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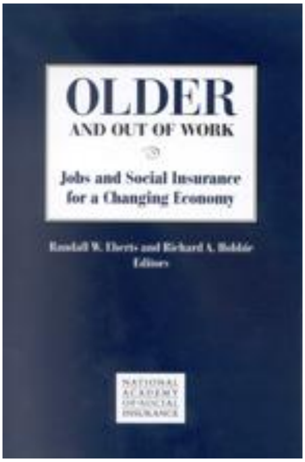

Ralph E. Smith
U.S. Congressional Budget Office

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Disability and Retirement among Aging Baby Boomers

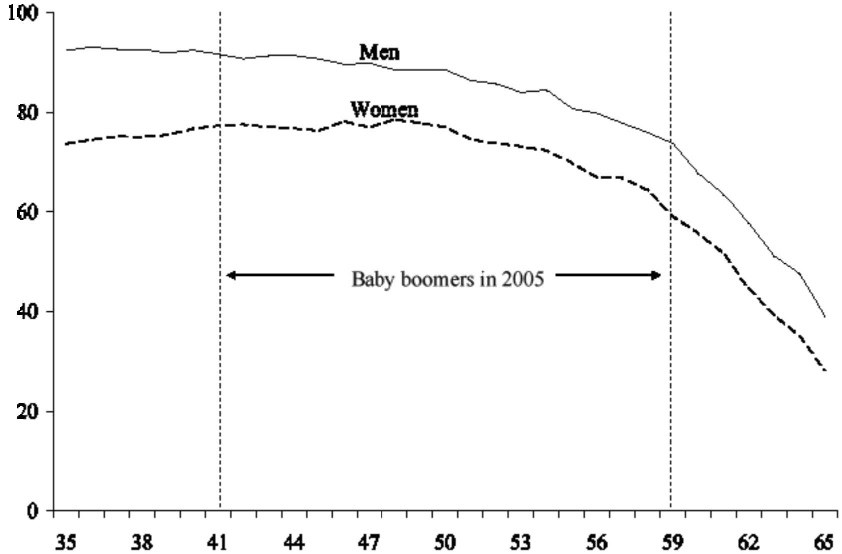
Ralph E. Smith
Congressional Budget Office

Members of the leading edge of the baby-boom generation—the large number of people born between 1946 and 1964—turn 60 this year. Most of them will become eligible for Social Security retirement benefits when they reach age 62. And at age 65, they will qualify for Medicare. Considerable attention has been paid to whether boomers have saved enough to afford to retire and to whether they will decide to continue working once they become eligible for Social Security and Medicare.

Many boomers, however, are not waiting until age 62 or 65 to stop working. Many have already stopped. Moreover, if they follow in the footsteps of workers now in their early 60s, perhaps one-third of the men and nearly half of the women will be out of the labor force before their 62nd birthday (Figure 6.1). By the time they are in their late 50s or early 60s, the majority of the people not in the labor force give "retired" as their main reason for not working. But before that age, disability is a more common reason than retirement (Figures 6.2A and 6.2B).

This chapter examines the characteristics of men and women who leave the labor force before reaching age 62 and analyzes their income sources given that they no longer work for pay. Most of the analysis concentrates on men and women ages 50 to 61 who were not in the labor force at any time during 2001, a group that includes not just the oldest boomers (those ages 50 to 55 in 2001), but also people born just before them. (Information about the latter group offers insights into what could be in store for boomers as they age.) The empirical findings presented here are largely based on an analysis of data from the Survey of Income and Program Participation (SIPP).[1]

Figure 6.1 Labor Force Participation Rates of Men and Women by Age, 2005 (% of population)

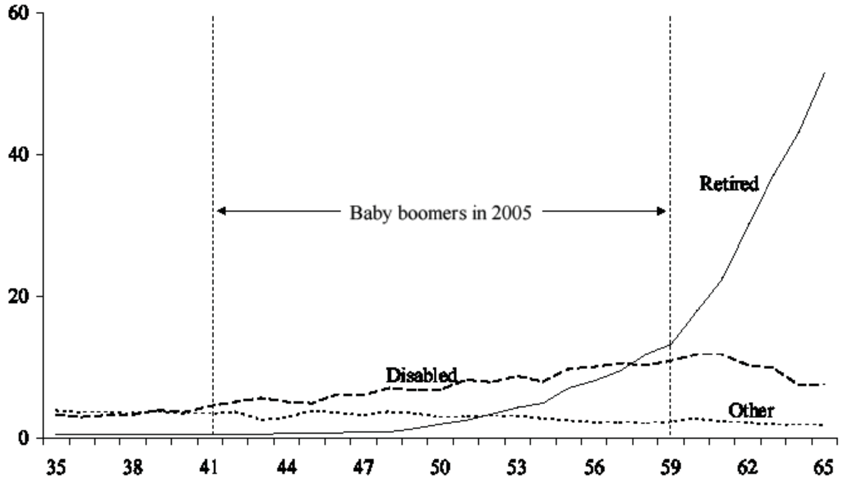


SOURCE: Estimates based on data from the Current Population Survey for 2005.

Those data have several limitations, so attention should focus on the qualitative findings rather than on the precise estimates. One drawback is that the data are based on survey responses, which are not always accurate. Moreover, some of the questions (such as those that attempt to identify why respondents were not in the labor force or those that try to determine the presence of a disability) call for judgments on the part of the respondents, rather than for strictly objective facts. In addition, care should be taken in extrapolating the results presented here to the future activities or well-being of younger baby boomers. For example, fewer of them probably will receive defined benefit pensions when they leave the labor force, but more of them likely will have participated in 401(k) or other defined contribution plans.

