

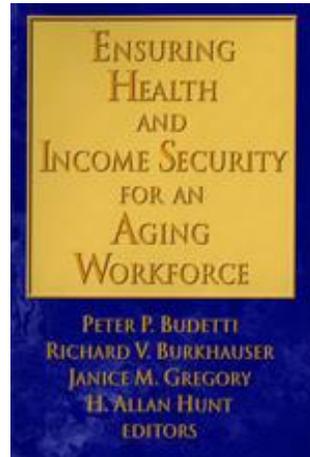
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## Social Insurance and the Older Worker

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# **Social Insurance and the Older Worker**

## **An Overview**

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### **INTRODUCTION: OLDER WORKERS AND PUBLIC POLICY TOWARD THEM**

Older workers—those older than, say, 45 years, but younger than the normal retirement age—face a set of constraints on their activities that increases economic insecurity and vulnerability. An increasing proportion of these older workers experience eroding strength and health, and many of them are perceived by both their employers and their younger worker peers as “long in the tooth,” or “over the hill.” Often these perceptions guide employer and public decisions, and these lead to both higher rates of job loss among older workers, and feelings of economic insecurity.

This set of circumstances is undeniable and is a normal accompaniment of the aging process. However, it is these circumstances that account for the relatively high incidence of reliance by older workers on the nation’s social insurance system. The preceding chapters have taken apart the social insurance system for older workers and focused on four policy areas of special concern to them: health and health insurance, Social Security Disability Insurance (SSDI), workers’ compensation, and unemployment compensation (UI). Interestingly, none of the conference presentations dealt with the Social Security Retirement or Medicare programs, which are, in fact, the two largest programs affecting older workers.

There is one overarching national policy issue that is central to the situation of older workers:

How should social insurance policy respond to the needs of a growing group of older workers who tend to be less strong and healthy than their younger peers and who face eroding personal capabilities and difficult decisions regarding phasing into retirement?

Should we be promoting a pro-work agenda for older U.S. citizens by, for example, reducing the bite of pension plans that discourage continued work or by changing the employer culture regarding older workers, or by modifying public benefit programs and public regulations that inhibit flexible work arrangements? Or should we be seeking to improve the adequacy of income support arrangements for these workers as they phase into retirement given existing institutions and incentives?

## **SOME BASIC CHARACTERISTICS OF OLDER WORKERS**

Before discussing this public policy issue, it is important to recognize several basic attributes of the older worker population. First, older workers (those aged 45 to 65) are one-third of the workforce, one-fifth of the unemployed, and one-third of the insured unemployed. Hence, relative to younger workers, they shoulder a smaller burden of unemployment and reap a larger share of UI benefits.<sup>1</sup>

Second, on average and relative to the remainder of the workforce, older workers have less education, fewer skills, and less flexibility in changing responsibilities and accepting new challenges. There are fewer minorities among them. They earn higher wages than the remainder of the workforce, even though a larger proportion of them are in poor health. These higher wages, of course, are related to their longer job tenure.

Third, the males in the group of 45- to 65-year-olds have shown a rapid increase in the willingness to stop regular employment and accept retirement.<sup>2</sup> On the other hand, women in this age group appear to have an increasing propensity to engage in formal work.

Fourth, today's cohort of older workers will live longer than prior cohorts of older workers. As a result, today's cohort has more years of expected retirement ahead of them than did prior older worker cohorts.<sup>3</sup>

Americans now measure retirement in decades rather than years. As a result, this cohort is under more social pressure to remain active in the labor market than prior cohorts. Perhaps as a result of this increasing social pressure, today's older workers confront a general public that believes that access to support from both private and public programs should be more difficult and that the support provided should be less generous than it in fact is.

A final characteristic of today's older workers is that they can be roughly allocated to two groups, with quite different policy implications.<sup>4</sup> The first and largest group is generally healthy, educated, working, and tends to be white. For them, the primary issue is the difficult set of decisions regarding the phasing into retirement and the lifestyle to be adopted in retirement. For a sizable (and growing) proportion of these older workers, increasing years of work will be desirable.

