Order Code RL33054

CRS Report for Congress

Older Displaced Workers in the Context of an Aging and Slowly Growing Population

Updated January 17, 2008

Linda Levine
Specialist in Labor Economics
Domestic Social Policy Division

Prepared for Members and Committees of Congress

Congressional Research Service

Older Displaced Workers in the Context of an Aging and Slowly Growing Population

Summary

Two major demographic changes could substantially affect the U.S. labor market, namely, the aging of the population and the slowdown in population growth. The possibility of their raising the dependency ratio (the number of older and younger persons compared to the size of the working-age population) has caused concern about the nation's ability to maintain the current standard of living. One way to lessen the ratio's expected increase is for people to spend more years in the labor force (i.e., to delay the age at which retirement typically occurs).

Older workers who involuntarily lose long-held jobs through no fault of their own could experience great difficulty delaying retirement. Older displaced workers usually have labor market outcomes that compare unfavorably with older nondisplaced workers, such as long-lasting lower employment rates. Older workers often are more adversely affected by displacement than younger workers as well. For example, older workers disproportionately end displacement by exiting the labor force than by finding new jobs.

The lower employment rate of older displaced workers appears related to their restricted job opportunities. The limited access of older jobseekers could be due to age discrimination and to lawful considerations of employers (e.g., compensation packages with health insurance). For their part, the likelihood that older displaced workers will earn considerably less upon reemployment dampens their motivation to find new jobs.

Both the Dislocated Worker program of the Workforce Investment Act and Trade Adjustment Assistance (TAA) are designed to actively help eligible displaced workers, regardless of age, find new jobs (e.g., by providing training). In addition, a demonstration program (Alternative Trade Adjustment Assistance, ATAA) for TAA-eligible older workers offers a wage supplement to those who become quickly reemployed in full-time jobs that pay less than their lost jobs. (A wage supplement sometimes is referred to as wage insurance.) Retraining and wage insurance operate on the supply side. The only federal program that addresses older workers' reemployment difficulties from the demand side is the Senior Community Service Employment Program (Title V of the Older Americans Act). It creates part-time public service jobs for older persons with low incomes and poor job prospects.

To the extent that it is more demand-side than supply-side obstacles that prevent substantial numbers of older displaced workers from obtaining new jobs, raising the Social Security eligibility age may not succeed at delaying retirements among members of this group. Not only might older displaced workers be unable to ameliorate potential shortages by extending their working lives, but they also might live in reduced circumstances and qualify for means-tested government benefits as a result of their unplanned retirements. Further, older workers voluntarily retiring from long-held jobs who want to extend their stay in the labor force by taking non-career bridge jobs could be thwarted from doing so by these same demand-side obstacles.

Contents

List of Tables

Older Displaced Workers in the Context of an Aging and Slowly Growing Population

Introduction

The United States is projected to experience two major demographic changes that could substantially affect labor markets in forthcoming decades. The demographic changes are the aging of the U.S. population and the slowdown in U.S. population growth.[1] Both are expected to raise the total dependency ratio (the number of younger and older persons relative to the economically productive population). The old-age dependency ratio (the number of older persons per 100 individuals in the working-age population) will account for most of the increase. Although the greatest growth in the old-age dependency ratio is projected during the 2011-2029 period when members of the baby-boom generation reach 65 years old, the ratio likely will continue climbing thereafter.[2]

> Because the rise in the dependency ratio reflects an increase in (generally active) life expectancy, it represents an unmitigated gain in welfare. But to some economists and policymakers, a high dependency ratio raises concerns about how a small workforce will provide for a relatively large number of dependents without a decline in the U.S. standard of living.[3]

At least two means have been suggested to prevent this scenario from coming to fruition. One is that productivity continue increasing at the high average rate attained over the 1960-2000 period. This outcome is possible given the inverse relationship between labor force and productivity growth. Some suggest, however, that the educational attainment of recent immigrants and their offspring might temper future increases in labor quality which helped spur productivity growth in the past. Another possibility is that the labor force will not be as small as anticipated in the future because older members of the population will extend their working lives to reflect the increase in life expectancy.[4]

---

[1] For more information see CRS Report RL32701, *The Changing Demographic Profile of the United States*, by Laura Shrestha.