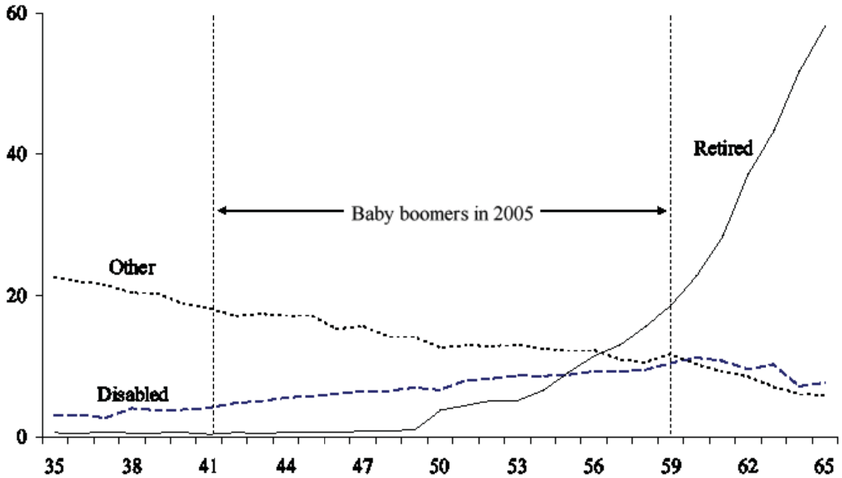
The analysis indicates that, overall, the men and women in their 50s and early 60s who were not in the labor force in 2001 had much lower median family incomes, fewer assets, and higher poverty rates than men and women in their age range who were still in the labor force

Figure 6.2A Men Not in Labor Force in 2005, by Age (% of population)



SOURCE: Estimates based on data from the Current Population Survey for 2005.

Figure 6.2B Women Not in Labor Force in 2005, by Age (% of population)



SOURCE: Estimates based on data from the Current Population Survey for 2005.

(Table 6.1).[2] Similar patterns were found for both the early baby boomers (ages 50 to 55) and the cohort that preceded them (ages 56 to 61), as reported in Tables 6.2A and 6.2B.

In addition, the people who were out of the labor force before becoming eligible for Social Security retired-worker benefits said they were not working for one of several reasons. The most frequent reason they offered was that they were disabled; this accounted for almost two-thirds of the men who were not in the labor force and two-fifths of the women. Most of the other men said that they were retired. Most of the other women said that they were retired, caring for others, or not interested in working.

Survey responses indicate that the circumstances of those not in the labor force because of a disability are quite different from those who have retired. Among the findings presented in this chapter are these:

- Men and women not in the labor force because of a disability generally had much lower income, higher poverty rates, and fewer assets than those who were retired. The higher income of retired workers, especially the men, was due in large part to their receipt of a pension. Nearly three-quarters of the retired men and one-third of the retired women received income from a defined benefit pension of their own.
- About 80 percent of the men and women who reported that they were not working because of a disability received Social Security Disability Insurance (SSDI) benefits or were in a family that received payments from the Supplemental Security Income (SSI) program, or both. Far fewer of those respondents—21 percent of the men and 9 percent of the women—received a pension. They also had fewer years of education than men and women not in the labor force for other reasons.
- While most of the individuals who were not in the labor force either because of a disability or because they were retired had health insurance, the sources of that coverage varied greatly, depending on the reason for nonparticipation. For instance, the major sources of coverage for the disabled were Medicare and Medicaid. The single major source of health insurance for retired workers, however, was from an employer (either the retiree's own former employer or the current or former employer of the retiree's spouse).

Table 6.1 Labor Force Status, Income, and Assets of Men and Women Ages 50–61 and the Main Reason for Nonparticipation, 2001

	Not in labor force during 2001, by reason				In labor force at any time during 2001
	Retired	Disabled	Other[a]	Total	
Men					
Size of group					
% of total	4	9	1	14	86
% of total not in labor force	32	64	4	100	
Income and assets					
Median family income	30,000	20,000	—	23,000	62,000
Median net worth, including home equity	231,000	19,000	—	61,000	148,000
Median net worth, excluding home equity	89,000	2,000	—	8,000	55,000
% poor	15	24	—	21	3
Women					
Size of group					
% of total	6	10	8	24	76
% of total not in labor force	26	40	34	100	
Income and assets					
Median family income	34,000	19,000	43,000	30,000	54,000
Median net worth, including home equity	218,000	14,000	120,000	82,000	132,000
Median net worth, excluding home equity	90,000	1,000	27,000	13,000	42,000
% poor	14	34	10	21	3

NOTE: Respondents were included in the labor force if they reported that they had worked or looked for work at any time during 2001. Blank = not applicable. — = not available because of the small sample size.

[a] Most of the men and women in this category reported that they were taking care of others or were not interested in working.

SOURCE: Estimates based on data from the 2001 Survey of Income and Program Participation (U.S. Census Bureau 2006).

Table 6.2A Labor Force Status, Income, and Assets of Early Baby Boomers (Ages 50–55) and the Main Reason for Nonparticipation, 2001

	Not in labor force during 2001, by reason				In labor force at any time during 2001
	Retired	Disabled	Other[a]	Total	
Men					
Size of group					
% of total	1	8	1	10	90
% of total not in labor force	15	79	6	100	
Income and assets					
Median family income	—	21,000	—	22,000	64,000
Median net worth, including home equity	—	15,000	—	35,000	133,000
Median net worth, excluding home equity	—	2,000	—	2,000	47,000
% poor	—	21	—	20	2
Women					
Size of group					
% of total	2	9	9	20	80
% of total not in labor force	12	44	44	100	
Income and assets					
Median family income	—	18,000	42,000	30,000	58,000
Median net worth, including home equity	—	9,000	104,000	63,000	126,000
Median net worth, excluding home equity	—	1,000	24,000	7,000	40,000
% poor	—	34	12	22	3

NOTE: Respondents were included in the labor force if they reported that they had worked or looked for work at any time during 2001. Blank = not applicable. — = not available because of the small sample size.

[a] Most of the men and women in this category reported that they were taking care of others or were not interested in working.

