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Employers' Perspectives on Delayed Retirement

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Extending Work Life: Can Employers Adapt When Employees Want to Delay Retirement?

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Chapter 1

Employers' Perspectives on Delayed Retirement

Many policy analysts, economists, and demographers have argued that individuals must extend their work lives if they are to achieve their desired standard of living in retirement. Increases in longevity imply that individuals who leave the labor force at traditional retirement ages must either save more during their working careers or consume less during their retirement. Reductions in the generosity of employer- and government-funded retirement programs exacerbate this problem. Thus, workers today must save more than their predecessors to achieve the same level of retirement well-being. The idea seems clear—working longer and retiring later is the only way future retirees can sufficiently finance their retirement.

Later retirement can be achieved by remaining in one's career job until an older age. Alternatively, individuals can retire but not immediately leave the labor force. Instead, they can begin a retirement transition that includes moving through different types of employment; for example, an employer could offer shorter hours or a less stressful working environment.

Despite the logic that working longer is needed to support more years in retirement, relatively few studies have directly addressed employer interests and the constraints that might lead companies and organizations to resist delayed retirement from career jobs. This book seeks to fill this gap by providing a comprehensive assessment of the costs and benefits to employers of accommodating later retirement ages. Employers that oppose later retirements could adopt employment and compensation policies to impede or limit workers' opportunities to remain on the job.

Economic theory based on profit maximization indicates that companies must determine the optimal number of workers to hire and also the appropriate age and skill composition of their workforces. The

firm will need a mix of employees with different skill sets and skill levels and who have different vintages of human capital. To maximize profits, companies need the right number and the optimal mix of workers. Changes in the age structure of a company's workforce due to delayed retirement can affect labor costs, productivity, profitability, and sustainability. In the following chapters, we argue that companies develop their compensation policies in order to attract, retain, motivate, and ultimately retire their desired workforces.

Increased life expectancy and associated modifications to public and private retirement-related policies will lead workers to alter their career paths. Desired increases in the duration of work life can come in several forms as workers experience new pathways from full-time work to complete retirement. That transition has become an important phase of work life. Indeed, how this transition is made, and whether it is done successfully, will affect an individual's well-being throughout retirement.

Changes in government policy that increase eligibility ages for retirement benefits, coupled with increased life expectancy and the continuing evolution of employer retirement programs, will lead many workers to try to extend their work lives by delaying the onset of complete retirement. With the exception of the economic downturn during 2007–2009, labor force participation rates of persons 65 and older have been steadily climbing since the mid-1980s. One method of extending work life is to delay the start of the transition to retirement and simply work longer at the current job. Alternatively, workers could prolong the transition period from full-time work to full retirement by including intermediate work-related steps, such as phased retirement, bridge jobs, or self-employment.¹

Whether workers delay the start of the transition, increase the time spent in transition, or increasingly take alternative paths from career job to retirement, employers must consider the advantages and costs of retaining or hiring older workers. The expanding potential labor pool of older workers, particularly among those with relatively high stocks of human capital, could provide an unexpected bonus to employers through greater returns on their investment in long-term

employees. However, older workers often are relatively highly compensated, and some will experience diminished productivity at older ages. Furthermore, as employers retain older workers, younger workers' opportunities for advancement might be restricted.

Employers must address the changing demographics in their workforces. By creating compensation and employment policies to accommodate prolonged or delayed retirement transitions, they will be better positioned to reap the benefits of employing older workers.

This book examines the employer perspective on how to respond to the needs and desires of older workers to delay or prolong the transition from full-time employment to complete retirement. What factors influence the willingness of firms to retain older workers? Can firms develop transitional employment contracts so workers can shift to new areas, perhaps with less responsibility and lower compensation, while remaining with their career employers? While exploring the bottlenecks and constraints that might inhibit the development of delayed retirement policies, this book provides new insights into how retirement transitions might proceed in the coming years and the potential implications and effectiveness of government and employer policies regarding retirement ages.

