



Retiring Into Work

No.5 | July 2005

Introduction

Working in later life often supplements other sources of retirement income, such as Social Security, pensions and savings, and it is likely to become even more important in the future. While many mid-life workers say they would like or need to continue working past normal retirement age, policy makers and employers are examining ways to encourage them to remain in the labor force.

This report explores the advantages and disadvantages of working longer and the practices that can encourage continued participation in the labor force at older ages.

To Work or Not to Work

Much is being written about the aging population in the United States, particularly as the “baby boom” population nears retirement.¹ Policy makers and employers are exploring ways to encourage workers to delay retirement, which could produce societal and economic benefits. If baby boomers work longer, they will consume more products, add to national productivity, continue paying income and payroll taxes and contribute to economic growth. They will also have more time to save money for retirement.

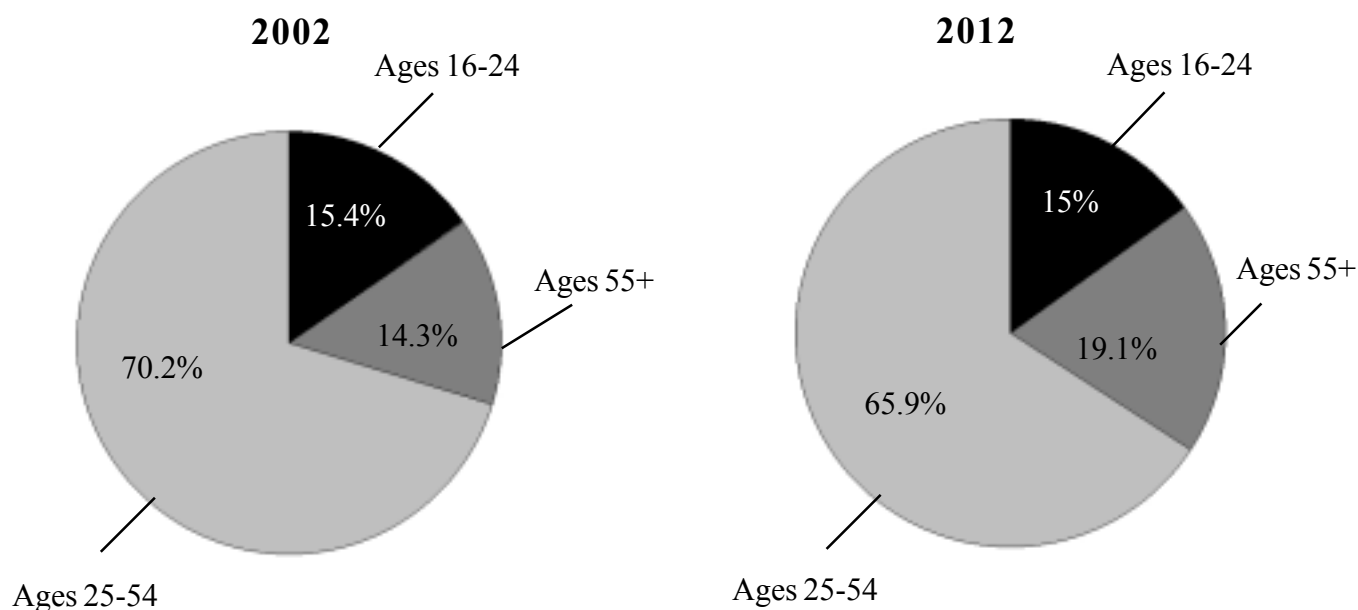
Labor Force Trends

Over the next two decades, the labor force participation rate for older workers age 55 and over is expected to increase, largely due to the baby boom generation. In fact, the labor force rate for workers age 55 and over is expected to increase four times that of the overall labor force in the next several years. In 2002, the 55+ population made up 27.6 percent of the total U.S. population and one in every seven (14.3 percent) workers. By 2012—when baby boomers will be ages 48-66—women and men age 55 and older will account for one-third of the population (32.4 percent) and nearly one in five workers (19.1 percent).

Over the same time, the proportion of workers ages 25-54 is expected to decline from 70.2 percent of the workforce in 2002 to 65.9 percent in 2012.

The median age of the labor force is projected to be 41.4 years in 2012, nearly 7 years higher than in 1982.²

Figure 1. Distribution of U.S. Workforce by Age, 2002 and Projected 2012



Source: Toossi, Mitra. "Labor force projections to 2012: the graying of the U.S. workforce." Monthly Labor Review. February 2004.