SOURCE: Estimates based on data from the 2001 Survey of Income and Program Participation (U.S. Census Bureau 2006).

Table 6.2B Labor Force Status, Income, and Assets of World War II Cohort (Ages 56–61) and the Main Reason for Nonparticipation, 2001

	Not in labor force during 2001, by reason				In labor force at any time during 2001
	Retired	Disabled	Other[a]	Total	
Men					
Size of group					
% of total	8	10	1	19	81
% of total not in labor force	44	53	3	100	
Income and assets					
Median family income	30,000	19,000	—	25,000	59,000
Median net worth, including home equity	256,000	20,000	—	90,000	170,000
Median net worth, excluding home equity	96,000	4,000	—	13,000	69,000
% poor	16	27	—	22	3
Women					
Size of group					
% of total	12	12	8	32	68
% of total not in labor force	38	36	26	100	
Income and assets					
Median family income	34,000	19,000	44,000	31,000	49,000
Median net worth, including home equity	202,000	22,000	146,000	100,00	144,000
Median net worth, excluding home equity	71,000	2,000	33,000	18,000	47,000
% poor	15	34	7	20	4

NOTE: Respondents were included in the labor force if they reported that they had worked or looked for work at any time during 2001. Blank = not applicable. — = not available because of the small sample size.

[a] Most of the men and women in this category reported that they were taking care of others or were not interested in working.

SOURCE: Estimates based on data from the 2001 Survey of Income and Program Participation (U.S. Census Bureau 2006).

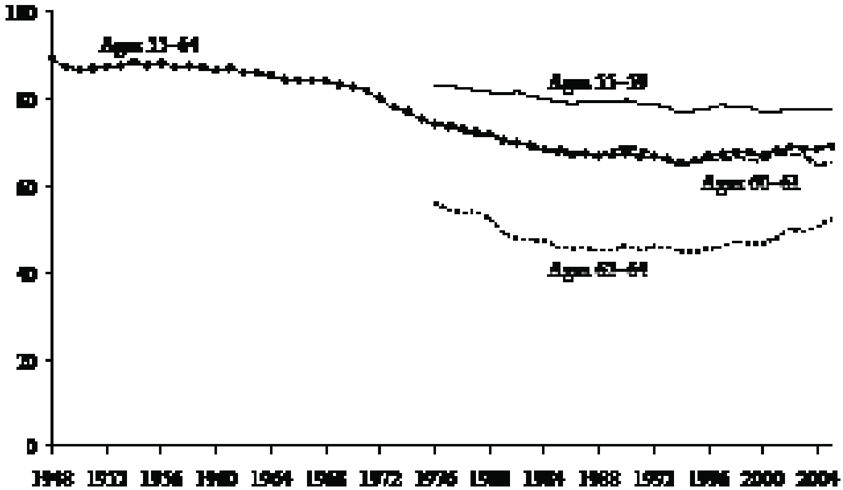
PARTICIPATION IN, AND WITHDRAWAL FROM, THE LABOR FORCE

Since the first baby boomers were born in 1946, major changes have occurred in the labor force participation patterns of older men and women (Figures 6.3A and 6.3B). In the late 1940s and early 1950s, nine out of ten men ages 55 to 64 were participating in the labor force, compared with fewer than one in three women. Since the mid-1980s, however, only about two-thirds of men in that age group have been in the labor force. Meanwhile, the labor force participation rate of women in that age group (as well as in other age groups) rose appreciably: in recent years, well over half have been in the labor force.

Why do some people stop working or looking for work before they become eligible for Social Security retirement benefits while others stay in the labor force long afterward? Individuals stop participating in the labor force if they decide that the benefits of working or seeking work no longer outweigh the costs of doing so. Those benefits include not just the after-tax wages and other job-related remuneration, but also non-financial benefits, such as personal satisfaction and a social network. Likewise, the costs go well beyond the out-of-pocket expenses related to working (such as those for commuting and clothing). For most workers, the major cost is the value of the activities forgone while working—that is, the benefits they would have derived from whatever they could have done instead.

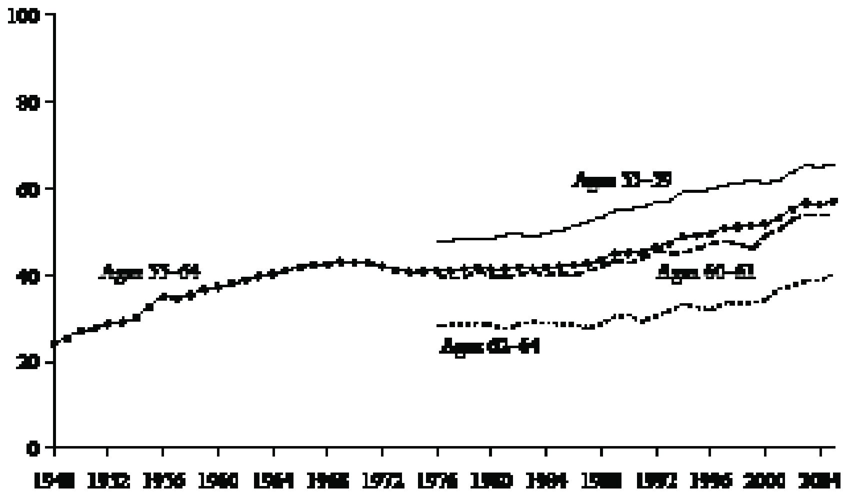
An extensive body of literature on retirement decisions highlights the work disincentives or barriers that lead many workers to decide to stop working well before they become eligible for Social Security retirement benefits. The availability and structure of defined benefit (DB) pension plans, in particular, have been linked to early retirement. In those plans, when workers reach a certain age and have been with their employer a specified number of years, they qualify for a pension. Certain features of DB plans place a large effective tax on people who, once eligible for a pension, remain with the same employer. Those features include less-than-actuarially-fair accrual rates for additional pension benefits and legal restrictions that limit the ability of a worker to draw a pension while continuing to work for that employer.

