

# AARP PUBLIC POLICY INSTITUTE

## SOCIAL SECURITY REFORM: RETHINKING RETIREMENT-AGE POLICY— A LOOK AT RAISING SOCIAL SECURITY'S RETIREMENT AGE

### Introduction

Many plans to restore long-term solvency to the Social Security system would increase the age of eligibility for full Social Security benefits. Some call for raising the age for reduced benefits as well. Whether a higher retirement age would have the desired effect depends in part on the willingness and ability of workers to remain at work longer, as well as on the willingness of employers to retain them. Large numbers of workers say they want or expect to work longer; employers face labor shortages. For many workers today, improved health and working conditions suggest that a longer worklife might not pose undue hardships. Workers, however, express very little interest in being required to wait longer to receive full Social Security benefits.

Moreover, while baby boomers, in particular, will be reaching retirement age far better educated than past generations of retirees, skills obsolescence will plague many of them. In addition, many older workers, particularly those with low incomes, will experience health problems or face employment barriers that make prolonging worklife difficult. This issue brief discusses the implications for workers and employers of raising the age of eligibility for full Social Security retired worker benefits, referred to simply as “raising the normal retirement age.” It focuses on a number of work-related issues that should be addressed before that age is further increased. Because the underlying issue of concern in this brief is the long-range solvency of the Old Age, Survivors, and Disability Insurance Trust Funds, proposals to raise the age of eligibility for Medicare are not examined. However, it is recognized that increasing Medicare’s eligibility age would likely have a very substantial effect on retirement decisions.

### 20<sup>th</sup> Century Retirement Trends and Expectations<sup>1</sup>

Retirement came of age in America in the decades following World War II. Social Security coverage was expanded and benefits improved; cost-of-living adjustments ensured that retired worker benefits would better keep pace with inflation. Growing numbers of Americans had jobs that entitled them to private pension benefits, often at relatively young ages (e.g., 55). More and more families had two earners, enhancing their capacity to save for retirement.

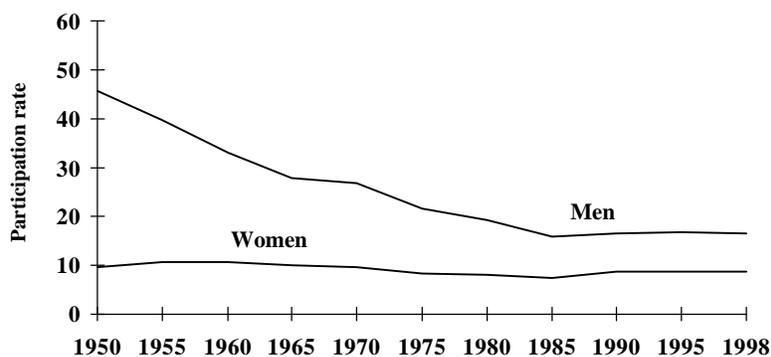
For much of the post-war era, the labor force participation rates of the midlife and older population drifted downward, mainly because of the continuing labor force withdrawal of men (Figure 1). Though job loss, mandatory retirement, and ill health propelled many of these men into retirement before they planned to retire, ever larger numbers of workers began to take advantage of the opportunity to leave the labor force voluntarily in comfort and dignity. Indeed, as reflected both in labor force participation rates as well as the average age at which Social Security retirement benefits are awarded (Table 1), early retirement was obviously attractive to growing numbers of Americans.<sup>2</sup>

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<sup>1</sup> The author wishes to thank Laurel Beedon, Barbara Bovbjerg, Bruce Douglas, John Gist, Clare Hushbeck, Evelyn Morton, and Joseph Quinn for their thoughtful reviews of and helpful comments on earlier drafts of this issue brief. Responsibility for any remaining errors or other problems rests with the author. Nor are the views expressed necessarily those of the reviewers.

<sup>2</sup> The table in the *Annual Statistical Supplement* from which Table 1’s figures were obtained may even understate the proportion of workers opting for early benefits, as it includes persons whose benefits were converted from disabled worker

**Figure 1**  
**Labor Force Participation Rates of Men and Women Aged 65 and Older, 1950-1998**



Source: U.S. Bureau of Labor Statistics, *Handbook of Labor Statistics*, 1985, Table 5; U.S. Bureau of Labor Statistics, *Employment and Earnings*, 1991, Table 3 and 1999, Table 3.

**Table 1**  
**Percent of Social Security Retired Worker Benefits Awarded at Age 62, 1960-1996**

	<b>Men</b>	<b>Women</b>
1960*	--	27.1
1965	14.7	30.9
1970	18.4	34.7
1975	25.8	41.6
1980	30.1	45.9
1985	45.5	57.9
1990	47.2	55.9
1991	46.8	56.1
1992	48.2	56.7
1993	48.8	56.0
1994	49.0	57.6
1995	49.3	55.4
1996	49.9	57.4

\*Reduced benefits were made available to women in 1956 and to men in 1961.

Sources: Social Security Administration, *Annual Statistical Supplement, 1997 to the Social Security Bulletin*, Washington, DC: Social Security Administration, 1997, Table 6B.5.

Workers continue to look forward to retirement, eyeing early retirement—often *very* early retirement—as the ideal. One-third of the respondents to the 1997 Retirement Confidence Survey reported they would like to retire at or before age 55 (Yakoboski and Dickemper 1997). Baby boomers participating in a recent Roper Starch survey for AARP maintained they would like to stop working for pay altogether at an average age of 59.7 (AARP 1998b). Yet workers increasingly seem to feel that such early and total retirement will not be their reality.<sup>3</sup> In numerous surveys, a majority of workers have been saying that they expect to work in retirement. Reasons vary, but financial considerations are key for many workers. Others like what they are doing and want to remain active. For the boomers who “retire” but continue to work, the nature of retirement may turn out to be fundamentally different from what it has been for their parents and grandparents.

In addition, there are signs that at least some people may already be working longer than were comparable-age workers even a decade ago. After declining fairly steadily

benefits to retired worker benefits. Excluding the conversions, 57.2 percent of men and 64 percent of women were awarded retired worker benefits at age 62 in 1996 (Social Security Administration 1997: Table 6.B1).

<sup>3</sup> These boomers, for example, *expect* to retire at an average age of 63.9 years (AARP 1998b).

since the late 1940s, the labor force participation rate for persons aged 65 and older began to level off around 1985 and has been inching upward since then. In 1998, 11.9 percent of persons aged 65 and above were in the labor force, up from 10.8 percent in 1985 (see Figure 1).<sup>4</sup> These numbers translate into over 900,000 more older men and women in the labor force in 1998 than in 1985 (U.S. Bureau of Labor Statistics 1986 and 1999).

The Bureau of Labor Statistics (BLS) projects modest increases in the labor force participation rate of persons aged 65 and older through the first few years of the next century (Fullerton 1997). However, some labor analysts suggest that prolonged employment will characterize a substantially higher percentage of Americans, since many say they want to work, and others will find they lack the financial resources they need to maintain their accustomed standard of living in retirement. In addition, slower growth of the labor force may put pressure on employers to promote opportunities for older workers.

