S. HRG. 105–195

PREPARING FOR THE BABY BOOMERS' RETIREMENT: THE ROLE OF EMPLOYMENT

FORUM

BEFORE THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

ONE HUNDRED FIFTH CONGRESS

FIRST SESSION

WASHINGTON, DC

JULY 25, 1997

Serial No. 105–7

Printed for the use of the Special Committee on Aging

U.S. GOVERNMENT PRINTING OFFICE
42–834 CC WASHINGTON : 1997

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-055901-4

SPECIAL COMMITTEE ON AGING

CHARLES E. GRASSLEY, Iowa, *Chairman*

JAMES M. JEFFORDS, Vermont
LARRY CRAIG, Idaho
CONRAD BURNS, Montana
RICHARD SHELBY, Alabama
RICK SANTORUM, Pennsylvania
JOHN WARNER, Virginia
CHUCK HAGEL, Nebraska
SUSAN COLLINS, Maine
MIKE ENZI, Wyoming

JOHN B. BREAUX, Louisiana
JOHN GLENN, Ohio
HARRY REID, Nevada
HERB KOHL, Wisconsin
RUSSELL D. FEINGOLD, Wisconsin
CAROL MOSELEY-BRAUN, Illinois
RON WYDEN, Oregon
JACK REED, Rhode Island

THEODORE L. TOTMAN, *Staff Director*
BRUCE D. LESLEY, *Minority Staff Director*

CONTENTS

"PREPARING FOR THE BABY BOOMERS' RETIREMENT: THE ROLE OF EMPLOYMENT"

FRIDAY, JULY 25, 1997

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, DC.

The forum met, pursuant to notice, at 9:33 a.m., in Room SD-124, Dirksen Senate Office Building.

OPENING STATEMENT OF JEAN-PHILIPPE VIRIOT DURANDAL

Mr. VIRIOT DURANDAL. Good morning. My name is Jean-Philippe Viriot Durandal. I am a Fullbright scholar and a German Marshall Fund Congressional Fellow. This past year, I had the great honor to work with the Senate Committee on Aging on older worker and retirement issues.

I would like to welcome you all to our forum "Preparing for the Baby Boomers' Retirement: The Role of Employment." It is my pleasure to introduce Dallas Salisbury, this morning's moderator.

Dallas Salisbury is the president and CEO of the Employee Benefit Research Institute in Washington. He has been with EBRI since its inception almost 20 years ago. EBRI has established itself as the leader in providing information and research on employee benefit issues. Mr. Salisbury is also the chairman of the American Savings Education Council, a new public-private sector partnership to raise public awareness about the need to plan and to save for retirement.

I want to thank Mr. Salisbury for his assistance to the committee in organizing this forum, and everything that EBRI does.

One last item. We ask the presenters to limit their statement to 10 minutes, to allow sufficient time for questions and answers following each panel. Thank you very much.

OPENING STATEMENT OF DALLAS SALISBURY, PRESIDENT AND CEO OF THE EMPLOYEE BENEFIT RESEARCH INSTITUTE

Mr. SALISBURY. Thank you, Jean. I did not bring my egg timer today, or my beeper, and we don't have colored lights, so we're going to depend on tremendous levels of self-discipline this morning.

It is my pleasure to be here today. As was mentioned, the forum is devoted to examining the impact of the impending retirement of the baby boom generation on America's work force.

The press of this last week underlines the juxtapositions of this issue with an article that was in the Washington Times on the problems older workers, or individuals of older ages who would like to be in the work force, have in the way of difficulty finding employment opportunities, and the potentials for discrimination, juxtaposed against a lengthy article yesterday that was talking about the tremendous difficulty that employers are having in finding enough people to fill all of the part-time positions that they have available. So in the current labor market there seem to be tremendous, should we say, implicit contradictions in terms of what we might anticipate for the future.

It also is an effort today to explore the issue of, given that individuals have in very large numbers chosen at the first date of Social Security eligibility, age 62, traditionally to retire, and most of the rest have left the labor force when full benefits are available at age 65, what the potential implications are as the Social Security age for full benefits eligibility rises to 66 and then to 67. What does the behavioral research tell us about this particular issue?

Second, as we have seen the debate of late with potential increases in the age of Medicare eligibility, and we find in the surveys the Institute has done with the Gallup organization, responses from individuals saying, "Well, money is important, but health insurance in retirement is more important, and Medicare has more of an effect on my retirement age decision than the pension," which is why individuals responding to why they waited until age 65, is because they needed Medicare. They did not have other forms of retiree medical protection available to them.

Third, we have seen a change that reinforces that issue of health, which is public and private employers both modifying the terms under which they make health insurance available to individuals leaving the full time labor force. In that there is a significant prospect that many individuals that might have in the past retired fully, might well find themselves desiring to continue some level of work effort longer than they would have historically in order to continue health insurance coverage.

Fourth, we have seen public and private employers making changes in the pension system, and offering employees on the one hand more opportunity but on the other, the balance of that opportunity to save and to have personal control, is to take risk. With that, another forum actually taking place on the Hill today on the topic of lump sum distributions, we see individuals who because of other life circumstances sometimes spend that money prior to the age of normal retirement. We are seeing those trend lines impact in a way that we yet don't know what they will do to the ability economically of individuals to retire.

Fifth, we see individuals being told through every medium that they should expect to live a long time, and with the White House presentation related to human genome research and the question of DNA usage for purposes of medical testing and whether or not that can legally be used as a precondition of medical insurance, we hear their discussion that individuals might readily in this room expect to live 10 to 15 to 20 years longer than the life expectancy tables would have you believe. Obviously that has an implication both on what we need to accumulate, but it also may very readily impact when individuals decide to leave the work force and retire.

Now the amount of information out there we all know is dramatically increased, whether it be financial columns, the financial services industry advertisements, extensive programs on retirement planning on public television, the Internet financial planning software on the PC, announcements by groups like the American Association of Retired Persons that they will be engaging in savings education, and the list is very broad. Individuals are far more aware than they have been historically of the fact that they probably need to be doing something themselves in order to meet the goal of an adequate retirement, and that social security does not in fact provide an adequate retirement income. This is messaging that is non-traditional, and there is a question as to whether it has yet begun to fully impact the labor force.

Sixth, we have to add that even with more individuals earning more pension rights than at any time in history, relative to short job tenures this means that benefits will be relatively small unless individuals save at very high rates and then preserve. While education is causing about one-third of individuals to contribute, we find that another third say they are saving nothing and the final third say they are saving far less than will be needed to retire. With the perspective of older retirement eligibility ages and less in the way of defined benefits, this could be interpreted to say that larger numbers of individuals will face an "I have no choice but to try continue working or working part-time" than may have been true in the past.

Furthermore, tax data show us that over two-thirds of those who are paid a pre-retirement lump sum distribution don't save it. They spend it immediately. Now it is true that those distributions are relatively small, but if they were saved over the five, six, or seven job changes that Mr. Reynolds will be talking about, they could add up to a reasonable amount of money.

So there's a challenge there which will undoubtedly lead many to the necessity of working, as noted, at least until they have full Social Security eligibility, and we have seen proposals to move that not just to 67 but to 68, 69, 70, and some discussions from the Advisory Council on Social Security to then index it to extensions of life expectancy which could readily move it much later.

The issue of retirement age, then, has been the subject of an ongoing debate, and around the world. Nation's Business carried a lead article in 1971 titled "The Early Retirement Time Bomb," worrying that we could not financially afford early retirement pension costs or afford the loss of workers.

During the '70s a great deal was written on the subject, and that has continued. In 1977 Hal Sheppard and Sara Rix wrote, in "The Graying of Working America: The Coming Crisis of Retirement Age Policy," warned that we had better rethink our retirement age policies now, before new social realities surprise a generation of workers.

Congress did part of that job, so to speak, in 1983 when it took action to increase the retirement age for full benefits for Social Security, but surveys indicate that that has not yet sunk in. EBRI/Gallup surveys indicate that the public is not yet aware that this occurred and that people have to work longer to get full Social Security benefits.

In fact, we find only about 20 percent of those whose age of eligibility will be 67 know it, and only about 19 percent of those whose age of eligibility will be 66 know it. The other 80 and 81 percent still believe they will be fully eligible for Social Security at age 65. If they don't know it's going to be later, one has to anticipate it is not yet affecting their behavior.

A 1978 book by Frank Kleiler asked the question "Can we afford early retirement?" and concluded that changes would have to be made to keep people working longer. A 1980 book by Jim Jorgensen, "Retirement and Why You Can't Afford It: The Graying of America," suggested "that in less than 20 years it may be financially impossible for anyone to retire." Jorgensen may have been a bit too pessimistic, it would now seem, but analysis of the implications of the growing aged population was nonetheless compelling.

A recent work, in 1996, "Gradual Retirement in the OECD Countries," edited by Delsen and Reday-Mulvey, builds on conferences and publications of a group called the Geneva Association and its research program on work and retirement. The Geneva Association introduced, at a conference that I participated in some 12 years ago, a concept for Europe of a so-called fourth pillar consisting of many years of part-time work, gradual retirement or phased retirement. This concept is effectively documented for the United States in the bridge-job research of Joe Quinn of Boston University and others who have also done extensive work with the European nations.

The results of many of these factors are already showing up, if you will, in survey data. In a recent summary article, Quinn documented increasing high rates of bridge jobs and part-time work between the time individuals leave the job of longest tenure and actually retire. Based upon trend lines, Quinn suggests that this behavior will continue to grow over time, even for those who are eligible for current Social Security retirement ages.

Now today we're going to discuss some of the issues that that raises. Will the jobs be there? If individuals continue to work at later ages, what will the implications be for younger workers? Will the economy grow fast enough to make it essential that individuals work longer?

Two panels will explore these questions and others, and we will have hopefully some extended opportunity to engage in discussion, again on the assumption that we all show that wonderful 10-minute discipline.

[The prepared statement of Dallas Salisbury follows:]

U.S. Senate Special Committee on Aging
"Preparing for the Baby Boomers Retirement: The Role of Employment"

July 25, 1997
9:30 a.m. to 11:30 a.m.
Dirksen Senate Office Building, Room 124

Introduction by Dallas L. Salisbury, President and CEO, Employee Benefit Research Institute

Good morning. It is my pleasure as moderator to welcome you.

This forum is devoted to examining the impact of the impending retirement of the baby boom generation on America's work force. It will also explore what the implications will be if members of my generation attempt to work longer than age 62 to 65. There are good reasons to assume that some will want to and many will need to do so.

First, the age of normal retirement for full benefit payments from Social Security is scheduled to rise to age 67. Behavioral research makes it clear that the retirement decision is heavily influenced by the availability of annuity income and/or assets in a lump sum.

Second, the age of normal retirement for Medicare may be increased in the future as well. This Congress has moved that issue further along than at any time in the past, and the combination of demographics and health costs assures that the issue will continue to be on the reform alternatives agenda. EBRI/Gallup surveys find that the availability of health insurance is even more important than an annuity for many individuals as they decide when to retire.

Third, public and private employers have modified the terms under which they make health insurance available to their retirees. Many now simply allow the individual access for purchase, but pay no part of the premium. The reduction of such insurance prior to age 65 will also serve to provide an incentive for individuals, particularly those with some health problems, to work as long as possible.

Fourth, public and private employers have been making changes in the pension system that offer employees more opportunity but also subject them to more risk. The Federal Government. for example. acted in 1984 to dramatically reduce the value of the defined benefit pension plan for future hires and introduced a matched savings plan. The combination of the two plans provides the opportunity for workers to have more retirement income than under the old system, but it also could provide significantly less if the individual either chooses not to contribute to the savings plan or experiences poor investment results. Private employers have been increasing the emphasis on employee contribution matched savings plans as well. For most workers—those who spend far less than a full "career" with one employer—this new system provides the opportunity for more retirement income than the old system, but only if they contribute and only if they preserve all funds as they move to a new employer. We know that the availability of income influences the retirement decision, but we are only beginning to understand the impact of large lump-sum distribution availability on retirement timing.

Fifth, individuals are being told through every medium that they should expect to live a long time. Medical advances are possible that could add many years to the life expectancy prospect. This information is complemented by constant media emphasis on the need to save and to plan for retirement. Whether it be financial columns, financial services industry advertisements, programs on retirement planning on public television, the Internet, financial planning software on the PC, or payroll stuffers, the message that "your retirement depends on you" is everywhere. This has not been the case for any prior generation. It is likely to impact behavior, with many people deciding to work longer.

Sixth, even with more individuals earning pension rights than at any time in history, relative short job tenures mean that benefits will be relatively small unless individuals save at relatively high rates. While education is causing about one-third to do this, another third say they are saving nothing and the final third is saving far less than will be needed to retire. Furthermore, tax data show that over two-thirds of those who are paid a preretirement age lump-sum distribution do not save it for retirement but spend it instead. This suggests an added problem in terms of retirement timing. Although many of these individuals would not have had any benefit in an earlier time, when they spend a distribution they are assuring that they will be un-pensioned, for that employer, by their own behavior. This will undoubtedly lead many to the necessity of working at least until they have full Social Security eligibility, and possibly longer. Adding to this need to work are the historically high levels of debt that individuals are carrying and a stated desire to keep their present home rather than sell it to provide money for retirement.

The issue of retirement age has been a subject of ongoing debate in this nation and around the world. *Nation's Business* carried a lead article in 1971 titled "The Early Retirement Time Bomb," worrying that we could not financially afford early retirement pension costs or afford the loss of workers. During the 1970s a great deal was written on the subject. In 1977, Harold Sheppard and Sara Rix, in *The Graying of Working America: The Coming Crisis of Retirement-Age Policy*,[1,2] warned that "we had better re-think our retirement-age policies *now*, before new social realities surprise a generation of workers." Congress did part of that job in 1983 when it took action to increase the retirement age for full Social Security benefits. EBRI/Gallup surveys indicate, however, that the affected public is not yet aware that this has occurred and that people will have to work longer to get full SSA benefits. A 1978 book by Frank Kleiler asked, *Can We Afford Early Retirement*, and concluded that changes would have to be made to keep people working longer. A 1980 book by James Jorgensen, *Retirement and Why You Can't Afford It: The Graying of America*,[3] suggested that "in less than 20 years it may be financially impossible for anyone to retire." Jorgensen was a bit too pessimistic, it would now seem, but his analysis of the implications of the growing aged population is nonetheless compelling. A recent work (1996), *Gradual Retirement in the OECD Countries*,[4] edited by Lei Delsen and Genevieve Reday-Mulvey, builds on conferences and publications of the Geneva Association and its research program on work and retirement. The Geneva Association introduced the concept of a "fourth pillar" consisting of many years of part-time work, i.e., gradual or phased retirement. This concept is effectively documented for the United States by the "bridge-job" research of Professor Joe Quinn, of Boston University.

The results of many of these factors are already showing up in survey data. In a recent summary article, Quinn documented increasingly high rates of "bridge jobs" and part-time work between the time individuals leave the job of longest tenure and actually retire. Based on trend lines, Quinn suggests that

this behavior will continue to grow over time. Will the jobs be there? If individuals continue to work at later ages, what will the implications be for younger workers? Will the economy grow fast enough to make it essential that individuals work longer? Our two panels will explore these questions, and others, and you will have the opportunity to engage in a dialogue with the panelists.

[1] Sheppard, Harold L. and Sara E. Rix, *The Graying of Working America: The Coming Crisis of Retirement-Age Policy* (New York: The Free Press, 1977).
[2] Kleiler, Frank M., *Can We Afford Early Retirement?* (Baltimore, MD: Johns Hopkins University Press, 1978).
[3] Jorgensen, James, *Retirement and Why You Can't Afford It: The Graying of America* (New York: The Dial Press, 1980).
[4] Delsen, Lei and Genevieve Reday-Mulvey, *Gradual Retirement in the OECD Countries* (England: Dartmouth Publishing Company, 1996).

Now we are ending with me right on time, in anticipation that Senator Grassley will come storming through the door momentarily, and while we are waiting for him, I will do introductions of the panel members and then we will break for words from Senator Grassley.

On panel one, to my immediate right, we have Alan Reynolds. Alan is Director of Economic Research at the Hudson Institution based in Indianapolis, Indiana; Hudson, run by a long-time Washington and foundation individual, Les Lankowsky. He also operates his own consulting firm in Virginia, and has worked in a number of positions in both the public and private sector, including the National Commission on Economic Growth and Tax Reform chaired by Jack Kemp.

His articles and commentaries have been printed in many publications, including the Wall Street Journal, Forbes, and the National Review. The recent book that he was involved with, "Workforce 2020," builds upon an earlier work from the Hudson Institute, "Workforce 2000," which when it came out some years back gained a significant amount of notoriety and generated a tremendous amount of national discussion.

Alan will be followed by John Rother. John is Director of Legislation and Public Policy for the American Association of Retired Persons. John has now been there a very lengthy time, since he is vested in the AARP pension, which for John is a noteworthy thing. I note it because he, prior to AARP, was one of those examples of short job tenure and high turnover, and pension vesting was something that was to be sought. He has just completed a special sabbatical to study the retirement challenges facing the baby boom generation, and he is going to be talking about the results of that survey today.

Prior to joining AARP, John served as special counsel to Senator Jacob Javits and as staff director and chief counsel for the Special Committee on Aging under the late Senator John Heinz. He has provided leadership and advice to a number of boards and commissions over many years, including the National Academy on Aging and the National Academy on Social Insurance, and currently their panel for the study of Medicare.

Our third panelist on the first panel is Michael Barth. Michael is currently executive VP of ICF Kaiser International's consulting group. He served as program director for the Commonwealth Fund's "Americans Over 55 at Work" program, which was a five-year effort to study the role of older Americans in the work force. Prior to joining ICF, Mike was Deputy Assistant Secretary for Income Security Policy at the Department of Health and Human Services.

Not wanting to interrupt any of their lucid remarks for an introduction, I'm going to quickly move to introductions of the members of the second panel.

Our second panel will be led off by Richard Burkhauser, a professor of economics at Syracuse University and at the Maxwell School. Rich has done a tremendous amount of work over his academic career focusing on issues relating to disability policy, labor economics, and work incentives. He is the author of "Passing the Torch: The Influence of Economic Incentives on Work and Retirement." At Syracuse he also serves as the director of the All-University Gerontology Center. He was a member of the technical panel at the 1994–1996 Advisory Council on Social Security, and he's on the editorial boards of The Gerontologist, Labor Economics, and the Review of Income and Wealth.

He will be followed by Colin Gillion, currently Director of Social Security at the International Labor Organizations in Geneva, Switzerland. At the ILO, Mr. Gillion works with countries to reform and develop their social protection systems. Prior to assuming that position at ILO, he worked with the Organization for Economic Cooperation and Development on social policy issues, including demographic change, focusing on retirement, pensions and health care.

Our final panelist will be Scott Bass, who is Dean of the Graduate School and Vice Provost for Research at the University of Maryland-Baltimore County. He focuses there on developing and expanding research and graduate education at the university. Dr. Bass has been involved in the study of gerontology for years, and promoting gerontological education. In 1994 he was awarded a Fullbright research scholarship to study in Japan, where he studied the retirement policies of business with respect to older workers.

With that, I have run out of stalling material.

Mr. TOTMAN. We are told that Senator Grassley is in sight and shouldn't be longer than two minutes.

Mr. SALISBURY. It is my pleasure to welcome—as he is about to walk in the door, I am told, therefore, they said, please sit—it is my pleasure to welcome Senator Grassley, whose pleasure it will be to welcome us. Senator?

OPENING STATEMENT OF SENATOR CHARLES GRASSLEY, CHAIRMAN

Senator GRASSLEY. Thank you for letting me interrupt. I appreciate that. But, most importantly, thank you for your contribution to this very important discussion, not only you Dallas, as moderator but all of you. Thank you for being here.

I was delayed because the Quadrennial Boy Scout encampment is in town, and I had to meet a group of Iowans who were over there. It is always nice to be able to encourage the younger generation that is coming on, and hopefully reduce some of the cynicism that people have about government.

So I am here to welcome you and to thank you for your participation, and to hopefully encourage you to help start a public dialog on this very important issue. This is a very important forum for older workers.

The Washington Times called me a bearer of bad news last week when I was talking about the subject matter of this forum. But in my defense, this is not a new issue because I was a charter member of the Select Committee on Aging in the House of Representatives when it was formed in 1975. We started talking about the tremendous loss of human capital when people began leaving the work force then. It continues even today at a younger and younger age.

Since my election to the Senate in 1980, I have had a continuous interest and a continuing membership on the Aging Committee. As some of you know, I became Chairman of the Aging Committee January of this year. I will have to admit when I first came to the United States Senate, I didn't think much of the seniority system, but the longer I am around, the more I like it. [Laughter.]

So in my capacity as Chairman of the Senate Special Committee on Aging, I want to raise the profile of the issue of the tremendous loss of human capital as people retire younger and younger. I want to do this as part of a bigger agenda that begins discussing now how to confront the challenges of the retirement of the baby boom generation.

We aren't talking about forcing people to work longer. If they have saved and can afford to retire, or even if they just want to retire, that is their business. They make that decision, and we can all say, "Great," that they have the opportunity to exercise that choice.

But there are in fact some transformations taking place that will make it harder in the next century for people to retire at the same age as people do today. Many people are not planning for their retirement. A recent survey showed that 66 percent of the people had no idea how much money they needed to have for retirement, to maintain their standard of living. People need to consider the uncertain future of public retirement programs.

In 1983, Congress changed the eligibility age for retirement benefits from Social Security for those retiring in the next century. You all know that the retirement age for Social Security will increase from 65 for people born after 1938, and end up at 67 for people born after 1960. People who take early retirement at age 62 would continue to retire at that age if they choose to, with less benefits.

Of course what I just reported to you is all current law. But one way to ensure that their standard of living does not diminish as they grow older is for these people to voluntarily stay in the work force longer.

Our first panel has two objectives: first, to review what the employment picture could look like for baby boomers in the 21st century; and, second, to highlight the barriers which may prevent people who want to work longer from doing that.

Some people will either need or want to keep working longer. The second panel will propose some policy changes that could help people who find that working is a good option, and describe what those policy changes would be to make it easier for them to do that, and even to make it easier for the employer who wants to have that sort of cooperative program with people nearing retirement.

I would also like to take this opportunity, to recognize the contribution of one of my Aging Committee staff, Jean-Philippe Viriot Durandal. He is a Fullbright and a Marshall Fund scholar, and I thank him for his energy in planning this forum and for making it such a success. He will be leaving soon, and my staff and I will miss him for his contribution, which has been great, to the work of the Aging Committee.

So thank you all very much for your participation, both as members of the panel and also to those of you in the audience. To those of you in the audience, consider yourselves missionaries and ambassadors to carry this message, because we need a tremendous public dialog on some of the challenges facing us in the future.

I say they are challenges. They are not problems. We too often think of America, of the aging of our society, as being a problem that must be dealt with. We have to see the aging of our population as a measure of the quality of our society, the advancement of our society, the advancement of medicine and people living longer.

We have always used this as a measure of how America is something different and great. But also, if it is a problem, then it is a challenge, and we need to look at the assets that we have in the capabilities of older people and use those assets, rather than what has been traditional in industrial America of setting people off to the side and out of the center of society. I think we can meet that challenge.

Thank you very much. [Applause.]

Mr. SALISBURY. Thank you, Senator, very much.

Mr. Reynolds.

OPENING STATEMENT OF ALAN REYNOLDS

Mr. REYNOLDS. Good morning. My paper focuses on the future and redefining the issues, and on why does this matter? Why do we care if older people work more or less?

The future is going to be a lot different in one very critical respect: Labor is going to be scarce. We are already running short of willing and able workers, and that is going to become more and more of a problem as time goes on. I am going to try to show you that in a variety of ways, and then maybe talk a little bit about what we could do about it.

We are not accustomed to thinking of this issue in this way. We are thinking about government's job is to create jobs. How are we going to get enough jobs? Remember we just went through a period when the baby boomers flooded into the job market, flooded into the housing market. We had trouble employing them all, had trouble housing them all, and our mind set is set that way. Or we think we are in Europe, where the unemployment rates are 12 rather than 4 or 5.

You have got to really think about this altogether differently. Older people are going to be a precious resource, something we need to preserve. Many of the scary stories that you read presume that everybody retires at 62 or 65. How can all these people afford to retire? How can we tax payers afford to finance their retirement? The answer is, that isn't much of a problem if in fact the average retirement age voluntarily rises.

This graph shows that this is already happening to some extent. The blue bar is the one that nobody pays any attention to. That is, growth of the labor force. How many new workers and job seekers are coming in each year. That is kids coming out of school. That is mature women going back into work. That is immigrants and so on.

As you see, up until about the '90s it was growing about 1.7 percent a year, and it suddenly slowed. Well, that is partly cyclical. We were in a recession. But it is still pretty slow. That is largely demographic. It might be partly economic, it might be incentives, but it slowed.

Now if the labor force is only growing by 1 percent a year, and that is a typical projection for the future, we can't expect to have employment growing by 1.5, as it has in the '90s, or even faster, about 2, as it did in the '80s. You can't have jobs growing by 2 percent if the number of people who can take those jobs is growing by 1. Why? Because the unemployment rate would then fall by 1 percent a year, and would soon be below zero. That is not a practical possibility.

A big debate about economic growth occurred last year, with people saying, "Why can the economy only grow 2.3 percent?" It is not because the forecasters at Social Security and BLS and other places are practitioners of "the dismal science." It is because the reality of the situation is, that the economy is going to be labor-constrained unless we can increase the participation of older workers and alleviate that constraint.

How do they come up with a conclusion the economy grows by 2.3 percent? First the labor force grows by 1.1 percent? That is an optimistic projection, actually. Then they add to that a projection of productivity growth of about 1.1 percent. That is optimistic too. If you add 1.1 and 1.1 together, you get 2.2 percent growth. Maybe you get a few more hours and get it up to 2.3, but that is about it.

So it isn't that people are saying the economy can only grow by 2 percent, therefore there will only be that many jobs. It is that for the first time in our memory, economic growth will be constrained by scarcity of workers, with the exception of recessions. When you have the opposite situation, such as 1980–82, with the labor force growing faster than employment, then of course unemployment rises. But that is only going to happen in really bad times.

Workers will be more scarce than ever before. Growth of the labor force slows from about 1.7 to 1, 1.1. The World Bank says 0.9 percent. So, we will be constrained on economic growth.

There will be very few young job seekers. The number of young workers, aged 25 to 35, actually declines by about 3.8 million over the next 10 years. From 1995 to 2020, the population over 65 grows by 60 percent; the population 18 to 44, prime working age, grows by only 4 percent—not much.

So even to achieve the expected 1 percent growth of the labor force requires and indeed assumes that we have better labor force participation, that the trend toward early retirement stops. When the BLS says the labor force is even going to grow by 1.1 percent, they assume that very rapid growth, 3.3 percent a year, of workers over the age of 55 offsets the very slow growth, (0.7 percent) of the younger group. So, we are counting on it.

Now the Hudson Institute, in "Workforce 2020", is optimistic about this for a lot of reasons, but we are not complacent about it. One reason for optimism is that there are more educated workers among the baby boomers. More educated workers tend to retire later. There are fewer manual laborers among the baby boomers. The nature of work has changed, so that you don't have the arduous kinds of work that used to wear people down at an early age. These are all good things. But if in fact the incentives aren't there, folks will still drop out early.

The issue is incentives. Incentives today mean that if you work more and you earn more, your benefits will be reduced and your taxes will be increased.

The benefit formula itself is means-tested. It is very progressive. The amount of your benefits that is taxable is means-tested. That is, zero, 50 or 85 percent of benefits are taxed, depending upon your other income. Then of course you have the progressive tax rates on top of that. Then you have continued payment of Social Security. Two of my fellow panelists suggest that workers be allowed to opt out of continuing to pay Social Security taxes, after age 65.

Some of the incentive problems are that benefits are currently only based on 35 years of work. Well, you finish 35 years of work pretty early, and there is not much reason to go further. People who are very young, their benefits don't usually count in the 35 years, and people who are very old haven't much reason to go beyond 35 years because it doesn't help their benefits much. So that is one problem, easily fixed.

The ratio of monthly benefits to monthly earnings drops sharply as your income goes up. People as they get older tend to make more money, and as they are making more money, that would be one reason to keep working—you will get a better social security benefit. But, in fact, the pay-out for additional work beyond about $30,000 a year drops from 32 percent to 15 percent. So the additional benefit for the additional payroll taxes paid as your income goes from, say, $40,000 to $65,000, is very small. That is why I say for full-time workers above the median income, which was about $38,000 in 1994, there isn't much reason to keep working. The benefit formula is rigged against higher incomes.

Social Security taxes paid by working spouses, by second earners, yields little or no extra benefit. That is because whether the woman works or not they would be entitled to half of the primary earner's benefits, so there is no payoff. That makes the payroll tax an arduous disincentive for second earners.

Nearly 4 out of 5 collect Social Security at 62. About 79 percent do now. Raising the full retirement age from 65 to 67 isn't going to matter much, because most people retire at 62 anyway. They probably still will, unless we change these incentives.

Then you have the work penalty. Each two dollars earned above about $8,000 at age 62 means they take one dollar of benefits away. Then those benefits are taxed. If your other income is above $44,000, then 85 percent of those benefits are taxed at rates that can be 31, 36, 39.6 percent. The payroll taxes continue.

So you basically have the benefit formula, the age of retirement at 62, the taxation of benefits, all encouraging you to start collecting benefits at 62, to minimize your work effort so that your other income doesn't become taxable, and also to minimize your savings, because if you were foolish enough to save a lot for retirement, then of course that will subject your social security benefits to high tax.

I am not supposed to do ideas, and I am running out of time anyway, but here are a few. One is, include every year's income in the benefit formula, not just 35. I don't see any reason we shouldn't do that.

Provide actuarially fair payments to people who delay retirement until 65; they are currently 3 percent. Some day out in the future it goes to 8 percent. I think it should go to 8 percent now, and there is no cost to Social Security to do that. Let's just do it.

I believe half of the benefits should be taxed, not 85 percent. This is controversial. It is in the 1993 law, but it was a big mistake. The justification for taxing half of benefits is that half were deducted. If we were to deduct all Social Security benefits, as some people propose, then I would also say we should phase in full taxation of benefits.

Offer an income tax deduction or a 50 percent credit for Social Security taxes paid by second earners. This is a marriage penalty thing. The second earners don't get much benefit. We want to keep them in the work force, older women particularly. They need some kind of a break here.

The last one is actually a suggestion of two Berkeley professors, Hilary Hoynes and Nada Elssa. It is to replace the very rigid $500-a-month ceiling on disability benefits. If you make more than $500, you are just cut off disability benefits right away.

Disability benefits are a quasi-retirement program for people who have a partial disability, bad back or something like that, where they could work a little. But this penalty is so heavy, it is 100 percent tax on additional work, that it is punitive. So Hoynes and Elssa suggest either some kind of work subsidy or pulling them into the Earned Income Tax Credit to alleviate that very abrupt cut-off that currently affects disability recipients.

Okay, with that I will let you go. Thanks.

[The prepared statement of Alan Reynolds follows:]

Restoring Work Incentives for Older Americans*

Alan Reynolds

Director of Economic Research
Hudson Institute

Forum on:
"Preparing for the Baby Boomers' Retirement: The Role of Employment"

U.S. Senate Special Committee on Aging
Dirksen Senate Office Building, Room 124
July 25, 1997

* Sections of this testimony have been adapted from the Hudson Institute study *Workforce 2020*, and from an earlier chapter prepared for the OECD: A. Reynolds. "Workforce 2005: The Future of Jobs in the United States and Europe," *OECD Societies in Transition. Paris.* 1994.

For the foreseeable future, the U.S. economy is far more likely to be troubled by chronic scarcity of willing and able workers than by scarcity of jobs. At the same time, older people will account for a rapidly increasing share of the population, either as workers or retirees. This is an entirely new situation, and it requires thinking about labor force issues in a new way. Historical anxieties about there being enough jobs are now quite irrelevant. The real problem is going to be finding *enough workers* to fill the jobs that will certainly be offered, even if the economy grows slowly.

Official estimates are that the U.S. economy will not be able to expand more rapidly than about 2.3% a year in the long run. This is far slower than the actual postwar average of 2.9%. In fact, it is much closer to the 2.2% average growth of 1929 to 1940.[1]

The sole reason for such a dramatic economic slowdown is that growth of employment is expected to slow to 1.2% a year in the future, down from 1.8% over the 1983-96 period. Adding that 1.2% growth of employment to an optimistic estimate of 1.1% growth in productivity results in the estimated 2.3% growth of GDP.[2]

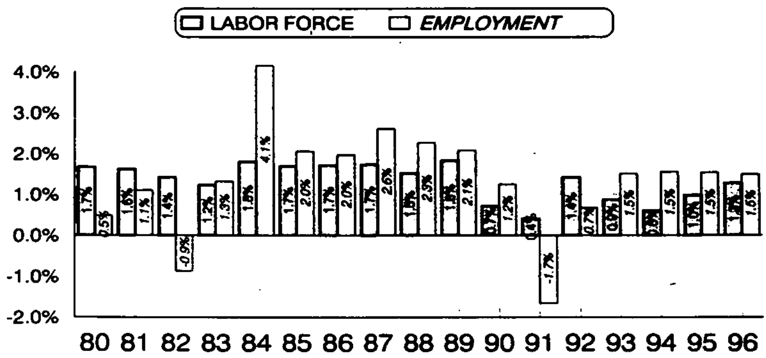
It is critically important to emphasize that the universally expected slowdown in job growth is definitely *not* due to weak demand for workers but to greater scarcity of *supply*. Annual increases in the labor force are expected to slow from nearly 1.7% in the 1980s to 1.1% or less (the World Bank estimates U.S. labor force growth at 0.9% through 2010).[3] When starting from a position of low unemployment, as we do today, it is not mathematically possible for hiring to continue increasing at even the recent pace of 1.5% a year if the number of available workers will be increasing by only about 1% a year. That would soon drive unemployment below zero.