Figure 6.3A Labor Force Participation Rates of Men Ages 55–64, 1948–2005 (%)



SOURCE: Author’s estimates based on data from the Bureau of Labor Statistics.

Figure 6.3B Labor Force Participation Rates of Women Ages 55–64, 1948–2005 (%)



SOURCE: Author’s estimates based on data from the Bureau of Labor Statistics.

Although workers can respond to those disincentives by changing employers rather than retiring, the compensation from their next-best job may be well below what they currently earn. For employers, seniority-based systems may result in wages for older workers that exceed their actual or perceived productivity, discouraging them from employing those workers. Higher average costs of health insurance for older workers may further reduce employers' incentives to employ them. Likewise, older workers who lose their jobs may have considerable difficulty finding a new one that pays nearly as much as the one they lost, and they might respond by leaving the labor force (BLS 2004).[3]

Researchers have linked the long-term decline in the labor force participation of older men to the growth in the nation's affluence (Costa 1998). Pensions, Social Security, and private savings have enabled many workers to exit the labor force without being financially dependent on their children. The early retirement incentives commonly found in DB pension plans, noted above, may further encourage workers to leave the labor force before they become eligible for Social Security retirement benefits. In recent years, however, the decline in DB pension plan coverage and the rise of 401(k) and other defined contribution plans have reduced the fraction of the workforce facing those incentives (Friedberg and Webb 2003).

The future course of the labor force participation rate of older men is difficult to predict, in part because of different expected trends in its determinants. The nation's economy is likely to continue to grow, which could facilitate early retirement. However, the switch from defined benefit pension plans to defined contribution plans, along with increasing life spans, could discourage early retirement. The Congressional Budget Office (CBO) projects that the participation rate of men in their late 50s and early 60s will remain near its current level during the next decade (CBO 2004a). The CBO anticipates that the participation rate of women in that age group will continue to rise, however, as younger women with a greater attachment to the labor force than their predecessors reach that age range.

WHO STOPS WORKING BEFORE AGE 62, AND WHAT DO THEY LIVE ON?

The analysis presented here is based largely on information from the 2001 Survey of Income and Program Participation (SIPP). The sample relevant to this analysis consists of about 8,500 men and women ages 50 through 61 in 2001. The majority of that group was born during the baby boom. The others (ages 56 and older) were born earlier, but their inclusion provides additional information about the characteristics and resources of people who leave the labor force before becoming eligible for Social Security retirement benefits. For the purposes of this analysis, particular attention is paid to the characteristics, income, and assets of the 14 percent of men and 24 percent of women ages 50 through 61 who reported that they had not worked or looked for work at any time during 2001. (Additional information about the SIPP is provided in Appendix 6A.)

Those who were not in the labor force during that period were classified by the main reason they provided for not working: retired (32 percent of the men and 26 percent of the women not in the labor force); disabled (64 percent of the men and 40 percent of the women); and taking care of others, not interested in working, temporarily ill or injured, could not find work, or other reasons (4 percent of the men and 35 percent of the women).[4]

Based on information the respondents provided about their previous employment history and about their activities during the following year (2002), most of the men and women who were not in the labor force at any time in 2001 appear to have once worked but to have totally withdrawn from the labor force. Only 3 percent of the male respondents who were not in the labor force in 2001, and 12 percent of the women, said they had never worked. Among the respondents for whom information was available for all of 2002, only 5 percent of the men and 6 percent of the women reported any subsequent earnings, and most of them earned less than $6,000 that year.

Income and Assets

The men and women in their 50s and early 60s who were not in the labor force had much lower median family incomes than the men and women who were still in the labor force (Table 6.1). They also had far fewer assets.

Among the men and women who were not in the labor force, those who had retired generally were in a much stronger financial position than those who were out of the labor force because of a disability. (Retired workers typically had lower incomes than those who were still in the labor force, but more assets.) Retired men had a median family income of about $30,000 and a net worth, including home equity, that exceeded $200,000.[5] The median income of disabled men was only about $20,000, and their net worth (at $19,000) was less than one-tenth that of retired men. Similar differences were found for retired and disabled women.

For many people, equity in one's home is their largest single asset. Excluding home equity from calculations of their net worth made the differences between retired and disabled men and women more stark: The typical retired man or woman was in a household with a net worth of about $90,000. The household net worth, excluding home equity, of the median disabled man or woman, however, was only about $1,000 or $2,000.

The differences in average well-being may well be even larger than those estimates of income and net worth suggest, for two reasons. First, most of the retired men and women could anticipate becoming eligible for Social Security retired worker benefits when they reach age 62, which will add to their other income. But the majority of disabled men and women were already receiving a Social Security disability benefit and will not become eligible for any additional Social Security benefit at age 62.[6]

Second, workers who decided to retire because they felt that they could afford to do so and wanted to do something else with their time presumably were better off than if they had remained at work, assuming that their expectations were realized. Even though they no longer had the earnings from their former job, they had more time to do other things. Those who were not working because of a disability may have had less of a choice.

The higher average income of the men and women who had retired rather than left the labor force because of a disability is largely associated with the greater likelihood of their having a pension. Nearly three-quarters of the men and about one-third of the women who had retired were receiving a pension in 2001, accounting for a substantial portion of their average income (Tables 6.3 and 6.4).[7] Most of the average income of retired men came from their pensions, earnings of family members (usually a wife), and income from assets. For retired women, their husband's pension and Social Security also were major sources.[8]

Benefits from Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI), along with the earnings of family members, were the main sources of income for disabled men and women. Almost two-thirds of the disabled men received Social Security disability benefits and more than one-third received SSI. A slightly smaller portion of the disabled women received Social Security disability benefits, but more received SSI. Few disabled men or women received pensions, and, among those who did, their average pension was only about half that of retired pensioners.

