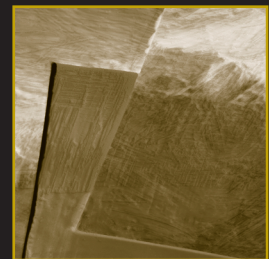


# **Capitalizing on the Economic Value of Older Adults' Work**

## *An Urban Institute Roundtable*

Eric J. Toder, Richard W. Johnson,  
Gordon B. T. Mermin, and Serena Lei



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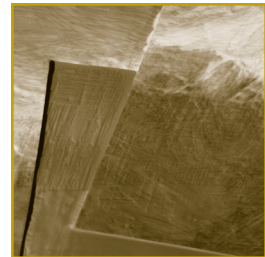
Occasional Paper Number 9



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THE RETIREMENT POLICY PROGRAM

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#### THE RETIREMENT POLICY PROGRAM

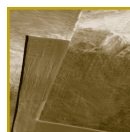
<http://www.retirementpolicy.org>

The Retirement Policy Program addresses how current and proposed retirement policies, demographic trends, and private-sector practices affect the well-being of older individuals, the economy, and government budgets.

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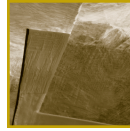
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## Capitalizing on the Economic Value of Older Adults' Work

*An Urban Institute Roundtable*

### THE FIRST WAVE OF BABY BOOMERS

reached retirement age this year, reminding us that a future of labor shortages and a drain on Social Security and Medicare finances is getting closer. The rise in the share of retirees in the population, long projected but now upon us, could strain the economy for decades. In just nine years, Social Security is scheduled to begin paying more in benefits than it collects in taxes. If current employment patterns continue, the number of workers for every retired adult will fall from 3.2 to 2.2 between 2010 and 2030, meaning that each worker will have to pay more to support retirees or retirement benefits will have to be cut.

One way to ease the pressure is to encourage adults to delay retirement and stay in the workforce. Perhaps now more than ever, the decision every adult makes to work or retire will have a profound effect on public budgets and the economy. Keeping older adults employed increases tax revenue and may promote economic growth. Working longer also increases people's Social Security and employer-sponsored pension benefits and delays their period of dependency on retirement savings. Studies suggest working longer may even improve physical and emotional health.

Adults, who are living longer and healthier lives, say they want to stay in the workplace as they age. Jobs are becoming less physically demanding. Companies are gravitating toward pension plans that don't penalize employees for working past typical retirement ages, and employees are redefining retirement to include part-time work and self-employment. In response to these trends, employers are talking about

ways to accommodate older employees with flexible work options.

In October 2007, the Urban Institute presented a roundtable, sponsored by the Alfred P. Sloan Foundation, to explore the economic value of older adults' work. Participants included leading researchers, practitioners, and policymakers, as well as employers and stakeholders from the private and public sectors. The group discussed the potential supply of and demand for older workers, the benefits of working longer, barriers to continued employment, and policy solutions to encourage work at older ages.

The roundtable began with discussions surrounding labor supply and demand. Session moderators described the characteristics of today's older workers and identified trends in work at older ages. Participants agreed on the benefits of working longer and the risks of retiring early and identified several reasons adults may want to delay retirement. There was less consensus on whether employers will want to hire and accommodate older workers. While several surveys document employer attitudes concerning older workers, there has been less research on what employers are actually doing to hire and retain older workers. Participants had varied opinions about future trends in demand for older workers. An aging population may tighten labor markets, compelling employers to increase hiring and retention of older workers. Then again, technological advancements and the outsourcing of American jobs to low-wage foreign countries may reduce labor demand and avert potential labor shortages. Until demographic pressures begin to mount, future labor demand will be uncertain.

In the second half of the discussion, participants identified public policies that might discourage work at older ages, including access to early Social Security benefits, early-retirement incentives in traditional pension plans, and the requirement that employer-sponsored health plans pay workers' insurance claims before Medicare kicks in. Other work disincentives include pension regulations that discourage employers from offering phased retirement and age discrimination laws that may keep employers from giving some of their older workers benefits or flexible work options that others do not receive. Participants also reviewed the costs and benefits of different business practices that would allow for flexible work options. The group concluded by creating a list of possible policy responses and research priorities.

## Labor Supply

Choosing when to retire is one of the most important decisions older adults face. Many adults want and need to continue working after they qualify for retirement benefits. Now that people are living longer and healthier lives, stopping work at age 62

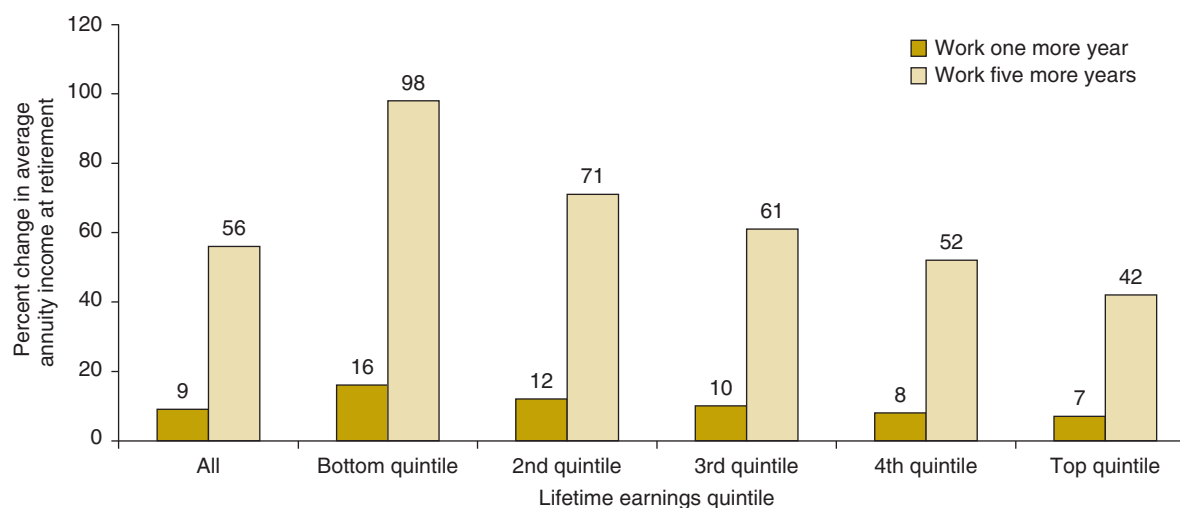
or 65 leaves a long period of retirement, raising some people's fear that they might deplete their savings. Working longer is one solution. But are people willing and able to work at older ages?

