Promoting Economic Security at Older Ages through Workforce Development

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Thank you for the opportunity to submit written comments on the retirement income challenges facing the boomer generation. The collapse of the stock market, which lost about 50 percent of its value between June 2007 and mid-February 2009, highlights the fragility of the American retirement income system.[1] The destruction of trillions of dollars in retirement account wealth is forcing millions of boomers in their fifties and sixties to rethink their retirement plans. Many workers will likely respond to unexpected shortfalls in future retirement income by delaying retirement. In fact, extending the work life is commonly seen as the key solution to the retirement financing dilemma. Working longer allows people to receive additional earnings, save more, accumulate more Social Security and pension credits, and reduce the time over which their savings must be spread. Simulations show that workers can increase their annual retirement income by 9 percent on average by working only one additional year (Butrica, Smith, and Steuerle 2006). Average retirement incomes would grow by 16 percent for low-wage workers.

Many older people with limited education, however, are unable to continue working into later life. Health problems force many out of the workforce, but even those healthy enough to keep working are unable to find jobs. They often lack the skills that employers value and the tools to find available jobs. Congress could improve the economic security of these older adults in retirement and in the years leading up to retirement by increasing government-funded employment and training services.

Financial Hardship among Older Americans with Limited Education

Adults with limited education often struggle to get by at older ages. In 2005, 12.1 percent of men and 18.9 percent of women age 65 to 69 who did not complete high school were living in poverty (table 1). By contrast, the poverty rate for college graduates age 65 to 69 was only 0.5 percent for men and 2.5 percent for women. Financial hardship rates for seniors with limited education are even more pronounced when we consider those near poverty, with household incomes between 100 percent and 124 percent of the federal poverty level, all of whom struggle to make ends meet. Among women age 65 to 69, 27.2 percent of those who did not complete high school lived in households with incomes below 125 percent of the poverty level, compared with 5.3 percent of college graduates. Yet, even these numbers may understate the number of older Americans with limited schooling who struggle to get by, because the official poverty thresholds do not adequately reflect older Americans' spending needs, including out-of-pocket medical expenses. Using a better measure of poverty developed by the National Academy of Sciences (2005) that represents a more current and accurate picture of family resources and needs pushes the 2005 poverty rate for adults age 65 and older from 9.6 to 15.9 percent, increasing the estimated number of poor older adults by nearly 60 percent (Zedlewski 2009).

Financial hardship for older adults with limited education is often more serious in the years leading up to 62, when Social Security retirement benefits become available, than at the most advanced ages. For example, 18.8 percent of men and 28.0 percent of women age 55 to 61 who did not complete high school had incomes below the official poverty level in 2005 (table 1). Poverty rates increase steadily for adults who lack high school diplomas as they move through their fifties. Among those born between 1937 and 1939 who did not complete high school,

[1] The S&P 500 index fell from 1,539 on June 4, 2007—the all-time high—to 777 on February 19, 2009.

Table 1. Percentage of Older Adults with Low Incomes, by Age, Gender, and Education, 2005

	Men					Women				
	55–61	**62–64**	**65–69**	**70–79**	**80+**	**55–61**	**62–64**	**65–69**	**70–79**	**80+**
Household Income below the Federal Poverty Level										
All	6.4	7.2	4.4	2.4	5.3	9.2	9.8	7.8	9.4	11.8
Education										
Not high school graduate	18.8	18.2	12.1	10.6	12.6	28.0	23.8	18.9	20.6	24.9
High school graduate	7.2	7.3	4.0	2.9	2.2	10.3	9.5	6.6	7.9	7.9
Some college	4.5	3.9	3.1	2.7	0.6	5.1	6.6	3.6	4.9	5.7
4+ years of college	3.2	4.4	0.5	0.9	2.8	3.3	2.3	2.5	2.7	2.2
Household Income below 125 Percent of the Federal Poverty Level										
All	9.2	8.9	8.0	7.3	9.8	11.4	12.6	12.2	15.0	20.9
Education										
Not high school graduate	26.9	21.4	21.4	17.7	20.3	35.2	30.9	27.2	32.1	37.6
High school graduate	9.6	9.4	8.1	5.1	5.5	12.3	12.3	10.2	12.6	18.2
Some college	7.9	5.5	4.2	5.9	4.5	6.4	8.4	6.5	8.6	11.0
4+ years of college	4.0	4.9	1.0	1.7	5.1	4.2	2.5	5.3	4.7	4.2

Source: Author's calculations based on the 2006 Health and Retirement Study.

poverty rates increased from 23 percent at age 52 to 54 to 31 percent at age 60 to 61, a relative increase of 36 percent (Johnson and Mermin 2009). Poverty rates for those without a high school diploma then fell to 24 percent at age 63 to 64 as Social Security retirement benefits became available, and to 22 percent at age 66 to 68. Poverty rates for college graduates in this birth cohort did not increase significantly as they approached age 62, however, nor did they decline after age 62.