Those women not in the labor force because they were caring for others or because of other reasons had a much higher median income than women who said they were retired or disabled. That difference is largely attributable to the fact that a much higher percentage of them had husbands still in the workforce and that their husbands' average earnings were substantially higher than the earnings of retired or disabled women's husbands.

Care must be taken in drawing conclusions about the future economic well-being of the people not in the labor force in 2001 or the well-being of workers who subsequently leave the labor force. In particular, the value of various assets—including homes and stocks—could well be different in the future. Also, it is likely that a smaller percentage of future retired workers will have participated in defined benefit pension plans, as coverage in those plans gives way to coverage in defined contribution plans, such as 401(k) plans.[9]

Poverty

Another gauge of a group's economic status is the percentage who are poor. In 2001, an individual under age 65 was considered poor by

Table 6.3 Sources of Income for Men Ages 50–61 Not Participating in the Labor Force, 2001

Income source	% receiving income from designated source	Average annual amount ($)	
		For recipients of income from designated source	For all in group
Retired			
All available sources[a]	99	33,800	33,400
Earnings of spouse or other family members	38	26,100	9,800
Pension			
Own	73	19,300	14,100
Spouse	10	6,500	700
Social Security			
Own	4	7,100	300
Spouse or other family members	11	8,100	900
Property	82	5,400	4,400
Supplemental Security Income	5	7,800	400
Veterans' benefits	5	10,800	500
Workers' compensation	2	6,200	100
Disabled			
All available sources[a]	99	28,700	28,300
Earnings of spouse or other family members	44	24,900	11,100
Pension			
Own	21	10,300	2,100
Spouse	3	10,800	300
Social Security			
Own	64	8,600	5,500
Spouse or other family members	24	8,100	1,900
Property	43	1,100	500
Supplemental Security Income	37	6,100	2,300
Veterans' benefits	15	11,400	1,700
Workers' compensation	6	8,800	500

[a] Includes some sources not listed.

SOURCE: Estimates based on data from the 2001 Survey of Income and Program Participation (U.S. Census Bureau 2006).

Table 6.4 Sources of Income for Women Ages 50–61 Not Participating in the Labor Force, 2001

Income source	% receiving income from designated source	Average annual amount ($)	
		For recipients of income from designated source	For all in group
Retired			
All available sources[a]	100	44,300	44,300
Earnings of spouse or other family members	46	46,400	21,400
Pension			
Own	35	13,600	4,800
Spouse	44	16,900	7,500
Social Security			
Own	15	4,000	600
Spouse or other family members	34	10,500	3,600
Property	82	5,200	4,300
Supplemental Security Income	6	5,800	400
Veterans' benefits	6	7,200	500
Disabled			
All available sources[a]	99	25,900	25,800
Earnings of spouse or other family members	48	26,100	12,500
Pension			
Own	9	7,700	700
Spouse	13	11,600	1,500
Social Security			
Own	58	5,800	3,400
Spouse or other family members	30	8,100	2,400
Property	38	1,900	700
Supplemental Security Income	44	5,000	2,200
Veterans' benefits	4	5,600	200
Workers' compensation	4	6,000	300

[a] Includes some sources not listed.

SOURCE: Estimates based on data from the 2001 Survey of Income and Program Participation (U.S. Census Bureau 2006).

the Bureau of the Census if his or her family's cash income for the year was below about $9,200. The threshold for a married couple was about $11,900.

In general, people in their 50s and early 60s who are working are at or near their peak earning years. Thus, it is not surprising that very few of those who remained in the labor force were poor. Likewise, it is not surprising that the men and women who were not in the labor force had a much higher poverty rate than did those in the labor force: 21 percent versus 3 percent (Table 6.5).

Here again, the retired workers fared much better than men and women who were not in the labor force because of a disability. Fifteen percent of the retired men and 14 percent of the retired women had incomes below the poverty threshold, compared with 24 percent of the disabled men and 34 percent of the disabled women.

One limitation of the way poverty is measured is that it does not take into account the assets owned by individuals and their families except

Table 6.5 Poverty Rates of Labor Force Participants and Nonparticipants Ages 50–61, 2001 (%)

	Not in labor force during 2001, by reason				In labor force at any time during 2001
	Retired	Disabled	Other[a]	Total	
Based on cash income					
Men	15	24	—	21	3
Women	14	34	10	21	3
Based on cash income plus annuity value of net worth (excluding home equity)					
Men	11	24	—	20	3
Women	11	33	9	19	3
Based on cash income plus annuity value of net worth (including home equity)					
Men	5	23	—	17	2
Women	9	31	8	17	3

NOTE: — = not available because of the small sample size.

[a] Most of the men and women in this category reported that they were taking care of others or not interested in working.

SOURCE: Estimates based on data from the 2001 Survey of Income and Program Participation (U.S. Census Bureau 2006).

to the extent that the assets produce current income (for example, interest and dividends). Two people may both have the same cash income, but if one owns a house and has an Individual Retirement Account and the other does not, their actual economic situations are quite different. The assets are available to meet future spending needs, whether or not they produce current income.

The extent to which the retired workers with low incomes but substantial assets might be better off than their annual income suggests can be gauged by translating those assets into the annual income they would produce if converted into an annuity. Such a calculation, using each retired worker's net worth, excluding home equity, reduces the estimated number of poor retired workers: the percentage of retired men with family income below their poverty threshold falls from 15 percent to 11 percent; the percentage of retired women counted as poor falls from 14 percent to 11 percent.[10] Annuitizing their home equity, as well, reduces the estimated poverty rates of retired men and retired women to about 5 percent and 9 percent.

Including the annuity value of the assets of those men and women not in the labor force because of a disability makes very little difference because they have so few assets—especially the ones with low cash incomes. Even allowing for their home equity, about one-quarter of the disabled men and one-third of the disabled women still would have income below the poverty threshold.