EMPLOYEE PREFERENCES FOR LATER RETIREMENT

Retirement decisions are influenced by economic and demographic factors, including real income, personal savings, health and family issues, job opportunities, and retirement plans, such as employer pensions and Social Security. As these determinants have changed over time, so has the average age of retirement. For most of the twentieth century, the labor force participation rate of older persons declined in response to rising real incomes, improving health, changes in the physical demands of many jobs, the introduction of defined benefit pension plans, and the establishment and liberalization of Social Security and Medicare. Earlier retirement coupled with

increasing life expectancy placed a premium on planning and saving for retirement.

In the mid-1980s, the proportion of older persons who remained in the labor force began to increase. This reversal of a long-term trend toward earlier retirement began as employers switched from defined benefit to defined contribution plans, which have very different retirement incentives. In addition, changes to Social Security also encouraged later retirement.² Finally, the continued increase in life expectancy at older ages made financing a longer period of retirement increasingly difficult. All these factors have encouraged older workers to remain in the labor force and delay retirement.

For most of the twentieth century, increasing life expectancy coincided with a decline in the age at which most people permanently left the labor force. Rising real income, along with the development of employer pensions and national retirement programs, made retirement possible for millions of American workers; it became an important phase in life. Workers planned for retirement and made saving and consumption decisions in order to achieve their desired standard of living during their final years.

Increase in Life Expectancy and the Need for Working Longer

The number of years of expected retirement is determined by the age of retirement and the life expectancy at the retirement age. For example, if a worker enters the labor force at age 20, expects to retire at age 65, and has a life expectancy at age 65 of 15 years, the individual has 45 years of work to accumulate the resources to finance 15 years of retirement. However, if the expected retirement age fell to 60 and life expectancy at age 60 increased to age 85, the individual would have 40 years of work to save for 25 years in retirement. Of course, these changes would require a much higher annual saving rate in order to finance the same standard of living in retirement. In contrast, delaying retirement increases work and saving years while decreasing the number of retirement years that need to be supported.

Next we consider some actual changes in life expectancy and their impact on retirement decisions.

As shown in Table 1.1, male life expectancy at age 65 increased by 3.9 years between 1980 and 2014—from 14.1 years to 18.0 years. Females continue to have more years of expected life remaining at age 65; however, the gender difference in life expectancy declined from 4.2 years in 1980 to 2.5 years in 2014. Holding the age of retirement constant with rising life expectancy means more years in retirement. Thus, in order to finance the same level of annual consumption in retirement with the longer life expectancy, workers must save more while working.

To illustrate the magnitude of the need for additional saving, let us consider a male worker retiring at age 65 with 14 years of remaining life who has saved \$250,000 to help finance his retirement. Assume that he purchases a life annuity that provides a fixed income per year until death. With an assumed life expectancy of 14 years and using a 3 percent interest rate, column 1 in Table 1.2 shows that he could anticipate annual income of \$22,132. Now consider a similar retiree with 18 years of expected life remaining. Based on the additional years of payouts, the same \$250,000 account balance would provide only \$18,177 per year of income. Table 1.2 also shows how the annual

Table 1.1 Life Expectancy at Birth and Age 65, by Gender

Year	Men		Women	
	Birth	65	Birth	65
1970	67.1	13.1	74.7	17.0
1980	70.0	14.1	77.4	18.3
1990	71.8	15.1	78.8	18.9
1995	72.5	15.6	78.9	18.9
2000	74.1	16.0	79.3	19.0
2005	75.0	16.9	80.1	19.6
2010	76.2	17.7	81.0	20.3
2014	76.4	18.0	81.2	20.5

SOURCE: National Center for Health Statistics (2015).

payout will continue to decline to only \$16,804 if life expectancy at age 65 rises to 20 years.

