



Friday, September 6, 2019

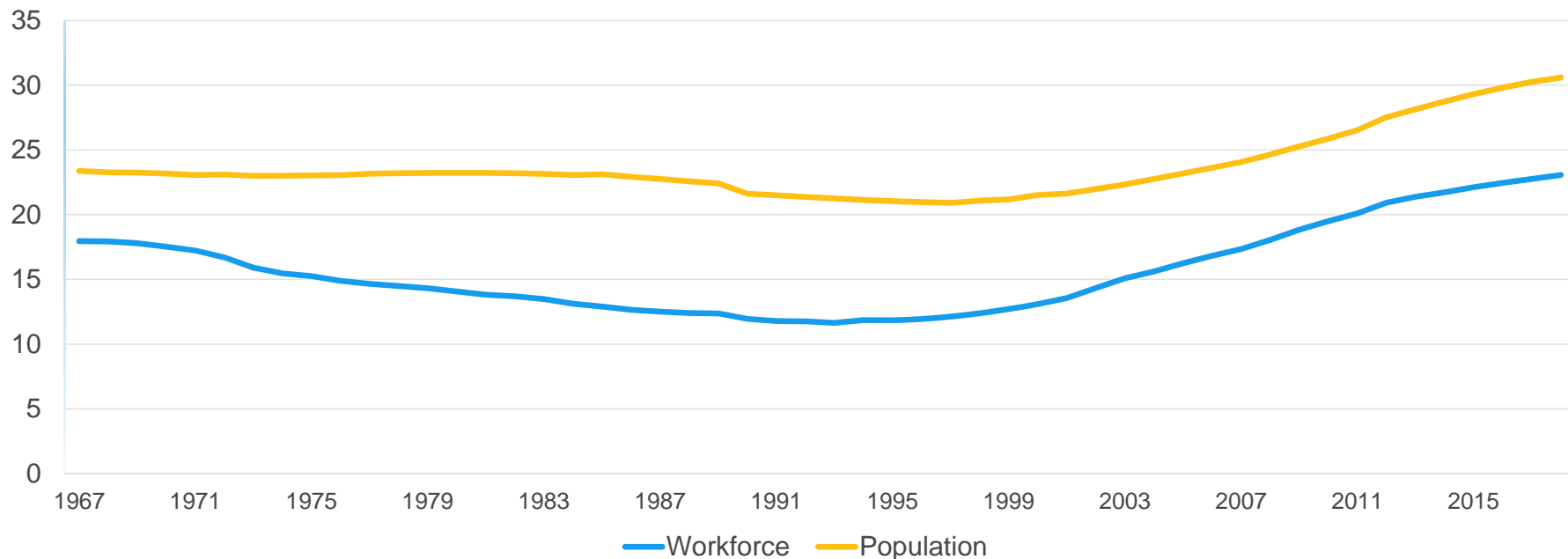
Employment at Older Ages: Retirement Policy, Business Cycles, and Demographic Change

By Richard W. Johnson



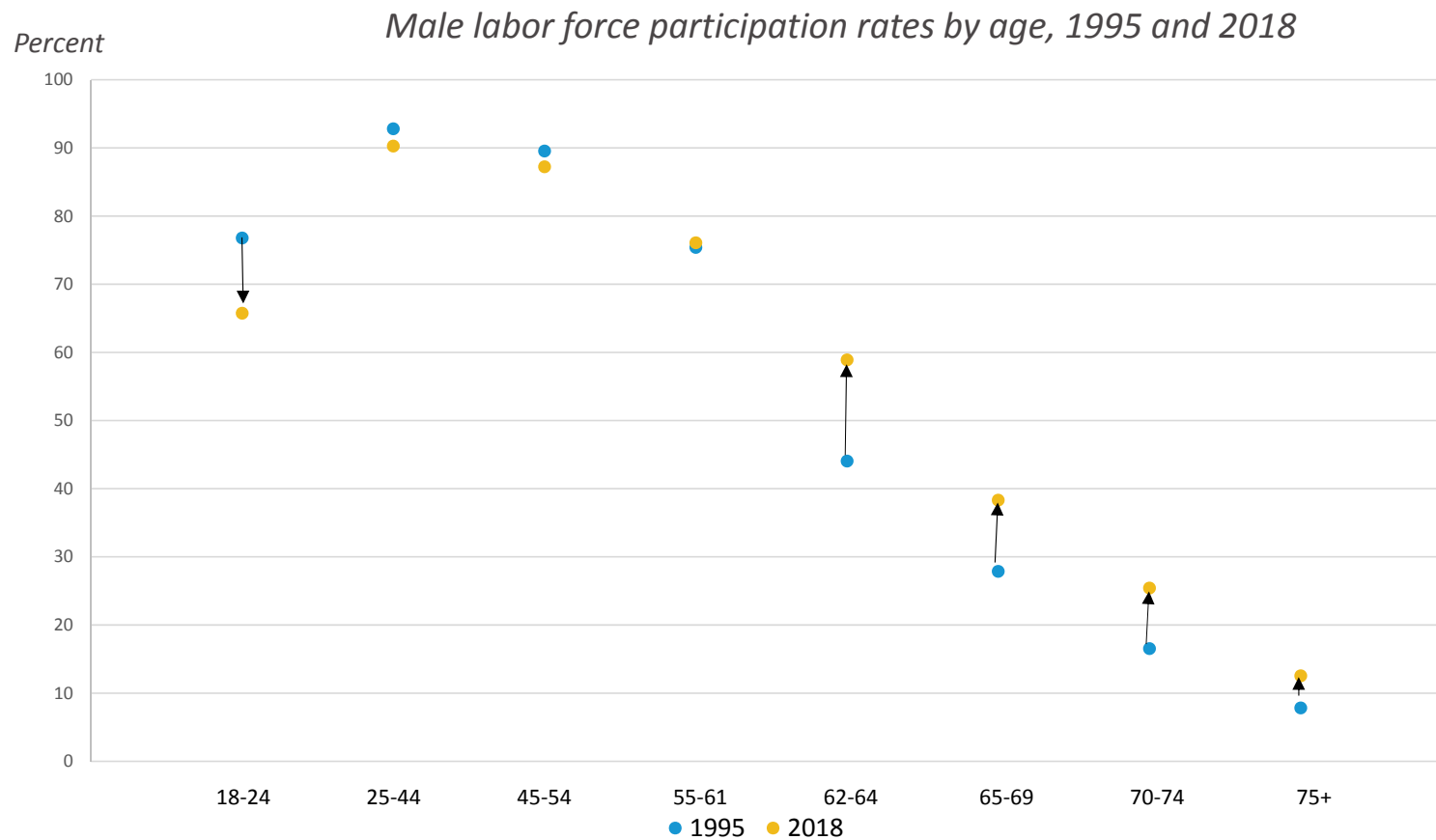
The US workforce and population have been aging over the past 25 years

Percentage of Workforce and Adult Population Ages 55 to 74, 1967-2018



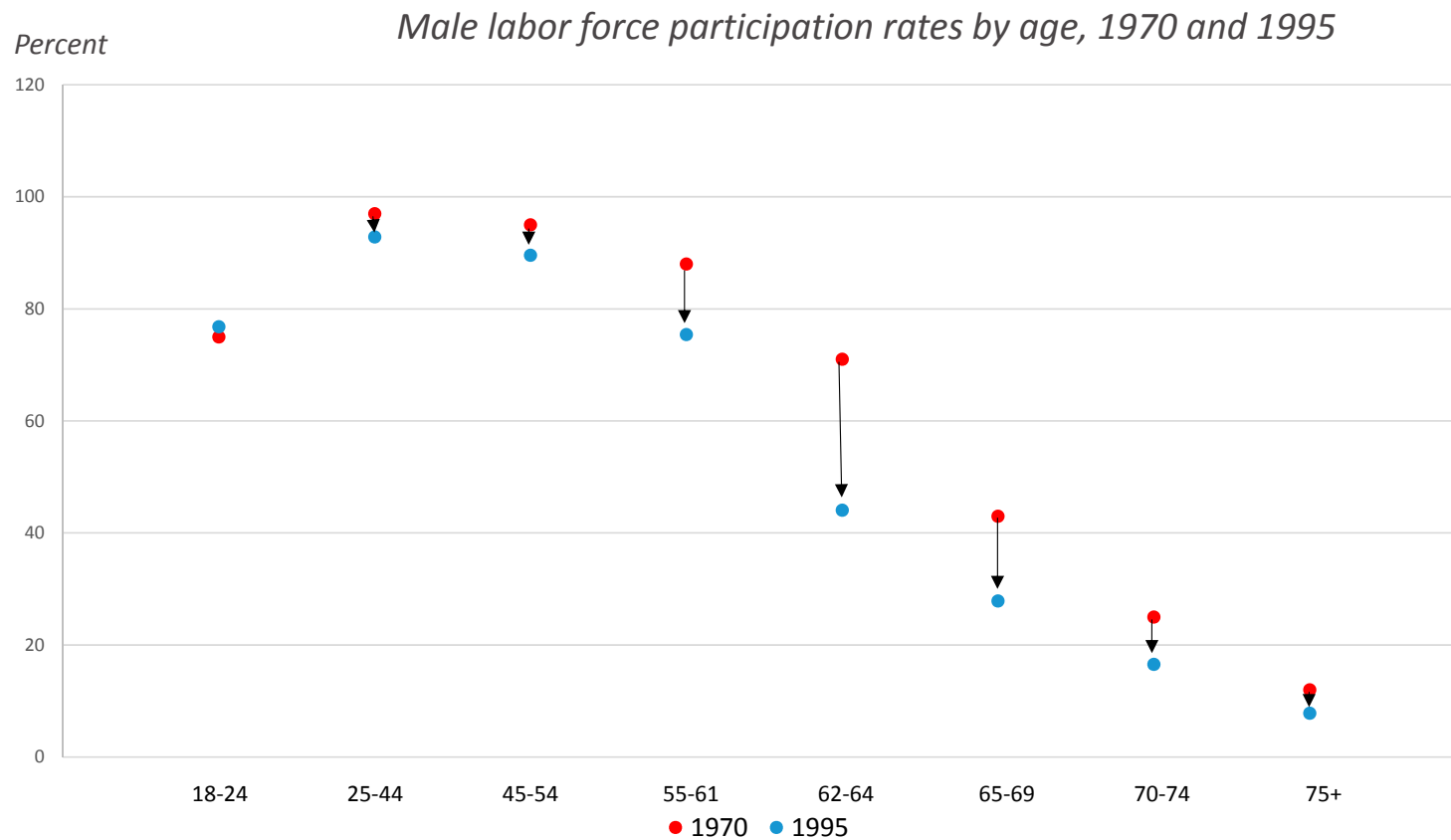
Source: Author's estimates from Current Population Survey

Over the past quarter century, older men have been working more



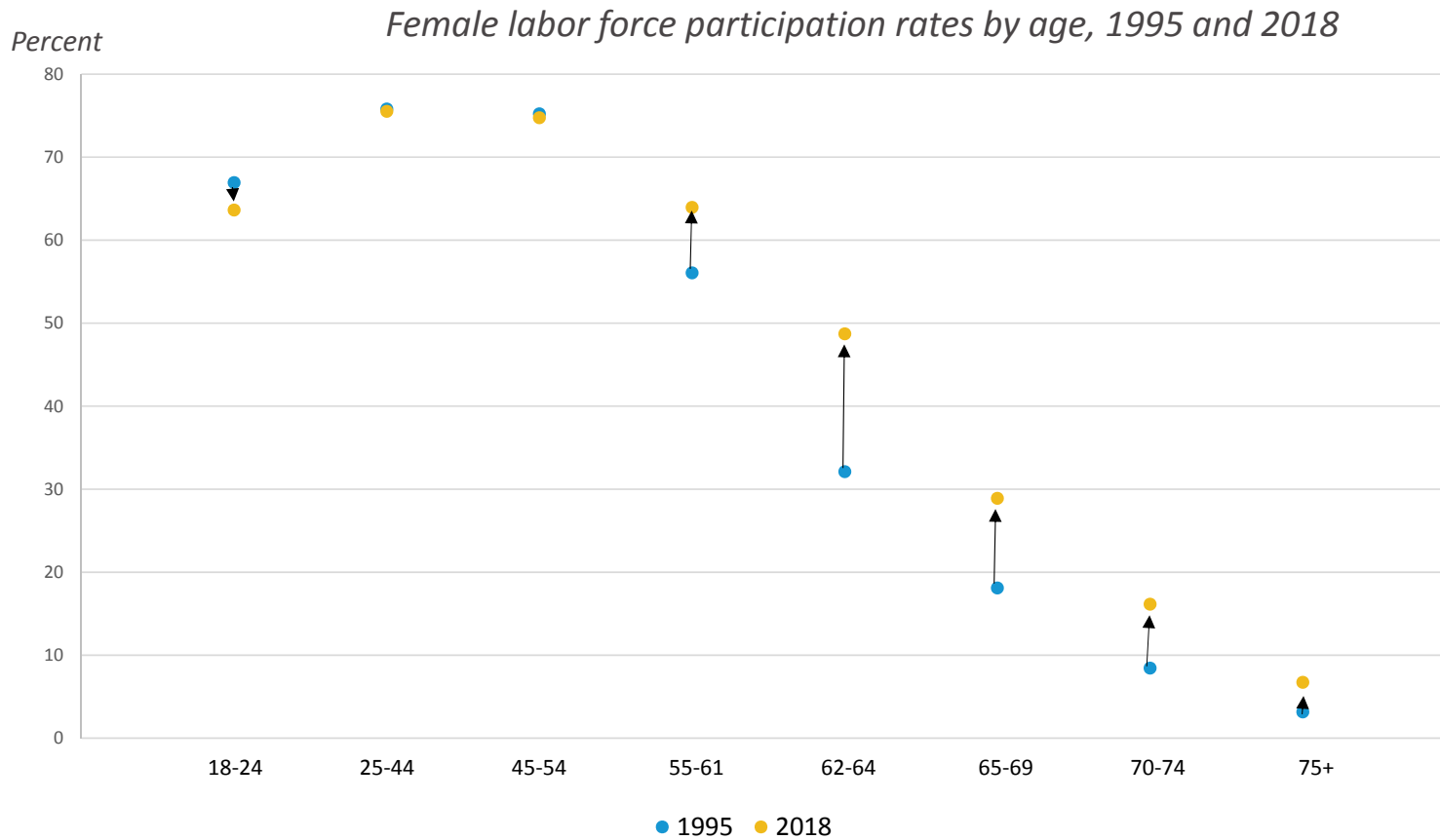
Source: Author's calculations from the Annual Social and Economic Supplement of the Current Population Survey.

