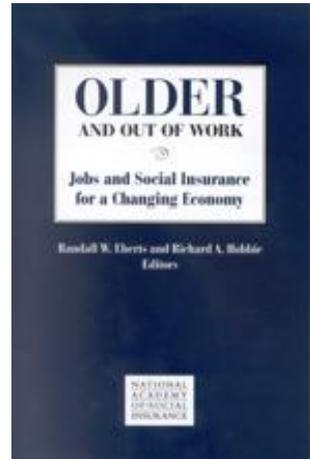

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PERCEPTIONS AND POLICIES

This book considers policies to respond to three basic perceptions.

First is the common forecast that the proportion of Americans above retirement age will increase significantly, and so funding for retirement would require a much larger share of national income in the future. This raises questions about the adequacy or affordability of both public and private retirement arrangements.

Second is the belief that, on average, Americans of any given age beyond, say, age 60 will be more able to work in the future than they were in the past. They will be more able to work both because they will likely be healthier and because the physical demands of work in the future, on average, should be less demanding than were the physical demands of work in the past.

If it was only these first two perceptions that were common, at least one kind of policy response would be obvious: policies should give people strong incentives to work to a later age. The most obvious incentive to work until later in life—or sanction against earlier retirement—is to raise the age of eligibility for retirement benefits. Public policies of this type could include raising the normal retirement age for Social Security, the age of eligibility for Medicare, or the age at which IRA withdrawals may be made without penalty. In addition to such blunt measures, policymakers may adopt other methods, such as extensive exhortation, to try to get workers to *want* to work to a later age.

A third perception, however, would seem to require either additions to or modifications of such policy proposals. In spite of a general trend

toward people living longer and healthier lives, a significant portion of the population may well not be able to work to a later age than current norms, for two reasons. Some people will not be so healthy as to do that, even if their condition does not approach any common definition of “disability.” In addition, even if people want to work, they may find few purchasers for their services—either because of prejudice on the part of employers or because it is objectively difficult for people of their age to do the kind of work they have done throughout their careers.

Additional policies could include measures to make it easier for workers to find jobs at later ages. Hence if employers discriminate against older workers, this might be addressed with policies against age discrimination. If some older workers have had careers that leave them physically unable to continue in their previous line of work, a policy response might involve job retraining. If employers avoid older workers because of disproportionately high health care costs, most national health insurance proposals would eliminate that problem. Modifications of existing policies could include redefining “disability” to make older workers eligible even if they are healthier than the current definition, or measures that create exceptions to any increase in the age of eligibility for retirement benefits.

This chapter examines which set of policies would be appropriate given these three perceptions. The merits of policy alternatives depend both on judgments about fact, such as whether the three core perceptions are true, and on judgments about values, such as the political preferences of the analyst or the decision maker.

POLITICS AND POLICIES

The key values involved in this discussion are redistribution and the role of government.

If the third perception is true for a significant portion of workers, then government policies to encourage retirement at later ages could directly contradict one of the basic purposes of current social insurance. Social Security and Medicare (as well as other programs) are designed to redistribute resources so as to protect low- and moderate-income workers against economic risks.¹ If low- and moderate-income workers

on average are less able to work to a given age than high-income workers, then policies that seek to force Americans to work later, or punish them for retiring earlier, would be inherently regressive, contradicting one basic purpose of the programs.

At the same time, much of the concern about the costs of our aging society may be seen largely as an objection to government spending per se. The retirement of the baby boomers will increase Social Security obligations by about 2 percent of GDP. This is less than the effects of President Bush's tax cuts on the federal budget, and less than the cost incurred to pay for public education for the baby boomers themselves. It's a significant amount of money but, if you believe Social Security is a good program, the fact that more people will need it does not make it less valuable. Hence objection to the expected spending increase for Social Security is essentially a value choice, and the value involved is size of government, or attitude toward social insurance per se.