Various polls conducted over the years indicate that large numbers of workers would be happy with some form of employment in later life, perhaps retiring from one firm and moving to another or continuing to work for the same employer after beginning to receive pension or Social Security benefits. Twenty years ago, just over half of preretirees were telling Louis Harris and Associates (1979) that they would like to work, preferably part-time or in less demanding jobs, after retirement. By the late 1990s, over 70 percent of all workers and 80 percent of the baby boomers were reporting that they expected to work in retirement (AARP 1998a; Yakoboski and Dickemper 1997).

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<sup>4</sup> Fuchs (1998) finds little change in expected years of work for persons aged 65 and older over about the same period. However, he does report an increase in expected years *not* at work, at least among men.

What fails to emerge from these polls is just what respondents expect, want, and/or would be willing to work at in retirement. Despite the high proportion of workers expressing interest in continued employment, only a minority remain in the labor force once they begin to collect pension or Social Security benefits.<sup>5</sup> One reason may be the types of jobs available to older workers, many of whom express a preference for part-time work. Part-time employment in the United States frequently consists of work that is low-wage, low-benefit, and low-status, as well as tedious and/or demanding and, hence, not likely to appeal to people who do not need to work. Some evidence that the “quality” of jobs influences the work decisions of older men and women can be found in a study conducted nearly a decade ago as part of a major initiative to expand employment opportunities for older Americans.

In 1989, the Commonwealth Fund commissioned a survey of nonworking 50-to-64-year-olds that concluded that more than 1.9 million people in this group were ready and able to go to work; this was substantially more than the estimate by the Bureau of Labor Statistics (Commonwealth Fund 1990).<sup>6</sup> While these 1.9 million men and women may truly have constituted a reservoir of labor, they nonetheless represented only one-fourth of all nonworkers between the ages of 50 and 64. In other words, three-fourths of the nonworkers—who were still quite young—could not, or did not wish to, be in the labor force.

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<sup>5</sup> This is not to suggest that all workers move directly from full-time work to full-time retirement. Many workers obtain what is often referred to as transitional or bridge employment, which may be full-time or less than full-time work, before exiting the labor force permanently (see, e.g., Mutchler et al. 1997; Quinn and Kozy 1996; Quinn 1999).

<sup>6</sup> The Commonwealth Fund respondents were queried about interest in jobs that would be available at “a suitable location, salary, and hours.” Presumably, fewer would have been interested in work under less favorable conditions.

Moreover, the would-be workers themselves were not necessarily ready for just any type of work. A large majority (87 percent) said that they would be willing and able to do a job that involved using their special skills, however defined. Just over half indicated that they would be willing and able to take a “sales job in a store, serving customers,” which, given the projected growth in retail sales jobs (Silvestri 1993 and 1997),<sup>7</sup> points to a potentially good match between labor supply and demand. However, enthusiasm for many of the other jobs included in the study was muted. Working in a fast food restaurant or waiting on tables, for instance, had little appeal, but those jobs are among the occupations whose numbers are projected to increase greatly.

While wide variation in interest in different employment possibilities is to be expected, the “perfect” job may be hard to come by. In particular, workers who are not employed in the types of occupations (e.g., professional or technical) that most readily lend themselves to satisfying part-time work or phased retirement may find post-retirement work options not much more attractive 10 years from now than they are today. Just what might those boomers who say they want to work be willing to do? More and better information about vague expressions of interest in post-retirement employment is needed.

### **Benefit Eligibility Age on the Rise**

Workers can, of course, leave the labor force at whatever age they choose,<sup>8</sup> although

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<sup>7</sup> Recent projections by BLS show retail sales as one of the occupations experiencing the largest job growth (Silvestri 1993 and 1997).

<sup>8</sup> Despite the fact that mandatory retirement has been eliminated in most occupations, workers may not always end up retiring when they want to. For example, a recent poll by Americans Discuss Social Security found that just over half of those under the age of 65 expect to retire before age 65, while 69 percent of current retirees had retired before that age (Lukensmeyer 1998).

under current law, they cannot collect Social Security retired worker benefits until age 62. If they opt to begin collecting at 62, their benefits are only 80 percent of what they would be at the age of full eligibility, currently 65. This latter age is often referred to as the “normal retirement age,” or NRA.<sup>9</sup>

For workers who turn 62 in 2000, the age of eligibility for full Social Security benefits will rise gradually from 65 to 66, where it will remain through 2016. The NRA will then begin again to rise gradually until it reaches age 67. Early benefits will still be available at age 62, but they will amount to only 70 percent of the full benefit, rather than the 80 percent of today.

Additional changes to the NRA have been included in several plans to restore long-term solvency to the Social Security system. Proponents of raising the age argue that not only are people living much longer today than they were when the age of eligibility for full benefits was set at 65 (Table 2), they are healthier or, at the very least, the incidence of disability in old age is lower (Manton, Corder, and Stallard 1993; Manton and Stallard 1996).

The Social Security Administration’s Office of the Chief Actuary reports that if Social Security’s NRA had kept pace with longevity increases since the program began, it would be 71 by 2000 (Social Security Advisory Board 1999: 3). Today, workers who leave the labor force at age 62 can expect to spend nearly one-fourth of their lives in retirement. Add to that 12 (or more) years of schooling at the beginning, and expected nonwork life may exceed expected work life for a sizable proportion of the population—too much, some say, especially in light of projected increases in life expectancy.

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<sup>9</sup> The age at which workers actually retire is much lower than the age of eligibility for full benefits.

**Table 2**  
**Life Expectancy at Birth and at Age 65 by**  
**Gender, 1929/31-1998 and Projected**  
**2000-2070**

	At Birth		At Age 65	
	Male	Female	Male	Female
1929/31	57.7	60.9	11.7	12.8
1940	61.4	65.7	11.9	13.4
1950	65.6	71.1	12.8	15.1
1960	66.7	73.2	12.9	15.9
1970	67.2	74.9	13.1	17.1
1980	69.9	77.5	14.0	18.4
1990	71.8	78.9	15.0	19.0
1998	73.4	79.4	15.7	19.2
2000	73.8	79.6	15.8	19.2
2010	75.2	80.4	16.3	19.5
2020	76.0	81.0	16.7	19.8
2030	76.8	81.7	17.1	20.2
2040	77.4	82.3	17.5	20.7
2050	78.1	82.8	17.9	21.1
2060	78.7	83.4	18.3	21.5
2070	79.3	83.9	18.7	21.9

Sources: National Center for Health Statistics, 1997, Table 6-4; Board of Trustees, Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, 1999, Table II.D2.

Under the Social Security Administration's intermediate assumptions,<sup>10</sup> life expectancy at age 65 is projected to rise by about three years for both men and women over the next 80 years (Social Security Administration 1999). In the eyes of many, workers should "pay" for some of these improvements in life expectancy by working longer, especially if health is improving as well.

On the other hand, not everyone is convinced that living longer means being able to work longer. Most would agree that there is,

<sup>10</sup> These are the economic and demographic assumptions that reflect the Social Security Trustees' best estimates about future developments affecting Social Security (Social Security and Medicare Boards of Trustees 1997: 3).

says Social Security Commissioner Kenneth Apfel (1998: 4), "a pivotal difference between longer life expectancy and longer *healthy* life expectancy," a critical distinction when considering raising the NRA and perhaps indexing it to increases in longevity. Just how much of that longer life expectancy is a healthy life expectancy is a matter of debate.<sup>11</sup>

Opponents of raising the NRA, at least at this time, argue that there is too much uncertainty about the likely impact of the *currently* scheduled increase, to say nothing of any additional increase, to justify further changes. Research by Fields and Mitchell (1983), conducted about the time Congress voted to raise the NRA from 65 to 67, suggests that the impact of this higher retirement age on behavior will be modest. Fields and Mitchell actually estimated raising the NRA to 68, rather than the legislated 67, and determined that without a corresponding reduction in early retirement, an increase of that magnitude would raise average retirement age by less than two months.