Official economic projections do *not* begin by assuming that economic growth will be slow, and then deducing that demand for employees will grow slowly as a result. Instead, they begin with relatively reliable demographic trends and recently observed facts. The slowdown in the labor supply is mainly because (1) relatively few young graduates will be entering the job market each year, and (2) a high and rising percentage of middle-aged and older men are neither working nor seeking work.

Figure 1 shows that these tendencies are already apparent. Leaving recessions aside, labor force growth averaged nearly 1.7% a year from 1983 to 1989, but slowed to only 1% a year during the 1992 to 1996 expansion. No more than half of this slowdown can be explained by demographics (slower growth of the working-age population). The rest of the explanation is that the percentage of adults who were either working or looking for work stopped rising. Rising participation rates added 0.3% a year to labor force growth during the 1983-89 expansion, which made it possible to experience seven years of rapid 2.3% annual growth of employment. By contrast, increased labor force participation has added almost nothing to the labor supply during the 1992-97 expansion.[4] Slower growth in the number of job seekers quickly pushed the economy toward full employment despite relatively temperate economic growth (2.6% from 1992 to 1996, compared with 4% from 1983 to 1989). Moreover, half of the labor force growth that did occur in the early 1990s was due to immigration.

Figure 1

ANNUAL GROWTH OF EMPLOYMENT AND LABOR FORCE*



* From 1978 to 1994, four revisions in methods increased the measured employment and the labor force (by a total of 2.2 million in 1990 and 1994). These statistical increases are removed to make data more comparable over time.

The reason the unemployment rate was so low by early 1997 (thus limiting future job growth) is not that 1.5% annual employment growth since 1993 has been particularly fast, but that growth in the number of job seekers has been unusually slow. Unless participation rates increase -- particularly among older Americans -- future growth of employment, and of the economy, will continue to be tightly constrained by labor scarcity whenever the economy is not in recession.

Questions about how many people will choose to work in the formal economy, and for how many hours per week or years per lifetime, are not entirely "given" by demographic trends and immigration. The labor force can grow at a faster or slower pace because of changes in the "participation rate" -- the percentage of working-age people who are either working or looking for work.

When forecasting the future, the participation rate is often taken for granted, or simply projected from past trends. This can be dangerous. In the brief span from 1990 to 1995, participation rates fell from 67.3% to 64.8% in Canada, from 63.7% to 62.2% in Britain, and from 55.3% to 53.1% in Germany.[5] It could happen here too. Government policies have to start taking participation rates seriously. The structure of tax and transfer payment policies must be more carefully designed to minimize incentives that discourage work and savings but subsidize consumption and leisure. Policy makers will have to be very careful to avoid discouraging older people from working. Policies that push older people out of the job market will be hazardous in the twenty-first century.

Older Workers or More Retirees?

From 1995 to 2020, the Census Bureau's middle projection shows the population of those over 65 growing by 60%, and the population aged 45-64 growing by 54%, while the population between the ages of 18 and 44 grows by only 4%.[6] In a shorter time frame, the number of people aged 25 to 34 is expected to drop by 3.8 million from 1992 to 2005 -- an absolute decline, not just a declining share.

Until at least 2010, this "greying of America" does not *necessarily* mean that huge numbers of older people will be "dependent" on young taxpayers. Instead, it could mean that a larger share of the workforce will consist of experienced and dependable workers. Older workers are typically more productive than the young, they earn and save more, and they suffer far fewer spells of unemployment. Although the sheer numbers of workers will be growing relatively slowly, in comparison with the seventies or eighties, the aging of the labor force has the potential to augment the otherwise inadequate numbers of *skilled* workers. But that depends on how many older people retire, or switch to part-time work, rather than continuing to work full time all year.

The new Hudson Institute study *Workforce 2020* argues that the past trend toward premature retirement is likely to be reversed in the near future, as a more-educated group reaches the ages of 55-64. Well-educated workers typically delay retirement, presumably because their work is more enjoyable, pays a higher salary, or both.

If this expectation proves correct, the slowdown in the labor force and economic growth may be somewhat less troublesome than official projections assume. However, the official projections are already reasonably optimistic about older people continuing to work. Recent projections from the Bureau of Labor Statistics (BLS) arrive at an estimate of 1.1% labor force growth from 1994 to 2005 by *assuming that the number of workers aged 55 and over increases by 3.3% a year*, while the number aged 25 to 34 increases by only 0.7% a year.[7] As Table 1 shows, these BLS estimates of rapid growth in the numbers of older workers (as opposed to retirees) assume that the rapid decline of labor force participation among older men over the past two decades does not continue in the future.

Table 1
Male Labor Force Participation Rates: Past and Projected
(Percent working or seeking work)

Age	1971	1982	1993	2005e
55-64	82.1	70.2	66.5	65.6
65 and older	25.5	17.8	15.6	16.5

Monthly Labor Review, December 1995. e = BLS estimate

There are plausible reasons to expect that labor force participation may indeed stop declining among older men, and also continue increasing among older women. But it would not be prudent to take this for granted. To make sure it happens, we have to repair current federal policies that discourage working past age 62 or 65.

Incentives to Retire at 62

There is, first of all, the infamous earnings penalty, which was eased slightly by a 1996 law. Those age 65 to 69 (but not older) may now earn $12,500 a year without losing Social Security benefits. This limit rises by $1000 a year until 1999, then quickly jumps to $30,000 in 2002.[8] Each dollar earned above these limits results in benefits being reduced by 33 cents. If there were no other taxes, this alone would be equivalent to a 33% marginal tax rate on work.

For those aged 62-64, the earnings limit is only $8,280, and each two dollars of earnings above that amount results in losing one dollar of benefits.[9] *The tougher earnings penalties at age 62 than at age 65 are far more likely to discourage work than to discourage early retirement.* And it would not be easy for those who retire at 62 to get back into the job market for four years starting at age 65.

At the present time, 79% of retirees begin collecting Social Security benefits at age 62. This is economically rational, because the extra three years of benefits is equivalent to collecting 20% larger benefits at age 65 unless you are somehow confident that you are going to live past age 77.[10] The very few people who wait beyond age 65 to begin collecting benefits are not adequately rewarded for that sacrifice (benefits are increased by 3% a year up to age 70, rising to 8% in 2008; but even 8% is not quite enough to compensate for not collecting benefits at ages 65-70).[11]

Another incentive to retire at 62, rather than 65 or later, is that the benefit formula is based on only 35 years of work and skewed toward lower incomes rather than being closely tied to the amount of taxes paid. For most men, and many women, the 35 years are easily completed long before age 62, so that is no constraint on early retirement. Incomes usually increase with additional years of work, due to raises and promotions, but any pay increases after 35 years of work will result in much higher lifetime taxes and only small increases in benefits. At age 42, increasing income from $30,000 to $40,000 would raise benefits at age 62 by 14%, but a much larger increase in taxable salaries from $40,000 to $65,400 would only result in an additional 14% increase in benefits.[12] As Alicia Munnell observes, "the current Social Security benefit formula provides little inducement for many workers in their fifties to remain at work."[13]

In the future, as the age required for full benefits gradually rises to 67 by the year 2027, we can expect an even larger percentage of potential beneficiaries to drop out of the full-time work force at age 62 in order to begin collecting benefits.

Despite the recent increase in the earnings limits, they are still quite low. Half of all full-time workers aged 55 to 64 earned more than $37,799 in 1994.[14] In families with two earners of that age, the averages were much higher. By the year 2002, average earnings among experienced older workers will be well above the $30,000 earnings test.

The trouble with raising the earnings limit is that it has no effect at all *at the margin*. Each dollar of *added* income above the modest limits still results in a sharp reduction of benefits -- the equivalent of an extra 33% marginal tax (50% for those age 62-64) *in addition to* other income and payroll taxes. At best, a higher earnings limit might encourage more *part-time* work among relatively *unskilled* older workers. But increasing the supply of low-wage labor tends to depress the lowest wages while contributing very little to easing the skill bottlenecks that threaten to hold back economic growth.

The loss of benefits that results from earning more than $8,280-12,500 a year is just the beginning of a series of special penalties on those who work after age 62. Any extra earned income also (1) increases the percentage of remaining benefits which are taxable, and (2) subjects the taxable portion of benefits, as well income from work and savings, to higher marginal tax rates.

Each dollar of earned income above the earnings limit results in benefits being reduced by at least one-third. If an older couple's other income (including income from savings, pensions and tax-exempt bonds) exceeds $34-44,000, then 50-85% of the remaining benefits are treated as taxable income.[15] This is not really a tax on the benefits, but a special tax on other income -- from past savings or current work. At the margin, this tax equals 50-85% of the tax bracket amount. For older workers in the 28% bracket, for example, the tax would be 14% or 23.8% on benefits that have already been reduced by 33-50% because of the earnings limit. At ages 62-64, if 85% of marginal benefits are taxable in the 28% bracket, then each $100 of benefits is first reduced to $50 by the earnings limit and then to $38 by the tax. The net result is a marginal tax of 62% on earned income. By not working, this couple would collect the full benefits available at that age, and most or all of the benefits would be tax-free if the couple had not set aside much savings for retirement (which is also a serious disincentive to retirement savings).

Continued earnings by older Americans with higher incomes, such as two-earner professional/managerial couples, would be taxed at 36-39.6%. Their reduced benefits would be taxed at 85% of their tax bracket rate, or 30.6-33.7%. For those aged 65 or older, earning much more than $12,500 means that each $100 of benefits is first reduced to $67, and that $67 is then reduced to $46 for those in the 36% bracket, or $44 for those in the top bracket. That is, the marginal tax rate on highly skilled work for ages 65-69 is *54-56%*.

At ages 62-64, each $100 of benefits is reduced by 50% for every dollar earned above $8,280, and taxes reduce the benefits further to only $33-38. That results in marginal tax rates of *62-67%* on earned income above $8,280. The fact that personal exemptions and deductions among high earners are phased-out as income rise further increases these marginal tax rates by a few points.

Recent proposals to increase Medicare-B premiums for older couples with relatively high incomes would raise marginal tax rates by an additional 9 percentage points.[16]

There is more. Older workers also have to pay Social Security and Medicare tax, as well as state and local income taxes. The Social Security tax falls particularly heavily on working spouses, since they receive little or no additional benefits for the taxes they pay. There is also persuasive evidence, from Jonathan Gruber at M.I.T., that the $5000 earnings limit for beneficiaries of disability insurance fosters early and total retirement among middle-aged men who are only partly or temporarily disabled.[17]

In short, the combined impact of benefits lost and taxes raised takes an *extremely* large share of any income earned by highly skilled people if they keep working past age 62-65. If two family members continue working past Social Security's arbitrary retirement ages, the penalties are even higher -- almost confiscating the entire net income of the second earner.

Because the combined incentives of benefit and tax policies reduce the percentage of older people who remain at work, they impose high fiscal and economic costs on the rest of society. Alarming projections of a "fiscal crisis" as the baby boomers grow older are heavily dependent on the assumption that most baby boomers do, in fact, retire at ages 62-67. If more older people kept working, even part time, they would continue to contribute to the economy's output, and to the tax base. A few additional working years would defer the time at which older people consume out of past savings (thus leaving more savings available for investment), and possibly delay the time at which many begin to collect Social Security benefits.

The policy problems are likely to be compounded by a shift of income from abundant older workers to relatively scarce young people. Age differentials in salaries are likely to narrow, with older people no longer commanding such a large wage premium. A larger number of middle-aged and older people will also have to bid for the services (including strong backs) of scarce young people. Relatively poor salary prospects among older workers are likely to further weaken the already weak attachment to the labor force of people in their fifties and early sixties, particularly those who have not adapted to information age technology.

When it comes to making good use of our aging workforce, rather than encouraging them to retire, public policies are perverse. The current method of distributing and taxing Social Security based on other income clearly discourages work by older people, who lose half their benefits if they earn more than a trivial sum, and face income tax on 50-85% of any remaining benefits.

Dangerous Denial and Comforting Illusions

The idea that a slowdown labor force growth will occur, or that it is a problem, is not universally accepted. Four objections have been raised. One is that more older Americans will be compelled to work because Social Security won't support them. Another is that added immigration will prevent the labor force from slowing much. And the last is that slower growth of the labor force is actually a good thing, because labor scarcity will increase real wages.

The first argument claims that aging baby boomers will have no choice but to work well beyond age 65 because (1) Social Security benefits will be delayed and disappointing, and (2) the baby boomers are supposedly not saving enough to supplement Social Security with other retirement income. The first point is dubious, because raising the retirement age to 67 will not matter much if the vast majority of people continue collecting benefits at age 62. The second idea -- that baby boomers are mainly counting on Social Security for retirement -- is particularly curious when we consider the proliferation of 401K, Keogh and other defined contribution plans in recent years, the prolonged bull market in stocks, and the unusually large inheritances that baby boomers can expect. Steven Venti of Dartmouth College and David Wise of Harvard find that, "Personal financial assets of the cohort that will attain age 76 in 28 years will be almost twice as large as the personal financial assets of the cohort that attained age 76 in 1991."[18] As the baby boomers begin to reach age 65 after the year 2010, most of them will be far less dependent on Social Security than any previous generation, if they choose to retire.

The second unconvincing argument is that immigration will ensure that there will be plenty of workers, regardless whether the greying native population chooses to work or not. In "The Myth of the Coming Labor Shortage," Mishel and Teixeria argue that immigration can and will be increased by a huge amount every year, and that this will raise labor force growth by 15-40% (e.g., from 1% to 1.15-1.4%).[19] Even if the political process somehow changed enough to permit substantially larger number of immigrants, annual increases in the supply of relatively skilled workers would still remain quite slow unless the priorities of immigration policy are dramatically revised. By 1988, the foreign-born already accounted for more than a fifth of all U.S. residents without a high school degree. That fraction is rapidly rising.[20] Unless immigration policies are changed to emphasize schooling and skills over family connections and refugee status, a huge increase in the already large numbers of unskilled and unschooled immigrants might provide the economy with more workers, but not more *qualified* workers.

A third argument, from Alicia Munnell, claims that, "those who are left in the labor force may actually gain by having more capital per capita to work with and by facing reduced competition from older workers who block promotion possibilities."[21] The first part of this static analysis takes the amount of invested capital as given, so that anything that reduces the supply of workers (such as the bubonic plague) supposedly raises the amount of capital per worker. In reality, labor and capital are complementary resources, so that capital investment can be expected to be weaker than otherwise if skilled labor is made artificially scarce by inducements to retire. Global industries would simply locate elsewhere, where the labor supply bottleneck is less troublesome.

The second part of Munnell's argument takes the number of good jobs (promotions) as given, which is likewise invalid in any long-term, dynamic analysis. Economic growth is not a zero-sum game. Economic growth depends on the quantity and quality of physical capital and human capital. *If the number of skilled workers is held down by pro-retirement, anti-work policies, then the economy's real output will also be held down, and so will employment opportunities and real incomes.* People who are not working are not adding to national output.

Virtually forcing older people to drop out of the labor force is definitely *not* good news for younger workers. Retired people will be collecting benefits financed by working taxpayers, consuming without producing, and generally holding down potential economic growth by not participating in the production process.

The fourth source of false comfort, which is related to the third, is the claim that tight labor markets are not a problem at all, because they will supposedly compel employers to give generous pay increases and also make big investments to increase worker productivity. Unfortunately, limited supplies of qualified workers cannot so easily be fixed by shifting income from business owners to employees. If increases in employers' compensation costs repeatedly exceeded the increases in worker productivity, as the "tight labor markets" theory implies, then the cost of labor per unit of output would rise. If prices could be increased enough to cover those higher unit labor costs, then the resulting inflation would ensure that the apparent pay increases were illusory, not real. If prices did *not* rise to cover the higher labor costs (perhaps because of foreign competition), then profit margins would be squeezed, investment curtailed, and workers laid off. Accelerating inflation and/or shrinking profit margins would be extremely unlikely ways to encourage more productivity-enhancing business investment.

Conclusion

Employers, and governments at all levels, must begin to adapt to a situation in which workers in general -- particularly young and/or highly skilled and industrious workers -- are very likely to be in short supply (except during recessions). When it comes to commuting to traditional nine-to-five jobs, good workers will be even harder to keep, because there will be so many flextime and home office options. The self-employed already account for between 8.4% and 13% of the workforce, depending on whether we use estimates from the BLS or Small Business Administration. From 1970 to 1995, the number of unincorporated, self-employed people rose from about seven million to 10.5 million -- a 50% increase. Adding those who work part-time out of their homes, the number may be as high as 50 million.[22] Yet the trend toward self-employment and work at home is in its infancy. Even if labor force growth is a bit faster than expected, the share of that labor force that can be lured away from home offices into factories, stores and offices will be shrinking.

The increasing ease of reducing the number of hours per year devoted to formal employment, and of reducing the number of years worked per lifetime, will increase the sensitivity of the labor supply to marginal tax rates -- including those implied in means-tested benefits. This will be particularly true for older workers with the most valuable knowledge and skills, because (1) they are subjected to the highest marginal tax rates on most of their full-time earnings, and (2) they have more options to allow them to live well without working up to their capacity. People with relatively high skills and incomes, many of whom will be working at home as independent contractors and consultants, can easily *adjust the number of hours worked per year* in order to keep their incomes and/or benefits out of punitive tax brackets. They can be *partially retired* over a longer span of work years, thus achieving the same *lifetime* incomes as if they subjected themselves to high tax rates on *annual* incomes. Relatively affluent older families that previously had two full-time workers will easily be able to take turns, with one spouse working full-time for a while, the other staying home or working part-time.

In the future, the most rapidly expanding and financially rewarding job opportunities will require more and better schooling and/or vocational skills than the current job mix. In the absence of fundamental changes in the incentives and skills of potential workers, economic growth in the United States is likely to be held back by the chronic scarcity of willing and able workers. Many of those who are willing to work will not be adequately qualified and many who are the best qualified may not be willing.

In this rapidly changing environment, policy makers will have to take unusual care to preserve work incentives, particularly for older workers, other recipients of transfer payments (including the earned income tax credit), and two-earner families. The U.S. government should be doing everything possible to encourage older people and their spouses to participate in the labor force if they wish to, and to encourage saving for the rapidly increasing years of retirement and for long-term health care. In recent years, however, U.S. economic policy in each of these respects has been moving in the exact opposite direction.[23] If this is not changed, future growth of the economy and living standards will prove at least as disappointing as the official forecasts now predict. In that case, there would still be plenty of jobs, relative to the slow growth of the labor force, but the pace of improvement in general living standards would be painfully slow.

* * * * *

1. *Historical Statistics of the United States.* U.S. Department of Commerce, 1975, Table F 31, Vol 1, p. 226.

2. Productivity growth in nonfarm business averaged 0.7% a year from 1987 to 1996, or 0.4% if the cyclical spurt in 1992 is excluded. Although productivity gains in finance and other services is likely understated, this is largely offset by exaggeration of productivity gains in manufacturing firms (because manufacturers outsource more services than in the past and thus appear to be producing more goods with fewer workers).

3. The World Bank, *World Development Indicators: 1997*, Table 2.3, p. 44.

4. The participation rate was 66.5% in 1989-90 and 66.6% in 1994-95, rising slightly to 66.8% in 1996. A spurt above 67% from December 1996 to March 1997 was probably a one-time increase due to welfare reform.

5. *Monthly Labor Review*, October 1996. Table 43, p. 133.

6. Anthony Downs, "Demographer With 2020 Vision Sees America's Infrastructure Needs," *Washington Post National Weekly Edition*, March 28-April 3, 1994, p. S1.

7. Howard N. Fullerton, Jr., "The 2005 labor force: growing, but slowly," *Monthly Labor Review*, November, 1995, Table 1.

8. Ironically, the sudden increase in the earnings limit from 1999 to 2002 is likely to *discourage* work among those in their sixties until it is fully in place. Anyone aged 62-69 who might contemplate working near the turn of the century would have an incentive to take a few years off until 2002, because each dollar of earned income would become more valuable after the earnings limit was raised.

9. David M. English. "Social Security Earnings Limit Increased," *Estate Planning*, June 1996.

10. "Take Social Security Early?" Kiplinger's *Personal Finance* Magazine, July, 1996.

11. Alicia H. Munnell, "Does a Trend Toward Early Retirement Create Problems for the Economy? *New England Economic Review*, November/December 1990, p.23.

12. Ellen Hoffman, "How You Can Boost Your Social Security Benefits," *Money*, July 1997.

13. Munnell, *op. cit.*, p. 25.

14. *Statistical Abstract of the United States:1996*, Table 728, p. 471.

15. A case can be made for taxing Social Security benefits like other income, particularly if the employee's payroll tax were deductible (as some have proposed). Yet making both the size of benefits and the share that is taxed depend on other income results in a highly punitive *marginal* tax on older people who continue to work, by choice or necessity. The practice of treating zero, half or 85% of benefits as taxable income compounds the normal progressivity of income tax rates, because additional income from work or saving is not only subject to the usual tax rates but also results in a larger share of income being taxed at those rates.

16. I am indebted to Dr. Allen Lenz, director of trade and economics with the Chemical Manufacturers Association, for this calculation. On the topic of means testing of either Medicare or Social Security benefits, see Peter M. Wheeler and John R. Kearny, "Income protection for the aged in the 21st century." The authors point out that means testing discourages saving and "gives workers an incentive to reuce their other income and/or assets in order to qualify for benefits" [which is a growing problem with Medicaid financing of nursing home care]. This article reveals the many problems that Australia has had with means-tested retirement benefits, which the vast majority of Australians manage to qualify for.

17. Jonathan Gruber & Jeffrey D. Kubik, "Disability Insurance Rejection Rates and the Labor Supply of Older Workers," National Bureau of Economic Research Working Paper No. 4941, 1994. Jonathan Gruber, "Disability Insurance Benefits and Labor Supply," National Bureau of Economic Research Working Paper 5866, 1996.

18. Steven F. Venti & David A. Wise, "The Wealth of Cohorts: Retirement Saving and the Changing Assets of Older Americans," National Bureau of Economic Research Working Paper No. 5609, 1996.

19. Lawrence Mishel & Ruy A. Teixeira, *The Myth of the Coming Labor Shortage*, Economic Policy Institute., 1991, p. 28. For a critique of a related publication from the same source, see "Working harder for less?" *The Economist*, September 7, 1996.

20. George Borjas, Richard Freeman and Lawrence Katz, "On the Labor Market Effects of Immigration and Trade," National Bureau of Economic Research Working Paper No. 3761, 1990.

21. Munnell, *op. cit.*, p. 28.

22. "Corporate Work At Home: The Office of the Future," *Ameritech*, January 1993.

23. Alan Reynolds, "Work Penalties in Federal Tax and Transfer Policies," Testimony before the Committee on Ways and Means, U.S. House of Representatives, January 17, 1995.

Mr. SALISBURY. Thank you.

Mr. Rother.

OPENING STATEMENT OF JOHN ROTHER

Mr. ROTHER. Good morning. I wanted to start by acknowledging the work and my debt to the very first staff director of this committee, Hal Sheppard. He is the person that introduced me to the older worker issue in his work, over 20 years ago, and his untimely death last week cut short his most productive leadership on this issue. So I just wanted to acknowledge the fact that we have lost the person that really started much of this discussion in the United States Senate.

Today I want to simply review the situation of the boomer generation as they look forward to retirement, and make a couple of observations about what that might mean in terms of their interest in more employment opportunities as they become older workers. I have some charts over here which are also in the testimony that has been handed out.

The first chart may be a surprise to many people, the extent to which boomer incomes projected into retirement years are likely to rise and rise substantially, compared to todays incomes, particularly for married couples. This is a function of growing participation of women in the work place, broader pension coverage, and higher level of investments by boomers in retirement accounts.

These projections are averages, and the averages certainly look positive. However, averages can also be misleading, and I think that it is the distribution of income that may tell more of the story in the future. What we see when we look at distribution of income is a growing gap between those at the top end and those at the low end.

This compares the distribution of income in 1975 with where boomers are today, 1995. What it suggests is that we are moving towards a more bipolar economy, and one in which differences in income are likely to compound over an individual's lifetime.

Therefore, as this generation moves towards retirement, their situations are going to be much more diverse economically than the current retired generation. Many boomers will arrive at retirement in a very comfortable position, and many will retire with very little.

Just to expand on this point, we have traditionally talked about retirement in terms of a three-legged stool. If we look at the projections for what income sources boomers will have, we see that about three-quarters of them will have something in the way of pension and savings income to go along with Social Security, but that about 26 percent of boomers are likely to lack either pension or savings income at all.

That is an alarmingly high figure, in my view. For that group, mainly the lowest income quarter of this generation, they are going to face a real challenge in terms of adequate retirement income. Of course this group is made up disproportionately of women, ethnic minorities, persons with low education levels and people who work in the service sector.

If we go to the next chart, that three-legged stool translates into very dramatic differences in projected retirement income. People who do have savings and pensions to go along with Social Security have modest but at least adequate income in retirement, on average, or will have. Those who lack either or both a savings or a pension component will be faced with dramatically lower incomes, when they hit retirement.

One more distributional graph has to do with wealth. Today we see a tremendous disparity in the wealth held by boomer households, and when we ask, what level of assets people have in retirement accounts, about a third seem to be saving at an adequate level. About a third are doing some saving but not adequate. About a third of all boomer households are simply not saving for retirement.

This is a recipe for disaster for two-thirds of the boomer generation unless we do something to change behavior. Part of the reason they are not saving is inadequate income, but part of the reason they are not saving is that not all employers have savings plans, not all people have access to payroll deduction. Many people have no health insurance, and what savings they do have then gets eaten up every time they need to see a doctor or go to the hospital. There are many reasons for this lack of savings, and we need to keep these causes in mind as we think about the future of the boomer generation.

Despite this economic data, one of the things that is really striking is that this is an optimistic generation. Boomers are very optimistic about their personal futures. Perhaps irrational exuberance characterizes this generation, or perhaps, they have just seen it work out okay so far for themselves.

However, if we go to the next charts, you do wonder sometimes what people's attitudes are based on, because if we combine this chart about optimism about retirement futures with the earlier question about "Have you saved anything for your own retirement?" basically what you find is that an amazing percent of people who have not done anything in terms of their own retirement savings still express confidence about their own retirement future.

So what we are dealing with is not just an economic problem but a psychological problem, a cultural problem of getting people to deal with reality. I think many boomers don't want to admit that they are going to be vulnerable, or perhaps people are counting on being able to work for however long it is going to take.

That brings us to the last two charts. Certainly people look forward to being able to retire, but to an amazing extent people who are already in their fifties express a desire to have some flexible employment options available to them after they reach retirement age. Today, 73 percent of workers in their fifties say that they want to have the ability to have some employment after they retire from their career job, I think an amazingly high percent, and reflecting not only economic need but also the desire to stay productive, to stay involved, and to structure your daily life.

However, if we ask this same group, do they think that these options will be available to them, the answer is much less promising. About two-thirds of older workers in their fifties today do not believe that their employer will make available to them any kind of a flexible option that would permit them to continue working after they reach retirement age. So in terms of workers perceptions, I think there is much more willingness to work than there is availability.

Given these trends, it seems likely that a significant proportion of lower-wage boomers will approach retirement age without the means to remain independent. For them, work will continue to be a necessity, not an option. If Social Security or Medicare reforms were to cut their expected incomes or raise their health care costs significantly, this part of the boomer generation will indeed face a very rude awakening. They will at that point in their lives have no other option than to find work and continue to rely on earnings well into their retirement years.

I believe we need to start now, not only to improve their retirement income resources but also to open up more flexible options for older persons who do want to continue to work and to continue to be productive and involved in the nation's economy. Thank you.

[The prepared statement of John Rother follows:]

42-834 97 - 2

RETIREMENT 2020: BOOMER TRENDS

John Rother

AARP

Director, Legislation and Public Policy

A brief summary of the major factors that will affect the retirement situation of the boomer generation, now aged 33 to 51, reveals the following:

- (Chart 1) Most projections show that boomers as a group will have higher incomes in retirement than did their parents, who are retiring today.

This is due to the increased number of women in the workforce, broader pension coverage, and higher levels of investments by boomers in retirement accounts.

- (Chart 2) The good news about boomer incomes, however, has to be balanced with the trend toward greater income inequalities within the generation.

This pattern of the rich getting richer and the poor poorer could spell real trouble for the retirement prospects of lower income boomers, who are unlikely to have pensions, much retirement savings, or even health insurance.

- (Charts 3 & 4) Retirement income has traditionally been framed in terms of a three-legged stool with income from Social Security, pensions, and retirement savings. Those who have all three legs will have, on average, adequate income in retirement. Those who lack pensions or savings, or both (26% of boomers), are facing a real challenge as they look to retirement.

- (Chart 5) Wealth among boomers is even less well distributed than income. Most boomers have not built-up anything like adequate savings for retirement purposes.

This challenge is compounded for those with no health insurance, no employer-sponsored pension, and no access to automatic payroll deduction retirement savings plans.

- (Charts 6 & 7) Attitudinally, boomers are quite optimistic about their own retirement futures.

However, for some this optimism appears to have little foundation. Perhaps it's denial, or procrastination, but many boomers have not started to build savings and apparently do not want to admit that they might be vulnerable.

- (Charts 8 & 9) Finally, most older workers want to have some flexible employment options after they "retire" from their careers. But few are confident that their employer will offer this flexibility.

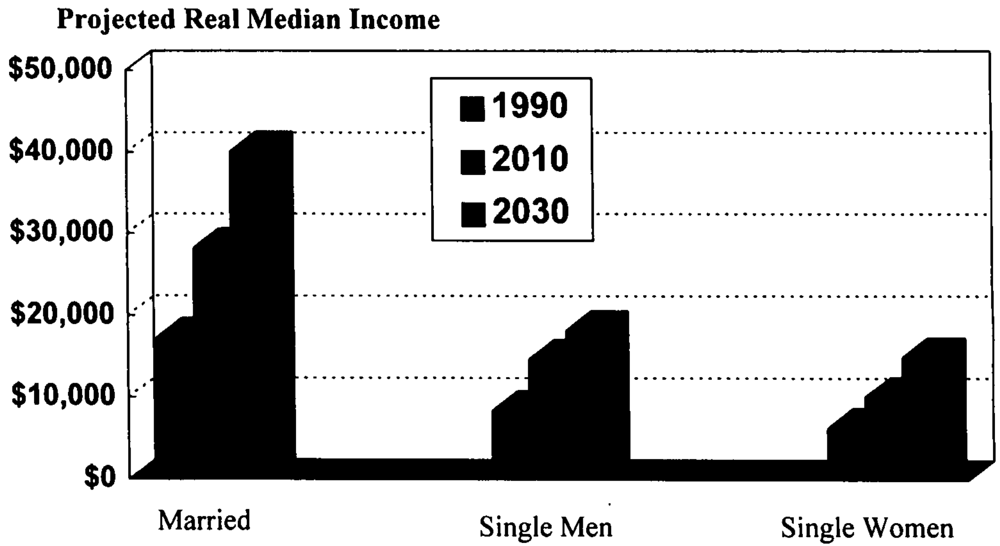
Given these trends, it seems likely that a significant portion of lower-wage boomers will approach retirement age without the means to remain independent. For them, work will continue to be a necessity, not an option.

If Social Security or Medicare reforms were to cut their expected incomes or raise their health care costs significantly, this part of the boomer generation will indeed face a rude awakening. They will at that point in their lives have no other option than to find work and continue to rely on earnings well into their retirement years. We must start now, not only to improve their retirement income resources, but also to open up more flexible options for older persons who want to or have to continue to work into their retirement years.

