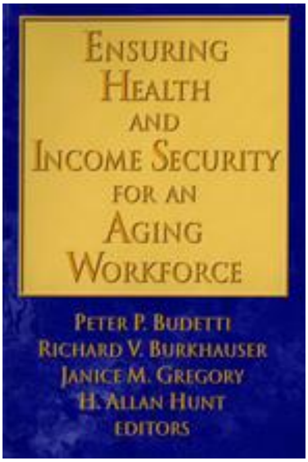
Commentary
[on Is Working Longer and Retiring Later Possible?]



Teresa Ghilarducci
University of Notre Dame

Chapter 21 (pp. 439-447) in:
Ensuring Health and Income Security for an Aging Workforce
Peter P. Budetti, Richard V. Burkhauser, Janice M. Gregory,
and H. Allan Hunt, eds.
Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2001
DOI: 10.17848/9780880994668.ch21

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Teresa Ghilarducci
University of Notre Dame

Who can argue that older people staying active, engaged, and productively working is a bad thing? Brookings Institution's Gary Burtless and Boston College economist Joseph Quinn want older people to work more. They show that the institutional rules of Social Security, social norms, economic prosperity, and employer pension and health plans affect retirement behavior, and they offer changes in tax laws and pension rules that would "incent" more older people to work. Yet, there is considerable disagreement over how much choice people should have between working or not after a certain age.

There is a lot right about Burtless and Quinn's study. It is a compilation of these experts' empirical findings on retirement and work and the detailed interactions of the Social Security's complex delayed requirement credits and earnings test. They sweep over a century of behavior lucidly in order to build the case for specific and easy-to-understand changes in the Social Security system and tax laws. There are, however, serious weaknesses that ultimately make their case for raising the retirement age in Social Security—their major policy prescription—fail. The paper ignores the important differences between the longevity of whites and blacks, the employability of older women compared with that of men, and the relative importance of Social Security benefits for married couples versus single women. Their proposals benefit employers as a group and the highest-earning professionals. The benefits of increasing the retirement age (thus cutting benefits) are not tremendous; Quinn and Burtless admit that increasing longevity is not the major reason for the Social Security system's projected shortfall (their note 18). Moreover, the benefits of maintaining the system are large. Workers will pay higher taxes to keep the retirement age from increasing.

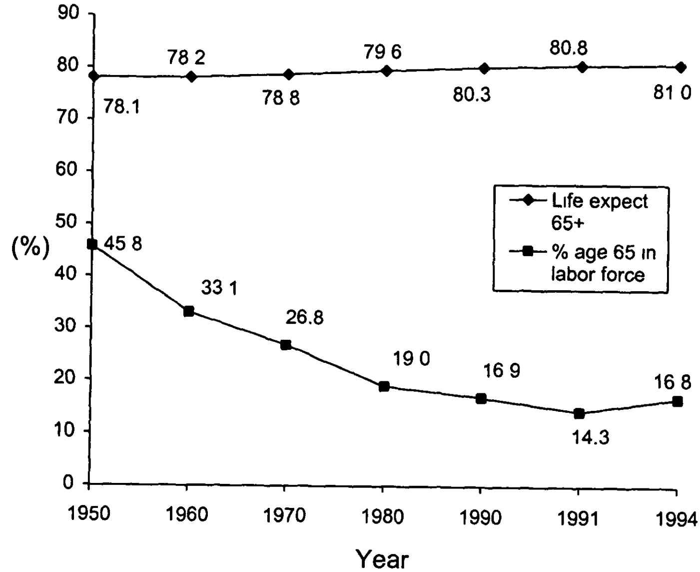
Joseph Quinn and Gary Burtless describe how older people in the United States have connected themselves to their work over the last century. Men are retiring at younger ages except during the last decade. Women are increasing their paid work at all ages. Allowing a paragraph's worth of celebration of the working class's achieving some leisure at the end of their working lives due to increasing wealth, the paper's main focus is to structure policies so that the elderly workers work longer.

The protagonist in the paper is the "U.S. taxpayer" and the burden on this central player is the "burden imposed by an aging population," which could be lessened if workers "could be persuaded to delay their retirements and continue contributing to the health and pension systems." If people are to be persuaded to work longer, then the paper rightly identifies reasons about why people—and by that they mean mostly men—have been persuaded to retire earlier (except in the most recent decade). One theory is that workers have poor health; a second is that older workers face labor market discrimination; and a third is that workers want to retire and can increasingly afford it.