Gustman and Steinmeier (1985) examined the potential impact of several changes in the 1983 amendments to the Social Security Act, including the retirement-age increase, and concluded that the delayed retirement credit<sup>12</sup> would actually have a greater impact on the work behavior of older workers than the retirement-age increase. However, these scholarly exercises are both based on reasonable assumptions, not on observed behavior. There is yet no comparable experience or history to guide Congress in assessing how workers and the economy might respond to and be affected by a higher retirement age.

<sup>11</sup> The answer is obviously just as or perhaps more critical to an assessment of the impact of any increase in the age of eligibility for Medicare.

<sup>12</sup> The delayed retirement credit (DRC) increases the retired worker benefit of workers who delay retirement between the ages of 65 and 70.

## Proposals to Raise Retirement Age

The fact that there are many unanswered questions about the soon-to-be implemented increase in the normal retirement age has failed to serve as a deterrent to calls for further increases. Recent reform proposals incorporating changes in the NRA vary from simply eliminating the hiatus in the currently legislated increase from age 66 to age 67 to raising the age of eligibility for full Social Security benefits to 69 or 70 and indexing it to changes in life expectancy.

Two of the reform plans developed by the 1994-96 Social Security Advisory Council would accelerate the legislated increase in full retirement age by removing the 11-year hiatus and then indexing the higher retirement age to increases in life expectancy (Advisory Council on Social Security 1997). Doing this would ensure that longevity improvements translate into longer worklives, at least in the case of workers who cannot afford to retire early. The Committee for Economic Development (1997) has recommended that the NRA be raised to 70 by 2030 and then indexed to increases in life expectancy, while the National Commission on Retirement Policy (1999) would raise the NRA to 70 by 2029. A modification of this proposal (H.R. 1793) would raise the NRA more slowly, causing it to reach 67 in 2011 and thereafter increasing one month every two years.<sup>13</sup>

Although most members of the 1994-96 Advisory Council approved a speedier increase in the NRA, followed by indexing, some members demurred, insisting that “it is risky to assume that just because people are living longer, they can work longer and will want or have the opportunity to do so” (Ball et al. 1997: 92). These members had “grave doubts” about the advisability of the current increase, especially in view of its disproportionate impact on workers who are least likely to be

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<sup>13</sup> Increases in the early retirement age have also been proposed by the Commission and are included in the modified bill.

able to work longer. These opponents of a higher NRA feel that any further increase is unwise until there has been an opportunity to assess the impact of the increase now on the books, contending that in the years since the law gradually raising NRA to 67 was enacted “the employability of older workers has decidedly not increased” (Ball et al. 1997: 93).

An aspect of raising the normal retirement age that its supporters find appealing is that the proposed increases would be phased in gradually, giving workers ample time to prepare for the change.<sup>14</sup> In the case of the increase legislated in 1983, it would be nearly two decades before the phase-in would begin and another 27 years before the full impact would be in effect. Workers who wanted to retire early would have many years to adjust their plans, assuming they knew about the change. Because of the long phase-in under most retirement-age increase proposals, the public might find this change, especially if delayed far into the future,<sup>15</sup> less objectionable than others with a more immediate impact (e.g., a tax increase or benefit cut). However, as will be seen below, phasing in an increase is no guarantee of its popularity.

## The Public Response to Raising the Retirement Age

Americans are aware that Social Security faces financing problems, and most, according to Americans Discuss Social Security

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<sup>14</sup> Eliminating the hiatus as of 2006, however, might disrupt the plans of some people fairly close to retirement age.

<sup>15</sup> Of course, what is “far into the future” is a matter of opinion. At present, three decades hence might seem far into the future to proponents of raising the retirement age to 70 by 2030. On the other hand, three decades ago may seem like yesterday.

ADSS),<sup>16</sup> “think big changes are required in order to avert” them (Lukensmeyer 1998: 4). Raising the retirement age, however, is not among the favored solutions. Polls show that the public is clear and consistent in its disavowal of increasing the NRA, even when the rise would not be implemented for another quarter century.

To be sure, few of the possible reform options generate widespread enthusiasm, but raising the retirement age ranks close to the bottom. As recently as August 1998, Americans were displaying what was described as “a sheer stone wall of . . . opposition” to raising the retirement age, according to a poll released by ADSS (Cutter 1998): 74 percent of the public objected to raising it to age 70; age, income, and party affiliation did not appear to be factors in the responses. In comparison, “only” 61 percent objected to cutting the cost-of-living adjustment for benefits and 54 percent objected to a payroll tax increase, according to the poll.

The ADSS poll was not the first to highlight deep dissatisfaction with raising the retirement age. Upon review of 11 national surveys conducted in 1997 and 1998 (Blendon et al. 1998), analysts writing for the Brookings Institution concluded that generally only about one in three supports raising the retirement age, even if phased in gradually. Accelerating the scheduled increase finds favor with fewer than four in ten, an outcome that probably should not be surprising, given that many of the respondents might be affected by such a change.

Over the past 20 years, proposed NRA increases have consistently proven unpopular with the public (see Table 3). Baggett, Schapiro, and Jacobs (1995), for example, found that surveys conducted from the late 1970s through the mid-1990s tend to confirm

<sup>16</sup> ADSS was a nonpartisan project funded by The Pew Charitable Trusts to foster public discussion about the future of Social Security.

**Table 3**  
**The Public’s View of Raising Retirement Age:**  
**Results of Selected Polls, 1977-1998**

<b>Raise age to*</b>	<b>Poll**</b>	<b>Percent Opposed</b>
70	ADSS, Aug. 1998	74
69	PSRA/Newsweek, Jan. 1997	64
70	EBRI, July/Aug. 1996	68
70	NTU, March/April 1992	78
70	NTU, Nov./Dec. 1990***	74
68	CBS/NYT, Jan. 1983	57
67 or 68	Time/YSW, Dec. 1982	54
68	Harris, Nov. 1982	58
68	Roper, July 1982	70
68	CBS/NYT, July 1981	42
68	MAP, June 1981	59
67 or 68	MAP, June 1979	74
68	Gallup, Oct. 1977	64

\*The wording of the questions, as well as the proposed increase, varied across surveys, which may have influenced responses. The figures in this table are only meant to be illustrative of the persistent opposition to raising the retirement age. The weakening of opposition in the early 1980s may have been in response to the immediacy of the financial crisis confronting Social Security at that time.  
\*\*Acronyms: ADSS—Americans Discuss Social Security; PSRA—Princeton Survey Research Associates; NTU—National Taxpayers Union Foundation; MAP—Monitoring Attitudes of the Public (American Council on Life Insurance); YSW—Yankelovich, Skelly, and White.  
Sources: Americans Discuss Social Security 1998; Baggett, Shapiro, and Jacobs 1995; Employee Benefit Research Institute et al., 1996; Farkas and Johnson 1997; Mathew Greenwald and Associates 1992; Sherman 1989.

opposition to raising the retirement age all along.