[2] CRS Report RL32981, *Age Dependency Ratios and Social Security Solvency*, by Laura Shrestha.

[3] Jane Sneddon Little and Robert K. Triest, "The Impact of Demographic Change on U.S. Labor Markets," *New England Economic Review*, first quarter 2002, p. 53.

[4] For an analysis of these possibilities, see CRS Report RL33661, *Retiring Baby-Boomers = A Labor Shortage?*, by Linda Levine.

Healthy older individuals face a number of impediments to spending more years in the labor force, however.[5] Late career employees who involuntarily lose long-held jobs through no fault of their own could also be among those who have the most difficulty delaying retirement.

The ability of older displaced persons to continue working has implications for society beyond mitigating labor shortages. If these workers exhaust any unemployment benefits for which they might be eligible, they presumably will draw down assets including retirement nest eggs. As a result, they might remain in the labor force to restore depleted savings and to reach planned retirement asset values; however, those unable to find new jobs could become eligible for means-tested government assistance (e.g., Food Stamps and Supplemental Security Income). Even older displaced workers who become reemployed — but in jobs with wages substantially below those on their lost jobs — might be unable to save as much as they had intended for their fast-approaching retirements. Thus, they too could eventually qualify for means-tested aid.

This report analyzes the labor market experiences of those older workers who have involuntarily lost long-held jobs for reasons unrelated to their own performance (e.g., veteran factory workers at plants closed because of import competition, experienced information technology workers whose jobs have been outsourced to workers in other countries, and mid-level managers in positions eliminated through corporate restructuring). It examines current policies targeted at the reemployment of older displaced workers which, if successful, might lengthen their stay in the workforce.

The Labor Market Experiences of Older Displaced Workers

There is no single definition of displaced workers or of older workers. Definitions differ by the variables available in surveys and by statute. Shortly after the issue of worker dislocation emerged, the U.S. Bureau of Labor Statistics (BLS) developed the Displaced Worker Supplement (DWS) to the Current Population Survey (CPS) which queries different groups of households over time. Every two years since the mid-1980s, the DWS has been administered with the January or February CPS to determine the number, characteristics, and labor market outcomes of adults who reported that they had lost or left jobs as a result of a plant/company shutdown or move, insufficient work, or position/shift abolished.

In its definition of displaced workers, BLS includes only workers who had worked for their employers for at least three years before being discharged, as they are expected to have greater difficulty becoming reemployed than more recent hires. When utilizing the DWS or other databases, analysts sometimes do not apply a tenure screen. Similarly, some researchers may define older workers as having attained a

---

[5] For further information see CRS Report RL30629, *Older Workers: Employment and Retirement Trends*, by Patrick J. Purcell; and CRS Report RL32757, *Unemployment and Older Workers*, by Julie M. Whittaker.

given age minimum (e.g., at least 55 years old), while others also set an upper limit (e.g., below age 65) to avoid the complexities introduced by eligibility for public and private retirement benefits.

Begun in 1992, the longitudinal Health Retirement Study (HRS) survey focuses specifically on older individuals (i.e., over age 50). Analysts are able to utilize the HRS to examine displacement among older workers because it asks individuals whether their jobs ended as a result of business closings and permanent layoffs (i.e., for reasons other than poor performance).[6]

The Incidence of Displacement

Almost 900,000 workers aged 55 and older who had at least three years of tenure were displaced during the 2003-2005 period, according to the most recent DWS data. Older persons comprised more than one in five long-tenured workers displaced between January 2003 and December 2005.