Richard Johnson of the Urban Institute began the first roundtable session by reviewing the benefits of delaying retirement. Working longer increases lifetime earnings, Social Security and employer-provided pension benefits, and other savings. It also shortens the time over which retirement savings will be spent. Working an additional year increases retirement income by almost 10 percent (figure 1). Working an additional five years may boost annual retirement income by more than 50 percent. These increases are even larger for people at the lower end of the income spectrum.

Continued work also increases tax revenue. An Urban Institute study found that if all workers were to delay retirement by one year, the government would raise \$180 billion in additional tax revenue in 2045 (measured in 2006 dollars), enough to cover 28 percent of the projected Social Security deficit (Butrica, Smith, and Steuerle 2006).

There is also evidence that working longer might improve emotional and physical well-being. Work

**FIGURE 1**  
Percent Change from Baseline in Average Annuity Income at Retirement, by Lifetime Earnings Quintile and Additional Work Effort



Source: Butrica, Smith, and Steuerle (2006).



often connects employees to social networks and gives them a sense of purpose and identity.

move directly from full-time work to no work at all, is really not the norm,” Johnson said.

### Characteristics of today's older workers

In 2006 about three-fourths of men and three-fifths of women ages 55 to 61 were employed, according to Johnson (table 1). Male employment rates fell to about 54 percent at ages 62 to 64, 38 percent at ages 65 to 69, and 26 percent at ages 70 to 74. Female employment rates fell to about 44 percent at ages 62 to 64, 28 percent at ages 65 to 69, and 17 percent at ages 70 to 74. Although employment rates decline with age, many adults continue to work into their 70s. Employment rates at older ages are higher among adults with more education, and those in better health.

Many older workers are self-employed, a trend that increases with age and, generally, with education (table 2). Part-time and part-year work also increases with age. Many older people who continue to work move into different jobs or entirely new careers. These jobs tend to involve fewer hours, less stress, and lower wages. Additionally, many older workers “un-retire” and return to the workforce. “So traditional retirement, in which people

### Trends in older Americans' labor supply

Labor force participation rates for older men have been increasing during the past two decades, after declining for most of the 20th century (figure 2). Participation rates for older women were relatively constant between 1968 and the late 1980s, but they have been increasing steadily since 1988 (figure 3).

Johnson suggested that concerns about retirement security are likely contributing to the increase in labor force participation at older ages. The trend away from employer-provided retiree health insurance and traditional defined benefit pensions has made early retirement less affordable. Traditional pension plans pay lifetime benefits that begin at retirement, so early retirees covered by these plans don't have to worry much about running out of money late in life. Now 401(k)-type plans have overtaken traditional pensions as the dominant form of retirement benefit. Retirees with 401(k) plans, which basically function as tax-advantaged savings accounts, need to stretch their retirement savings further if they choose to retire early.

**TABLE 1**

Percentage of Older Adults Who Are Employed, by Age, Gender, and Demographic Characteristics, 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
Race/ethnicity								
African American	59.5	40.2	37.6	23.3	52.8	45.6	29.3	20.5
Hispanic	68.2	61.5	35.1	17.1	50.1	20.7	21.1	5.6
White or other race	77.0	54.7	38.7	26.5	64.7	45.8	28.1	17.4
Overall health status								
Excellent/very good	86.2	64.9	48.5	32.0	75.3	54.5	36.5	25.1
Good	79.3	52.4	38.3	27.9	65.8	44.1	29.2	16.3
Fair/poor	46.2	32.9	21.0	14.8	32.8	23.0	12.2	7.1

Source: Urban Institute calculations based on the 2006 Health and Retirement Study.

**TABLE 2**

Percentage of Older Workers Who Are Self-Employed, Working Part-Time, and Working Part of the Year, by Gender and Age, 2006

	Men				Women			
	55–61	62–64	65–69	70–74	55–61	62–64	65–69	70–74
Self-employed								
All	24.5	30.9	36.8	44.1	14.8	18.6	21.5	21.2
Education								
Not high school graduate	20.1	30.0	34.3	40.2	15.8	25.7	26.3	22.9
High school graduate	16.4	36.0	30.0	41.7	17.1	15.6	16.9	16.9
Some college	26.7	24.9	43.2	41.0	10.4	19.4	17.9	18.0
4+ years of college	29.5	29.8	40.1	49.7	16.3	19.7	31.1	31.8
Work part-time	12.3	30.7	42.5	61.0	28.1	48.2	57.3	70.9
Work part of year	13.1	19.3	29.2	40.1	19.5	27.0	25.9	31.9

Source: Urban Institute calculations based on the 2006 Health and Retirement Study.