The projections of increased government health care spending are much larger. Yet that increased government spending because of an aging society would be largely a cost shift from private programs to Medicare. In the United States, most individuals move from private to public health insurance budgets when they reach age 65; hence government spending will increase dramatically if a larger share of the population is age 65 and over. No other advanced industrial country has this distinction between age groups in its health care financing, and therefore aging does not appear as though it will have a comparable effect on public (or semipublic) health spending anywhere else. Moreover, by any reasonable measure, the underlying dynamic of health care cost increases per capita for all Americans is a far larger challenge than the effects of an aging society. The Medicare program, overall, has done better than private insurers at controlling costs (not that either has done wonderfully). Hence to focus on the costs of Medicare alone reflects a greater interest in the federal budget than in the national burden from health care costs, and to suggest privatization of Medicare, given the historical cost experience, suggests a distinct bias against government programs rather than a pure interest in reducing total health care costs.²

Therefore both support for and opposition to policies such as raising the normal retirement age may be based on ideology. So may support for such policies as making it easier for employers to hire older workers by expanding federal health insurance programs, or support

for strict anti-age-discrimination measures. Naturally the material presented in a collected volume will do little to change anyone's values. Yet the arguments here also involve some empirical concerns that could shape policy choices for policymakers whose value preferences are less ideologically determinate.

Logical questions include the following:

- What would be the fiscal and economic effects of policies that sought to encourage individuals to work to a greater age?
- To what extent is the aging society a *healthy* aging society, so that in the future it will be appropriate to expect people to work beyond current retirement-age norms?
- What is the degree of inequality in people's ability to work past current retirement-age norms?
- To what extent are current norms of retirement a matter of individual choice, and to what extent are individuals retiring earlier than they have to, so that individuals are choosing to collect from government programs when they do not have to do so, and in that sense either government is wasting money, or these individuals are in some sense exploiting the government?
- The previous two questions merge into the issue of what explains which people currently retire earlier than the norm. For example, to what extent is relatively early (pre-normal-retirement-age) retirement now determined by the labor market, so not obviously a "choice"?
- What would be the consequences if policies did not acknowledge inequalities?
- Admitting that the proper balance between an individual's expectations of society and society's expectations of the individual is a matter of personal values; nevertheless we might ask if any policies would be likely to create the best balance because they would in some way increase the resources available to both individuals and society.

At the conference that gave rise to this volume (detailed in the next paragraph), I participated in a panel discussion titled "Boomers' Work and Retirement Plans." In the balance of this chapter I will suggest some ways in which the analyses presented by the participants on that

panel address the questions outlined above; then I will make the case for a particular policy modification. I will propose replacing the normal retirement age with a different standard for entitlement to full benefits: a combination of age and years in the workforce.

BOOMERS' WORK AND RETIREMENT PLANS

At the National Academy of Social Insurance (NASI) conference “Older and Out of Work: Jobs and Social Insurance for a Changing Economy,” held January 19–20, 2006, in Washington, D.C., the majority of topics related to the question of to what extent job opportunities would exist for older workers, and to strategies to help workers find jobs in the face of difficulties. Eugene Steuerle, codirector of the Urban-Brookings Tax Policy Center, presented a paper titled *When to Retire: Your Most Important Retirement Decision*, based on work he did with Urban Institute colleagues Barbara Butrica and Karen Smith. Steuerle’s presentation was in the minority; it emphasized the premise that the primary policy need is to convince workers to stay in the workforce later in life, and so the policy challenge is to find ways to encourage that conviction.

Their data show that, for most households, the projected value of Social Security and Medicare benefits far exceeds the value of the rest of their retirement portfolios. Steuerle demonstrates large benefits to individuals, in terms of larger annual incomes while in retirement, and to the economy as a whole, in terms of a larger economy from which to fund benefits, from people working later. Delaying retirement makes it more affordable, however it is funded, for two reasons: 1) a shorter period that must be covered by the funds, and 2) a greater accumulation of funds. The implication of these points is that Social Security and Medicare policies should be changed to encourage people to work to later ages (Butrica, Smith, and Steuerle 2006).

In published papers and talks, Steuerle has frequently suggested raising the normal retirement age. He has also proposed more modest steps, such as changing the Social Security benefit formula to include every year worked. Such a reform would raise individual benefits according to years in the workforce beyond 35, and so would eliminate

the current situation, in which for some workers a year of extra work at a lower-than-trend salary (for example, part-time) would not increase future monthly payments. As Steuerle has argued, there are plausible equity reasons why current law, which only counts the first 35 years of contributions, may seem unfair in addition to creating a disincentive for further work (Steuerle and Spiro 1999).