But between 1970 & 1995, Older Men *Reduced* Their Labor Supply



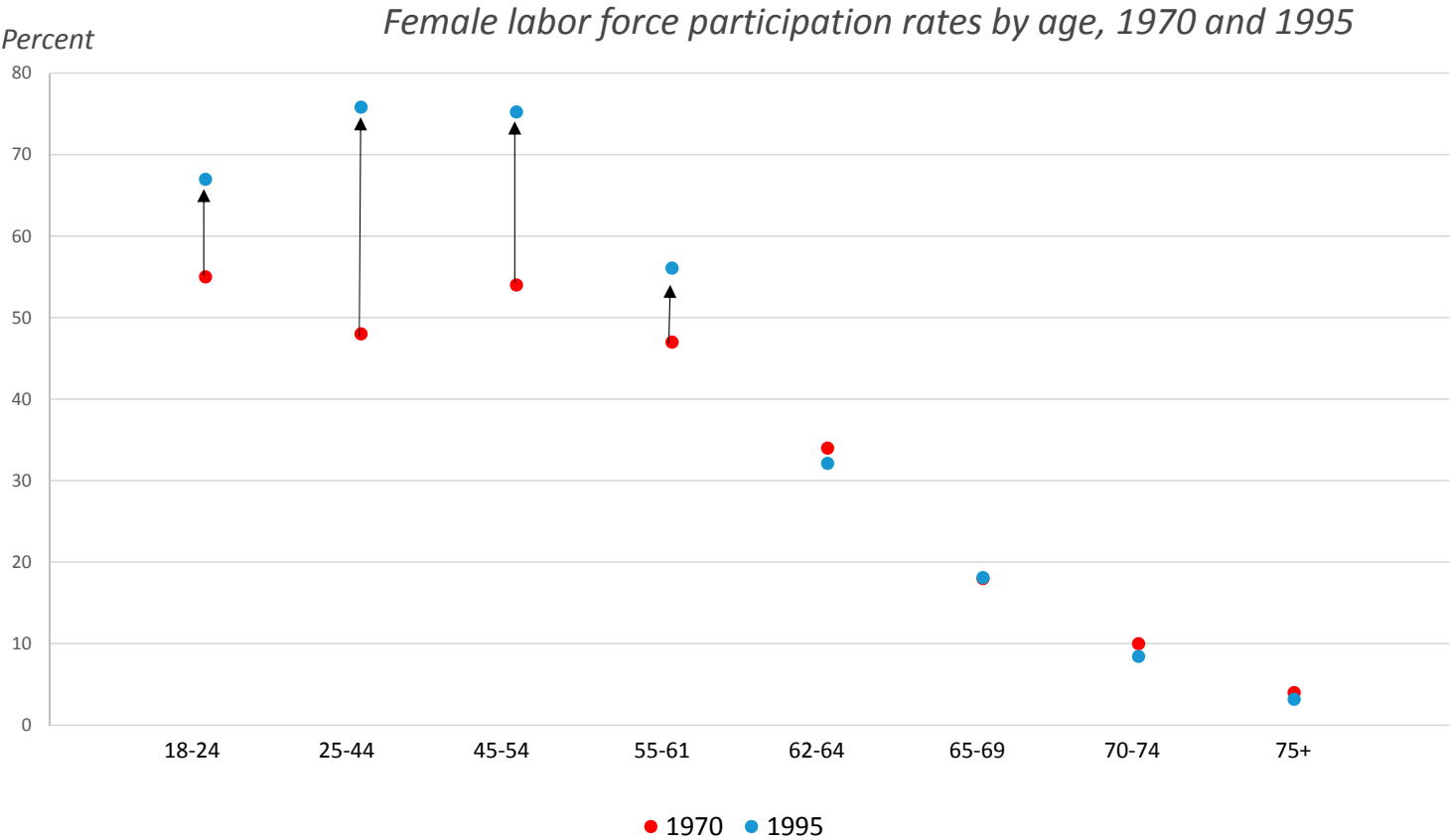
Source: Author's calculations from the Annual Social and Economic Supplement of the Current Population Survey.

Participation Rates Also Soared for Older Women over the Past Two Decades



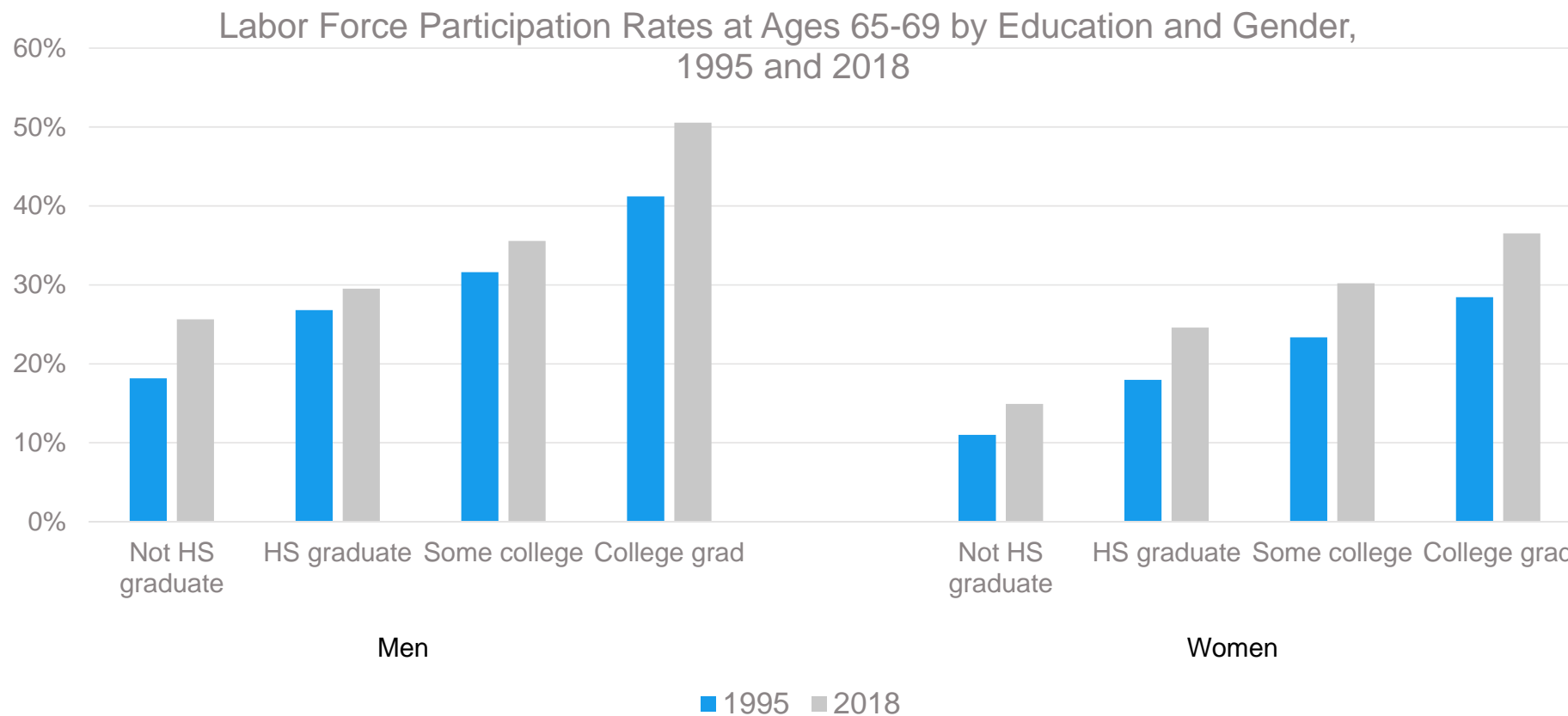
Source: Author's calculations from the Annual Social and Economic Supplement of the Current Population Survey.

But Employment for Older Women Didn't Change Much between 1970 & 1995



Source: Author's calculations from the Annual Social and Economic Supplement of the Current Population Survey.

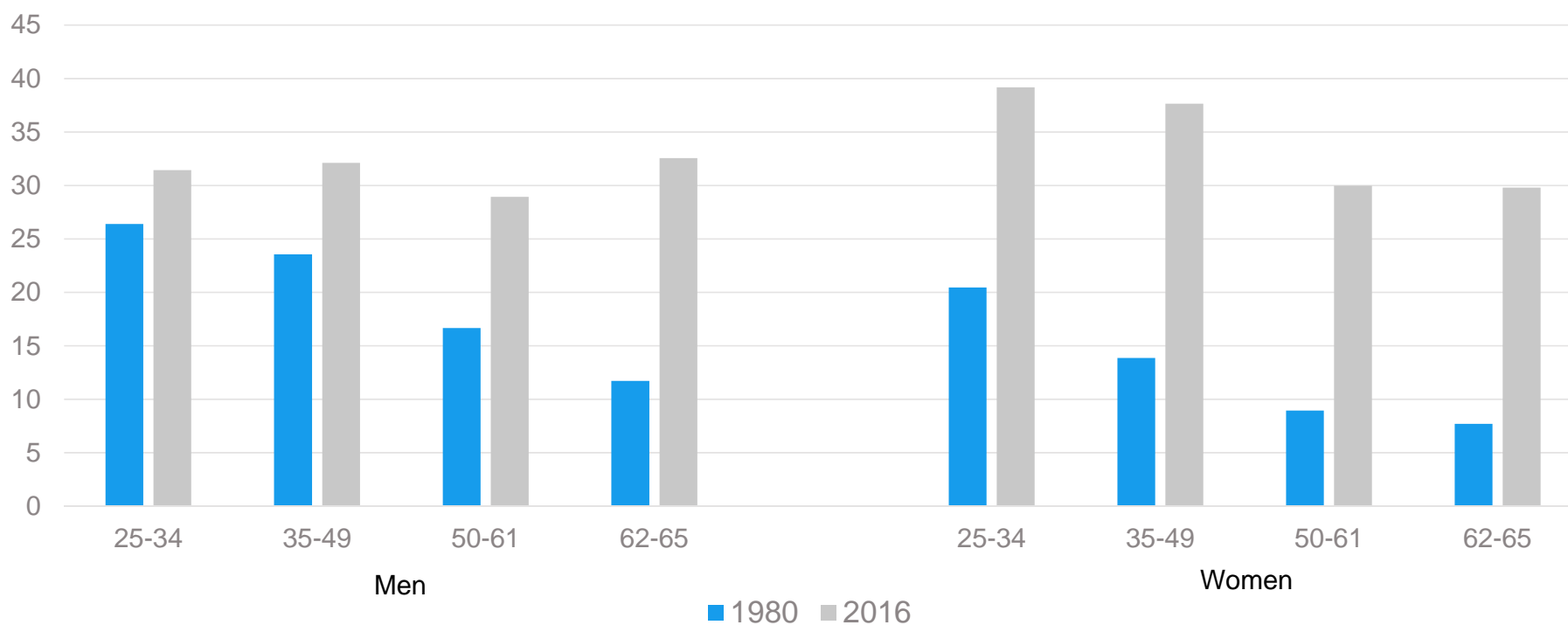
Participation rates have increased among all education groups over the past quarter century



Source: Author's calculations from the Annual Social and Economic Supplement of the Current Population Survey.

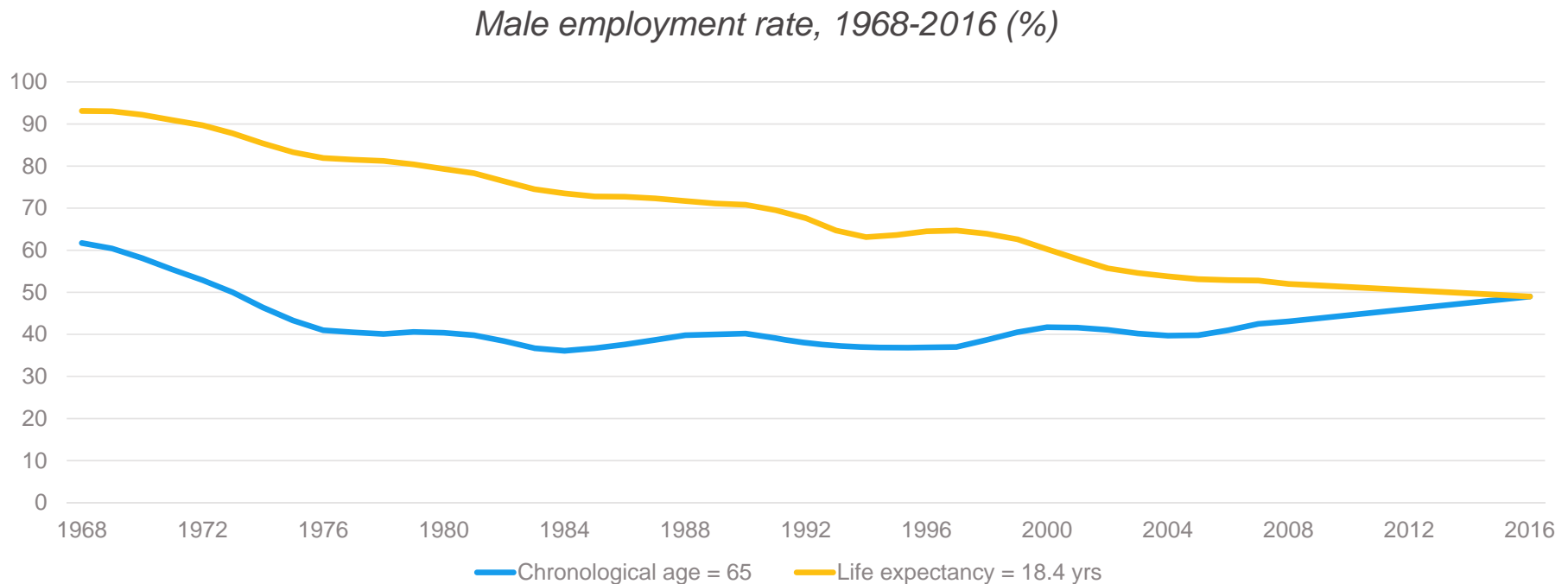
Older Workers Are Now About as Likely to Have a College Degree as Younger Workers

Percentage of Adults with a Four-Year College Degree, 1980 and 2016



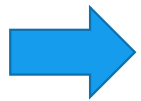
Source: Johnson (2018)

But employment rates have continued to fall when we measure age by years of remaining life expectancy



Source: Cosic and Steuerle (2018)

Yet, Many Older Adults Face Significant Labor Market Challenges



- Many are forced out of jobs before they are ready to retire
- Unemployed older workers suffer serious consequences
- Health differences by SES may accentuate inequality at older ages
- Policy options

What share of older workers separate from their employer involuntarily, for non-personal reasons, and suffer serious financial consequences?

- Research approach
 - Move beyond anecdotal evidence by using nationally representative data
 - Follow workers surveyed in their early 50s until they reach at least age 65
 - Compute the share who ever leave an employer because of layoffs/business closings, unpleasant or deteriorating working conditions, or unexpected retirement
 - Consider only financially consequential separations
 - Examine how involuntary separations vary by industry, region, demographics

Data: Health and Retirement Study (HRS)

- Recognized as the premier source of information on the older US population
 - Designed by the University of Michigan, funded by National Institutes of Health
 - Survey began in 1992 with a sample of adults ages 51 to 61
 - Respondents reinterviewed every two years
 - Every six years another group of respondents ages 51 to 56 are added to the survey
 - Most recent data were collected in 2016
- Collects detailed, relevant information
 - Employment
 - Earnings
 - Income
 - “Why did you leave that employer?”
 - “When do you expect to stop working?”

