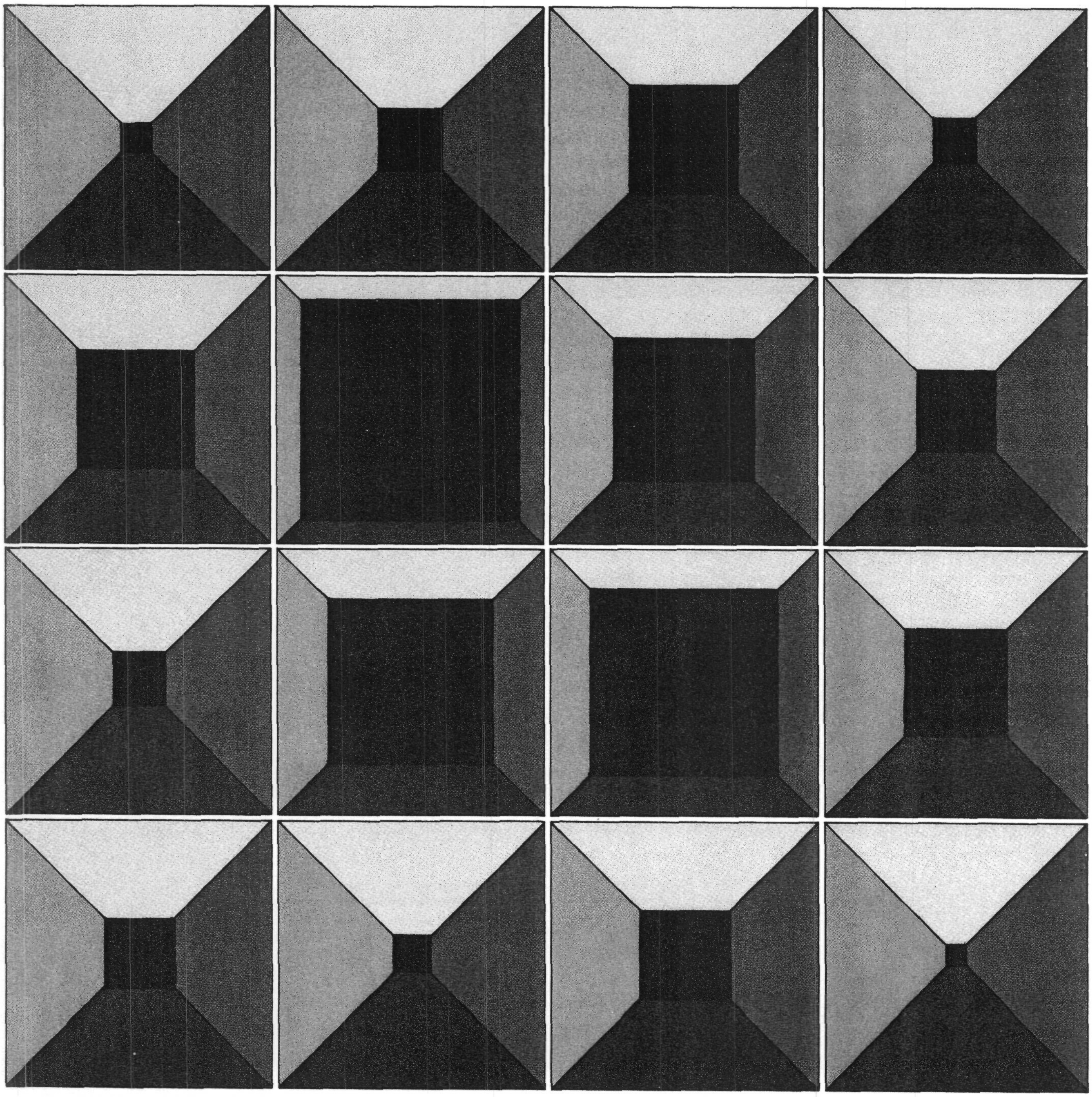
Work and Retirement: Options for Continued Employment of Older Workers

A CBO Study
July 1982

Congress of the United States
Congressional Budget Office



WORK AND RETIREMENT:
OPTIONS FOR CONTINUED EMPLOYMENT OF OLDER WORKERS

The Congress of the United States
Congressional Budget Office

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402

PREFACE

Several issues now before the Congress deal with the causes or consequences of the growing number of older persons who are not employed. This paper, requested by the Senate Budget Committee, describes the present and future elderly populations and how demographic changes will affect the labor market, the economy, and the federal budget. It examines the determinants of retirement decisions, how those choices are affected by federal programs and policies, and options to facilitate continued employment by older persons.

This study was prepared by Bruce Vavrichek of the Congressional Budget Office's (CBO) Human Resources and Community Development Division, under the supervision of Nancy M. Gordon and Martin D. Levine. Many individuals provided valuable technical and critical contributions, including Stephen R. McConnell, Paul Cullinan, Jan Lilja, Marilyn Moon, Malcolm Morrison, Lawrence Olson, and Carl Schmertmann. Patricia H. Johnston edited the manuscript. Mary V. Braxton typed the several drafts and prepared the paper for publication.