Chart 1

Future Young Retirees Will Have Higher Real Incomes

Projected Real Median Income by Household Type, Ages 65-69 (1988$)



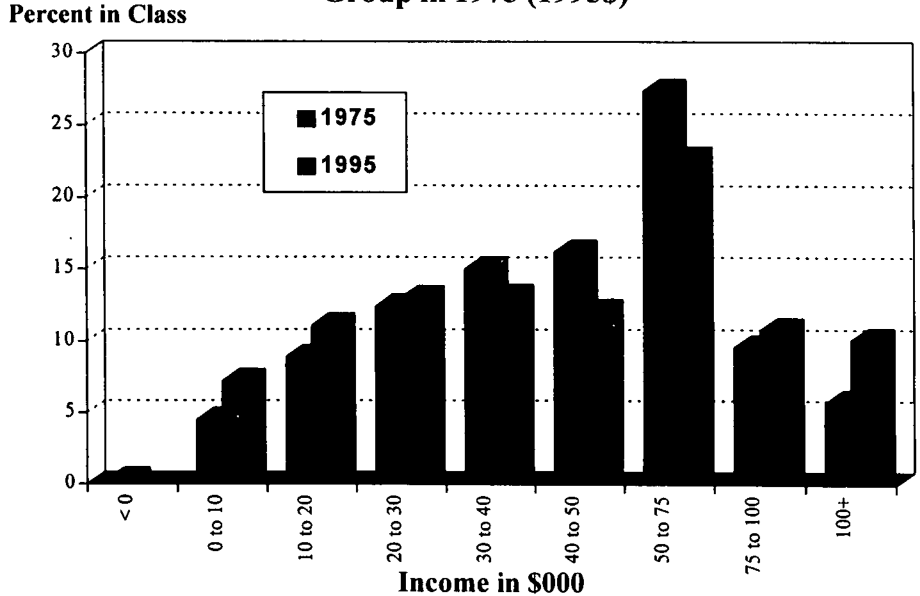
Source: Zedlewski et al., *The Needs of the Elderly in the 21st Century* Urban Institute, 1990

AARP Public Policy Institute

Chart 2

Baby Boomer's Income Is More Unequal Than Preceding Generations

Distribution of Income Among Boomers in 1995 Compared with Same Age Group in 1975 (1995$)



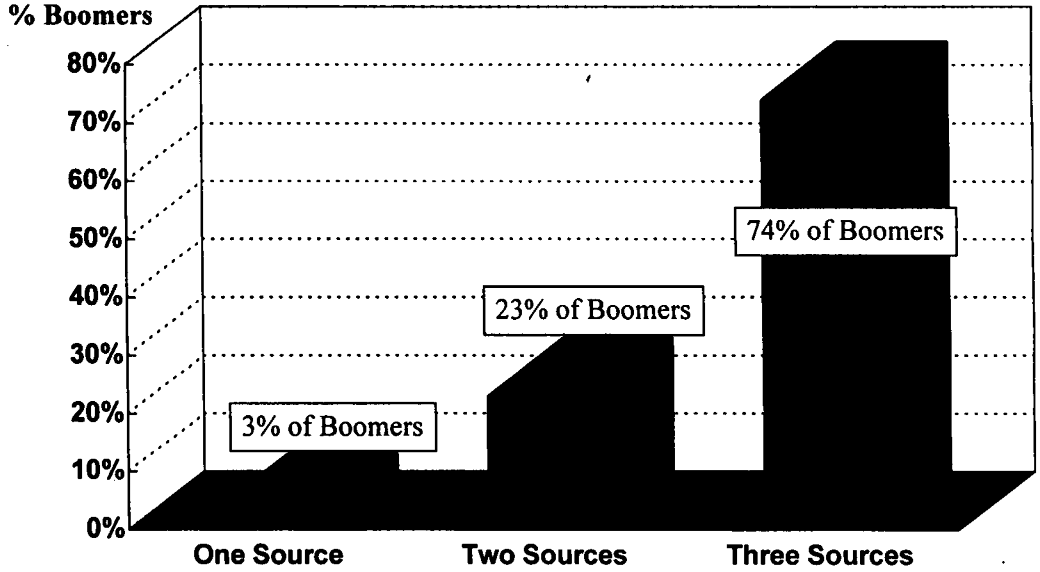
Source: Public Policy Institute tabulations of U.S. Bureau of Census March 1976 and March 1996 Current Population Survey micro data files

AARP Public Policy Institute

Chart 3

Most Boomers Will Have Multiple Income Sources in Retirement

Percent of Baby Boomers Projected to Have Multiple Retirement Income Sources, 2030

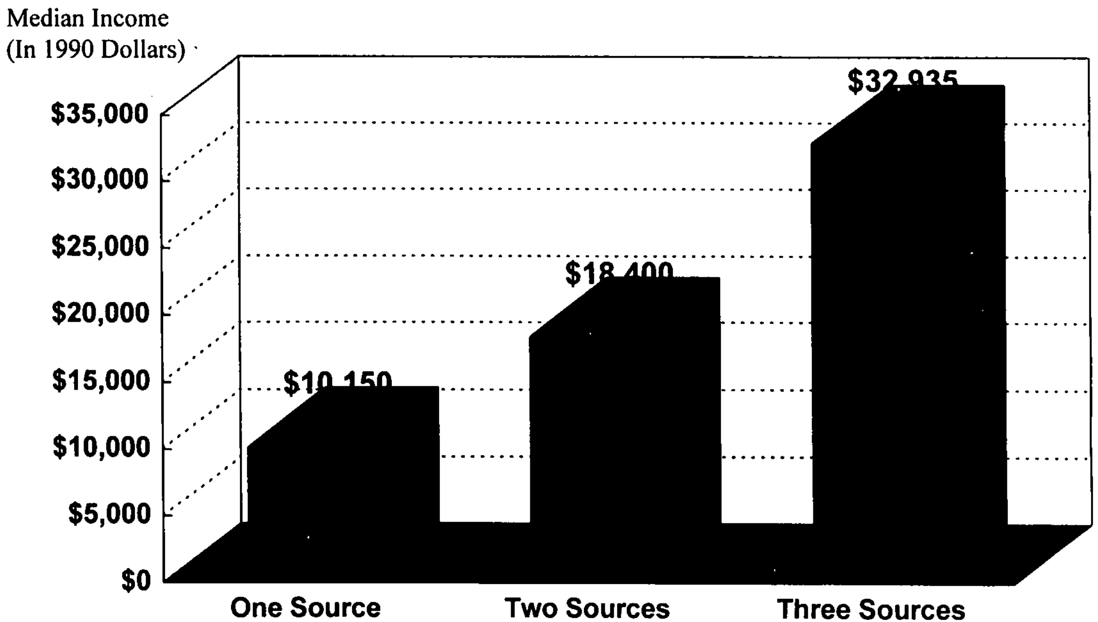


Source: "Aging Baby Boomers: How Secure is Their Economic Future?"
Research Division, AARP 1994

AARP Public Policy Institute

Chart 4

Median Income (in $1990 dollars) For Baby Boomers With One, Two, and Three Sources of Retirement Income



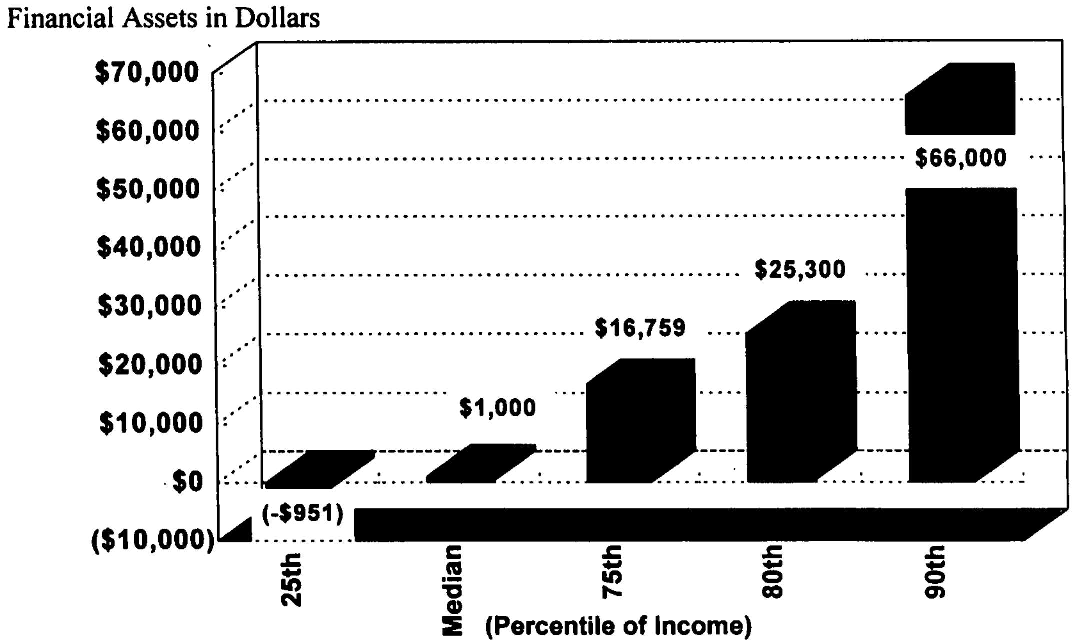
Source: "Aging Baby Boomers: How Secure is Their Economic Future?" Research Division, AARP 1994

AARP Public Policy Institute

Chart 5

Most Boomers Have Few Financial Assets

Amount of Financial Assets Held by Boomers by Income Level, 1993



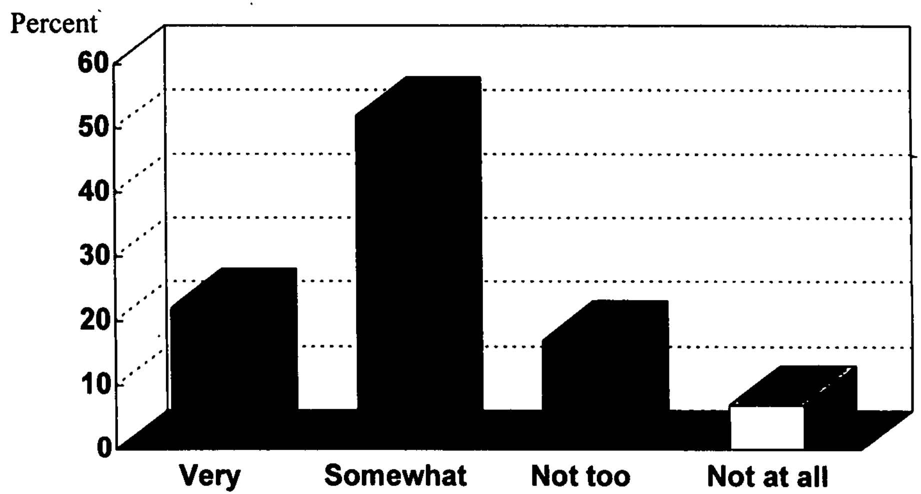
Source: Tabulations of 1993 SIPP Wealth Module by Public Policy Institute

AARP Public Policy Institute

Chart 6

Boomers Are Confident About Retirement Security

Confidence Among Workers in Having Enough Income to Live Comfortably in Retirement, 1995



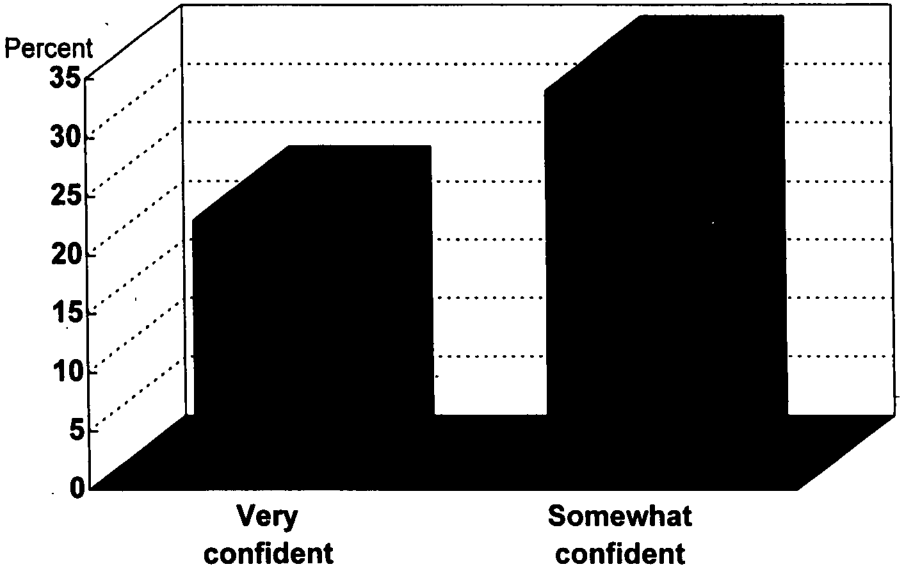
Source: Mathew Greenwald, Retirement Confidence Survey, 1995

AARP Public Policy Institute

Chart 7

Confidence in Retirement May Be Misplaced

Percent of Those "Confident" of Adequate Retirement Income Who Have Saved No Money for Retirement

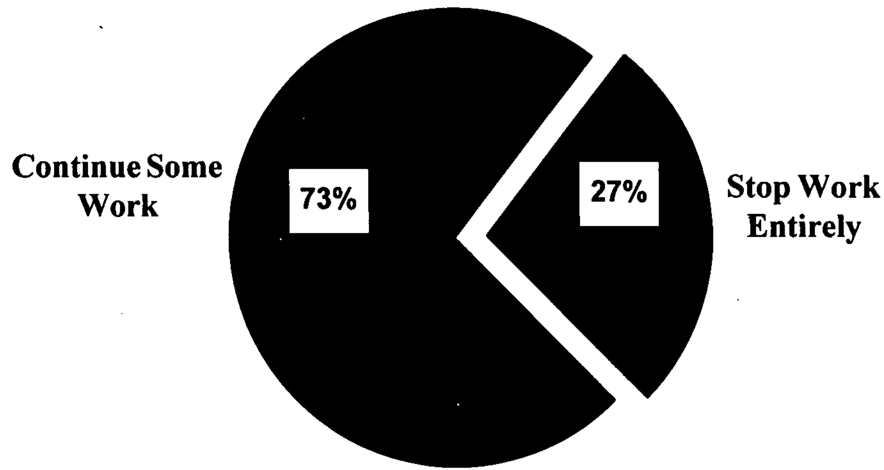


Source: EBRI, "Are Workers Kidding Themselves?" December, 1995

AARP Public Policy Institute

Chart 8

Most Pre-Retirees Say They Want to Work In Retirement



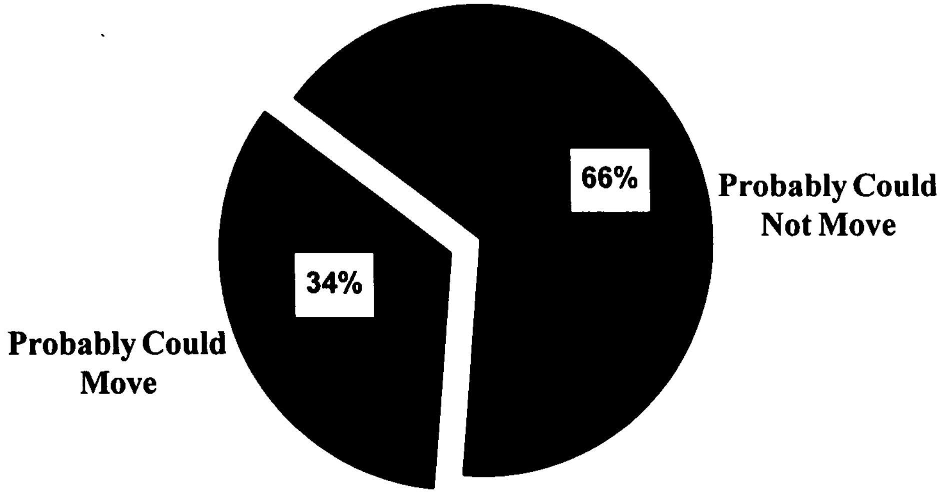
"Some people want to stop paid work entirely when they retire, while others would like to continue some paid work. -- What about you?"

Source: Health and Retirement Survey, 1993

AARP Public Policy Institute

Chart 9

But Few Think They Could Move to Less Demanding Work, Even at Less Pay



"Would your employer let an older worker move to a less demanding job with less pay if they wanted to?"

Source: Health and Retirement Survey, 1993

Respondents aged 51-61

AARP Public Policy Institute

Mr. SALISBURY. Thanks, John.

Dr. Barth.

OPENING STATEMENT OF MICHAEL C. BARTH

Dr. BARTH. Thank you.

Older people in the work force bear burdens, some fair, some unfair. What I would like to do this morning is give a quick overview, which is also summarized in my written remarks, about which is which, which is fair and which is unfair, and maybe some of the things that can be done about the situation.

I start out by noting that people's behavior is a function of their perceptions, and the behavior we're talking about is the behavior of what my colleagues and I have called "gatekeepers," that is, the people who make the decisions about hiring, firing, retaining and upgrading in the workplace. In a very real sense, perception is reality.

I also believe, though, that perceptions can be changed, and that they can be changed by evidence and they can be changed by experience. I think a large part of the issues in dealing with the problems older workers find in the workplace is by getting the evidence out there and finding ways and reasons for people to take the risks to get experience in using them.

One way to get information on what the perceptions are is to do surveys, and I have been struck by how consistent the survey data is in this area. The data John Rother just gave is totally consistent with The Commonwealth Fund survey that my colleague Bill McNaught and I were involved in, as was Joe Quinn and others, almost a decade ago now.

The AARP did two surveys and The Commonwealth Fund did another survey, and those surveys found that there are both positive and negative perceptions of older people in the workplace: positive ones: older people have valuable experience, excellent judgment, strong commitment to quality, they exhibit low turnover, and they have very good attendance and punctuality, all highly desirable traits of workers.

They also exhibit negative traits. Older people are perceived to be inflexible. They may not be good at using modern technology. They may not be good at learning new skills. There are concerns about their physical ability, and that their health care costs may be higher.

We tried to find some ways to test, to bring some reality into these perceptions, and sought and were able to do studies of two companies that use people of varying ages to do the same thing. One was Days Inns of America, which in 1985–86 was having a difficult time staffing its national reservation center and decided to try to hire older people because younger people had turnover rates over 100 percent a year and there was very poor job performance among the younger people they were hiring.

Days Inn did manage to hire a number of older people. One of the things they found immediately was, they had increased from two to three weeks the amount of training they gave them, and they found that that was unnecessary. The job involved sitting at a CRT and a keyboard with a telephone around your head, answering questions and selling rooms.

I sat there for a half hour one day with a 74-year-old man, and I'll tell you, that was not a job I would like to have. You want to talk about pressure? The only time you can prevent the next call from coming in is by unplugging, and they know whether you unplug. Days Inn gave us relevant data, and we built an operations research type of model and analyzed it and found out that older workers were about as good as younger workers but Days Inn didn't have to pay the costs of recruiting them all the time.

So that was one source of reality, and that study was published in the Sloan Management Review, so if you want to get into the details of it, you can.

The second situation is somewhat similar, and in many ways even more interesting. This is a company called B&Q, which is a large British do-it-yourself company very much like Home Depot. When we studied them in 1990–91, they had about 280 stores spread across the British Isles, and it was about a $1.6 billion business, growing very rapidly.

B&Q had very similar problems to Days Inns, hiring younger people, low-to-moderate wage jobs, very high turnover. They had two other problems, though: lack of customer care and lack of product knowledge. That is, young people didn't know how to fix a toilet or didn't know the difference between a Phillips head and a standard screwdriver, and also didn't want to talk to customers.

So B&Q decided to hire what they called female returners and older people, and their store managers, the middle managers in the company, wouldn't hire older people. They said they can't do the job.

Because there is no age discrimination legislation in Britain, B&Q set a program of turning three stores over totally to older people. That is, they would only hire older people. They did, the first store had been open for over a year. It was in Macclesfield, a bedroom community just south of Manchester, and we studied it.

B&Q let us pick five communities in England that were very similar demographically and economically to Macclesfield. They then gave us the data for those and we compared them to the Macclesfield store.

Now, Macclesfield had only been open for a year, this is a case study, et cetera, et cetera. But the result was that relative to the average of the five comparison stores, turnover rates at Macclesfield were about one-sixth; absentee rates were 40 percent lower; leakage, which is basically theft and breakage, was 60 percent lower.

The hypothesis of management was that there was almost totally lower theft, and the reason is, about the last thing that a shoplifter wants to see is an attentive salesperson. You know, this is this customer care issue. The older people like to talk. Same thing they found at Days Inn, and they go over and talk and try to sell you something. Well, you can't steal.

Profits were about 18 percent higher at the Macclesfield store, and have continued to be higher, by the way. The director of personnel from B&Q was in the U.S. a couple of years ago for the White House Conference on Aging, and they have now—they were at about 2 percent older people in their work force when this started, they are about 15 percent now, and continuing to hire older people. One thing they were very much afraid about was whether older people would be willing to work part time, and they were.

So, okay, you have got these two perceptions. You have got a systematic view of reality based on some evidence. How can we evaluate these perceptions?

Well, the AARP, which together with The Commonwealth Fund has been a generous supporter of this research I am reporting on, engaged me and my organization, ICF Kaiser Consulting Group, to do a study of—sort of a mini case study we structured of 12 companies. We went into these companies and did surveys, but we also did interviews of three senior managers to try to get behind the perceptions.

Admittedly, it is only 12 case studies, but the answers to the questions for which we had comparable questions on nationally representative cross-sectional data were remarkably similar, which gave us greater confidence in the results I am about to give you.

If you would put up the first chart, you see that the things that the gatekeepers think are not important are the areas they give positive assessments: experience, judgment, commitment to quality, attendance, punctuality and turnover.

Okay, the next chart. Gatekeeper represented very negatively, below average, acceptance of new technology, flexibility, physical ability, and ability to learn new skills.

Now what do they think are more important? Well, the traits that managers most admire in older workers, the ones I just read to you, are the ones that they take for granted and don't think are very important. Conversely, the performance traits cited by managers as areas of weakness for older workers are those considered most desirable in a world of rapidly changing markets and changing technology.

Well, it is not surprising, then, that the gatekeepers look down upon older workers. A striking thing that we found in our study was very little evidence of overt discrimination, which I guess has never surprised me personally because, you know, older people are our parents. None of us would discriminate.

You just don't find the kind of animus toward older people—by people who apparently are discriminating against them, by the way—you do not find the kind of animus that you find when you study gender discrimination or race or ethnic discrimination, which still exist. If you are a manager and you have got to compete very rapidly, you have got to change technology, what do you do? You look for people who you think can do that.

Now whether or not it is true that older workers can't deal with change strikes me as not very important anymore. What is important is that gatekeepers think they can't do so. So then the question is, what do you do about that?

Businesses can recognize this negative stereotyping. The best thing would be for them to start to engage older workers. Now hopefully some of the information we heard today about worker shortages will encourage this.

A very important thing is to give mid-career and older workers a fair shot at training. There is a vicious circle going on, where mid-career workers in particular are not given fair opportunities for training, and therefore when a job assignment comes up that requires the training, they don't have it. Then it is very, very hard to catch up.

Often gatherings like this conclude with the participants agreeing that the plight of older workers is unfortunate and unfair. That may be true, but it is an inadequate conclusion. It may not be fair but older workers have to, I think, bear a lot of responsibility that they don't deserve in this situation. They have to overcompensate, in a sense, for what is going on and they have got to be much more militant in demanding the kinds of training and upgrading and opportunities that they need in the workplace.

Like everyone else, they have to recognize that career management has become their own responsibility, and constantly seek opportunities to make sure that no one could fairly say that they don't have the necessary skills. This isn't easy but it is necessary.

In conclusion, a few words about public policy to encourage continued employment of older workers. I find it difficult, in all candor, to define a "silver bullet" role for the Federal Government. I think effective enforcement of antidiscrimination law is necessary, and it is a necessary condition for an equitable society. I wish I could say it would be a sufficient condition for dealing with the problems that we are discussing here today.

But I think there are some roles for government. I think the natural role is to provide information about the costs and productivity of older workers. Collecting and analyzing data on turnover and its costs I think is very important. I think American business is missing an important bet by the rate at which they let older people leave.

I think studying how older people assimilate job-related knowledge is important. Scott Bass and I did a study on this several years ago, found out that older workers learn very well but they learn differently, and if you try to teach people of all ages the same, you will have a difficult problem. B&Q found they needed smarter trainers because older people ask much more and much more piercing questions.

I think it is very important to study how change and flexibility manifest themselves in the workplace, and why older people are perceived to be so weak in this area when there is so much evidence that that is simply not the case. I think there is also a useful government role in supporting organizations that want to try older workers, in studying the results and disseminating them.

Hopefully the labor market will maintain its tightness and all of these things will happen naturally. Thank you.

[The prepared statement of Michael C. Barth follows:]

Older Workers: Perception and Reality

Presentation of Michael C. Barth
Executive Vice President
ICF Kaiser International Consulting Group

to the

U.S. Senate Special Committee on Aging Forum

'Preparing for the Baby Boomers' Retirement: The Role of Employment'

July 25, 1997

It is a great pleasure to participate in this forum of the Senate Special Committee on Aging. The role of employment in preparing for the retirement of baby boomers is a worthy topic.

In my brief presentation, I will present an overview of perceptions of older people in the workforce. I will do so from a perspective of several studies undertaken over the last decade. Together, these studies shed considerable light on the topics of employer attitudes towards older workers and impediments to the employment of older workers. I will conclude with my personal views on appropriate public policy in this area.

Before proceeding, let me first thank two organizations that have supported my and others research into the labor market for older people. The Commonwealth Fund[1] funded and supported in numerous other ways the five-year Americans Over 55 at Work Program, of which I was the Program Director.[2] The American Association of Retired Persons funded two of the surveys to which I will make reference, as well as the ICF Kaiser Consulting Group study that produced the report, "Valuing Older Workers."[3] My comments are, of course, my own.[4]

I begin by noting that those who make critical decisions about the hiring, firing, upgrading, and training of mid-career and older workers do so based on their perceptions of the costs and

[1] The Commonwealth Fund is a New York City-based private independent foundation. The views presented here are those of the author and not necessarily those of The Commonwealth Fund, its directors, officers, or staff. A similar disclaimer holds for the American Association of Retired Persons.

[2] The Commonwealth Fund, "The Untapped Resource," Final Report of The Americans Over 55 At Work Program, November, 1993.

[3] "Valuing Older Workers: A Study of Costs and Productivity," prepared for the American Association of Retired Persons by ICF Incorporated, 1994.

[4] I am delighted to note that my work in this area was done jointly with two ICF Kaiser International Consulting Group colleagues, William McNaught (now at the U.S. General Accounting Office) and Philip Rizzi.

productivity of these people. In this regard, "perception is reality" and, I believe, perceptions can be changed by evidence -- studies, for example -- and by experience in the workplace.

What are the perceptions of older workers? Two nationally representative AARP-Yankelovich surveys and one nationally representative Commonwealth Fund-Conference Board-Louis Harris & Associates survey have measured at three points in the late eighties and early nineties perceptions of employers towards older workers with strikingly similar results.[5] Both positive and negative perceptions were found. The positive perceptions included the following:

- Valuable experience;
- Excellent judgment;
- Strong commitment to quality;
- Low turnover; and
- Very good attendance and punctuality.

Negative perceptions included the following:

- Tendency towards inflexibility;

[5] AARP. *Workers Over 50: Old Myths, New Realities*. Washington, D.C.: American Association of Retired Persons, 1985.

AARP/DYG. Business and Older Workers: Current Perceptions and New Directions for the 1990s. Washington, D.C.: American Association of Retired Persons, 1989.

Laborforce 2000 (Humphrey Taylor, Robert Leitman, and Ron Bass), Louis Harris and Associates, Inc., February 1992. The data from this survey have been the subject of extensive analysis; see P. Mirvis, ed., Building a Competitive Workforce: Investing in Human Capital for Corporate Success. John Wiley & Sons, 1993.

- Inability to effectively use new technology;
- Difficulty at learning new skills;
- Concerns about physical ability;
- High health care costs.

Are there sources of information against which these sets of perceptions can be compared? That is to say, are there sources of "reality" against which to test the perceptions?

A few years ago, my colleagues and I, on behalf of The Commonwealth Fund, sought a fair test of the relative efficiency of older workers. We found two companies that use significant numbers of both older and younger workers to do the same job. With the permission of these two companies -- Days Inns of America and B&Q, Plc (a British company) -- we undertook case studies of the companies.[6]

In very brief terms, let me summarize the situations at the two companies. Days Inns of America, a franchiser of hotel properties, found both difficulty in hiring sufficient numbers of workers for its national reservation center, as well as turnover rates that exceeded 100 percent per year. They needed to find a source of workers who could work flexible schedules, learn a sophisticated computerized reservation system, and would be good salespersons. Days Inns

[6] Both studies were published in peer-reviewed journals: W. McNaught and M. C. Barth, "Are Older Workers 'Good Buys'?: A Case Study of Days Inns of America," Sloan Management Review, Spring 1992, Vol. 33, No. 3 ; and T. Hogarth and M. C. Barth, "The Costs and Benefits of Hiring Older Workers: A Case Study of B&Q's Use of Older Workers," International Journal of Manpower, Volume 12, Number 8, 1991.

management turned to hiring people over age 50. Our study compared workers aged 50 and older with those aged under 30 and found the following results:

- Turnover: 87% of older workers stay on the job one year or more versus 30% for younger workers;
- Absentee rates: 1.5% versus 3.7% for younger workers;
- Older workers take longer to make a sale but book more rooms;
- Older workers had no difficulty learning the complicated reservations system; and
- On balance, older workers cost about the same as younger workers.

B&Q is the largest chain of British do-it-yourself stores, very similar to Home Depot in the United States. At the time of the study (January, 1991), this company employed about 15,000 people across 280 stores and had revenues of $1.6 billion. Their problems were not dissimilar to those at Days Inns: high turnover among store employees and recruiting difficulties; in addition, low "customer care" among some store employees and low "product knowledge" among many store employees greatly concerned company management preoccupied with sales growth. In order to convince skeptical middle management (i.e., local store managers) that older workers could effectively perform the necessary tasks, B&Q senior management opened stores that employed only older workers, including one in Macclesfield, England, which we studied. Note that such an experiment could not be undertaken in the United States because of laws prohibiting age discrimination. We were able to draw a sample of other B&Q stores similar to the store in Macclesfield. The conclusions were that, relative to the comparison stores, in the store that employed only older workers:

- Turnover rates were about one-sixth as high;
- Absentee rates were about 40% lower;

- "Leakage" (theft, breakage) was nearly 60% lower;
- Profits were about 18% higher;
- Management was highly satisfied on customer care issues; and
- Management reports no difficulty staffing stores; older workers were willing to work overtime.

Based on these two studies, it appears that there is at least some hard evidence that the negative perceptions of older workers are not well founded in experience when sophisticated measures are made. Such a finding appears to be of little consequence to the formation of perceptions.

Now, let us evaluate the perceptions. Which are more important, the positive or the negative? A few years ago, AARP wished to know if there were facts to support the views of older workers that we reviewed earlier. AARP funded a study whose goal was to uncover facts about older people in the work force and go behind the perceptions. My company, ICF Kaiser Consulting Group, undertook this study. We used a mini case study approach, examining in detail 12 companies that represented a diversity of industries, sizes, and geographic locations. This study is summarized in the AARP Report, "Valuing Older Workers: A Study of Costs and Productivity." Let me, very briefly, present the results in two parts. First, "hard data" with regard to costs and productivity that we looked at suggested that most companies did not systematically keep or analyze cost or productivity data on employees, and are even less likely to examine available data by age. Managers seemed not to be interested in learning of age-related differences in employment costs. From this we drew the conclusion that there is little data and less analysis to support current corporate behavior with regard to mid-career and older workers.

Second, we interviewed managers to learn their perceptions of older workers. The positive and negative views that we learned from this study are displayed on the large charts that you see before you. (See Exhibits 1 and 2.) These are quite similar to those of the three large nationally representative cross-sectional studies that I referred to earlier, and lend considerable credence to this case study data, which is from a set of 12 mini case studies and is not nationally representative.

In addition to asking managers their perceptions of older workers, we asked them which traits they thought were most important and highly valued in making human resource decisions. Let me summarize the results by quoting from "Valuing Older Workers (page 35):

> "The traits that managers most admire in older workers -- and which older workers themselves report as their most positive attributes -- are not highly valued in making human resource decisions relating to hiring, promotion, retention, and job assignment. Indeed, the qualities of loyalty, dedication, stability, commitment to quality, low turnover, and regular attendance and punctuality characteristic of older workers often seem to be taken for granted by managers....
>
> Conversely, the performance traits cited by managers as areas of weakness for older workers are those considered most desirable for today's changing workplace, and those critical to the company's success in the future. These traits include flexibility, adaptability to change, and a capacity and willingness to exercise independent judgment."

The traits that managers report they value most should not surprise us; they are the traits that would be most valuable in a dynamic, rapidly changing business setting.[7]

This finding does not comprise good news for older workers. Worse, managers view coming changes in the workplace as requiring greater use of skills and attributes that older workers are criticized as being weak in.

Interestingly, we found no strong evidence of pervasive age discrimination, a finding that I consider to be of great importance, since it suggests that the problems of older people in the workplace cannot be solved by greater attention to anti-discrimination legislation and regulation, no matter how important that may be. This is not to say that we should not be vigilant in guarding against age discrimination and aggressive in fighting it -- by all means, we should. Rather, it is important to realize that corporate attitudes and behavior towards older workers often fall short of overt discrimination while they have the similar consequences of limiting the opportunities for continued productive employment.