Butrica, Smith, and Steuerle (2006) are clearly correct in arguing that the aggregate affordability of retirement is fundamentally a labor market question. Retirement is a choice about whether to be in the labor market. Whether retirees claim income through the government, through family ties, or through contracts involving capital investment, in all cases they must be supported by the product of workers. The most fundamental way to make it easier for workers (as a group) to support retirees (as a group) is to turn some of those retirees into workers. While this point may seem a conservative one in the U.S. debate—because it seems to call for raising retirement ages—it is just basic math. The March 2000 Special European Council in Lisbon concluded that finding ways to keep older workers in the workforce is a superior alternative to cutting benefit rates, both because it seems less painful and because it would in theory be better for the economy as a whole.³

However, it is not realistic to assume that if people are convinced to seek work, jobs will be there for them. The EU's stated commitment to the Lisbon vision of expanded labor force participation does not create the necessary jobs (Economic Policy Committee 2000, pp. 41–45). In fact there have been many cases throughout the past century in which national policymakers have encouraged retirement precisely because they did not think there were enough jobs to go around, and they believed it more important to employ younger workers. While some of those policies may have been mistaken, it may be as reasonable to assume a fixed labor demand as a conveniently expanding one. If there are suddenly more workers, perhaps that will drive down the income of younger workers rather than increase national product. This is a subject I will not explore in this chapter, but it is highly unlikely that the job supply in any country will simply expand to fit new levels of desire to work, without reducing average wages. Lower wages from increased competition for work, in turn, would reduce younger workers' take-home pay just as clearly (though with different incidence) as higher taxes would.

In addition to the practical questions about labor markets, Steuerle's position begs the equity questions. One can dismiss the concern, as he did in a conference call in January 2006 just before the NASI conference, by arguing that in 1950 the average retirement age was 68, jobs were on average more physically demanding, and people were on average not as healthy. Yet it is less than clear that our goal for 2050 should be that peoples' lives resemble those a century before. After all, we do not consider the standard of living in 1907 an appropriate standard for today. Moreover, if socioeconomic disparities are on average increasing (and there is reason to think they have since at least 1973), then even if a later retirement age is on average justified, it may seem even more inequitable to require later retirement, or reduce benefits for earlier retirement, for the people who are least able to delay their retirement.

Joanna Lahey's work addresses one of the factual issues: the extent of discrimination against older workers. She reports on research in which she sent out resumes for fictional job applicants of varying ages in response to newspaper want ads in Boston and in St. Petersburg, Florida. She found a clear difference in the rates at which employers invited these fictional older and younger employees to come in for job interviews: "A younger worker in either state is more than 40 percent more likely to be called back for an interview than an older worker, where older is defined as age 50 or older," notes Lahey (2005, p. 3). This means an older worker must reply to many more ads in order to get an interview, which surely must mean it is harder to find a job when older.

Lahey thus provides strong evidence of hiring discrimination. Her data does not support any particular explanation of the discrimination. She suggests reasons why antidiscrimination statutes may backfire and adds that fear of health care costs may be a factor but cannot easily be proved. Lahey's work also does not directly address the equity question of whether some kinds of older workers will face greater discrimination than others. Her work does suggest that it is easier to get hired with scarcer skills, and one might infer that scarcity of skills has a class differential, but her evidence does not address that question.⁴

Marc Freedman and his colleagues at Civic Ventures argue for a positive view of baby boomers as a resource that can address a wide range of social problems. Freedman cites examples of bureaucrats who become teachers, physicians who volunteer for free clinics, and academ-

ics who become lobbyists (Freedman 2004; Freedman and Moen 2005). In an ideal world, workers would not only stay in the labor market but, if there were impediments to continuing in their previous careers, accept positions that might be of lower prestige but be of great social use (e.g., in day care or aftercare).⁵ Freedman (2006) also reports on a survey done from March to April of 2005 (Freedman 2005). The study concludes that preboomers and leading-edge boomers want to work, and to a substantial extent seek meaningful work in which they could do good, e.g., in education and social services. In this and other works, Freedman consistently argues that what many seniors will want is a new career, with the traditional retirement years morphing into a new stage of work. Most importantly for policy purposes, Freedman and his colleagues argue that many baby boomers want to work in this way, but that the problem is to find public policies that enable such work, rather than policies that force people to continue working. Hence his advocacy is very different from Steuerle's campaign to lower benefits for people who do not work later than the current retirement age.