Declines in economic well-being in one's late fifties and early sixties are closely tied to employment status. Two-fifths of adults working full-time at age 52 to 54 reduce their work hours before age 62; one-fourth completely stop working, leaving the labor force directly from full-time employment; and another one-seventh move to part-time employment before leaving the labor force (Johnson and Mermin 2009). Financial hardship rates more than quadruple between age 52 to 54 and age 60 to 61 for workers who exit the labor force early directly from full-time employment. The consequences are particularly serious for those with limited education, more than half of whom report incomes below the poverty level at age 60 to 61 (up from fewer than 1 in 10 at age 52 to 54).

Many early labor force departures appear to be at least somewhat involuntary. More than a quarter of those who move directly out of the labor force from full-time employment have been laid off from a job in their fifties or early sixties, and slightly more than half report having a health problem that limits their ability to work (Johnson and Mermin 2009). By contrast, fewer than one in six workers employed full-time through age 62 report any work disabilities.

Older adults with limited education are less likely to work both before and after age 62 than those with more schooling. For example, the 2006 employment rate for men age 65 to 69 was 30.4 percent for those who did not complete high school, 32.5 percent for high school graduates, and 51.9 percent for college graduates (table 2). Women age 65 to 69 who graduated from college were about twice as likely to be employed in 2006 as those who did not complete high school (36.4 percent vs. 17.6 percent). Older adults with limited education are less likely to work than those with more schooling because many experience health problems, lack the skills that employers value (Munnell, Sass, and Soto 2006), and worked previously at physically demanding jobs that are difficult to hold at older ages (Johnson, Mermin, and Resseger 2007).

Table 2. Percentage of Older Adults Who Are Employed, by Age, Gender, and Education, 2006

	Men				**Women**			
	55–61	**62–64**	**65–69**	**70–74**	**55–61**	**62–64**	**65–69**	**70–74**
All	74.7	53.8	38.4	25.8	62.1	43.6	27.7	17.0
Education								
Not high school graduate	62.6	34.5	30.4	17.3	35.3	22.2	17.6	12.0
High school graduate	67.1	51.8	32.5	23.8	59.2	44.7	26.8	15.0
Some college	76.6	53.9	38.4	26.0	66.1	51.0	32.6	22.7
4+ years of college	83.7	64.7	51.9	36.2	74.7	51.4	36.4	22.6

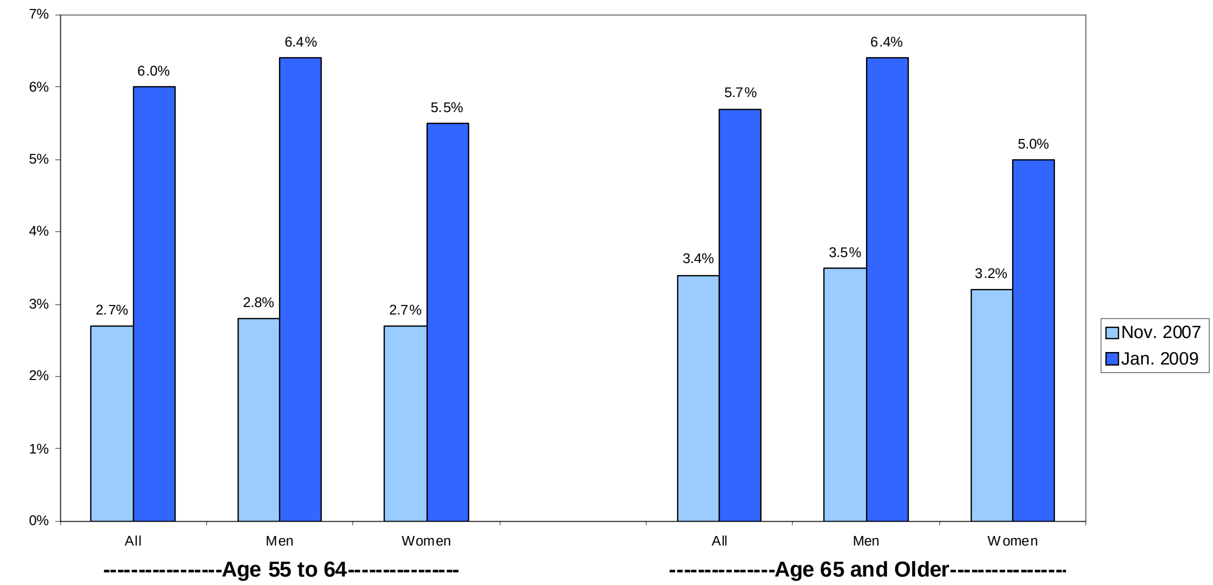
Source: Toder et al. (2008), based on the 2006 Health and Retirement Study.