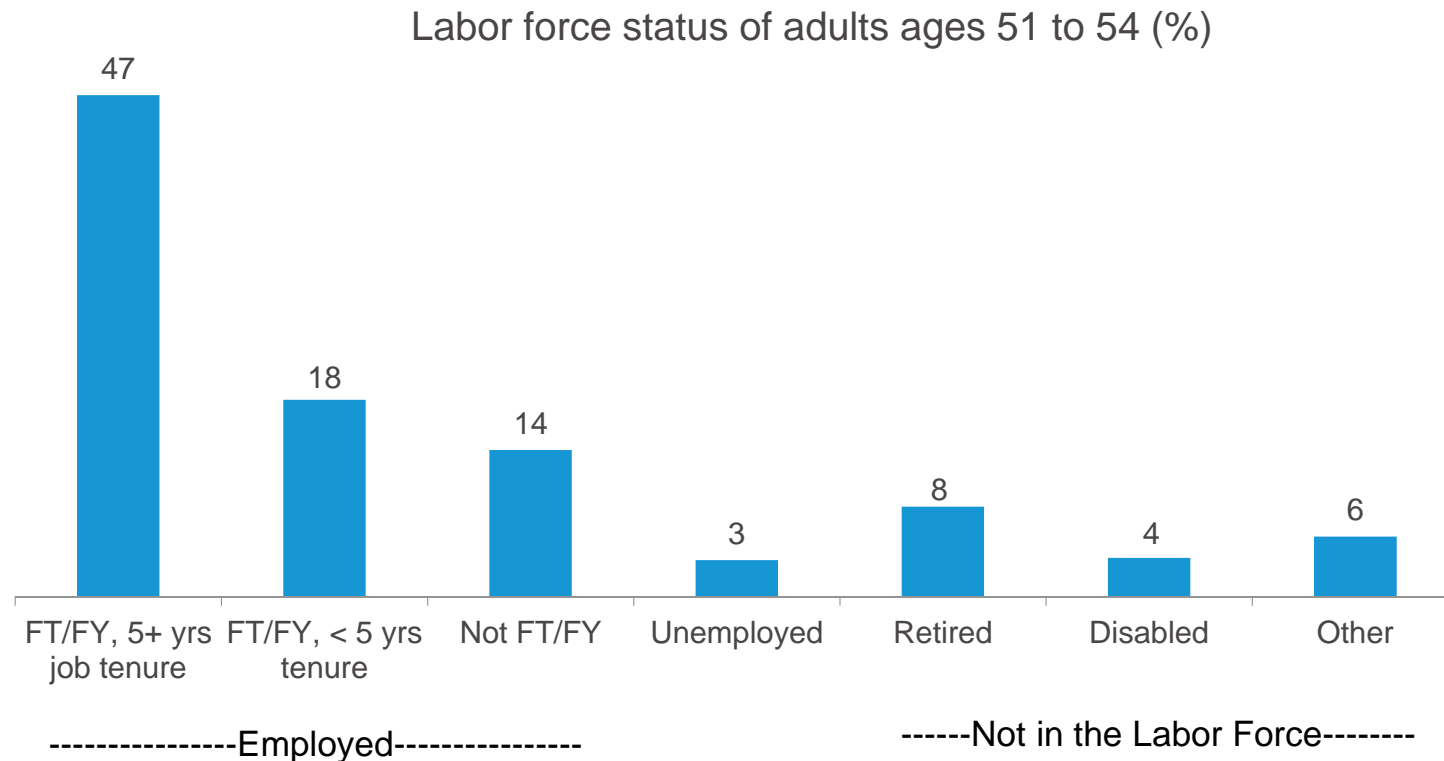
Measures

- Financially consequential separation
 - Not working for at least 6 consecutive months after the separation, or
 - Earnings on subsequent job are at least 50% lower than earnings on pre-separation job
- Hierarchy of employer-related job separations
 - Job loss or business closing
 - Quits because of unpleasant or deteriorating work conditions
 - Unexpected retirement—two years earlier than the expected date reported in previous wave
 - Other
- Involuntary separations for health, family reasons
- All financial amounts are measured in inflation-adjusted 2018 dollars

Analytical Sample

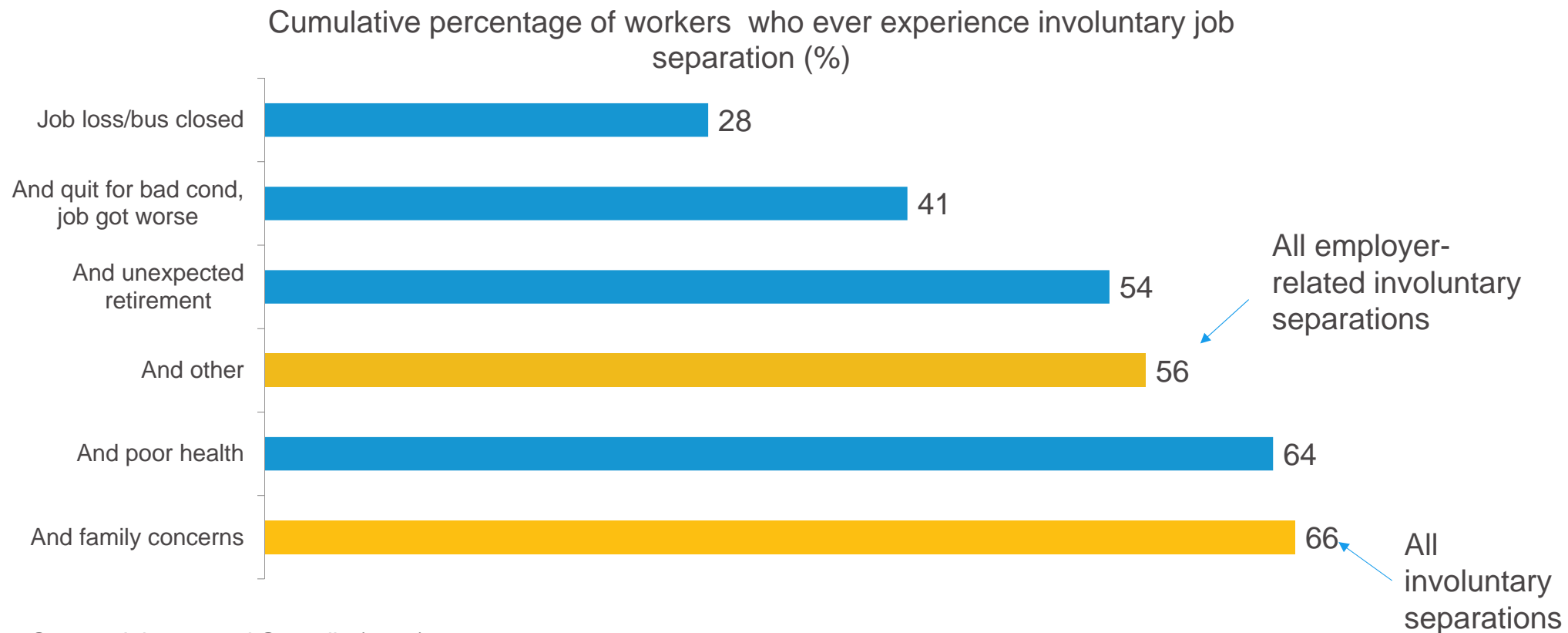
- Respondents observed at ages 51 to 54
 - Also observed at age 65 or later, so we can see much of later work life
 - Working full-time (usual weekly hours: 35 or more), to focus on workers attached to the labor force
 - Working full-year (36 or more weeks in the past year)
 - 5 or more years with age 51-to-54 employer, to focus on workers with stable employment
 - 2,086 respondents
- We experimented with alternative samples, which generated similar results
 - Drop the 5-year job tenure requirement
 - Include workers employed less than full-time, full-year at baseline
 - Include everyone in the labor force (including unemployed workers)
 - Require respondents to be observed at ages 62 or 67 instead of age 65

About 8 in 10 adults ages 51 to 54 are employed, and about 5 in 10 are full-time, full-year long-term employees



Source: Johnson and Gosselin (2018)

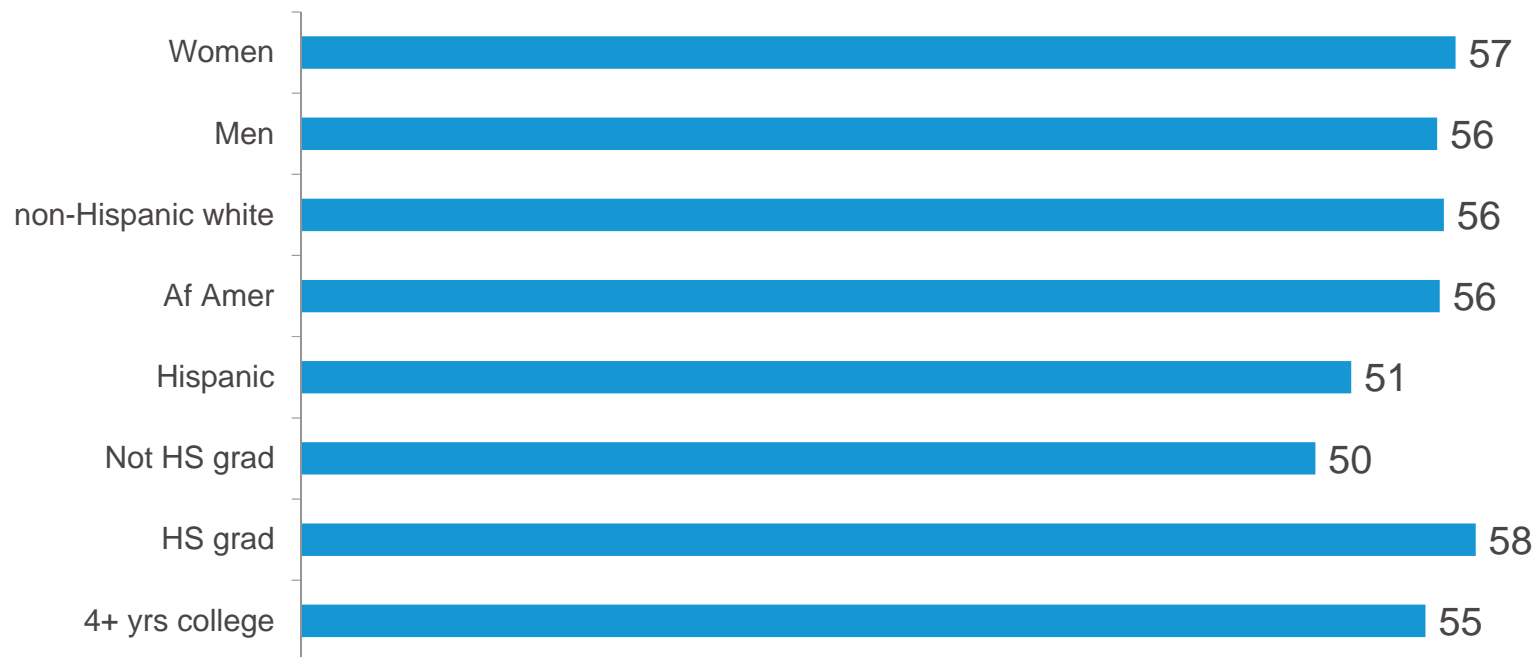
More than half of adults working full-time, full-year at ages 51 to 54 who have spent 5 or more years with their employer eventually experience an involuntary employer-related job separation



Source: Johnson and Gosselin (2018)

The likelihood of experiencing a consequential involuntary employer-related separation does not vary much by demographics

FT/FY workers with 5+ years of job tenure who ever experience involuntary employer-related job separation (%)



Source: Johnson and Gosselin (2018)

Involuntary employer-related separations at older ages are common throughout the country

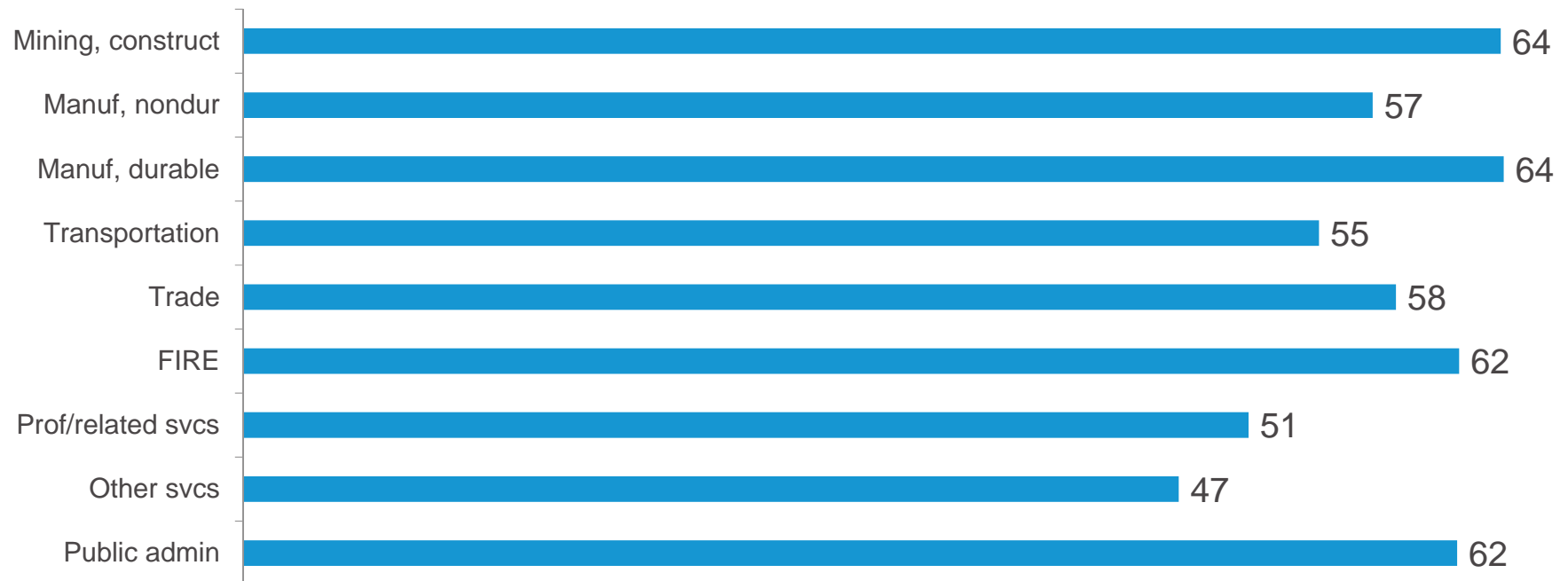
FT/FY workers with 5+ years of job tenure who ever experience involuntary employer-related job separation (%)



Source: Johnson and Gosselin (2018)

Older workers in all industries face high risks of involuntary employer-related separations

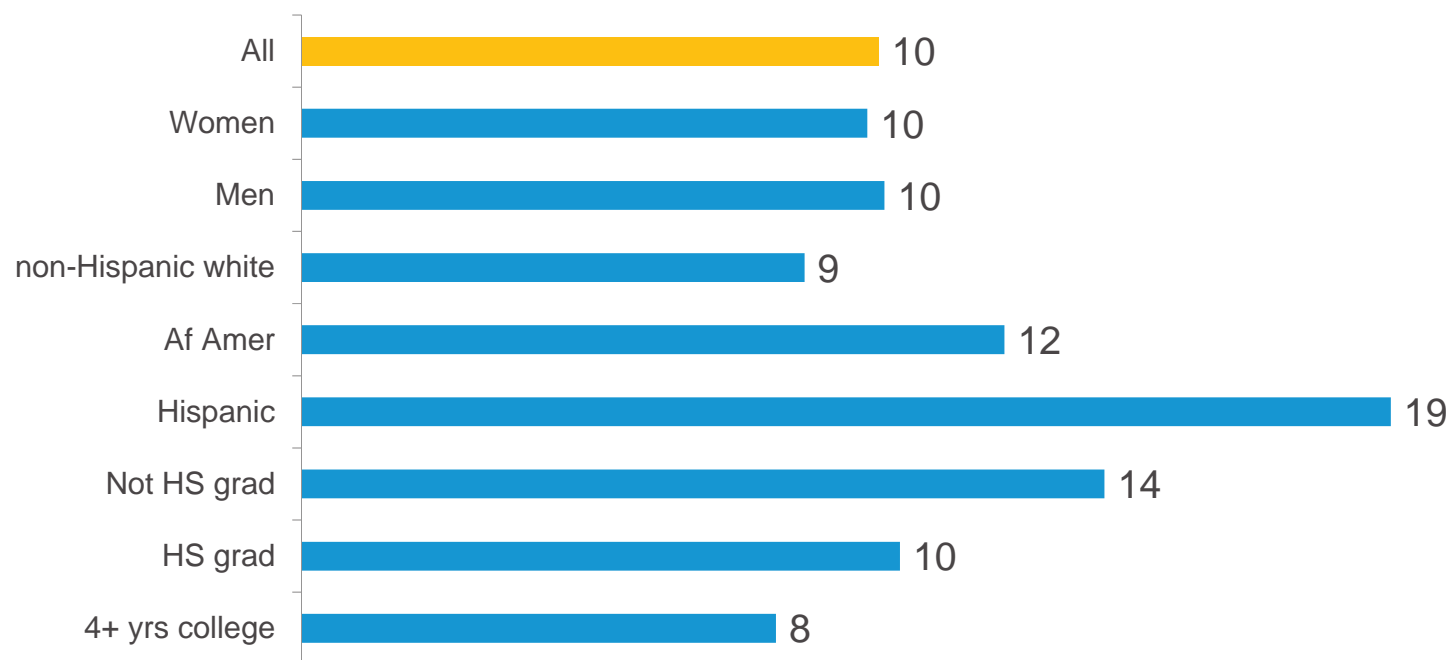
FT/FY workers with 5+ years of job tenure who ever experience involuntary employer-related job separation (%)