The share of all employed persons aged 55 and older with three or more years of tenure who lost long-held jobs (i.e., the displacement rate) was 4.7%. The relationship between the displacement rate of older workers compared to younger workers has fluctuated over time, according to the DWS data. But some empirical analyses estimate that the relative rate of displacement among older workers (variously defined) increased from the 1980s to the 1990s.[7] A heightened risk of job loss among older workers may be related to the increase in displacement over time caused by position/shift abolishment. This reason for involuntary job loss is thought to reflect corporate restructuring, which seemingly has taken a heavier toll on experienced (aged 40 to 64) white-collar workers, such as managers, in the more recent period.[8] Other analyses have not uncovered an increase in the risk of displacement among older workers, but because "job tenure, not age, drives displacement trends ... declining job tenure suggests older workers could be more vulnerable in the future."[9]

---

[6] Possible responses in the HRS to how a job ended are: business closed, laid off or let go, quit, retired, temporary layoff, and wanted a better job. Although the permanently laid off individuals often counted as displaced in analyses that utilize the HRS include some persons who may have been let go for cause, their inclusion does not appear to affect studies' results.

[7] See, for example, Daniel Rodriguez and Madeline Zavodny, "Are Displaced Workers Now Finished at Age Forty?," *Economic Review - Federal Reserve Bank of Atlanta*, second quarter, 2000.

[8] Henry S. Farber, *Job Loss in the United States, 1981-2001*, Working Paper #471, Princeton University, Industrial Relations Section, May 22, 2003. (Hereafter cited as Farber, *Job Loss in the United States*.)

[9] Alicia H. Munnell, Steven Sass, Nauricio Soto, and Natalia Zhivan, *Do Older Workers Face Greater Risk of Displacement?*, Center for Retirement Research at Boston College Issue Brief No. 53, September 2006, p. 7.

The Post-Displacement Experience

Older workers typically incur greater adverse consequences than younger workers from displacement according to the measures analyzed below. Those older persons whose jobs are terminated through no fault of their own often have subsequent labor market outcomes that also compare unfavorably with nondisplaced older workers. Explanations for these patterns are presented below as well.

Duration of Unemployment Among the Reemployed. A relatively greater number of older than younger displaced workers experience long spells of unemployment before becoming reemployed. Among those with new jobs in January 2006, 22% of long-tenured displaced workers at least 55 years old had been unemployed for half a year or longer, in contrast with 15% of displaced workers aged 25 through 54.[10] Older displaced workers spend the most time unemployed: At 8.5 weeks without work as of January 2006, this was more than two weeks beyond the median period among reemployed 25- to 54-year-olds who had been displaced between 2003 and 2005. Reflecting this disparity, a slightly larger share of reemployed older job losers, when compared to prime-age job losers, had exhausted their unemployment insurance benefits (47% and 43%, respectively).

Two explanations offered for older workers' typically longer duration of unemployment are a greater preference for leisure and more non-labor income. The results of one analysis suggest that this is not the case. Instead, the author estimates that the longer unemployment spells and larger earnings losses of older displaced workers are due more to their inferior job prospects.[11]

The Rate of Reemployment. The displacement of older workers ends with comparatively few finding new jobs. Somewhat more than one-half of long-tenured displaced workers at least 55 years old were reemployed in January 2006, compared to about three-fourths of 25- to 54-year-olds. (See column 4 of **Table 1**.) The group's low reemployment rate was heavily influenced by its oldest members: only one-fourth of displaced workers at least 65 years old who were dismissed between 2003 and 2005 were again working in January 2006.

Further, according to an analysis of 1992-1996 HRS data, older displaced workers subsequently have lower employment rates than a comparable group of older nondisplaced workers due, in part, to the short-lived nature of post-displacement jobs. The disparity in employment rates was estimated to be particularly true of persons in their 60s. The impact of displacement on employment status was found to be long-lasting as well. For example, only 60% of men and 55% of women who lost their jobs at 55 years of age were employed two years later, in contrast with 80% employment rates for nondisplaced workers the same age; there was little narrowing of the employment gap even four years after termination, when the rate among older

---

[10] Displaced Worker Supplement, January 2006.