The Recession Further Reduces Employment for Low-Skilled Older Workers

The recession is hitting older workers hard and further reducing employment for those with limited education. In January, 1.7 million adults age 55 and older were unemployed, more than twice as many as in November 2007, just before the recession began (Bureau of Labor Statistics 2009). About 1.3 million adults age 55 to 64 and 373,000 adults age 65 and older were unemployed. The unemployment rate for adults age 55 to 64 increased to 6.0 percent in January 2009 (figure 1), the highest rate since April 1983. At age 65 and older, the unemployment rate reached 5.7 percent, a 31-year high. The unemployment rate was lower for women than men, who are more likely to work in the hard-hit manufacturing and construction sectors.

Last month's unemployment rate for those age 25 to 54 was 7.7 percent, higher than the rate at older ages. However, the consequences of job loss are more serious at older ages. Older workers who are laid off are less likely to get another job than younger people. For example, among workers laid off between 1981 and 1983, those age 55 to 59 were about 20 percentage points less likely to become reemployed than those age 40 to 44 (Munnell et al. 2006). Additionally, older displaced workers who eventually become reemployed suffer a greater loss in hourly wages than younger displaced workers. A new Connecticut study shows that 58-year-old displaced workers earned, on average, 50 percent less on the new job than on their old job, whereas hourly wages declined by only 20 percent for 40-year-old displaced workers who found new jobs (Couch, Jolly, and Placzek 2009).

Figure 1. Unemployment Rates for Older Adults, Nov. 2007 and Jan. 2009



Source: Johnson and Mommaerts (2009), from Bureau of Labor Statistics data.
Note: Estimates are not seasonally adjusted.

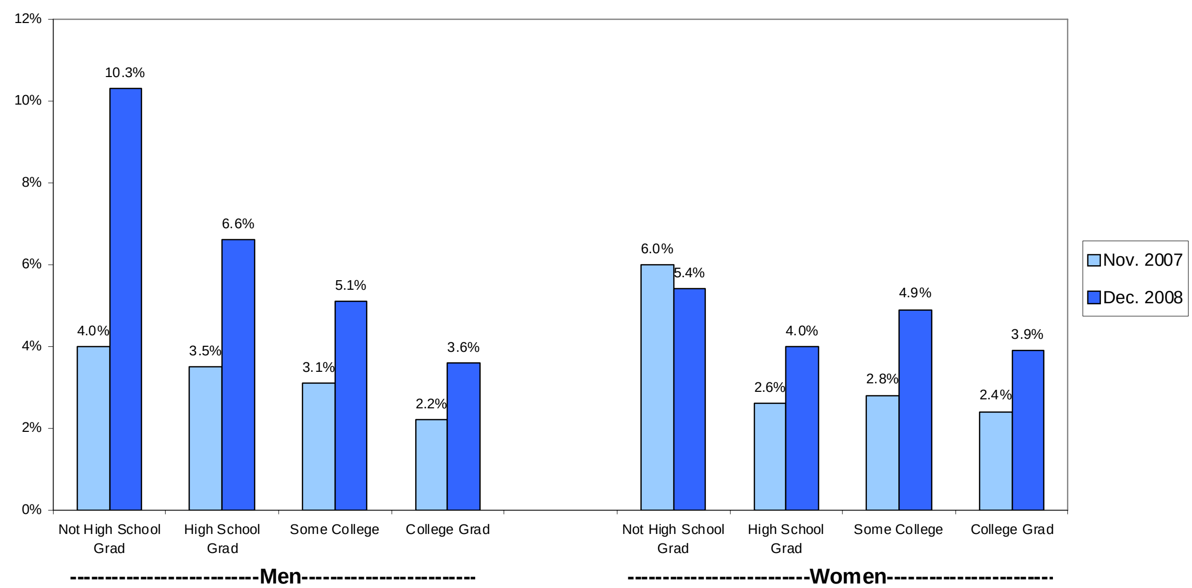
The current recession is hitting older workers harder than past downturns. For example, 12 months into the severe 1981–82 recession—the most recent downturn to have lasted as long as the current one—the number of unemployed older adults had not increased at all. What's different this time? Fewer older Americans can afford to retire now. When older workers lose their jobs today, they tend to stay in the labor force and look for new jobs, instead of dropping out of the labor force and retiring.