Column 2 in Table 1.2 demonstrates the impact of rising life expectancy in a slightly different manner. Assume that the individual wishes to have sufficient resources to have an annual income of \$25,000 from her retirement savings. With a life expectancy of 14 years, the worker would need to have saved \$282,402 in order to have income of \$25,000 per year; however, if the number of expected retirement years rises to 18, the worker must have an account balance of \$343,838.³ These examples show that, holding constant the retirement age, rising life expectancy requires either greater saving to achieve a desired annual income or for the worker to accept a lower standard of living in retirement if lifetime saving is unchanged. Alternatively, individuals could choose to work longer and delay retirement, thus offsetting the longevity gains by more years of work. Working longer may be the optimal response to longevity gains for many individuals, and how this preference for delayed retirement affects firms is the central focus of this book.

Table 1.2 Impact of Longevity Gains on Retirement Income (\$)

Years of remaining life	(1) Account balance of \$250,000 provides annual payout of	(2) Account balance needed to yield annual distribution of \$25,000
14	22,132	282,402
15	20,942	298,448
16	19,903	314,028
17	18,988	329,153
18	18,177	343,838
19	17,453	358,095
20	16,804	371,937

NOTE: Values are determined using a 3 percent interest or discount rate, with annual payments occurring at the end of each year. The values shown in column (1) indicate the annual payout from an account balance of \$250,000 for the indicated number of years. The values shown in column (2) indicate the account balance needed to provide an annual payout of \$25,000 throughout retirement.

SOURCE: Authors' calculations.

The challenge is that workers must save more and consume less while working or be satisfied with lower income and hence consumption in retirement. An alternative to these choices is to work longer and delay retirement. Working longer means the individual has more years of earnings and saving. It also allows additional years of compounding returns on retirement saving. Later retirement also implies fewer years in retirement over which these funds will be drawn down.

Employee Benefits and Retirement Incentives

Employers are moving away from defined benefit pension plans in favor of defined contribution plans, such as 401(k) plans. Defined benefit plans promise retirees a monthly benefit for life; therefore, increases in life expectancy increase the present value of retirement benefits and, of course, increase the cost to the employer.⁴ While the real value of pension benefits will decline with inflation, the nominal monthly benefit will continue at the same rate throughout the longer retirement period. Thus, retirees with a defined benefit pension are exposed to inflation risk if cost of living adjustments do not adequately increase the real value of the benefit.

Pension plan participants who have reached the normal retirement age must decide whether they want to retire and start their benefits or work an additional year. The extra year of work will increase subsequent pension benefits, but the individual typically will not receive benefits during this time. Thus, the worker can compare the gain of marginally higher future benefits for the remainder of life to the loss of the current year's benefit. Increases in life expectancy will have a rather small effect on the employee's calculation of optimal retirement age.

In contrast, workers covered by a 401(k) plan must decide how to use the account balance in their retirement plans. Assume that this balance is used to purchase a life annuity. Holding constant the retirement age and the account balance, increases in life expectancy will reduce the annual payout from the annuity. The 401(k) participant

can consider the possibility of working an additional year and thus postpone the purchase of the annuity. The individual is not giving up a year of benefits by postponing retirement but instead is simply able to purchase a larger annuity the following year. By working an extra year, not only does the account balance grow but the number of years in retirement is also reduced, so the payout from the annuity will rise. In general, increases in life expectancy for participants in defined contribution plans are likely to provide a greater incentive for individuals to remain in the labor force.

This discussion illustrates how the change from defined benefit plans to defined contribution plans has altered retirement incentives and encouraged individuals to remain on the job. Over the past 75 years, changes in employer compensation and employment policies first contributed to the decline in the average age of retirement and then provided additional incentives for individuals to want to remain on the job until older ages.

