

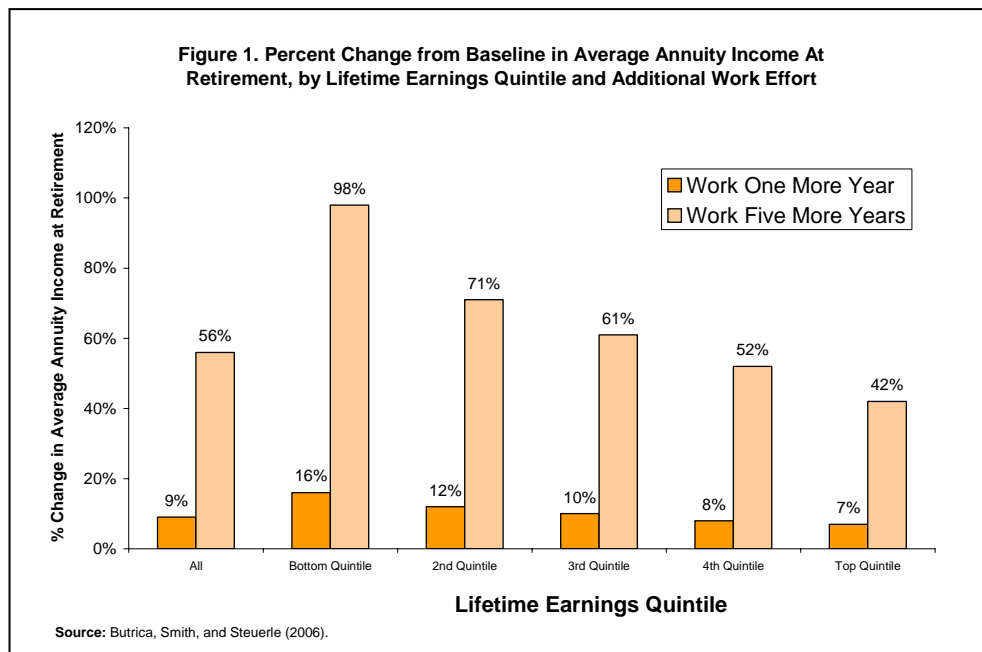


SHOULD PEOPLE WORK LONGER, AND WILL THEY?

What Are the Benefits of Working Longer?

Choosing when to retire is a crucial decision for workers. Working longer increases lifetime earnings, Social Security and employer-sponsored pension credits, and other savings, and shortens the period over which retirement savings must be spread.

- On average, working an additional year increases annual retirement income about 9 percent (figure 1).
- Working an additional five years boosts annual retirement income about 56 percent.
- The impact is even larger for people at the lower end of the income distribution.



Boosting labor supply at older ages also increases government tax revenue.

- The government would raise about \$180 billion in additional tax revenue in 2045 (measured in 2006 dollars) if all workers delayed retirement by one year, reducing the unified federal deficit by an amount equal to 28 percent of the Social Security deficit (Butrica, Smith, and Steuerle 2006).

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- Additional tax revenue in 2045 raised by delaying retirement 5 years would exceed \$1 trillion, more than 150 percent of the Social Security deficit.

Working longer may also improve emotional well-being and physical health.

- Because work is crucial to many workers' personal identities, retirement can lead to a partial loss of identity, especially for those who retire abruptly.
- Work promotes social integration and social support.
- Staying active may promote physical health.

What Are the Characteristics of Today's Older Workers?

In 2004 about three-quarters of men age 55–61 were employed (table 1).

- Male employment rates fell to about 53 percent at age 62–64, about 38 percent at age 65–69, and about 26 percent at age 70–74.

Older women are less likely to work for pay than older men.

- In 2004, female employment rates were about 59 percent at age 55–61, 40 percent at age 62–64, and 28 percent at age 65–69 (table 1).

Employment rates at older ages increase with education, and are higher among those in better health than those in worse health.

- Among men, whites have higher employment rates than African Americans.
- Black-white employment differentials are smaller among older women than older men.