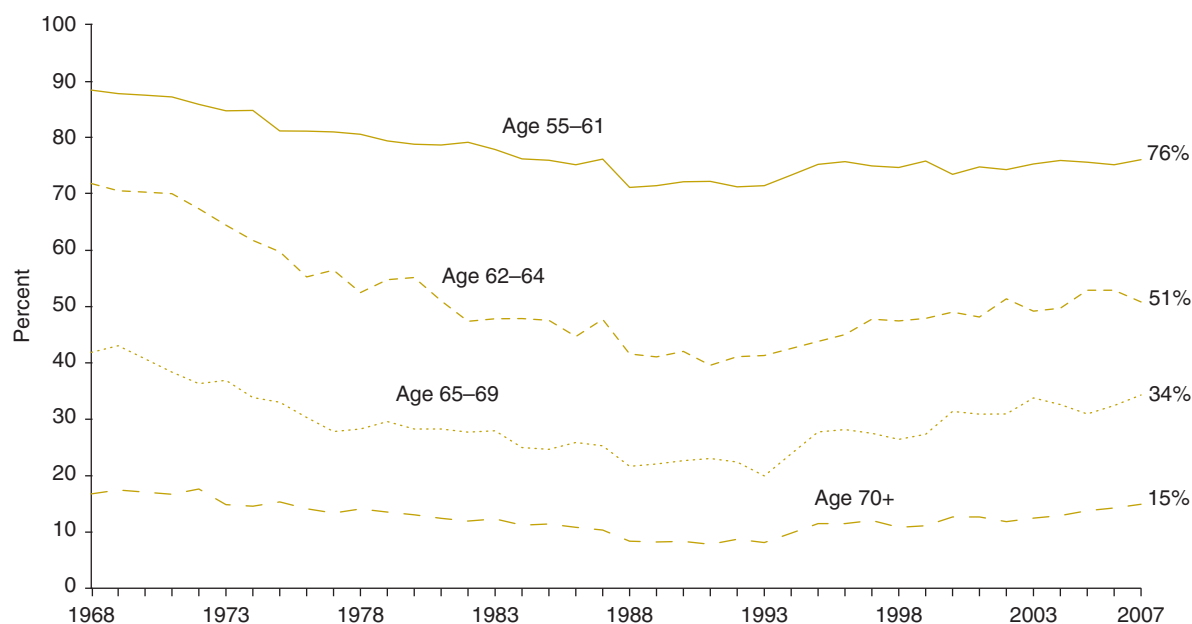
Note: The analysis defines part-time work as fewer than 35 hours a week and part-year work as fewer than 50 weeks a year.

Recent changes in Social Security benefits—some enacted years earlier—have likely played a role as well. The 1983 Social Security amendments raised the system’s normal retirement age, originally set at 65, for people born after 1937, who began turning 65 in 2002. The normal retirement age will rise to

age 67 for those born after 1959. People can continue to collect benefits as early as age 62, but early take-up will reduce monthly benefits more as the normal retirement age increases. For example, people born after 1959 will collect only 70 percent of their full monthly benefits if they collect at age 62,

**FIGURE 2**

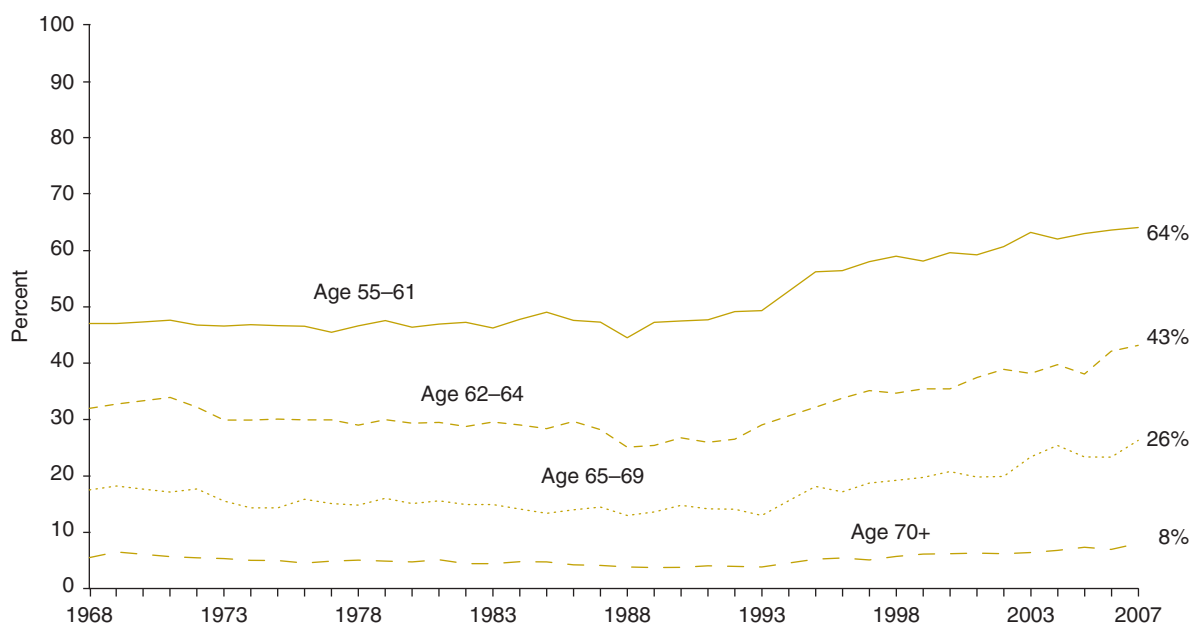
Older Men’s Labor Force Participation Rates, by Age, 1968–2007



Source: Urban Institute estimates from the U.S. Bureau of Labor Statistics, Current Population Survey, March 2008.

**FIGURE 3**

Older Women's Labor Force Participation Rates, by Age, 1968–2007



Source: Urban Institute estimates from the U.S. Bureau of Labor Statistics, Current Population Survey, March 2008.

compared with 80 percent for those born in 1937 or earlier. These changes encourage people to wait to claim benefits. Gradual increases in the delayed retirement credit for Social Security also provide incentives to delay benefit take-up. For people born in 1943 or later, monthly benefits will increase by 8 percent for each year that beneficiaries delay claiming benefits between the normal retirement age and age 70. Finally, Social Security's retirement earnings test, which reduces Social Security payments to beneficiaries with relatively high earnings, was eliminated in 2000 for people beyond the system's normal retirement age, removing a potential barrier to work at older ages.

Health improvements and the trend away from physically demanding jobs may have also increased work at older ages. Between 1971 and 2006, the share of jobs involving any physical demands fell from 57 to 46 percent (Johnson, Mermin, and Resseger 2007). In 2005, only 16 percent of adults age 50 to 64 reported fair or poor health, down from 24 percent in 1982 (National Center for Health Statistics 2007). Health gains, however, have slowed since the late 1990s, and rising obesity and diabetes rates may presage future health declines.

### Why do some older adults work past typical retirement ages?

Much of the roundtable discussion focused on the reasons older adults continue working. In addition to financial need, participants identified nonfinancial motives, such as the desires for recognition, identity, and social connectedness, as contributing factors. "What we're finding in the company is that there are all different reasons why people want to stay on," said Stephen M. Wing, CVS's director of government programs. "Some are working because they want to. Others are working because they have to. So it's a mixed bag."