It seems, with this in mind, appropriate to ask how we can change the negative perceptions of older workers. Businesses can seek to recognize the subtle negative effects of age stereotyping and age bias. The best thing would be for more businesses to have the experience of working with workers that Days Inns and B&Q have had. It also would appear that businesses could

[7] For further development of this point, see M. C. Barth, "International Aspects of Employment Policy: The Future of Work," G. Hawke, ed. Employment and the Future of Work, Harkness Employment Conference, The Printing Press, New Zealand, 1996.

profit enormously from looking closely at the costs of high worker turnover. These costs manifest themselves in terms of added recruiting and training, and lost knowledge. Finally, business should recognize that older workers' responses to technology may depend on the quality and nature of the accompanying training. Mid-career and older workers often are spun in a vicious circle of initially not being granted equal access to training, which leads to a situation in which they cannot take advantage of new job opportunities that require the training. Once behind in the ability to deal with new tasks, it is difficult to catch up. Finally, older people can learn quite well, but they learn differently from younger people. Employers should use training techniques that capitalize on the experience of older people.

Often gatherings such as this conclude with the participants strongly agreeing that the plight of older workers is unfortunate and unfair. This would be an inadequate conclusion. It may not be fair, but older workers must recognize reality and respond positively to this reality no matter how negative it may be. That is, older people in the workforce must recognize the need to accept change, and that managers value flexibility and receptivity to change. No matter how unfair, older people must accept the burden of proof and overcompensate, if necessary. They must embrace new technology and processes, push for training to maintain and upgrade skills, and take leadership positions in accepting new ways of organizing work. They, like everyone in the workforce now, must recognize that career management has become the worker's responsibility. One must stay abreast of the job market, identify skills in demand, and obtain training in the skills needed for the next job. This is not easy; indeed, it is most difficult in the case of older workers, but it is necessary.

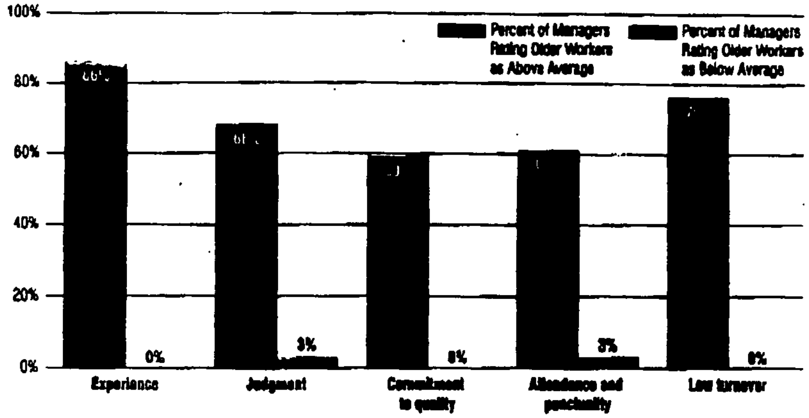
Let me conclude these remarks with a few words on public policy to encourage continued employment of older workers. In all candor, I find it difficult to define a "silver bullet" role for the Federal government that I think is likely to be successful in dealing with the problems I have just summarized. To be sure, effective enforcement of anti-discrimination law is a necessary condition for an equitable society. I wish I could say it will be a sufficient condition for dealing with the problems being discussed here today. A natural role for government is to provide information about the costs and productivity of older workers. The following would be valuable activities:

- Collecting and analyzing data on turnover and its costs;
- Studying how older people assimilate job-related knowledge; and
- Studying how change and flexibility manifest themselves in the workplace and why older people are *perceived* to be weaker in this area.

There is also a useful government role in launching demonstration projects that would have the goal of generating and disseminating information on the effectiveness of older workers.

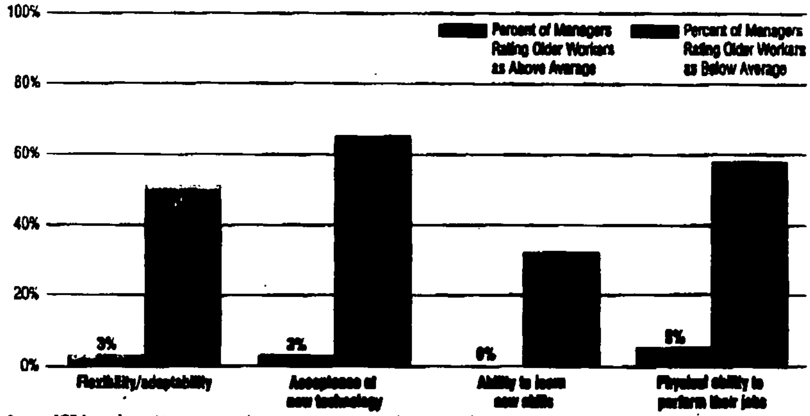
Thank you very much, and I will be pleased to answer any questions you may have.

EXHIBIT 1
POSITIVE ASSESSMENTS OF OLDER WORKERS, BY ATTRIBUTE



Source. ICF Incorporated interviews with senior managers; sample size = 38.

EXHIBIT 2
NEGATIVE ASSESSMENTS OF OLDER WORKERS, BY ATTRIBUTE



Source: ICF Incorporated interviews with senior managers; sample size = 38.

Reproduced from "Valuing Older Workers: A Study of Costs and Productivity," prepared for the American Association of Retired Persons by ICF Incorporated, 1994.

Mr. SALISBURY. Thank you very much.

So from panel one we have heard that boomers will be needed, which as an aging boomer I find very appealing; that older is better, we just need to take special actions; and John Rother telling us that there will be a necessity for us to want to be needed economically, or at least for half of the baby boom generation. Mike Barth ended with some statements on the solutions.

The focus of the second panel, before we open it up for discussion, is on the issue of how public policy can encourage older workers to stay in the work force.

Rich.

OPENING STATEMENT OF RICHARD BURKHAUSER

Dr. BURKKHAUSER. Thank you, Dallas.

Alan Reynolds believed that future demand will in fact be there for older workers who want to stay in the work force. I also believe this will happen but I also know that people are skeptical of what people say about the future.

I am reminded of a movie, "A Field of Dreams," where the punch line was, "If you build it, they will come." What I would like to try to convince you of is that, if you build it, that is, if you change the incentives that older people face in the labor force, they will come. They will stay in the work force. They will try to get these jobs that are going to be out there.

However, I am going to do something more than that. I am going to show that the future is already here. Older worker are already working more than they did a decade ago, and changes in economic incentives are responsible for this surge in work. My remarks summarize a more detailed discussion contained in the paper "Implementing Pro-Work Policies for Older Americans in the Twenty-First Century" which Joseph F. Quinn and I wrote for this meeting.

Economic growth in the private sector is ultimately responsible for the creation of jobs in the United States for workers of all ages, but government policy can encourage or discourage the hiring or retention of older workers by private employers. Over much of the last half of the 20th century government policies have too often discouraged older Americans from working and have allowed employers to use age as a criteria for hiring or firing.

It was only in the mid-1980s that many of these policies have changed, changes which are not only economically sound but also consistent with the philosophy that economic opportunity should not depend on such non-ability related factors as skin color, gender, or year of birth.

In our paper, Burkhauser and Quinn, we outline a history of these anti-work policies. I will just mention a few here. One is the prohibition on mandatory retirement at any age contained in the Federal Age Discrimination in Employment Act. While this was a positive step, at least half of what looked like the impact of mandatory retirement was really due to strong financial incentives to retire built into our Social Security System and into many defined benefit employer pension plans.

The Social Security system strong work incentives contained at age 65, when a non-actuarially fair delayed retirement credit created strong financial incentives against delaying Social Security benefit receipt past that age. Considerable research has shown that many defined benefit pension plans work in exactly the same way.

Table 1, shows dramatic changes in the labor force participation rate of men at given ages over the last half century. What I would like you to recognize from this table is that "normal" retirement is a social construct. It is not biologically driven, and so it is sensitive to policy. If you build it, they will come.

If you think of "normal" retirement age as the age at which one-half of men are out of the labor force, then as late as 1950 normal retirement age in the United States was age 70. As you will see, nearly half of the people at age 70 in 1950 were in the labor force. Seventy-one percent were in the labor force at age 65, and 81 percent were in the labor force at age 62.

From 1950 to 1960, thanks to the growth of the Social Security System—and by the way, reducing the age of retirement is not an evil, it is a good, if we can afford it, but the question is, can we afford it and is it appropriate to force people to retire through these kinds of incentives? By 1960 "normal" retirement age, fell to age 66. By 1970 normal retirement was at age 65. Between 1970 and 1985 it fell to age 62. In 1985, only 50.9 percent of men were in the labor force.

Since 1985 there has been a dramatic turnaround in the early retirement trend. Since 1985, labor force participation rates of men at ages above 62 have held steady or increased, so that most of the ages shown in Table 1 had higher labor force participation rates in 1996 than in 1985. At least part of this turnaround is due to the signals coming out of Washington.

Figure 1 uses more age-aggregated data from the Current Population Survey to show how labor force participation trends have changed since 1985.

The actual labor force participation rates of men aged 60 to 64 are compared with labor force participation rates if you took actual labor force participation rates between 1964 and 1985 and projected them outward. Figure 1 shows that if the earlier trend continued, labor force participation rates of men aged 60 to 64 would have dropped all the way down to 40 percent by 1996.

In fact, what actually happened is that labor force participation rates stayed about the same or went up, so that they were 54 percent in 1996, a difference of 14 percentage points. This implies that about 750,000 more men were in the labor force at aged 60 to 64 than would have been there had previous trends continued.

As Figure 2 shows, the story is much the same for females aged 55 to 59. What you see is rather flat projected labor force participation based on information from 1964 to 1986, but what in fact happened was a dramatic increase in the labor force participants rate of women aged 55 to 59. Actual labor force participation rates were 60 percent versus projected rates of 51 percent or an increase of about a half a million women.

Figure 3 looks at men aged 65 to 69. It shows actual labor force participation rate in 1996 of 27 percent versus a projected one of 12 percent, an increase of 650,000 men. Figure 4 looks at women aged 60 to 64, and follows the same pattern.

What is the bottom line? About a million and a half more men and about 750,000 more women, were in the labor force in 1996 than would have been there is previous trends continued.

What is responsible for this reversal? Well, certainly part of it is explained by business cycles. We had strong economic growth between 1985 and 1989 and between 1993 and 1996, but not all of this increase can be explained by unexpected improvements in growth. Part of it is due to changes in our work policies targeted at older workers—a change in Social Security policy and an end of mandatory retirement—some of the things than Alan Reynolds talked about.

What will the future bring? Will older persons increase their market work when currently scheduled increases in Social Security's normal retirement age from age 65 to 67 take place in the next century? I believe the answer is yes. As the previous figures showed, older persons have already responded to smaller changes, and I think they will continue to do so.

Another factor that will influence work is that employer pension coverage is declining, and the kinds of pension coverage that older workers are receiving is different from the defined benefit plans that we have seen in the past. Defined contribution plans do not have the negative work incentives that are built into defined benefit plans.

Are there other policies that would further increase work? The answer is yes, and nine such policies are outlined in Burkhauser and Quinn (1997). I am going to speak about just one, since it is the most important and the most controversial. I urge that an increase in the earliest Social Security retirement age from 62 to 65 take place concurrently with the raising of normal retirement age from 65 to 67.

I support this policy based on research that I have done that looks at the characteristics of people who are now retiring at age 62. Contrary to stereotypes, the typical person retiring at age 62 is as healthy as the typical person who postpones retirement, and his or her wealth is approximately the same. Only about 7 percent of white males and 11 percent of black males are in both poor health and do not have some other source of pension income other than Social Security.

If early social security began at age 65, most workers are healthy enough to be able to work past age 62. Most of the workers who still wanted to retire could continue to do so and receive private pension benefits.

[The prepared statement of Richard Burkhauer follows:]

Implementing Pro-Work Policies for Older Americans in the Twenty-First Century

Paper Prepared for the
United States Senate Subcommittee on Aging
Forum on Older Workers

July 25, 1997

Richard V. Burkhauser
Center for Policy Research
Syracuse University

Joseph F. Quinn
Department of Economics
Boston College

July 1997

Introduction

Economic growth in the private sector is ultimately responsible for the creation of jobs in the United States for workers of all ages, but government policies can encourage or discourage the hiring or retention of older workers by private employers. Over much of the last half of the 20th century, government policies have too often discouraged older Americans from working and have allowed employers to use age as a criterion for hiring or firing. It is only in the last 15 years that many of these policies have changed—changes which are not only economically sound but also consistent with the philosophy that economic opportunity should not depend on such nonability related factors as skin color, gender, or year of birth.

A History of Anti-work Policies

Mandatory retirement was the most visible anti-work aspect of the United States labor market prior to 1986, when the federal Age Discrimination in Employment Act (ADEA) prohibited such rules for nearly all American workers. But at least half of what looked like the impact of mandatory retirement was really due to the strong financial incentives to retire built into Social Security and many defined-benefit employer pension plans (Burkhauser and Quinn 1983). For Social Security, strong work disincentives occur at age 65, when the delayed retirement credit—the adjustment for postponing receipt of retirement benefits—drops from 7 percent per year of delay (as it is for those aged 62 to 64) to only 1 percent (prior to 1977) and later 3 percent (from 1977 to 1990). For the average worker, these rewards for delay are less than actuarially fair, creating large Social Security pension wealth losses (i.e., lower expected lifetime benefits) and therefore strong financial incentives against delaying Social Security benefit receipt past age 65.

Considerable research has shown that many defined-benefit pension plans work in exactly the same way. After some age, often the earliest age of eligibility, the present value of expected future benefits falls with each additional year on the job. As a result, those who stay with the firm suffer a surreptitious pay cut, since their true compensation equals their pay check plus the net change (the decline) in their pension wealth.[1]

This is not to suggest that the dramatic increases in Social Security and employer pension benefits provided to succeeding generations of older workers since World War II constitute a "social problem." On the contrary, the ability to enjoy a period of retirement after a lifetime of work is an appropriate social goal. As our country became wealthier over the last half century, it is not surprising that we used part of that wealth to fund additional leisure at the end of the worklife. What is less certain, from a public policy view, is whether our retirement systems should penalize those who wish to work past "normal" retirement age and whether the "normal" retirement age established in the first half of the 20th century is appropriate for the 21st century.

Table 1 shows the labor force participation rates of United States men from 1940 to 1996 by selected individual ages. If the "normal" retirement age of men in a society is defined as the age at which only one-half of them remain in the labor force, then normal retirement occurred at about age 70 in 1940 and remained so over the next decade. It was not until the 1950s, as an increasing share of workers became eligible for Social Security and employer pension retirement benefits, that the normal retirement age began to drop. By 1960, half of the men were out of the labor force by age 66, and by 1970 the normal retirement age was 65. Over the next 15 years, labor force participation continued to fall, and by 1985 "normal" retirement was approximately age 62.

Between 1960 (just prior to the establishment of early Social Security benefits for men at age 62) and 1985, the labor force participation of men aged 62 fell by over one-third, from 80 to 51 percent, while the labor force participation rates of men aged 62 fell from 79.8 to 50.9 percent. The labor force participation rates of men between ages 55 and 62 have also fallen substantially since

1960, particularly between 1970 and 1985. However, these declines were not as precipitous as the fall for men aged 62 through 64. Table 1 suggests that the downward trend in labor force participation rates for men aged 62 and over ended in the mid-1980s. While the labor force participation rates of men aged 55 through 61 continued to fall between 1985 and 1995, the labor force participation rates of men at most ages above age 62 rebounded from their mid-1980s troughs.

Figures 1 through 4 use more aggregated data from the Current Population Survey to show how profoundly the trends in labor force participation rates have changed over the last decade. Figure 1 uses actual data on the labor force participation rates of men aged 60 to 64 from 1964 to 1985 and a linear time trend to extrapolate projected labor force participation rates from 1986 through 1996. These projections are then contrasted with the actual participation rates from 1986 through 1996. As can be seen in Figure 1, actual labor force participation rates since 1985 are substantially above the projected rates. In 1996, the labor force participation rate of men aged 60 to 64 was 54 percent, only slightly below their 1985 level, while the extrapolated rate was only 40 percent. Figure 2 shows the same pattern for men aged 65 to 69. Actual labor force participation rates increased from 24 to over 27 percent between 1985 and 1996, more than twice the projected rate of 12 percent.

The labor force participation rates of older women show a similar pattern over the last decade. Figure 3 shows the projected labor force participation rate of women aged 55 to 59 increased modestly from about 49 to 51 percent between 1985 and 1996, while the actual labor force participation rate rose dramatically from 50 to about 60 percent. For women aged 60 to 64, the projected participation rate fell slightly from 33 to 32 percent between 1985 and 1996, while the actual rate increased from 33 to 38 percent.

This unexpected growth in the labor force participation of older persons was favorably influenced by the business cycle. In the strong economic growth years from 1985 through 1989, the demand for all workers, including older workers, increased, thus encouraging more older workers to remain in the labor force. The recession years of 1990 and 1991 negatively affected labor demand and labor force participation. However, during the recovery years from 1993 through 1996, overall demand for labor once again increased, as did the labor force participation rates of older men and women.

Changes in the business cycle cannot fully explain the substantial differences between projected and actual labor force participation rates of older men and women over the last decade. In our view, a large part of the unexpected growth in labor force participation seen in Figures 1 through 4 is due to the willingness of older workers to work and the willingness of firms to retain or hire them caused by the new policy signals being sent from Washington.

From Anti-Work to Neutral Policy

After years of encouraging workers to leave the labor force, government policy began to recognize the lost productivity associated with such policies. The mandatory retirement age was increased from 65 to 70 in 1978 and then outlawed for most Americans in 1986.

More importantly, the Social Security Amendments of 1983 significantly altered the relative attractiveness of work and retirement (see U.S. House 1992). The amount of earnings permitted before Social Security benefits are reduced was indexed to wage growth, and the exempt amounts permitted were made higher for those aged 65 to 69 than for those aged 62 to 64. In addition, the earnings test was eliminated altogether for those aged 70 and above. Beginning in 1990, those aged 65 to 69 had their benefits reduced by only one-third in excess of the exempted amount, rather than by the one-half that still applies to those aged 62 to 64. In 1996, Congress dramatically increased the exempt amount for those aged 65 to 69 to $13,500 in 1997 and to $30,000 by 2002, after which it will once again be indexed to wage growth. Furthermore, beginning in 1990, the Social Security delayed retirement credit began increasing from 3 percent and will reach 8 percent by 2010. For high-income recipients, 85 percent of Social Security benefits were made taxable. Finally, the age of "normal" retirement was scheduled to increase from 65 to 66 between 2003 and 2008 and from age 66 to 67 between 2021 and 2026. While the full impact of all the changes in Social Security rules legislated in 1983 will not occur until well into the 21st century, the changes that have already occurred have contributed to ending the long decline in work past age 62 described above.

Other factors have also contributed to this change. Recent evidence suggests that employee pension coverage may be declining (see Reno 1993) and, more importantly, that the type of pension coverage offered by firms is changing from defined benefit to defined contribution. Only defined benefit plans contain the strong age-specific work disincentives discussed above. Defined contribution plans are really just saving accounts with tax advantages and are by their very nature age-neutral. The proportion of pension participants whose primary coverage is in a defined contribution plan increased from 13 to 32 percent between 1975 and 1987 (Turner and Beller 1992). Overall, the proportion of active participants in defined contribution plans rose from 29 to 65 percent during the decade ending in 1987 (Turner and Beller 1992). It is these workers who have increasingly been reaching retirement age in the 1990s.

Nonetheless, defined benefits plans still provide the bulk of pension coverage for those currently retiring and they continue to encourage early retirement (Wiatrowski 1990). In 1986 Congress tried to reduce the ability of firms to encourage early retirement by requiring them to continue pension contributions and accruals for workers who work beyond normal retirement age.

While this legislation was of some value, firms are still able to use temporary "pension windows" to entice older workers to leave their jobs as part of firm downsizing strategies, and did so, especially during the recession years 1990 and 1991.

Direct Job Creation, Training Programs, and Anti-Discrimination Programs

In addition to the changes in Social Security and employer pension policies discussed above, Congress also established, through the *Older Americans Act of 1965*, a set of programs with the potential to become part of a larger effort to increase opportunities for older workers. Title II of the Older Americans Act established the Administration on Aging to advocate for aging programs throughout the federal government. Title III focused on services provided at the local level to assist the elderly. Title IV provided funds for training, research, and demonstration projects to enhance the skill level and service delivery of professionals working in the field of aging. Title V was specifically targeted at community-service employment of low-income unemployed individuals aged 65 and older.

In addition to OAA programs, there are three other major federal employment-related programs for which older persons are eligible: Green Thumb, the Conservation Employment Program and the Job Training Partnership Act. There are also four major federal volunteer programs targeted on older persons: the Retirement Senior Volunteer Program, the Foster Grandparent Program, the Senior Comparison Program, and the Service Corps of Retired Executives. In addition, educational programs at the college and university level specifically designed for older learners became more common in the 1980s. These educational programs, which support career-related training, represent a cost-effective way to expand training opportunities for older persons. (See Bass, Quinn, and Burkhauser 1995 for a fuller discussion of these programs.)

Reducing discrimination against people because of age or disability is an increasingly important government function. *The Americans with Disabilities Act of 1990* has since 1994 extended protection from employment discrimination to people with disabilities in firms with 15 or more employees. It also requires employers to make "reasonable accommodation" to workers with disabilities unless this would result in "undue hardships" on the operation of business. Burkhauser, Butler, and Kim (1995, 1997) find that accommodation significantly extends workers' tenure with a firm following the onset of a disability and delays their application for Social Security Disability Insurance benefits.

The Age Discrimination in Employment Act of 1967 follows the language of Title VII of the Civil Rights Act in prohibiting employers from refusing to hire, discharging, or otherwise discriminating against individuals because of age.

Over the last decade, the trend toward early retirement has ended and there has been an increase in the work of both older men and women. While these phenomena have undoubtedly been part of an overall growth in employment generated by economic expansion, they are also the result of a movement away from anti-work policies aimed at older persons to policies that are more work-related. Mandatory retirement has virtually been eliminated and Social Security is becoming more age-neutral, in that it will no longer penalize those who work beyond a particular age. The earnings test has been dramatically liberalized for those aged 65 to 69, and will in essence be eliminated as the delayed retirement credit becomes actuarially fair.

From Neutral Policies to Pro-Work Policies

What remains unknown is how the private sector will react to these changes in the Social Security environment. As the normal retirement age increases, will employees increase the age of normal retirement in their pension plans or will they even further subsidize early retirement to offset the shift in Social Security retirement incentives?

The most significant demographic force in the early part of the next century will be the greying of the baby boom generation. The oldest members of that generation born between 1946 and 1964 will reach age 62 in 2008, only about a decade from now. If baby boomers leave the labor force at the same rate as current Social Security beneficiaries, the loss in overall United States productive capacity will be great. Policies that encourage their retention in the labor force a few years longer will both maintain overall productivity and reduce the burden their retirement will put on the economy. Below are some policies that could achieve both ends. While each would be controversial, they would increase work at older ages, and are deserving of legislative consideration.

1. The first and most controversial would be to return the early Social Security retirement age to its 1961 level of age 65, as the normal retirement age is increased to 67 or higher over the next two decades. Using the new Health and Retirement Study, Burkhauser, Couch, and Phillips (1996) and Phillips (1997) show that men who took Social Security benefits at age 62 in the early 1990s were about as healthy and wealthy as those who postponed taking such benefits. The typical male early recipient (66 percent of the white males and 61 percent of the black males) was also eligible to claim an employee pension. The typical male early recipient (71 percent of the white males and 72 percent of the black males) had a health condition that affected their ability to work. Few males who took early benefits were both in poor health and dependent on Social Security as their only source of pension income (only 7 percent of the white males and 11 percent of the black males). (For more details on these comparisons, see Tables 2 and 3, which are derived from Burkhauser, Couch, and Phillips 1996.)

These results suggest that while raising the earliest retirement age would not be painless and a small percentage of workers could suffer major losses in economic well-being, the typical male worker taking Social Security benefits at age 62 is physically able to continue to work or is eligible to receive an employee pension benefit and is thus unlikely to be devastated financially by legislation raising the earliest age of eligibility for Social Security benefits. Hence, we should consider whether old-age retirement benefits are the best sources of support for the small minority who are unable to work beyond age 62.

2. Permit workers aged 65 and over to opt out of additional Social Security contributions and average monthly earnings recalculations. Currently, older workers and their employers continue to contribute into the Social Security system. Each pays 7.65 percent of the first $65,400 (1997) and 1.45 percent (the Medicare component) on all earnings above that. If a complete exit from the system is not possible, one could exempt a certain amount of earnings (perhaps the first $10,000) from Social Security contributions by both employers and employees for those over age 65 to encourage part-time work.

3. Amend the Employee Retirement Income Security Act (ERISA) to allow prorated fringe benefits (for example, a prorated subsidy on medical insurance) for part-time employees, depending on how many hours they work. Current ERISA legislation requires employers to offer part-timers who work 1,000 or more hours per year the same full pension coverage and other fringe benefits that full-time workers enjoy. This increases the cost of hiring part-time workers, since the cost of fringe benefits like medical insurance is fixed regardless of the hours worked past 1,000. This also encourages firms to restrict the hours of part-timers to less than the statutory minimum. A change here would allow employers and employees to negotiate more flexible work contracts that benefit both.

4. Reverse Medicare policy to make Medicare, rather than employment-based health insurance, the primary source of health care coverage for workers aged 65 and over. This would encourage the employment of older workers by, in essence, subsidizing their compensation. Health costs are a significant concern to employers, especially for older workers. In the 1980s, Medicare eligibility rules were changed to make Medicare secondary to benefits provided by the employer's insurance, which must meet its obligations before Medicare steps in. This applies to workers aged 65 to 69 (since 1982), spouses of workers aged 65 to 70 (1984), and individuals with disabilities covered by firms with at least 100 workers (1986) (U.S. Social Security Administration 1991, pp. 56-57). These changes reduced Medicare expenses but raised a major barrier to the employment of older workers.[2] Reversing the original policy would remove this barrier.

5. Expand the Earned Income Tax Credit to include workers aged 65 and older without qualifying children. This would make some low-income older workers eligible for this credit, and hence more willing to work at lower wages. The Earned Income Tax Credit subsidizes the labor earnings of workers with children in low-income households. In 1996, the wage supplement was 34 percent of the first $6,160 in earnings—a maximum of $2,094 for a household with one child. It phases out slowly as adjusted gross income increases from $11,290 to $24,395 (U.S. House 1994, pp. 700-702). Many older workers have earnings and incomes that would make them eligible, but do not have the dependent child needed to qualify.

6. Use direct tax credits to encourage employers to hire and train older workers; for example, a tax reduction equal to a certain percentage of the wages paid to workers aged 65 and over, perhaps with a maximum dollar limit per worker. In Europe, similar mechanisms are used to encourage the employment of workers with handicaps. The same tool could be used in the United States, but applied to workers over a certain age.

7. Increase federal employment training assistance for older workers, expand income eligibility criteria, and encourage employers to offer part-time work options. Real (inflation-adjusted) outlays for the Job Training Partnership Act declined from over $5 billion in 1980 to $1.6 billion by 1992 (U.S. House 1992, p. 1692). The law requires that 3 percent of these funds be set aside for people aged 55 and over; 5 percent of those who passed through the program in 1991 were this age (U.S. House 1992, p. 1691). In 1985, less than 1 percent of those aged 55 to 64 and eligible for this training assistance (and less than 10 percent of the unemployed of this age) participated in this program, despite evidence that programs such as these are moderately successful with older displaced workers (Rupp et al. 1987; Sandell and Baldwin 1990). At the state level, JTPA could be linked with other federal employment programs.

8. For workers over a certain age whose employers do not offer training opportunities, offer a partial personal tax credit for work-related educational expenses, up to a dollar limit.

9. The most important potential policy change would be a federal mandate that employer pensions must be age-neutral—that is, must not have financial penalties for those who work beyond a particular age. Given the importance of defined-benefit pension incentives on those who are covered, this might have a significant impact on work in later life—much larger, for those covered, than the Social Security changes in progress.

Such a proposal, however, should be treated with caution, with the benefits compared carefully to the costs, as advantages in the present system may be lost. Lazear (1979, 1990), for example, has argued that an agreed-upon retirement date permits lifetime compensation schemes (underpayment early in one's career and overpayment later) that reduce turnover costs, and thereby raise workers' lifetime compensation.

Others have argued that mandates in one part of the compensation package are offset by changes in another, leaving workers no better off, or worse off, if they preferred the previous allocation (Andrews 1993; Mitchell 1990).[3] If mandates raise costs to the firm, one possible outcome is a reduction in employment.[4]

Another possibility is that legislation mandating age-neutrality would lower the attractiveness to employers of providing pensions and result in a further decline in coverage. Finally, what might be appropriate in some industries or regions may be inappropriate in others, and one should be wary of excessive government intervention into voluntary private contracts and should proceed with caution in overriding them.

Conclusions

Public policy in the United States changed course over the last two decades, in anticipation of the retirement of the baby boom cohorts early next century. As a consequence, a post-war trend toward earlier retirement among older men has been halted and perhaps even reversed. Older Americans are clearly working more now than the trends prior to the mid-1980s predicted. Although the individual contributions of specific policy initiatives, favorable macroeconomic performance, and other factors have not been determined, the recent observed changes in labor force participation patterns are entirely consistent with the changes in mandatory retirement policy, types of pension coverage, and Social Security incentives discussed above.

Removing disincentives to work or constructing incentives to work would have no impact on the labor force participation of older persons if they had no desire to work longer. But this is not the case. Survey evidence suggests that many older Americans would like to work more than they do. McNaught, Barth, and Henderson (1989) analyzed the responses of the retirees in a 1989 Harris poll of 3,500 older Americans. Between 14 and 25 percent of the retirees, representing 1 to 2 million people, reported that they preferred to be working and that they would be able to work if a suitable job were available. Quinn and Burkhauser (1994) analyzed the subsample of the same survey who were still employed and found that a substantial minority—another million people—expected to stop work before they really would like to. Many more older workers preferred part-time work than had it.

Older Americans are a tremendously productive resource in the labor market and elsewhere. Their decision to work or not will reflect the financial incentives they face—the relative attractiveness of work versus retirement, which depends, among other things, on public and private sector pension policies. Labor demand for older workers depends on the overall strength of the economy, but also on government policies that influence the net cost of hiring older workers.

As life expectancies increase and as the nation ages, policies that may have been appropriate when first initiated are becoming increasingly outdated. This is the case with some retirement policies, many of which have been changed to encourage (or at least not to discourage) continued attachment to the labor market at older ages. More changes in this direction are warranted. We have outlined several specific proposals that would encourage additional work and that we believe deserve serious attention.

Endnotes

1. See Kotlikoff and Wise (1989) or Quinn and Burkhauser (1993) for a discussion of these incentives and their effects on retirement behavior.

2. The U.S. House Ways and Means Committee (1992, p. 184) estimates that these secondary-payer provisions on the working aged saved $1.35 billion in fiscal year 1991.

3. Gruber (1992) presents evidence that the costs of mandated maternity health benefits were financed entirely by reductions in the wages of those covered.

4. Andrews (1993) reviews the evidence on a proposal, last seriously presented in 1981, to mandate pension benefits for all workers. Simulations based on the literature at the time assumed that the costs would be borne entirely by the worker. Some minimum-wage workers, whose wages could not decline, would be laid off or fired.

References

Andrews, Emily S. 1993. "Policy Reform and Older Americans: The Role of Employer Mandates in the Provision of Employer Pensions and Health Care." In Richard V. Burkhauser and Dallas L. Salisbury (eds.), *Pensions in a Changing Economy*. Washington, DC: Employee Benefit Research Institute, pp. 95-109.

Bass, Scott A., Joseph F. Quinn, and Richard V. Burkhauser. 1995. "Towards Pro-Work Policies and Programs for Older Americans." In Scott A. Bass (ed.), *Aging and Active: Dimensions of Productive Engagement Among Older Americans*. New Haven: Yale University Press, pp. 263-294.

Butler, J.S., Richard V. Burkhauser, and Yang-Woo Kim. 1996. "The Timing of Disability Insurance Application: Choice-Based Semiparametric Hazard Model." Cross-National Studies in Aging Program Project Paper No. 28, All-University Gerontology Center, The Maxwell School. Syracuse, NY: Syracuse University, October [revised].

Burkhauser, Richard V., J.S. Butler, and Yang Woo Kim. 1995. "The Importance of Employer Accommodation on the Job Duration of Workers with Disabilities: A Hazard Model Approach," *Labour Economics*, 3(1) (June): 1-22.

Burkhauser, Richard V., Kenneth A. Couch, and John W. Phillips. 1996. "Who Takes Early Social Security Benefits: The Economic and Health Characteristics of Early Beneficiaries," *The Gerontologist*, 36(6) (December): 789-799.

Burkhauser, Richard V. and Joseph F. Quinn. 1983. "Is Mandatory Retirement Overrated? Evidence From the 1970s," *Journal of Human Resources*, 18(3) (Summer): 337-358.

Gruber, Jonathan. 1992. "The Efficiency of a Group-Specific Mandatory Benefit: Evidence from Health Insurance Benefits for Maternity," NBER Working Paper No. 4157. Cambridge, Ma: National Bureau of Economic Research.