The gender gap in labor force participation rates has been shrinking. The labor force participation rate for women overall continues to increase steadily, rising from 52.6 percent in 1982 to 59.6 percent in 2002; it is projected to be 61.6 percent in 2012. The labor force participation rate of women ages 55 to 64 years has risen more dramatically, from 41.8 percent in 1982 to 55.2 percent in 2002 and to a projected 60.6 percent in 2012.³

Despite higher participation rates of older workers and women, labor force growth overall will slow by almost half over the next 10 years. This could create a shortage of up to 10 million workers by 2010 that would indicate a need for the continued involvement of older workers in the labor force.⁴ By 2030 the population over age 65 will be double what it is today. Continued labor shortages are anticipated because the generation following the boomers is substantially fewer in numbers due largely to a decline in the fertility rate since the 1970s.⁵

Aspirations of Older Workers

What do mid-life and older workers want? Doing work that they enjoy, that enables them to remain active and productive and helps others are key factors. Many say that they want or need to continue working after normal retirement. One survey of baby boomers found that 79 percent plan to work during their retirement years. Of those, 15 percent plan to start a business and 7 percent plan to work full-time at a new job; 30 percent plan to work part-time for enjoyment and 25 percent part-time for needed income.⁶

In another survey of workers between ages 50 and 70, half report that they want jobs both now and in retirement that help improve the quality of life in their communities. Seven in 10 of those ages 50-59—the advance wave of baby boomers—are interested in retail “and good work” jobs in education and social services.⁷ Another study of workers age 50 and over found approximately half said the desire to stay mentally and physically active and the desire to remain productive or useful were major reasons to work in retirement.⁸

Many who plan to work, however, will not. Not all workers will be able to continue to work in later life. Physical and mental health, lack of health insurance, job stress, transportation, employment status of a spouse and caregiving responsibilities are among the many factors that may influence the decision to retire completely. The lack of employer-provided health insurance for workers increases the average retirement age by two years for women and 1.5 years for men.⁹

Conversely, economic pressures may produce a negative motivation to continue working. Seventy-six percent of workers ages 50 to 65 who plan to continue working after age 65 identify the need for money as a major reason to work in retirement.¹⁰

As the following table illustrates, the factors affecting the decision to work in retirement are complex as are the obstacles.

Looking Beyond Normal Retirement Age	
Reasons to Continue Working	Reasons to Retire
<p>Positive Reasons:</p> <ul style="list-style-type: none"> Have a phased retirement option; flexible schedule Enjoy one’s work and associations Challenge and engagement 	<p>Positive Reasons:</p> <ul style="list-style-type: none"> Spouse is retired Preference for leisure and creative activities Availability of defined benefit pension Availability of Social Security benefits Eligible for Medicare
<p>Negative Reasons:</p> <ul style="list-style-type: none"> Need the income Loss of anticipated retirement savings, stock market losses Loss of or increased cost-sharing for retiree health coverage Lack of or insufficient pension benefits and savings 	<p>Negative Reasons:</p> <ul style="list-style-type: none"> Poor health Age discrimination Lack of new training opportunities Lack of flexible schedules Caregiving responsibilities Job stress Job loss—layoffs, employer bankruptcy Lack of employer-provided health coverage

No one should be denied a job, laid-off or passed over for opportunities because of their age.

Despite the Age Discrimination in Employment Act of 1967, which prohibits workplace discrimination against persons age 40 and older, the “silver ceiling,” where age discrimination prevents continued employment or advancement, still exists. A survey of human resource managers found that 59 percent do not actively recruit older workers and 65 percent do not do anything specific to retain older workers.¹¹ Federal and state age discrimination laws need to be strengthened and vigorously enforced while workers’ awareness of their employment rights should be improved. No one should be denied a job, laid-off or passed over for opportunities because of their age.

Workers over age 50 are less likely to be tapped for formal training to upgrade job skills.¹² Increasing education and training opportunities for older as well as younger workers may be one of the best investments employers can make. For example, United Technologies Corp. spends more than \$60 million annually on its employee scholar program, which pays the costs of workers of any age who study in their spare time. The company estimates that retention rates among its “employee scholars” are about 20 percent higher than U.S. workers as a whole.¹³

Many older workers who want to continue working also wish to work fewer hours in “phased retirement,” either on a flexible part-time schedule with a current employer or part-time with a new employer.¹⁴ In a study of workers and retirees, nearly two in five workers (38 percent) ages 50 and over express interest in phased retirement, and nearly four in five of the 38 percent say that the availability of phased retirement would encourage them to stay in the workforce longer. One-third (33 percent) of retirees said a phased retirement plan would have prompted them to remain in the workforce longer. The most attractive aspects of phased retirement are the ability to reduce work hours and possibly access pension benefits as long as final pension benefits after full retirement are not reduced.¹⁵

Policies and Regulations

Some policy proposals to prolong work life are actually disincentives to retire rather than incentives to work. Such proposals include increasing the age for full Social Security benefits beyond age 67,¹⁶ increasing the early Social Security retirement age of 62, and indexing the Social Security eligibility age for benefits to increases in life expectancy.