Social Security Reforms and the Value of Delayed Claiming of Benefits

Most American workers are covered by Social Security, and many retirees receive a significant portion of their household income from Social Security.⁵ An important determinant of the annual benefit is the age at which benefits are begun or the claiming age for Social Security. Over the years, the age for “full benefits” and the value of delaying claiming have increased. For individuals born between 1943 and 1954, current rules state that the age for full retirement benefits is 66.⁶ At this age, individuals claiming benefits will receive 100 percent of their primary insurance amount (PIA).⁷ Alternatively, workers can claim “early” benefits at age 62. However, when individuals claim benefits prior to age 66, their monthly benefits are reduced by five-ninths of 1 percent per month for the first 36 months and five-twelfths of 1 percent for each additional month. Delaying claiming benefits until after age 66 increases benefits by 8 percent per year up to age 70. To illustrate the impact of these rules, assume that if benefits are

begun at the full retirement age of 66, the monthly benefit will be \$1,000. If benefits are claimed at 62, the earliest age of eligibility, the monthly benefit is only \$750, or a 25 percent reduction in monthly benefits for the rest of one's life. Despite these penalties for early claiming, almost half of all individuals claim benefits at age 62.⁸

There is also a delayed retirement credit of 8 percent per year for individuals who postpone claiming benefits until age 70. If a claimant who expects a benefit of \$1,000 at age 66 postponed claiming benefits until age 70, the monthly benefit would increase to \$1,320 per month. When claiming benefits at age 70 compared to 62, the monthly benefit is 76 percent greater.⁹ On average, the present value of benefits is approximately the same regardless of when the benefits are started (Social Security Trustees 2014). However, one should note the substantial difference in monthly benefits based on the age at which a person claims benefits.

Recent studies have argued that, under current law, the expected present value of lifetime Social Security benefits rises as claiming is postponed for each month after the individual reaches age 62. Shoven and Slavov (2014a,b) illustrate that, for most households, delaying the start of Social Security benefits results in a higher lifetime present value of these benefits. They also point out that the gain in lifetime benefits with delayed claiming has been increasing because of changes in Social Security rules (e.g., an increase in the delayed retirement credit after the full retirement age), lower real interest rates, and increases in life expectancy for individuals in their sixties. Shoven and Slavov (2013, p. 1) state, "With today's life expectancies and today's extremely low interest rates, it is in almost everyone's interest to delay the commencement of Social Security. For many people, delaying to 70 is the value maximizing strategy."¹⁰

The age at which an individual claims her Social Security benefits has a major impact on her annual income in retirement. While claiming benefits does not require one to stop working, many individuals would find it difficult to leave the labor force and not claim Social Security benefits. Clearly, changes in age-related rules governing

benefits have increased incentives for individuals to continue working and delay claiming benefits. Increases in life expectancy holding the age rules constant only strengthen the incentive to delay claiming. When developing and modifying their own retirement policies in an effort to achieve the desired workforce, employers must consider the impact of policy reforms and their effect on worker behavior.

Working Longer Because of Health Concerns, the Cost of Health Insurance, and the Decline in Employer-Provided Health Insurance in Retirement

An important component of a secure retirement is access to affordable health care. As individuals age, they face an increased risk of having a costly adverse health event. They must accumulate sufficient wealth to be prepared for the possibility of extensive and expensive medical treatment. Medicare provides basic coverage for most individuals aged 65 and older but does not cover expenses for chronic conditions and treatments, including long-term care. Individuals who are poor or disabled may qualify for Medicaid as a secondary payer. Some research has considered why individuals do not purchase long-term-care insurance at higher rates and whether Medicaid crowds out private long-term-care insurance (e.g., Brown, Coe, and Finkelstein 2007).

Workers without access to health insurance in retirement might postpone retiring until they are eligible for Medicare (e.g., Mermin, Johnson, and Murphy 2007). Conversely, recent research has documented a strong link between employer-provided retiree health insurance and earlier retirement ages (e.g., Fitzpatrick 2014; Robinson and Clark 2010; Shoven and Slavov 2014c).