Kotlikoff, Lawrence and David Wise. 1989. *The Wage Carrot and the Pension Stick*. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.

Lazear, Edward P. 1979. "Why is There Mandatory Retirement? *Journal of Political Economy*, 87: 1261-1284.

Lazear, Edward P. 1990. "Pensions and Deferred Benefits as Strategic Compensation," *Industrial Relations*, 29: 263-280.

McNaught, W., M.C. Barth, and P.H. Henderson. 1989. "The Human Resource Potential of Americans over 50," *Human Resource Management*, 28: 455-473.

Mitchell, Olivia S. 1990. "The Effects of Mandating Benefits Packages," *Research in Labor Economics*, 11: 297-320.

Phillips, John W. 1997. "Essays on the Accumulation and Transfer of Wealth at Older Ages." Ph.D. dissertation, Department of Economics, Syracuse University.

Quinn, Joseph F. and Richard V. Burkhauser. 1994a. "Retirement and the Labor Force: Behavior of the Elderly." In Linda G. Martin and Samuel H. Preston (eds.), *The Demography of Aging*. Washington, DC: National Academy Press, pp. 50-101.

Quinn, Joseph F. and Richard V. Burkhauser. 1994b. "Public Policy and the Plans and Preferences of Older Americans," *Journal of Aging and Social Policy*, 6(3) (Fall): 5-20.

Reno, Virginia P. 1993. "The Role of Pensions in Retirement Income." In R.V. Burkhauser and D.L. Salisbury (eds.), *Pensions in a Changing Economy*. Washington, DC: Employee Benefit Research Institute, pp. 19-23.

Rupp, Kalman E., Edward Bryant, Richard Mantovani, and Michael Rhoads. 1987. "Government Employment and Training Programs, and Older Americans." In Stephen H. Sandell (ed.), *The Problem Isn't Age: Work and Older Americans*. New York: Praeger, pp. 121-142.

Sandell, Stephen H. and Stephen E. Baldwin. 1990. "Older Workers and Employment Shifts: Policy Responses to Displacement." In Irving Bluestone, Rhonda J. Montgomery, and John D. Owen (eds.), *The Aging of the American Work Force*. Detroit, MI: Wayne State University Press, pp. 126-148.

Turner, John A. and Daniel J. Beller (eds.). 1992. *Trends in Pensions: 1992*. Washington, DC: U.S. Government Printing Office, pp. 177-216.

U.S. House of Representatives. 1992. *Overview of Entitlement Programs: 1992 Green Book*, Committee on Ways and Means. Washington, DC: U.S. Government Printing Office.

U.S. House of Representatives. 1994. *Overview of Entitlement Programs: 1994 Green Book*, Committee on Ways and Means. Washington, DC: U.S. Government Printing Office.

U.S. Social Security Administration. 1991. *Annual Statistical Supplement, 1991*. Washington, DC: U.S. Government Printing Office.

Wiatrowski, William J. 1990. "Supplementing Retirement Until Social Security Begins," *Monthly Labor Review*, 113(2): 25-29.

Table 1. Male Labor Force Participation Rates by Age in the United States, 1940 to 1996

Year	Age												
	55	60	61	62	63	64	65	66	67	68	69	70	72
1940[a]	93.8	85.5	83.6	80.0	80.4	77.0	70.0	68.1	60.3	58.5	56.3	48.6	---
1950[a]	90.6	84.7	82.3	81.2	79.8	76.8	71.7	67.1	59.4	57.7	54.5	49.8	39.3
1960[a]	92.8	85.9	81.6	79.8	77.8	71.5	56.8	49.0	42.7	42.0	39.0	37.2	28.0
1970	91.8	83.9	80.1	73.8	69.4	64.4	49.9	44.7	39.4	37.7	34.0	30.1	24.8
1975	87.6	76.9	73.5	64.4	58.3	54.2	39.4	34.2	30.5	23.7	25.8	23.7	22.6
1980	84.9	74.0	69.6	56.8	52.3	48.8	35.2	30.4	27.9	24.1	23.0	21.3	17.0
1985	83.7	71.0	66.5	50.9	44.7	42.2	30.5	26.5	23.7	20.5	19.5	15.9	14.9
1990	85.3	70.5	67.0	52.5	45.5	40.9	31.9	27.2	27.0	23.4	19.0	17.1	16.4
1995	81.1	68.9	62.0	51.3	43.2	40.3	33.5	30.2	25.8	22.4	21.9	20.6	16.0
1996	81.9	67.5	64.8	51.5	45.3	40.6	33.4	31.7	26.5	22.7	22.2	21.3	16.3

[a]Based on adjusted U.S. Bureau of the Census labor force participation data. The adjustment is based on the ratio of CPS figures and census figures in 1970.

Source: Labor force participation figures from 1970 to 1996 are based on unpublished data from the *Current Population Survey* (CPS).

Table 2. Summary of the Characteristics of All Men and Women First Eligible to Receive Social Security Retirement or Spousal Benefits at Age 62 in 1993 or 1994 by Benefit Status and Race[a]

Race	Takers: Share Taking Benefits at Age 62	Takers: Pension Eligible 1992[b]	Takers: Median Household Net Assets[c] 1992	Takers: Median Household Net Assets[c] 1994	Takers: Poor Health 1994[d]	Takers: Household Pension 1994[e]	Postponers: Share Postponing Benefits at Age 62	Postponers: Pension Eligible 1992[b]	Postponers: Median Household Net Assets[c] 1992	Postponers: Median Household Net Assets[c] 1994	Postponers: Poor Health 1994[d]	Postponers: Household Pension 1994[e]
Black												
Men	0.29	0.61 (0.50)	$79,750	$83,500	0.39 (0.50)	0.58 (0.50)	0.71	0.57 (0.50)	$54,800	$55,000	0.26 (0.44)	0.20 (0.40)
Women	0.28	0.40 (0.50)	$56,850	$60,000	0.27 (0.45)	0.36 (0.49)	0.72	0.25 (0.44)	$35,900	$45,000	0.38 (0.49)	0.29 (0.45)
White												
Men	0.27	0.66 (0.48)	$185,100	$181,000	0.22 (0.42)	0.72 (0.45)	0.73	0.63 (0.48)	$182,500	$208,550	0.20 (0.40)	0.32 (0.47)
Women	0.32	0.25 (0.44)	$182,000	$187,000	0.30 (0.46)	0.61 (0.49)	0.68	0.46 (0.50)	$162,750	$186,500	0.24 (0.43)	0.41 (0.49)
All												
Men	0.27	0.65 (0.48)	$155,500	$160,200	0.22 (0.41)	0.71 (0.45)	0.78	0.60 (0.49)	$143,000	$150,000	0.21 (0.41)	0.30 (0.46)
Women	0.30	0.26 (0.44)	$147,300	$151,000	0.31 (0.46)	0.57 (0.50)	0.70	0.39 (0.49)	$109,000	$114,500	0.26 (0.44)	0.39 (0.49)

[a]Standard deviations for mean values are in parentheses.
[b]Respondent reports either receiving private pension income in 1992 or that he or she expects to receive private pension income in the future.
[c]Includes all household assets minus debts. Does not include pension wealth.
[d]Respondent reports being in fair or poor health in 1994.
[e]Respondent or spouse reports receiving income from employer pension in 1994.
Source: Health and Retirement Study, Gamma version of Wave 1 (1992) and Beta version of Wave 2 (1994). For more details see Phillips (1997).

Table 3. Employer Pension Eligibility, Health, and Household Net Assets of Men and Women Who Take or Postpone Taking Social Security Benefits at Age 62 in 1993 or 1994

				Takers			Postponers		
		Employer Pension	Poor Health	Sample Share	Median Household Net Assets		Sample Share	Median Household Net Assets	
Race	Gender	Eligibility[a]	1994[b]	[obs]	1992	1994	[obs]	1992	1994
Black	Men	yes	yes	0.18*	---	---	0.07*	---	---
		yes	no	0.43	$90,000	$102,500	0.41	$83,250	$78,000
		no	yes	0.11*	---	---	0.21	$2,500	$105
		no	no	0.29*	---	---	0.31	$32,900	$48,000
White	Men	yes	yes	0.15	$193,000	$103,750	0.11	$123,000	$105,000
		yes	no	0.51	$180,550	$202,700	0.50	$180,250	$218,465
		no	yes	0.07*	---	---	0.09	$144,350	$161,000
		no	no	0.28	$207,480	$218,500	0.29	$203,000	$194,500
Black	Women	yes	yes	0.03*	---	---	0.07*	---	---
		yes	no	0.35	$82,750	$126,750	0.19	$85,500	$126,000
		no	yes	0.27	$7,200	$33,000	0.29	$3,100	$5,750
		no	no	0.35	$56,000	$46,900	0.45	$36,750	$44,750
White	Women	yes	yes	0.03*	---	---	0.07	$140,100	$216,300
		yes	no	0.20	$153,000	$198,000	0.36	$190,000	$225,000
		no	yes	0.26	$199,250	$154,500	0.16	$92,468	$77,500
		no	no	0.51	$187,000	$191,500	0.40	$166,150	$192,750

[a]Respondent reports either receiving private pension income in 1992 or that he or she expect to receive private pension income in the future.

[b]Respondent reports being in fair or poor health in 1994.

*Less than ten observations. Medians are not reported in these cases.

Source: Health and Retirement Study, Gamma version of Wave 1 (1992) and Beta version of Wave 2 (1994). For more details see Phillips (1997).

Figure 1. Labor Force Participation Rate for Males Aged 60 to 64

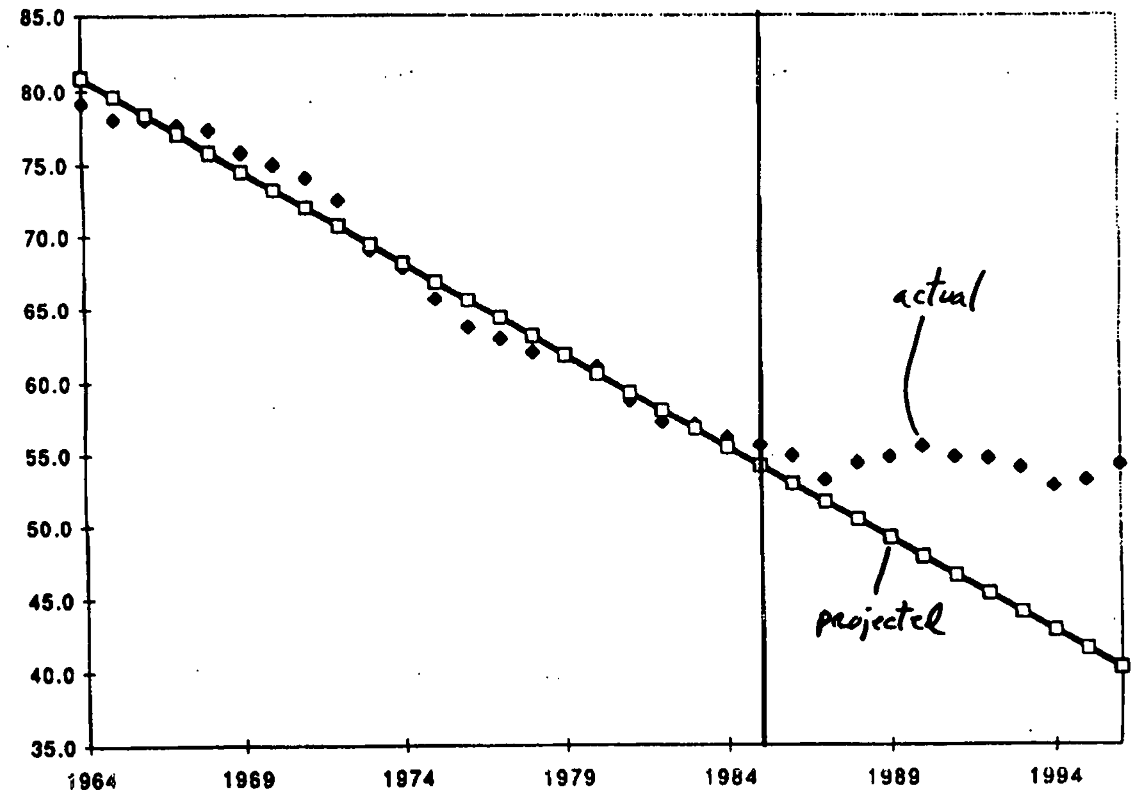


Figure 2. Labor Force Participation Rate for Males Aged 65 to 69

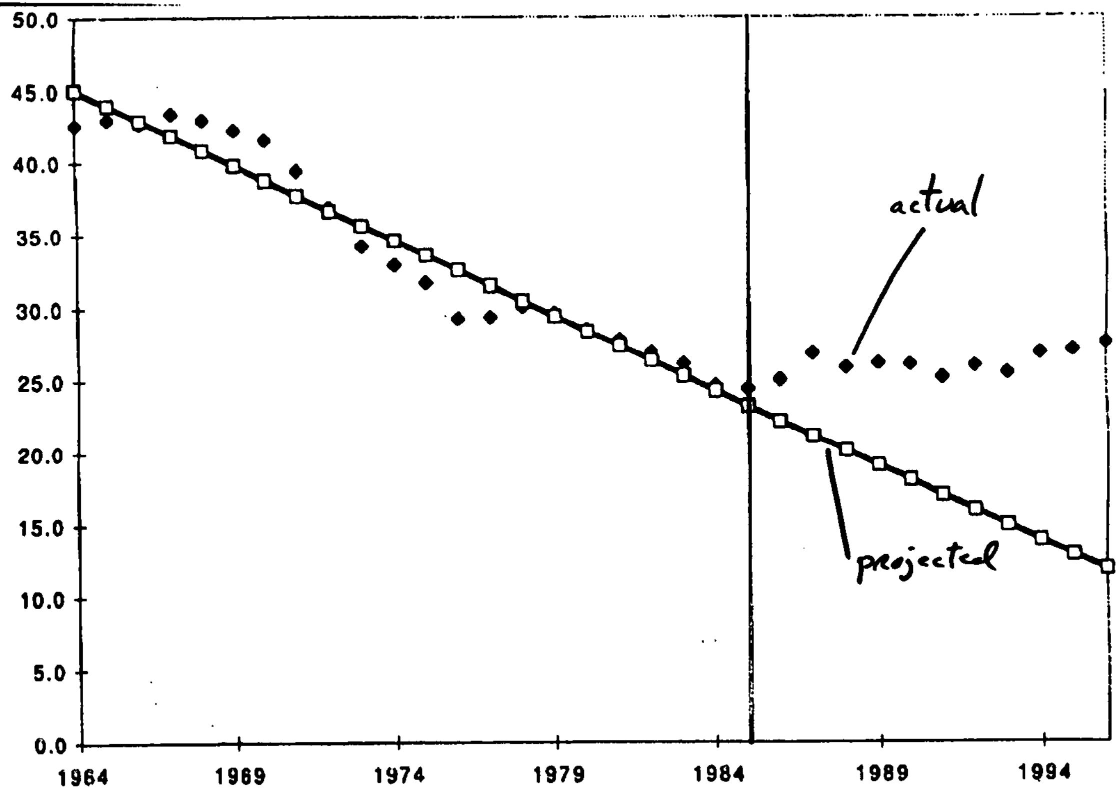


Figure 3. Labor Force Participation Rate for Females Aged 55 to 59

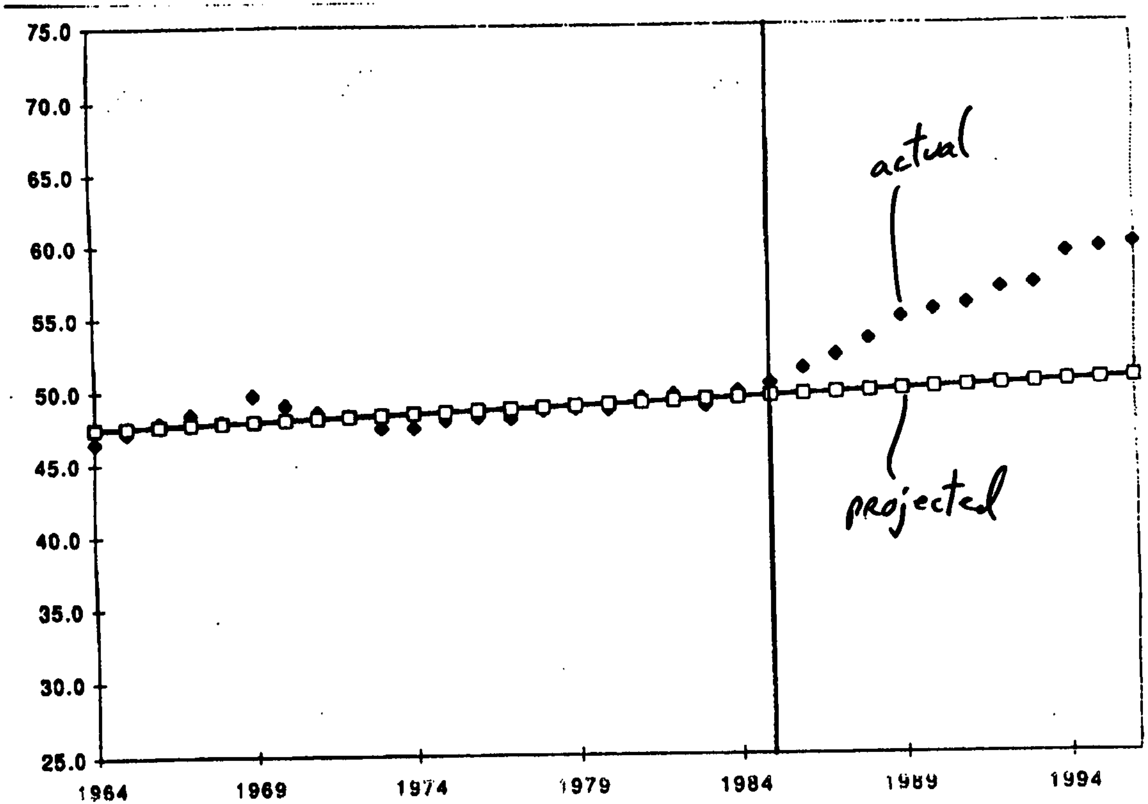
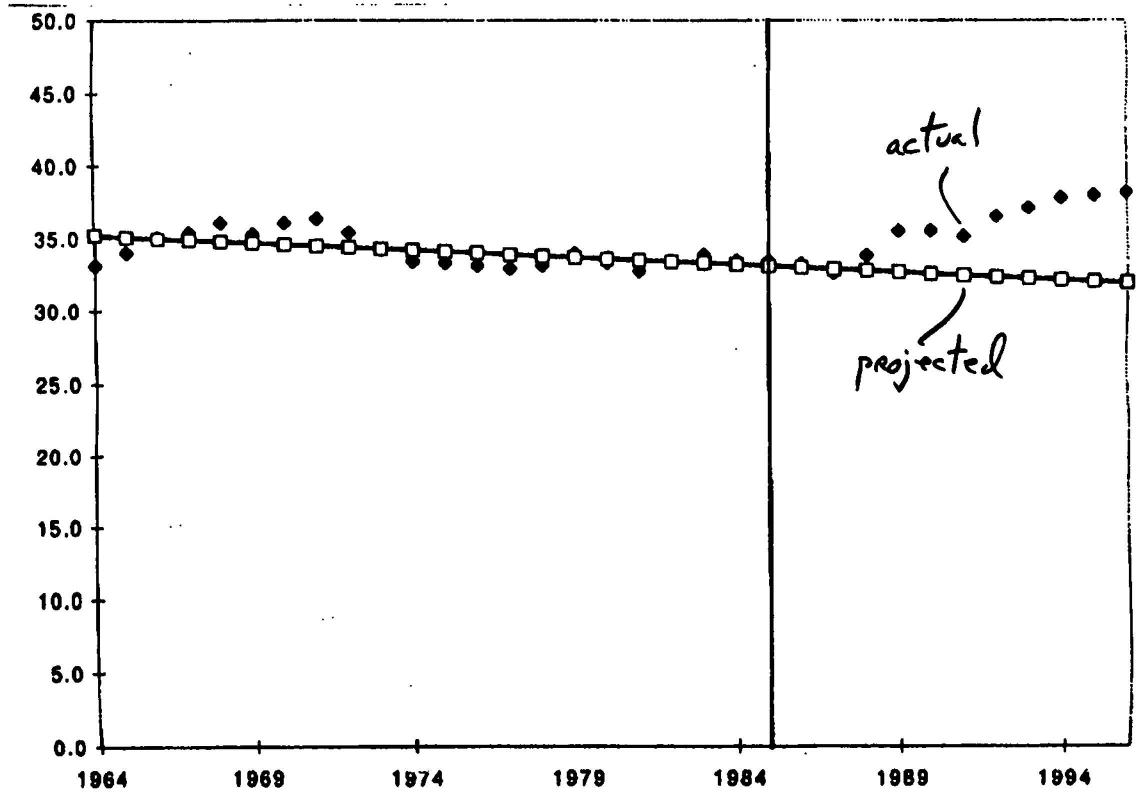


Figure 4. Labor Force Participation Rate for Females Aged 60 to 64



Mr. Salisbury. Thank you. The issue that that passes us to, as those statistics indicate, is the how and the wherefore, and Colin Gillion will be talking with us about what is happening in other nations relative to phased retirement and partial retirement.

Colin.

OPENING STATEMENT OF COLIN GILLION

Dr. Gillion. Thank you very much, Dallas. I am going to start off with one or two charts, if I don't get caught up in the wires, and then I want to talk a little bit about the experience of some other European countries, and then I finally want to give you some conclusions. But since I am a risk-taker and I can turn my back on Dallas, I am going to leave the conclusions for the end.

What this chart shows you is the participation rate of men rates of men, older men, in an average of OECD countries, and the lines show you the participation rates as they have changed from 1950 onward. I think there are two messages to draw from this chart.

One is that the process of retirement, withdrawal from the labor market, is a fairly long one. It starts around about the age of 55, and it goes on to about the age of 70, so it is a very long thing which spans almost one-third of a person's working lifetime. So that is the first conclusion.

The second one is that the rate of participation has declined in a very strong and steady way across all OECD countries over a span of 40 years, and to my mind what that says is, there is something happening there which is a very strong force, because countries' programs have differed over this period. They have differed according to timing and in content, but this consistent downward trend has been there for a long period.

So that is the first. Now what you see here is the participation rates for men. For women something rather different has been happening, and this is the same graph. This is the same graph for women.

Now for women there have been two conflicting trends. One is that female participation rates in employment, unemployment and self-employed have been rising for all ages of women. At the same time, women have been experiencing the same trend toward earlier retirement.

What you see here is that participation rates for older women from 50 to 54 up to about 60 have increased in contrast with their male counterparts. Beyond 60 they have decreased, but not so sharply as the male ones, and around about 60 the two forces cross over. So what we have for men is an actual loss of the labor force which amounts to around about 50 percent for men age 60 to 65, but what we have for women, we have a potential loss of the labor force.

So those are the two OECD measures, and I wanted to put up one chart and to stick with it, which shows some of the contrast between United States and some other countries. Now what you see for the United States is a rather slow decline. That is, round about the age of 55, almost all men in the United States are at work. By 70, around about 20 percent of them are still at work.

But that contrasts quite sharply with what is happening in other European countries. In France, which is the blue line at the bottom there, you can see that the retirement process is almost finished by the age of 61. Something rather similar happens for the Netherlands and for Germany, and for the United Kingdom the process is almost complete but at a later age, round about 65.

Now I think there are some things we should think about in terms of the policies which the governments have pursued. There are three or four main ways out the labor force. One is to simply voluntarily retire early, and that is the freedom of choice which I think is very valuable for all those who can choose it, and so on, but it has implications.

The other way out of the labor force is for the disabled, and in the United States you have a program of disability insurance which provides some provision for this.

The third way is for people who become what the Europeans would call long-term unemployed. People who have not had job for over a year, older workers whom it is difficult to retrain, are granted a sort of pension at an early age until they become available for the proper pension at age around 65.

The fourth way is, particularly in Sweden, a kind of partial pension which enables people to move from full time to part time work and to receive some pension covering the loss of income that they would have had from their part time work.

Now I think there are some quite vital lessons in all this material, and I will try to be relatively simple, and hope that Dallas will give me a signal, in trying to draw some conclusions.

First of all, we are dealing with forces which are very, very powerful, so the kind of policy that you have to put into place to reverse these trends—and I am assuming that because of aging populations and so on, you do want to reverse these trends—they have to be rather strong policies.

The second point is that not many European countries have actually wanted to reverse these trends. Because of the much higher levels of unemployment, many of their efforts, particularly up to about the period 1985–1990, have actually been reinforcing these trends. So let me just give you some very—there are more details in the paper, but there are some specific examples.

In the Netherlands a very high proportion of total recipients of pensions are disabled. That is, they have a very generous disability program which takes into account not whether you can do a job, but whether in fact there is a job that is available for you, that you can get, and if you can't get the job and it is not local and it is not your usual occupation, you get a disability pension.

Something similar to that also happens in Germany. In France, which is perhaps the worst case of these lines, emphasis has been placed on providing for the unemployed. About half of all French pensioners are now collecting early retirement, that is, before the age of 60, on the basis of either having been made redundant during the period when they were age 55 to 60, or having voluntarily resigned. Now that is a very generous allowance and you can get all sorts of quite comfortable pensions.

So let me just stop there, and just mention that Sweden is a case of partial compensation, and let me also indicate to you that one of the other issues which I think is important is the extent to which pensioners' income is provided by public programs or company programs, because these two things have to be coordinated. Companies can do things which nullify what the public programs do.

I am running out of time, and I want to briefly put up for your consideration one or two points which I think that the United States might consider.

First of all, there are some good things. The United States has not gone down the path of being excessively generous and excessively loose, and as a consequence its line, its participation rate decline has been higher than almost everywhere in Europe.

But, second, it has not dealt with some of the problems. You don't have a very well developed unemployment compensation program, so that problem is put on one side. Nor do you take into account labor market possibilities for those who are disabled.

I would suggest to you that one of the other things that you must do or think about is to increase the penalties for early retirement and to increase the rewards for later retirement for those who freely choose it. Disability you can't avoid. I think you have to do something about unemployed older long-term workers. But for those who just simply choose to go, you have got to put into place some tougher sorts of benefits. I don't see much use for the earning rule. If you want people to work, for heaven's sake don't penalize them for doing so.

I think I am just about at my zero mark, so I will stop there.

[The prepared statement of Colin Gillion follows:]

EARLY AND PARTIAL RETIREMENT

in Europe and the United States

Briefing notes for the
Senate Special Committee on Aging
July 25, 1997
Washington, DC

Colin Gillion
Director
Social Security Department
International Labour Organization
Geneva

July 1997

EARLY AND PARTIAL RETIREMENT

I. Introduction.

Over the last several decades, participation[1] rates of older men have declined, both in the United States and in other countries of the OECD, especially in Western Europe. This decline has important implications: for labour supply, for expenditure on pensions, and for the sources of financing that expenditure. In the future, the ageing of population structures throughout the OECD area will place greatly increased pressure on the financing of retirement income, and to the extent that this may appear insupportable, there will be a need to seek policies which increase the actual average age of retirement.

But at the same time, the many benefits of a flexible process of retirement need to be recognised. It has brought greatly increased leisure to older people. It has provided an escape from sometimes arduous work for many whose health status no longer supports it. And it has provided a social safety net to those older workers made redundant by technical or structural change and for whom opportunities for employment or retraining are severely limited. These are benefits not lightly to be dismissed.

These notes focus chiefly on the policies and experience in four countries of Western Europe: France, Germany, the Netherlands and the United Kingdom and their comparison with outcomes in the United States. However they are preceded by a brief review of the main trends and of some general issues and they are followed by a number of comments on the lessons for the United States.

II. Overview.

For the OECD area as a whole, Chart 1 shows average participation rates for men from 1950

---

1 The term participation rate, as used in these notes, is defined as the numbers of employed, part-time and full-time, plus the number of unemployed in each age-group, expressed as a proportion of the population in the corresponding age-group.

to 1990, broken down into 5 year age groups and Chart 2 shows the difference in participation rates for older men across a selection of OECD countries in 1990. Chart 3 shows participation rates by single year of age for the United States, for 1970, 1983 and 1995 and Chart 4 compares the rate of decline in participation rates for men between the ages of 55 and 75 in different countries. Charts 5 to 8 display the same characteristics for women workers: there are significant differences between the two sexes.

The charts bring out a number of important points.

1. The process of retirement is a relatively long one, at least in terms of the aggregate labour force and especially for the United States. At age 55 almost all men are still in the labour force. By the age of 70 very few are still working. Between their mid-fifties and their early seventies, participation rates for men fall, the steepest declines, at least for European countries, being experienced in the late fifties and early sixties. However this does not mean that, for individuals, the process of retirement is equally flexible. While some individuals may be able to withdraw gradually from the labour force, by reducing hours worked, for many the process of retirement remains an abrupt one, even though the age at which it occurs is variable and has fallen.

2. Across all OECD countries, including the United States, participation rates for older men have declined and the median age of retirement[2] has fallen from an OECD average of around 70 in 1950 to just over 60 in 1990. In terms of the labour force this has meant a 20 per cent reduction in the number of workers aged 55 to 59; a 58 per cent reduction in workers aged 60 to 64; and a 35 per cent reduction in workers aged 65 to 69.

3. For men there are substantial differences across countries (Charts 2 and 6) both as regards the levels of participation rates and the speed with which they decline. Among the countries considered here France and the Netherlands have the lowest participation rates for older men aged 55 to 64. The United States participation rates are in the middle range and are comparable with those for United Kingdom and Germany. But the rate of decline is slowest for the United States (at least in 1995: Chart 4) French participation rates for men fall much

---

2 Measured here as the age at which participation rates fall below 50 per cent.

more steeply than for other countries and their transition from work to retirement is virtually finished by the age of 61. Participation rates in Germany also decline fairly steeply, and for the United Kingdom the transition process is almost complete by the age of 65. For the United States, however, the process is more drawn out and at the age of 70 almost 20 per cent of US men are still working. For women the pattern is similar, although participation rates are lower than for men at comparable ages and, as noted below, the picture of the retirement rate is confounded by the cohort effect of generally rising participation rates for women (Chart 8)

4. There are indications, for the United States and some other countries, that the decline in male participation rates was greater during the 1970s than during the 1980s (Chart 3). Participation rates for men in 1995 were close to those of 1983, but these were significantly lower than in 1970. However this may have more to do with the better labour market conditions which prevailed in the 1980s than with any possible shift in the long term downward trend.

5. For women, the story differs. Female participation rates have been increasing for some time, at least since the beginning of the 1970s, although at all ages they remain lower than those for men. The effect has been focused on different cohorts of women: women borne more recently have shown higher participation rates at all ages than their counterparts who were borne earlier. For this reason, female participation rates for the age groups 50 to 54 and 55 to 59, as well as those for younger age groups, have <u>increased</u> consistently since 1950. The trend towards earlier retirement for women appears on top of this development, at older ages and for earlier cohorts. After the age of 60 the move towards earlier retirement becomes progressively dominant, so that participation rates for women aged 60 to 64 and 65 to 69 have <u>declined</u>: but not by so much as those for men. Somewhere around the age of 60 the two forces cancel each other out and, as Chart 4 shows, average OECD participation rates for women aged 60 to 64 have remained virtually unchanged since the 1950s. In short, although participation rates for older women have not shown the same kind of declines as those experienced by men, neither have they reflected the general secular trend towards higher participation rates for women. The labour force loss is a potential one, rather than actual.

Two other points are relevant, although they are not illustrated in the charts.

6. Life expectancy has increased. But while the increase in life expectancy does not necessarily translate into a proportional increase in the numbers of years in which a person might be

expected to work, there is clearly some positive correlation. The decline in activity rates appears to have taken place during a period when improvements in physical health would permit a longer working lifetime. Whether because of the incentives built into current policies, through deliberate choice, or because of worsening job opportunities, individuals have experienced a longer period of retirement rather than a longer period of work.

7. The concept and practice of retirement is itself relatively new. Prior to the 1950s relatively few individuals were able to take a significant period of retirement before they died. Most experienced a period of illness and reduced activity in the interval between a full time job and death, and during this period most were dependent on their children for support, rather than a public or private old-age pension.

These general trends imply that the consequences of policy need to be assessed with some caution. The fact that the trend towards early retirement has persisted for such a long time; its manifestation in almost all OECD countries; and the fact that during the last few decades country policies have been very different, in character and in timing: all suggest that the underlying forces which induce earlier retirement are very strong and may be only partially amenable to correction through changed public policy.

III Country experiences.

France.

France is at the other extreme from the United States. Participation rates are lower and decline more abruptly so that by age 61 participation rates for both men and women are less than 10 per cent. This is a consequence of a long, complicated, and vacillating history of early retirement policies which, in France though not elsewhere, have been the responsibility of the unemployment compensation programme (UNEDIC) rather than the retirement pension programme. Since UNEDIC is financed by earmarked contributions from workers and employers, while the public pension system and the supplementary pension programmes are financed by separate social security contributions, this has at times led to tensions not only between the objectives of early retirement programmes (which have tended to be more focused on their effects on unemployment) but also between the role of the state in financing early retirement.

