

**WORK AND RETIREMENT: FACTS AND FIGURES**

August 2006

An aging population creates challenges for workers, employers, and policymakers. The impending retirement of the baby boomers and the relatively small size of later generations may lead to skills shortages, create upward pressure on wages and inflation, and limit economic growth. Lower output would reduce government tax revenue at the same time that the surge in retirees will increase spending on Social Security, Medicare, and Medicaid. Lengthening life-spans force workers to spread their retirement savings over more years than ever before, an effort complicated by employer cutbacks in traditional pension plans and retiree health benefits and threatened cuts in Social Security and Medicare.

But population changes tell only part of the story. Economic output will depend on the number of workers relative to those supported by the public. And the number of workers will depend on individual decisions about work and employer decisions about hiring and retention. Demographic shifts will likely present important new job opportunities for older Americans.

This fact sheet describes the benefits of delayed retirement, the capacity of older people to remain at work, trends and patterns in labor force participation at older ages, and some of the legal and institutional work impediments that exist for older Americans. Information is drawn from such government sources as the U.S. Bureau of Labor Statistics and the Census Bureau and the following Urban Institute reports:

“Enjoying the Golden Work Years,” by Barbara A. Butrica, Simone G. Schaner, and Sheila R. Zedlewski. Available at <http://www.urban.org/url.cfm?ID=311324>.

“Promoting Work at Older Ages,” by Richard W. Johnson and C. Eugene Steuerle. Available at <http://www.urban.org/url.cfm?ID=410932>.

“Work Impediments at Older Ages,” by Richard W. Johnson, Gordon B. T. Mermin, and C. Eugene Steuerle. Available at <http://www.urban.org/url.cfm?ID=311313>.

“Working for a Good Retirement,” by Barbara A. Butrica, Karen E. Smith, and C. Eugene Steuerle. Available at <http://www.urban.org/url.cfm?ID=311333>.

Older Americans Are an Important Source of Untapped Labor

- The population is growing older as people live longer and have fewer children. Between 1950 and 2000, the share of adults age 65 and older increased from 12 to 17 percent, and the Census Bureau projects that it will reach 27 percent by 2050. There are now 36.8 million Americans 65 and older.

- The number of adults age 25 to 54, who have traditionally accounted for the bulk of the nation's workforce, will remain virtually unchanged at about 125 million between 2000 and 2020, as the overall adult population grows by about 46 million.
- Older men are less likely to work today than in previous generations, when jobs were more physical, health problems more prevalent, and life expectancy shorter. Only 53 percent of men 62 to 64 were in the labor force in 2005, down from 76 percent in 1963. Participation rates have been climbing for women of all ages. For women ages 62 to 64, for instance, participation increased from 29 percent in 1963 to 40 percent in 2005.
- Falling retirement ages and rising life expectancy mean that Americans are now spending more time in retirement than ever before. Between 1950 and 2002, the average age that people started collecting Social Security fell from 68.5 to 63.6 years. As a result, men now average about 17.1 years in retirement, up from 11.7 years in 1950. Women, on average, spend about 21.4 years in retirement, compared with only 13.5 years in 1950.
- The older population provides probably the best source of additional workers to fuel the economy. Americans age 55 to 74 will make up nearly 60 percent of adults younger than 75 who remain outside the labor force in 2020, assuming current age- and gender-specific labor force participation rates continue.

Benefits of Delaying Retirement

- An influx of older people into the workforce would ease the labor shortage created by an aging population. If current rates continue, the number of workers per nonworking adult 65 and older will fall from 4.5 to 3.3 between 2000 and 2020. However, if men 55 and older work at the same rate as they did in 1950, while other men and all women work at their 2000 rates, then the ratio would fall only to 4.1 in 2020.
- Workers who delay retirement earn more money, accumulate additional Social Security, and build more wealth in employer-sponsored pensions. Working longer also extends retirement savings, reducing the years over which Social Security, pensions, and other wealth are spread. Urban Institute simulations show that delaying retirement by five years would enable individuals, on average, to increase annual retirement spending by 56 percent.
- If all workers delayed retirement by five years, the additional Social Security taxes would offset more than half of the Social Security shortfall projected for 2045. The additional government revenue from both income taxes and Social Security payroll taxes would far exceed the size of the Social Security deficit.
- Several recent studies suggest that working longer improves people's physical health and emotional well-being. Ninety-seven percent of employed adults age 70 and older report that they enjoy going to work.