According to Sherman (1989), raising the retirement age was not a popular option even in the early 1980s when Social Security faced a financing crisis. There did appear to be some weakening of opposition “at the depth of the crisis” (Sherman 1989: 10), when the immediacy of the problem confronting Social Security undoubtedly made people realize that something—perhaps even raising the retirement age—had to be done.

Given the professed objection to a higher NRA, then, just who is promoting it? Marilyn Moon sees a higher NRA as a “favorite proposal of workaholics and not a favorite proposal of anyone else” (Moon cited in Wildavsky 1998: 1563). Former Principal Deputy Commissioner of Social Security Lawrence Thompson (1996: 2) likewise notes that “if any consensus can be found among opinion leaders, it is that the retirement age ought to be increased. Yet few employers seem to want to keep their long-tenured employees around even longer and few individuals seem to be interested in delaying pension receipt.”

Of course, under most proposals, workers would not have to delay collecting Social Security until the higher NRA; they would simply get less per year than if they waited. While they might not find this to their liking, in the end, the public, too, may decide that raising the normal retirement age is the least objectionable of several solvency options. Many workers would still be able to retire early due to savings, investments, and pension income; others could try to save more if they wanted the additional years in retirement.

### **Employer Concerns About Raising the Retirement Age**

Little is actually known about how employers view further increases in the NRA. The U.S. General Accounting Office (1998) posits that employers’ negative perceptions of

older worker costs and productivity might affect their willingness to retain or hire them. Numerous surveys of human resource executives and employers over the years reveal extremely favorable opinions of older workers when it comes to attributes such as loyalty, dependability, and experience. These same employer representatives, however, tend to be far less positive about older worker flexibility, adaptability, and technological competence—attributes that seem to weigh more heavily than those such as loyalty in the hiring and retention decision (see AARP 1995; Barth, McNaught, and Rizzi 1993).

In testimony before the Senate Special Committee on Aging, a senior vice president with the National Association of Manufacturers (NAM) argued against a higher uniform retirement age, contending that raising the NRA would have a number of consequences detrimental to workers and employers, among which would be a substantial rise in the costs of health care (Huard 1998).<sup>17</sup> The cost of long-term disability plans would also rise if, as some propose, the early retirement age (ERA) increased along with the NRA and disability benefits had to be paid for a longer period of time. The increase in the cost of benefits would, Huard argues, discourage employers “from offering the range and value of benefits currently available” (Huard 1998: 11). By raising costs for employers, a higher retirement age might reinforce employers’ interest in getting rid of their older employees.

Some employer costs *are* higher for older workers (see, e.g., Clark 1994). If these costs are offset by higher productivity, less turnover, or lower recruitment expenditures, they may not feature prominently in employers’ decisions about older workers. Data that would adequately refute concerns about any higher costs, however, do not appear to be available. Thus, the issue of costs continues to serve as a formidable

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<sup>17</sup> Huard noted that NAM itself had not, as of then, taken a position on raising the NRA.

employment barrier for older workers; some labor experts argue that these costs must be reduced if the number of older workers hired and retained is to increase by much.

Burkhauser and Quinn (1997) point out that one way of reducing employer costs would be to make Medicare, rather than any employer health plan, once again the primary source of health care coverage for older workers. Others suggest that relaxing some of the requirements of the Age Discrimination in Employment Act (ADEA) to allow employers greater flexibility in setting wage and/or compensation levels for older workers would also enhance employment opportunities for older workers (see, e.g., Rebeck 1993). Such flexibility seems to be common in Japan, where the labor force participation rate of the older population exceeds that of the United States. However, those same workers lack the very important protections afforded older workers in the United States under the Age Discrimination in Employment Act.

In recent testimony on Capitol Hill, Gary Burtless (1998) of the Brookings Institution expressed relatively little concern about raising the retirement age, observing that employers had managed to accommodate large numbers of students and mothers with the creation of millions of part-time jobs. His “guess is that a comparable accommodation [would] be made for the special needs of older workers” (p. 10). Indeed, a recent newspaper article notes that Sears Roebuck was offering two-hour shifts in an effort to attract workers in the labor-strapped retail industry (Presslar 1998); retirees might find such arrangements much to their liking.

Whether such short shifts and other “accommodations” work will depend in part on the jobs for which accommodations are made. Another question is whether workers would agree to the lower salaries or wages that are often the price of part-time work (Burtless 1998: 10).

## **Financial Impact of Raising the Retirement Age on Social Security Finances**

It seems likely that a higher normal retirement age will feature prominently on the agenda of any Social Security plan seriously debated by Congress. Public opposition notwithstanding, further NRA increases might prove irresistible in view of their sizable impact on the solvency of the Social Security trust funds. Merely removing the hiatus in the scheduled increase from 66 to 67 would eliminate 5 percent of the long-range deficit (Goss and Wade 1998); going on to index it to longevity until age 68 is reached would eliminate 18 percent.

According to Social Security actuaries, gradually but steadily (i.e., without the hiatus) raising the NRA by two months per year until it reaches 68 would reduce the long range deficit by .49 percent of taxable payroll, or over one-fifth of the shortfall. The 68 retirement age would affect workers turning age 62 in 2017 and later.

The same impact could be achieved by a higher retirement age that was phased in much more gradually. In modeling the impact of various Social Security reform options for AARP’s Public Policy Institute, PriceWaterhouseCoopers estimates that eliminating the scheduled hiatus and then increasing the NRA from 67 to 70 by just one month every two years until 2083 would also shrink the long-range deficit by about .50 percent of payroll, or one-fifth the projected deficit.

A 15-year phase-in of a rise in the NRA to 69, coupled with an increase in the early retirement age, would add another 13 years to the period of projected solvency (estimates of Social Security actuaries cited in U.S. General Accounting Office 1998: 3). According to the American Academy of Actuaries (1997), rapidly moving the NRA to 73 would take care of nearly the entire shortfall. Since a wide range of increases and phase-in periods is possible—some far less painful than

others—considerable variation in the impact on solvency of raising the NRA is obviously possible, but it could be huge.

Advantages of raising the retirement age might accrue beyond any impact on trust fund solvency. The GAO, for example, contends that a higher NRA “could increase the nation’s economic output” (U.S. General Accounting Office 1998: 1), if experienced workers remained longer in the labor force.

### **Work Abilities and Opportunities in Midlife and Beyond**

A higher retirement age assumes that most men and women are physically and mentally able to work longer, that employers will want them, and that the available jobs will entice workers who could afford to retire to remain on the job. Health status and performance, along with job availability, thus become critical issues. What proportion of people would not be able to continue working to the higher retirement age because of health or job-related problems or caregiving responsibilities? What type of safety net would be available for those for whom a longer work life is not feasible?

#### Health Status

While health problems and physical limitations have always featured in the retirement decision, people once worked much later in life in jobs that were typically far more physically arduous than jobs are today. As late as 1968, over half of new Social Security beneficiaries were reporting health problems as the main reason for leaving their last job (Sherman 1985). Only 14 years later, that was the case for less than 30 percent, despite the fact that labor force participation rates among older people continued to fall.