The dismal stock market, which has wiped out trillions of dollars in retirement account wealth, is part of the reason that many people can no longer afford to retire. Housing prices are also slumping. The combination of sagging housing prices, collapsing stock values, and a weak job market is unprecedented in recent decades. During the 1981–82 recession, the S&P 500 index fell by only 6 percent. And back then, the stock market didn't affect retirement incomes as much because many people had traditional defined-benefit pension plans that paid a guaranteed benefit until death, regardless of what the stock market did. Nearly two-fifths of private wage and salary workers had traditional pension coverage in 1980 (Bureau of Labor Statistics 2007; Pension and Welfare Benefits Administration 2001–2002). Today, the coverage rate is down to about a fifth.

The stock market plunge only accentuates a long-term decline in retirement income security that keeps older people at work. Other concerns for retirees and near retirees include declining retiree health insurance coverage, rising out-of-pocket health care costs, and cuts in Social Security benefits. Social Security's full retirement age is 66 for people who are now 62, up from 65 in previous years. People can still collect retirement benefits at age 62, but they must forfeit 25 percent of their full benefits. Past generations of early retirees only had to forgo 20 percent of their full benefits when they began collecting at 62. Rising Medicare premiums are taking a bigger bite out of Social Security benefits. And more Social Security benefits will be subject to federal income tax in the future, because the income thresholds that determine taxability are not indexed to inflation.

The recession is hitting hardest older people with little education, who can least afford to retire early. The unemployment rate for men age 55 and older who did not complete high school increased 6 percentage points since the recession began (figure 2). These men were slightly more than twice as likely to be unemployed in December 2008 as those with some college education. The recession has increased the unemployment rate for male college graduates age 55 and older by only 1.4 percentage points so far. However, the unemployment rate did not increase for women age 55 and older who did not complete high school. The unemployment rate increased by 2 percentage points for women with at least a high school diploma, roughly the same increase experienced by their male counterparts.

Figure 2. Unemployment Rates by Education, Age 55 and Older, Nov. 2007 and Dec. 2008



Source: Johnson and Mommaerts (2009), from Bureau of Labor Statistics data.
Note: Estimates are not seasonally adjusted.

Focus on Workforce Development

To improve economic security for older adults with limited education, both before and after they retire, Congress needs to increase government-funded employment and training services. These efforts would raise employment rates and earnings for older workers. To make ends meet, most low-skilled older people who are too young to qualify for Social Security benefits need to work. Extending full-time employment into later life and waiting to begin collecting retirement benefits raise future retirement incomes. Many older people could also improve their economic security by working in retirement and supplementing their Social Security benefits. Yet, many older workers with limited education have trouble finding work and earning decent wages, partly because they lack skills that employers need and partly because they are unable to connect with potential employers.

Federally funded workforce development programs could help older workers. One-Stop Career Centers, funded by the Workforce Investment Act of 1998 (WIA), provide valuable employment and training services. However, although they are designed to serve workers of all ages, performance appraisal standards appear to discourage centers from serving older adults. Centers are partly evaluated by whether clients earn more on their new jobs than their former jobs, yet mature workers are less likely to experience earnings growth than their younger counterparts, potentially discouraging center staff from focusing on seniors (General Accounting Office 2003). The Department of Labor should explicitly account for clients' ages when evaluating One-Stops.

The Senior Community Service Employment program (SCSEP) is the nation's only workforce development initiative targeted to older adults. This program helps workers age 55 and older with incomes below 125 percent of the federal poverty level acquire job skills, provides training and other supportive services, and places participants in subsidized, part-time community services assignments. Because of funding constraints, however, SCSEP now serves only about 80,000 adults (Sum and Khatiwada 2008), just a small fraction of the older adults who could benefit. The stimulus plan provides the program with an additional $125 million, but those funds would cover only 24,000 more participants. For perspective, 1.4 million adults age 55 and older were unemployed in December 2008 and more were underemployed. Additional older Americans also want to work but have given up looking for a job.

Funding constraints limit the entire workforce development system. Government spending for WIA programs has declined by nearly 70 percent since the late 1970s (Holzer and Martinson 2008). More funds for job training and employment services could improve employment outcomes for older workers and bolster their retirement security. Efforts to encourage low-skilled adults to save for their retirement, such as by subsidizing retirement plan contributions, can succeed only if they are working at good jobs.

For most older workers, long-run employment prospects are promising. The stagnating pool of adults age 25 to 54, whose numbers will increase by only about 2 percent between 2008 and 2020 (U.S. Census Bureau 2000), will boost the demand for older workers. The steady decline in the physical demands of the workplace will help more older adults stay employed (Johnson, Mermin, and Resseger 2007). In the short run, however, the recession will leave hundreds of thousands of older Americans out of work. Employment prospects will be especially bleak for low-skilled older workers. More workforce development funds could raise employment levels, helping older adults make ends meet until they qualify for Social Security and helping others supplement their retirement benefits with part-time work.

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