Source: Johnson and Gosselin (2018)

Only 1 in 10 older workers who experience involuntary employer-related job separations ever again earn as much as they did before the separation

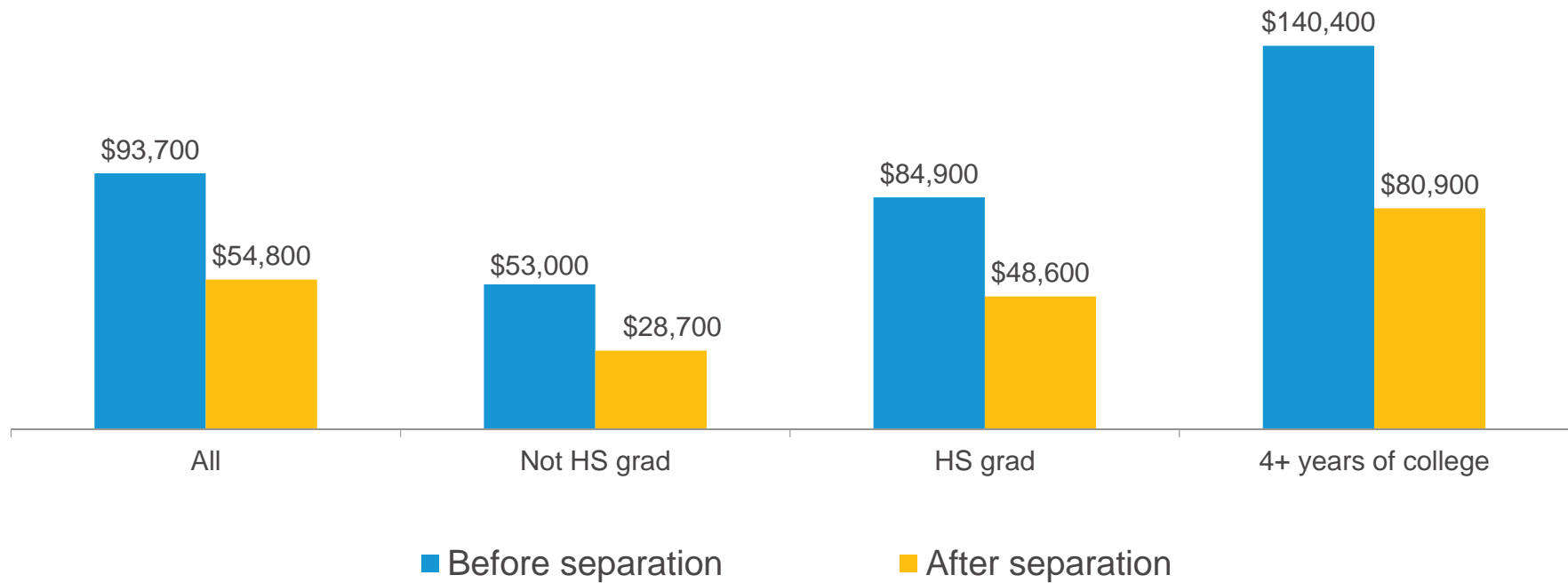
% of FT/FY workers with 5+ years of job tenure who ever experience involuntary employer-related job separation whose earnings fully recover



Source: Johnson and Gosselin (2018)

Involuntary employer-related job separations generate substantial drops in household income

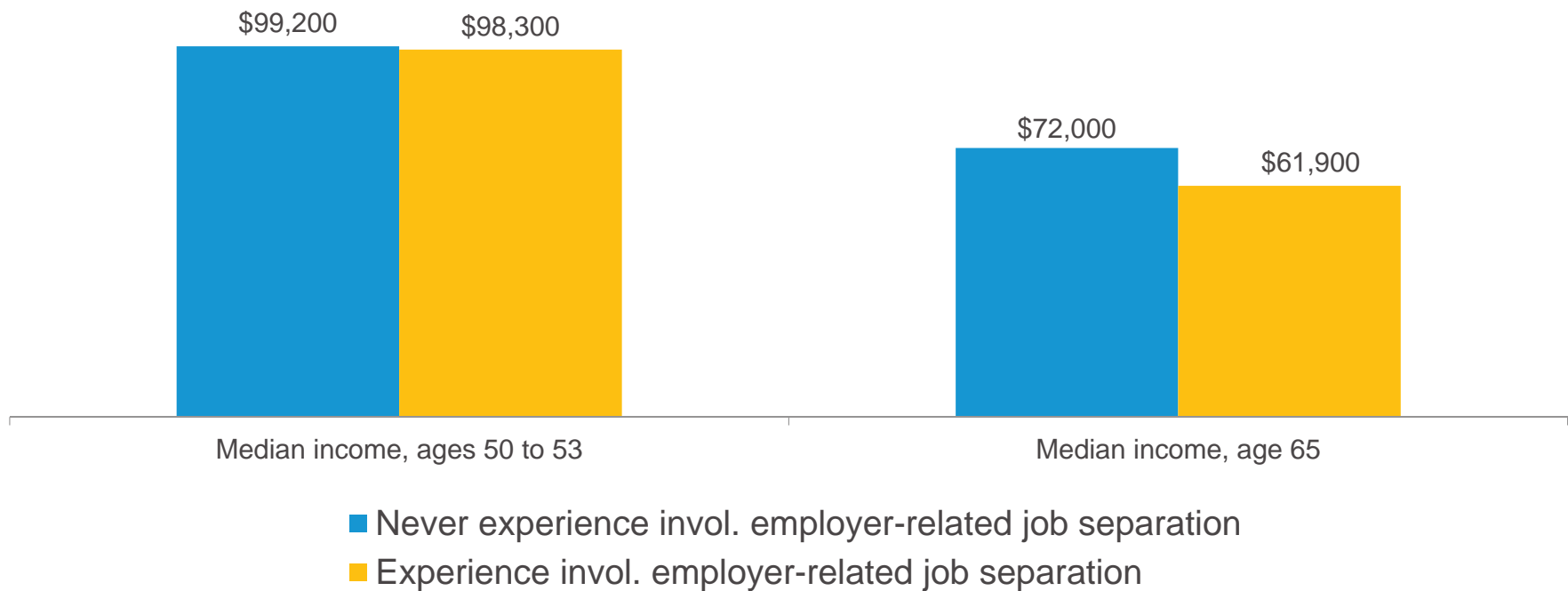
Median annual household income, before and after separation, for those who experienced an involuntary employer-related job separation (\$2018)



Source: Johnson and Gosselin (2018)

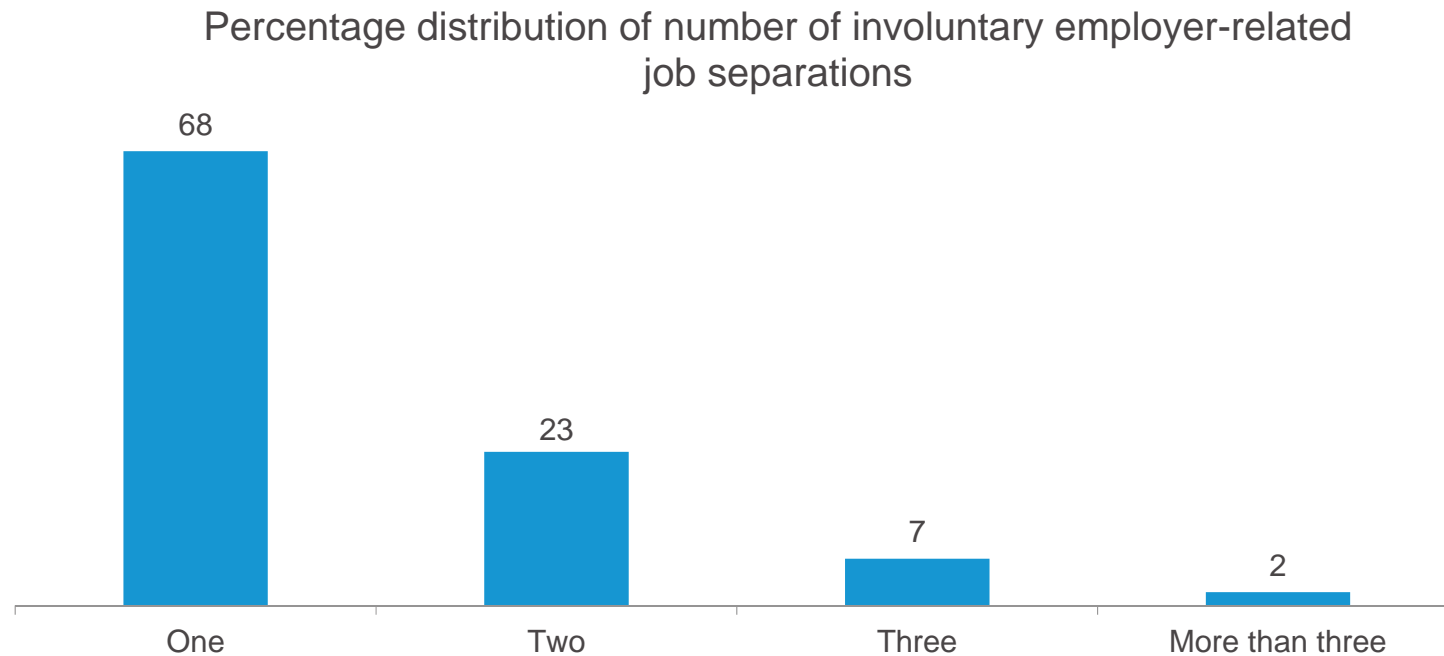
Older workers with involuntary employer-related job separations end up with less income at age 65 than those without separations

Median Income at Ages 51-53 and Age 65, by Involuntary Job Separation (\$2018)



Source: Johnson and Gosselin (2018)

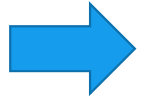
Nearly one-third of older workers with an involuntary employer-related job separation experienced multiple such separations



Source: Johnson and Gosselin (2018)

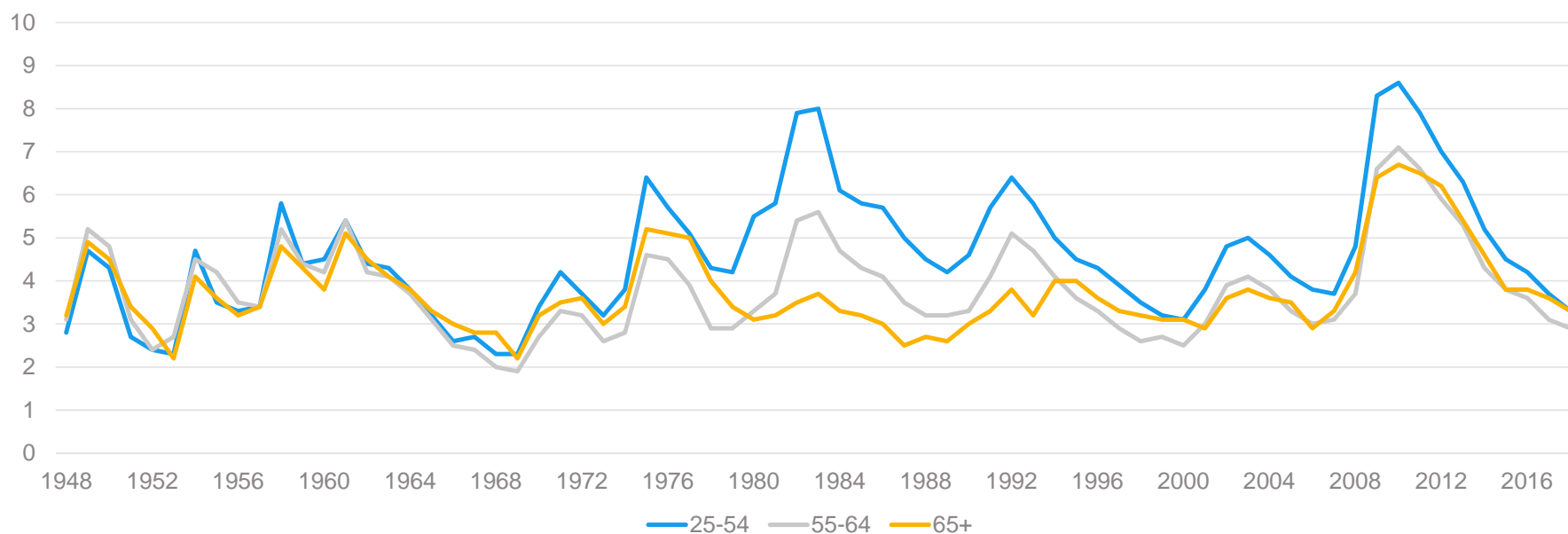
Yet, Many Older Adults Face Significant Labor Market Challenges

- Many are forced out of jobs before they are ready to retire
- Unemployed older workers suffer serious consequences
- Health differences by SES may accentuate inequality at older ages
- Policy options

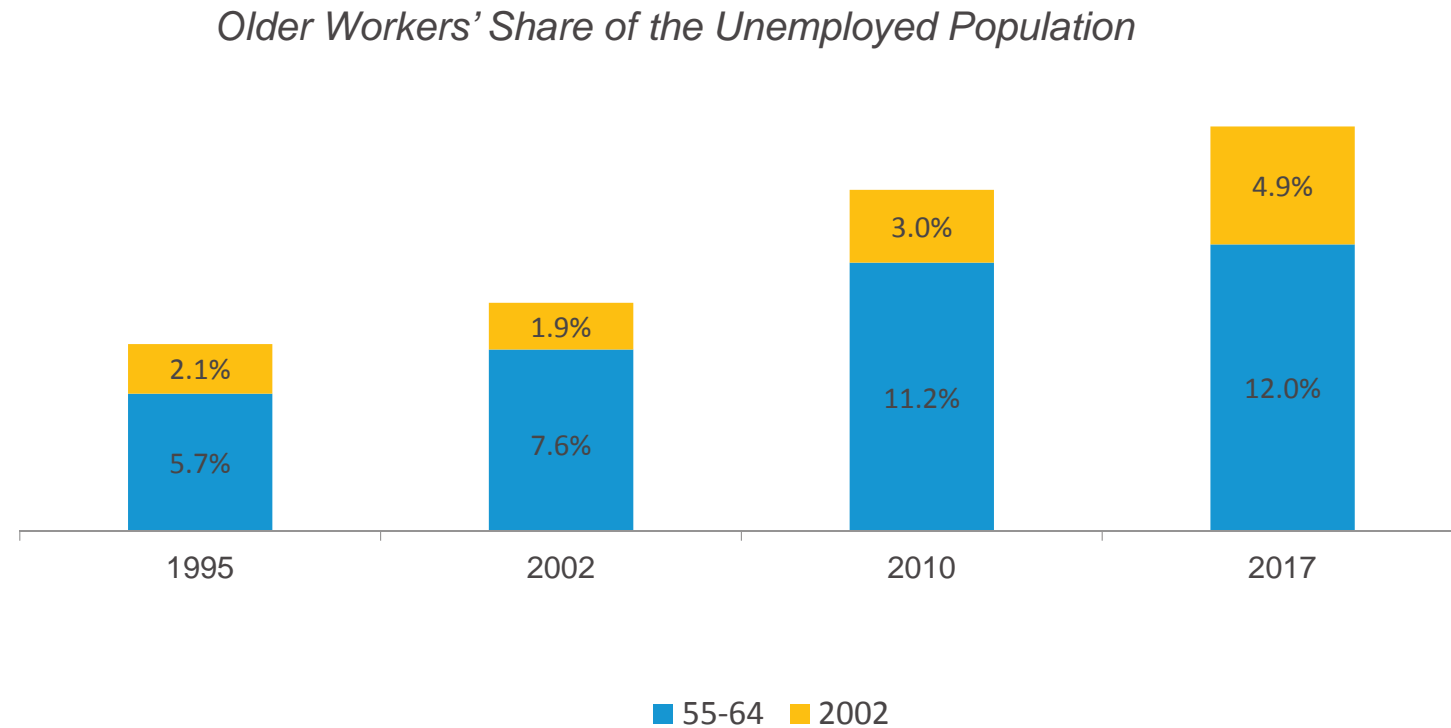


The Unemployment Rate Gap Between Workers Ages 65+ and Younger Workers Has Narrowed