The second group of older workers consists of those with health problems<sup>5</sup> or with few years of schooling; minorities are prevalent in this group. These workers tend to be marginal to the labor market, and for them, the issue is the adequacy of support programs and access to economic and health care resources. Except for the small proportion of totally disabled workers among this population, SSDI is likely to be unavailable to them. Moreover, early retirement benefits have eroded, and unemployment compensation provides only temporary help if permanent loss of a regular full time job occurs. For many of these more-marginal older workers, policy changes enacted over the past few decades have caused economic hardship. This situation is not likely to improve for subsequent cohorts of older workers.

## **OLDER WORKERS AND ECONOMIC SELF-SUFFICIENCY**

The case for social insurance rests on the inability of the private market to adequately protect individuals (and hence society) against risk and uncertainty and on the need to assure an acceptable minimum living standard for all citizens. Hence, designing social insurance programs to meet the needs of older workers requires that the economic status and vulnerability of older workers be understood. Consider the

following generalizations regarding the economic well-being of the population of older workers.

A primary problem for the group of regular workers who are employees stems from the higher costs faced by employers in providing them health insurance coverage and retirement pensions.<sup>6</sup> As a result, when pressures to reduce costs due to competition or declining demand are encountered, employers are less likely to retain older workers than young workers with the same sets of skills and competencies. Hence, job displacement for older workers is substantially more likely than it is for equivalent young workers.<sup>7</sup> Moreover, older workers are less likely to be reemployed full-time if they are displaced.<sup>8</sup> It follows that such displaced older workers who draw UI benefits are more likely to exhaust their benefits than are younger workers.<sup>9</sup>

Relative to younger workers, the population of older workers is more likely to be self-employed; 10 percent of older workers are self-employed compared with but 4 percent of younger workers. Relying on the prospects of an individual enterprise for income is risky, as the failure rate for single proprietorships is substantially higher than for larger enterprises (notwithstanding the relatively high prevalence of legal and medical professionals in the population of self-employed workers).

If they are working and are not self-employed, older workers are more likely to be employed part-time than are younger workers. As a result, they are less likely to be eligible for unemployment insurance benefits if they lose their jobs, as UI covers only full time, regular employees. Many of these part-time workers will be engaging in “bridge employment,” which typically carries less compensation and fewer benefits than regular employment.<sup>10</sup> Many of these bridge worker-retirees have been displaced from their regular jobs and have exhausted their unemployment insurance benefits.

If they are not working—most likely a result of taking early retirement—they will be dependent on income from a combination of private pensions and early-retirement Social Security benefits. While about one-half of the group of older workers is covered by employer-supported pensions, this proportion is shrinking over time. Moreover, those who are covered with defined-benefit plans face eroding real benefits.

However, on average, these older workers have higher wage rates than younger workers, primarily because of longer job tenures. Moreover, they typically have fewer family responsibilities than do younger workers.

Further, these older workers are more likely to have employer-sponsored health insurance and less likely to be uninsured than are equivalent younger workers,<sup>11</sup> although the percentage with employer-sponsored health insurance has been decreasing.

Finally, if they are severely disabled, older workers are more likely to receive SSDI benefits than equivalent younger workers, and once on the disability benefit rolls they are less likely to leave.

Given this profile, overall and on average it is hard to make the case that older workers as a group are a particularly vulnerable segment of American society. While they appear to face substantially higher risks of job loss, part-time work, and exclusion from some social insurance benefits, the average older worker starts from a higher earnings and income base than does the average younger worker and is less likely to be without health insurance and private pension coverage.

To find real vulnerability, we need to dig deeper into this population. In fact, such digging will reveal that second group of particularly vulnerable older workers emphasized by Kathy Swartz—namely, those with low education, few skills and minority status. Moreover, even among this group, all marginal to the labor force, true vulnerability is found by digging deeper still, to locate those with ill health, those with ill spouses, and those who have experienced job loss or perhaps the loss of a spouse. Although people with these characteristics tend to be at the bottom of any larger population grouping with which one begins, the policy implications are quite different for those at the bottom end of the distribution of the older worker group because of their age.