Health Insurance

Besides causing a decline in cash income, withdrawal from the labor force also may put at risk a worker's access to health insurance. Most adults under age 65 obtain health insurance coverage through their own or their spouse's employer. The cost of employer-sponsored insurance generally is much lower than the cost of insurance that a worker can obtain in the individual market. Moreover, employers typically pay the majority of the premium, which is not counted as taxable income to the worker.

Most men and women ages 50 through 61 were covered by a health insurance policy at the end of 2001, whether or not they were in the labor force (Table 6.6). Most of those in the labor force were covered by an employer-sponsored plan—either through their own current or former employer or that of their spouse.

Table 6.6 Health Insurance Coverage among Labor Force Participants and Nonparticipants Ages 50–61, 2001 (%)

	Not in labor force during 2001 and reason				In labor force at any time during 2001
Source of coverage	Retired	Disabled	Other[a]	Total	
Men[b]					
Employer-sponsored	76	33	—	47	82
Medicare, Medicaid	4	52	—	35	1
Other coverage	11	4	—	7	6
Uninsured	9	11	—	11	11
Women[b]					
Employer-sponsored	73	27	64	52	82
Medicare, Medicaid	4	53	6	24	2
Other coverage	14	7	11	10	7
Uninsured	9	13	19	14	9

NOTE: — = not available because of the small sample size.

[a] Most of the men and women in this category reported that they were taking care of others or were not interested in working.

[b] Columns for each gender sum to 100.

SOURCE: Estimates based on data from the 2001 Survey of Income and Program Participation (U.S. Census Bureau 2006).

The main source of health insurance for people not in the labor force varied widely, depending on whether they were not working because of a disability, because they had retired, or for other reasons. About half of the disabled were covered by Medicare or Medicaid, whereas roughly three-quarters of the retired men and women were covered by employer-sponsored health insurance (either their own or that of a spouse). Women who were not in the labor force because they were caring for others, not interested in working, or for other reasons were more likely than other women to be uninsured (19 percent, compared with 13 percent of disabled women, 9 percent of retired women, and 9 percent of women still in the labor force).

Characteristics of Men and Women Not in the Labor Force

As noted above, 14 percent of the men and 24 percent of the women ages 50 to 61 were not in the labor force in 2001. They differed from their contemporaries who remained in the labor force in several ways (Tables 6.7 and 6.8). Moreover, among the men and women not in the labor force, the ones who had left the labor force because of a disability were generally different from those who had retired.[11]

Educational attainment

Only 13 percent of the men ages 50 to 61 who were not in the labor force in 2001 had graduated from college, compared with 34 percent of the men still in the labor force. Likewise, about one-quarter of the men no longer in the labor force had not completed high school, compared with only one in ten of the men still in the labor force.

Those differences are almost entirely accounted for by the much lower educational attainment of men who were not in the labor force because of a disability rather than because they had retired. Only 5 percent of the disabled men had graduated from college, while 34 percent had not finished high school. Meanwhile, the educational attainment of men who said that they had retired was akin to that of men still in the labor force.

The situation for women is similar. Few of the women not in the labor force because of a disability had graduated from college, while 40 percent of the disabled women had not completed high school. Women who had retired were also more likely than women still in the labor force to have not completed high school, but the difference was much smaller. (Women not in the labor force for other reasons, such as caring for others, were more likely to have completed high school than the disabled women, but less likely than the retired women.)

Marital status

A much smaller percentage of men not in the labor force were married (55 percent), compared with men in the labor force (74 percent). Again, most of that difference is associated with the men not in the labor force because of a disability: only half of the men not in the labor force because of a disability were married, compared with over two-thirds of retired men.

Although women not in the labor force were as likely to be married as those in the labor force, there were major differences between those women not in the labor force because of a disability and other women.

Table 6.7 Characteristics of Men Ages 50–61, 2001 (%)

	Not in labor force during 2001 and reason				In labor force at any time during 2001
	Retired	Disabled	Other[a]	Total	
Education					
Did not finish high school	11	34	—	26	11
High school diploma	33	37	—	35	26
Some college	26	24	—	25	28
College graduate	30	5	—	13	34
Marital status					
Married	70	49	—	55	74
Divorced, separated, widowed	23	36	—	31	20
Never married	8	15	—	14	5
Origin					
Native-born	96	91	—	93	89
Foreign-born	4	9	—	7	11
Age last worked					
50 or later	84	32	—	49	100
Before 50	15	64	—	48	0
Never employed	1	4	—	3	0
Disability status					
Work-limiting disability	28	100	—	25	16
None	72	0	—	75	84

NOTE: — = not available because of the small size of the sample. Columns in all categories sum to 100 except for "Education," columns 4 and 5, and "Marital status," columns 1 and 5, which sum to 99, 99, 101, and 99, respectively, because of rounding.

[a] Most of the men in this category reported that they were taking care of others or were not interested in working.

SOURCE: Estimates based on data from the 2001 Survey of Income and Program Participation (U.S. Census Bureau 2006).

Table 6.8 Characteristics of Women Ages 50–61, 2001 (%)

	Not in labor force during 2001 and reason				In labor force at any time during 2001
	Retired	Disabled	Other[a]	Total	
Education					
Did not finish high school	15	40	26	29	8
High school diploma	32	34	34	34	33
Some college	24	22	24	23	31
College graduate	29	4	15	14	28
Marital status					
Married	75	46	83	66	65
Divorced, separated, widowed	19	46	13	28	29
Never married	6	8	3	6	7
Origin					
Native-born	88	91	81	87	90
Foreign-born	12	9	19	13	10
Age last worked					
50 or later	60	25	29	35	100
Before 50	32	64	55	53	0
Never employed	8	11	16	12	0
Disability status					
Work-limiting disability	28	99	26	55	15
None	72	1	74	45	85

NOTE: Columns in all categories sum to 100 except for "Education," column 3, and "Marital status," columns 3 and 5, which sum to 99, 99, and 101, respectively, because of rounding.