Unemployment Rate by Age, 1948-2018 (%)



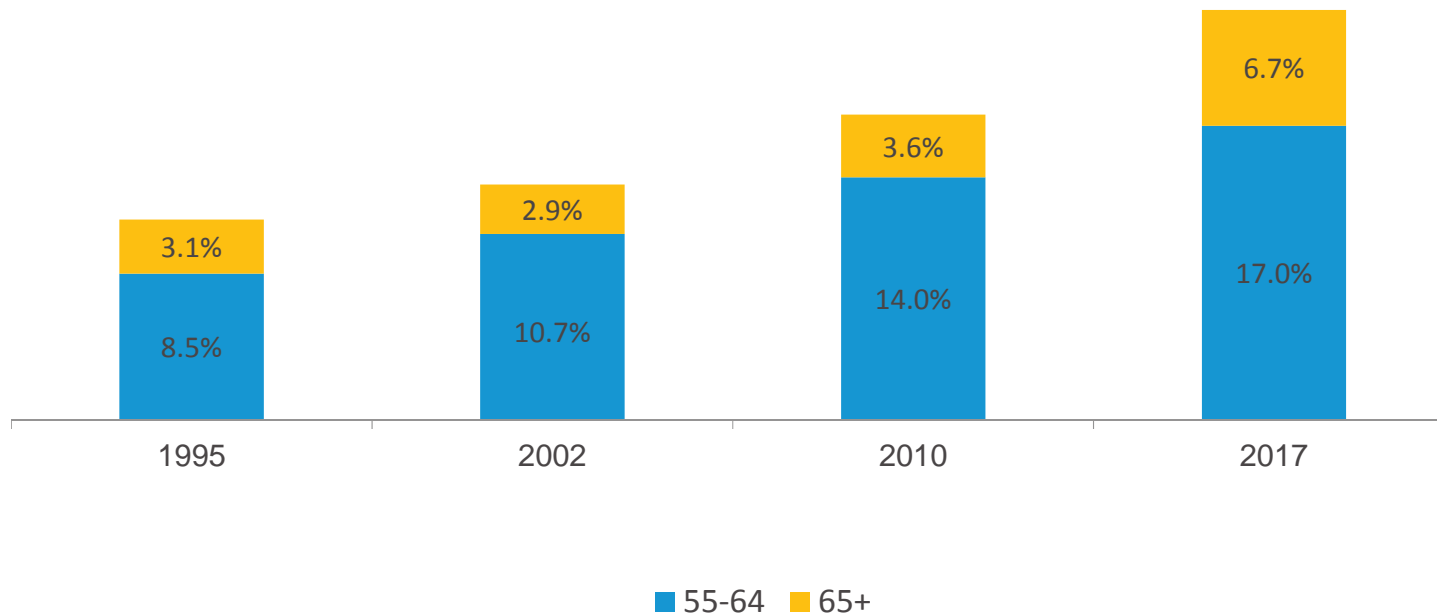
Workers 55 and older now make up about 17% of the unemployed



Source: Authors' computations from BLS data.

Workers 55 and older make up an even larger share of the long-term unemployed

Older Workers' Share of the Population Unemployed for 6+ Months

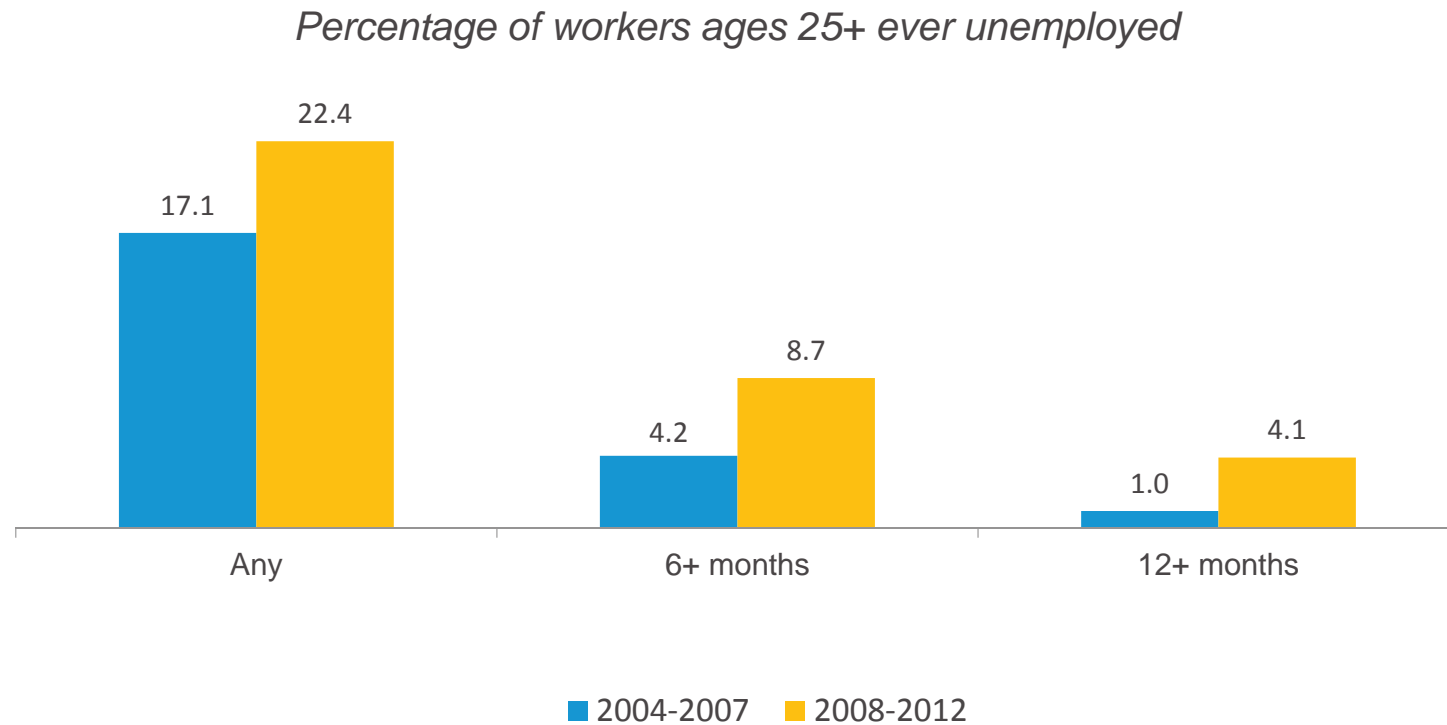


Source: Authors' computations from BLS data.

Methods

- Data: Survey of Income and Program Participation (SIPP), 2004 and 2008 panels
 - Collect longitudinal data every three months
 - Ask respondents about labor market activities for every intervening month between interviews
 - 2004 panel, Jan. 2004 to Dec. 2007 (before Great Recession)
 - 2008 panel, August 2008 to April 2012 (during Great Recession and aftermath)
- Sample restrictions
 - Ages 25 and older
 - Employed for a full month at some point during first 6 months observed
- Unemployment definition: do not hold a job and are on layoff or looking for work for a full month
- Unemployment ends when worker begins receiving labor earnings

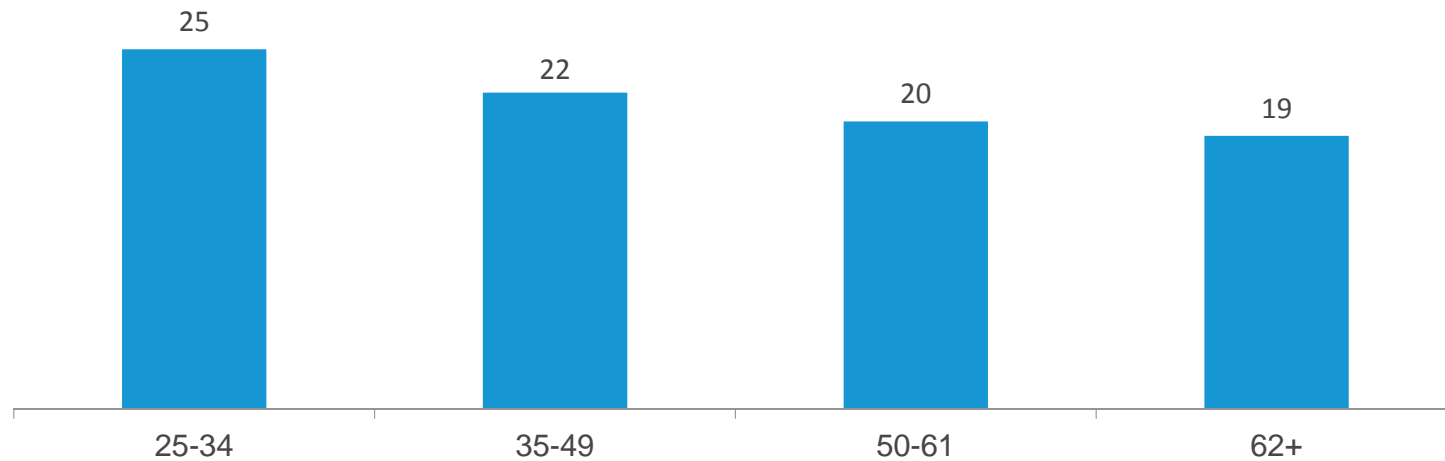
Long-term unemployment increased sharply during the Great Recession



Source: Johnson and Smith (2019).

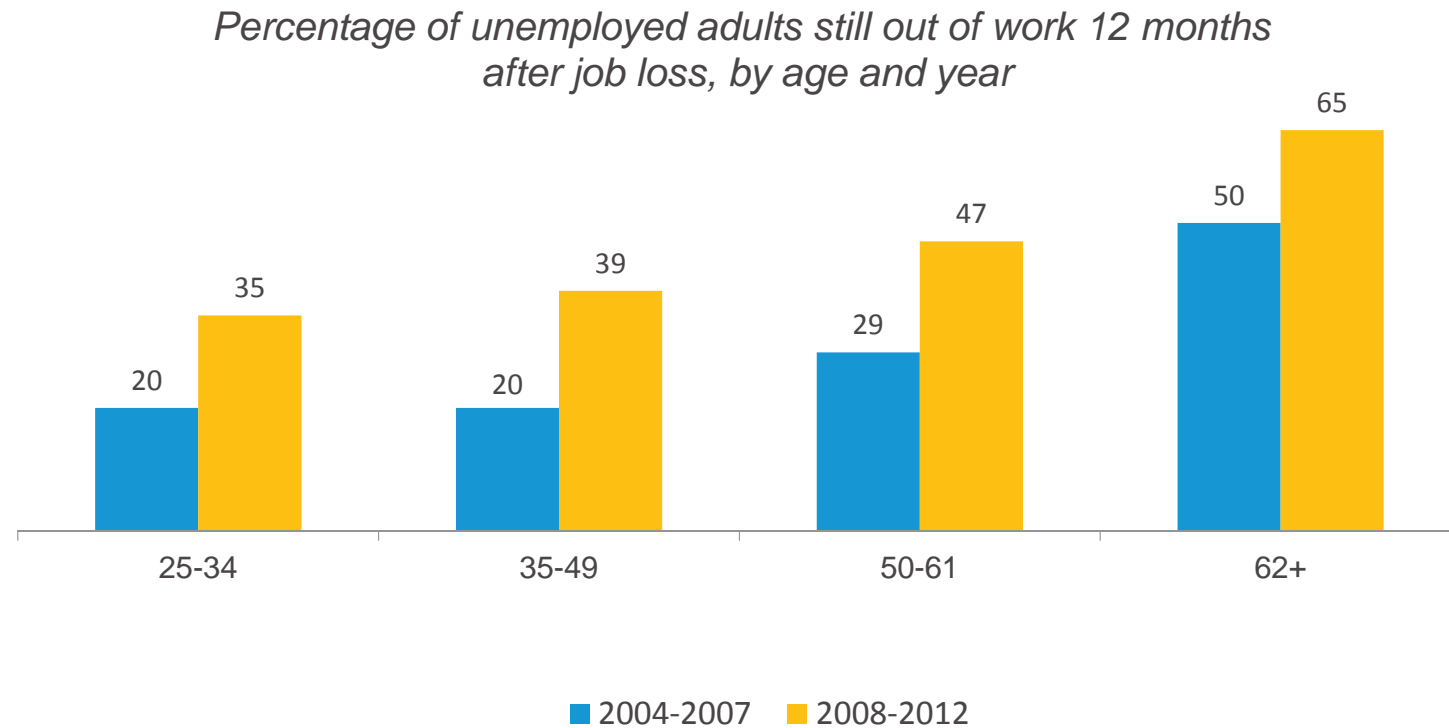
Older workers are less likely than younger workers to be unemployed

Percentage of ever unemployed by age, 2008-2012



Source: Johnson and Smith (2019).

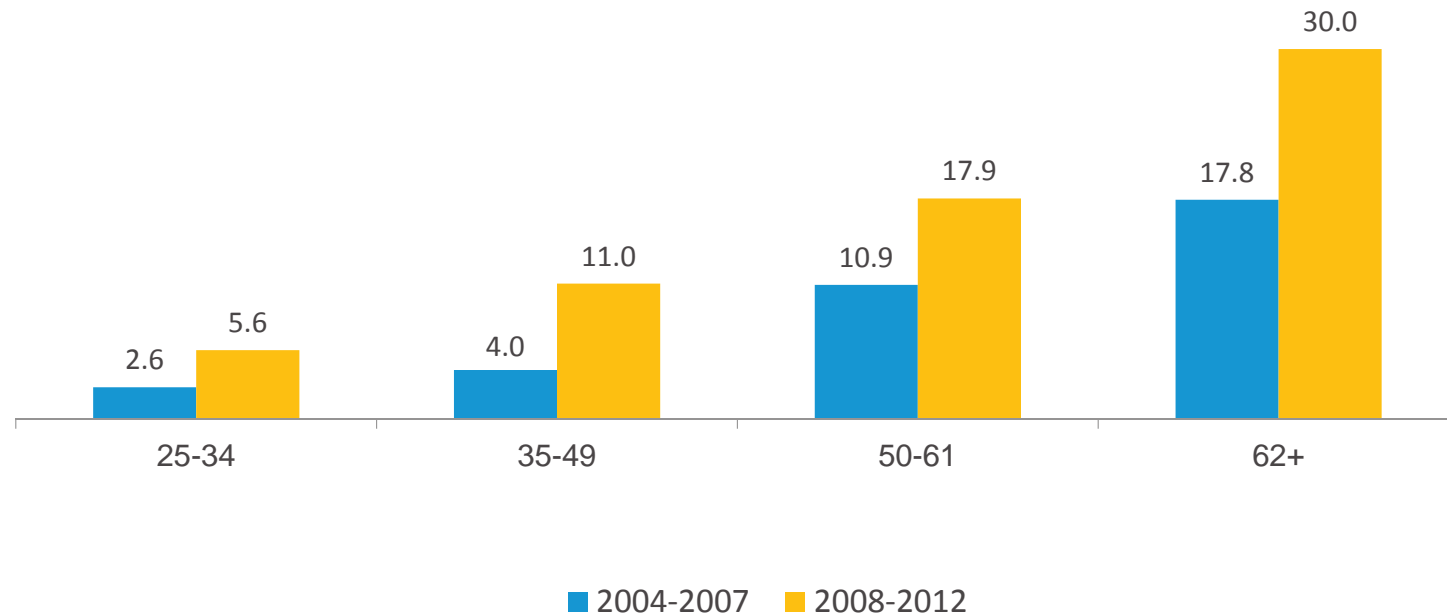
Unemployment spells increase with age



Source: Johnson and Smith (2019).