Jeri Sedlar, senior advisor on mature workers for the Conference Board, said that workers surveyed in an AARP study from 2000 identified several social drivers for staying in the workforce, including money and the need for social connectedness. In addition, she found other reasons in her work, including wanting recognition, feeling the need to belong, and finding identity in the job. Low-income workers in focus groups often identified social and personal reasons for working longer before bringing up financial reasons, said Michael Smyer, director of

Boston College's Center on Aging and Work. "The use of skills, the staying connectedness, the feeling that you're giving back in some way is just as important for low-income workers as for those who have many more options," Smyer said.

The Urban Institute's Sheila Zedlewski added that social connections through jobs may be more important now than a few decades ago. "Adults in their 50s and 60s are less likely to have their children nearby than they did generations ago," she said. "Now we're much more likely to be looking at connectedness from your jobs." She suggested further research into how family factors have changed and increased reliance on job networks.

### Barriers to working at older ages

Surveys show that adults want to continue working past retirement, but what are the barriers to work at older ages? Participants noted that poor health bars some older adults from working, but there are also external barriers.

"Age discrimination does remain a problem," said Sara E. Rix, interim director of the AARP Economics Team, "and older workers' skills and expertise are of less value to employers the longer they've been out of the labor force. Those skills do actually fade." Wing, one of the sole employers at the roundtable, said that it was important not only to retain older adults, but also to train them. Moreover, "One of the things we found was that people over 55 want to be promoted," Wing noted.

Harry Holzer, professor of public policy at the Georgetown Public Policy Institute, expressed concern that low-wage workers are less likely to delay retirement even though they potentially benefit the most from working an extra year or more. C. Eugene Steuerle of the Urban Institute noted, however, that while low-wage workers receive the biggest benefit from working more, they also have the highest share of their earnings replaced in retirement, so they do not have to work longer to maintain their lower living standards. Karyne Jones of the National Caucus and Center on Black Aged noted, however, that most of the seniors her group represents work because they have to work to support themselves and, in some cases, their grandchildren. Deborah Russell, from AARP, wanted to see whether adults

at the lowest end of the income spectrum face the steepest employment barriers, perhaps because of lack of education or health problems.

Zedlewski pointed out that lack of financial literacy is a big problem, especially for low-income workers, as retirement choices become more complicated. Participants noted that the Social Security Administration sends people statements of their future retirement benefits, but the Urban Institute's Rudolph Penner questioned whether people nevertheless understood the penalties for early retirement. Barbara Bovbjerg of the Government Accountability Office cited focus-group results suggesting that people read the statements, but agreed that many people don't understand the implications for their future retirement security. With the decline in defined benefit pensions, more responsibility for retirement planning is shifting to the individual, so society needs to better educate people about savings opportunities and risks. Participants agreed that more needs to be done to improve public education and financial literacy.

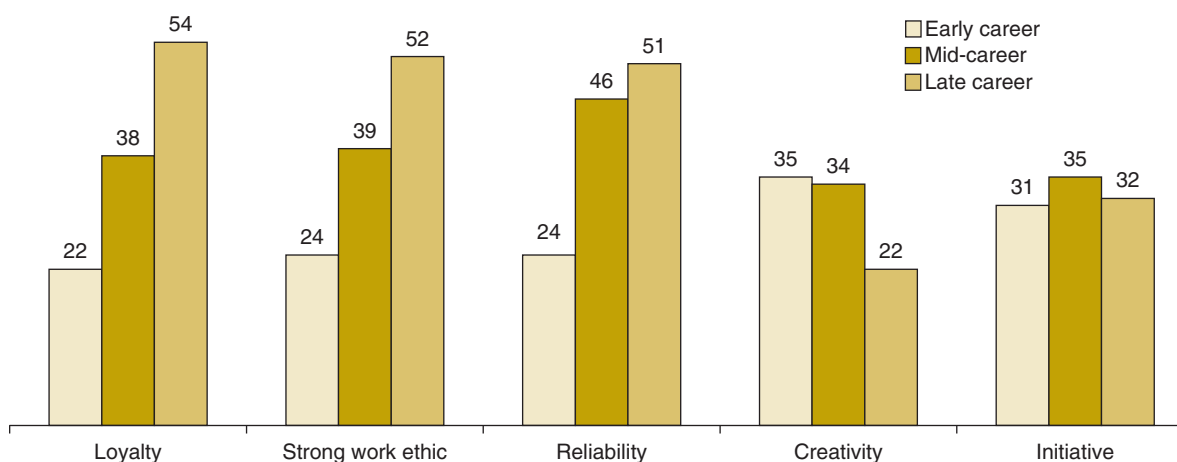
A number of participants echoed Holzer's and Russell's concern for groups with low employment rates at older ages, particularly African Americans, Hispanics, and individuals without college educations. Participants agreed that further research should examine why individuals in these groups decide to retire and identify the barriers they face to working longer.

### Demand for Older Workers

Older workers may be willing and able to work longer, but are employers willing to hire and retain them? The Urban Institute's Gordon Mermin began the next discussion by sharing survey results on employers' perceptions of older workers. Employers are more than twice as likely to attribute loyalty, work ethic, and reliability to older workers than to younger workers, according to a survey from the Center on Aging and Work at Boston College (figure 4). Most employers also reported that older managers and supervisors were more productive than their younger counterparts, although they were less positive about older rank-and-file workers, according to a Center for Retirement Research survey.

**FIGURE 4**

Percentage of Employers Attributing Trait to Workers, by Career Stage

*Source:* Pitt-Catsouphes et al. (2007).

But the news isn't entirely positive. Surveys also show that "some employers view older workers as less creative, less willing to take initiative, less willing to learn new things, and less able to perform physically demanding jobs," Mermin said. Employers are concerned that older workers are more expensive because of a combination of higher wages, higher average health insurance claims, and higher pension costs. But most employers report that the high productivity of older workers offsets their higher costs (Munnell, Sass, and Soto 2006).