[11] Todd E. Elder, "Reemployment Patterns of Older Displaced Workers," June 2004 paper prepared for a Federal Reserve Bank of Chicago and the Joyce Foundation conference (Job Loss: Causes, Consequences, and Policy Responses) in November 2004.

displaced workers was about 20% less than the rate among their nondisplaced counterparts.[12]

Table 1. Employment Status in January 2006 of Workers Displaced During the Period of 2003-2005, by Age

Age	Total (000)	Percent Distribution by Employment Status			
		Total	Employed	Unemployed	Not in the Labor Force
Total, 20 years and older	3,815	100.0	69.9	13.4	16.7
20-24 years old	111	100.0	66.4	21.4	12.2
25-54 years old	2,841	100.0	74.5	13.4	12.0
55 years and older	*863*	*100.0*	*55.1*	*12.1*	*32.8*
55-59 years old	450	100.0	63.1	12.6	24.3
60-64 years old	278	100.0	56.6	11.9	31.5
65 years and over	135	100.0	25.4	10.8	63.8

Source: Created by U.S. the Congressional Research Service from unpublished January 2006 DWS data.

The lower employment rate of older displaced workers compared to either younger workers or to older nondisplaced workers appears related to the restricted opportunities that older jobseekers typically encounter. Older persons' comparatively limited access to jobs could be due to age discrimination (which is difficult to measure directly because of methodological issues) and to lawful considerations of employers.[13] One study estimated that steep wage profiles,[14] compensation packages with defined benefit pensions, and high demand for computer skills are positively associated with older jobseekers' constrained access to employment (measured by the more concentrated occupational distribution of newly hired older workers compared to younger new-hires and older workers generally). The authors concluded that

[12] Sewin Chan and Ann Huff Stevens, "Job Loss and Employment Patterns of Older Workers," *Journal of Labor Economics*, April 2001, vol. 19, no. 2.

[13] Robert J. Samuelson, "Retirement at 70 (Cont'd)," *The Washington Post*, August 24, 2005.

[14] Oftentimes, earnings increase as a worker's experience at a firm or in the labor force lengthens. The rate of earnings growth (i.e., steepness of the wage-experience profile) partly reflects past education and skill development as well as deferred pay, such that the wages of senior (typically older) employees increase to a greater degree than their current contribution to productivity. Barry T. Hirsch, David A. Macpherson, and Melissa A. Hardy, "Occupational Age Structure and Access for Older Workers," *Industrial and Labor Relations Review*, April 2000, vol. 53, no. 3. (Hereafter cited as Hirsch, et al., *Occupational Age Structure and Access for Older Workers*.)

> [t]he current structure of the labor market does not appear well suited for later retirement [i.e., longer working lives]...given the restricted employment opportunities facing older workers...who switch jobs [e.g., displaced workers], or opportunities that would face non-switching older workers were they to change jobs [e.g., those who want to continue working, but in non-career bridge jobs, after retiring from their long-time employers].[15]

The presence of health benefits in a firm's compensation package also could deter employers from hiring older workers because of their typically above-average health care costs. It sometimes has been argued that if firms are able to make older workers absorb their higher costs by paying them lower wages, the benefit would not be a barrier to reemployment. Based upon an analysis of 1984-2000 DWS data, however, reemployed workers age 55 and older failed to experience greater tradeoffs of wages for health benefits than other displaced workers.[16] Accordingly, another study estimated that employers with health benefit plans have significantly fewer newly hired 55-64 year olds on their payrolls.[17]

U.S. labor markets have demonstrated an enormous capacity for change over the years. Even if firms alter their compensation structures and mix

> in response to the increase in the number of older workers, the legal restrictions on mandatory retirement, the increase in Social Security retirement age, and the declining importance of defined benefit pension plans. ...there is likely to remain a sizable number of older workers facing constrained [employment] opportunities both within and following their long-term career jobs.[18]

Nonparticipation in the Labor Force. Older job losers leave the labor force in numbers disproportionate to their presence in the displaced workers population: While workers age 55 and older comprised 23% of all long-tenured workers displaced during 2003-2005, they accounted for 44% of all those who stopped supplying their labor.[19] An analysis of retirees in the 1992-1998 HRS estimated that displacement is one key predictor of involuntary withdrawal from the labor market for older persons.[20] The comparatively long periods of unfruitful job search that older displaced workers engage in, mentioned above, might cause them to conclude that no jobs are available and withdraw from the labor force at a relatively high rate.