All of this is an attractive vision, because it suggests a virtuous fit between personal interests and social needs. The argument that many people will want to find a kind of postretirement career—keeping busy for fewer hours with much lower incomes but still doing personally rewarding work with much less stress—is surely correct. Yet Freedman (2005, p. 3) notes that “if the old norm for retirement was the golden years focused on leisure, the new default position seems to be a part-time job in the retail sector.” However, the MetLife Foundation/Civic Ventures New Face of Work Survey, conducted in 2005, finds that, instead of working in retail or fast food, many Americans in their 60s and 70s “want to focus their accumulated time, talent, and experience on work that directly contributes to social renewal” (Freedman 2005, p. 3). The survey data suggest that “despite strong interest in pursuing new work for the greater good, few of those surveyed thought it would be very easy to find this type of engagement” (Freedman 2005, p. 4). Freedman also notes that many of the people who might want to do some form of social service work aren't trained for it. Thus his analysis calls for government support of retraining, while noting that nonprofit organizations need to somehow be convinced to seek out the senior workforce.

Hence, the desire to work in service capacities such as teaching, nursing, health services, and child care does not in itself suggest that an aging population will be more affordable for society. The jobs have to exist; in many cases that means the public sector would have to pay for them, and opponents of government spending for pensions tend to be not much more supportive of public spending for education, health, and child care. Moreover, the arguments and examples made by Freedman and his colleagues have a clear upper-middle-class focus, involving retirement by skilled professionals. We can agree that finding ways for these people to continue to contribute is highly desirable but still worry about the rest of the population.

One of the purposes of Freedman and the Civic Venture group's work is to counter the idea that the future burden of an aging society is in some way due to the selfishness of baby boomers. Objective measures of boomer selfishness appear to be lacking: from an economic standpoint, they seem not to have exploited other demographic groups because of their large cohort size. There is evidence, however, that the large size of the boomer cohorts has caused individual baby boomers, on average, to face unfavorable conditions in the labor market and potentially negative long-term effects in the housing market and other financial asset markets. From this perspective, those cohorts—or at least the last two-thirds of the boomer group—may deserve more sympathy than blame (White 2003, pp. 119–125).⁶ Triest, Sapozhnikov, and Sass (2006) address one aspect of the pattern.

If future seniors are expected to work more, one basic question that presents itself is, “What will be the level of demand for those workers?” One way to look at demand for older workers is to look at relative wages for younger and older workers. The past four decades showed the emergence of an “experience premium,” which could be interpreted as evidence of demand for older workers. Triest shows, however, that this was largely a result of the baby boom cohort: when that cohort was young, its numbers depressed wages for young workers, making it look as if experience were gaining value; as the baby boomers have grown older, however, the premium has eroded.⁷ There are also questions of how any age patterns might be related to education and occupation.

What, then, are the implications of this work? If the real lesson is the fact that cohort size matters, then we might expect older boomers to have trouble finding jobs simply because they will still be competing

with one another for the limited set of jobs appropriate for older workers. Hence, for theories that the retirement of the boomers in particular may be made affordable by expecting them to work later, a further complication is that there may be too many of them for this solution to work very well. In the meantime, industrial and occupational shifts could also reduce the employment prospects of at least some older potential workers.

None of the papers presented at the NASI conference, in spite of their many virtues, suggest policies to cope with issues such as the differences in physical ability to continue work, or the equity of expecting an equal retirement age for all workers. Therefore, in the second half of this chapter, I will present some sketchy data relevant to those issues and outline the case for reforming the terms of entitlement to full Social Security benefits.

SOME MODEST EVIDENCE ABOUT EQUITY

Would raising the normal retirement age have particularly negative consequences for workers with lower incomes and education, and so raise serious equity concerns? Consider these indicators.

