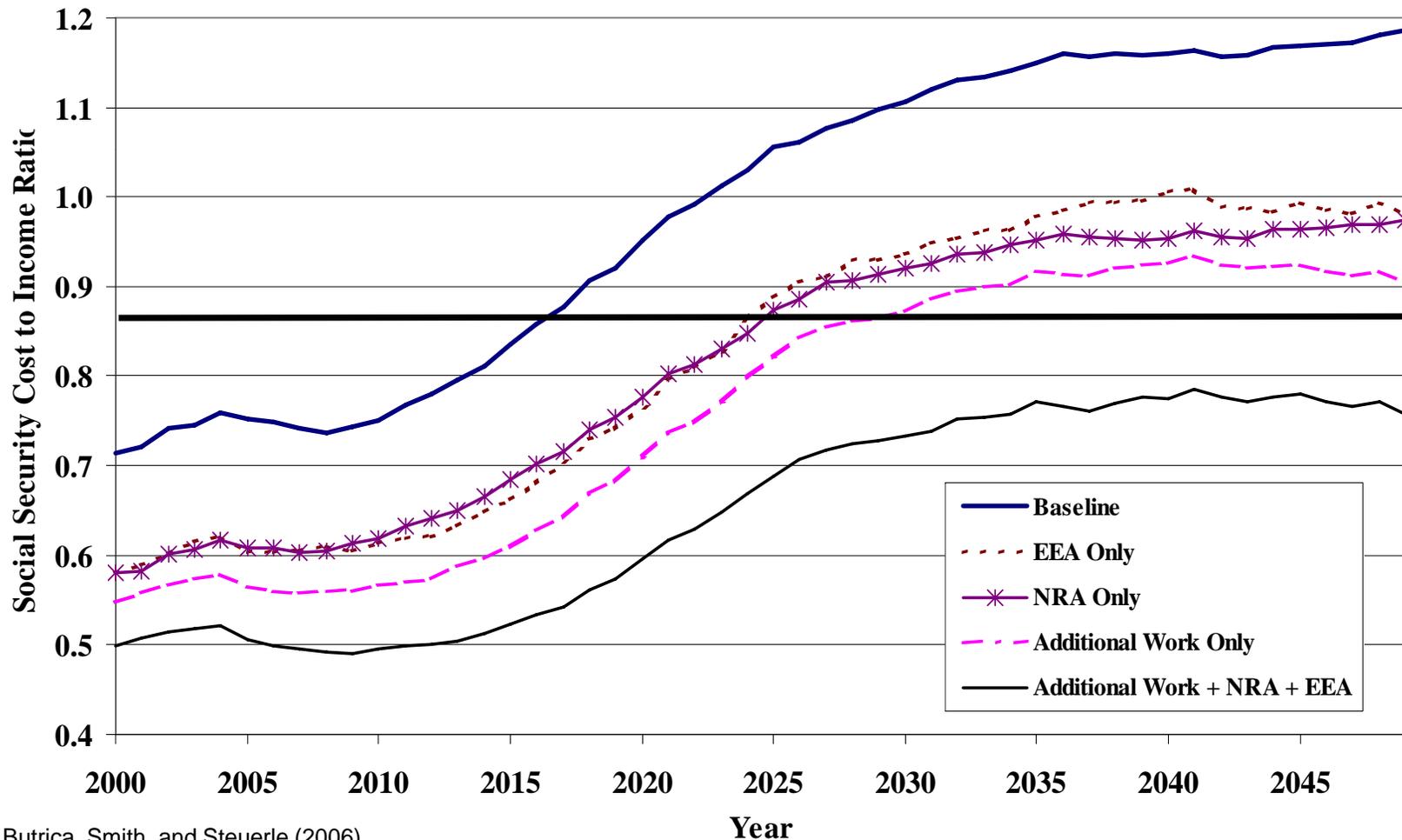


Lower income workers gain even more from additional work.