These approaches have numerous drawbacks. Increasing the early or normal retirement age fairly is difficult among a diverse population with different occupations, educational levels, health conditions and gender and ethnicity life expectancies. Those who promote such

increases maintain that few workers today are in physically demanding jobs and thus can work longer.

Blue-collar and service sector jobs can be physically demanding. The decline in physical job demands over the past decade is confined largely to college graduates. While two out of five workers ages 55 to 60 reported in 2002 that their jobs almost never require much physical effort, one in five report that their jobs almost always require substantial physical effort.¹⁷ The average age of workers in some manufacturing jobs is 50 or older.¹⁸ Those in physically demanding jobs suffer more from health problems that complicate their ability to remain in the labor force. Consequently, many of these workers will be unable to continue working to a later age.

Physical work is not the only source of stress. While highly educated workers are less likely to do physical labor, these white-collar jobs increasingly require intense concentration, skill in dealing with other people and good eyesight, thereby becoming more difficult and stressful for older workers.¹⁹

Many workers cannot envision employers hiring them if the normal retirement age were raised to 69 or 70.²⁰ Raising the age higher than scheduled under current law would likely mean more people would retire earlier.

A policy change that ties Social Security benefits to longevity places the burden of that change entirely on the older persons affected by it. The percentage of pre-retirement earnings replaced by benefits would steadily decline. Some may be able to adjust to it but many others will not. Older women in particular, who live longer and poorer than men, would be greatly burdened from such a policy.

Some regulatory changes, however, can help workers with a defined benefit (DB) pension plan work longer. Most pension plans are either defined benefit or defined contribution (DC) plans.²¹ In a DB plan, the employer promises a benefit amount that is usually determined by salary and length of service. In a DC plan, such as a 401(k) plan, employees and/or employers make specific contributions to an investment account; the benefits depend on investment performance.²² Employee Retirement Income Security Act (ERISA) regulations currently prevent workers with a DB plan from collecting their pensions while continuing to work for the plan sponsor. DC plans have fewer regulatory restrictions and allow participants to make withdrawals at age 59 ½ while they are still working. Changing the ERISA regulations may encourage employers to offer phased retirement and allow employees to accrue retirement pension credits or collect benefits while working reduced hours. The Treasury Department and the Internal Revenue Service have proposed rules, effective in 2006, to allow workers over

Many workers cannot envision employers hiring them if the normal retirement age were raised to 69 or 70.

age 59½ to receive a portion of their defined benefit pensions and continue working as long as they scale back their work at least 20 percent.

Low-income older Americans, particularly those in rural areas, face multiple barriers to employment, including limited job and training options, isolation and scarce transportation. The Senior Community Service Employment Program (SCSEP) under the Older Americans Act (OAA) provides part-time employment opportunities for older Americans who are economically disadvantaged, have significant barriers to employment and need intensive services. This program, however, has been flat-funded for several years. The OAA is due for reauthorization in 2005, which provides Congress with the opportunity to improve and expand this popular program with additional funding.

Employer Adaptations

Employees who are willing to work longer report that flexible schedules, job sharing, flex-place, part-year and other non-traditional work arrangements are important. Employers should adapt to these changing expectations accordingly if they want to retain older workers. They can remove barriers older workers face when seeking and retaining employment; barriers include employer attitudes about older workers' productivity.

Modest investment in job modification and workplace redesign, such as in the programs described below, can meet many of the workplace needs of older workers.²³

Employer Initiatives to Support Older Workers

Health professionals, particularly nurses, are in short supply. In addition to increased public support for education, employers in the health field can offer programs to support the maturing workforce such as offering health care services at a discount. For example, St. Mary's Medical Center of Huntington, West Virginia, provides many diagnostic and preventive services free to mature female employees (screening for breast cancer, skin cancer and cervical exams), as well as a range of services to all employees such as free annual check ups. The Center also adjusts pension calculations to allow workers to reduce hours in their final years of employment without decreasing their final pension benefit. This allows older workers to cut down on their hours without risking loss of retirement benefits.