Burkhauser, Couch, and Phillips (1996: 789) maintain that the major decreases in the labor force participation of 62- to-70-year-old men in recent decades have been more consistent with economic factors than with

worsening health. Spikes in the rate of retirement around age 62 and 65, the earliest and full retirement ages under Social Security, would seem to support this contention, although not everyone is in accord. Dwyer and Mitchell (1998) argue, for example, that “health problems influence expected retirement age more strongly than do economic variables.”

From Wave 1 and the early release of Wave 2 of the Health and Retirement Survey (HRS), Burkhauser, Couch, and Phillips (1996: 790) conclude that the “great majority of men” who opt for Social Security retirement benefits at age 62—far from ailing—“enjoy good health.” The percentage of men with work limitations—16—was the same for those taking early retirement and those who did not and increased by about the same amount for both groups between the first and second waves of the HRS. In other words, the presence of work-limiting conditions, at least as defined by Burkhauser, Couch, and Phillips, did not appear to be a factor that distinguished early Social Security recipients from those who continued working.

Steuerle (1998) likewise points to rather good health, on the whole, among what might be called the “early-retirement age” population in the Current Population Survey (CPS). Respondents between the ages of 60 and 64 who reported a work-limiting disability or who contended that they were in poor or only fair health were in the minority. Moreover, these health-related complaints showed little increase among those aged 65 to 69. Crimmins, Reynolds, and Saito (1999) found a significant improvement in ability to work, as reported by men and women in their 60s, from 1982 through 1993, an improvement due to increased education, which has a bearing on occupational choice, health status, and lifestyle.

Burkhauser, Couch, and Phillips are careful not to minimize the importance of health problems for some early retirees, namely those who are apparently not healthy

enough to continue working *and* who lack alternative sources of pension income. For this small group (who were less than 10 percent of male early Social Security takers studied by Burkhauser, Couch, and Phillips), a higher retirement age would most likely result in considerable hardship.

Still, the researchers claim that their findings “call into question popular conceptions of early Social Security beneficiaries as having a markedly higher prevalence of health problems relative to those who delay acceptance past age 62” (Burkhauser, Couch, and Phillips 1996: 791). According to this view, raising the *early* retirement age should not be a problem, as most workers could either continue to work or have access to other sources of income to support them if they are unable to work.

Research by Gendell and Siegel (1996), however, might give pause, showing as it does that rather high proportions of men and women stop working more than a year before collecting Social Security retirement benefits.<sup>18</sup> To be sure, such early exit is hardly troublesome in the case of workers with adequate income from other sources, such as a spouse’s earnings or pension benefits. Non-workers who delay applying for Social Security beyond age 62 may for the most part fall into this category. However, those who have been out of work for a year or more and then begin collecting Social Security at the earliest possible age are most likely another story.<sup>19</sup>

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<sup>18</sup> Of those no longer working in the New Beneficiary Survey, 25 percent of the men and nearly 50 percent of the women had stopped working more than a year before receiving their first Social Security Retirement Benefit (Gendell and Siegel 1996: S138).

<sup>19</sup> In the New Beneficiary Survey, almost one-third of the men who received benefits at age 62 had been out of the labor force for at least a year (Author’s calculations of Table A in Sherman [1985]; see also Gendell and Siegel [1996]).

Gendell and Siegel also report that the interval between leaving the labor force and receipt of benefits was “fairly long” for blacks (one to two years), considerably longer than for whites. These racial differences can, according to the evidence cited by Gendell and Siegel, be attributed to health differences. Crimmins, Reynolds, and Saito (1999) note that African American men in the National Health Interview Survey were about 40 percent more likely than non-Hispanic white men with the same education to report inability to work.

While the health problems referred to by Gendell and Siegel might not preclude *any* work, they are apparently sufficiently severe to distinguish the labor force behavior of those who experience them from workers with similar characteristics who are in good health (Sammartino 1987: 41). Workers who have left the labor force before reaching early retirement age may be at particular risk of economic distress if that age is increased.

Nevertheless, research undertaken for AARP leads to the conclusion that a high proportion of the population does seem to be physically capable of working beyond both the early and full retirement ages. Analyzing data in the HRS and the Survey of Income and Program Participation (SIPP), Uccello (1998) has determined that “the vast majority of workers [8 in 10]<sup>20</sup>, even those aged 65 and older, are in good health” and have no functional conditions that would limit work. Nonetheless, she acknowledges that some people—often members of minority groups—would not find it easy to prolong their worklives.

Like many researchers before her, Uccello finds that ill health does bedevil a portion of older workers, prompting some to retire

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<sup>20</sup> According to Uccello (1998), 83 percent of workers aged 62 to 64 and 80 percent of workers aged 65 or older in the 1990 panel of the Survey of Income and Program Participation reported good to excellent health.

before they might prefer. As would be expected, retirees tend to be in worse health than their working counterparts, but Uccello's research indicates that the majority of retirees are also healthy. Still, a not inconsequential number of nonworkers experience work-limiting conditions.<sup>21</sup> Those conditions might not qualify those who experience them for Social Security Disability Insurance (SSDI) benefits but could be severe enough to make prolonged labor force attachment difficult or impossible.

Other research produces comparable results. Over one-fourth of the population aged 60 to 64 and aged 65 to 69 in the Current Population Survey (CPS) rated their health as only fair or poor (Steuerle 1998). Similar findings were reported by GAO, whose assessment "shows that approximately 22 to 31 percent of men aged 62 to 67 report that they have a disability that limits their work" (Bovbjerg 1998: 3). In sum, "unhealthy" people in the age group that would be most affected by changes in retirement might be in the minority, but they are a sizable minority nonetheless.

Crimmins, Reynolds, and Saito (1999: S39) also "suggest caution. . .in projecting current trends into the future," given that they did not find improvement in work ability among persons in their 50s, which they found among those in their 60s. This was despite the fact that the educational level of this age group increased as well.

In addition, it is not just poor health that causes workers to leave the labor force prematurely. Other problems, such as job loss, play a part. The earlier the retirement, Uccello observes, the less likely a worker leaves the labor force voluntarily. She found, for instance, that only one in four workers leaving a job between ages 55 and 61 retired

voluntarily, compared to over one-half of those doing so at or after age 62. Many of these involuntary retirees, not all of whom have left the labor force for health reasons, would likely suffer if the age of eligibility for benefit were pushed back or if early retirement benefits were further reduced. (See Table 4 for the reasons Health and Retirement Study respondents left the labor force.)

**Table 4**  
**Reason for Leaving the Labor Force by Age at Departure and Gender, Health and Retirement Study (in percents)**

Reason for Departure	Age at Departure	
	55-61	62-63
<b>Both Sexes</b>		
Voluntary retirement	26.8	57.1
Involuntary		
Business closed, laid off	13.8	8.5
Poor health, disabled	22.2	11.3
Other	37.3	23.1
<b>Men</b>		
Voluntary retirement	32.5	69.0
Involuntary		
Business closed, laid off	14.8	4.2
Poor health, disabled	25.7	9.0
Other	27.0	17.8
<b>Women</b>		
Voluntary retirement	22.4	44.2
Involuntary		
Business closed, laid off	12.9	13.1
Poor health, disabled	19.5	13.9
Other	45.2	28.8

Source: From Tables 9a and 9b in Cori E. Uccello, *Factors Influencing Retirement: Their Implications for Raising Retirement Age*, Washington, DC: AARP 1998 (tabulations of Wave 2 of the Health and Retirement Study).