First, there is clear evidence that life expectancy around retirement age is positively correlated with income and strongly positively correlated with education. Panis and Lilliard (1999), for example, estimate life expectancies at age 60 and find a complex pattern in which how these variables matter varies between men and women. Nevertheless, education and income on average are strongly associated with life expectancy. For example, life expectancy at age 60 is 5.4 years greater for white male college graduates at the seventy-fifth income percentile than for white male high school dropouts at the twenty-fifth percentile of income.⁸

Second, there is equally clear evidence that, at least until now, “the earlier men retire, the more likely they are to be in poorer health and have higher mortality risk than those retiring at age 65” (Waldron 2004, p. 2). Men who retire before the normal retirement age of 65 have had lower odds of surviving to age 80 than have those who wait until age 65; this effect has been independent of education or other factors, and a

stronger predictor than education, race, or marital status. The low earnings group that has taken earliest retirement has been particularly likely to be in poorer health (Waldron 2002, 2004). This suggests that early retirement is not simply a matter of selfishness or poor public policies that create inappropriate incentives: to some extent it reflects real differences in life situations, such as the state of one's health.

Third, older workers appear to be especially at risk from injuries at the workplace, and this is particularly true of workers in more physical occupations. In 2003, "the fatality rate for older workers (11.3 fatalities for 100,000 workers) was nearly 3 times that of younger workers" (Rogers and Wiatrowski 2005, p. 25). This appears to be less a matter of incidence of accidents and more a matter of their consequences. For example, "twenty percent of older truck driver injuries result in fractures, compared with 9.3 percent for all truck drivers" (Rogers and Wiatrowski 2005, p. 28). Older workers are particularly prone to falls, even in jobs such as retail sales.

All of these indicators support common-sense fears about the distributional impacts of raising the retirement age. As Barry Bosworth, a senior fellow at the Brookings Institution, once commented, "That's easy for white-collar workers like us to suggest. But talk to laborers." In the words of the wife of a printing press operator, it "might be okay for somebody who sits on their butt all the time." Or, as President Clinton put it, "It might be fine for somebody like me, who's always had a desk job. But what about the people who have laboring jobs? What about people who really work with their hands and their backs?" (Calmes 1997, p. A20).

Yet there is another, subtler, inequity. Alert readers may have noticed that I have tried always to express the equity issue in terms of ability to "work later" rather than ability to "work longer." There is a reason.

The Other Inequity

One point that seems to get lost in the standard discussion of raising retirement ages is that the people who can work to the latest ages seem likely to, on average, start their period of full-time work at later ages. Jobs that require less physical labor generally require more educational attainment. So, for example, college professors (the example

of individuals who want to have second, socially useful careers in one of Freedman's articles)⁹ are likely to have waited until at least age 27 before entering the workforce full-time (assuming graduation from college at age 22 and five years to PhD). Attorneys will have begun their careers around age 25; physicians will have begun residency around age 26; MBAs will start around age 24. Yet construction workers likely begin upon graduation from high school, at age 18. Operators of heavy machinery may be prevented from taking such jobs until age 25, but we would expect them to have worked in other jobs after high school graduation.

What this means is, if a construction worker with a terminal high school diploma works steadily to age 60, he will have worked as many full-time years as the attorney who works until age 67 (42 years in each case). As a rough hypothesis, the people who can work latest will have also been educated longer. As a result, expecting the same normal retirement age for all workers is doubly unfair: the workers who are least able to work *later* will have to work *longer* in order to earn full benefits.

Unfortunately, I am aware of no studies that relate work prospects and ability to work at later ages directly to years in the workforce.¹⁰ Yet we do have some evidence about behavior that seems to fit the hypothesis.

First, we know that people who wait to retire at age 65 are distinctly more likely to have a college education than most retirees, and that people who retire at age 62 are distinctly less likely to have graduated from college (Waldron 2004).

Second, we know that "physical job demands fall significantly with educational attainment. For example, in 2002, 28 percent of older workers who did not attend college reported that their jobs require lots of physical effort all or almost all of the time, compared with only 8 percent of college graduates" (Johnson 2004, p. 53). Such a finding may understate the degree of the problem, because some of the people whose jobs required greater physical effort would have already left the workforce, so would not get counted. Hence, while it is clear that transformations in the nature of work mean that a larger percentage of jobs can be done by older workers, there remains a significant proportion of jobs that do not fit many older workers.

Third, we know that older workers in fact are somewhat less likely than the norm to work in jobs like construction, and somewhat more

likely to work in some sort of management or professional capacity. Having a management or professional occupation is, of course, much more strongly related to education.¹¹ While these data are weak and partial—occupational categories are huge and many factors influence them—it does fit the sense that workers who enter the workforce at an earlier age are more likely to have jobs that encourage earlier retirement.