Table 1. Percentage of Older Adults Employed, by Age, Gender, and Demographic Characteristics, 2004

	Men				Women			
	55–61	62–64	65–69	70–74	55–61	62–64	65–69	70–74
All	73.5	53.2	37.8	25.8	59.1	40.3	27.8	16.3
Education								
Not high school graduate	62.9	44.1	29.2	16.1	34.3	25.3	19.5	11.0
High school graduate	67.9	52.4	33.6	26.6	59.2	41.8	27.4	15.6
Some college	72.9	54.3	37.7	22.6	63.4	44.2	30.8	21.5
4+ years of college	84.6	61.5	54.3	38.5	72.3	53.9	40.5	20.7
Race/ethnicity								
African American	61.3	48.3	32.5	22.1	54.4	41.0	29.5	16.7
Hispanic	78.7	54.6	26.3	19.4	45.7	26.3	20.4	5.1
White or other race	75.0	53.8	40.3	27.1	62.0	42.0	28.4	17.4
Overall health status								
Excellent/very good	83.6	65.4	47.8	34.6	69.8	52.0	37.5	23.1
Good	76.4	56.3	37.3	27.6	61.7	42.6	29.5	16.6
Fair/poor	49.8	29.8	24.9	13.3	36.5	21.9	12.9	8.1

Source: Author's calculations from the 2004 Health and Retirement Study (HRS).

Many older workers are self-employed, and self-employment rates increase with age (table 2).

- In 2004, about 45 percent of working men age 70–74 were self-employed, compared with 29 percent at age 62–64.
- About 28 percent of job changes following retirement from long-term career jobs involve transitions from wage and salary employment to self-employment (Johnson and Kawachi 2007).
- Self-employment rates increase with education among older men; about 56 percent of working male college graduates age 70–74 were self-employed in 2004.
- Self-employment rates are lower among older women than older men.

Part-time and part-year work is common at older ages (table 2).

- About 42 percent of employed men age 65–69 and 62 percent age 70–74 worked part-time in 2004. Part-time rates for women were about 59 percent at age 65–69 and 73 percent at age 70–74.
- About 56 percent of job changes following retirement from long-term career jobs involve transitions from full-time work to part-time work (Johnson and Kawachi 2007).
- At age 65–69, about 30 percent of employed men and employed women worked only part of the year (less than 50 weeks) in 2004.

Traditional retirements, involving direct transitions from full-time work to no work, are not the norm.

- About 60 percent of older people work after retiring from career jobs (Cahill, Giandrea, and Quinn 2006).
- About one-third of workers change occupations after age 51 (Johnson and Kawachi forthcoming).
- About one-quarter of older adults “unretire,” returning to work after leaving the labor force (Maestas 2005).

Table 2. Percentage of Older Workers Self-Employed, Working Part Time, and Working Part Year, by Gender and Age, 2004

	Men				Women			
	55–61	62–64	65–69	70–74	55–61	62–64	65–69	70–74
Self-Employed								
All	24.3	29.2	34.8	45.3	14.9	19.8	21.3	25.2
Education								
Not high school graduate	19.7	31.1	22.9	44.2	17.4	25.7	20.4	17.1
High school graduate	20.8	23.3	28.8	38.3	15.7	16.1	20.6	19.4
Some college	23.6	31.4	42.7	38.6	12.7	18.1	23.9	23.7
4+ years of college	29.2	33.1	42.9	55.8	15.3	25.0	20.6	46.7
Work Part Time	12.7	29.6	42.3	62.2	27.9	44.2	58.6	73.1
Work Part Year	12.4	21.1	29.7	37.1	19.6	22.3	30.7	34.0

Source: Author’s calculations from the 2004 Health and Retirement Study (HRS).

Note: The analysis defines part-time work as fewer than 35 hours a week and part-year work as fewer than 50 weeks a year.