---

[15] Ibid., p. 416.

[16] Kosali Ilayperuma Simon, "Displaced Workers and Employer-Provided Health Insurance: Evidence of a Wage/Fringe Benefit Tradeoff?" *International Journal of Health Care Finance and Economics*, September-December 2001, vol. 1, no. 3-4.

[17] Frank A. Scott, Mack C. Berger, and John E. Garen, "Do Health Insurance and Pension Costs Reduce the Job Opportunities of Older Workers?" *Industrial and Labor Relations Review*, July 1995, vol. 48, no. 4.

[18] Hirsch, et al., *Occupational Age Structure and Access for Older Workers*, p. 416.

[19] To be a member of the labor force an individual must either have a job (employed) or be actively searching for one shortly before the monthly CPS is conducted (unemployed).

[20] Maximiliane E. Szinovacz and Adam Davey, "Predictors of Perceptions of Involuntary Retirement," *The Gerontologist*, February 2005.

Note the marked increases in exit rates from the labor force between persons 55-59 years old (24.3%), 60-64 years old (31.5%), and 65 or more years old (63.8%). (See column 6 of **Table 1**.) It implies that another contributory factor to labor force withdrawal is age-dependent, namely, eligibility for other sources of income (e.g., Social Security benefits, private pensions, and penalty-free access to Individual Retirement Accounts).

Post-Displacement Compensation. Relatively more older displaced workers who find new full-time jobs earn less than they had on the full-time jobs they lost.[21] Based upon January 2006 data from the DWS, a larger share of long-tenured older workers compared to 25-54 year olds displaced from full-time positions were paid lower wages in their new full-time jobs (57% and 48%, respectively).

> There is a very strong relationship between the change in earnings and tenure on the lost job. The average earnings loss is dramatically larger when the worker had accumulated substantial tenure on the lost job. ...This is consistent with the destruction of job specific human capital when a long-term job ends. The estimates with respect to age, which show a weak relationship with the earnings change, taken together with the estimates with respect to tenure, generally confirm the standard finding that older job losers, who are more likely to have lost a high-tenure job, suffer larger wage declines than do younger workers.[22]

In addition, relatively more workers at least 55 years old who lost long-held full-time jobs between 2003 and 2005 were employed part-time in January 2006.[23] Not only would fewer hours of work be expected to yield smaller paychecks, but also the wage rate of part-time jobs generally is lower than that of full-time jobs.

When part-time and full-time wage and salary workers are considered together, as was done in a study involving data from the 1994-2000 DWS, real (inflation-adjusted) weekly earnings of reemployed workers fell to a greater degree the older the worker. Compared to workers age 20 to 29, real earnings on the subsequent job were 4.2% less among 30-39 year olds; 6.7% less among 40-49 year olds; 7.1% less among 50-59 year olds; and 34.4% less among displaced workers at least 60 years old.[24] In addition, displaced workers continue to earn significantly less than they would have had they not been discharged for up to 10-12 years after termination.[25] For some workers displaced in their 50s, then, the period of reduced earnings could last for all their remaining years in the labor force.

---

[21] The BLS definition of full-time employment is 35 or more hours per week.

[22] Farber, *Job Loss in the United States*, p. 25.

[23] Displaced Worker Supplement, January 2006.

[24] David A. Macpherson and Michael J. Piette, "Do Terminated Employees Catch Up? Evidence from the Displaced Workers Survey," *Journal of Forensic Economics*, 2003, vol. 16, no. 2.

[25] Thomas N. Daymont, "The Effects of Displacement on Post-Displacement Earnings," *Journal of Legal Economics*, winter 2001/2002, vol. 11, no. 3.