Fourth, expectations that social changes will greatly increase the number of seniors who are highly educated and so able to work later would not appear to be based on data. The boomer cohorts do include a far larger share of college graduates than did their predecessors: 30 percent of those who turn age 62 in 2008–2012, compared to 17 percent for the group that turned age 62 in 1993–1997. But at that point (2012), levels of educational attainment will level off, remaining “roughly constant for future birth cohorts through those that turn 62 in 2028–2032” (Smith and Toder 2005, p. 1). In fact, the proportion of the population born in 1970–1975 that had a college diploma in 2000 was no greater than the proportion born in 1946–1950 that had a diploma that year.¹² The future economy may give more of its rewards to people who are more highly educated, and may in fact have less of a place for physical labor. Yet the rates of education do not seem to be improving, which would just cause more people to be left behind.

Papers at the NASI conference and other evidence also suggest that the market demand for lower-educated older workers in particular could be weak. The worry remains that there could be “a sorry mismatch of supply and demand. Those with the most skill and education will be the most needed, but also the most able to retire; those with the least education will have a greater need for, but slimmer prospects of, continued work” (Kosterlitz 1997, p. 1885).

In short, while more appropriate research is surely desirable, there is good reason to fear that the following five points are true:

- 1) There will be a cadre of Americans into the foreseeable future who will have difficulty finding jobs at later ages, either because of market conditions or because of their own physical inability to do the jobs.
- 2) This group on average will have started full-time work at an earlier age.

- 3) This group on average will have lower working incomes and fewer nongovernmental resources to support retirement.
- 4) This group will have shorter life expectancies as they near retirement age, so raising the age of eligibility for government benefits will have a regressive effect on them, cutting their total benefits by a larger share than the total benefits for other retirees.
- 5) This group already contributes for a relatively large number of years compared to the number of years for which they collect benefits. Any measures that raise the retirement age will not only make this group's benefit less adequate, but will increase the preexisting inequity.¹³

Given these conclusions, there is good reason to worry that raising the retirement age would contradict the purposes of Social Security.

HOW TO REDEFINE ELIGIBILITY

The basic problem is that a fixed age of normal retirement fails to recognize both inequities: that some people cannot work as late, and that to a substantial extent the same people began work earlier.

To the extent that these two factors are correlated, the appropriate response would be to base eligibility for full benefits not on age, but on years in the workforce.

If entitlement to full benefits required 45 years in the workforce, then, barring periods of joblessness, the usual age of full eligibility for a person whose education ended with high school graduation would be 63; for an individual whose formal education ended with college graduation at age 22 it would be 67; and for an attorney, with law degree completed at age 25, it would be age 70.

Basing eligibility on years of service is hardly unprecedented in the pension world. There are some pension schemes in which entitlement is based solely on years of service, particularly pensions for the military and some teachers. More common, it appears, is a compromise in which age and years of service both determine eligibility. Thus, in the old Civil Service Retirement System, workers earned credits to pensions for each

year of work. They could take the full pension to which the credits entitled them at various combinations of age and service (e.g., 65 with 20 years, or 55 with 30 years). But they could earn larger pensions by working longer. The Italian social security system includes a “seniority pension” available at age 57 with 35 years of contributions or regardless of age with 38 years of contributions. Some other countries have systems in which the amount of pension depends directly on the number of years of contributions; for instance, in Switzerland, receiving full benefits requires that contributions be made in all years from age 21 to 65.¹⁴ Social Security’s own requirement that benefits be based on the highest 35 years of contributions means that for someone to work fewer than 35 years will cause a reduction to the base benefit formula.

Eligibility based on age has some significant advantages. Most simply, it is easy to measure. It also represents a social notion of the age at which people should be able to retire because of the effects of age, and so is both simpler than and should have more support than will any calculation of years worked. Nevertheless, eligibility based on years working also has a fairly simple rationale: retirement is earned by contributions to the society. My personal belief is that both basic standards are appropriate and so they should be combined.