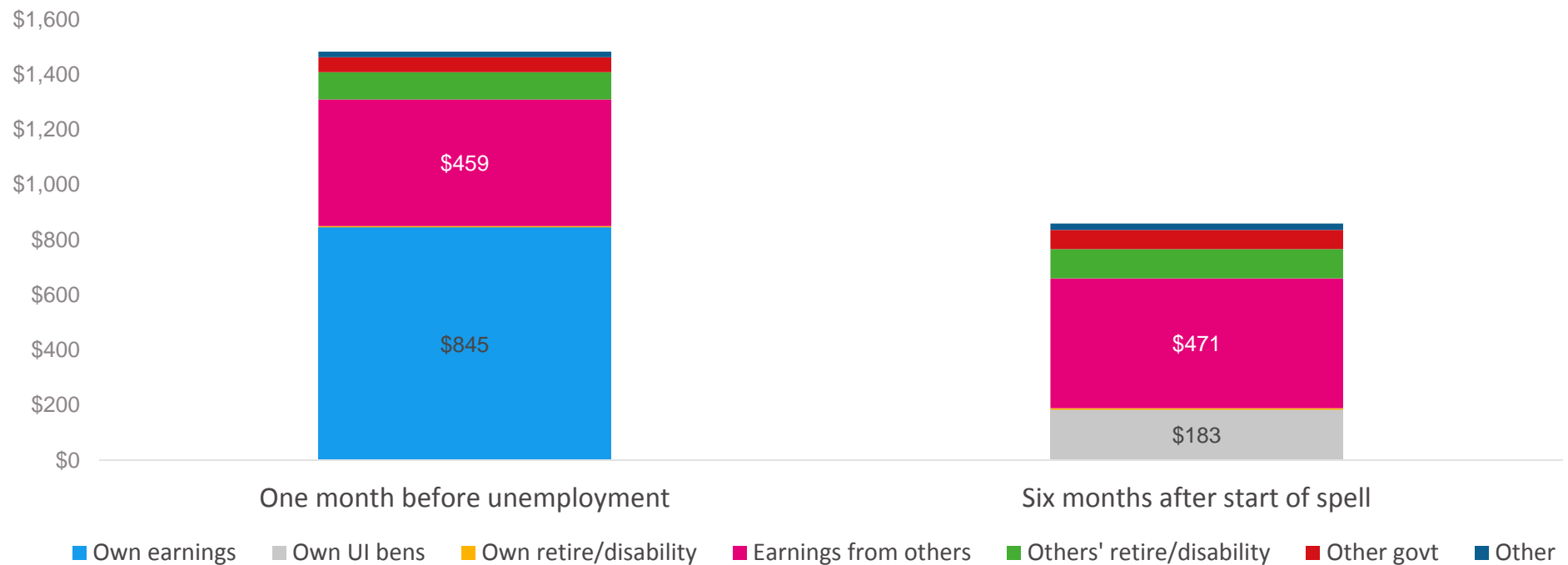
When displaced workers become reemployed, older workers tend to experienced larger earnings losses than their younger counterparts

Percentage decline in monthly earnings for reemployed displaced workers, by age and year



Source: Johnson and Smith (2019).

Average monthly per capita family income for long-term unemployed workers ages 25-34 in the middle half of the income distribution, 2008-2011



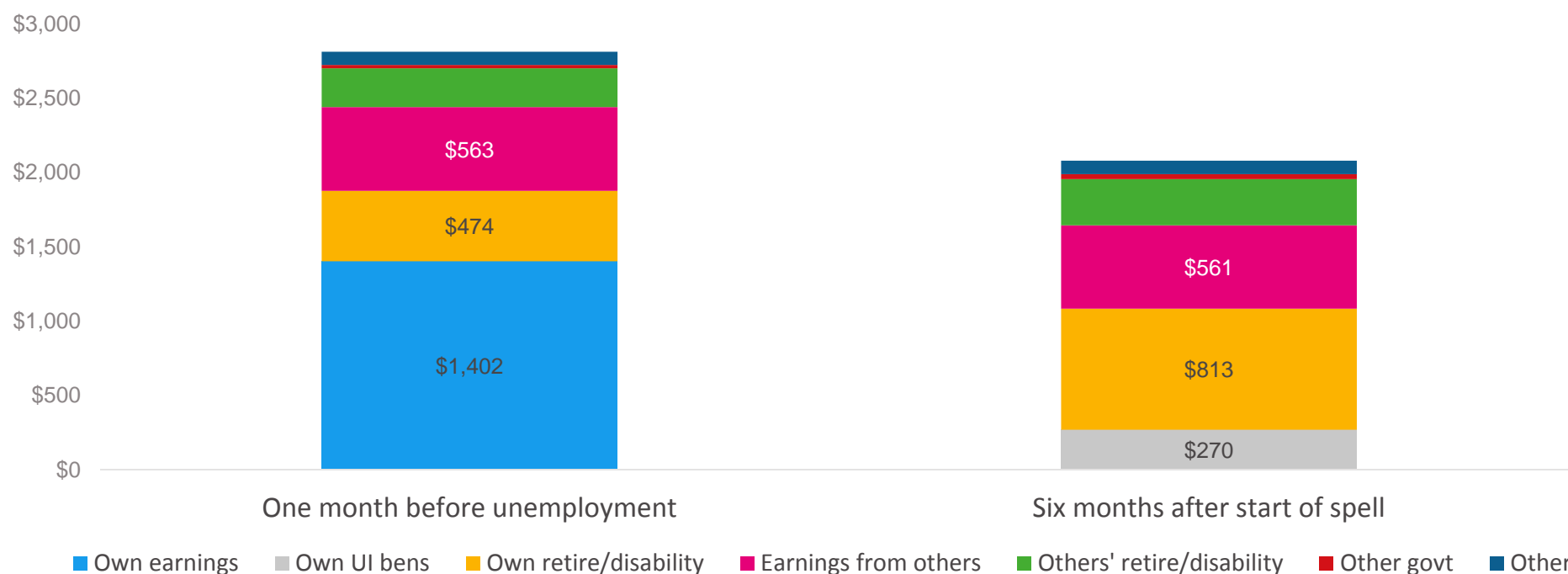
Source: Johnson and Feng (2013)

Average monthly per capita family income for long-term unemployed workers ages 50-61 in the middle half of the income distribution, 2008-2011



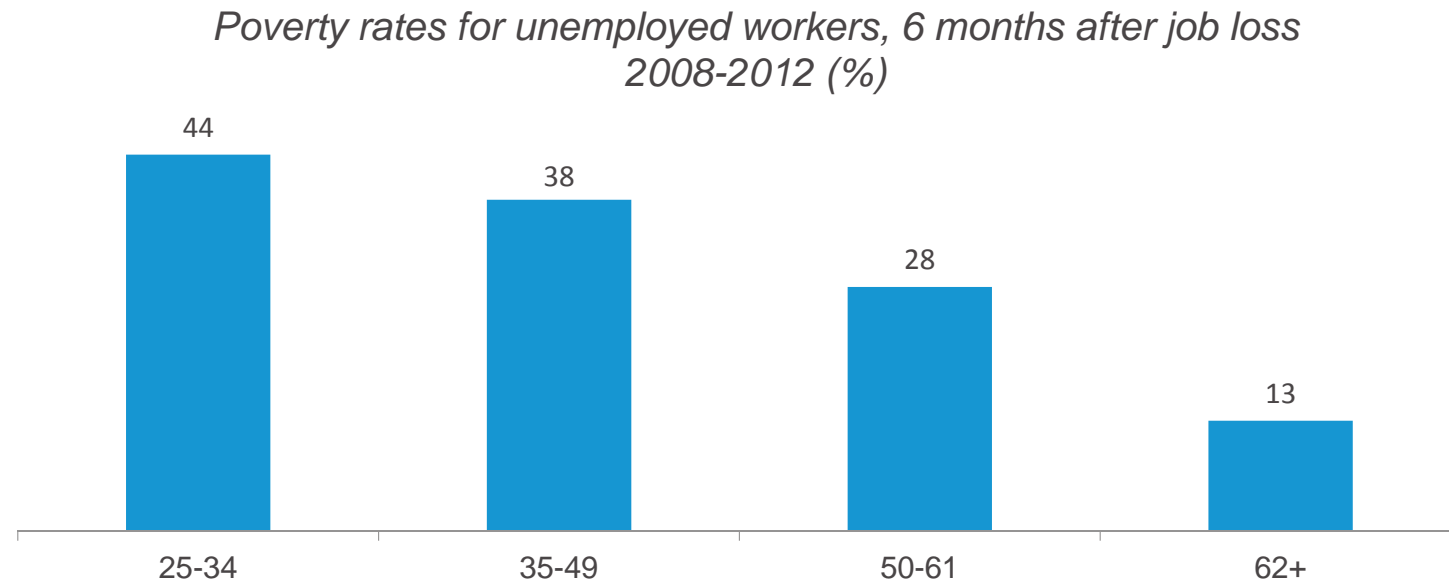
Source: Johnson and Feng (2013)

Average monthly per capita family income for long-term unemployed workers ages 62+ in the middle half of the income distribution, 2008-2011



Source: Johnson and Feng (2013)

Poverty rates for long-term unemployed workers decline with age



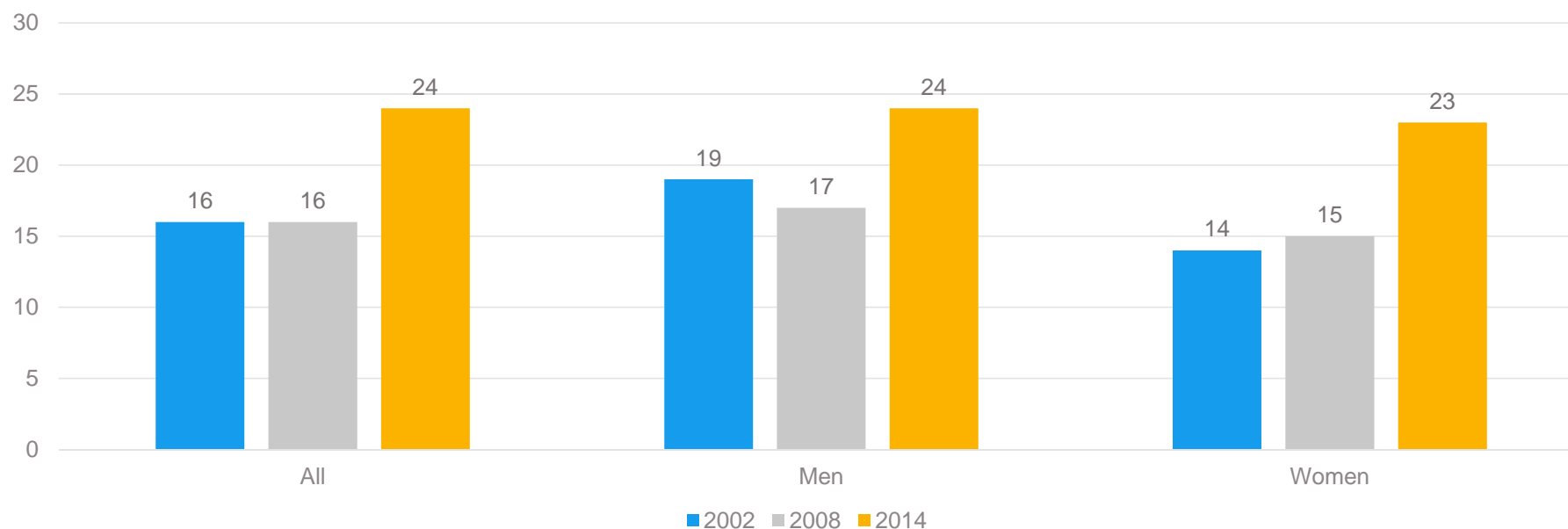
Source: Johnson and Smith (2019).

Age discrimination may be pervasive in the labor market

- Many workers believe employers treat older workers unfairly
 - 2017 AARP survey of 3,900 adults ages 45+ working or looking for work
 - 61% said they had seen or experienced age discrimination
 - 30% said they had experienced it

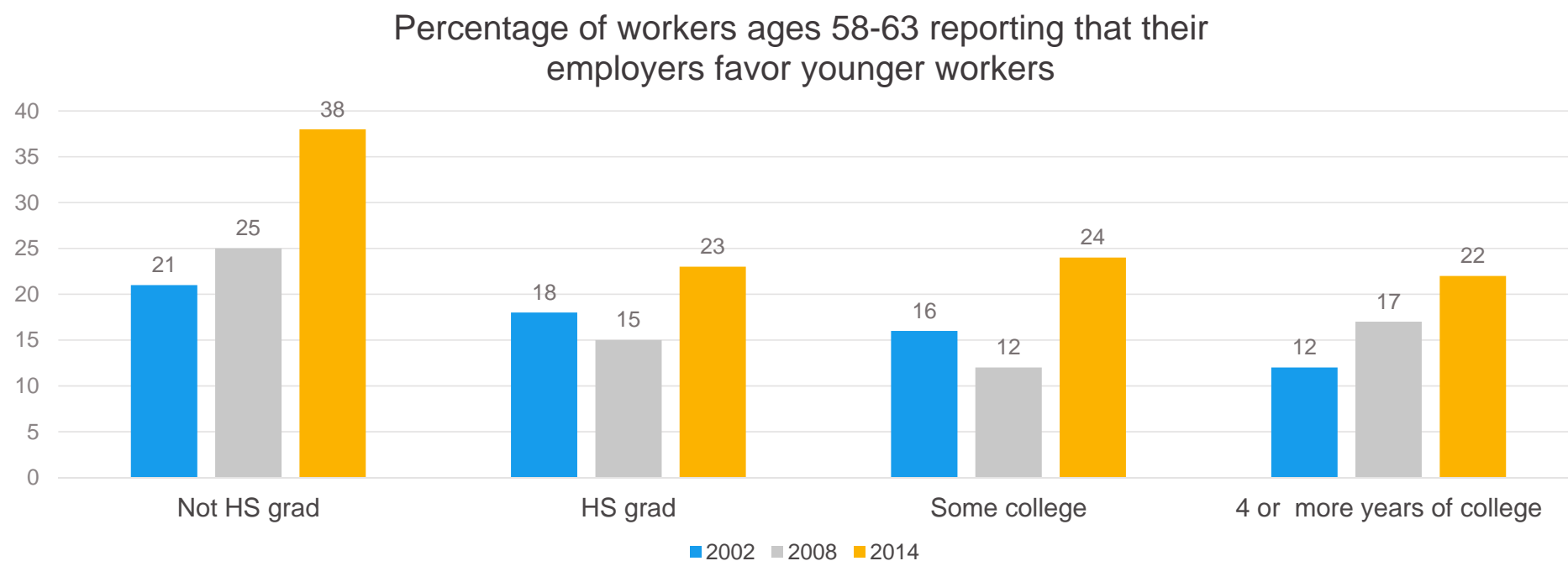
Growing Shares of Older Workers Report Age Discrimination

Workers Ages 58 to 63 Reporting That Their Employers Favor Younger Workers, by Sex, 2002-2014 (%)



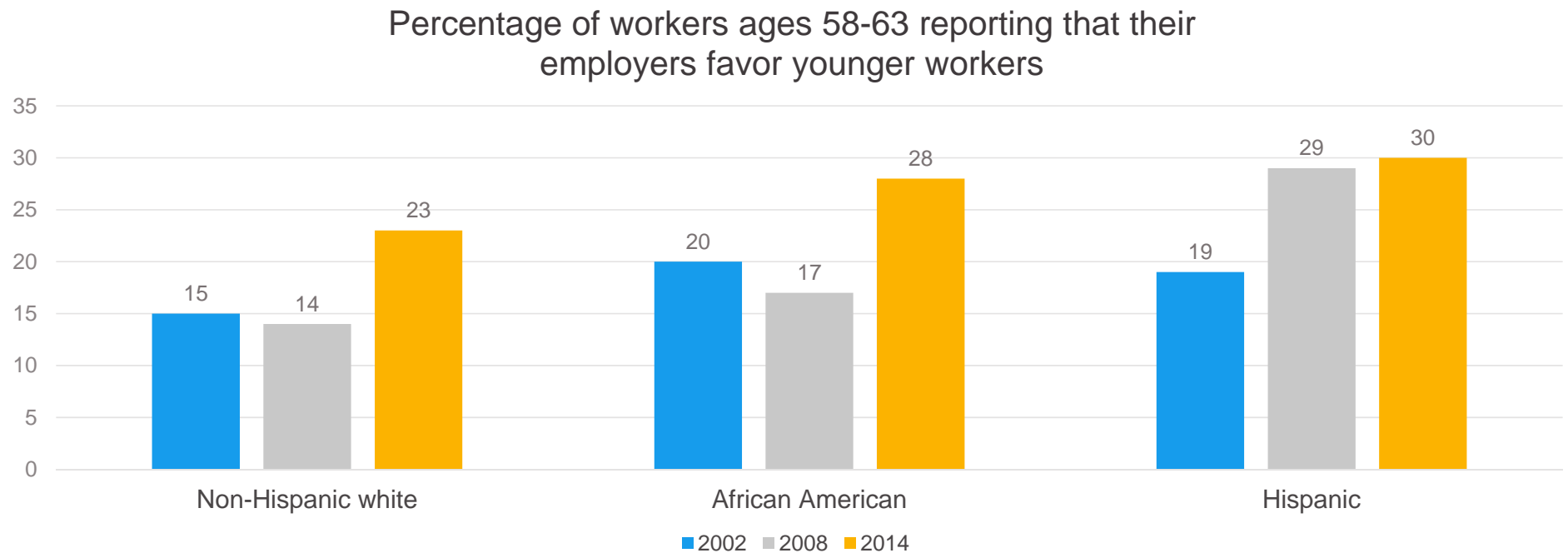
Source: Johnson (2018)

Less-Educated Older Adults Are Especially Likely to Report that Their Employers Favor Younger Workers



Source: Johnson (2018b), from HRS data.