The authors reject the first theory by asserting the physical jobs requiring youngish bodies are on the decline, and that, on average, people live longer. Let us look closely at this bit of received wisdom: first, at the cost of this longevity and, second, at the extent and distribution of it. Figure 1 shows that increased longevity and work ability of the elderly is overblown. The top line shows that life expectancy for a 65-year-old male has increased only a few years since 1950—age 78 to age 81—an increase, but not a dramatic one. What is dramatic, as Burtless and Quinn also emphasize, is that male labor force participation rates are falling. This is a clear demonstration of how workers have chosen to spend the increases in the nation's productive capacity. The "gap" between work and death also represents a long hard fight for victory—that workers pay for—from employers and the state.

Averages hide crucial differences. Unlike whites, African-American males are not enjoying significant increases in longevity. Since five years ago, white males at age 65 live 2.6 percent longer—almost two years—while an African-American male's expectation went up seven months. Even worse is that the lower expected longevity of an African-American male entering the work force at age 20 in 1994 means that on average he'll retire for less than two months at full benefits. Robert Ball warns us that the Social Security system cannot right work and social injustices, but raising the normal retirement age has profound differential effects by race (Table 1).

Figure 1 Workers Won Retirement: The Gap between Death and Work, 1950–1994



SOURCE: Steurele and Bakija (1994).

In addition to the variation in longevity among groups, it seems that the desire to work past 65 is concentrated in a few select groups. Only 4 percent of the elderly in the lowest income quintile have earnings, whereas almost 40 percent in the top have earnings (EBRI 1995). This corroborates other evidence that higher-income professionals are most likely to voluntarily work past normal retirement age (Bovbjerg 1998).

Quinn and Burtless acknowledge, and I agree, that people with jobs requiring stamina and brawn should get early retirement through the disability insurance system; this is an administrative change and helps those too old to work but not entirely disabled to retire. This proposal increases costs.

The authors argue that retirement became more acceptable as it became more affordable, and that social norms alone affect behavior

Table 1 Longevity by Race and Sex, 1979–1980 and 1995

Race/sex	in 1979–1980 (yr.)	in 1994 (yr)	Increase in longevity in 15 years (%)
Expected age at death for those at age 20			
White male	72.5	74.4	2.6
White female	79.4	80.4	1.3
Black male	66.4	67.1	1.1
Black female	74.9	75.5	0.8
Expected age at death for those at age 65			
White male	79.3	80.6	1.6
White female	83.6	84.1	0.6
Black male	78.3	78.6	0.4
Black female	82.1	82.2	0 1

SOURCE: U.S. Department of Commerce 1997.

(controlling for all the other factors). In support of the social approbation hypothesis, they suggest that that ADEA of 1978 that gradually eliminated most mandatory retirement ages may have encouraged the recent increases in work among the elderly by reducing age discrimination and sending a signal to older Americans that work was socially acceptable.

The fact that the social signal affects some groups—like white, upper-income professionals—more than others is not a factor in their analysis. Most workers do not want to retire later and they are willing to pay for it. Most importantly, "encouraging" working more by lowering pensions has high costs paid by some and benefits reaped by others.

To this point, I am reminded of a conversation I overheard in 1997 between the former President of the Bricklayers and Allied Craftworkers Union, John Joyce, and Estelle James, lead author of the World Bank's 1994 pension study, which had a theme similar to that of Burtless and Quinn. She complained about his remarks given in a speech as misinterpreting the World Bank's support for advance funding and partially privatizing the world's pay-as-you-go retirement systems. Our argument is complicated, she protested. Such policies would protect the old and promote economic growth.

He turned, facing her directly and said, "Don't you want workers to work longer?"

"Yes," she said, "That's part of it."

The union president replied, "Then you are taking something away and giving nothing back."

I recall the conversation to make meaningful two observations that Burtless and Quinn acknowledge in their otherwise unambiguous call for older retirement ages. First, they argue that it may desirable to raise the retirement age but U.S. workers don't want to work longer. (They show us that older Americans work longer than most workers in OECD nations.) Eighteen polls over a 20-year period ending in 1997 showed that Americans oppose raising the retirement age. Burtless and Quinn imply that people may be responding to the survey this way because they want to retire even earlier, before age 55. However, Burtless and Quinn concede that workers may understand the cost of what they want; they cite a recent EBRI poll that showed that, by a 2:1 majority, "workers favor higher payroll taxes over reduced Social Security pensions."

Indeed, when given a chance, Americans are willing to pay for what they want. Union demands reflect the preferences of the average worker rather than the marginal or last worker hired in nonunion settings (Freeman 1981). The preferences of union and nonunion workers between pensions and wages are startling. According the Employment Cost Index in the 10-year period between 1980 and 1990, union workers had negative real wage increases but positive two-digit increases in pension contributions. Nonunion workers had the opposite experience: real wages increased by a bit, but pension costs plummeted. There are many factors—age of the workforce and industries—that can explain a huge difference in compensation patterns, but the simplest is consistent with other evidence. When asked, as they are when they vote for a collectively bargained contract, workers are ready to pay for their end of career leisure with reduced wages (Ghilarducci 1997). In other ways, U.S. workers have also demonstrated they will pay to retire. Payroll taxes increased by 16 percent in 1983 when Congress endorsed many of the recommendations of the Greenspan Commission.