Current law will raise the normal retirement age to 67 by 2022. If policymakers were worried about the equity consequences of that standard, changing the basis to age 67 or 45 years of full-time-equivalent employment would have the effect of raising it for the group that is most likely both to be able to work later and to live longer, while lowering it for the group that most needs to retire earlier and has shorter life expectancies. If policymakers were to consider, as Steuerle would prefer, further raising the normal retirement age, it would be more fair if they did so in a way that did not change the situation of the most vulnerable workers (Steuerle and Bakija 1994). For instance, raising the normal retirement age to 70 could be accompanied by a provision that allowed full benefits for 48 years in the workforce. This would make the standard really age 70 for college graduates, but 73 for attorneys and 66 for construction workers (if we assume continuous employment, which may be doubted).

Such a system, while more fair than the alternative, would raise some nontrivial practical issues:

• *Wouldn't a years-in-the-workforce standard discriminate against people who leave the workforce to care for children?* Yes, it would. Then again, current law, because benefits are based on the top 35 years of earnings, also lowers benefits for those who spend many years rearing children; while the spousal and survivor benefits, in contrast, favor nonworking parents. On the whole, this is a separate issue; if desired, it would be easy enough to give work credits for child-rearing, but that involves its own set of policy values. For instance, if work credits were given for child-rearing, perhaps the spousal benefit should be modified.

• *How would being "in the workforce" be measured?* This is not so easy. Employers could be required to report whether each employee is full-time or part-time, and to either report hours worked or classify the employee according to some limited set of categories. While this would be burdensome, it at a minimum would be much easier than maintaining any system of contributions into private accounts.¹⁵ Such data could also be checked against records of school enrollment. It appears likely that, for national security reasons, institutions of higher education are going to be required to track students' enrollment status anyway; the same record-keeping could be applied to all students, not just international ones.

• *What about the self-employed?* That could be a problem. Under current law, individuals contribute to Social Security as part of income tax filing, and it is not necessary to distinguish whether that is from full-time or some other time of employment. If a person were self-employed for his or her entire career, the top 35 years of contributions would be counted; if some of those years are quite low, that affects the benefit calculation but not when a person is entitled to full benefits. If people could simply define self-employment on their own terms, an unusually strategic and foresighted pre-law undergraduate might start a very small business, pay nominal Social Security self-employment tax, do so through law school, and thus entitle herself to full Social Security benefits seven years earlier than her classmate who was not so clever. One approach that might reduce such problems would be to assume that full-time students were not working, and then set some standards as to what levels of income (if self-employed) or reported hours worked (if partially employed by others) would count as equivalent to years or fractions of years in the workforce.

These difficulties are significant enough that I see changing to a system in which full entitlement depends on both age and years in the workforce as a proposal that definitely needs more study. Nevertheless, changing the basis of eligibility would have the merit of recognizing both sides of this volume's topic. Much of the analysis in this book recognizes that the ability of future older workers to find and work in jobs will be very unequally distributed. From this perspective, the common call to raise the retirement age would seem perverse. Yet that proposal has been an important theme in the discourse on social insurance policy for many years, and the case for encouraging people to remain in the labor market, particularly as opposed to other methods to make Social Security more affordable, is plausible. Changing the basis of full eligibility from age alone to a mix of age and years in the workforce offers a way to approximately match the terms of the program to the conditions of peoples' working lives. It could accommodate the legitimate arguments for raising the retirement age without creating severe inequities.

CONCLUSION

The conundrum that this chapter addresses could be addressed with many policies instead of or in addition to a change in our national pension guarantee. For example, anything resembling the national health insurance systems that exist in all other rich democracies would greatly decrease employers' incentive to avoid hiring older workers. If policymakers want to encourage upper-income workers to keep working, they could raise the age at which IRA funds may be withdrawn without penalty.

At the same time, to a certain extent the supposed problem may be one that the market will ameliorate without much policy action. If the problem is a lack of demand for older workers, then if there are fewer younger workers, employers will be faced with a choice: bid up the salaries of younger workers, or find ways to come to terms with an older workforce. They may prefer the latter option. If the problem is that older people don't want to work, then many indications suggest that a shortfall in other sources of income will leave them little choice.

Finally, some of the attendant issues in today's work world could imply that a focus on income for older citizens misses the main economic concern. The debate on outsourcing addresses a much more significant question: whether workers of any sort will have decent jobs and wages. Even pensions are not as important as jobs.