<sup>21</sup> For example, nearly 40 percent of 55-64-year-old retirees in the 1990 SIPP reported that they had a condition the limited work at a job (Uccello 1998).

## The Meaning of Good Health

Before concluding that the health status of today's older Americans, at least those in their 60s, justifies raising the retirement age, a more thorough understanding is needed of the relationship between self-reported health and work ability. Does the fact that workers (or retirees) say that they are in good health or free of work limitations mean that they are capable of continuing in the jobs they have (or had prior to retirement) and that their on-the-job performance would be up to par?

Is it possible that expectations, and thus definitions of good health, change with age, such that "good health" means something different to a 65- or 70-year-old than it does to a 50-year-old, with differing consequences when it comes to working? Does the fact that so many older people describe themselves as in fine health mean they could perform acceptably in the jobs they have, had, or might be needed for? Or might good to excellent health and/or the lack of work-limiting conditions reflect differing levels of strength, stamina, mental acuity, and the like, with different work-related consequences at different ages?<sup>22</sup>

Furthermore, might it be the case that older workers who describe themselves as healthy and without work-limiting conditions are, in fact, healthier and abler than their non-working counterparts who also say they are healthy and free of work-limiting conditions? In brief, even though the majority of persons in their 60s and early 70s maintain they are in good health, the relationship between self-assessed health status and the ability to remain productively at work, especially into the late 60s and early 70s and in the myriad occupations in which older workers may find themselves, warrants further research.

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<sup>22</sup> Or, might the health evaluations reflect the ability to perform well in some jobs and not others?

## **Worker Characteristics**

Workers approaching retirement age make up a heterogeneous group whose varied characteristics and life experiences might affect health status and ability to prolong work. Differences include the nature of the work people engage in, when workers first enter the labor force (e.g., at age 18 or after professional school), the skills people have or are able to acquire to remain competitive, and their experiences with unemployment. Is it reasonable, for example, to expect the same extension of worklife from men and women who start to work right after high school as from those who spend years in graduate school? Some would argue that prolonged education was work enough, but the employment experiences of the highly educated are likely to be far more conducive to later life work than those of people with only a high school diploma.<sup>23</sup>

Proposals to raise the retirement age are viewed as "exceptionally biased against blue-collar folks," in the words of Joseph White of the Century Foundation (Wildavsky 1998: 1563), in part for health reasons. According to the GAO, blue-collar workers would more likely experience greater difficulties in prolonging their worklives than white-collar workers (U.S. General Accounting Office 1998). White-collar workers, the GAO found, "were not at greater risk for having any of the health problems [GAO] examined" (p. 7). Even after controlling for such variables as age, race, and alcohol consumption, blue-collar workers were far more likely to suffer from a variety of health problems that might have implications for work performance. These included arthritis, chronic lung disease, and emotional disorders.

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<sup>23</sup> EBRI's 1996 Retirement Confidence Survey found that respondents without any college education were among the most opposed to raising the NRA, quite possibly because the prospect of remaining another five years in the types of jobs they hold is not enticing (Employee Benefit Research Institute 1996).

The GAO report concludes that “when all blue-collar occupations are grouped together, blue-collar workers are 80 percent more likely than white-collar workers to experience pain that affects their ability to perform their jobs” (U.S. General Accounting Office 1998: 9). While some of these workers might be financially prepared to retire when their health gives out, it is doubtful that all such workers would be so fortunate. Yet staying on the job might prove impossible as well, especially if performance suffers. For some workers, alternative work arrangements, such as shifting to less demanding work or workplace modifications, might be available and might make continued employment possible. Outdated skills and age biases, however, are likely to limit the attraction of these workers to both current and new employers.

#### Age and Performance

A substantial body of research indicates that age is a poor predictor of job performance (see Sterns and McDaniel 1994 for a review of this literature), but the paucity of post-retirement age workers (i.e., 65-plus) in studies of performance once again suggests caution in generalizing to all people of a certain age. In other words, what applies to older workers who remain in the labor force may not apply to those who left, despite reports of comparable health status. Similarly, it may be premature to assess the overall work performance—especially in a range of occupations and industries—of large numbers of people who might have to work up to their seventh decade from the small numbers of older workers there today.

Of course, many older men and women do remain at work. As of 1998, nearly 650,000 of them were aged 75 or older (U.S. Bureau of Labor Statistics 1999). Some continue into their 80s and 90s. In a labor force as large as that of the U.S., older people can be found in virtually every industry and occupation, though concentrated in certain ones more than others. There are also too few in many occupations to draw definitive conclusions about the general

effectiveness of older workers in those occupations. Nevertheless, assertions that the jobs of today are more suitable for older workers than the jobs of the past may be true, but promoting productivity in those jobs to advanced ages remains a matter for further research.

Proponents of raising the retirement age must assume that sufficient jobs capitalizing on the skills and abilities of workers will be available. Steuerle (1998) reports that the proportion of workers in physically demanding jobs, defined as “requiring frequent lifting and/or carrying of objects weighing over 25 pounds” had fallen from 20.3 percent in 1950 to 7.5 percent in 1996. But while the proportion of workers employed in physically demanding jobs might continue to fall, those jobs will not disappear.

Furthermore, other measures of “physically demanding” (e.g., standing for long periods of time) might be worth examining in addition to frequent lifting or carrying of heavy objects. Jobs can be physically demanding without the lifting of heavy weights. Perhaps the “workaholics” referred to above by Moon could remain longer at their desks with only minimal adjustment in work schedule or tasks, but they are not necessarily in the jobs where labor shortages are likely to develop.

To be sure, many of the occupations whose numbers are projected to increase the most over the next few years (e.g., retail sales people, cashiers, fast food workers, systems analysts) seem amenable to flexible work schedules and less than full-time work. Some of these occupations are neither blue-collar work nor physically demanding, according to some definitions. But they are not all desk jobs either. White-collar workers in the service sector can also find themselves in demanding occupations that require exertion and physical stamina (e.g., nursing) and that may not immediately come to mind when the term “white collar” or “service sector” is mentioned. Mental stress in some of those

jobs may be even greater and perhaps more debilitating.

Job performance encompasses more than just the ability to complete a task or fulfill job requirements. Performance can also be reflected in absenteeism rates, and while “voluntary” work absences tend to be lower for older workers, absences due to illness and injury rise with age (U.S. Bureau of Labor Statistics 1996a). BLS reports that the median length of absence for persons 55 and older is double that of workers under the age of 35.

More seriously, fatal job accidents also rise sharply with age.<sup>24</sup> Furthermore, the injuries of older workers, says BLS, result in lengthy work absences, not only because their injuries tend to be more disabling but because the same condition requires more recuperation time (U.S. Bureau of Labor Statistics 1996a). Differences such as these entail real costs for employers that must be taken into account when issues of older worker employability are examined. BLS warns that “the cost implications of severe injuries to older workers are especially troublesome for the future,” given their increased numbers (U.S. Bureau of Labor Statistics 1996a: 2).

Health problems requiring medical care and medications rise with age, as do comorbidities that may affect work performance (see Douglas and Douglas 1998). Visits to physicians, hospital stays, and duration of hospital stays are higher for older persons. To the extent that this occurs among persons out of the labor force, the work-related implications are obviously nonexistent. To the extent that they occur among persons who remain longer in the labor force, the cost implications may be more serious.