Steuerle pointed out that pay scales can favor an older worker regardless of his or her performance. An older worker may be paid more than a younger worker because of seniority but may not be more productive, making employers reluctant to retain the older worker. "It's not that you don't want to keep the older worker," Steuerle said. "It's just the relative wage of that older worker now has got a little bit off your charts."

Survey data show that health expenditures rise modestly with age, potentially increasing the health-benefit cost of employing older workers (figure 5). But roundtable participants debated whether health care costs are truly higher for older workers. Wing said that CVS found 25- to 45-year-olds made up the highest-cost group after accounting for health claims submitted by dependents. Sylvester J. Schieber, chairman of the Social Security Advisory

Board, pointed out that adults employed past age 65 are likely to be healthier than average and unlikely to submit a high number of claims. "If they're spending that kind of money on health care, they're not going to be in the workplace," Schieber said. Russell said that some employers are more concerned about the health care costs resulting from bad habits, such as smoking and obesity, than from the age of their employees.

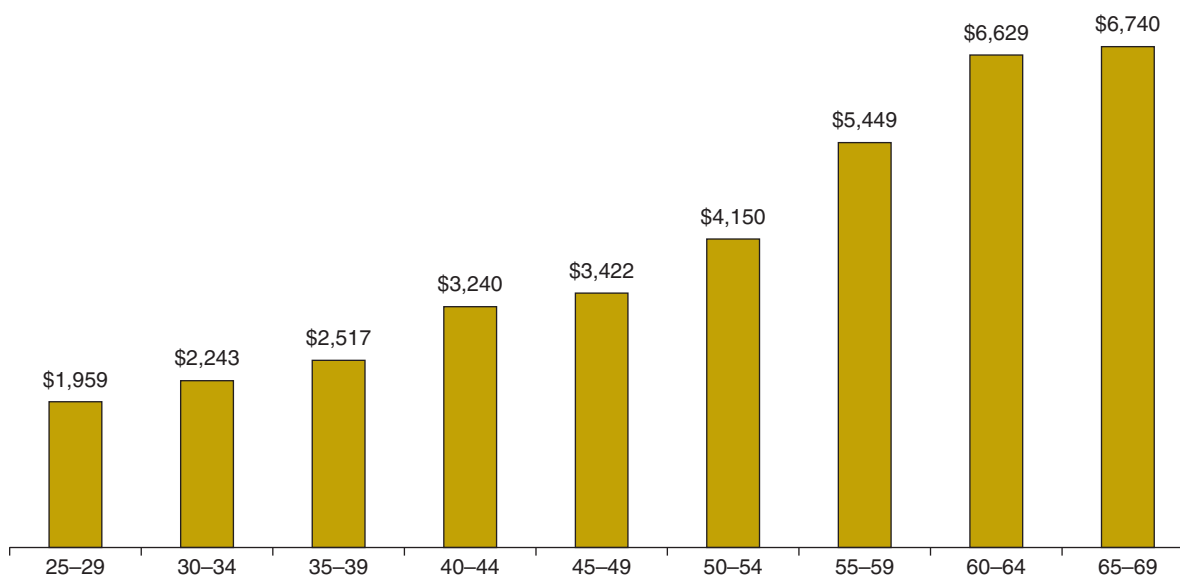
Age discrimination may still be an issue with some employers, even though older workers earn more and have lower unemployment rates than younger workers. One study, Mermin said, found that employers were less likely to call back older job applicants for interviews than identical younger applicants. Many older workers surveyed said they were treated less fairly than younger workers and faced a bigger risk of being laid off.

### An uncertain future

These employer attitudes and practices may shift with changes in jobs, workers, and the labor market. The trend away from physically demanding jobs may make older workers more attractive to employers. "The trend toward cognitive demands is more complicated," Mermin said. "Researchers believe that on-the-spot reasoning may decline with age, but ability that relies on accumulated knowledge,

**FIGURE 5**

Average Annual Health Care Expenditures by Age, 2005



Source: Urban Institute calculations from the U.S. Department of Health and Human Services, Medical Expenditure Panel Survey (2008).

such as verbal ability, does not.” Characteristics of older workers as a group will also change. Older adults in 10 to 20 years will be more likely to have college degrees, complementing the trend toward more intellectually challenging jobs.

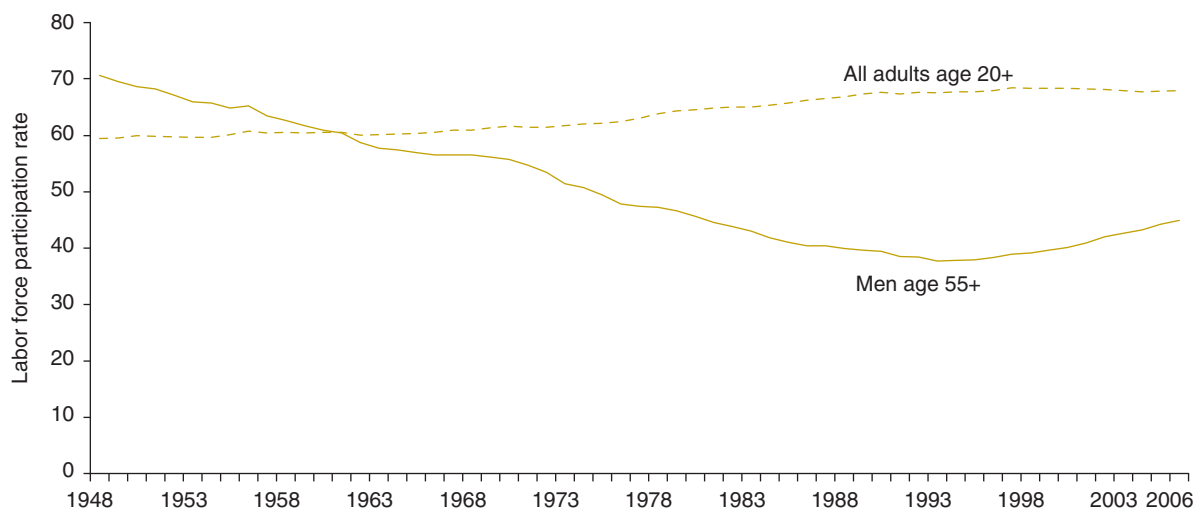
It’s also still unclear how demand will be affected by labor market changes. The U.S. population is aging and there may not be enough younger workers to fill in for retiring baby boomers. If the labor market tightens, employers may put aside their concerns about older workers. However, technological advancements and the globalization of labor markets—including more international trade and the outsourcing of American jobs to foreign countries—may offset slower growth in domestic labor supply. Gary T. Burtless of the Brookings Institution pointed out that a slowdown in labor force growth will not necessarily result in shortages, noting that even though the number of young people entering the work force dropped in the 1980s, their relative wages declined.