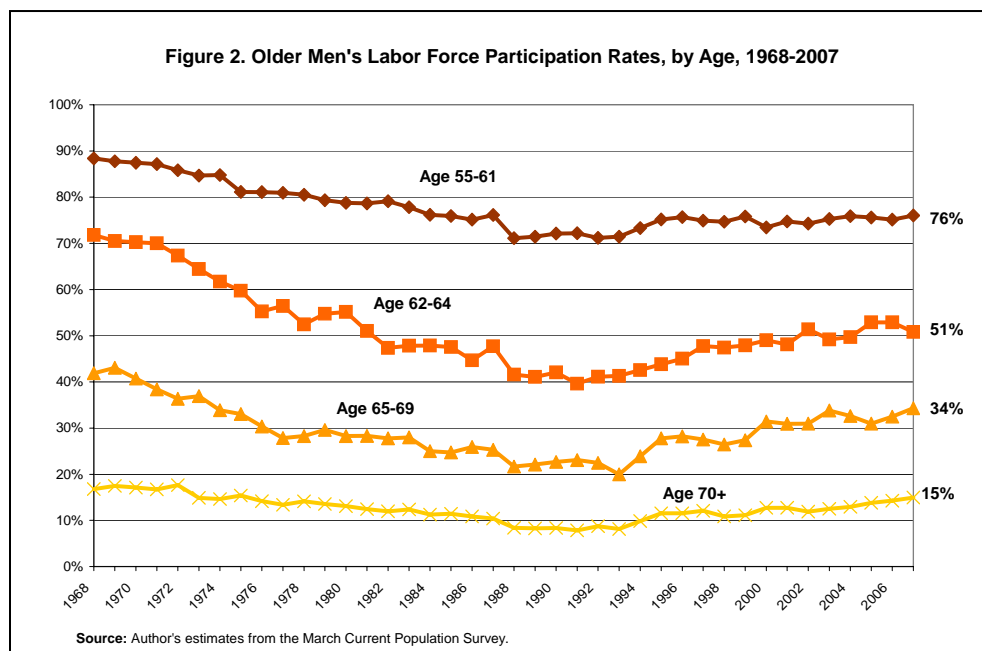
Many older people lose their jobs or stop working because of health reasons

- About 21 percent of workers age 51–55 in 1992 were subsequently laid off before age 62 (Johnson, Mermin, and Murphy 2007).
- About 25 percent of workers age 51–55 in 1992 subsequently developed health-related work limitations before age 62 (Johnson et al. 2007), including 32 percent of those who did not complete high school.
- About 35 percent of older workers who left full-time jobs between 1992 and 2006 separated for health reasons or because of layoffs (Johnson and Kawachi forthcoming), including 39 percent of African Americans, 42 percent of Hispanics, and 45 percent of those who did not complete high school.

How Has Older Americans' Labor Supply Changed in Recent Years?

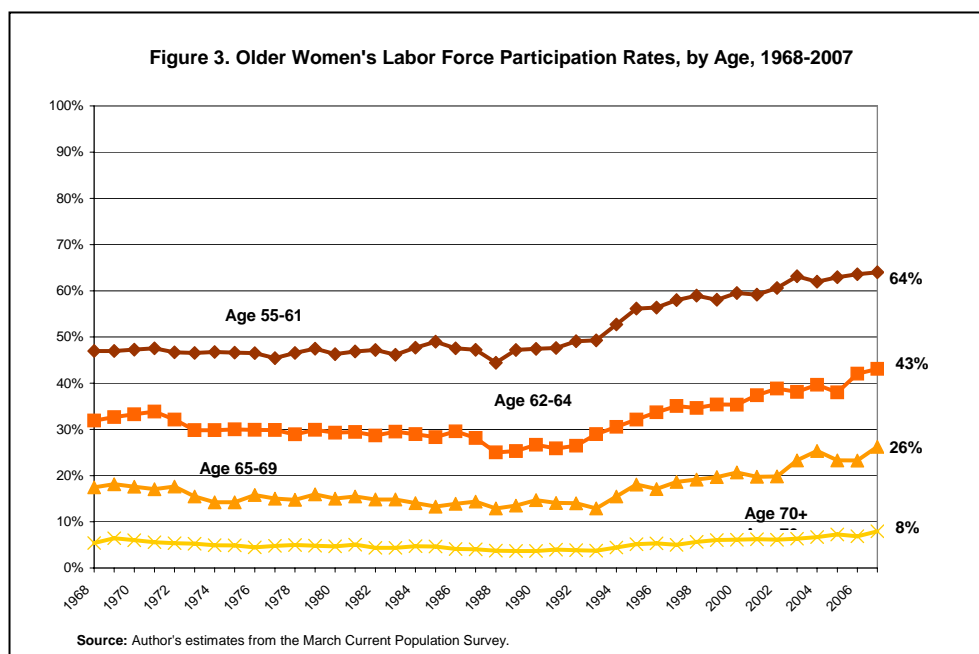
After declining for most of the 20th century, labor force participation rates for older men have been increasing during the past two decades (figure 2).