However, if the retirement age is increased and workers cannot afford to leave the labor

force when they no longer feel up to the job, these age-related differences and conditions take on potentially new meaning. At the very least, they call for more research to assist employers in identifying and implementing procedures and policies for the safest and most effective utilization of workers with limitations and the fairest way of evaluating performance. Work performance may be only marginally affected by age-related changes or not at all; some tasks may be affected but not others; certain conditions or medications might have significant and adverse implications for work performance and for the safety and well being of older workers and their colleagues. Some might call for testing and intervention, such as job transfer or task modification at younger ages; others might have particular implications for employer health costs and other types of insurance.

While problems associated with a sizable increase in the number and proportion of older workers are not necessarily insurmountable, they may pose a challenge to workers and their employers and should be better understood—especially as far as work performance and employer costs are concerned—before the age of eligibility for full Social Security benefits is raised further.

#### Job Loss at Upper Ages

At present, older workers face formidable barriers in their search for work. Official unemployment rates for older workers are typically lower than those for younger workers, but that is partly because older workers who lose their jobs are more likely than their younger counterparts to drop out of the labor force and are therefore excluded from the ranks of the unemployed. If they remain in the labor force, the job search can be long and discouraging, despite years of experience and solid work performance.

Between 1995 and 1997, nearly one million workers 55 or older were displaced from the jobs they held as a result of a plant

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<sup>24</sup> In 1994, there were 14 fatal occupational injuries per 100,000 employed persons aged 65 and older vs. 5 per 100,000 for the total workforce (U.S. Bureau of Labor Statistics 1994).

closing, insufficient work, or abolition of shift or position (U.S. Bureau of Labor Statistics 1998). By February 1998, only 56 percent were reemployed. (This is in contrast to 80 percent of displaced workers between the ages of 25 and 54.) Significantly, the number of older displaced workers was no lower during this period than it was for 1993-95, although the number of younger displaced workers fell sharply (U.S. Bureau of Labor Statistics 1996a and 1996b). Clearly, older workers remain vulnerable to job loss, in spite of the improved overall employment picture. Not only does it take older unemployed workers much longer to become reemployed, they are less likely than younger jobseekers to be successful, and if they do find work, are more likely to experience substantial earnings losses.

If historian Theodore Roszak (1998) is correct, one of America's greatest assets is its maturing workforce. "Never before," Roszak avers, "has a senior generation possessed enough technical skill, professional training, and intellectual astuteness to consider staying on the job well beyond the legal retirement age. Nor have people over the age of sixty-five ever looked so much like a viable and sizable workforce, a workforce that may be better equipped to compete for jobs than the younger generation" (p. 11).

Rozzak and others might argue that older worker employment opportunities are ripe for change, especially given an economy that is projected to increase by 18.6 million jobs between 1996 and 2006 (Silvestri 1997). Certainly, the greater employment of older workers referred to in the introduction to this issue brief would seem to reflect some willingness on the part of employers to turn to older workers,<sup>25</sup> but recent job displacement figures for older workers should temper some of the optimism. Employers do hire older workers and retirees (see Hirshorn and Hoyer

1992), although not necessarily in large numbers or for the most desirable of jobs. They may eventually come around to Roszak's point of view, but for the most part, employers for whatever reason have yet to do so.

Moreover, despite the impressive number of newly created jobs in the United States, downsizing, restructuring, and reengineering continue to characterize the economy. Boeing Co., for example, recently reported that it would cut some 48,000 jobs over the next two years (Smart 1998), and Boeing is not alone in its reduction. At times, jobs may be eliminated while substantial hiring is going on in other parts of the same company. The departing workers—often eased on their way with an early retirement incentive but not yet ready to retire—seldom appear to be candidates for the newly created positions.<sup>26</sup>

For many workers, therefore, the option of simply pushing back the date of retirement might not be a realistic one. Their jobs may no longer exist, necessitating an often prolonged search for work if they are to postpone retirement. Possessing up-to-date skills and abilities, especially so-called "technological competence," will prove critical to the success of these job searches. As noted earlier, employers harbor reservations about the older workers' comfort with new technology and ability to learn it, such reservations conspire against those workers in their search for employment. Future cohorts of older workers are expected to be more technologically adept, but those cohorts may always be at a disadvantage compared to more recently schooled younger workers unless their training/retraining and exposure to changing technology are continuous.

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<sup>25</sup> A study by the National Council on Aging (1998) reports employers saying they would like to hire older workers, but they cannot find them.

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<sup>26</sup> Some companies do bring back retirees on a temporary basis or for short-term projects.

## A Look to the Future

### Employers and a Higher NRA

Rising costs associated with an aging workforce could encourage employers to scale back benefits, require higher benefit copayments, or increase wages less frequently.<sup>27</sup> Or employers might make greater use of part-time or contingent workers, who typically receive few or no employer-provided benefits.

It also is not clear how, if at all, employers might modify their private pension plans in response to a higher retirement age for Social Security benefits. Private pension plans that are integrated with Social Security, and thus allow employers to take into account their contributions to Social Security in establishing pension benefits, could see an increase in costs resulting from the decline in Social Security benefits, unless the NRA of those plans were raised as well (American Academy of Actuaries 1997).<sup>28</sup> The impact would depend on the type of integration and on the plan type itself.

In an effort to encourage continued early retirement, employers with defined benefit pension plans might maintain the plan's early retirement age and offer enhanced early-retirement benefits to carry retirees through to the higher Social Security age.

Workers who have accrued what they believe to be adequate retirement benefits, whether in a defined benefit or defined contribution plan, might continue to retire early. For some, private pension benefits might not be enough to compensate for the cut in Social Security benefits that early retirement would entail. To the extent their health permitted, these workers would

presumably delay retirement, unless employers enticed them to leave with pension sweeteners.

Employers' responses will depend on the type of plan provided, the size and skill level of the older workforce, the size and quality of the available labor pool, and the costs of and returns to any adjustments, such as enhanced early retirement incentive offers. Employer response is also likely to depend on what the eventual NRA is; they might be more willing to accommodate an NRA of 68 than, for example, one of 70 or higher.

Indexing retirement age to longevity may prove particularly problematic. Even if greater longevity has been associated with improved health up to now, the same relationship might not prevail in the future.

Employers might face planning problems when workers' retirement is unpredictable (Douglas and Douglas 1998). Performance matters that were relatively easy to handle or overlook when most workers could be counted on to retire at early ages could assume greater import if the proportion of older workers were to rise substantially.

Fatal accident rates and recovery rates, in particular, would demand further scrutiny if the numbers of older workers were to rise sharply in the face of a retirement-age increase. One might quibble about the significance of longer recovery rates, but dying on the job cannot be dismissed so lightly. The severity of accidents might be alleviated by interventions that benefit workers of all ages, but especially those most vulnerable at upper ages. Programs and policies to promote health and wellness, as well as safety, might increase, as might shifts to less risky jobs. This latter response, however, could raise concerns about when and under what condition such shifts could be made in a nondiscriminatory fashion.

On the whole, it does seem that considerably more men and women are

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<sup>27</sup> Under the Age Discrimination in Employment Act, any such adjustments would be applied to workers of all ages.