Quinn and Burtless also acknowledge that households are also paying for retirement by increasing hours of work when they are younger. The average hours of work by the U.S. population has increased significantly since 1968. Workers between 25–54, on average, work 14 percent more hours than they did 30 years ago, because more women took jobs.

Quinn and Burtless have six proposals.

1) Raise the age at which full Social Security benefits can be received to age 67 (or an age that is increased according to increases in average longevity). This lowers benefits.

2) Exempt older workers from payroll taxes. This, of course, strains the Social Security program.

3) Make employers prorate fringe benefits for part time workers so that firms will more likely hire older workers for more than 35 hours if the cost of hiring them for less increases. This will raise the cost to employers.

4) Make Medicare the first insurance payer. This will raise Medicare costs but might reduce the employers' costs for older workers.

5) Raise the EITC for older workers. This is paid for by general revenue.

6) Repeal the earnings test so that workers receive full Social Security benefits regardless of earnings. This helps those earning over $17,000 per year.

Who wins and who loses?

- Employers win in three ways from Burtless and Quinn's proposals. First, there are significant wage subsidies for employers hiring older workers inherent in expanding the EITC, repealing the earnings test, making Medicare the first payer, and lowering payroll taxes. These reduce wage costs. Second, increasing the supply of workers reduces the bargaining power of all workers and puts downward pressure on wages. Third, higher-income workers would pay for an expanded EITC through general revenues generated by the progressive federal tax system. Proposal three, however, requiring employers to partly pay for the fringe benefits of part time workers, may increase costs if employers don't switch part-time workers to temporary status.

- Higher-income older workers win. Workers who would have worked longer anyway—white-collar professionals—are rewarded by getting a larger delayed retirement credit and by the elimination of the earnings test. Higher-income workers also benefit more than lower-income workers do because they are unlikely to retire at the earlier ages and take the lower pension.
- Middle-class workers lose. Instead of raising the retirement age, the Social Security system can raise payroll taxes. Lower-income workers—those in the first two quintiles—are almost fully subsidized by the EITC. So middle-income workers would have to pay the bulk of this increased cost if the earnings cap is not expanded. However, since these workers are more likely to retire at age 65 or earlier, then they pay for their retirement and "get something back" from their taxes.
- Blue-collar workers, workers in stressful jobs, and jobs sensitive to the business cycle will lose when the normal retirement age increases because they are much more likely to leave at the earlier ages and accept a lower pension.
- Older women lose. Women who do not work longer, and consequently receive a lower pension, will have lower earnings. This group is already at greater risk of poverty; the poverty rate for older single women is 22 percent, compared with 4 percent for older couples (who are more likely to get income from earnings). The wage gap between older men and women is also higher, suggesting that work opportunities for older women are more limited than for older men.
- Workers of all ages lose. If older workers have to work two to three years longer to get full benefits, then the increased supply of older workers searching for jobs depresses bargaining power and wages.

The gap between death and retirement shows a potential labor force ready to work if other sources of income—like Social Security and pensions—are made less certain and generous. In the year 2000, approximately 4.2 million Americans over the age of 65 are expected to be in the labor force. If the labor force participation rates rise to the 1950s level because of smaller Social Security benefits, the number jobs created would have to triple or unemployment will soar, which in turn will suppress wages. Burtless and Quinn assure us that the "job-creating capacity" of the American economy will accommodate this increase supply of workers. They credit the "flexible" U.S. labor market's ability to absorb workers. They acknowledge that "if older workers were forced to wait for two or three extra years for full Social Security retirement benefits to begin," many would work longer in their jobs or spend more time looking for work. This would "certainly depress the wages of aged job seekers."

British Philosopher Bertrand Russell helps us step back from the costs and benefits of reducing pensions and encouraging older people to work by commenting on the urge behind the urge. He writes in the 1935 essay *In Praise of Idleness* (p. 17),

> The idea that the poor should have leisure has always been shocking to the rich . . . When I was a child, shortly after urban working men had acquired the vote a number of public holidays were established. I remember hearing an old Duchess say, "What do the poor want with holidays? They ought to work.

In sum, this paper does not make the case for increasing the retirement age; the current projected numbers of retirees can be paid for through a modest increase in the payroll tax, which by all evidence seems to be acceptable to the American public. Moreover, the cost incidence of raising the retirement age would benefit high-income professional workers and employers at the expense of middle-income and women workers. Given the persistent problem of growing income inequality, any proposal that increases the gap between the top and bottom is unadvisable.

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