Steuerle noted that the employment rate of all adults over age 20 increased modestly over the last 60 years; as more women entered the work force, they more than made up for declining work among

older men (figure 6). Women’s labor force participation rates now seem to have reached a plateau. He speculated that older men’s employment rates would soon rise to maintain the historical employment rate among all adults.

Roundtable participants disagreed on which employers, if any, would be affected most by demographic changes. Holzer argued that worker shortages would develop in the middle of the labor market, for jobs held by semi-skilled workers, including some who attended college. Older workers at the high end have incentives to stay longer and employers will accommodate them, Holzer said. On the low end, older workers have fewer incentives to work longer. The jobs available to them will be unappealing or too arduous and could either be filled by younger immigrants or disappear through mechanization. Holzer advised that policy interventions are most needed for older workers in the middle, who could likely be encouraged to stay in their jobs if employers were to provide some skills training or other accommodations.

Barbara McIntosh of the University of Vermont and Barbara Hoenig, consultant to CVS, disputed Holzer’s claim that retirees won’t be interested in

**FIGURE 6****Labor Force Participation Rates: Men Age 55+ vs. the Adult Population, 1948–2006**

Source: U.S. Bureau of Labor Statistics (2008).

low-end jobs. They noted that some middle-income workers choose to work part time in retail/service jobs in retirement because they enjoy the social interaction and relatively lower stress levels.

Zedlewski pointed out that low-skilled workers have the lowest employment rates at older ages, so policy interventions are still needed to encourage them to stay in the labor force. Interventions may be especially needed for small companies, which are concerned about how to adapt to a potential labor shortage, Holzer added.

The discussion turned to ways employers are already encouraging workers to stay, including eliminating early-retirement incentives and adding incentives to delay retirement. Some employers, such as Home Depot, are working actively with AARP to recruit older workers. But many employers have been slow to change. Wing said that most employers will likely have to “feel the pain” of a labor shortage before reacting, while pointing out that CVS’s effort to hire and retain older workers has given them a competitive advantage. He added that companies need to offer flexible arrangements for older workers too and cited the CVS Snowbird program, which allows people to go from one part of the country to another, as a source of competitive advantage for them.

### How to track employer trends and data problems

Roundtable participants agreed that more research is necessary to track employer trends, particularly for small- and medium-sized employers. Participants suggested conducting large-scale employer phone surveys, including surveys asking employers about their hiring of older workers, details about benefit packages (especially defined benefit pension plans), and ways they encourage continued work. Participants also suggested collaborative research with other organizations, such as the Chamber of Commerce, the National Federation of Independent Businesses, and Corporate Voices for Working Families. Russell recommended making research more user friendly, concise, and concrete. Decisionmakers (CEOs, CFOs, and human resources directors) can better act on research when it is boiled down to a few key points.

### What Strategies Could Promote Work at Older Ages?

In the second half of the roundtable, participants discussed public policies that discourage work at older ages and strategies to turn the mindset on early



retirement around. Many current public and private policies were originally designed to encourage early retirement, said Penner. Early retirement was a reward for a lifetime of hard work and made room for young baby boomers moving up the career ladder. But the aging of the population has rendered those goals obsolete. As younger workers become scarce, keeping older workers in the labor force and enticing other older people to enter are becoming top priorities. Working longer increases tax revenue, prevents a potential labor shortage as baby boomers retire, and adds to the retirement income of a population that is living longer. Public policies need to be changed to reflect these shifting circumstances.

Policies that discourage work at older ages include the following:

- availability of early Social Security benefits at age 62;
- Social Security payroll taxes on older workers who receive little or no benefit from these extra levies;
- Medicare provisions that require workers over age 65, when Medicare eligibility begins, to continue using employer-provided health plans as their primary health insurance;
- incentives in traditional defined benefit retirement plans that discourage working beyond the plan's retirement age;
- tax-law provisions and regulations that limit payments of traditional pension benefits to active workers; and
- other anti-discrimination laws that deter employers from offering flexible work arrangements to older workers.

## Social Security

Participants debated the idea of raising Social Security's early eligibility age of 62—a question that Steuerle called “the most important policy variable that we have to deal with.” The early retirement age acts as a signal to start benefits at 62 and stop working, Penner said, even though those benefits are lower than the payments received by beneficiaries who wait to collect. “Clearly the fact that benefits are available [at 62] has got to play a big role in the decision of those who may retire as early as 60 or 59,” Penner said. The Urban Institute's Eric Toder

added that the retirement earnings test at age 62, which reduces benefits for workers earning more than a certain amount, also signals people to work less, even though the lost benefits will be replaced by higher benefits later.

Other participants expressed concern for the groups in the population, such as those with health problems or in physically demanding jobs, that might be harmed by raising the early-retirement eligibility age. “From a policy perspective . . . you can't just fiddle with the early age of retirement criteria without also looking at what else you're doing in other parts of Social Security or in other disability programs,” said Boston College's Smyer.

The Urban Institute's Margaret Simms pointed out that some people who take early retirement are older adults in poor health who don't qualify for disability benefits. Raising the age of eligibility could leave many of those adults behind. Some participants argued that disability qualifications, and not retirement age, are really at the heart of the problem. Redefining disability, then, could be part of the solution, but it will be a political challenge to revamp two systems at the same time. Overly generous disability benefits could undermine efforts to keep people in the workforce. Flexible work arrangements and other accommodations could keep more disabled adults in the workforce, but employers may not be ready to make the shift.