[a] Most of the women in this category reported that they were taking care of others or were not interested in working.

SOURCE: Estimates based on data from the 2001 Survey of Income and Program Participation (U.S. Census Bureau 2006).

Less than half of the disabled women were married, compared with three-quarters of the women who had retired.

Origin

Men not born in the United States were slightly more likely to be in the labor force than were native-born men; by contrast, foreign-born women were slightly less likely to be in the labor force. For men, the biggest difference was in the share retired: only 4 percent of retired men were foreign-born, compared with 9 percent of men not in the labor force because of a disability and 11 percent of men in the labor force. Foreign-born women were much more likely than native-born women to be out of the labor force because they were taking care of others or not interested in working: they composed 19 percent of that group, compared with only 10 percent of the women in the labor force.

Age last worked

Nearly all (97 percent) of the men who were not in the labor force said that they had once worked. Those who left the labor force because of a disability were much more likely than the retired workers to have withdrawn before age 50. A lower percentage of women not in the labor force (88 percent) said that they had once worked, and many more (53 percent) said that they had stopped working before age 50.

Disability Status

Respondents—whether or not they were working—also were asked whether they had “a physical, mental or other health condition that limits the kind or amount of work you can do.” Not surprisingly, virtually all who reported that the main reason they were not in the labor force was a disability answered that question affirmatively. In addition, about 15 percent of the men and women who were still in the labor force said that they had a work-limiting disability, as did almost 30 percent of the retired workers. That is, while having a work-limiting disability did not necessarily result in an individual’s leaving the labor force, it did increase the likelihood that they would do so (Box 6.1).

Box 6.1 What Does "Disabled" Mean?

Most of the analysis in this paper is based on a self-reported interpretation of why people are not working rather than on an objective measure of impairment. Respondents in the Survey of Income and Program Participation (SIPP) were classified as disabled for this analysis if they said that the main reason they were not working was that they had a chronic health condition or disability, rather than because they had retired, were caring for others, were not interested in working, or for other reasons. An additional, more expansive measure of disability available in SIPP (also used in this paper) is based on individuals' responses to a question about whether they had "a physical, mental or other health condition that limits the kind or amount of work you can do." About 15 percent of the respondents who were still in the labor force and almost 30 percent of the retired workers said that they did have a work-limiting disability. As suggested by those responses, individuals can consider themselves to have a disability and yet still continue to work.

Researchers have long debated how best to define and measure disability (Stapleton and Burkhauser 2003).[12] Some definitions are based on whether an individual has one or more specific impairments—for example, the loss of a leg. Others, such as the work-limiting disability measurement noted above, are based on a functional limitation that could be affected by circumstances other than the specific impairment itself. For example, a person with a college degree working in an office is less likely than a high school dropout to consider the loss of a leg to be a relevant disability.

Different public programs and policies use varying criteria. The Americans with Disabilities Act, for example, defines disability as a physical or mental impairment that substantially limits one or more of the major life activities. Eligibility for benefits from the Social Security Disability Insurance program is based, in part, on a much narrower criterion: the inability to engage in "substantial gainful activity" by reason of a physical or mental impairment that is expected to last for at least 12 months or to result in death.

Appendix 6A
The Survey of Income and Program Participation

The Survey of Income and Program Participation (SIPP) is a longitudinal survey of the population of the United States that has been conducted by the Census Bureau since the mid-1980s. Each panel consists of a nationally representative sample of households selected by the bureau and interviewed every four months for up to four years. The sample of the population used in this paper came from the panel begun in 2001, the most recent panel available. The panel originally consisted of about 35,000 households, although attrition reduced the size of the panel interviewed in subsequent waves of the survey. The sample relevant to the main part of the analysis presented in this paper consists of about 8,500 people—about 4,100 men and 4,400 women—for whom sufficient information existed for each month in 2001 (the first three or four waves of the survey, depending on when the respondents were first interviewed) and who were ages 50 through 61 at the end of the year.

CHARACTERISTICS AND LABOR FORCE STATUS

Most of the information about the personal characteristics of the respondents reported in the analysis of individuals ages 50 through 61 comes from responses to questions asked in the third or fourth interview. The age of respondents in December 2001 was calculated based on their reported date of birth; in cases in which the year, but not the month, of birth was reported, July was used.

Labor force status was determined based on answers to questions about activities during each month of 2001. Individuals were counted as participating in the labor force during 2001 if they had worked or looked for work at any time during that year. Otherwise, they were counted as not in the labor force.

Respondents not in the labor force were categorized based on their answer to the question “What is the main reason you did not work at a job or business between . . . and today?” Those who responded that they were retired or that they were unable to work because of a chronic health condition or disability were classified, respectively, as “retired” or “disabled.” Those who said that they were temporarily unable to work because of an injury or illness, pregnancy or childbirth, taking care of children or other persons, going to school, unable to find work, on layoff, not interested in working at a job, or for another reason were classified as “other.” However, about 80 respondents who said that they were receiving Social Security Disability Insurance benefits did not give disability as their main reason for not working. For this analysis, they were reclassified as disabled (raising the total number classified as disabled to 836 respondents).

INCOME, POVERTY, AND ASSETS

The sources and amount of a respondent’s annual income were calculated by summing the respondent’s answers to the monthly income questions asked in each interview. The annual incomes reported in this paper were calculated by summing the income reported from the 12 months of 2001. Individuals were counted as poor if their family income fell below the poverty thresholds established by the Census Bureau for their family size.

The Census Bureau collected asset information for each household in a set of supplementary questions asked during the third interview, which occurred in late 2001. Net worth is based on the sum of the market value of assets owned by every member of the respondent’s household minus the liabilities owed by household members. Assets include homes, other real estate, cars, businesses, and financial assets. Individual retirement accounts are included, but the value of future Social Security and pension benefits is not. Unlike the information on income, the data on assets and liabilities include household members who are not related to the respondent.