In accordance with CBO's mandate to provide objective and impartial analysis, this paper contains no recommendations.

Alice M. Rivlin
Director

July 1982

CONTENTS

CONTENTS (Continued)

PAGE

TABLES

FIGURES

96-296 O - 82 - 2

SUMMARY

The aging of the population in the years ahead--and especially the increase in the number of older persons who are not employed--has significant implications for those persons, for the economy as a whole, and for the federal government as a provider of retirement income. Persons retiring from the work force not only experience potentially large reductions in income but also may contribute to other sources of declining labor force growth in the future--a trend that could result in lower national output. Budgetary concerns arise both because of increased outlays for income support and because a smaller work force means fewer people to pay for these and other services.

In light of these concerns, the Congress may wish to review those federal policies that are partly responsible for reduced employment by many older persons. Further, it may want to consider options to enhance the employment opportunities of those older Americans who can and choose to continue to work.

THE GROWING NUMBER OF NONEMPLOYED OLDER PERSONS

The number of people 65 and older is continuing to increase as a share of the total population. In 1980, one in nine--or 24 million--Americans were 65 or older, compared to one in twelve in 1950 (see Summary Table 1). The elderly population will increase only moderately over the next few decades, but soon after 2010 its size will grow dramatically. By 2030, nearly one in five--or almost 56 million--Americans will be 65 or older.

At the same time, the fraction of older persons in the labor force is declining. Between 1950 and 1980, the portion of those 65 and older in the labor force fell from 24 percent to 13 percent, primarily as a result of increased retirement by elderly men. Since 1970, the labor force participation rate of persons 55 to 64 has also fallen slightly--from 62 percent to 56 percent.

These declines in labor force participation may not continue, however, because more older persons may need to work to compensate

SUMMARY TABLE 1. THE NONEMPLOYED POPULATION 65 AND OLDER, SELECTED CALENDAR YEARS 1950 TO 2030

	1950	1980	2005	2030
Number of Persons 65 and Older (In millions)	12.4	23.7	33.1	55.9
Percent of Persons 65 and Older Employed	23.4	12.3	12.3[a]	12.3[a]
Nonworking Persons 65 and Older as a Percent of Total Population	6.2	9.5	10.6[a]	15.9[a]

SOURCES: Bureau of the Census, "True Level Population Projections" (1977); Employment and Training Report of the President, 1980; Bureau of Labor Statistics, Employment and Unemployment: A Report on 1980, Special Labor Force Report 244 (April 1981); and CBO tabulations based on the Bureau of the Census, Current Population Survey (March 1980).

a. Assumes the same labor force participation rate as in 1980.

for the effects of inflation on their incomes, and because an expected reduction in the growth of the overall labor force may increase the demand for older workers. Nonetheless, even if the portion of elderly persons in the work force does not change from its 1980 level, by 2030 almost 16 percent of the population--or 49 million persons--will be over 64 and not employed.

ECONOMIC AND BUDGETARY IMPLICATIONS

Increasing numbers of nonworking older persons could reduce the amount of goods and services produced in the economy as well as personal incomes. This decreased production could also put upward pressure on prices and increase inflation. The smaller labor force of older workers probably would reduce overall unemployment, however, because many jobs not taken by older persons would go to younger ones.

As the number of nonworking older persons grows, the federal budget could also be affected by increased outlays for retirement programs and decreased income and payroll tax revenues. For example, when a person stops working and begins collecting Social Security benefits, annual outlays for Social Security increase on average about $4,800 and Social Security and income tax revenues decrease by over $2,000. Federal spending on retirement income for persons 65 and older alone already represents 19 percent of the budget--or over $130 billion in fiscal year 1982--and spending for their health care amounts to over $48 billion, or 7 percent. This spending has increased in recent years not only because of the growing size of the elderly population, but also because of increased benefits, expanded coverage, and more earlier retirements.

OPTIONS FOR CONTINUED EMPLOYMENT BY OLDER WORKERS

The federal government already significantly influences the work and retirement decisions of older persons; taken together, federal programs and policies facilitate and promote retirement. Because of the implications of demographic and labor market trends for the economy and federal budget, questions arise about whether there is too great an incentive to retire early, and whether there are too few policies to facilitate continued employment. The Congress might wish to consider policy changes that would encourage older persons to continue in, or reenter, the workforce. Options could include the following:

- Modify the Social Security system;
- Revise existing regulations for employers; and
- Change other labor market programs that affect the supply of and demand for older workers.