The reason for which older workers leave their jobs affects the degree of earnings loss they incur. A study that utilized HRS data on workers between 45 and 75 years old who changed employers in the 1986-2004 period estimated that wages of reemployed retirees and displaced workers fell much more than the wages of older workers who quit or left their jobs for other reasons (e.g., relocation, poor health and disability, and family or child care responsibilities).[26] In the case of older displaced workers, specifically, pay cuts averaged 12%. Older males who held the job they lost for 10 or more years were estimated to experience an especially large drop in average earnings upon reemployment (20%). The substantial wage losses of older workers who were laid off from long-held jobs could be partly related to the large proportion that found new jobs in different industry groups (60%) where their skills might not be as highly prized. In addition, it was determined that two in five older men displaced from jobs in which they had worked for more than 10 years no longer had pension coverage upon reemployment.

Overlaid on their sharply lower earnings and pension coverage is a marked decrease in additions to the value of pension benefits. According to an analysis of 1992-1998 HRS data that examined individuals aged 50-75, the gain in pension wealth from delaying retirement is significantly reduced for older displaced males.[27] (For older women, the decrease is not statistically significant.) The lower earnings, estimated to be 41% for men and 38% for women, in combination with this reduced "pension gain" were found to significantly dampen the motivation to find another job after displacement. Changes in wages and pension accumulations, however, were estimated to explain very little of the substantially higher rate of retirement among older displaced workers compared to older nondisplaced workers. While some older displaced workers may be unwilling to accept new jobs that pay considerably less than their former jobs, many more may retire because they are unable to obtain new jobs. The study's results suggest that, compared to changes in wages and pension-related financial considerations, other obstacles to reemployment may better explain the high retirement rates of older displaced workers (e.g., employer reluctance to train older individuals and age discrimination).

---

[26] Richard W. Johnson and Janette Kawachi, "Job Changes at Older Ages: Effects on Wages, Benefits, and Other Job Attributes," Center for Retirement Research at Boston College, February 2007.

[27] Sewin Chan and Ann H. Stevens, "How Does Job Loss Affect the Timing of Retirement?" *Contributions to Economic Analysis & Policy*, 2004, vol. 3, no. 1.

Policy Responses

The Dislocated Worker program under Title I of the Workforce Investment Act (WIA) and the Trade Adjustment Assistance (TAA) program are meant to help displaced workers obtain new employment by providing job search assistance and training among other services. Those eligible for the Dislocated Worker program are more broadly defined than the group examined in this report.[28] The TAA program, in contrast, is limited to workers who have lost jobs due to imports of articles that compete with U.S.-produced goods and to shifts of production outside the United States.

Retraining

The WIA program does not reserve a portion of its funding for older displaced workers. Similarly, TAA does not distinguish between older and other displaced workers, but as an entitlement program, any TAA-eligible older worker would be assured of receiving services if they chose to. The TAA program also provides reemployment assistance beyond that offered under WIA's Dislocated Worker program (e.g., relocation allowances).

In effect, WIA and TAA attempt to keep older displaced workers in the labor force by addressing some of the reemployment barriers and financial disincentives discussed above. In light of employer reluctance to train older workers (either because of the short time period in which to recoup their investment or because of stereotyping), the programs draw upon public funds to do so. To the extent that employers' high demand for up-to-date computer skills limits older workers' access to jobs, the provision of such training through WIA and TAA could expand older workers' job opportunities. Training may thus serve a purpose beyond the human capital investment motive of raising workers' skill levels to increase post-displacement wages. However, taxpayer subsidized training does not come with the guarantee of a job at its end.

Fairly few evaluations have been conducted of training programs for displaced workers. Of the displaced worker programs that have been examined, some provided more job search assistance than retraining, solely provided reemployment bonuses, or had methodological shortcomings (e.g., insufficient follow-up periods and failure to differentiate types of training).[29]

---

[28] The WIA's definition of dislocated workers includes not only (1) employees who have been laid off or whose employers have announced an impending layoff or facility closing and who are unlikely to return to their prior industries or occupations, but also (2) self-employed persons (e.g., farmers, ranchers, and fishermen) who have lost their livelihood due to general economic conditions or natural disasters in their communities, and (3) displaced homemakers (i.e., persons who provide unpaid services in the home to family members, who no longer are supported by other family members, and who are unemployed, underemployed, or having difficulty finding or upgrading employment).