In contrast, Burtless raised the concern that if people are still allowed to retire early when the normal retirement age is raised, some who are myopic may stop working too soon and saddle themselves with permanently low pension benefits. Paul Hewitt of Americans for Generational Equity agreed, but suggested early retirement could be combined with some type of forced saving plan for early retirees, so that people could retain free choice about when to stop working.

Schieber raised the idea of instituting plans, such as those in place in Sweden, Germany, and Japan, that adjust benefits automatically to maintain actuarial balance without changing formal retirement ages. In Sweden, for example, participants can retire anytime after age 61, but annual benefits are higher the longer a person works. Pensions are pegged to life-expectancy rates, so annual benefits will fall in the future as life expectancy increases. Schieber noted that opposition to the plan in Sweden may be low



because participants don't fully understand the consequences. Also, it's unclear what the political reaction will be when annual benefits are actually reduced.

Social Security payroll taxes create work disincentives for people who have worked most of their adult lives. Social Security benefits are based on average indexed monthly earnings, computed over the past 35 years with the highest indexed earnings. For workers with fewer than 35 years of employment, an additional year of work and contributions eliminates a year of zero earnings from the benefit computation, generally raising future benefits substantially. But for those with longer employment histories, an additional year will raise future Social Security benefits only to the extent that current earnings exceed adjusted earnings in the lowest-earning 35 years already used in the computation. This relatively small gain in benefits is not typically large enough to offset the additional payroll taxes. Even for workers who have not completed 35 years of qualified work, the net increase in Social Security benefits is often small. Under Social Security's benefit formula, the last dollars of lifetime earnings subject to tax generate future benefits at a much lower rate than the first dollar, even within a 35-year time-frame.

## Medicare

Medicare, which starts at age 65, also influences the decision to retire early or late. "It doesn't matter if they can get [Social Security] benefits at 62 because they have no way to pay for health insurance," Zedlewski said. But the availability of Medicare at age 65 discourages some people from working later. Efforts to keep people in the workforce past age 65 might require raising the Medicare eligibility age.

Medicare secondary-payer rules increase the cost of employing older workers. Federal law establishes employer-sponsored health insurance as the primary payer of health care costs for active workers age 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. Workers with employer-sponsored health coverage essentially forfeit their Medicare benefits when they remain on the job beyond age 65. Medicare secondary-payer rules add thousands of dollars per

year to the cost of employing each older worker at firms that offer health insurance.

## Employer-sponsored pension plans

Traditional defined benefit pensions, which provide workers with lifetime retirement payments, usually based on years of service and earnings near the end of their careers, generally discourage work at older ages. Plan benefit formulas typically increase monthly payments for workers who delay retirement beyond the age at which they can begin collecting payments. However, the increase is generally not enough to offset fully the reduction in the number of payments received by workers who wait to collect. As a result, many traditional plan participants lose benefits, measured over a lifetime, when they work past the plan's retirement age.

Traditional plans are being replaced in the private sector by 401(k)-type plans, which do not penalize workers for delaying retirement, but not in the public sector. Public sector retirement plans are hindering efforts to entice older government employees to remain on the job, an increasingly urgent priority as a larger share of the workforce approaches retirement age in the public sector than the private sector. But conference participants noted that public pensions may be difficult to change because of union contracts and state constitutional protections, as well as pushback from public sector employees.

Flexible work arrangements (box 1) help employees balance work and family demands, manage life transitions, and participate more in community activities, Toder said. Employers benefit from increased recruitment and retention rates, reduced absenteeism, and improved employee satisfaction and productivity. But setting up meetings with employees on different schedules can be difficult. Employers are concerned that flexible schedules can diminish management control, leading to less supervision and lower productivity. Flexible work options may appeal to workers, but employers need to keep an eye on the company's bottom line.

Employers also need to consider that flexible schedules are valuable to all employees, not just older ones. Strategies to accommodate older workers may lead to broader changes in workplace practices that go beyond aging and work issues.

## BOX 1

### Flexible work options

- Part-time employment
- Flexible work schedules varying over the work-day or workweek
- Job sharing
- Job changes within a company
- Working from home or from a telecommuting center
- “Snowbird” programs, such as those offered by CVS, that allow employees to shuttle between two locations seasonally
- Restructuring workplaces to make work less physically demanding
- Recruiting retirees for short-term projects
- Shifting older workers to mentoring roles
- Flexible leave provisions, including short-term and extended leave

Another strategy gaining ground is phased retirement, where older employees can cut back on work hours or duties. Many people prefer to move into retirement gradually, Toder said, but employers face serious obstacles when implementing these programs. One of the biggest hurdles is defined benefit pensions. Although the Pension Protection Act of 2006 allows employers to pay benefits to workers at age 62, employers still cannot legally pay benefits to workers younger than age 62, unless the employee leaves. Many workers cannot afford to reduce their hours without receiving at least part of their pensions. Plans that calculate benefits by taking an employee’s average salary in the years before retirement could present an additional problem because transitioning into a part-time job would cut that average salary and reduce the base for calculating future annual retirement benefits.

Phased retirement and flexible schedules may not be possible with some jobs. Many managerial positions, for example, require regular, full-time, face-to-face interactions with other employees. Customer service and production jobs often involve fixed schedules to ensure that customer needs are met and the production process runs efficiently. Also, employers risk hurting morale if younger employees

feel that selective benefits to older workers amount to age discrimination.

While employees often say they want more flexibility, many have difficulty defining exactly what they want, Sedlar said. Flexibility is usually described as accommodations to place, time, work duties, and benefits. Smyer agreed that there is no common definition. He noted that younger generations are also asking for flexibility, and employers may be able to avoid exposure to lawsuits by offering flexible options to everyone, not just older workers.

Although plans vary by industry and organization, employers are considering how to accommodate new older adult employees as well as current older adult employees, Smyer said. Retired employees can return to the workforce for a specific project, which gives them more flexibility than returning to permanent full-time employment.

Johnson was concerned that discussions of phased retirement and flexible work options for older workers often emphasize the challenges faced by professionals and well-educated workers at the expense of less-skilled workers. Rix argued that flexible work options, such as part-time schedules and split shifts, are already in place for many low-wage workers. One company she studied was unable to pay more to retain its low-wage workers, but instead offered flexible schedules and a phased retirement program as incentives.