Access to health insurance can alter retirement timing, and employer-provided retiree health insurance may be an important aspect of retirement transitions. While providing retiree health insurance may be an effective strategy for employers to encourage earlier retirements, it is a costly benefit that is rapidly disappearing. The Kaiser Family Foundation and the Health Research and Educational Trust

(2015) report that only 23 percent of firms with 200 or more workers that offer health benefits to their active employees extend this coverage to retirees—down from 66 percent in 1988. The rising cost of health care at older ages, along with the decline in employer-provided retiree health insurance, has made early retirement costlier and influenced workers to delay leaving their career jobs. If the promise of health insurance in retirement encourages workers to retire before age 65, then employer decisions to eliminate this benefit may provide an incentive for workers to remain on the job. This analysis highlights a dilemma that confronts employers—the need to control the costs of health care associated with early retirement without adversely affecting the desired retirement ages of their workers.

The Increasing Labor Force Participation of Older Persons

Through most of the twentieth century, the average age of retirement declined despite increases in life expectancy.¹¹ This reduction in labor force participation among older persons has been attributed to rising per capita income (Costa 1998), the enactment of Social Security, and the spread of employer pensions (Quinn, Burkhauser, and Myers 1990). The labor force participation rates of men 65 and older fell from about 46 percent in 1950 to about 16 percent by the mid-1980s (Toosi 2002). However, during the past two decades this trend has reversed, and the proportion of the older population in the labor force has increased.

Between 1994 and 2014, there have been substantial changes in the proportion of older men in the labor force. Table 1.3 illustrates the increase in the labor force participation rates of older men and women. The largest changes for men have been for individuals aged 62 and older. The rate for men aged 62–64 increased from 45.1 percent to 56.2 percent during this period, while the rate for men aged 65–69 rose from 26.8 percent to 36.1 percent. Even the rates for men aged 70–74 increased substantially, from 15.8 to 22.8 percent. Participation rates for women followed a similar pattern; however, the increases were greater for younger women. The proportion of women

Table 1.3 Labor Force Participation Rates for Men and Women Aged 55 and Older (%)

Age	Men				Women			
	1994	2004	2014	2024	1994	2004	2014	2024
55–59	76.9	77.6	76.8	76.3	59.2	65.0	66.4	72.2
60–61	64.8	64.9	69.7	69.7	45.3	54.0	57.6	64.8
62–64	45.1	50.8	56.2	59.9	33.1	38.7	44.7	47.1
65–69	26.8	32.6	36.1	40.0	17.9	23.3	27.5	32.8
70–74	15.8	19.4	22.8	26.6	8.7	12.0	15.6	18.5
75 and older	8.6	9.0	11.0	13.5	3.5	4.3	5.9	8.4

SOURCE: Toosi (2015).

aged 55–59 who were in the labor force rose from 59.2 to 66.4 percent, and the rate for women aged 60–61 increased from 45.3 to 57.6 percent. The Bureau of Labor Statistics projects that the labor force participation rates for men 62 and older will continue to increase through 2024, while that of women aged 55 and older also is expected to increase over the next decade (Toosi 2015).

The aging of the population and these increases in labor force participation rates have resulted in a more than doubling of the number of workers aged 55 and older, from 15.5 million in 1994 to 33.9 million in 2014. Toosi (2015) reports that the proportion of the labor force aged 55 and over rose from 11.9 percent in 1994 to 21.7 percent in 2014. The growth in the relative size of the older labor force raised the median age of the labor force from 37.7 years in 1994 to 41.9 years in 2014. The rising share of the labor force composed of those 55 and older was driven by both the aging of the population and delayed retirement.¹² These trends in the aging of the labor force are expected to continue over the next decade.

Another indicator of changing retirement patterns is responses to survey questions concerning retirement expectations. Since 1991, Gallup has been asking workers at what age they expect to retire and retirees the age at which they retired. Reviewing their surveys through 2014, Gallup concludes that the self-reported age of retirement has moved “slowly upward.” According to Riffkin (2014), “Gallup con-

ducted several polls in the early 1990s and found that the average retirement age was 57 in both 1991 and 1993. From 2002 through 2012, the average hovered around 60. Over the past two years, the average age at which Americans report retiring has increased to 62.”