## **SELF-SUFFICIENCY IMPLICATIONS OF RECENT SOCIAL POLICY CHANGES**

As economic and political changes have occurred over the past decade or so, there have been a number of developments that have affected the self-sufficiency of the group of older workers, and more

particularly that of the most vulnerable among them. In the following pages, I will flag some of these developments but will not document the details of each.

Perhaps the most significant development for older workers has been the substantial increase in cost consciousness that has affected most firms, especially those enterprises confronting increasingly severe international competition. Because of the higher costs of employing older workers—both higher wage costs as well as higher benefit costs—they have been the first to have experienced job loss and, for many, unplanned early retirement. Those older workers who retained their jobs have experienced the stress that accompanies decreased job security.

This same concern for employment costs has led to an erosion of employer-sponsored health insurance coverage among older workers. For those remaining covered, the private sector plans have tended to shift from defined-benefit to defined-contribution plans. Although this shift has increased work incentives among those covered, it has also reduced the adequacy of expected pension benefits. For many older workers, this trend has increased the perceived need to postpone retirement and to continue to work.

In addition to these changes, the brunt of which have tended to fall on the most vulnerable group of older workers, there has also been a downward trend in real wage rates for unskilled labor since the early 1970s. In relative terms, the wage rate gap between skilled and unskilled workers has increased during this period, resulting in increased inequality and a perception by older unskilled workers that they have been left behind in the process of economic growth.<sup>12</sup> This focus on gaps, however, masks the absolute deterioration of earnings for those workers with few skills or low education; since the early 1970s, the real hourly wage rate for a man with a high school degree (but no more education) has fallen by about 35 percent.

However, and to some extent offsetting these changes, there has been a substantial decrease over time in the physical demands associated with work; remaining employed today typically requires more mental and less physical effort than it did a few decades ago. Indeed, a survey taken in 1950 inquired as to whether workers were in “physically demanding” jobs, and about 20 percent of this older-worker group answered “yes.”<sup>13</sup> Today, only about 7 percent of older workers

answer this question affirmatively. When this shift is combined with increasing average education levels of older workers, it enables some of them to remain in the workforce longer, and with less effort, than was the case a few decades ago.

Simultaneous with these demand-side changes in employment and wages and the decrease in the physical demands of work have been changes in social policy that have affected older workers. Perhaps the most visible change has been the legislated increase in the Social Security full-benefit retirement age and the increase in the penalty for taking early retirement.<sup>14</sup> These changes embody the social decision that working lives should be extended and retirement pushed further up the age distribution.<sup>15</sup>

There have also been a large series of rule changes in workers' compensation that have reduced access and compensation if disabled. The background paper on workers' compensation by John Burton and Emily Spieler emphasizes that, while few were watching, legislation and judicial rulings since 1989 have substantially restricted the accessibility and generosity of workers' compensation benefits. Eligibility has been tightened. Benefits have been lowered. Payment mechanisms have been made more restrictive and health costs more tightly controlled.<sup>16</sup> As a result of these changes, health-related costs have been increasingly shifted to recipients and their families or to other programs such as SSDI and away from employers. An increased burden of proof has been imposed on covered workers. All of these changes have tended to fall most heavily on older workers.<sup>17</sup>

Finally, there is the more recent development that colors all discussions of the economic self-sufficiency of all worker groups, namely, eight years of sustained prosperity. Clearly the prosperity of this period has benefited nearly all groups, in part through its promotion of both the demand for and supply of labor.<sup>18</sup> Moreover, this development has resulted in a run up in asset values for some, but not all. While both of these developments have made the future less uncertain for some older workers, there has been a disturbing increase in disparities in both wealth holdings and earnings over time. Moreover, while the prosperity has opened up additional options for phased retirement for some older workers, it has imposed increased work demands and pressures on those who continue to work full time.

## **POLICY ISSUES REGARDING OLDER WORKERS**

The economic and policy developments mentioned in the previous section raise several important issues that the nation should address in terms of its treatment of older workers. The chapters of this book all fasten on the following overarching policy issue:

Should the nation's major social insurance programs be restructured to provide a more adequate safety net, or should they be redesigned to increase work incentives for older workers? Or, should policy changes seek to accomplish both objectives?