- Between 1992 and 2007, participation rates for men age 62–64 increased from 41 to 51 percent, an increase of 24 percent over the 15-year period.
- Over the same period, male participation rates at age 65–69 increased from 22 to 34 percent, an increase of about 55 percent.
- Participation rates grew more slowly at age 55–61, increasing from 71 to 76 percent between 1992 and 2007.
- College graduates generally experienced sharper increases in participation rates than those with less education. Between 1992 and 2007, for example, male participation rates increased 10 percentage points for college graduates age 62–64, while increasing only 5 percentage points for men with only high school diplomas.



Participation rates for older women were relatively constant between 1968 and the late 1980s, but they have been increasing steadily since 1988 (figure 3).

- Between 1988 and 2007, participation rates for women age 55–61 increased from 44 to 64 percent, while increasing from 25 to 43 percent at age 62–64.
- Participation rates doubled between 1988 and 2007 for women age 65–69 (to 26 percent) and for women age 70 and older (to 8 percent).

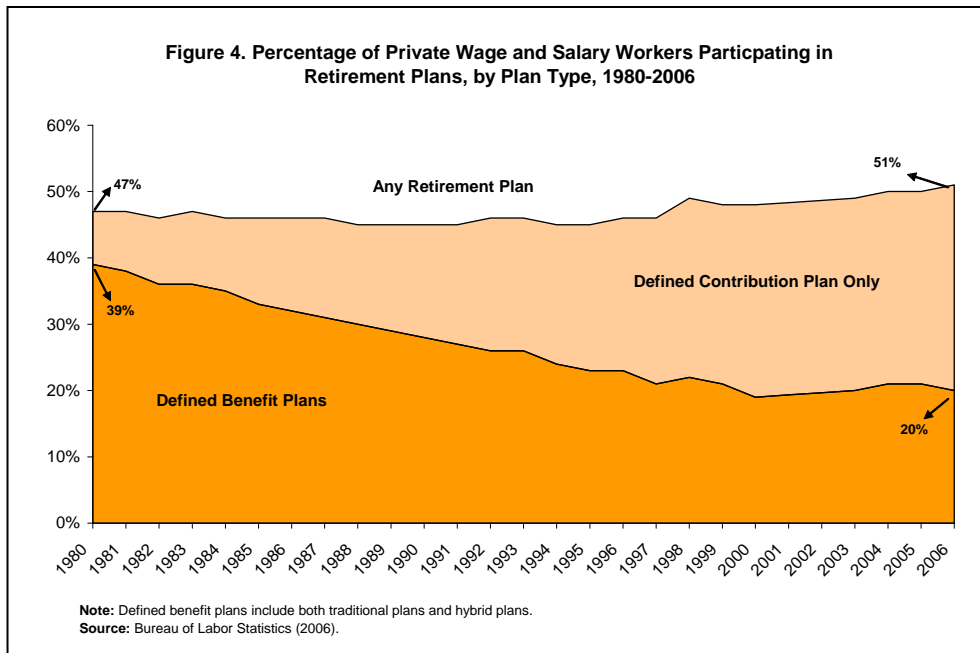


Recent Social Security reforms also appear to have increased labor supply at older ages.