--No Reforms: One and Five Year Work Effects Only--

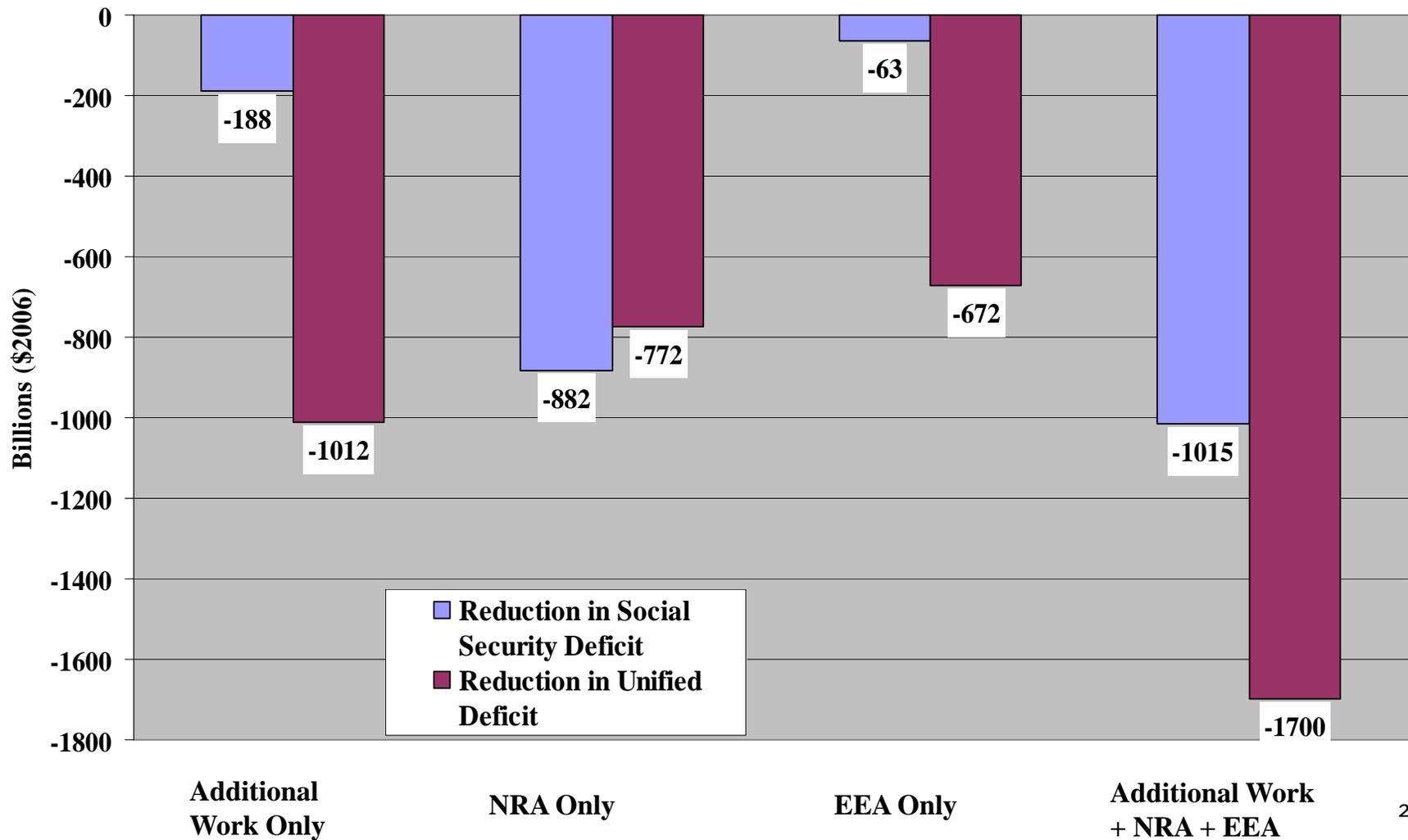


Considering the additional income taxes generated, it restores solvency.



Change in Social Security and Unified Deficit in 2045 by Source

(billions \$2006)



Base reform on “triggers,” not just projections

- Can't predict well changes in work behavior
- Likely underestimate the extent to which those in late middle age will work longer
- More work greatly reduces size of benefit cut/tax increase required
- Argues for reform adjustments based on what happens, not just what is predicted to happen

Change “Announcement” Effects & Retirement Age

- Stop saying we are old (get “old age” insurance) at 62
- Give better advice in the field as to risks of retiring earlier
- Increasing retirement age clearly increases output & average income in retirement
 - Requires coordination with disability
 - Possible to provide minimum benefits at an earlier age

Improve Transparency

- Change confusing presentation of actuarial adjustments
- Remove an earnings test interpreted as a tax
- Reveal “wage replacement” (the extent to which one’s relative income is replaced) for age 90, not just age 62.

Integrate Other Reforms

- British example: integrate private pension & Social Security reform

Reduce “Tax Rate Options”

- Remove “Medicare as secondary payer” provision
- Eliminate payroll tax after retirement age
- Reduce income taxation of benefits

“Backload” Benefits

- Provide lower benefit at earlier ages, say 62-70, higher benefits after age 70 (age indexed)
- Similarly, wage index after retirement (with the same lifetime benefit package)

Conclusions

- Old age + retirement ain't what they used to be
- My prediction: labor force trends of older workers in the 1st half of the 21st century likely to parallel those of women in the last half of the 20th century
- Still many private + public sector obstacles (including path dependency)
- Many of these obstacles can be removed
- World-wide aging & some aspects of current recession are new:
 - Few or no data points from the past



"I had another bad dream about Social Security."