1. The age of entitlement to a full pension under the general programme was 65 up to 1982 when

it was reduced to 60 for 37.1/2 years service. Those with less than 37.1/2 years service could continue working, and earning increased pension rights, up to the age of 65, or could take a reduced pension at age 60 (a 20 per cent reduction). Full replacement rates under this programme are now 50 per cent of earnings over the ten best years (shortly to be increased) but are subject to a ceiling. Compulsory occupational programmes add to this basic scheme. They are based on accumulated points, themselves determined by revalued earnings, over an entire career and are not subject to an earnings ceiling. Together these two programmes yield replacement rates of about 75 per cent. More than 80 per cent of pensioners' income is derived from these two programmes.

2. However very few French men and women reach the age of full normal retirement: most retire early under a variety of programmes whose shape and form have varied over the years. Replacement rates under these programmes are relatively generous, and may be higher than those provided under a pension. Some of these programmes have now been abandoned, with the reduction in the age of retirement, although there remain significant numbers of retirees who continue to benefit from them. The main public programmes now in force are the following:

(a) Progressive early retirement. For workers aged 55 and over who shift from full- to half-time work. Benefits amount to 30 per cent of the foregone half wage.

(b) National Employment Fund (FNE) special allowance. For workers 56 years and 2 months and older in the iron and steel industry who are made redundant.

(c) Disablement and incapacity. For workers 60 and older with 100 per cent disability. Benefits provided amount to the full pension and are provided by the social security Ministry.

Previous arrangements, which were abandoned with the introduction of a lower retirement age in 1982, included income support pensions for workers 60 and over who left the labour force, whether because of redundancy or resignation, and solidarity contracts under which firms agreed to replace redundant workers with a substitute from the unemployed (for at least one year). Benefits under these programmes were in the range 60 to 70 per cent of previous earnings. Although they have now been closed to new entrants, they account for a significant proportion of existing retirees. It should be noted that, because of the generosity and availability of other exit pathways, disability pensions have so far accounted for only a small proportion of total early retirements (7.1/2 per cent in 1988). Total beneficiaries under early retirement programmes are shown in the following table.

FRANCE, 1988	(000's)
Total beneficiaries under preretirement arrangements	
Guaranteed income: dismissal	84.8
Guaranteed income: resignation	135.1
National employment fund	186.2
Solidarity contracts: preretirement	18.5
Solidarity contracts: gradual preretirement	8.5
TOTAL	433.2
of these:	
programmes covering persons aged 55 to 59	213.3
programmes covering persons aged 60 and over	219.9
TOTAL	433.2

Source: Guillemard, A-M in Kohli, Rein et al.

United Kingdom

1 Pensions are awarded in two tiers:

(a) A flat rate national insurance pension available at age 65 for men, 60 for women, with a replacement rate equivalent to 19 per cent of the average earnings of a manual worker;

(b) either a state earnings related pension (SERPS), an occupational pension (which has to be better than SERPs), or a personal pension. For occupational pensions, pensionable age may be no higher, but may be lower than the SERPS age: other conditions must be at least as good as SERPS. SERPS provides a replacement rate of 25 per cent of the best twenty years, scheduled to fall to 20 per cent of lifetime earnings by 2009.

Together these two programmes provide a replacement rate of around 40 to 50 per cent of previous earnings.

2. There are no specific early retirement programmes as there are in France, but early retirees may take advantage of:

(a) Invalidity

(b) Unemployment compensation

(c) Occupational programmes.

42-834 97 - 4

A former programme, the Job Release Programme, was closed to new entrants in 1988, and existing beneficiaries will gradually decline.

3. The earnings test has been abolished: pensioners may now earn income from work without a reduction in benefits.

4. The invalidity benefit provides a benefit on receipt of a medical certificate of incapacity to work, roughly equivalent to that of the national insurance pension but with the additional advantages that (a) it can be combined with other benefits (b) it carries significant tax advantages, and (c) it can be continued up to 70 for men, 65 for women. The invalidity pension does not take account of the chances of actually finding a job. There has been a substantial increase in the number of workers drawing an invalidity pension, particularly for those over 65. One-half to two thirds of invalidity pensioners also draw occupational pensions.

5. The long-term unemployed also qualify for unemployment assistance and, if they are over 60, receive a higher rate of benefit and are not required to register for work. This acts as a bridge to receipt of a full pension. But it is means tested, and may be reduced if the beneficiary is in receipt of an occupational pension.

6. About 50 per cent of male manual workers (18 per cent of females) contribute to an occupational pension: this can be combined with other benefits, notably invalidity benefits and (formerly) the Job Release Scheme. Benefits from occupational pensions are generally higher than those from the National Insurance pension, especially for higher paid white collar workers. (see Table page 9)

UNITED KINGDOM

Benefit status of men aged 60 to 64 not in employment.

Status	Per cent of all men in age group	Per cent with occupational pension
Unemployed	32	53
Invalidity benefit	28	54
Job release allowance	12	50
Long-term supplementary benefit and not unemployed	6	
Inactive occupational pensioners	17	100
Other	6	

Source: Laczo, F and Phillipson, C in Kohli, Rein et al.

Germany

1. The normal age of retirement in Germany is 65 for both men and women. But a large proportion of workers effectively retire before this age: by 1996 the average age at first receipt of a pension was 59.7 for both sexes. For 40 years of contributions, the net replacement rate was 63 per cent in 1989. A range of different provisions contribute to this discrepancy between actual and nominal age.

2. Disability. Following a decision by the social court in 1976, eligibility for a general disability pension has been based on whether or not there was any work which the disabled person could do: i.e., the labour market situation was explicitly to be taken into account and became an important feature of claims, to the extent that it took up some of the task covered by unemployment compensation. By 1988 almost one-third of all new entrants to the pension were classified under this heading. The pension requires a prior history of three of the last five years in employment. Just under half of all new disability pensions for men are awarded to workers in the 55 to 59 age group, for whom no other source of early retirement is readily available. But the planned reforms for 1999 will probably abolish the labour market considerations.

3. Long-term unemployment. Workers who reach the age of 60 with a contribution record of at least 15 years and a period of at least one year's unemployment in the last eighteen months become eligible for a pension. This provision has existed since the mid 1950s, and there have been no changes in its rules. However the number of new retirees taking advantage of this means of exit has increased and in the late 1980s it accounted for 13.1/2 per cent of new pensioners.

4. Flexible retirement. From 1972, workers who had reached the age of 63 with 35 years of contributions could take retirement. The programme also included special terms for the handicapped who could take retirement from age 62.

5. Occupational and company pensions. Most occupational pensions follow the lead of the public pension system, granting early occupational pensions to workers with entitlement to an early public pension. About half the labour force are covered by occupational schemes.

6. There are in general no specific reductions in benefits associated with these special provisions. However the amount of the pension is reduced both on account of a lower number of contribution years and because of the lower final earnings. Company schemes operate an actuarial reduction, amounting on average to about 6 per cent per year of earlier retirement (i.e., below 65).

GERMANY, 1989

Male entrants to the public pension schemes by type of pension

Programme	Per cent of new entrants
Occupational disability	6.2
General disability	30.8
Unemployment at 60	13.6
Handicapped at 62	11.3
Flexible retirement	19.1
Normal at 65	18.7
Over 65	0.2
TOTAL per cent	100
TOTAL (000's)	339

Source: OECD, 1995a

United States

1. Social security provides full retirement benefits at age 65, with earlier benefits available from age 62 onwards discounted at the rate of 6.7 per cent for each year of earlier retirement. Beyond age 65 benefits are increased by 4 per cent for each year of deferred retirement. The system is biased strongly towards low income earners because of the benefit formula: but overall, and for workers on average incomes, replacement rates are of the order of 30 to 40 per cent of final income. There is also an earnings test, varying according to age, which reduces the value of benefits in response to earnings. The earnings test disappears at age 70.

2. However over half the workforce is also eligible at retirement for a company or enterprise pension, and these frequently form a bridge between early retirement and receipt of a (discounted) social security pension at the age of 62. In 1980-81 over one-third of new entrants to social security at age 62 had left the labour force sometime earlier, and at age 62 nearly 60 per cent had exited.

3. The other main pathway to early retirement is the disability programme. The number of disability awards increased by 62 per cent between 1965 and 1987.

4. A high proportion of older workers in the United States work part-time after leaving a career job.

The Netherlands

The Netherlands is notable for the high proportion of older workers receiving disability pensions, in comparison with the relatively small proportion who receive unemployment related early retirement. For 1990, including estimates of the numbers on early retirement programmes:

The Netherlands, 1990

Men aged 55 to 64 by labour force status

(as per cent of population in each age group)

Labour force status	Aged 55 to 59	Aged 60 to 64
Employed	54.9	21.1
Social employment scheme	0.9	0.4
Disabled	31.3	37.7
Partly disabled/unemployed	1.8	1.0
Early retired	3.9	26.5
Social assistance	0.4	0.4
Unemployed	4.6	8.7
TOTAL	97.8	95.8

Source: OECD 1995a

The second table shows the growth in the different programmes:

The Netherlands, 1980 to 1989

Male beneficiaries aged 60 to 64: various programmes

(as per cent of male population aged 60 to 64)

Year	Disability: private	Disability: public	Other disability	Unemployment insurance	National assistance	Early retirement
1980	31.7	3.7	5.1	4.6	0.8	7.0
1981	32.3	4.3	5.1	4.8	0.9	8.5
1982	32.4	4.8	4.9	5.4	1.0	10.0
1983	32.5	5.2	4.9	7.2	1.1	13.6
1984	32.0	5.4	4.9	8.7	1.4	16.8
1985	31.6	5.6	4.8	9.5	1.6	21.3
1986	30.8	5.5	4.6	9.5	1.8	25.4
1987	30.1	5.1	4.6	8.2	2.0	29.5
1988	29.5	5.2	5.0	7.3	2.2	33.3
1989	29.1	4.8	4.9	6.6	2.0	35.3

Source: OECD 1995a

Thus for the 60 to 64 age group of men, and in 1989, 83 per cent received some kind of pension: over one-third of the population in this age group is received a disability pension: another one-third is received an early retirement pension.

As far as disability benefits are concerned, there are a number of reasons for this preponderance. The concept of disability is vague, and takes fully into account whether or not the recipient is able to find a job. This latter condition implies that a suitable job must be available.

Several commentators have remarked that the disability programme has taken on the character of benefit to the long-term unemployed. Second, benefit rates under disability are generally higher than under unemployment compensation, and can last longer. Third, disability is financed by the state, which gives firms an incentive to place redundant workers on disability. Although reforms have been attempted in the past, the growth in numbers on disability has been very rapid. But the government is now in the process of tightening conditions and abandoning the labour market criteria.

As far as early retirement is concerned, the growth in numbers has been the outcome of negotiations between workers and employers, both of whom have seen an advantage in replacing older workers by the younger unemployed. Benefits are also rather generous. They provide 80 to 85 per cent of last earnings, employer and employee both continue to pay contributions to a pension, and the benefits can last until the age of 65. However they require a certain length of prior contributory service, usually 10 years.[3]

IV Implications for the United States.

Towards the end of their lives, many people wish to enjoy a prolonged period of leisure, and one way or another, at least in Europe, many of them have also found the means to do so. Many other people may be obliged to take early exit, mainly because of the difficulty of finding acceptable jobs in a labour market which has experienced an extended secular increase in the level of unemployment. For almost all people there will be a trade-off, between their income as retirees and the age at which they leave the labour force. The trade-off is influenced not only by their access to public early retirement programmes, but also by their access to private occupational retirement schemes, by their personal wealth, including housing as well as financial assets, and by the state of their health and by its relationship to the nature of their usual occupation. There are signs that individuals respond to the magnitude and nature of the incentives which they face, and that their response is likely to differ according to whether they are low income earners in manual jobs, high income earners in professional jobs, or middle income earners. Low earners may wish to retire early but may not have the means to do so: high earners may feel content to continue working for some time, even though they have the means to do so: but middle income earners may have both the means and the incentive to retire early. The issue applies equally to men and to women, but for women has become confused by the generally lower level of labour force participation at all ages and by the

---

3 See OECD 1995a

cohort-based rise in participation rates over the last several decades. Nevertheless, in the United States as elsewhere, the move towards earlier retirement has been substantial and prolonged.

The issue has become an important one because of the expected increase in the proportion of the population of retirement age -- however defined. In the United States the proportion of the population over the age of 60 is expected to rise from 16 per cent in 1990 to 28 per cent in the year 2030. For the OECD area as a whole, the comparable rise is from 18 per cent to nearly 31 per cent. This implies an almost pro rata increase in the cost supporting the dependent population of retirees, even if retirement ages are maintained at the current level. Such concerns apply whatever the source of financing retirement income, whether from public programmes, company schemes or private retirement schemes, or from personal savings. It also applies whether or not the revenue required to maintain this support derives from social security contributions, from tax-based schemes or tax concessions, or from personal savings, and whether or not the contributions involved are those of employers, employees or the state. Earlier retirement means not only a loss of revenue but also increased pension outlays, and so has a double effect. Conversely, an increase in retirement age benefits both the revenue and the expenditure side of the accounts.

As far as public policy is concerned, two comments are in order.

First, it is clear that public policy matters: the differences in the participation rates of older workers, especially across the countries considered here, are more or less what might be expected from the scope and generosity of early retirement provisions. But public programmes are not the full story: much also depends upon personal savings and on company retirement programmes and the way in which they integrate with the public programmes.

Second, it is also clear that in Europe at least, many of the early retirement pathways have been aimed at more than one objective and that attempts to mitigate the already high levels of unemployment have influenced substantially the development of early retirement programmes. Where unemployment is lower than elsewhere, where occupational and company schemes play a large part in the provision of retirement incomes, or where the labour market situation is not explicitly taken into account in establishing early retirement eligibility -- as is largely true of the United States and the United Kingdom -- retirement ages are higher than elsewhere.

Finally it should be noted that flexibility in the retirement process -- although not the average actual age of retirement -- is a social policy objective worth pursuing in its own right. Individuals approach the end of their working lives with a variety of different needs, expectations and capacities. To impose a rigid retirement pattern on those who, because of health, arduous occupation, the downsizing of their firm, or incapacity for retraining do not have the personal means to adjust imposes considerable hardship. Conversely, it deprives the community of the benefits of deferred retirement among those who are not allowed, or find it too costly, to continue working.

The task for public policy is thus both difficult and delicate. It must try to halt, and if possible reverse, the trend towards lower retirement age in order that the forthcoming ageing of population structures should not impose costs on the working population which are perceived as insupportable. Second it must preserve access to flexible retirement ages for those whose with health problems and equally for those who wish to continue working beyond normal retirement age. What it should not do is to confound the problems of high unemployment rates among older workers with those related to retirement. To do this may require some simplification of the programmes and rules: it will certainly require greater transparency.

The following notes draw some implications for the United States from the country experiences described above. They comment on the main pathways of withdrawal from the labour force, comparing in particular the differences between selected countries in Western Europe and those of the United States.

Early retirement.

The normal age retirement for men in Europe is now 65, the same as in the United States, the exceptions being France, where retirement is at 60 for 37.1/2 years of service, and Italy where retirement age is 60. Denmark and Norway have higher retirement ages of 67. Most countries however offer earlier retirement, up to five years before the normal age, on a reduced pension and also an increased pension for deferred retirement. And a number of countries are proposing to increase retirement age in the future, in particular in order to bring the retirement age for women into line with that for men (the United Kingdom). The United States has legislated increases in the normal age in steps to 67 by 2022. Given the large numbers of individuals who retire before the normal age, there is little to suggest that the United States should modify its plans. But there may be a case for increasing both the reduction for early retirement and the bonus for deferred retirement, as an incentive to increase the actual average age. In the United States the reduction amounts to 6.2/3 per cent per year of early retirement, starting from age 62. This compares with 5 per cent in Belgium, 6 per cent in Finland, 5 per cent in France, 8 per cent in Spain and 6 per cent in Sweden. Although in principle these are "actuarially fair" reductions, they do not take into account the full social consequences of large numbers of early retirees, especially in view of future ageing populations, and the reduction rate may need to be increased.

Unemployment related early pensions.

Many countries also offer what are equivalent to early pensions to older workers (usually 60 and over) who are long-term unemployed (i.e., over one year), in particular Denmark, Finland, Germany, Ireland, the Netherlands and the United Kingdom. France offered a similar programme for those made redundant or who voluntarily resigned, but abandoned the programme following the reduction in the retirement age to 60 in 1982. Such programmes were an explicit reaction to the rise in unemployment and recognised the low probability that unemployed older workers would in fact find another job. In general they offer benefits comparable to those of a pension, without any reduction when a pension is finally claimed. The United States does not offer such a programme, largely because it has no comparable programme of unemployment assistance to the long-term unemployed. There is a case that it should do so, mainly on social rather than economic grounds: the long-term unemployed over the age of 60 are unlikely to find work, they constitute a demand for assistance from public funds (unemployment or social assistance in Europe, public welfare in the United States), and they require a bridge between becoming unemployed and receipt of a pension at the age of 65. However the benefit should be means tested and no earnings should be allowed.

Disability.

All European countries provide a disability benefit, sometimes in relation to those who are unable to work in their particular occupation, sometimes in relation to those who are unable to work in a job of any kind. The benefit is also graduated according to the degree of disability, which entitles the recipient to a partial benefit. A feature of a number of European schemes is the extent to which labour market conditions are taken into account in determining disability: especially in the Netherlands and in Germany this is the case and it has led to rapid growth in the number of disability pensioners, many of whom might strictly be better classified as unemployed. Since benefits payable under a disability pension are usually higher than those paid under unemployment assistance, there is an incentive for the unemployed to be classified as disabled rather than unemployed. In the United States Disability Insurance has had a chequered history and appears to have led to some reduction of labour supply by older workers: but the magnitude of this effect appears to be uncertain, and in any case is much less than European countries which take labour market conditions into account and for whom disability is now a major pathway for exit from the labour force. The incidence of disability pensions among older workers in the United States is much lower than elsewhere:

Invalidity benefits among older men in 1990
(as percentage of population in each age group

Country	Aged 55 to 59	Aged 60 to 64
Belgium	9.5	11.7
Denmark	11.2	19.5
Finland	26.2	35.2
Germany	14.1	21.7
Italy	8.7	14.9
Netherlands	25.8	29.1
Norway	29.2	50.5
Sweden	16.0	34.3
United Kingdom	11.8	19.1
United States	7.4	10.7

Source: OECD 1995

If there is a lesson to be drawn from these figures, it is that labour market prospects should not be taken into account in determining disability: if they are, unemployment and disability will become confused and disability will become a major pathway for exit from the labour force. On the other hand, an earnings test should be applied (it would be ridiculous to pay a disability pension to someone who was working) but, conversely, receipt of a disability pension should include contributions to social security so that the eventual pension is not compromised.

Enterprise and occupational pensions.

The coverage of occupational or company pension schemes varies across both European countries and the United States: in some countries, such as France, they are mandatory; other countries such as the United Kingdom rely on extensive private sector arrangements which nevertheless leaves a substantial proportion of the workforce uncovered. Such schemes usually allow for early retirement on a reduced pension and the figures for the United Kingdom quoted above suggest that many early retirees are also receive a company pension. They frequently also provide for invalidity pensions, often parallel to those provided by the state (although this is less frequent in the United States and is often associated with separate invalidity insurance). They may also be associated with redundancy agreements negotiated between the social partners. The existence of such schemes clearly alters the incentive towards early retirement.

Partial early retirement.

Norway, Finland and Sweden operate partial pension systems which supplement the incomes of older workers reducing their activity from full- to part-time work. The pension payable represents a relatively high proportion of lost earnings, especially on a net basis after tax is taken into account. However only in Sweden has the scheme attracted significant numbers of older workers, and Sweden is a country with a high proportion of part-time workers at all ages. There are significant difficulties in the administration of such schemes, especially those of ensuring that beneficiaries have in fact reduced their hours of work.

In 1973, Norway became the first country to introduce a pension designed to allow partial retirement. However, the partial pension is payable only after the normal retirement age of 67 and thus affects relatively few workers. Sweden has 20 years' experience with partial employment programs, and has done the most of any country to encourage partial retirement. Swedish workers can combine part-time work with a part-time pension, facilitating gradual withdrawal from the labour force, and that is commonly done by workers aged 60 to 65. Partial retirement is available both for employees and the self-employed. Partial retirement benefits are available to older workers who have reduced their working hours. Workers have considerable flexibility in how they reduce their hours. They can, for example, work part-time every day, or full-time every second day, week or month. Partial retirement can be taken three ways:

(a) Between ages 60 and 65, a partial early old age pension may be received that combines part-time work with a partial pension. Between 1960 and 1993 the only alternative to full retirement was a half pension. Since July 1993, it has been possible to also draw a one-quarter or three-quarters pension. An early partial pension causes the full pension to be reduced when it is received at full retirement but continuing part-time work up to age 70 increases the pension.

(b) A disability pension can be combined with work. Between 1970 and 1993, three forms of disability pension were available: a full pension, and for those with some ability to work a two-thirds or one-half pension. Starting in 1993, a one-fourth and three-fourths pension were also available but the two-thirds pension was no longer offered.

(c) Since 1976, a partial pension has been available to workers aged 60 to 65 with a replacement rate of 65 percent. Work had to be reduced by at least 5 hours per week but not below 17 hours a week. Between 1981 and 1987, to control costs, the replacement rate was cut to 50 percent and there was a sharp drop in the number of people applying for a partial pension. Between 1987 and 1994, the replacement rate for lost income was raised back to 65 percent and the number of partial pensioners increased. In 1995, the replacement rate was lowered to 55 percent and the maximum reduction compensated for was reduced to 10 hours. The starting age for a partial pension was raised to 61. The partial pension program is funded by a wage tax levied on employers, currently at a rate of 0.5 percent.

Data for Sweden indicate that the number of workers taking the partial pension option has been higher during periods when the replacement rate was higher and when the unemployment rate was higher. A reduction of hours from 40 to 20 had been the most commonly chosen form of partial retirement, allowing employers to hire two workers to fill one job. Under the new rules, only a reduction of 10 hours will be compensated.

In many countries, labour force participation of older workers is restricted by labour agreements. In Sweden, labour agreements block Swedes from continuing to work past age 65 in union-organized occupations. In Sweden it is legal to set mandatory retirement at age 67, but this restriction on partial retirement may have little effect because of the effect of labour agreements at 65. The new Swedish social security system, scheduled to take effect in the year 2001, allows for partial retirement. If individuals choose partial retirement, their additional earnings and contributions will increase their future benefits. As well as in Norway and Sweden, partial pensions are available in the other Nordic countries of Denmark and Finland. Employers have no obligation in any of these countries to provide a part-time job to employees requesting it.

The 1992 Pension Reform Act in Germany makes it possible for workers to take partial pensions. Partial pensions can be claimed by women age 60 and for most men age 63. After age 65 for men and 62 for women there is no earnings limit for receipt of pension benefits so there is no reason to take a partial pension. The number of people who participated in this program is limited, and in 1996, new rules designed to make the system more flexible were introduced. The reduction of working time does not have to be on a weekly or a monthly basis; the part-time employment condition may be spread over several years. In other words, working full time for two years and not working at all for two years is allowed in this system. Partial pensions may now be claimed by workers age at least 55.

Netherlands. Partial pensions provided by employers are allowed by law for workers aged 55 to 70. Since 1994, part-time workers can no longer be excluded from pension coverage provided by an employer.

Belgium. A system of career breaks was introduced in Belgium in 1985 that allows for a form of partial retirement (OECD 1995a). Employees working at least three-quarters time may with the employer's agreement interrupt their working career or reduce their hours by up to half up to retirement age provided they are replaced by an unemployed person. In exchange, applicants for career breaks receive a guaranteed income. Workers over 50 can qualify for a partial career break up to retirement age. Replacement income is payable for only one such partial career break. The replacement income is set at a fixed amount, but that amount is twice the level for workers 50 and over than it is for younger workers. Belgium also has an earnings test for receipt of social security benefits. If a worker's earnings exceed a minimum, his or her social security benefit will be reduced by a third. If earnings exceed twice the minimum, the social security benefit is not paid.

France. France has two schemes of gradual retirement. The gradual early retirement scheme enables workers aged 55 and older to work half-time. In exchange for giving older workers half-time or 40 percent work, the contracting employer must agree to hire an unemployed person at least on a part-time basis. The wage replacement rate is 30 percent of the salary forfeited. The state assumes the full cost. In addition, employers are allowed a 50 percent reduction of social security contributions for each unemployed person hired in a part-time job. Today, partial retirement account for 50 percent of people taking early retirement. The second scheme, which was enacted in 1988, permits workers to claim part of their regular retirement pension provided they are at least 60, had contributed at least 37.5 years, and had worked in a single occupation. The fraction of the pension received is 30, 50, or 70 percent depending on the amount of reduction in work. In France at the end of 1995, 50,000 workers were on partial retirement.

United States. The US social security system allows partial retirement with full benefits for workers earning below a fixed ceiling. The earnings ceiling is fairly generous, and is indexed to wage growth. The earnings ceiling is $8,600 per year in 1997 for those age 62 to 65. While this level allows substantial part-time work for low wage workers, it does not permit full-time work. There is also an earnings test for people age 65 to 69, but the conditions are more liberal. The ceiling is higher and it scheduled to increase by much more than wage growth, from $13,500 in 1997 to $30,000 in 2002. Moreover, pension is reduced$1 for $3 of earnings, compared to $1 for $2 of earnings between 62 and 65.

* * * * * * *

The principle conclusions of these brief, and rather cursory, notes are the following:

1. The generous nature of the early retirement provisions in Europe, together with the relatively easy access to them from the age of 55 onward, have undoubtedly contributed substantially to lower participation rates for older workers in Europe than in the United States.

2. Much of the driving force behind these provisions has been the high and increasing level of unemployment, especially for older workers. In some cases specific schemes have been introduced to wean the long-term unemployed on to the pension register. In other cases, specific early retirement schemes have been developed with a similar objective. And in some cases invalidity pensions have been awarded on grounds more to do with the labour market than with physical or mental disability. These concerns have not influenced policy in the United States, or much less so.

3. Pensions from public schemes make up a much larger proportion of retirees income in Europe than is the case in the United States, where private pensions from companies form a larger proportion. This raises a question of coordination between public and private providers, and the implicit and explicit practices and agreements developed between the social partners. In some European countries, occupational schemes have reinforced public provisions, in others not. Where they have not done so, for example in the United Kingdom, participation rates for older workers tend to be higher.

4. The rate at which pensions are reduced for each year of early retirement and increased for each year of deferred retirement may need to be reviewed. The current rates -- 6.7 per cent per year of early retirement, 4 per cent per year of deferred retirement -- may not reflect the full social costs nor be sufficient to induce an upward shift in the average actual age retirement.

5. There is probably little justification for retaining the earnings rule, except as it applies to invalidity benefits in the United States or to both invalidity and unemployment pensions in Europe: it does not apply to company pensions anyway and represents a disincentive to work.

6. The main weakness of the United States position is the absence of a developed system of assistance to the long-term unemployed, especially older workers. One the one hand this means that the transition from long-term unemployment to pension status is not a problem: on the other hand, many older workers who are long-term unemployed in the United States must face considerable hardship.

READING

OECD 1995a *The labour market and older workers*. Paris. OECD

OECD 1995b *The transition from work to retirement*. Paris. OECD

Delsen, L. and Reday-Mulvey, G. (eds) 1996. *Gradual retirement in the OECD countries*. Alderhsot. Dartmouth.

Kohli, M., Rein, M. Guillemard, A-M and van Gunsteren, H. 1991. *Time for retirement*. Cambridge. Cambridge Univeristy Press.

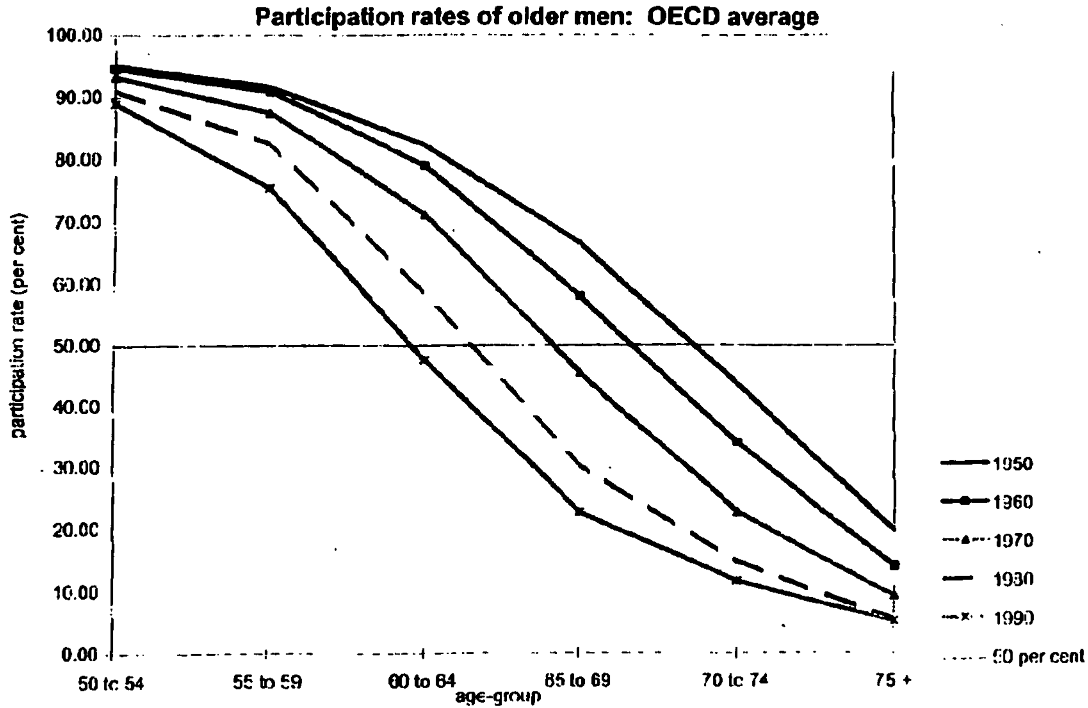
Aaron, H. and Burtless, G. (eds) 1984 *Retirement and economic behaviour*. Washington. Brookings.

Atkinson, A. and Rein, M. 1993. *Age, work and social security*. New York. St Martins Press.