Work Patterns and Trends at Older Ages

- Reversing a century-long trend, older men are now working more than they did a few years ago. Between 1995 and 2005, the labor force participation rate for men 62 to 64 increased from 45 to 53 percent. Male participation rates decline with age, falling in 2005 from 75 percent at ages 55 to 61, to 53 percent at ages 62 to 64, to 34 percent at ages 65 to 69, and to 14 percent at age 70 and older. About 12.6 million men 55 and older were working in 2005, including 2.9 million age 65 and older.
- In 2005, the participation rate for women was 63 percent at ages 55 to 61, 40 percent at ages 62 to 64, 24 percent at ages 65 to 69, and 7 percent at age 70 and older. About 10.9 million women 55 and older worked in 2005, including 2.2 million age 65 and older.
- Possible explanations for the recent increase in work at older ages include Social Security reforms, changes in employer-sponsored benefits, improvements in health, and declines in physical job demands. Congress raised the eligibility age for full Social Security benefits (from 65 for those born before 1938 to 67 for those born after 1959), increased the rate at which monthly payments rise with delayed benefits, and eliminated the benefit reduction for those working beyond the full retirement age. Also, many employers have replaced traditional pensions with 401(k)-type plans, which (unlike most traditional plans) tend to increase in value when older workers remain on the job. Many employers are also dropping retiree health plans, discouraging retirement before Medicare begins.
- Older workers are most likely to be college educated and in good health. In 2002, 17 percent of adults 70 and older with some college were working, compared with 11 percent of those with a high school diploma and 9 percent of those who did not complete high school. Eighteen percent of adults 70 and older in excellent or very good health were working in 2002, compared with only 6 percent of those in fair or poor health.
- Self-employment increases dramatically with age. About 36 percent of working men 70 and older were self-employed in 2004, compared with 24 percent at age 62 to 64 and 13 percent at age 25 to 54. Many choose self-employment when they retire from career jobs so they can be their own bosses and work more flexible schedules.
- Part-time work is especially common at older ages. Sixty-six percent of employed women 70 and older worked part-time in 2004, compared with 40 percent at age 62 to 64 and 28 percent at age 55 to 61. Among employed men, 56 percent 70 and older, 22 percent age 62 to 64, and 11 percent age 55 to 61 worked part-time in 2004.

Work Capacity at Older Ages

- Older Americans' health has been improving steadily. Between 1982 and 2002, the share of adults 65 to 74 reporting fair or poor health fell from 34 to 23 percent, while the share 55 to 64 in fair or poor health fell from 27 to 19 percent.
- Jobs are much less physical than they used to be. In 1996, only 7 percent of jobs made strenuous physical demands on workers, down from 20 percent in 1950.

- As health improves and jobs become less physical, fewer older men claim that poor health interferes with work. Between 1971 and 2002, the share of men age 55 to 59 with health problems that limit the type or amount of work fell from 27 to 20 percent.
- Still, about 6 million men and women 55 to 64 reported work disabilities in 2002. And while physical job demands have declined, cognitive job demands and stress on the job have increased.

Institutional Impediments to Working Longer

- Traditional defined benefit plans penalize workers who remain on the job after qualifying for a pension. Benefit formulas typically pay more for more years of service, but workers forgo a year of benefits for every year they remain on the job past the plan's retirement age. The increase in annual benefits from an additional year on the job does not offset the loss from the reduction in the number of pension payments, lowering lifetime benefits. These plans cover about 20 percent of workers in the private sector and almost all government workers.
- Like everyone else, older workers must pay Social Security payroll taxes equal to 12.4 percent of earnings (up to \$94,200 in 2006), split between employers and employees. These taxes discourage employment at older ages because those with many years of work do not gain much more in Social Security benefits by remaining on the job.
- Social Security offers benefits at age 62, a powerful retirement incentive. In 2002, 56 percent of workers began collecting Social Security at 62. Only 17 percent waited until 66 or later.
- Federal law establishes employer health insurance as the primary payer of health care costs for active workers 65 and older. Medicare becomes secondary coverage, paying only for services not covered by the employer plan that are included in the Medicare benefits package. Medicare secondary payer rules add thousands of dollars per year to the cost of employing each older worker at firms that offer health insurance, discouraging companies from retaining or hiring them.
- Tax, pension, and age discrimination laws discourage employers from establishing phased retirement programs, which allow workers to transition gradually into full retirement, reducing their hours and job responsibilities but keeping them on the payroll. Tax and pension rules forbid employers from paying traditional pension benefits to participants younger than the plan's normal retirement age who still work for them. Many workers cannot afford to reduce their hours without receiving at least part of their pensions. Some participants retire, begin collecting their pensions, and then return to work with the original employer, but these arrangements often violate at least the letter of the law. Phased retirement programs could also run afoul of age discrimination laws by favoring a select group of older workers.