<sup>28</sup> See Lichtenstein (1998) for a discussion of Social Security and pension plan integration.

capable of continuing to work productively for a longer period than they do today, perhaps even much longer. However, as suggested in the section, “The Meaning of Good Health,” just because workers say they are in good health is no guarantee that they can automatically continue at the same speed in the same work into their late 60s or early 70s. It might be wise to examine the extent to which workplace modifications, including work hour reductions and job change, would facilitate a longer worklife, and to ask whether, and under what circumstances, the benefits of these arrangements outweigh any costs.

Even if older workers are healthy enough to keep on working and even if their jobs are not eliminated due to downsizing or restructuring, other employment issues arise. If older, long-tenured workers are more costly or are perceived as more costly, if higher costs are not offset by superior performance, if older workers lack or are perceived as lacking the skills employers need or say they need in the global economy, and if alternative workers are available, employers could take steps that would make staying on very difficult for many workers.

As mentioned, a higher retirement age could accelerate the use of contingent workers. Not only are such workers typically cheaper than permanent employees, but they can be more easily terminated if they do not work out.

For retirees with pensions, health insurance, and adequate Social Security, contingent employment may be a desirable transition from full-time work to full-time retirement. For older workers in need of a dependable paycheck and benefits, the contingent workforce is a precarious place. Maintaining up-to-date skills might be especially difficult for contingent workers without access to employer-provided training. Greater reliance on contingent workers could make more older workers vulnerable to the vagaries of a changing market and to age discrimination in the search for work. Finally,

large numbers of contingent workers moving in and out of the labor force would not necessarily have the desirable impact on Social Security that other forms of employment would have.

Virtually everyone, it seems safe to say, would favor increasing opportunities, as opposed to requirements, for prolonging worklife, with benefits that accrue to both employers and employees. Over the years, older worker advocates have called for many changes that they argue would promote longer and more productive attachment to the labor force. These include flexible work schedules, which have become quite common, work at home and telecommuting, job sharing, and better part-time jobs. Phased retirement has been highly touted by some as a way of prolonging labor force attachment and easing some of the burden on public pensions (Delsen and Reday-Mulvey 1996), but formal phased retirement programs are rare in the United States.

#### Workers and a Higher NRA

There are also questions about how workers would actually respond to a higher retirement age. If public opinion polls such as those referenced elsewhere in this issue brief are any guide, legislators would be wise to steer clear of this approach to solving Social Security’s long-term financial problems, but few proposals to shore up the Social Security system generate much enthusiasm among the public. Despite expressed opposition even to a long-delayed rise in retirement age, the public may be less responsive to a change that would not affect them for many years into the future, if at all. At it stands, relatively few Americans (one in five) are even aware of the 1983 increase that will soon begin phasing in (Americans Discuss Social Security 1998).

On the one hand, future retirees might be equally oblivious to another increase in the NRA. On the other hand, ignorance of the 1983 amendments will fade once the increase

goes into effect. Members of the public might look askance at a further increase if it were to occur just as they were becoming cognizant of the last one.

Baby boomers may insist that they want and expect to work longer, but will they really do that? And how much longer might they be talking about? What boomers want is *options*, not requirements—they want to decide if they will work longer and just what they might do in retirement. Unfortunately, what they want to do may not be what employers ask of them. In theory, of course, if the right options are unavailable as the NRA rises, workers could still retire early if they had the means to do so or were willing to make do on smaller Social Security benefits.

In practice, however, the financial penalties associated with early retirement under a higher NRA might be too great for many workers. It is likely that workers with good pensions who can afford to retire when they choose are the very ones with the jobs most conducive to delayed retirement and the skills to negotiate arrangements with their employers that would keep them at work longer. Workers with fewer financial resources and marketable skills could be the ones who need to stay on longer but whose options for doing that are most limited.

Finally, there are workers who really cannot be expected to work much longer than they do now because they lack the requisite skills or health. For some of them, retraining for another line of work could be the answer; others might be able to find *something*. It is not clear how many workers would actually fall into the “absolutely unable to work or find a job” categories, but their numbers will doubtless increase as the population ages. How those workers would be protected, and at what cost, has received too little attention.

Demand from less healthy workers unable to continue in the labor force might heighten calls for liberalized access to Social Security Disability Insurance (SSDI), with attendant

increases in costs to that program. Worker compensation costs could rise if older workers consistently prove to be at greater risk of workplace injuries. Demands on unemployment insurance for older workers who cannot find work are other costs that might offset some savings to Social Security resulting from a higher retirement age.

### Workers, Spouses, and a Higher ERA

This issue brief has focused primarily on raising the age of eligibility for full Social Security benefits. A key issue in the debate will be what happens to the early retirement age. Some proposals to increase the NRA would leave the early retirement age at 62, with appropriate actuarial reductions; others would gradually increase the ERA along with the NRA.

Raising the NRA can be viewed as an across-the-board benefit cut. An unknown percentage of workers will be, for the reasons discussed in this paper, unable or unwilling to extend working life. If reduced benefits continue to be available at age 62, many of these workers will apply for them at or close to the earliest age possible. Not only will the retirees themselves have to manage on those reduced benefits, but their spouses and survivors stand to be affected as well.

Social Security spousal and retirement benefits are based on the worker’s benefit, so a lower retired worker benefit means lower spousal benefits and, ultimately, lower survivor benefits. For the women who will collect survivor benefits in retirement—a category that includes a shrinking proportion of women with too few credits to qualify for Social Security on their own and a large proportion of women whose survivor benefits will continue to be higher than their own retired worker benefits—further reduction in what they will receive as widows is cause for concern. Aged widows are one of the most economically vulnerable groups today.

## Conclusion

It is one thing to talk about the inducements that might keep people working longer. It is quite another to know just what would accomplish that. Earlier in this century, workers may have typically remained at work much later in life in jobs that were considerably more taxing than they are today. But standards about what is “good” or “bad,” “hard” or “easy,” change with time. Moreover, through their behavior, workers over the past half century have expressed a strong interest in early retirement. More older persons may be in the labor force today than a decade ago, but the labor force participation rate itself has risen by less than one percentage point for the population aged 55 and older and by less than 1.5 percentage point for the 65-plus population.

Employers who need workers will do what they must to get them, using nontraditional methods to find them, seeking nontraditional workers (e.g., retired workers), and offering nontraditional work arrangements (e.g., two hour shifts in the case of one major retailer). After all, they are in business to stay in business. If it is in their best interest to do so, employers will entice older workers to remain in or return to the workforce and may even invest more in training their older workers. Phased retirement programs, more attractive part-time employment options, greater opportunities to change jobs or careers in midlife, among other options, might encourage sizable numbers of workers to delay full retirement, thus increasing labor force participation rates well above those seen today. Innovative employers with worker-friendly employment policies should have the pick of the labor supply.

Still, while everyone is undoubtedly in favor of increasing work opportunities that appeal to older workers and that cause them to choose to work longer, a higher normal retirement age is not an “opportunity.” It is one thing for writers of issue briefs to ponder the pleasurable prospects of remaining in the

labor force a few more years. It may be quite another thing in the case of the millions of workers in far less desirable, but important, jobs. Before the normal retirement age is further raised, more substantive assessments of its potential impact seem called for.

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