Nestled in this issue are a number of important subquestions:<sup>19</sup>

- Should public regulations inhibiting flexible work arrangements be redesigned so as to increase the availability of this option?
- In the face of apparent reluctance by employers to provide training for older workers,<sup>20</sup> should training opportunities for retooling or moving to bridge jobs be supported by public money?
- In the face of large disincentives for continued work beyond some early eligibility retirement age in numerous private pension arrangements,<sup>21</sup> and the apparent reluctance of employers to change plans that contain these disincentives, should public regulations designed to encourage the restructuring of private pension arrangements so as to increase incentives for continued work be implemented?
- Finally, should access to income support and benefits while working less than full time or not working at all be expanded?

At any time, including the present, there are numerous policy proposals on the nation's table that address these questions. While some of these proposals seek to increase the adequacy of programs targeted on older workers, others stress work-continuation goals. The following menu is designed to set the stage for the subsequent discussions of numerous policy suggestions that were presented at the conference and are contained in this volume.

## **Social Security Retirement**

In addition to the now-resolved issue regarding the elimination or reduction of the earnings test, there have also been proposals to increase the normal retirement age still further, and perhaps to increase the early retirement age along with it. Like the elimination of the earnings test, both of these measures would promote work continuation. Consistent with this thrust, there has been little discussion of increased adequacy in benefit payments.

## **Medicare**

Should we allow workers to buy into Medicare at age 62—a recent proposal from the administration—or should we restrict Medicare coverage to receipt of full retirement benefits given an increasing retirement age? The first of these options aids vulnerable older workers, but it clearly contains troublesome problems of adverse selection. The second option promotes continued work, but it simultaneously imposes costs on vulnerable older workers.

On another front, should we return the employer-as-first-payer provision in Medicare to its 1982 standard, a standard that reduced health insurance costs for employers, and hence, is a pro-work policy? Or do the costs in reduced health care coverage and adequacy override the pro-work gains?

## **Social Security Disability Insurance**

For SSDI, should we adopt some subset of the several proposed reforms designed to promote work? These proposals include a supplemental EITC for SSDI recipients, allowing Medicare access to older workers who leave SSDI (with perhaps an earnings-conditioned premium), and the provision of vouchers for training for existing SSDI recipients? Again, all of these are pro-work. We could also consider changes in the benefit structure that would increase the adequacy of income support to the most vulnerable older workers.

## **Unemployment Compensation**

Currently, self-employed and part-time workers are excluded from the UI program, and that imposes a relative hardship on them; should these workers be integrated into the unemployment insurance system? For example, should we reduce the required hours of work in the base period for initial eligibility? Such a change would encourage flexible and partial retirement and facilitate the move from full work to retirement.

As an alternative, should we support tax-preferred savings accounts for older workers as a means to encourage a flexible move from full work to retirement? Should UI be used to support health insurance premiums, an adequacy concern? Still further, should the work option in UI be expanded to include more choice such as bridge jobs?<sup>22</sup>

In terms of adequacy, should the minimum benefit award be expanded? This award is targeted on older workers and, in particular, vulnerable older workers. Should we increase the benefit duration for the group of older workers? Or, should a self-employment assistance program with the UI system be expanded (a change that would also be pro-work)?

## **Workers' Compensation**

One hardly knows what to say about workers' compensation, given its diversity among the 50 states. Should there be some attempt to systematize workers' compensation coverage, eligibility, and benefits? Should there be efforts to reverse the reduced access and generosity of workers' compensation that has occurred since the late 1980s?

## **CONCLUSION**

These, then, form the major policy suggestions that one finds in this book and that were talked about by participants in the NASI conference. We hope that the information regarding the composition and self-sufficiency of older workers, how they are and have been treated by our institutions and policies, and how they could be treated by pol-

icy changes, sets the stage for the more in-depth analysis in subsequent chapters of this volume.