Changing Paths to Retirement

Prior research has documented the retirement transitions of individuals in the Health and Retirement Study (HRS) and illustrated the diversity of retirement choices that older Americans have made over the past two decades. The changing paths to retirement have been examined by Cahill, Giandrea, and Quinn (2006, 2011a, 2012, 2015) and Giandrea, Cahill, and Quinn (2008, 2009). These studies show the development of new transitions from career jobs to full retirement as individuals move to bridge jobs. Maestas (2010) shows the importance of returning to work after a period of being out of the labor force. While more than half of career employees in the HRS follow the traditional pattern of leaving a long-term job and entirely leaving the labor force, significant numbers of workers are choosing different steps from work to retirement. Some are choosing phased retirement, while others move to bridge jobs and self-employment.

The probability of each type of first transition varies by the individual's cohort and by the age at which the retirement transition begins. If an individual leaves her career employer at an older age, she is more likely to follow the traditional retirement pattern; if she leaves at a younger age, she is more likely to take an alternative path into retirement (Clark and Morrill 2015). The diversity of retirement paths reflects variation in worker preferences for continued employment and employers' willingness to retain or hire older workers. Changes in retirement paths highlight the need to understand why some employers are concerned with delayed retirement by career employees while other employers are willing to hire these same workers.

Greater incidence of moving from career jobs to bridge jobs raises the important question of whether this is due to employee preferences

or employer constraints. Individuals could be moving to new jobs in an effort to find lower-stress employment, shorter hours of work, or simply a change in type of work. However, this could also be because employers cannot or do not want to accommodate employees' preferences for restructuring employment conditions.

DELAYED RETIREMENT: IMPACT ON EMPLOYERS

It is clear that retirement transitions for career workers are changing. At the same time, employers may be resistant to delayed retirement or to creating alternative work arrangements for older workers. There has been too little research examining why firms may continue to want employees to retire at the traditional retirement ages. This analysis seeks to quantify potential cost and productivity differentials that influence employer concerns associated with delayed retirement. Chapter 2 examines the impact of delayed retirement on the cost and productivity of firms and institutions. When workers delay retirement from career jobs, the average age of employees rises. Employers must then consider how having older workers represent a higher proportion of their workforce might impact their productivity and production costs. When the age structure of the workforce changes, this will affect the prospects of promotion for early and midcareer workers. These changes may, in turn, inhibit an employer's ability to attract and/or retain new and midcareer employees.

Chapter 2 also discusses whether different factors affect the willingness of employers to hire older workers as compared to the reluctance of career employers to accommodate later retirement. These shifts in employers might involve changes in a worker's occupation, industry, hours of work, compensation, and level of responsibility. It is important to understand why these new employers are receptive to hiring older workers who have retired from their career employers. For example, new employers may find it easier to offer jobs with

new working conditions, responsibilities, and wage levels that are more suitable to older workers' skills and preferences. In comparison, career employers that try to modify existing terms of employment may be accused of violating age discrimination laws. In addition, new jobs may involve fewer hours, so employers may not have to provide certain benefits such as pensions, health insurance, and paid leave. Therefore, the hourly (total) compensation could be considerably lower than is possible in career jobs.

Chapter 3 considers the special cases of phased retirement and return-to-work employment contracts that allow older workers to remain with their career employers but with reduced hours and perhaps at lower ranks. Such changes might involve shifts in responsibilities and hourly compensation. One important constraint in an employer's ability to make these adjustments is federal retirement policies and age discrimination regulations. Do policies encourage or limit changes in compensation and working conditions that would result in greater use of phased retirement? An interesting observation is that phased retirement programs are widespread in higher education and are generally viewed as good for the institution as well as for the professor. The discussion explores why these policies are not viewed positively by employers in general.