[29] Louis S. Jacobson, Robert LaLonde, and Daniel Sullivan, "Is Retraining Displaced Workers a Good Investment?" *Federal Reserve Bank of Chicago Economic Perspectives*,

(continued...)

Wage Insurance

Publicly subsidized training is in one sense intended to compensate workers for the persistent impact on employment and earnings of job loss that is a regularly occurring byproduct of labor market adaptation to economic change (e.g., dissemination of technological and other innovations in the workplace, heightened international competition in provision of goods and services). By contrast, unemployment insurance (UI) only compensates displaced workers during the period of job search; it neither motivates them to find new jobs nor insulates them from the extended effect of displacement on employment and wages. Recognizing that the nation's UI system provides only short-term compensation and that retraining may not be the optimal solution for all displaced workers,[30] some analysts have recommended that experienced workers who lose jobs for reasons unrelated to their performance receive a supplement if the earnings on their post-displacement jobs are less than on their pre-displacement jobs. (A wage supplement is sometimes referred to as wage insurance.)

In the Trade Act of 2002, Congress established a five-year demonstration program specifically for older workers eligible for the TAA program — the Alternative Trade Adjustment Assistance (ATAA) program — which allows eligible workers at least 50 years old to receive an earnings supplement for two years.[31] To obtain the supplement workers must, within 26 weeks of job loss, take a full-time position with wages below those of their former jobs;[32] the new job must pay less than $50,000 as well. The supplement is 50% of the difference between the wages on the old and new jobs, up to a maximum of $10,000 over the two-year period of receipt.[33]

According to its proponents, wage insurance might enhance the reemployment prospects of displaced workers by prompting them to consider even those positions that pay substantially less than the jobs they lost. During their initial period of employment, these workers also might have the opportunity to receive on-the-job training that makes them more productive and qualifies them for pay increases which narrow the gap between their pre-and post-displacement wages by the end of their

---

[29] (...continued)
2005, second quarter.

[30] As noted by Lori G. Kletzer, "Trade-related Job Loss and Wage Insurance: a Synthetic Review," *Review of International Economics*, vol. 12, no. 5, 2004, p. 740, displaced manufacturing workers "are older, less formally educated, and more tenured than displaced nonmanufacturing workers. Generally, these are not the characteristics of workers who succeed in training programs."

[31] A required minimum of petitioning workers must be at least 50 years old (i.e., three workers in groups of 50 or less, or 5% of groups of 50 or more); the skills of those at least 50 years old in the group are not easily transferable; and conditions in the industry are adverse. More information on the ATAA demonstration can be found at [http://www.doleta.gov/tradeact].

[32] In the ATAA program, full-time is defined by state law; it may include self-employment.

[33] Wage supplements are funded through the Federal Unemployment Account.

eligibility for wage supplements. If the supplement is available for a limited time from the date of job loss, the payment also could encourage speedier reemployment because its value effectively declines the longer unemployment continues. Thus, in addition to enabling displaced workers to remain in the labor force, a wage insurance program might reduce UI costs.

Based upon the extremely limited evidence available thus far, the actual benefits of a wage insurance program appear to be extremely modest. The Canadian Earnings Supplement Project was conducted from July 1995 to October 1998 to estimate whether the availability of a pay supplement promoted and sped reemployment of displaced workers eligible for unemployment benefits.[34] The two-year supplement was designed to replace 75% of the earnings loss of a displaced worker (up to $250 per week) who found a new, lower paying, full-time (30 hours a week) job within a 26-week period. Displaced workers were randomly assigned to a group that was offered the supplement and to a group that was not. *The low take-up rate* — about 20% of supplement group members received payments — *largely reflects an inability to quickly find new full-time jobs*. The availability of a supplement was not found to affect the timing or intensity of job search among supplement versus control group members. (The only statistically significant impact on job search was to prompt a few displaced workers to consider a broader range of jobs.) Absent speedier reemployment of supplement over control group members, then, the program did not lower unemployment insurance costs. Although the program was estimated to produce a small, statistically significant difference in the full-time reemployment rate of supplement compared to control group members, the difference occurred toward the end of the period during which jobseekers were eligible for the supplement. This difference in full-time reemployment rates — 4.4 percentage points at its widest — was found to gradually diminish; by one year after the workers had been assigned to the supplement and control groups, their full-time reemployment rates essentially were and remained the same. The program's most noticeable effect was on the compensation of the few supplement recipients: The supplement, which averaged $8,705 over 64 weeks, represented a large portion of the incomes of these individuals.

