Older Americans' Economic Security

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How Long Do Boomers Plan to Work?

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The solvency of the U.S. retirement system partially hinges on how long baby boomers stay in the workforce. If they retire as early as the previous generation, the number of workers per retiree will soon plummet, reducing the tax base and squeezing budgets for Social Security and all other government programs. But new research shows that as the boomers approach retirement they intend to work longer than people born a dozen years earlier, promoting economic growth and partly offsetting the economic pressures created by an aging population.

Changing Retirement Incentives

A century-long trend toward earlier retirement appears to have ended about 20 years ago, and may have reversed. Labor force participation rates for men ages 65 and older fell from 84 percent in 1870 to 46 percent in 1950 to 16 percent in 1990 (Costa 1998; Toosi 2002). Participation rates have since rebounded a bit, rising to 20 percent in 2005 (Bureau of Labor Statistics 2006). However, it is unclear whether the baby boomers—the large cohort born between 1946 and 1964—will work longer or revert to the prior trend of earlier retirement. With the first of the boomers qualifying for Social Security retirement benefits in 2008, much is at stake for public and private retirement systems, the economy, and their own financial security.

Economic, demographic, and social changes are transforming retirement incentives. Social Security reforms—including boosting the normal retirement age to 67, eliminating work penalties for Social Security beneficiaries past the normal retirement age, and bolstering benefits for those who wait to begin collecting Social Security—are making work more lucrative. The continuing decline of the manufacturing sector and the increased computerization of the workplace are reducing physical work demands, enhancing employment opportunities for older Americans.

Changing employer-provided retirement benefits also promote employment by raising the returns to work and the costs of retirement. Between 1992 and 2004, the share of workers ages 51 to 56 participating in traditional pension plans fell from 40 to 31 percent, while the share with 401(k)-type plans increased from 33 to 46 percent (table 1). Unlike 401(k) plans, traditional pension plans discourage work at older ages because they force participants to sacrifice a month of benefits for every month they work past the plan's retirement age. Additionally, access to employer-sponsored retiree health benefits has plunged recently, discouraging early retirement by raising the cost of stopping work before Medicare eligibility begins at age 65.

Workers in their early to mid-50s are also better educated now than they were just a dozen years ago. In 2004, 37 percent of workers ages 51 to 56 had completed

TABLE 1. Characteristics of Workers Ages 51 to 56, 1992 and 2004

	1992	2004
Share with Characteristic (%)		
Traditional pension plan on current job	40	31
401(k)-type pension plan on current job	33	46
Employer retiree health insurance offer on current job	56	39
Did not complete high school	22	10
College graduate	22	37
Female	46	50
Married	75	71
Average Expected Probability of Working Past Age 62	47	51
Average Expected Probability of Working Past Age 65	27	33

Source: Authors' estimates from the Health and Retirement Study (HRS).

Note: Estimates are weighted to account for the HRS sampling probabilities. All differences between 1992 and 2004 are statistically significant ($p < .05$). See Mermin, Johnson, and Murphy (2006) for details.

college, up from 22 percent in 1992. Education tends to delay retirement, because well-educated workers generally hold more flexible jobs with fewer physical demands than workers with less schooling.

Changing Work Expectations

These trends have significantly raised older Americans' work expectations. The Health and Retirement Study, a nationally representative survey of older Americans funded by the National Institute on Aging, has been asking respondents how likely they are to work past ages 62 and 65. Among workers ages 51 to 56, the average expected probability of working full-time past age 62 reached 51 percent in 2004, up from 47 percent in 1992. The average expected probability of working full-time past age 65 increased faster, growing from 27 to 33 percent between 1992 and 2004. Our statistical analysis indicated that the declining availability of retiree health benefits, increasing levels of educational attainment, and falling traditional pension coverage accounted for most of the increase in work expectations.

Will early boomers in fact delay retirement, and will the trend continue for later boomers? The answer will depend partly on whether recent trends in work characteristics and demographics continue. The erosion of employer retiree health benefits will likely persist, as health care costs continue to rise. And the trend away from traditional pension plans shows no signs of abating. Taken together, these trends and our findings suggest that boomers will remain at work longer than the previous generation, implying that the recent uptick in average retirement ages marks the leading edge of a new long-term trend. Although the boomers' current work plans are not enough to overcome all the challenges created by an aging population, they are encouraging signs that will likely lead to stronger economic growth, higher government revenue, and better financial security at older ages.

References

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