Quinn, J., Burkauser, R. and Myers, D. 1990. *Passing the torch: the influence of economic incentives*. Kalamazoo. W:E: Upjohn

OECD Average

Chart 1



Source: OECD

Chart 2

Selected OECD countries in 1990

Participation rates of men: average 55 to 64

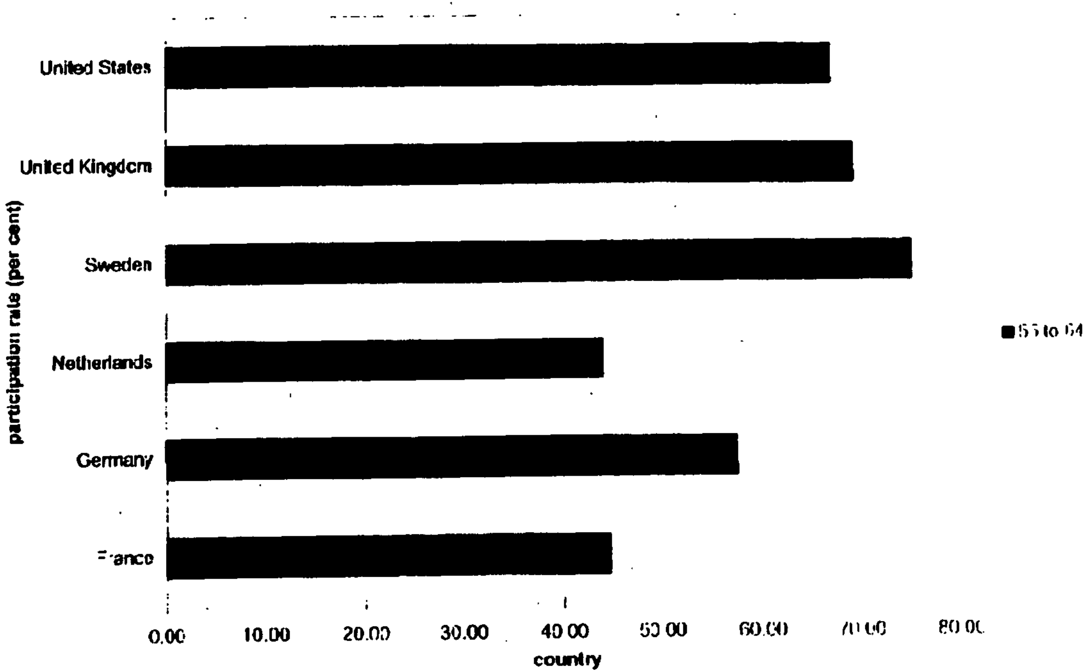
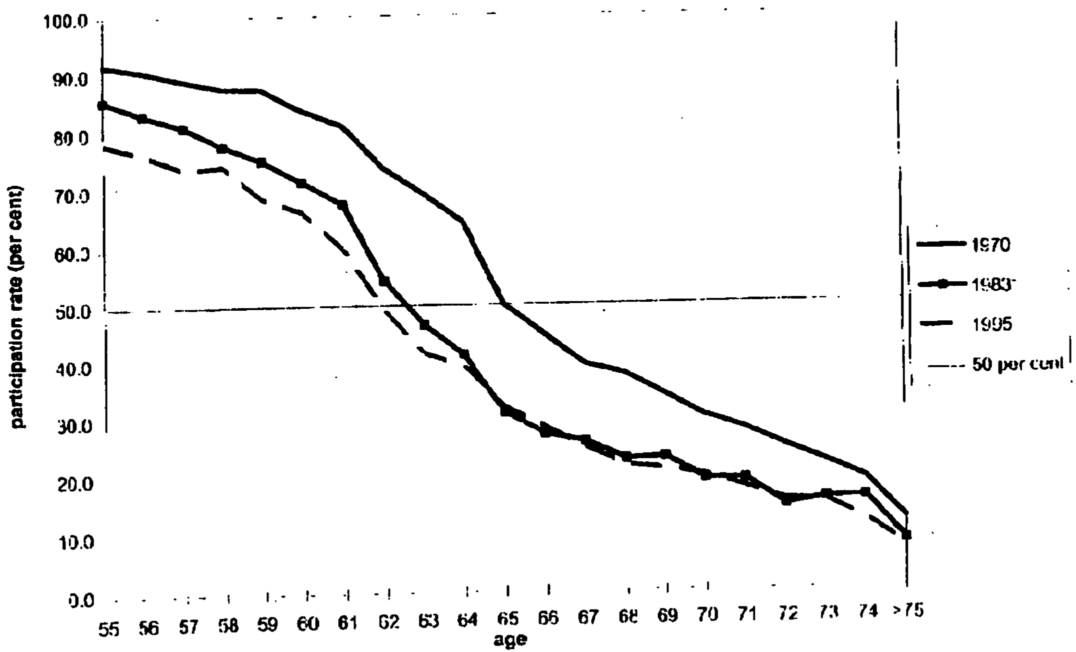


Chart 3

UNITED STATES: 1970 to 1995

Participation rates of older men



Source: US Bureau of Labour Statistics

Chart 4

Selected countries

Participation rates of men 55 and over

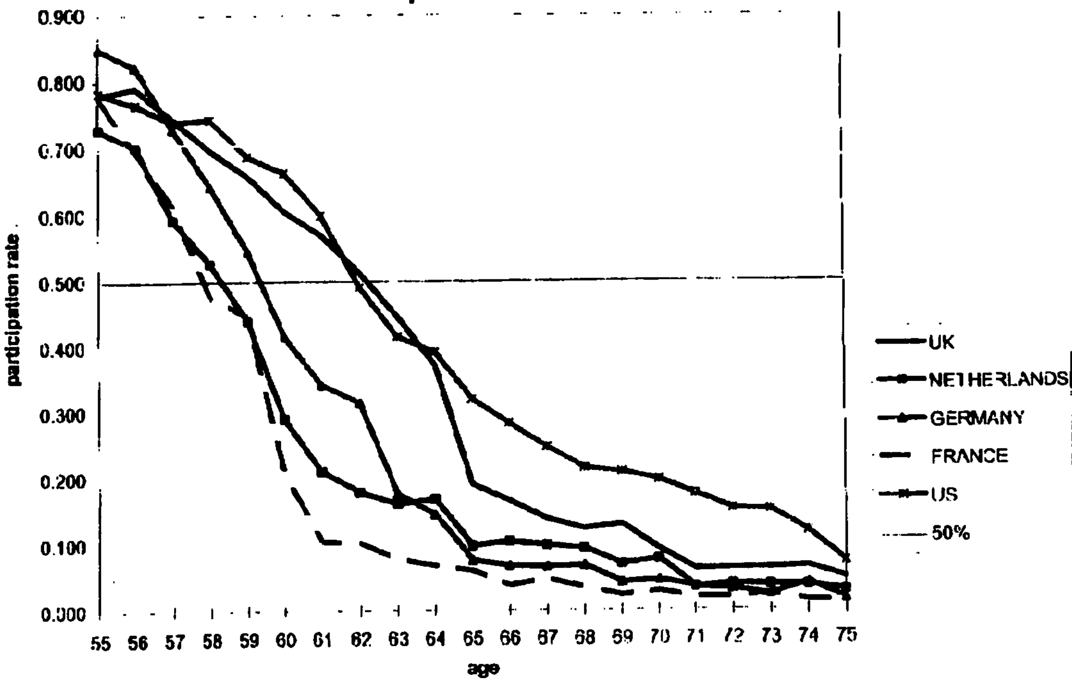
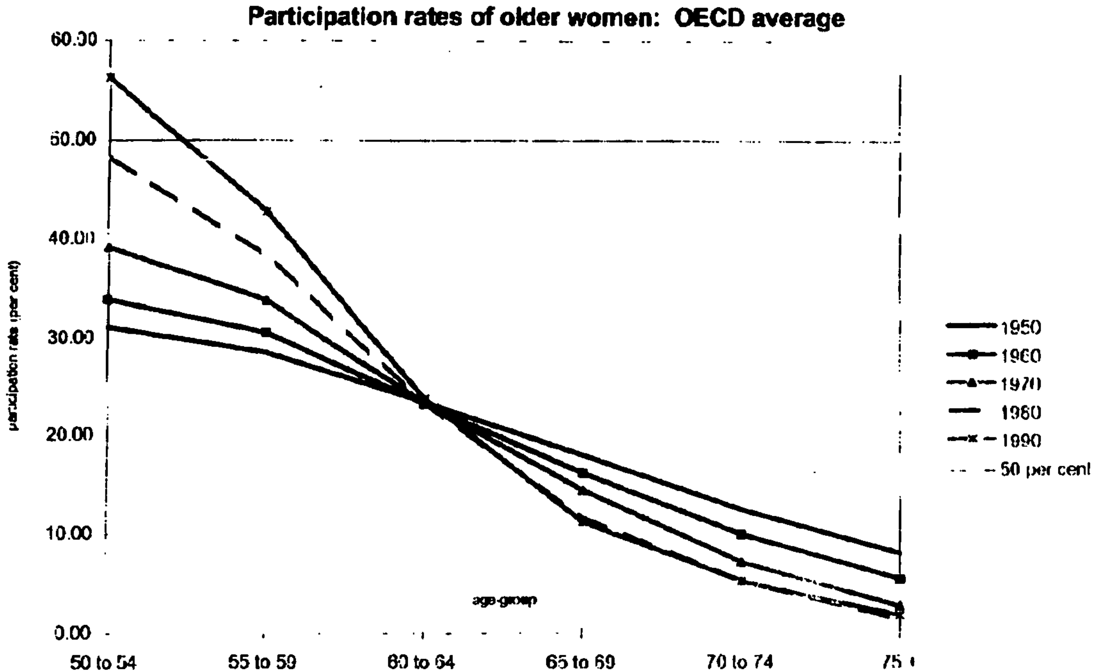


Chart 5

OECD Average

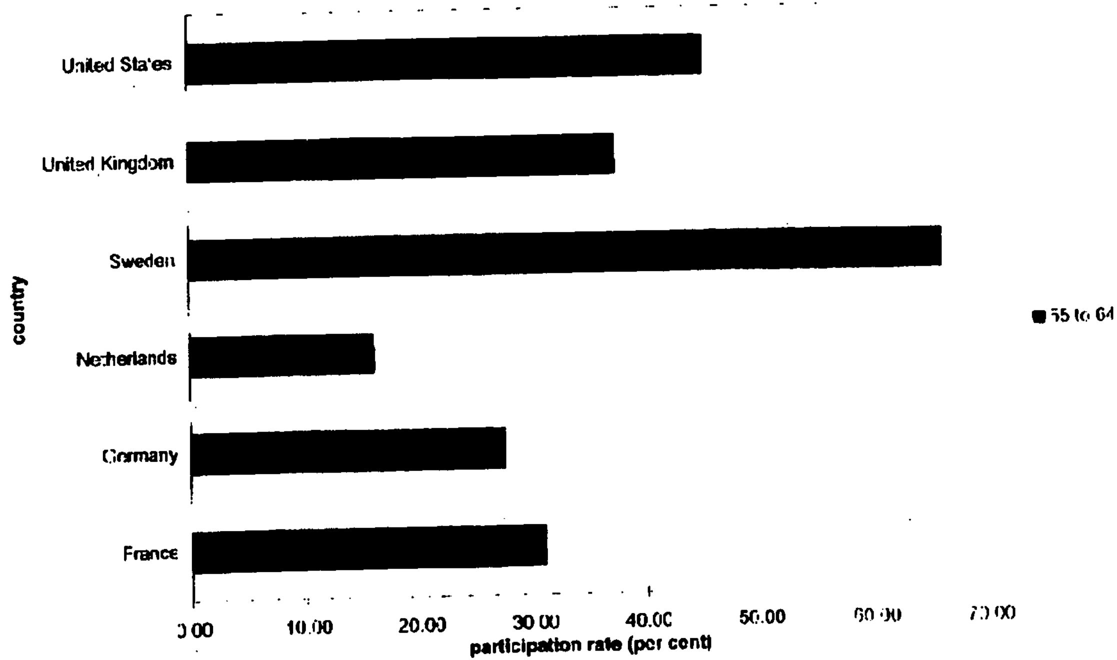


Source: OECD

Chart 6

Selected OECD countries in 1990

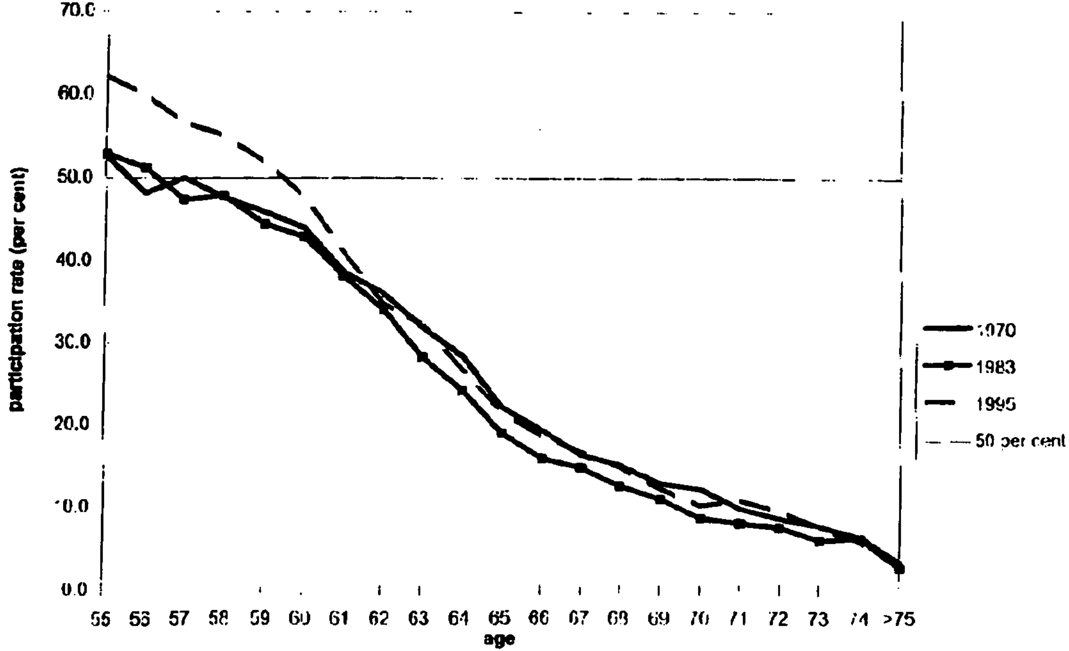
Participation rates of women: average 55 to 64



Source: OECD

UNITED STATES: 1970 to 1995

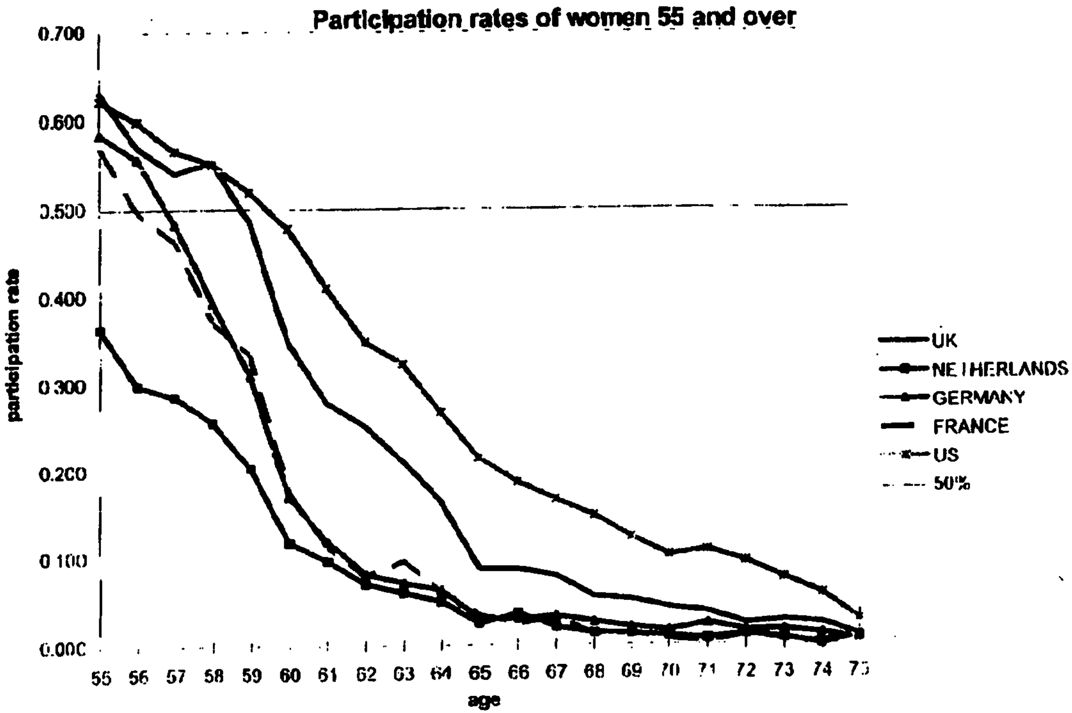
Participation rates of older women



Source: US Bureau of Labour Statistics

Chart 8

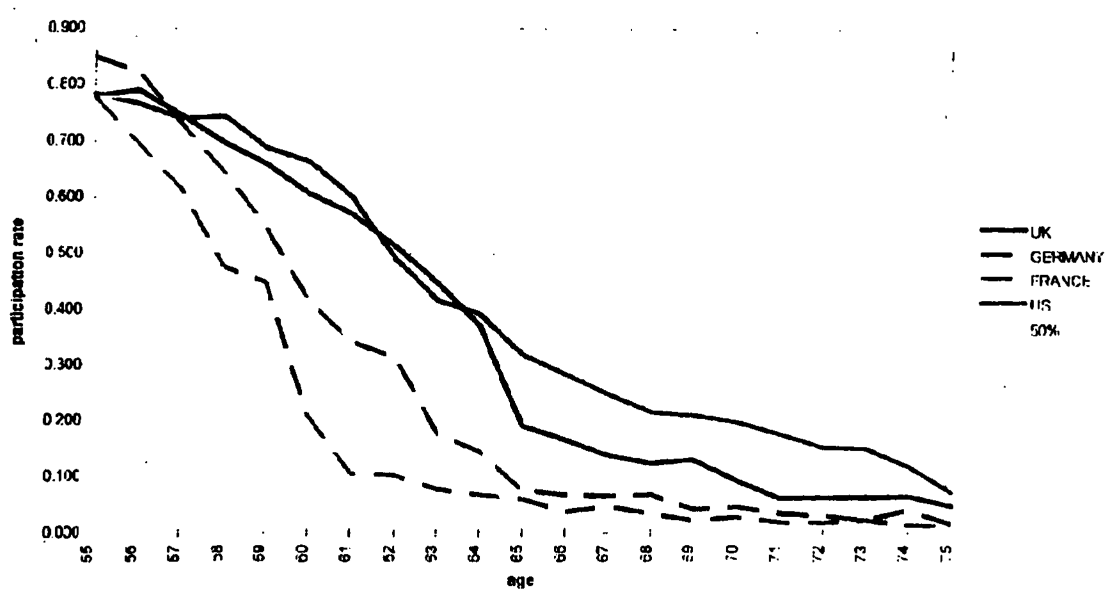
Selected countries

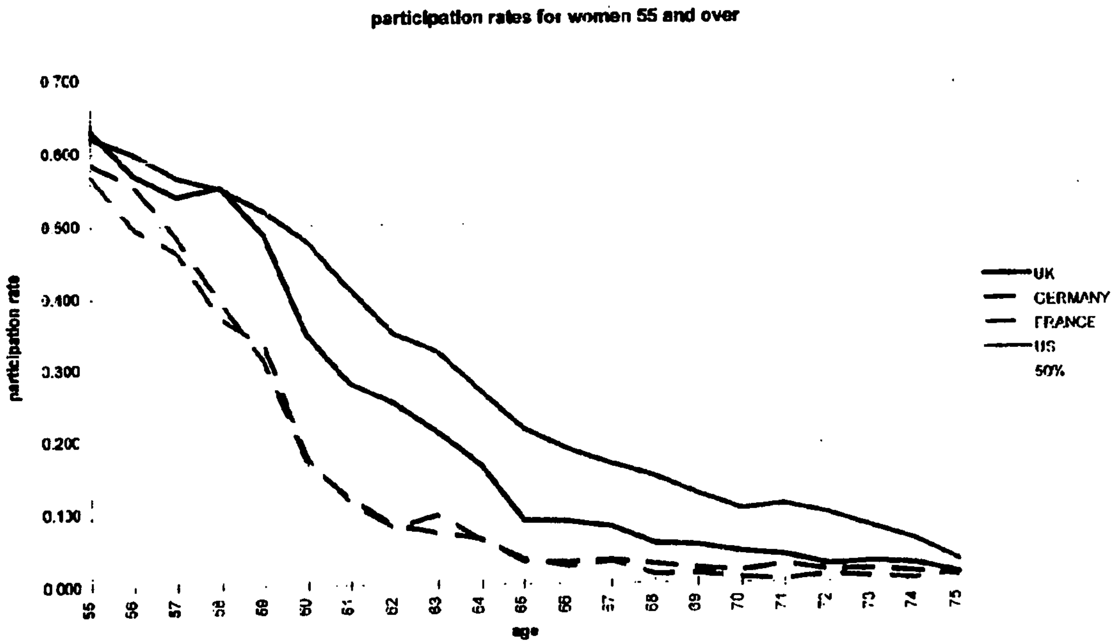


Selected countries

Chart 9

participation rates for men 55 and over




participation rates for women 55 and over
0.700
0.600
0.500
0.400
0.300
0.200
0.100
0.000
participation rate
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70
71
72
73
74
75
age
UK
GERMANY
FRANCE
US
50%

Mr. SALISBURY. Thank you, Colin.

Our last panelist is Dr. Bass, who will talk to us related to the degree to which provisions of current law have or have not appeared to be the reason that individuals are not working longer.

OPENING STATEMENT OF DR. SCOTT BASS

Dr. BASS. Let me begin by saying to John, I did not know about my good friend Hal Sheppard. He was a very kind man and I am very sad at his loss. I think one of the things that he would have said, in terms of this examination of policy, is in America essentially we inherited a retirement age of 65 that dates back to Otto Von Bismark in Germany at the turn of the century.

We have developed employment and incentives for early retirement with the concept that the goal would be to free up positions for younger workers, so to move older people out of the work force, which was really inherited from a Depression-era economy that looked at the need to free up positions.

But in today's economy the world is very different. We have smaller numbers of younger people coming up through the work force. We have an extension of life beyond our recognition, and we have a change in the nature of labor itself. As opposed to being industrial, we have moved into more of a service economy.

So the question, Hal would say, does this policy which has encouraged people to leave work at earlier ages, whether these incentives are explicit or implicit in our employment system, does that make sense for the modern economy? I think that what you are hearing is that we need to really question the overall framework from which we derive our policies and programs, both at the Federal Government level as well as State government.

What I will be talking about here are specific policies that have evolved from much of the work that a number of my colleagues and I have worked on for the last, I don't know, maybe 15 years now.

The first is that I think what we would need to do in terms of developing policy is to talk about what are the goals that we seek for setting policy at the national level. The first, I think, is that we would be interested in moving to at least a neutral work policy if not a pro-work policy; that we would want to move from disincentives to work to those that are positively oriented. If we set that as a goal, then we need to look at steps to achieve that goal.

The second is the notion of American competitiveness. One of the things that one is struck in Japan with is that much of the aging policy is driven from an economic point of view. The nation becomes more vulnerable as its population shifts. In Japan the concept is that they need a competitive older, well-trained work force because the population is aging, and if they don't invest in that changing work force, the nation will not be able to compete in the global economy. We haven't had that dialogue in America.

Third is age barriers. The notion of a neutral territory for all workers regardless of age is unfortunately not the case; that it takes longer for an older worker to get a job; and that we would want to set policy that seeks to remove those barriers.

Another issue that has been raised is cost competitiveness; that older workers, particularly in the area of health benefits, may have disadvantages in terms of costs, but the goal of policy would try and blend that and smooth that out some.

Fifth is to try and promote work arrangements that encourage these flexible and more part-time arrangements that older workers have indicated that they desire. Currently we primarily behave like a light switch. You work, or you are retired. This notion of some flexibility for older workers, more people would be interested in participation.

Then we have what we call employee development, which is that we need to invest in those workers so that they are trained, they are up with the latest technologies, that they are able to compete and do high-caliber work as they get older in their jobs.

Finally the notion of a career ladder. We don't have the equivalent of "What color is my parachute when I reach age 65?" We have that for younger people. We have not yet thought about what are the options, with another 20 or 25 years of life, what are the options one needs to consider? What are the career steps, the kinds of counseling, the kinds of part-time, the kinds of new industries that need to be created?

Now we can argue and debate about policy goals, but the point is, we need to establish policy goals that relate to the data that is being presented. Then we need to talk about what are our policy tools that we have to implement those goals. There is a wide range, really a wide range of tools we have available, and I don't want to present an exhaustive list. I want to present a list that gets you thinking about possibilities of tools.

Some of the tools that exist are obviously taxation, whether it be individual or corporate. We have Federal policy, which we have talked some about Social Security, Medicare, the Employee Retirement Income Security Act, ERISA. We have an earned income tax credit.

Within government, Federal Government in particular, it is a large employer, what are the policies we have to encourage or discourage early retirement? We have Federal regulations, such as the Age Discrimination in Employment Act which was mentioned here. We have the Americans With Disability Act, and we have pension policy, all under our authority and control.

We have within Federal programs many programs that affect older workers. Certainly the Older Americans Act, Title III, which deals with planning at the local level, that would be developing the Area Agency Plan which could deal with issues of work and training; Title IV, which was—it is under reauthorization—Title IV was the research and demonstration area which could support new initiatives. Title V is the older worker program, the Senior Community Service Employment Program.

We have JTPA which has Title III(a), which is a 3 percent set-aside for older workers. We have the Wagner-Pyser Act, Green Thumb, the Conservation Employment Program. We have many stipend volunteer programs which provide an hourly wage to older workers. Department of Education policy; Department of Labor; Small Business Administration; and the Corporation for National Service.

There is a wide array of tools that we can use. The question is then putting those tools together in some kind of matrix, and what

I would propose—there are more tools. There are Federal initiatives we can do, and support for State planning.

The question is then putting those policy tools together with identified goals. What the planning task would be is to identify for every one of our policy goals where that intersects with our tools. In other words, for a pro-work policy, what are our taxation strategies that we would do to achieve that? For American competitiveness, what would we do with taxation to achieve that? You would really find there are many, many things we can do, and going back to Rich Burkhauser's statement, if you make these changes, there is interest in the work place.

What I have done, in the materials I have given you, is to take one sector across the board in terms of some of the policy tools. If we want to do a pro-work policy, what are the kinds of things that we would do across the range of sectors that are out there and the range of policy tools we have to encourage a pro-work policy.

Rather than going into each possibility, what I would like to simply close with is 10 specific policies—these are in your handouts—that are derived from work that Joe Quinn, Rich Burkhauser and I did in a book that involved Mike Barth, called "Older and Active," and that was based on some work supported by The Commonwealth Fund.

The 10 pro-work policies that I would like to put out there are:

One, provide tax credits to employers who hire and train workers age 62 and beyond. Such a policy exists in Japan.

Provide tax credits to individuals 60 and older who are not being reimbursed for their training programs.

Third, would be to amend ERISA to allow pro-rated fringe benefits for part-time employees.

To make Medicare, rather than employment-based health insurance, the primary health care coverage for workers 65 and older. This would make an incentive to employers.

Eliminate the qualifying child requirement for the earned income tax credit.

Establish a Federal mandate that all employer pensions must be age-neutral.

Permit workers age 65 and older to opt out of additional Social Security contributions.

Provide sufficient support to the EEOC so that ADEA complaints can be filed and handled in a timely manner.

To develop part-time demonstration programs for new initiatives, such as the Silver Human Resource Center which exists in Japan, which provides a transitional opportunity for work after retirement that is paid.

Finally, under the Older Americans Act to provide grants to States to plan and develop, in collaboration with businesses and colleges—again, some of the work Mike Barth and I had done—for local older worker initiatives.

Thank you.

[The prepared statement of Dr. Scott Bass follows:]

CREATING PRO-WORK POLICIES AND PROGRAMS FOR A GRAYING AMERICA

United States Senate Subcommittee on Aging

Workshop on Older Americans

July 25, 1997

Scott A. Bass, Ph.D.
Dean of the Graduate School and
Vice Provost for Research
University of Maryland, Baltimore County
1000 Hilltop Circle
Baltimore, MD 21250
Telephone: (410) 455-2199
Fax: (410) 455-1092
E-mail: Bass@umbc.edu

TEN SELECTED PRO-WORK POLICIES[1]

TAXATION

1. Use direct tax credits to encourage employers to hire and train older workers; for example, a tax reduction equal to a certain percentage of the wages paid to workers aged 65 and over, perhaps with a maximum dollar limit per worker. In Europe, similar mechanisms are used to encourage the employment of workers with handicaps. The same tool could be used in the United States, but applied to workers over a certain age.

2. For cases in which employers do not offer training opportunities, offer workers over a certain age a partial personal tax credit for work-related educational expenses, up to a dollar limit.

FEDERAL POLICY

3. Amend the Employee Retirement Income Security Act (ERISA) to allow prorated fringe benefits (for example, a prorated subsidy on medical insurance) for part-time employees, depending on how many hours they work. Current ERISA legislation requires employers to offer to part-timers who work 1,000 or more hours per year the same full pension coverage and other fringe benefits that full-time workers enjoy. This increases the cost of hiring part-time workers, since the per-hour cost of fixed fringe benefits like medical insurance is higher the fewer hours worked. This also encourages firms to restrict the hours of part-timers to less than the statutory minimum. A change here would allow employers and employees to agree to more flexible work contracts to the benefit of both.

4. Reverse Medicare policy to make Medicare, rather than employment-based health insurance, the primary source of health care coverage for workers

---

[1] Amended from Bass, S., Quinn, J., and Burkhauser, R. (1995). Toward Pro-Work Policies and Programs, in S. Bass (Ed.) Older and Active. New Haven: Yale University Press, pp. 263-294.

aged 65 and over. This would encourage the employment of older workers by, in essence, subsidizing their compensation. Health costs are a significant concern to employers, especially for older workers. In the 1980s, Medicare eligibility rules were changed to make Medicare secondary to benefits provided by the employer's insurance, which must meet its obligations before Medicare steps in. This applies to workers aged 65-69 (since 1982), spouses of workers aged 65-70 (1984), and individuals with disabilities covered by firms with at least 100 workers (1986) (U.S. Social Security Administration, 1991, pp.56-57). These changes reduced Medicare expenses, but raised a major barrier to the employment of older workers. Reversing the original policy would remove this barrier.

5. Eliminate the qualifying-child requirement for the Earned Income Tax Credit. This would make some low-income older workers eligible for this credit, and, to the extent that the employer received some of the tax relief, would make the elderly more attractive candidates for employment. The Earned Income Tax Credit is a mechanism that subsidizes the wages of workers with children in low-income households. In 1993, the wage supplement was about 19 percent of the first $7,760 in earnings-- a maximum of about $1,500. It phases out slowly as adjusted gross income increases from about$12,000 to $23,000 (U.S. House, 1992, pp. 1013-15). Many older workers have earnings and incomes that would make them eligible, but do not have the dependent child needed to qualify.

6. The most important potential policy change would be a federal mandate that employer pensions must be age-neutral--- that is, must not have financial penalties for those who work beyond a particular age. Given the importance of defined-benefit pension incentives on those who are covered, this might have a significant impact on work in later life--- much larger, for those covered, than the Social Security changes in progress.

Such a proposal, however, should be treated with caution, with the benefits compared carefully to the costs, as advantages in the present system may be lost. Edward Lazear (1979, 1990), for example, has argued that an agreed-upon retirement date permits lifetime compensation schemes (underpayment early in one's career and overpayment later) that reduce turnover costs, and thereby raise workers' lifetime compensation. Others have argued that mandates in one part of the compensation package are offset by changes in another, leaving workers no better off, or worse off, if they preferred the previous allocation (Andrews, 1993; Mitchell, 1990). If the mandates do raise costs to the firm, one possible outcome is a reduction in employment.

Another possibility is that legislation mandating age-neutrality would lower the attractiveness to employers of providing pensions and result in a further decline in coverage. Finally, what might be appropriate in some industries or regions may be inappropriate in others, and one should be wary of excessive government intervention into voluntary private contracts. These arrangements have arisen for a reason, and one should proceed with caution in overriding them.

7. Permit workers aged 65 and over to opt out of additional Social Security contributions and average monthly earnings recalculations. Currently, older workers and their employers continue to contribute into the Social Security system. Each pays 7.65 percent of the first $57,600 (1993) and 1.45 percent (the health insurance component) on all earnings above that. To encourage part-time work, one could exempt a certain amount of earnings (perhaps the first $10,000) from Social Security contributions for those over a particular age.

FEDERAL REGULATIONS

8. The Equal Employment Opportunity Commission has the responsibility for investigating allegations of employment discrimination due to age. The 1967 Age Discrimination in Employment Act (ADEA) flowed out of the civil rights legislation of the 1960s, and was patterned after the Equal Pay Act of 1963 and the Civil Rights Act of 1964. The central section of ADEA (Section 4) follows the language of Title VII of the Civil Rights Act in prohibiting employers from refusing to hire, discharge, otherwise discriminate against any individual because of age. Those aged 40 and

over are now covered by the Act.

Currently the EEOC has a long backlog of allegations filed under the ADEA. An increase would staff to process and review these allegations would provide for a more timely review of cases, serving to strengthen enforcement and compliance with the Act.

FEDERAL INITIATIVES

9. Establish new demonstration programs that broker part-time temporary jobs (like Japan's Silver Human Resources Centers) for older retirees.

10. States should be encouraged to develop a comprehensive plan to coordinate training and employment of older people. Several states have undertaken such efforts and others should as well. The plan could examine issues such as partial-service retirement options to provide greater flexibility for civil-service workers; coordination among education, labor, business, and aging programs; tuition-waiver programs for students over 60 years old pursuing career-related studies; and the establishment and maintenance of state-funded stipend-volunteer programs.

POLICIES TO PROMOTE WORK OPTIONS FOR OLDER AMERICANS

POLICY GOALS:

1. PRO-WORK POLICY
   - Ensure that a pro-work policy is in effect in current policies and regulations.

2. AMERICAN COMPETITIVENESS
   - Develop local strategies to retain American competitiveness in an aging society.

3. AGE BARRIERS
   - Reduce barriers for all older workers, particularly for those who must work for economic reasons.

4. COST COMPETITIVENESS
   - Seek to make older workers cost competitive.

5. WORK ARRANGEMENTS
   - Encourage the development of part-time employment, phased retirement and flexible work arrangements.