Chapter 4 explores the role of government policies and regulations in the cost to firms of employing older workers and the ability of employers to modify employment contracts. Key policies include those that affect the value of Social Security, Medicare, Medicaid, and other programs to older persons and the retirement incentives embedded in these programs. Potential changes in government programs such as Social Security and Medicare may increase the need for income in retirement and thus encourage later retirement. We review possible amendments to these plans that could reduce the employment cost of older workers and hence decrease employer concerns about delayed retirement. State and federal age discrimination laws are then examined to identify how these policies affect the ability of employers to modify employment contracts to retain older workers.

Chapter 5 concludes with a discussion of the importance of considering the employer perspective on working longer. It is clear that demographic and economic changes will continue to provide incentives for individuals to remain in the labor force until older ages. An important question is whether employers will have the desire and ability to provide appropriate job opportunities to accommodate the desire for later retirement.

This book provides a comprehensive assessment of the costs and other issues that influence an employer's willingness to accommodate the desire of employees for delayed retirement. The analysis is based on economic theory along with evidence on age patterns of productivity and cost. We highlight policies and programs that could mitigate these concerns and thus reduce employer resistance to later retirement. The aging of the labor force and the rising proportion of persons aged 60 and over who seek to remain active in the labor force will provide economic and labor market pressures for employers to consider how best to accommodate delayed retirement.

Notes

1. In the economics literature, the term *bridge jobs* is used to denote jobs that older workers move to after leaving their career employers. This new employment can be full or part time and can be in similar or different industries compared to their career jobs.
2. These changes include raising the full retirement age, which is mathematically equivalent to reducing annual benefits and increasing benefit adjustment by delaying initial claiming of Social Security benefits. Shoven and Slavov (2014a,b) show the gain in lifetime benefits from late claiming of Social Security benefits.
3. This same example could be used to show how longevity gains will increase the cost to employers who provide defined benefit plans to their workers, as more years of payouts imply greater cost to the pension plan. The risk to the plan sponsor of rising life expectancy is one reason employers have shifted away from defined benefit plans and toward defined contribution plans. In defined contribution plans, the worker/retiree bears longevity risk.

4. Most defined benefit plans in the private sector are financed solely by employer contributions. Thus, increases in longevity, holding other plan characteristics constant result in higher employer costs. In contrast, public sector plans typically require employee contributions, which can be raised as plan costs increase.
5. Approximately one-quarter of all public employees are not included in the Social Security system. As a result, they do not pay the payroll tax that supports this plan and do not earn credits toward future retirement benefits.
6. Originally, the full retirement age was set at 65; however, 1983 amendments increased the full retirement age to 66 for individuals born between 1943 and 1954. The full retirement age is scheduled to increase to age 67 for individuals born after 1960. Increases in the full retirement age are basically across the board reductions in annual benefits for individuals claiming benefits at each age. See <http://www.socialsecurity.gov/planners/retire/agereduction.html> (accessed September 1, 2016).
7. The PIA is based on the highest 35 years of wage-index annual earnings and a progressive benefit formula. The actual benefit received by a claimant depends on the age at which benefits are claimed.
8. Munnell and Chen (2015) use a cohort analysis of the age of claiming Social Security benefits and find that the proportion of recent cohorts claiming benefits at age 62 has fallen to 36 percent for men and 40 percent for women.
9. The impact of claiming age on monthly benefits is nicely illustrated in *When to Start Receiving Retirement Benefits*, <https://www.ssa.gov/pubs/EN-05-10147.pdf> (accessed September 1, 2016).
10. Shoven and Slavov (2013) provide a detailed review of claiming options and how delaying the start of Social Security benefits increases lifetime benefits.
11. For the past 30 years, the National Bureau of Economic Research's aging program has made significant contributions to research on pensions and aging through a series of books and research papers edited by David Wise and colleagues. Munnell and Sass (2007) also provide an overview of the labor supply choices of older Americans.
12. Munnell and Chen (2015) examine the cohort-adjusted age of claiming Social Security benefits and conclude that few persons reaching age 62 are starting benefits at the earliest possible age.

Extending Work Life

Employer Interests and Concerns

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