Respondents might report that they were receiving benefits from one public program when those benefits actually came from another source, or might incorrectly report the amount of income they had received. For example, some of the respondents who said that they received Social Security retired-worker benefits were not old enough to be eligible for those benefits. (That particular discrepancy could result from a mistake either in the source of their income or in their age.)

ANNUITIZING NET WORTH

All else being equal, someone who is not in the labor force and has a large amount of assets but very little income is in a better position to meet his or her spending needs than someone with the same income who has few assets. Some respondents who lived in households with substantial net worth reported little or no income from interest, dividends, or other asset-related sources. In many cases, the lack of reported income simply reflects the fact that some assets—notably the equity in owner-occupied homes—do not produce cash income. In some cases, the lack of reported income may be because the actual owner of the asset is someone living in the respondent's household who is not related to the respondent. In other cases, the respondents may not report income from an asset because they do not consider that income as available for current consumption or because they did not remember that particular income source. Interest and dividends from assets held in a 401(k) or an IRA, for example, might not be reported because they are not considered current income for tax purposes.

To get an indication of how much difference those assets might make, the annual income that each respondent's reported level of assets could generate if those assets were used to purchase an annuity was calculated. For a single person, the annuity would provide an annual income for the remainder of his or her life, adjusted each year for inflation up to 3 percent. For a married person, the annuity would provide an annual income for the remainder of the life of the annuitant or his or her spouse, also adjusted for inflation. The specific annuity rates used for those calculations were based on the age and marital status of the respondent, using rates quoted by the Thrift Savings Plan on its Web site in mid-September 2004. The relevant rates ranged from 3.7 percent for a married annuitant aged 50 to 5.9 percent for a single annuitant aged 61. For example, the annuity for a single person aged 61 who reported a net worth of $100,000 would be $5,900 a year. If the amount from the annuity exceeded the interest, dividends, and other property income reported by that person, it was substituted for the reported amount of property income and used to produce an adjusted income. Two sets of estimates were made: one based on the annuitization of the respondent's entire net worth (including home equity) and the other based on net worth excluding home equity.

Adjusted poverty rates and near-poverty rates were then calculated for each labor force status group based on those adjusted incomes. As reported in the text, the adjustments were largest for the men and women who were not in the labor force because they had retired.

Notes

This chapter was originally prepared for presentation at the eighteenth annual Policy Research Conference of the National Academy of Social Insurance, Washington, D.C., January 20, 2006. The views expressed are those of the author and should not be interpreted as being those of the Congressional Budget Office.

1. An earlier version of this paper was issued as a Congressional Budget Office paper titled *Disability and Retirement: The Early Exit of Baby Boomers from the Labor Force* (2004b).
2. The poverty threshold in 2001 for a person under age 65 was about $9,200; for a married couple, it was about $11,900.
3. In January 2004, about 57 percent of workers aged 55 to 64 who were displaced in 2001, 2002, or 2003 were reemployed, compared with 69 percent of the displaced workers aged 25 to 54. See Bureau of Labor Statistics (2004).
4. See Box 6.1 for a discussion of issues related to the measurement of disability. A small number of individuals who reported that they received Social Security Disability Insurance (SSDI) benefits but did not give disability as their main reason for not working were reclassified as disabled. Most of the respondents who gave a reason other than retirement or disability said that they were taking care of others or not interested in working.
5. Unlike the data on income, the information about assets and liabilities from the SIPP includes members of a household not related to the respondent. For example, some of the respondents may have been renting part of someone else's home. If the respondent shared living quarters with unrelated persons (that is, did not have a separate entrance or kitchen), his or her assets and liabilities were counted.

   Although the assets recorded in the SIPP include the value of various retirement accounts (such as IRAs and 401[k]s), they do not include the value of Social Security benefits and defined benefit pensions that the respondents or other members of their household might later receive.
6. In most cases, they will continue to receive the same monthly Social Security benefit, adjusted for inflation, for the rest of their lives. If they are married, however, their spouse might become eligible for a new benefit or a higher benefit when he or she reaches age 62.
7. The average annual incomes displayed in Tables 6.3 and 6.4 are higher than the median incomes reported in Table 6.1. Although medians are better for depicting the income of a typical person in a group, such as retired men, average incomes provide a better base for describing the sources of a group's income.
8. Four percent of the retired men and 10 percent of the retired women said that they received their own Social Security benefits on the basis of being a retired worker. Because workers do not become eligible for retired worker benefits until age 62, those respondents were mistaken either about receiving Social Security, about the reason they were receiving it, or about their age. (About 5 percent of the retired women said that they received Social Security benefits because they were the

widow of a deceased worker, which is permitted at age 60 or at any age if caring for a minor child.)

9. During the past decade, the percentage of full-time workers in private industry who participated in DB plans fell from 33 to 24 percent, while participation in defined contribution plans rose from 40 to 48 percent. See Wiatrowski (2004).
10. The annuity rate was calculated based on the individual's age and marital status. For example, for nonmarried individuals, it ranged from 4.4 percent for a person aged 50 to 5.9 percent for a person aged 61; for married individuals the range was 3.7 to 4.8 percent. Those rates were based on the annuities offered to retired federal workers through the Thrift Savings Plan in September 2004. The annuity option in which payments increased by up to 3 percent per year, based on increases in the consumer price index, was used. Joint life annuities with 100 percent payment to the survivor were used for married individuals.

    For this calculation, each person's total family income was increased by the difference between the estimated annuity value of their net worth, excluding home equity, and their reported property income. If their reported property income was higher than the estimated annuity, no adjustment was made.
11. The patterns among people aged 50 to 61 described here were found for narrower age groups as well, with the important difference being that older members of this group had uniformly lower labor force participation rates.
12. For a recent comprehensive examination of this topic, see Stapleton and Burkhauser (2003). Much of the discussion in this box is based on that volume.

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Randall W. Eberts
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