6. EMPLOYEE DEVELOPMENT
   - Assist older workers to remain on the cutting edge of their fields.

7. CAREER LADDERS
   - Develop a career ladder for those beyond traditional retirement ages.

1. Taxation

- individual
- corporate

2. Federal Policy

- Social Security
- Medicare
- Employee Retirement Income Security Act
- Earned Income Tax Credit
- Review of Early Retirement Incentive Programs in Government

3. Federal Regulations

- Age Discrimination in Employment Act
- Americans with Disability Act
- Pension Policy

  - Senior Companion Program
  - Foster Grandparent Program
  - Service Corps of Retired Executives (SBA)

- Department of Education
- Department of Labor
- Small Business Administration
- The Corporation for National Service

Age Discrimination in Empl

OLDER WORKER POLICY MATRIX

RANGE OF TOOLS AVAILABLE

	1. TAXATION		2. FEDERAL POLICY				
	Individual	Corporate	Social Security	Medicare	Retirement Income Security Act	Earned Income Tax Credit	Early Retireme Incentive Progra in Governmen
POLICY GOALS:							
PRO-WORK POLICY							
AMERICAN COMPETITIVENESS							
AGE BARRIERS							
COST COMPETITIVENESS							
WORK ARRANGEMENTS							
EMPLOYEE DEVELOPMENT							
CAREER LADDERS							

OLDER WORKER POLICY MATRIX

	1. TAXATION		2. FEDERAL POLICY				
	Individual	Corporate	Social Security	Medicare	Employee Retirement Income Security Act	Earned Income Tax Credit	Early Retirement Incentive Programs in Government
POLICY GOALS:							
PRO-WORK POLICY	Provide tax credits for 60+ who are not reimbursed for career training programs.	Provide tax credits to employers who hire and train workers age 62 and beyond. Provide tax credits to employers whose workforce exceeds 15% age 65 and older.	Permit workers 65+ to opt out of additional social security contributions.	Make Medicare the primary health care coverage health care coverage for workers 65+.	Amend to allow pro-rated fringe benefits for part-time employees.	Eliminate qualifying-child requirement.	Review and reconsider early retirement incentive programs.

OLDER WORKER POLICY MATRIX

	3. FEDERAL REGULATIONS		
	Age Discrimination in Employment Act	Americans with Disability Act	Pension Policy
POLICY GOALS:			
PRO-WORK POLICY	Increase processing and enforcement capability.	Provide tax assistance for accomodation of work environments for older workers.	Establish a federal mandate that all employer pensions must be age-neutral.

OLDER WORKER POLICY MATRIX

	4. FEDERAL PROGRAMS						
	Older Americans Act			Wagner-Pyser Act	Job Training Partnership Act	Green Thumb Pgm. (DOL)	Conservation Employment Pgm. (U.S. Forest Svc.)
	Title III	Title IV	Title V				
POLICY GOALS:							
PRO-WORK POLICY	Coordination of older worker training & employment with Area Agency on Aging 3-year plan.	New R&D initiatives concerning older workers. For example, a U.S. variation of Japan's Silver Human Resource Center.	Expand income eligibility.	States: Provide a partial service retirement option. Jobs service staff can provide: career counseling and job referrals targeted to older workers.	Local: Coordinate with OAA Title V. Provide for increased part-time work options.	Expand funding and slots.	Expand funding and slots.

OLDER WORKER POLICY MATRIX

	4. FEDERAL PROGRAMS, cont'd.							
	Stipend-Volunteer Programs: Retd. Sr. Volunteer	Sr. Companion	Foster Grandparent	S.C.O.R.E Retd. Execs.	Department of Education	Department of Labor	Small Business Administration	Corporation for National Service
POLICY GOALS:								
PRO-WORK POLICY	Expand funding and slots.	Expand funding, slots, and income eligibility	Expand funding, slots, and income eligibility.	Expand funding to target elder initiated companies.	Provide grants to community colleges and universities that link employers and training of older workers.	Provide a forum for policies related to the Aging American workforce in a globally-competitive economy.	Develop an initiative which targets loans for new enterprises established by entrepreneurs age 55+.	Encourage applications for National Service Corps programs involving adults age 60+.

OLDER WORKER POLICY MATRIX

	5. FEDERAL INITIATIVES AND DIRECTION			
	Commissions	Funded Research & Program Demonstrations	Awards	Conferences, Publications, Videos & Funded Speaker Series
POLICY GOALS:				
PRO-WORK POLICY	- Create American competitiveness in an Aging Society - Blue Ribbon Commission. - Study implications of an expanding contingent workforce on pensions and income security.	Establish State block grants to support older worker initiatives regardless of income or previous work history.	Present annual awards to companies which have demonstrated exemplary efforts in hiring, promoting, or retaining older workers.	Establish and fund educational materials on the aging society and the need for America to remain competitive. Highlight successful or promising programs.

OLDER WORKER POLICY MATRIX

	6. SUPPORT FOR STATE POLICY AND PLANNING		
	State Planning	Incentives for Career Retraining Programs	Review of Early Retirement Programs
POLICY GOALS:			
PRO-WORK POLICY	Encourage states to develop strategic plans involving a pro-work agenda for older Americans.	Provide block grants to states to encourage career retraining initiatives by colleges and corporations.	Encourage states to review current state initiated early retirement programs.

TEN SELECTED PRO-WORK POLICIES[1]

TAXATION

1. PROVIDE TAX CREDITS TO EMPLOYERS WHO HIRE AND TRAIN WORKERS AGE 62 AND BEYOND.

2. PROVIDE A TAX CREDIT TO INDIVIDUALS AGE 60 AND OLDER WHO PAY FOR CAREER TRAINING PROGRAMS WHICH ARE NOT COMPENSATED FOR BY THEIR EMPLOYER.

---

[1]Amended from Bass, S., Quinn, J., and Burkhauser, R. (1995). Toward Pro-Work Policies and Programs, in S. Bass (Ed.) Older and Active. New Haven: Yale University Press, pp. 263-294.

FEDERAL POLICY

3. AMEND *ERISA* TO ALLOW PRO-RATED FRINGE BENEFITS FOR PART-TIME EMPLOYEES.

4. MAKE MEDICARE, RATHER THAN EMPLOYMENT-BASED HEALTH INSURANCE, THE PRIMARY HEALTH CARE COVERAGE FOR WORKERS AGE 65 AND OLDER.

5. ELIMINATE THE QUALIFYING-CHILD REQUIREMENT FOR THE EARNED INCOME TAX CREDIT.

6. ESTABLISH A FEDERAL MANDATE THAT ALL EMPLOYER PENSIONS MUST BE AGE-NEUTRAL.

7. PERMIT WORKERS AGE 65 AND OLDER TO OPT OUT OF ADDITIONAL SOCIAL SECURITY CONTRIBUTIONS.

FEDERAL REGULATIONS

8. PROVIDE SUFFICIENT SUPPORT TO THE EQUAL EMPLOYMENT OPPORTUNITY COMMISSION TO PROVIDE SWIFT AND THOROUGH RESPONSE TO *ADEA* COMPLAINTS.

FEDERAL INITIATIVES

9. DEVELOP NEW PART-TIME DEMONSTRATION PROGRAMS SUCH AS JAPAN'S SILVER HUMAN RESOURCE CENTER.

10. UNDER THE OLDER AMERICANS ACT, PROVIDE GRANTS TO STATES TO PLAN AND DEVELOP, IN COLLABORATION WITH BUSINESS AND COLLEGES, LOCAL OLDER- WORKER INITIATIVES.

TEN SELECTED PRO-WORK POLICIES[1]

TAXATION

1. Use direct tax credits to encourage employers to hire and train older workers; for example, a tax reduction equal to a certain percentage of the wages paid to workers aged 65 and over, perhaps with a maximum dollar limit per worker. In Europe, similar mechanisms are used to encourage the employment of workers with handicaps. The same tool could be used in the United States, but applied to workers over a certain age.

2. For cases in which employers do not offer training opportunities, offer workers over a certain age a partial personal tax credit for work-related educational expenses, up to a dollar limit.

FEDERAL POLICY

3. Amend the Employee Retirement Income Security Act (ERISA) to allow prorated fringe benefits (for example, a prorated subsidy on medical insurance) for part-time employees, depending on how many hours they work. Current ERISA legislation requires employers to offer to part-timers who work 1,000 or more hours per year the same full pension coverage and other fringe benefits that full-time workers enjoy. This increases the cost of hiring part-time workers, since the per-hour cost of fixed fringe benefits like medical insurance is higher the fewer hours worked. This also encourages firms to restrict the hours of part-timers to less than the statutory minimum. A change here would allow employers and employees to agree to more flexible work contracts to the benefit of both.

4. Reverse Medicare policy to make Medicare, rather than employment-based health insurance, the primary source of health care coverage for workers

---

[1] Amended from Bass, S., Quinn, J., and Burkhauser, R. (1995). Toward Pro-Work Policies and Programs, in S. Bass (Ed.) Older and Active. New Haven: Yale University Press, pp. 263-294.

aged 65 and over. This would encourage the employment of older workers by, in essence, subsidizing their compensation. Health costs are a significant concern to employers, especially for older workers. In the 1980s, Medicare eligibility rules were changed to make Medicare secondary to benefits provided by the employer's insurance, which must meet its obligations before Medicare steps in. This applies to workers aged 65-69 (since 1982), spouses of workers aged 65-70 (1984), and individuals with disabilities covered by firms with at least 100 workers (1986) (U.S. Social Security Administration, 1991, pp.56-57). These changes reduced Medicare expenses, but raised a major barrier to the employment of older workers. Reversing the original policy would remove this barrier.

5. Eliminate the qualifying-child requirement for the Earned Income Tax Credit. This would make some low-income older workers eligible for this credit, and, to the extent that the employer received some of the tax relief, would make the elderly more attractive candidates for employment. The Earned Income Tax Credit is a mechanism that subsidizes the wages of workers with children in low-income households. In 1993, the wage supplement was about 19 percent of the first $7,760 in earnings-- a maximum of about $1,500. It phases out slowly as adjusted gross income increases from about$12,000 to $23,000 (U.S. House, 1992, pp. 1013-15). Many older workers have earnings and incomes that would make them eligible, but do not have the dependent child needed to qualify.

6. The most important potential policy change would be a federal mandate that employer pensions must be age-neutral--- that is, must not have financial penalties for those who work beyond a particular age. Given the importance of defined-benefit pension incentives on those who are covered, this might have a significant impact on work in later life--- much larger, for those covered, than the Social Security changes in progress.

   Such a proposal, however, should be treated with caution, with the benefits compared carefully to the costs, as advantages in the present system may be lost. Edward Lazear (1979, 1990), for example, has argued that an agreed-upon retirement date permits lifetime compensation schemes (underpayment early in one's career and overpayment later) that reduce turnover costs, and thereby raise workers' lifetime compensation. Others have argued that mandates in one part of the compensation package are offset by changes in another, leaving workers no better off, or worse off, if they preferred the previous allocation (Andrews, 1993; Mitchell, 1990). If the mandates do raise costs to the firm, one possible outcome is a reduction in employment.

Another possibility is that legislation mandating age-neutrality would lower the attractiveness to employers of providing pensions and result in a further decline in coverage. Finally, what might be appropriate in some industries or regions may be inappropriate in others, and one should be wary of excessive government intervention into voluntary private contracts. These arrangements have arisen for a reason, and one should proceed with caution in overriding them.

7. Permit workers aged 65 and over to opt out of additional Social Security contributions and average monthly earnings recalculations. Currently, older workers and their employers continue to contribute into the Social Security system. Each pays 7.65 percent of the first $57,600 (1993) and 1.45 percent (the health insurance component) on all earnings above that. To encourage part-time work, one could exempt a certain amount of earnings (perhaps the first $10,000) from Social Security contributions for those over a particular age.

FEDERAL REGULATIONS

8. The Equal Employment Opportunity Commission has the responsibility for investigating allegations of employment discrimination due to age. The 1967 Age Discrimination in Employment Act (ADEA) flowed out of the civil rights legislation of the 1960s, and was patterned after the Equal Pay Act of 1963 and the Civil Rights Act of 1964. The central section of ADEA (Section 4) follows the language of Title VII of the Civil Rights Act in prohibiting employers from refusing to hire, discharge, otherwise discriminate against any individual because of age. Those aged 40 and

over are now covered by the Act.

Currently the EEOC has a long backlog of allegations filed under the ADEA. An increase would staff to process and review these allegations would provide for a more timely review of cases, serving to strengthen enforcement and compliance with the Act.

FEDERAL INITIATIVES

9. Establish new demonstration programs that broker part-time temporary jobs (like Japan's Silver Human Resources Centers) for older retirees.

10. States should be encouraged to develop a comprehensive plan to coordinate training and employment of older people. Several states have undertaken such efforts and others should as well. The plan could examine issues such as partial-service retirement options to provide greater flexibility for civil-service workers; coordination among education, labor, business, and aging programs; tuition-waiver programs for students over 60 years old pursuing career-related studies; and the establishment and maintenance of state-funded stipend-volunteer programs.

Mr. SALISBURY. Thank you. I would invite those who have sat so patiently to tell members of the panel if there are questions that you anticipated they would answer, that they did not, and that you therefore would like to raise as specific questions. Yes? If you could come to the microphone and introduce yourself, since we are trying to get—I will introduce you. Lou Anoff has the first question.

Mr. ANOFF. I was wondering, Colin, you said something about eliminating the earnings test in the U.S. if we don't need it. Is that principal of the earnings test similar to partial retirement in Sweden? Wouldn't it be? I mean, I am not saying I like the earnings test, but I am just saying the idea of partial retirement and an earnings test seem to be compatible. The Swedes seem to have other prohibitions that prevent it from working.

Dr. GILLION. Yes, I think that is correct. There would be some confusion between the two. You have to remember, first of all, that in Sweden very large numbers of people already work part time, so that there is a kind of a backlog of the labor force which is working part time and just picks that up as a normal pension anyway.

Second, you have to reckon that in the United States a very much larger proportion of pensioner income comes from corporate schemes, and in fact complements the public schemes. It is very difficult to impose requirements on corporate schemes that somebody getting a partial pension from a corporation can't go next door and get a job.

So all that makes the issue very complex. I must confess I am not a great believer in partial retirement schemes myself, just some of the things that have been happening in Sweden.

Mr. SALISBURY. Rich, one of the issues that arises that you mentioned, particularly if you were to raise the age 62 Social Security age, is that the law still provides that in employment-based pensions, whether they be public or private sector, that the normal retirement age is still specified by the law as age 65. To what degree do you think Congress should address providing more flexibility vis-a-vis that definition, and do you think that would have an effect?

Dr. BURKHAUSER. I think it is very important. It is important to understand that the Social Security System is sending signals to the private sector, and that the private sector is likely to read to these signals.

Our current employer pension system was shaped by past Social Security policies. I think the critical question is whether employers will move in tandem with the Social Security increase in retirement age from 65 to 67, or whether they will continue to encourage older workers to leave the work force at earlier ages.

This is where Alan Reynolds' comments comes in. If Alan is correct and we experience labor shortages over the next decades, which I also believe will be the case, employers will restructure their pension systems to encourage their workers to stay in the work force.

Mr. SALISBURY. Thank you, Rich.

Sharon Kanner.

Ms. KANNER. My question, I think this probably goes to Mr. Reynolds, on the issue of incentives to continue working, there has been a lot of discussion of late to change the Social Security System to invest in the market, in equities. If we change the Social Security System, what impact do you think that would have on individuals wanting to stay in the market, therefore perhaps getting a better return on their investment?

Mr. REYNOLDS. Wow. My testimony is dealing primarily with the way benefits are paid, the taxation of those benefits, the way the taxation of those benefits depends on other income, i.e. work income, and that sort of thing.

What you are talking about wouldn't change that. It potentially would improve the rate of return on Social Security, but what that would do in terms of benefit payouts is nebulous and undecided at this point. The payout schedule is what it is under current law.

I don't think that the provision you are talking about would necessarily have much effect.

Mr. SALISBURY. Would anyone else like to comment on that question?

Mr. ROTHER. To the extent that Social Security's investment in equities is a way of keeping the current system of benefits affordable, then really what is going to determine behavior is not the investment in equities but the benefit terms, and that is really I think an independent question. So I don't think it is the investment in the market that is going to make a difference in people's behavior, but rather what benefits they finance and what the structure of those benefits looks like.

Mr. SALISBURY. The evidence of that is a number of employers that have, per Rich's point, used early out opportunities for people, and when they have offered that early out with an annuity option, they have gotten relatively low pick-ups. They have then modified and offered a lump-sum distribution option, and they have gotten much higher rates of retirement, because even though the values were identical mathematically, individuals look at an annuity and say that is not very much money, but they look at the present value of it and say that is a great deal of money.

So if you take some of the Social Security reform proposals that would not only move into equities but individual accounts, and some of them which would provide a lump-sum distribution option versus requiring an annuity, you interestingly have the potential that that would actually cause people to leave the work force earlier, only to then find out at 75 or 80 or 85 that they need to try and go back to work because that lump sum really wasn't as much as they thought it was.

We are beginning to see some of that cyclical occurring in private markets where individuals are running out of their lump sum distributions and having to go back to work. So there are a lot of areas like that where behavioral patterns are relatively new and not a lot of research has been done yet, but it raises a lot of interesting questions for the future.

Janice Gregory.

Ms. GREGORY. Yes, I have two questions, both to kind of clear up factual things in my head.

One is how the so-called baby boomlet fits into this. You can't pick up the newspaper without teacher shortages, schools reopening, this whole group coming along that are the children of the baby boomers, if you will, and the numbers are—numerically, numerically this is a larger group of people than the height of the baby boom. So there is this group, and how do they fit into this picture? Are they small compared to the overall growth, you know, when we look at our demographic trends and the work force down the road?

The second question is, several of you have mentioned increasing the period over which Social Security benefits are calculated, which is about 35 years now, and maybe just opening it up for the whole period of work. Have you looked at the impact of that on women, that they might not get a full benefit unless they work 40, 45, 50 years? Women may have 10, 15 years out of the work force. If so, how would you address that? How would you meld those so that you didn't wind up with people who are out of the work force winding up shortchanged?

Mr. ROTHER. On the first part of the question, recently we have had about 4 million births per year, which is the same as the rate of the boomers. But remember we are a much larger country than we were when the boomers were being born, so that rate is a lower percentage, even though the numerical number is the same.

There are today more women of child-bearing age, and childbirth has been delayed for many of them, so we are having a high number of births even though household size is lower.

I think it is good news for the economy. We are going to need those babies to be very productive workers for the retirement benefits of boomers, and more power to them.

Mr. SALISBURY. Rich.

Dr. BURKHAUSER. Let me talk a little bit about Social Security and women. I think your point is correct, that workers that don't work over their entire lifetime in the work force will be disadvantaged to some degree by that proposal.

But the big story about women, of course, is that the life cycle work patterns of women are approaching men much more than in the past, and that fact has not been taken into consideration under current Social Security rules. So if you really want to do something for women, you ought to start thinking about "earning sharing" or other changes in the way we provide benefits to women.

Also, you should recognize that most women are poorer as survivors than when their husband was alive and there are arguments that we are over-protecting couple who take early retirement, at the cost of being under-generous to the survivor at the other end of the age distribution.

Mr. SALISBURY. Yes?

Dr. GILLION. Just to comment on your last point, first of all, women having children are out of the labor force for a very much shorter period now than they used to be. I mean, you are talking about three, four or five years, not 10, 12 or 15.

Second, you can handle the problem simply by granting women who are out of the labor force for childbirth and child-rearing just pension credits. You just allocate it to them, which is what the French do.

The problem comes when you have a system which is jointly public and jointly private, because although you can give them credits in the public system, they do lose out on what they might have acquired in terms of a company scheme.

Mr. REYNOLDS. I would like to make a little comment. The problems for married women are more related to the fact that you get no benefit for your taxes under most circumstances. That is because you would be entitled as a dependent to 50 percent of the primary earner's benefit anyway, and then 100 percent as a survivor.

A lot of women who work for some years during their life, but not very many, pay a lot of tax and get no more benefit than they would otherwise. Of course their income is also rather heavily penalized because all of their income is subject to the primary earner's marginal rate.

To personalize it a little, if my wife were foolish enough to work, she would pay social security tax and get no benefit from it, and all of her income would be taxed at my 31 or 36 percent rate, whereas only a sliver of my income is taxed at that high rate. Therefore, she has a very strong disincentive to participate even before retirement. We weren't talking about pre-retirement age, but secondary earners are a major problem.

Mr. SALISBURY. Or a challenge, as the case may be.

Mr. REYNOLDS. A challenge. Challenge, challenge. I meant challenge. [Laughter.]

Mr. MCNAUGHT. For those who don't know me, I am Bill McNaught, and worked with Mike for years on a lot of this stuff. I have an aside for me, and if you will bear with me, then I have a question for everybody.

Mike, you didn't say in the remarks that we did two pieces of research, one in Georgia and one in England. The audience may have picked up, I got to do the work in Georgia and Mike got to do the work in England. So next time we work together, I want to request that we examine the travel arrangements and adjust.

One of the assumptions that most of you have used in your remarks has basically been that the private sector has to adjust to the government and what Social Security is doing to make this thing work. You have talked about a few small changes in ADEA and some of the government pension rules, but by and large you assumed it is the private sector that adjusts to the government.

Well, in this building, privatizing Social Security is a major topic on everybody's table. I would like to ask, what do you think the government can learn in redoing its whole pension policy, especially Social Security, from the private sector, if it goes down this privatization path?

Mr. SALISBURY. Volunteers?

Mr. ROTHER. I'll jump.

Mr. SALISBURY. John.

Mr. ROTHER. I think it would be a major mistake to try to copy in a social insurance program the arrangements that are developing in the private sector, where we are seeing pensions move more and more to defined contribution savings plans. I am the first one to say everyone should participate in those plans and we need to get more people saving for retirement, but Social Security's function is quite different, and it seems to me the trick is to make them work in a complementary fashion together, so that the goals of adequacy are met as well as the goal of promoting individual savings.

I think one thing that does result, though, from a balance of the two, which many people do enjoy today, is greater individual freedom about when to make the decision to stop working. Obviously, in a defined contribution environment that is an individual decision, relatively unconstrained by public policy.

So I think we will find, as our pension system in the private sector moves more towards defined contribution, that we will have even greater flexibility and greater diversity in the experience of retirement, and that people will use Social Security for the foundation it is supposed to be, but that their real decisions about behavior may be much more a function of their own ability to finance leisure through their own savings.

Mr. SALISBURY. I would underline the breadth of John's choice of words, "private," however, since it really is anything other than the social benefit structure. We are seeing many governmental units move more in a defined contribution direction, clearly with the Federal Government pension reforms for those hired after 1984, where from the CPS numbers fully 87 percent of Federal employees identify the defined contribution plan as their primary, the Federal Thrift Savings as their primary retirement plan from the government. It is a relatively broad public and private employment phenomenon.

On a learning basis, I think that one should look at what those employer groups, the Business Roundtable, the Committee for Economic Development and others, the U.S. Industry Committee, have put out in their own policy documents as suggestions, and what is consistent at this point across those documents—not representative of all employers obviously, but those that at this point have put things on the table—is underlining their view that Social Security as a floor of income for retirees should definitively be maintained, and that they look at it as a fundamentally different program than what they are trying to do "to supplement it."

One would view the Federal employees who are, since 1984, uniformly covered by Social Security as the first tier and then a Federal Thrift Plan and a defined benefit plan as second and third tiers, which really depends on length of service of the employee, but again building off of that "floor" provided by Social Security.

Most employers' organizations at this point, which one waits to see what some of the others end up saying, would be to state that Social Security is not the same as supplemental pensions; it is the floor on which those supplements build, and that one has to be and should be extraordinarily careful in playing with the floor, because if you pull the floor out from underneath the supplements, you may have a real problem.

I think the most interesting report articulating that to me was the report out of the Committee for Economic Development, which in essence recommended for the most part maintenance of the status quo defined benefit system with some tweaking on a defined contribution piece on top of it.

From the research we have done over the years, if one were to learn beyond that, I guess the thing that would be the strongest message is, don't allow lump-sum distributions under any circumstances if you actually want to guarantee a floor of retirement income.

Most particularly, certainly don't allow lump sum distributions at job change during the course of working years, or you would end up, if private sector behavior holds, with 75 percent of the people in Social Security not having anything left by the time they hit the age of retirement.

Since it is the lowest income individuals with the smallest distributions who statistically always choose to spend the distribution, using the distribution of income chart that John showed, and wealth, the very individuals who in that system would preserve their distributions, roll them over and have them at retirement, would be the people in the top quintile of the retirement population, and you would probably end up with a greater distortion, if you will, than we have today.

So the learning, my choice of words on the learning would be that Social Security is recognized in the employment sector and the union sector as a vital floor of income to build upon, and be very, very careful as you play with the floor.

Mr. SALISBURY. Rich.

Dr. BURKHAUSER. For two years Dallas and I were on a technical committee to the Social Security Advisory Council that wrestled exactly with this question so it is difficult to answer it in two minutes. I would just like to make one slight addition to Dallas's remarks.

I think Dallas is absolutely right, that you don't want people taking lump sum payouts from the income floor portion of your retirement system. That is a road to disaster. On the other hand, the assumption, in the United States, is that you can't disentangle the annuity from the redistributive components of Social Security without wrecking the system, and I will let Dr. Gillion talk a little more about this, but that certainly is not true in other countries.

If you look at Canada, for instance, they have a two-tier system. The first tier is a base floor for everybody. The second tier is very much related to what you pay in. In the Netherlands it is even more extreme in the sense that they have one social minimum benefit, which is the floor for everyone, and then they mandate that all employers provide a second tier of benefits to their employees.

So the system that we have is not the only way that you can provide redistribution and have a floor, and some people don't realize that or don't recognize that.

Mr. SALISBURY. Colin.

Dr. GILLION. Yes. I was going to say that I think the problem of coordinating public programs and company schemes is probably the most difficult issue in this area. One of the reasons that it is difficult is precisely the way that you go about it.

It is not possible, for example, to say that "I will just fix up the public program as I like and then let the market take care of itself and let companies do what they want," and so on. One of the reasons for this is that there is no such thing as an actuarially fair reduction. Actuaries have got nothing to do with fairness. It is just a piece of comparison.

I suspect that the interest rates that are used in deciding how much your pension should be reduced for early retirement are in fact gross underestimates of the consequences to society of your decision. We are talking about a collective problem. If I retire early, not only do I lose some of my pension but the whole system loses my contribution, and the interest rate which should be applied there should take into account not just the interest rates this year but the implied effects of what will happen when we get the baby boomers retiring.

So it is a very complex issue, and I don't think you can really simply say, "I'm going to fix the public programs and let the company programs look after themselves." You do have at your disposal some regulatory instruments, but you have to be very careful how you use them. Otherwise, the system loses transparency, becomes incredibly complex. You get companies who cheat, individuals who cheat, so it is a very stewy sort of area.

So I sympathize with it, but I think probably it is easier in countries where 90 percent of the income is from the public program.

Mr. SALISBURY. Alan.

Mr. REYNOLDS. I think it is important to realize that many proposals out there are for partial privatization, which simply means allowing younger workers or everyone to take a very small portion of their Social Security tax and contribute it to an IRA-like account. This is, in effect, compulsory savings and it is allowing that person to take a little risk for a better return.

The least risky system is probably Social Security. Well, politically it may get risky as the demographics get bad. But, I mean, that is just kind of your fixed annuity, low payout kind of a system. What we want to do is, in terms of work incentives, is to link benefits and taxes as closely as possible, because the more we de-link them by redistributive policies, the more people perceive Social Security as a tax and behave accordingly—that is, to reduce their labor efforts.

There is a very strong case, I think, to be made for supplementing the base, if you will, that Social Security is intending to provide, with some sort of compulsory savings plan. For many people who have 401(k)'s and that sort of thing, the problem is largely solved anyway, at least if the market keeps booming like it is doing.

Mr. SALISBURY. Scott, Mike, would either of you like to make a final comment?

Dr. BARTH. No.

Mr. SALISBURY. One final question, and then we will adjourn.

Mr. SCHULDER. My name is Dan Schulder. I am with the National Council of Senior Citizens. Just two quick comments.

Dr. Bass, in your recommendations you talk about tax incentives to train workers at age 62 and above. It has been my experience, in another incarnation with the National Council on the Aging, that many companies begin the process of putting older workers on the shelf in their 40s, and by the time you hit 62 it is in many ways too late. We worked with a very cutting-edge technology company in which literally if you were not a manager or a team leader by the age of 45 or 50, you were invited to bowl more and read your New York Times and do no work, and they literally have enough money to afford that.

Second, just another comment. You know, you folks are wonderful, and the Federal Government has really defaulted in not providing the wherewithal—and the private market has—to create a permanent institution of some kind where companies can come and academics can come, and government policy people, to deal with the problem of the aging of the work force. It doesn't exist in a way that you have for VO–AG, we will say, and vocational training for younger people, et cetera. We don't have an institute of medicine comparable to the need.

Last, you have all, many of you talked about labor shortages and how that may affect the behavior of the market and workers and companies in the future. Why would you not think that when the labor shortage gets deep enough and tough enough, that government and business will re-learn the virtues of larger numbers of immigrants to relieve the labor shortage? Why do you think that that will not again be a option for this country, to open up the gates to relieve that labor shortage, rather than extending work life?

Dr. BARTH. I will take a crack at part of that one, anyway.

I actually am not a big fan of tax credit programs that are tied to particular types of people. I think there is a lot of research that shows that they have a tagging effect that is negative, and, finally, there is no evidence that any of them have ever had any real impact. They are too complicated, they are not permanent, and there is a pretty big literature on that.

I think with regard to immigration, you know, you can certainly have it both ways. I think that the immigration problem that this country has today is a low educated immigrant population that is competing with our poorest citizens, the ones who are seeing their real wages go down the most. I think that a lot of older workers are at slightly higher positions on the skill level. How that will work out, I don't know, but my guess is there would be room for both sides when we got to that point.

Mr. SALISBURY. Scott.

Dr. BASS. On tax credits, I think the issue is that if we were in a position of having to debate on the age at which tax credits would be assigned for incentives for older workers, that would be a fine argument and that would be really a secondary issue. The point is, it is not on the table for discussion in terms of how do we provide incentives for older workers, and I think that is the significance of us gathering today, so this is an issue that needs to be brought to greater light in further discussion. We are just not at that point in terms of the policy debate.

Second, I believe Mike has provided on immigration a responsible answer. Remember, we have had tight employment situations in various sections of the country. In 1987 in the Northeast there was a labor shortage, and essentially employers widened the net of who is eligible, and when there is a surplus then it tightens, so I think these are the logical ways in which markets operate.

Mr. SALISBURY. Alan.

Mr. REYNOLDS. Half of the labor force growth that occurred in the first half of the 1990s, was due to immigration, so we have that already. What is the political tolerance for greatly increasing it? We would have to greatly increase it to have a significant number, not just a little bit—go from 1 million to 2 million a year.

Without a change in immigration policy we might get more bodies, but we wouldn't necessarily get what we need because of the skill gap that is going to be increasingly troublesome. Older Americans have experience, they have skills, and we old folks are not as technologically obsolete as a lot of people like to say. I am pretty good with a computer myself. Computers are getting more user-friendly.

But as far as immigration policy, our current immigration policy is this: Do you have a relative in the United States, or are you a refugee? So, what started out as a rather crazy nation-based immigration policy is still a crazy nation-based immigration policy, because the last wave of immigrants bring in their kids and their grandparents and so on.

Efforts to do little minimal things, like asking "Can you support yourself?" are resisted very heavily by immigration lawyers. I am very pro-immigration, but I am very much against U.S. immigration policy.

Mr. SALISBURY. John, a final word?

Mr. ROTHER. The thing that struck me about this morning's discussion is that we are like the blind men looking at the elephant. You know, we are all grabbing onto a different piece of it.

I want to close with a reminder that this is a very diverse population and a very diverse economy and a very diverse labor market, and the kinds of economic and tax considerations Mr. Reynolds talked about at the high end really are a different world than the kind of case study that Mike did with Days Inn, for example. That diversity is going to be the thing we have got to keep in mind.

Some boomers are going to have great jobs and great opportunities, and the decision as to whether to continue to work or not may be partly a decision influenced by taxes but probably has a lot more to do with job satisfaction. On the other hand, there are going to be a lot of boomers in the future, as there are today, who need to work out of necessity, and for them I think this is not about marginal returns.

For this group, their prospects will depend on what job options are there and what barriers to older workers are there, and I believe that many of those barriers are cultural barriers and they are not necessarily grounded in Federal policy. That is the group I am more concerned about. For the future, given especially the current trends I outlined in the boomer generation, we need to be very, very conscious of making sure that those job opportunities are there for people who really will have to work in the future.

On the high end we should make sure that we get rid of the disincentives, but for the low-end boomers and the older workers of today, I think we have got a long way still to go to address their needs. This should be our priority concern.

Mr. SALISBURY. I think John has, with that, underlined the essence of the challenge that Senator Grassley underlined, which is awareness and the necessities of dealing with those who need to be in the labor force, which is likely to be increasing numbers in the future.

The session here today will be put into the form of a congressional print and will be widely distributed. It will be available on the World Wide Web. It will be used hopefully as a way to begin the process that the Aging Committee has started.

In keeping with the earlier comment, I will note that the National Institute on Aging does spend significant resources on just this issue each year, and has been funding a good deal of research on this topic. Hopefully through their networks and organizations like the National Council on the Aging, the discussion that has been here today, we will be able to take it to a much, much broader venue.

In absentia, I would like to thank Senator Grassley for having coordinated this session through his staff, and to personally thank the staff of the Committee on Aging for having pulled this important session together, and give them the opportunity to say a final goodbye, should they wish to do so.

Mr. TOTMAN. Thank you very much for a good job, all of you.

Mr. SALISBURY. Thank you for coming. [Applause.]

[Whereupon, at 11:44 a.m., the forum was adjourned.]

○

ISBN 0-16-055901-4