Nevertheless, from the perspective of the National Academy on Social Insurance, which hosted the "Older and Out of Work" conference, the key question is whether our national social insurance programs can or should be changed. The case for increasing the age of eligibility for Medicare is exceedingly weak. Our health care problems are that too many younger people do not have insurance, and that it is too costly for everyone, not that too many older people are insured. There is more of a case for recognizing the ability of some workers to work later by raising the normal retirement age. Yet the inequities of that approach make it highly suspect. Instead of simply raising the normal retirement age, it is time to consider replacing it, as the basis for full eligibility for Social Security, with a combination of age and years in the workforce.

Notes

This chapter is an adapted version of a commentary delivered at the eighteenth annual Policy Research Conference of the National Academy of Social Insurance, "Older and Out of Work: Jobs and Social Insurance for a Changing Economy," held in Washington, D.C., January 19–20, 2006.

1. The redistributive purpose of Social Security is explicit in the benefit formula. It is generally agreed that the redistributive benefits outweigh the regressive contribution scheme. By standard definition—i.e., the tax is proportional to income and the benefit is seemingly the same for everyone—Medicare may not seem redistributive. Yet with higher-income people paying more, lower-income less, and everyone receiving the same entitlement, it clearly redistributes ability to consume health care down the income scale, compared to what the market would provide.
2. For discussion of Medicare costs see White (2003); for a broader discussion of aging and health care costs see White (2004). Analyses that claim an aging population will greatly increase costs confuse the effect of age with the effect of time until death; for confirmation of this point see Chernichovsky and Markowitz (2003), Stearns and Norton (2003), and Gray (2005).
3. For a good example see OECD (2004); for earlier citations see White (2004).
4. For a good summary of other reasons employers might avoid older workers, or discriminate against them in other ways, see Economic Policy Institute (2005).
5. See Adler (2002); an admirable example is the gentleman who has supervised the after-care program at my daughter's elementary school.

6. The evidence is that the first five years or so of the boomers did okay, because that five-year cohort (1946–1950) was basically competing with the smaller cohorts that preceded it. But by about 1952, newborn boomers were headed for much tougher financial times.
7. See Triest, Sapozhnikov, and Sass (2006); my statements here are based on a draft of that paper. It should be understood that many other effects must be relevant to these data.
8. There is roughly a seven-year difference by gender holding income and education gradients constant, and about a one-year difference by race, compared to a five- or six-year difference on the income/education combination cited here. Most of the difference for males occurs between an individual with median income and a high school diploma and the lower income and education group. Yet for females, in the estimates, the median income and high school education group is about halfway between the higher and lower groups. Why the income and education patterns differ by gender could be a subject for much speculation. For the data, see Panis and Lillard (1999), Table 2.4.
9. This example comes from Freedman and Moen (2005).
10. I mean the statement literally: there may be some; I just haven't found them.
11. See the Census Bureau's Current Population Survey Data for 2004, Tables 10 and 15. For instance, 6.2 percent of workers over age 65 worked in "natural resources, construction, and maintenance," compared to 10.5 percent of all workers. For the 38.2 percent of workers with "management/professional" jobs, the education gradient was striking: only 16.3 percent of those with only a high school diploma had such jobs, while over 90 percent of those with professional or doctoral degrees did (author's calculations).
12. Bauman and Graf (2003). This result may be partially due to immigration; in other words, rates of education for native-born Americans may have risen moderately, but an influx of younger immigrants have offset that effect on the proportion of younger residents with college degrees.
13. Inequity here involves the number of years in retirement relative to the number of years working. If the years of retirement are reduced and years working increased by the same number of years, this will have a larger proportional effect on those with fewer years of retirement to begin with. That's algebraically simple if each group has the same number of years working, because all that matters is the ratio of years in retirement. Reducing 15 years of benefits by three is a 20 percent cut, while reducing 12 years of benefits by 3 is a 25 percent reduction. If the shorter-lived group actually worked longer than the longer-lived group, the effect still favors the longer-lived group so long as more time is spent in work than in retirement.
14. Short descriptions of national systems may be found at <http://www.ssa.gov/policy/docs/progdsc/ssptw/> (accessed January 23, 2007).
15. Reports on full-time status would not require the same kind of computerization, real-time reporting, and immediate accuracy that would be required for private accounts. For example, records could be corrected annually without any worries that workers had been deprived of earnings on investments in the interim.

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