## Notes

1. See O'Leary and Wandner (2001)
2. There is evidence that this trend has slowed, or disappeared, in recent years. See Quinn (1999).
3. In 1965, an older worker who reached age 65 could expect 13 years of retirement. Today, such a worker can expect 18 years. See Gendell (1998).
4. This point was emphasized by Katherine Swartz in her discussion of health and health insurance for older workers (Swartz 2001)
5. Although about 25 percent of those aged 55 to 64 have some work limitation, the prevalence of ill health appears to be decreasing over time. While health problems are more prevalent among older workers than in the remainder of the workforce, conditional on having a problem, it is more likely to be age-related and less traumatic. Their health problems tend to be from exposure to adverse environments over time, stem from multiple causes, have long latency periods, and not be directly job-related. Because these health problems tend not to be directly job-related, establishing eligibility for work-related support such as workers' compensation is often difficult. Because these health problems are unlikely to be totally disabling, establishing eligibility for SSDI is also more difficult. See Nadel (2001) and Burton and Spieler (2001).
6. One study suggests that health insurance costs are twice as high for males over 50 than for male workers aged less than 50 (Clark 1994).
7. The displacement rate for older workers is about 3.5 percent, relative to a 2.5 percent rate for younger workers (O'Leary and Wandner 2001).
8. Indeed, the reemployment rate for displaced older workers displaced is about 50 percent, compared with a 70 percent reemployment rate for younger workers (O'Leary and Wandner 2001).
9. Sixty percent of displaced older workers exhaust their benefits compared with 40 percent for younger workers (O'Leary and Wandner 2000).
10. One survey found that 49 percent of men and 34 percent of women over 55 were "bridge, partial retirement" workers (Quinn 1999).
11. About 80 percent of older workers aged 55 to 65 are covered by employer sponsored health insurance; only about 15 percent of this group is uninsured. See Swartz (2001) and Committee for Economic Development (1999).
12. The earnings premium received by a college graduate, relative to a worker with a high school degree or less, increased from about 30 percent in the 1970s to over 60 percent by the early 1990s.
13. From C. Eugene Steurele, Rich Johnson, and Chris Spiro, The Urban Institute, 1998; cited in Committee for Economic Development (1999).

14. The legislative change in early retirement benefits increased the penalty for early retirement from 20 percent of the primary insurance amount to 30 percent. See Committee for Economic Development (1999).
15. In fact, these changes have also improved the neutrality of the Social Security system. An interesting question with respect to these legislated changes is whether they will lead to increased prevalence of disability claims among future older workers and an increase in SSDI applications.
16. An example of this trend is the adoption by workers' compensation plans in several states of the requirement that employer's physicians make the final determination regarding the work-related nature of injuries and illnesses and hence coverage by workers' compensation plans.
17. It should be noted that the incentives designed to increase the employment of workers with disabilities implicit in the Americans with Disabilities Act tend to be offset by the pattern of reduced coverage of these workers by both the UI and the workers' compensation programs.
18. A recent study concluded that, if the unemployment rate were 4 percent, about 18 percent of older workers who lose their jobs would retire; however, if the unemployment rate were 8 percent, retirement would be chosen by about 44 percent of older worker job losers. See Sandell and Baldwin (1990).
19. At the time of the Academy Conference, one of these sub-questions was, Should the earnings test in Social Security be relaxed or eliminated so as to promote continued work by retirement benefit recipients? Congress and the President have now acted positively on this issue, and this anti-work continuation measure has become a relic of the past.
20. In a recent survey of employers, 19 percent of younger workers report having been given training; 13 percent of older workers so report (Amirault 1992).
21. In some private pension plans now, there is an implicit tax of up to 50 percent on continued work beyond some early eligibility retirement date. One study of about 1000 private pension plans found that working beyond the early retirement eligibility date typically implied sizable reductions in lifetime benefits, ranging up to 30 percent (Kotlikoff and Wise 1989).
22. One possibility would be to ease the policy of denying benefits if full-time work is available but not taken for older workers. This denial of benefits policy imposes a relative hardship on older workers.

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