Some information is available on the experience of older displaced workers (age 55 and above) who were included in the Canadian Earnings Supplement Project.[35] The researchers estimated that age was one of the primary determinants of reemployment during jobseekers' eligibility for the supplement: Each additional year of age lowered, by about one percent, the likelihood of finding a full-time position. Workers with long tenure at their employers, who tend to be at the older end of the age spectrum, also were found to have a reduced probability of reemployment during

---

[34] Howard S. Bloom, Saul Schwartz, Susanna Lui-Gurr, and Suk-Won Lee, "Testing a Financial Incentive to Promote Re-Employment Among Displaced Workers: The Canadian Earnings Supplement Project (ESP)," *Journal of Policy Analysis and Management*, summer 2001, vol. 20, no. 3.

[35] Howard S. Bloom, Saul Schwartz, Susanna Lui-Gurr, and Suk-Won Lee, *Testing a Reemployment Incentive for Displaced Workers: The Earnings Supplement Project*, Social Research and Demonstration Corporation, May 1999.

the eligibility period. Full-time reemployment rates did not differ significantly between supplement and control group members age 55 and older.

As to the U.S. experience with the ATAA program, it thus far appears hampered by implementation problems that may have dampened worker access to wage supplements. The demonstration went into effect in August 2003, but a majority of states reported various difficulties (e.g., creating payment systems separate from their existing UI check-issuing systems and tardy guidance from the U.S. Department of Labor). As a result, only 19 states had the wage insurance program up and running in 2003.[36]

It should be kept in mind that wage insurance and training operate on the supply side. They do not address the demand-side barriers to reemployment discussed above. The only federal program that focuses on the seemingly limited job opportunities of older unemployed workers is the Senior Community Service Employment Program (SCSEP), Title V of the Older Americans Act. It creates part-time public service jobs for persons aged 55 and older who have low incomes and poor employment prospects. In FY2006, SCSEP funded slightly more than 60,000 jobs and served about 92,300 individuals.[37] The cost per job slot was about $7,153, with participants paid at least the highest of the (federal, state, or local) minimum wage or the prevailing wage paid by the employer for comparable public service occupations.[38]

To the extent that demand-side rather than supply-side obstacles prevent substantial numbers of older displaced workers from obtaining new jobs, then raising the eligibility age of Social Security may not succeed at delaying retirements among members of this group. Not only might older displaced workers be unable to ameliorate potential shortages by extending their working lives, but they also might live in reduced circumstances and qualify for means-tested government benefits as a result of their unplanned retirements. Further, older workers voluntarily retiring from long-held jobs who want to extend their stay in the labor force by taking non-career (bridge) jobs could be thwarted from doing so by these same demand-side obstacles.

---

[36] As further reported by the U.S. Government Accountability Office (*Trade Adjustment Assistance: Reforms Have Accelerated Training Enrollment, but Implementation Challenges Remain*, GAO-04-1012, September 2004), most other states expected to have the supplement demonstration functioning by spring 2004. See also David Wessel, "Aid to Workers Hurt by Trade Comes in Trickle," *The Wall Street Journal*, August 11, 2005.

[37] Program enrollees may receive, in addition to wages, such services as personal and job-related counseling and training.

[38] For additional information on SCSEP and the Older Americans Act see CRS Report RL33880, *Older Americans Act: FY2007 Funding, and FY2008 Funding Proposals*, by Angela Napili.