Many Older Workers of Color Also Say that Employers Favor Younger Workers



Source: Johnson (2018b), from HRS data.

Age discrimination may be pervasive in the labor market

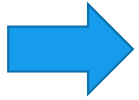
- Many workers believe employers treat older workers unfairly
 - 2017 AARP survey of 3,900 adults ages 45+ working or looking for work
 - 61% said they had seen or experienced age discrimination
 - 30% said they had experienced it
- Resume correspondence studies show that age discrimination in hiring is pervasive
 - Lahey, 2008; Neumark, Burn, and Button, forthcoming
 - Older, less-educated women seem to face special challenges

Employer surveys reveal some reasons for reluctance to employ older workers

- They cost too much
 - Seniority pay systems
 - High health costs (Burtless 2018)
- They lack the right skills
 - Especially lack of up-to-date computer skills
- They won't stay long enough to justify recruiting, hiring, and training costs

Yet, Many Older Adults Face Significant Labor Market Challenges

- Many are forced out of jobs before they are ready to retire
- Unemployed older workers suffer serious consequences
- Health differences by SES may accentuate inequality at older ages
- Policy options

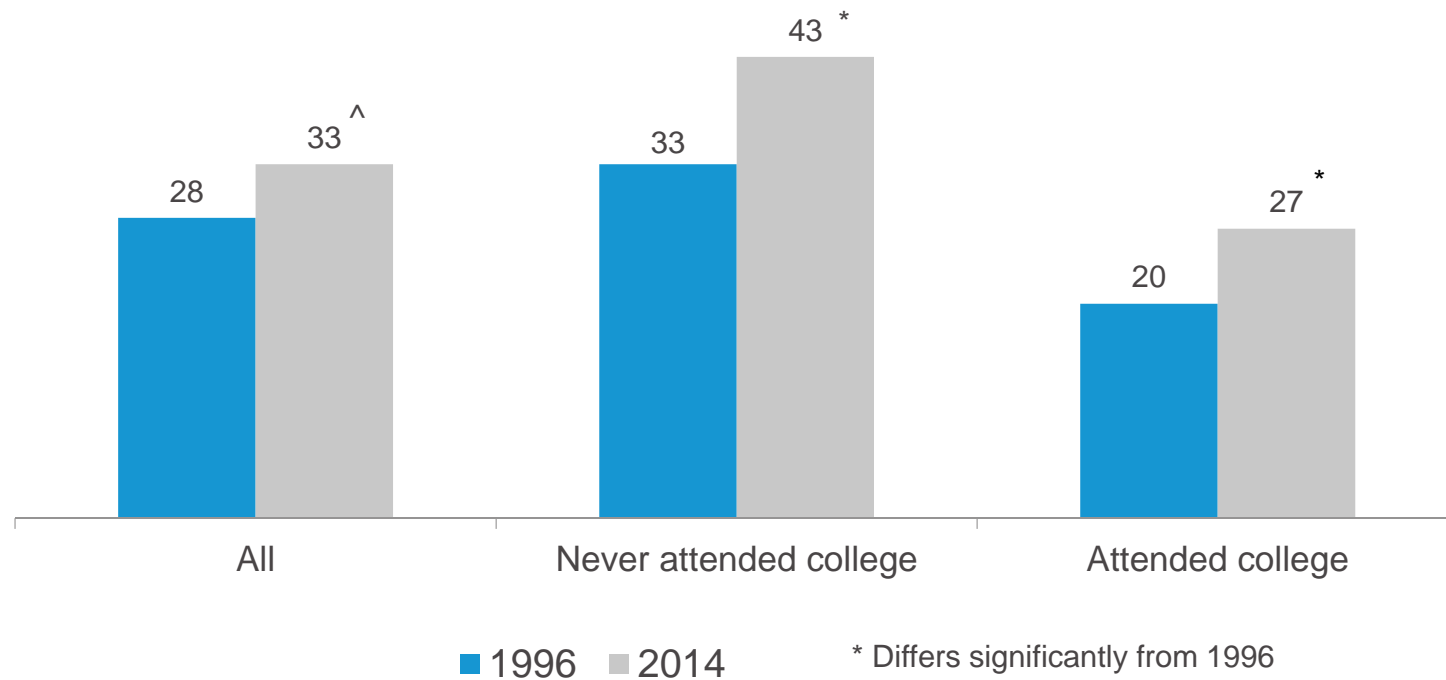


We Compared Trends in the Relationship between Health, Employment, and Income before the Full Retirement Age

- Data came from the Health and Retirement Study (HRS)
- We compared adults ages 63 to 65 in 1996 and 2014
 - Respondents report income for previous year
 - We defined employment by earnings in previous year
 - Outcomes occurred at ages 62 to 64
- Sample sizes
 - 1,991 in 1996 (931 men, 1,060 women)
 - 1,846 in 2014 (778 men, 1,068 women)

Men's Work Limitations at Ages 63 to 65 Became More Prevalent between 1996 and 2014

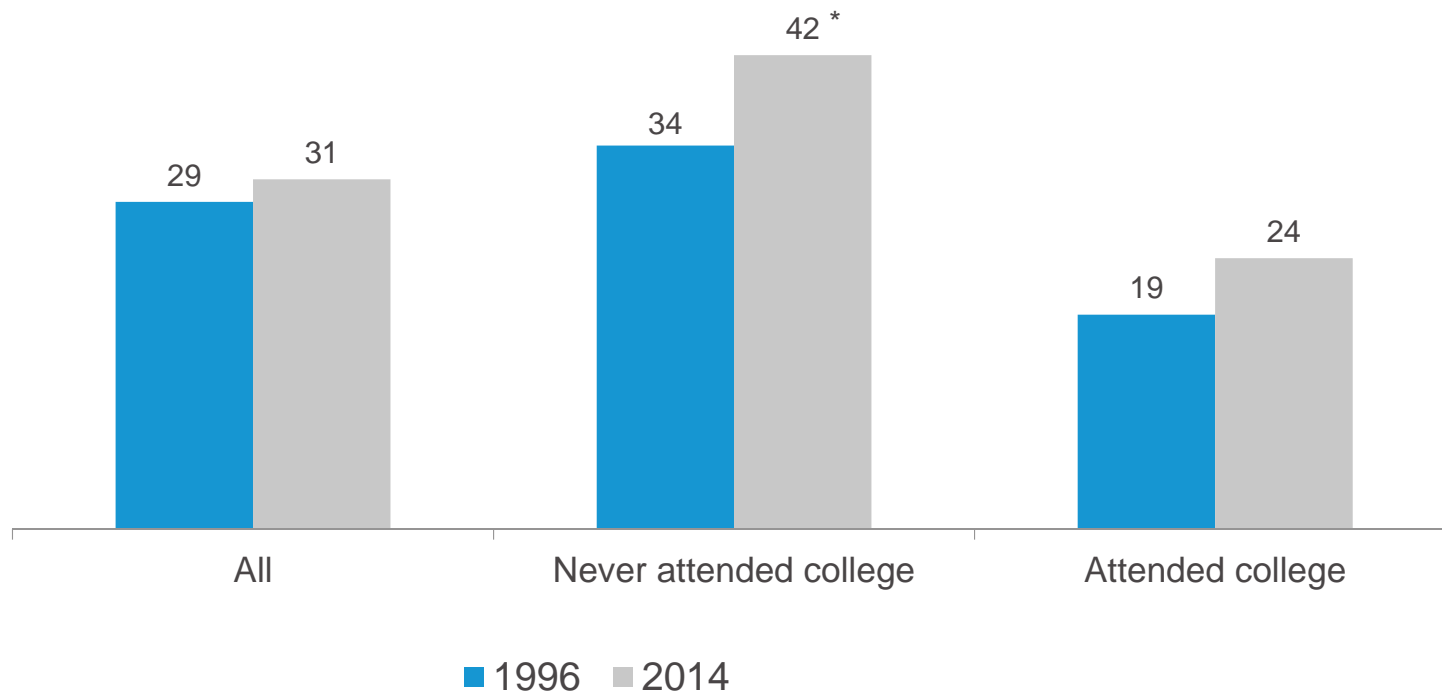
Percentage of Men Ages 63 to 65 with Work Limitations,
1996 and 2014



Source: HRS.

For Women, the Presence of Work Limitations at Ages 63 to 65 Increased Only for Those Who Did Not Attend College

Percentage of Women Ages 63 to 65 with Work Limitations,
1996 and 2014

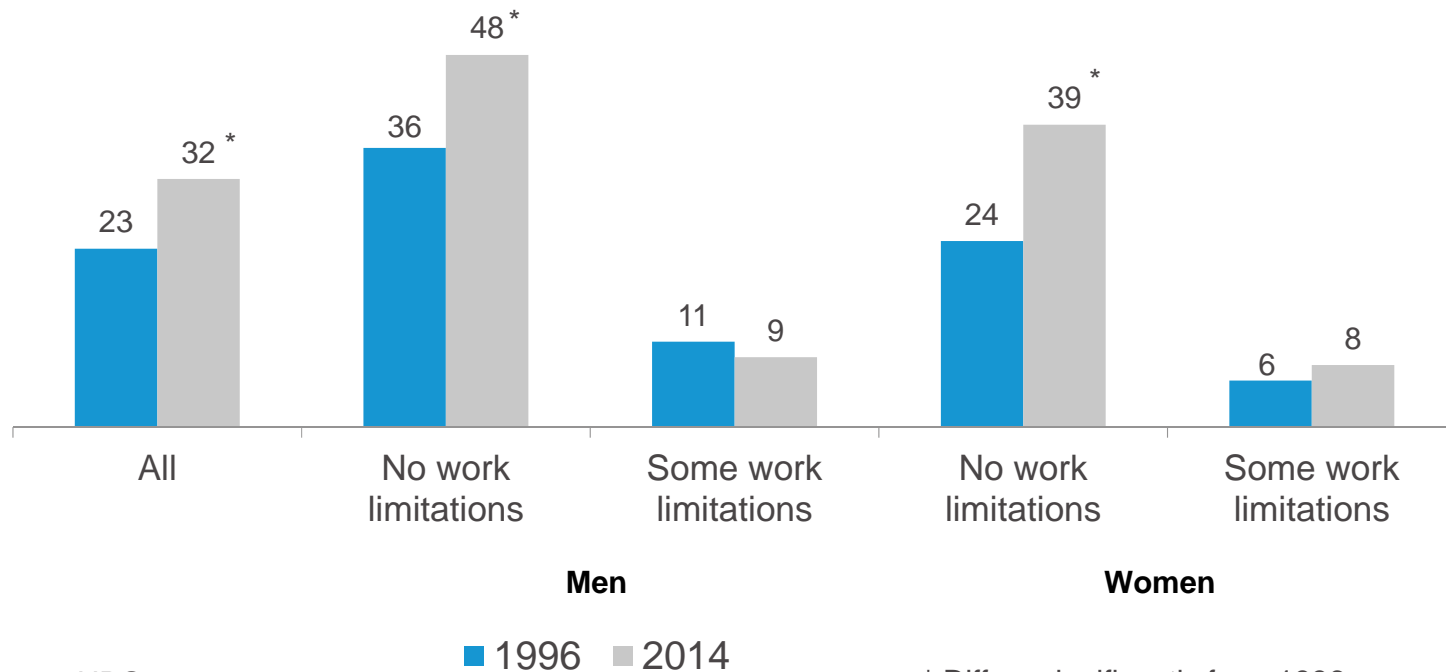


Source: HRS.

* Differs significantly from 1996
($p < 0.05$)

Employment at Ages 62 to 64 Increased Significantly between 1996 and 2014, but Only for Those without Work Limitations

Percentage of Adults Ages 63 to 65 with Significant Earnings in Previous Year, 1996 and 2014

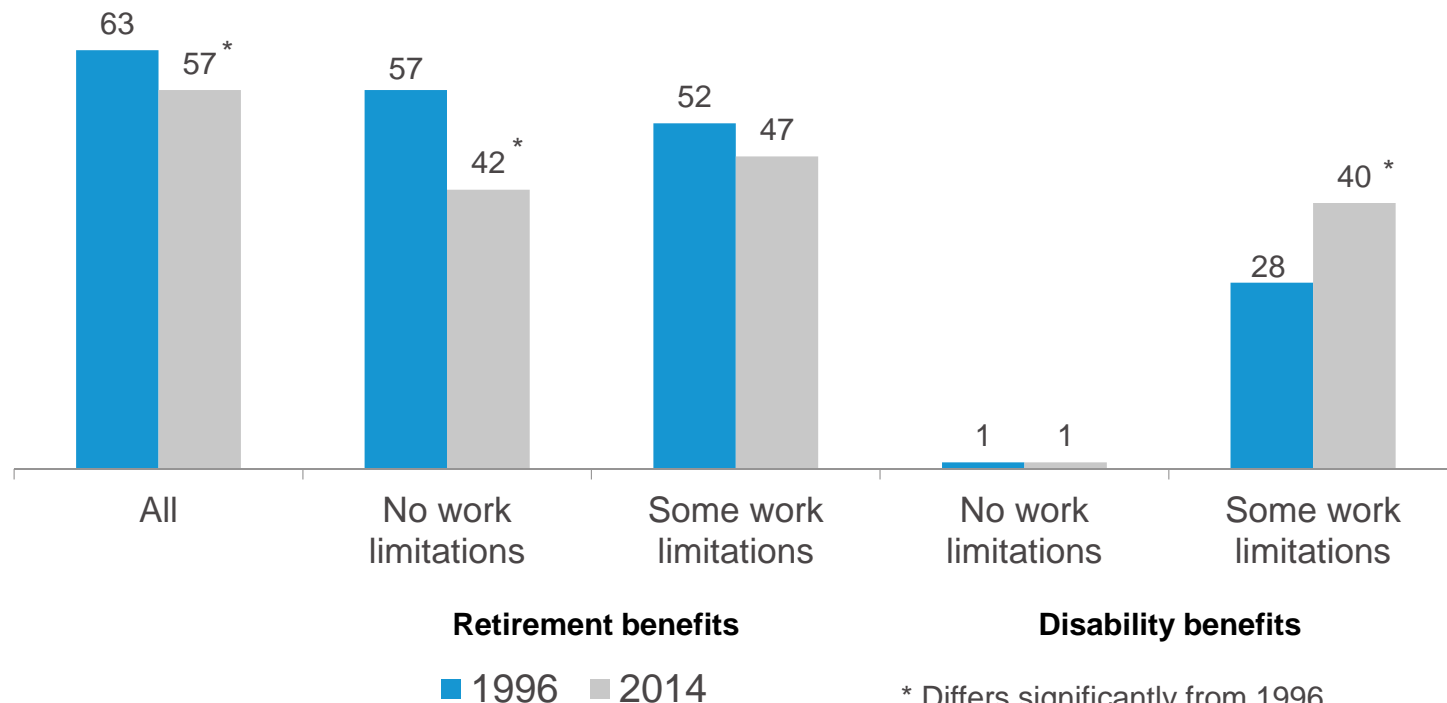


Source: HRS.