Informal phased retirement arrangements are much more common than formal policies. According to one recent survey, about 85 percent of employers reported that they would consider allowing an older worker to shift to part-time work, but only about one-third of these employers had formal written policies on phased retirement (Hutchens and Grace-Martin 2006). Some participants suggested that employers don’t want to be saddled with the institutional practice of offering phased retirement or flexible work schedules to all employees. Instead, many employers prefer to restrict flexible arrangements to their best-performing workers. Employees who informally create flexible schedules on their own may not want to make the practice official for fear of being marginalized by their supervisors or being seen as less dedicated than their full-time, fixed-schedule colleagues. Robert M. Hutchens of Cornell University suggested more research on why employers seem to prefer informal to formal mechanisms, noting that formal mechanisms have advan-

tages for both employers and employees and that finding ways to encourage their use could be a good direction for future policies.

Another participant wondered if employers made informal arrangements to avoid potential discrimination lawsuits. “The fear of a lawsuit is out there,” said Chantel Sheaks, legislative counsel for tax and benefits at Georgetown University Law Center. The Age Discrimination in Employment Act (ADEA) forbids employers from discriminating against workers and job applicants age 40 or older. Some employers fear that they could be hit with a lawsuit if they offered phased retirement plans to some groups of older workers but not to others, even though these arrangements might not be illegal. Sheaks brought up the example of automatic enrollment in 401(k) plans, a practice that most benefit attorneys viewed as legal, but that only grew in popularity once the Pension Protection Act of 2006 clarified the rules. “We want certainty in the law,” she added. Katie Corrigan of the Georgetown University Law Center added that it is not enough just to look at public policy; businesses need to think about how they can set their objectives for middle management in a way that allows them to structure the work of their employees flexibly.

Some participants cautioned that flexibility should not come at the cost of protections for older workers. Existing employment and retirement law protects employees who want to continue working regular, full-time schedules. Policy responses designed to promote work at older ages, participants said, should safeguard those protections.

Steuerle brought up the question of how employees are identified as needing flexible work options and contemplated ways to avoid abuse of the system. “It has to be something . . . beyond self-declaration of need,” Steuerle said. “It really has to be something that’s more universal.”

Roundtable participants were eager to see more data about how federal agencies are managing flexible work arrangements for their own workforces. Federal agencies could serve as role models for private employers, and the federal government could provide leadership by educating employers about its experience with flexible arrangements. Smyer pointed out that state governments need to be included in the conversation. As employers, some states are already feeling the effects of an aging workforce.

## Research priorities

What research is needed to understand more about flexible work options? Rix suggested looking at the training workers are getting and if it has any effect on how long they are employed. Smyer framed the main research question as one of outcomes. “Which type of flexible work options for which types of employees have which types of outcomes?” he asked.

Participants wanted to hear more about federal flexible work programs and systematically measure what’s working and what’s not working, rather than relying on anecdotes. Longitudinal studies could show what is happening to flexible work options over time, with data broken down by industry and occupation. As mentioned earlier, participants would also like to see more research on what employers are really doing to retain and accommodate older workers.

## Conclusions

One of the themes that emerged from the conference is the increased ability and willingness of older people to remain in the workforce, which could ease growing pressures on public budgets and promote economic growth. Over the past 15 years, labor force participation rates increased by nearly one-quarter for men age 62 to 64 and by more than half for men age 65 to 69. Participation rates increased even more rapidly for older women. Financial need has kept many older people at work, as traditional pension plans and retiree health plans disappear from the workplace. But many older people also keep working to maintain their social connections, stay engaged, and give their lives meaning. Many want to stay employed, as long as they can work on their own terms. This means more flexible work options, such as part-time work, flexible scheduling, and telework.

The trend away from early retirement is likely to continue as the oldest boomers enter their 60s. The aging of the workforce and growing scarcity of younger workers will increase employer demand for older workers, despite the growing mechanization and globalization of the workplace that could diminish the overall need for American workers. Most employers today say they value older workers’ maturity and experience. The coming slowdown in the growth of the younger population will likely drive

more employers to recruit and retain older workers and devise work arrangements that appeal to them.

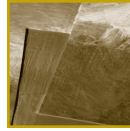
To maximize older workers' potential, however, we need to reform existing policies that discourage work at older ages. For example, traditional defined benefit plans, which still dominate among government workers even though they are fading away in the private sector, generally penalize workers who remain employed beyond the plan's retirement age. A few states and localities are experimenting with ways to eliminate these work disincentives at older ages, but most state and local government employers continue to push workers into early retirement.

Existing laws and regulations appear to discourage some employers from developing innovative ways to retain older workers. Phased retirement programs, for example, allow older workers to remain employed with reduced work hours and responsibilities, which many older people prefer. Although experts at the roundtable agreed that these programs would not violate anti-age discrimination laws, the possibility of legal challenges appears to discourage many employers from implementing them. A recurring theme at the conference is that employers demand legal certainty before they are willing to adopt new employment policies.

The conference also highlighted how much older workers' special needs vary by education and skill level. Although most well-educated older adults will

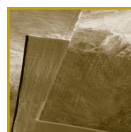
likely adapt fairly easily to longer working lives, people with limited education will probably encounter more difficulties. Older men who did not attend college on average have more health problems and work in more physically demanding jobs than those with college degrees. In fact, employment rates generally increased more rapidly over the past decade for older male college graduates than for older men with less education. Employment and training programs geared specifically to older workers with limited skills may be warranted. Policies designed to encourage work at older ages, such as possible increases in Social Security's retirement ages, should include protections for older people who are unable to extend their working lives.

Finally, more research is needed to inform policy choices. We need to know more about employers' willingness to hire and retain older workers, especially among medium-sized and small firms. We need better information on what employers are doing to attract and retain older workers and the effectiveness of different approaches. We need more research on employers' willingness to train older workers and on the effectiveness of various training techniques. Finally, we need to measure better the impact of policies that appear to discourage work at older ages, so we can strive to eliminate those policies that create the most powerful work disincentives.



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## Appendix

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