- The retirement earnings test, which reduces Social Security payments to beneficiaries with earnings above certain thresholds, was eliminated in 2000 for people beyond the normal retirement age.
- The normal retirement age began increasing for people born after 1937, and will rise to age 67 for those born after 1959. As a result, those who take early benefits now experience larger actuarial reductions in their monthly benefits than in the past.
- The delayed retirement credit has been increasing gradually. For people born in 1943 or later, monthly benefits will increase 8 percent for each year that beneficiaries delay claiming benefits beyond the normal retirement age (but before age 70).

Concerns about retirement security appear to have contributed to increasing labor force participation rates at older ages.

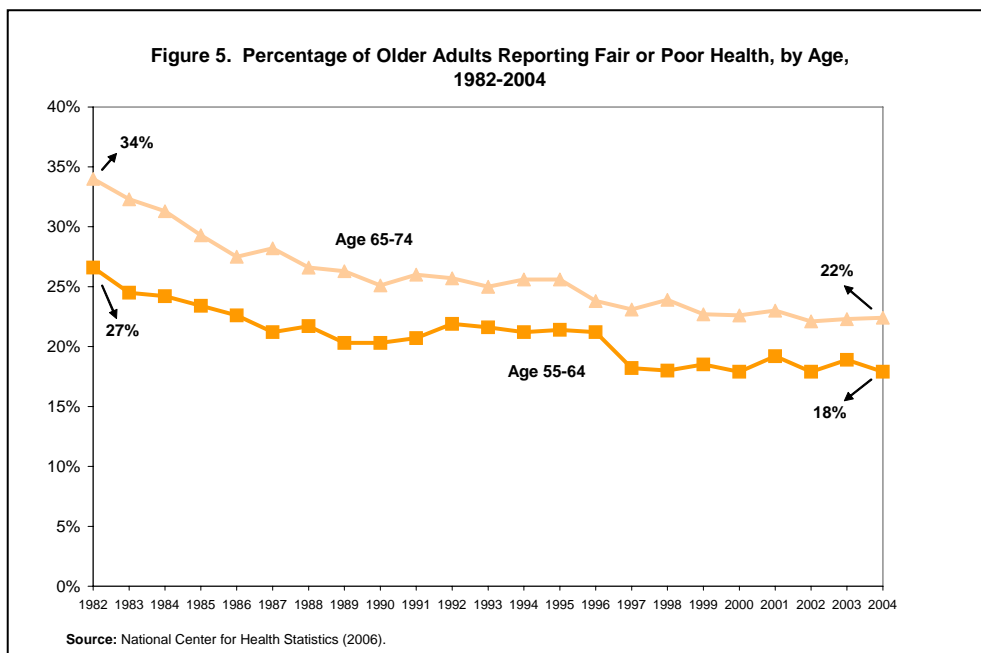
- Much of the increase over the past dozen years in expected retirement ages among adults in their early 50s appears related to the decline in employer-sponsored defined benefit pension coverage and retiree health insurance offers (Mermin, Johnson, and Murphy 2007).
- Defined benefit pension plan coverage plummeted between 1980 and 2006, falling from 39 percent of the private-sector wage and salary workforce to 20 percent (figure 4).



- Many employers are eliminating retiree health insurance or providing less generous coverage than they provided in the past. Between 1993 and 2005, the share of private-sector employers with 500 or more workers offering retiree health benefits to retirees younger than age 65 fell from 46 to 29 percent (Mercer Human Resource Consulting 2005).

Health gains at older ages may also have boosted labor force participation rates.

- The share of people age 55–64 and age 65–74 describing their overall health as fair or poor has declined steadily since 1982 (see figure 6).
- Health gains, however, have slowed since the mid-1990s, and rising obesity and diabetes rates may presage future health declines.



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