Charles Stark Draper Laboratory in Cambridge, Massachusetts, an applied research, engineering, and technology company offers a recruitment program for retired and former employees; a generous tuition program for graduate and undergraduate college work; a choice of defined benefit, defined contribution, and cash balance retirement plans; and on-site seminars in retirement planning. Forty-two percent of the company's employees are over age 50.

Source: AARP. "Staying Ahead of the Curve 2004: Employer Best Practices for Mature Workers." (August 31, 2004)

Employers can also initiate dependent care programs, including respite care, for employees who have caregiving responsibilities.

Conclusion

There are many ways in which older persons can be encouraged to lead more productive, healthier and more enjoyable lives by remaining in the workforce longer than the normal retirement age.

Working longer than the normal retirement age is an option for greater income security in later life. However, that option should be voluntary, only if the individual wants to do so. The emphasis should be on developing policies and practices that enable people to work longer if they choose, not policies that inflict an onerous burden on older workers. Mandatory policies that discourage retirement cannot readily adapt to diversity and in the end will be an inequitable imposition on many.

Endnotes

- ¹ The estimated 77 million baby boomers are those born between 1946 and 1964. In 2005, they are between ages 41-59.
- ² Toossi, Mitra. "Labor force projections to 2012: the graying of the U.S. workforce." *Monthly Labor Review*. Bureau of Labor Statistics. February 2004.
- ³ Ibid.
- ⁴ Congressional Budget Office. U.S. Bureau of Labor Statistics.
- ⁵ The lower fertility rate of 2 children per woman of childbearing age is referred to as the "baby boom bust."
- ⁶ AARP. *Baby Boomers Envision Retirement II-Key Findings*. May 2004.
- ⁷ MetLife Foundation/Civic Ventures. "New Face of Work Study." June 2005.
- ⁸ Brown, S. Kathi. "Attitudes of Individuals 50 and Older Toward Phased Retirement." AARP. March 2005.
- ⁹ Porter, Eduardo, and Mary Williams Walsh. "Retirement Turns into a Rest Stop as Benefits Dwindle." *New York Times*. February 9, 2005.
- ¹⁰ Brown, S. Kathi. op.cit.
- ¹¹ *Business Week*. "Old. Smart. Productive." June 27, 2005.
- ¹² Kleyman, Paul. "Boomers to Redefine Workplace." *Aging Today*. Nov-Dec 2004.
- ¹³ *Business Week*. June 27, 2005.
- ¹⁴ Rix, Sara E. "Aging and Work: A View from the United States." AARP Public Policy Institute. February 2004.
- ¹⁵ Brown, S. Kathi. op.cit
- ¹⁶ The full eligibility age, or normal retirement age, for Social Security benefits is being raised from 65 to 67 from 2000 to 2022. In 2005, the eligibility age for full Social Security benefits is 65 years and 6 months.
- ¹⁷ Johnson, Richard W. "Trends in job demands among older workers, 1991-2002." *Monthly Labor Review*. July 2004.
- ¹⁸ U.S. General Accounting Office. "Workforce Challenges and Opportunities for the 21st Century: Changing Labor Force Dynamics and the Role of Government Policies." June 2004.
- ¹⁹ Johnson, Richard W. op.cit.
- ²⁰ Tierney, John. "The Adams Principle." *New York Times*. June 21, 2005.
- ²¹ Some employers have initiated or converted to cash balance plans which are a hybrid of DB and DC plans. Cash balance plans are DB plans with DC features including an individual account with potential portability from one job to another. Conversions may hurt older workers.
- ²² DB plans are insured by the Pension Benefit Guaranty Corporation up to certain limits; DC plans are not.
- ²³ AARP. "Staying Ahead of the Curve 2004: Employer Best Practices for Mature Workers." August 31, 2004.

This is the fifth in a series of issue briefs from the Alliance for Retired Americans Educational Fund on issues and programs that should be considered at the White House Conference on Aging scheduled for December 11-14, 2005 in Washington, D.C.

This report was researched and written by Dianna M. Porter, director for policy. ARAEF gratefully acknowledges Marilyn Park, AFL-CIO, and Sara Rix, AARP, for their reviews and comments. This is a publication of the Alliance for Retired Americans Educational Fund (ARAEF), the research and education branch of the Alliance for Retired Americans. ARAEF is a 501(c)(3) organization that focuses primarily on retiree issues. Permission to reproduce all or part of this report is given with following credit line: Reprinted [or excerpted] with permission of the Alliance for Retired Americans Educational Fund.



For more information or to obtain additional copies of this report contact
Alliance for Retired Americans Educational Fund
888 16th Street, NW, Suite 520 | Washington, DC | 20006
www.retiredamericansfund.org | 1-888-633-4435