* Differs significantly from 1996
($p < 0.05$)

For Men Ages 62 to 64, Social Security Retirement Benefit Claiming Fell Over Time for Those with No Work Limits, while Disability Benefits Increased for Those with Limits

Percentage of Men Ages 63 to 65 with Social Security Income in Previous Year, 1996 and 2014

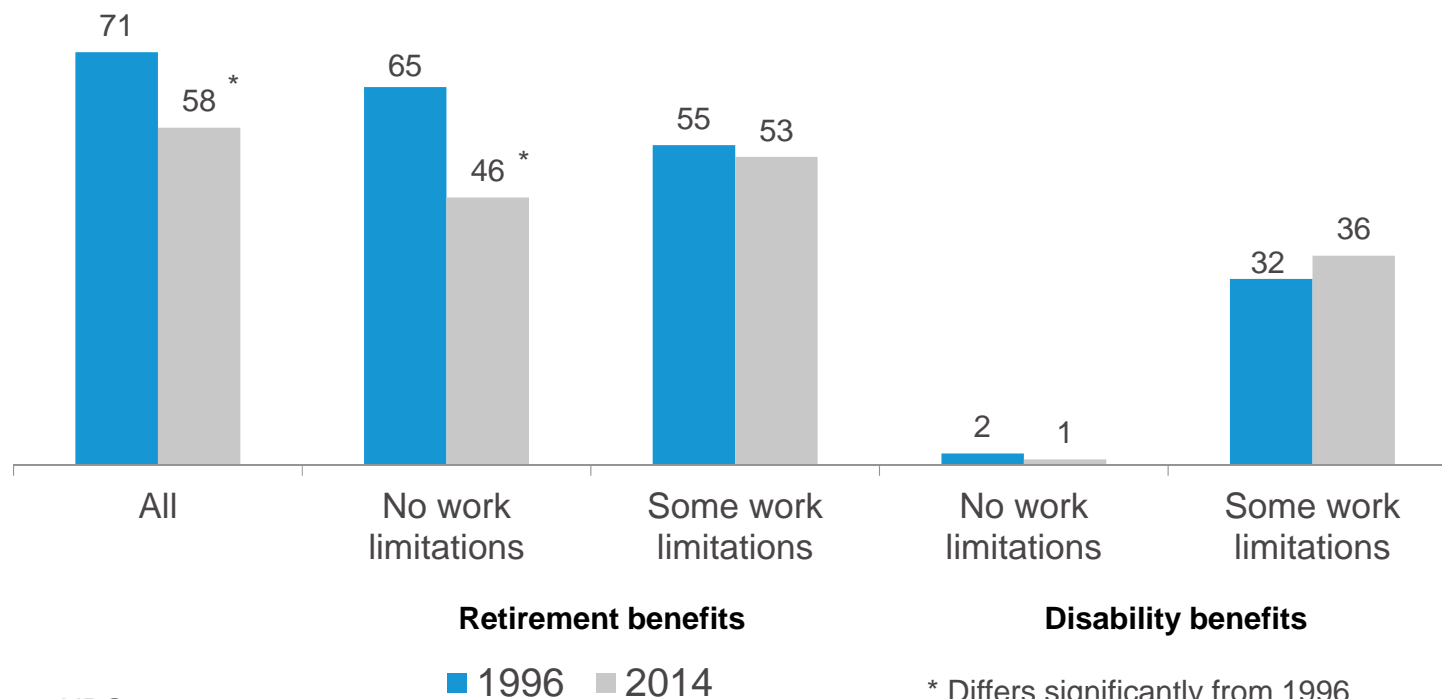


Source: HRS.

* Differs significantly from 1996
($p < 0.05$)

Social Security Benefit Claiming Also Fell for Women Ages 63 to 64 with No Work Limitations

Percentage of Women Ages 63 to 65 with Social Security Income in Previous Year, 1996 and 2012

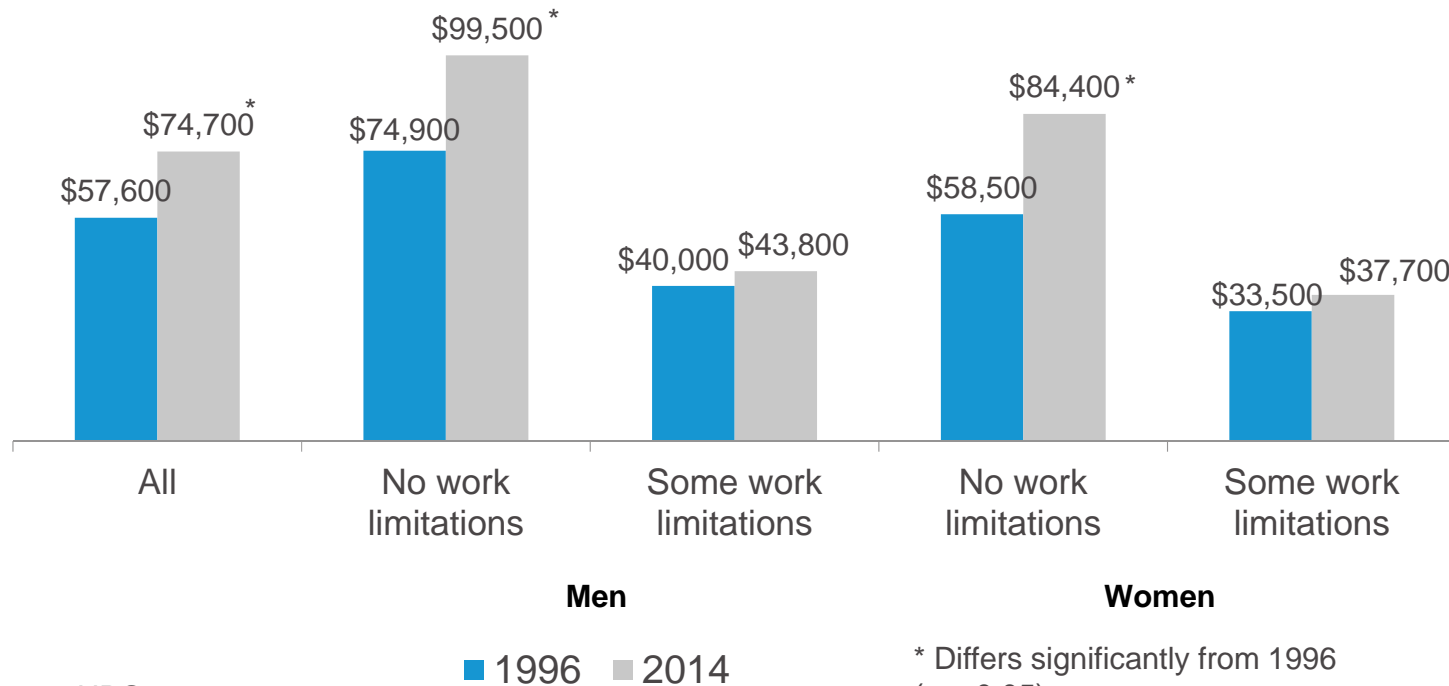


Source: HRS.

* Differs significantly from 1996
($p < 0.05$)

Household Income at Ages 62 to 64 Did Not Significantly Increase between 1996 and 2014 for Those with Health Limitations

Mean Real Household Income for Adults Ages 63 to 65 in Previous Year, 1996 and 2014



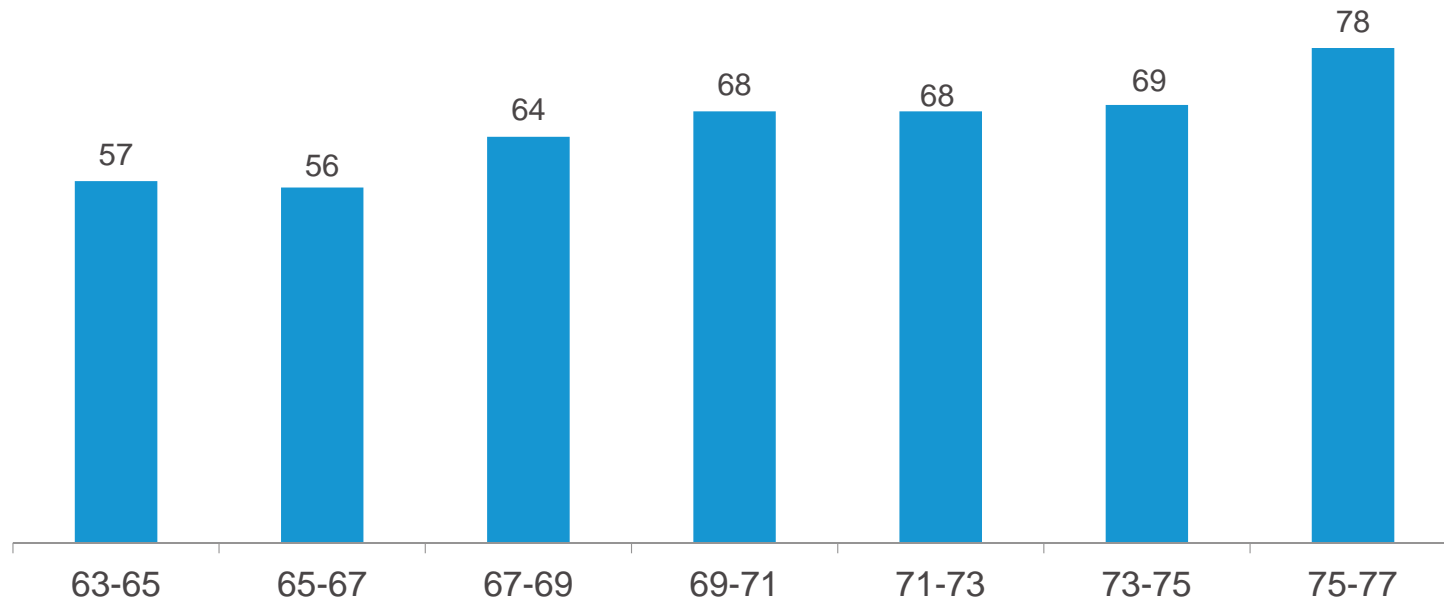
Source: HRS.

Do Health-Related Income Differentials Disappear As Healthy People Eventually Retire?

- We followed a cohort of HRS respondents ages 63 to 65 in 2002 through 2014
- We compared mean household income and its components at each wave by 2002 health status
- We also estimated income regressions at each wave
 - Controlling for 2002 health status, education, sex, race and ethnicity, and marital status Health problems

Income Shortfall for Older Adults with Health Problems Persisted for at Least 10 Years, but Diminished over Time

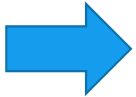
Household Income for Adults with Work Limits as % of Income for Those with No Limits by Age, Adults Ages 63 to 65 in 2002



Source: HRS.

Yet, Many Older Adults Face Significant Labor Market Challenges

- Many are forced out of jobs before they are ready to retire
- Unemployed older workers suffer serious consequences
- Health differences by SES may accentuate inequality at older ages
- Policy options



What types of policy initiatives could overcome these barriers?

- Invest more in workforce development efforts for older workers
- Strengthen age discrimination rules
- Reduce employment costs for older workers

Reduce cost of employing older workers

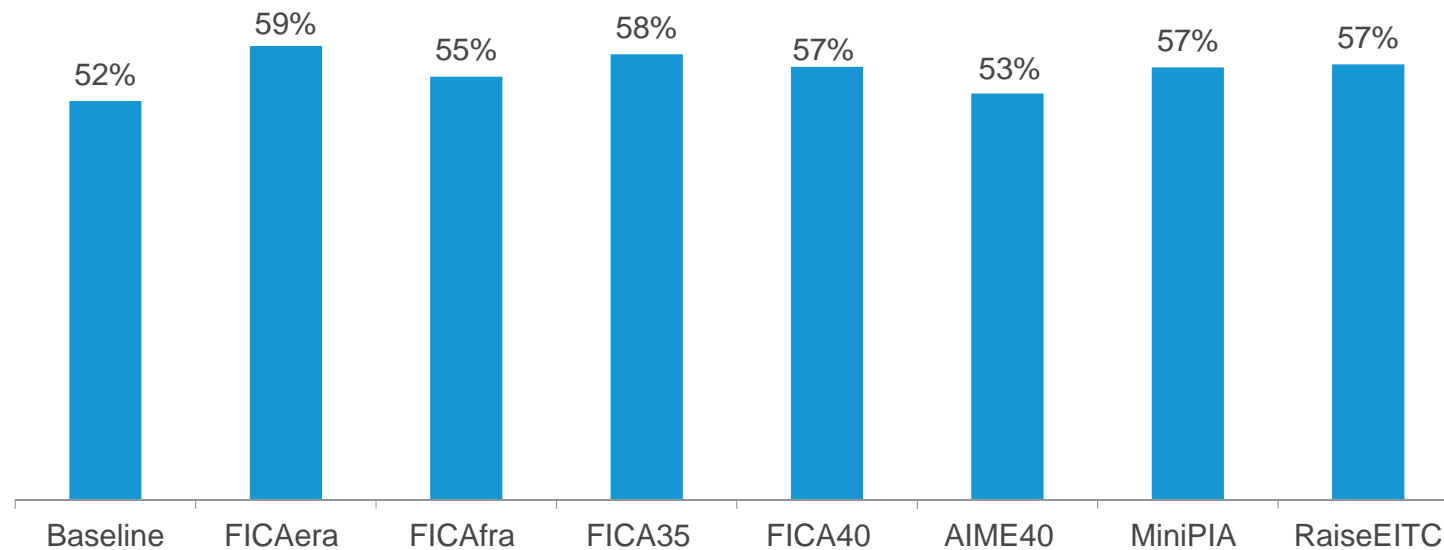
- Reduce Social Security and Medicare payroll taxes
 - Social Security: 6.2% up to taxable maximum (\$132,900 in 2019)
 - Medicare: 1.45%, no maximum
- Make Medicare the primary payer for employed beneficiaries

Social Security and tax reforms could make work pay more at older ages and promote labor supply

- Eliminate Social Security payroll tax for older workers
 - After Social Security early entitlement age
 - After Social Security full retirement age
 - After 35 years of employment
 - After 40 years of employment
- Use 40 years of earnings when computing Social Security benefits
- Compute primary insurance amount each year and then average
- Expand to EITC to cover older workers (up to age 67)

Certain Social Security and tax reforms could raise employment rates at older ages as much as 13 percent

Simulated Employment Rates for Adults ages 60 to 70, 2028-2038



Source: Cosic and Johnson (forthcoming)

Conclusions and unresolved issues

- Many older adults who want to work may be unable to find suitable jobs
 - We need to better understand the demand side of the labor market
 - What groups face particular challenges?
- What policies effectively promote work at older ages?
- How can we protect older adults left behind as the work lives lengthen?