The largest gains in employment--and the sharpest drop in federal outlays--probably would result from options that penalize retirement (see Summary Table 2). Financial incentives for continued work might or might not result in significantly greater employment by older workers, but would necessarily increase federal outlays substantially because those already working would receive increased benefits. Smaller increases in employment could also be obtained from other options involving relatively small federal outlays or changes in federal regulations. Finally, any option

SUMMARY TABLE 2. COMPARISON OF SELECTED OPTIONS TO INCREASE EMPLOYMENT BY OLDER PERSONS

Option	Estimated Increase in Labor Force	1983 Estimated Direct Federal Expenditure Increases or Revenue Losses[a]
Modify Social Security		
Increase Ages of Normal and Early Retirement in Social Security to 68 and 65, Respectively[b]	If fully implemented, eliminates benefits for over 2 million retired workers 62-64 and their dependents, thus encouraging continued employment.[c]	If fully implemented, reduces outlays by about $17 billion.
Restrict Maximum Age of Social Security Earnings Test to 64	About 150,000 workers, plus increased hours worked for over 200,000 workers.	Increases outlays by $3.5 billion, compared to test with maximum age 69.
Revise Regulations for Employers		
Require Continued Accrual of Private Pension Benefits	50,000 male workers 60-70 by year 2000.	None.
Prorate Private Pension Benefits for Post-Retirement Work	About 20,000 workers.	None.
Eliminate Mandatory Retirement at Age 70	195,000 male workers 60-70 by year 2000.	None.
Change Other Labor Market Programs		
Establish an Employment Tax Credit for Low-Income, Unemployed Older Persons	75,000 workers, assuming 5 percent of those eligible use the credit.[d]	Reduces revenues by $125 million.
Provide Work Experience for Older Persons	50,000 workers.[d]	Increases outlays by $175 million.
Provide Retraining for Skilled Older Workers	About 30,000 workers 60-64.[d]	Increases outlays by $40 million.

a. Does not include offsetting revenue increases resulting from additional payroll and income taxes.

b. It is unlikely that this change would be implemented quickly and 1983 estimates are presented only to give an idea of the impact when fully implemented.

c. The number of these persons who would enter the labor force is thought to be large, but is not known.

d. Includes some workers who would have been hired without this program.

that increases employment would also increase federal revenues from payroll and income taxes, thus offsetting part of the cost.

It is also important to note that the success of all these options in generating employment would depend in large part on the overall strength of the economy. While sustained economic growth is desirable for many reasons, increased growth could especially help the employment of older workers. Most currently employed older persons are in those industries and occupations in which greatest future growth is apt to occur, and the trend toward a service and high-technology oriented economy could generate the kinds of jobs that they could fill. It could also increase the demand for part-time workers and provide additional opportunities for those older persons who do not wish to, or cannot, work full time. Sustained economic growth could also reduce the extent to which employment of older workers would displace younger persons.

Modify the Social Security System

Features of Social Security provide both financial incentives and disincentives for continued work by older persons; however, aside from problems of poor health, this system is probably the most important factor in inducing many older persons to retire. Consequently, options for modifying Social Security--changing the age-benefit structure and the earnings test--probably would most significantly affect the number of employed older persons.

Change the Social Security Age-Benefit Structure. Changes in the relationship between the age of retirement and the level of Social Security benefits could penalize earlier retirement, promote delayed retirement, or both. Currently, full retirement benefits are available at 65; benefits are reduced for retiring between 62 and 65 and increased for delaying retirement up to 72. Most proposals to alter these provisions--including those to increase the ages of entitlement for normal and early retirement and to reduce benefits further for early retirement--have been offered as solutions to the financial problems of the Social Security trust funds. They would also be effective, however, in inducing continued employment of older persons. Although these changes probably would not be introduced for several years, an indication of their impact can be obtained by considering their effect if implemented in 1983. For example, if increases in the early and normal retirement ages to 65 and 68, respectively, were fully implemented in 1983, benefits to over 2 million retired-worker beneficiaries 62 to 64 and their dependents would be eliminated, for a savings of over $17 billion in federal outlays. Reducing benefits for retirement at 62 to 55 percent of the full amount--as was proposed by the Administration in 1981--could increase employment by as many as one million persons 62 to 64 and could also result in large federal savings. Other proposals, such as increasing the benefit for delayed retirement, would encourage later retirement, but also would raise Social Security outlays.

Change the Social Security Earnings Test. The Social Security earnings test reduces benefits to recipients 62 through 71 when their earnings exceed certain limits, thereby providing a strong disincentive for work beyond that limited amount. Options for modifying the test include restricting the ages of its application, increasing the earnings limits, or completely eliminating the test. Each of these changes would stimulate employment both by those currently receiving reduced benefits because of the test and by those who have restricted their employment to avoid losing benefits. They would worsen the financial position of the Social Security trust funds, however, by increasing benefit payments. Removing the test for those 65 and older, for example, could increase the work effort of over 350,000 elderly persons in 1983, but would increase Social Security outlays by an estimated $3.5 billion.

Revise Existing Regulations for Employers

Through existing provisions in private pension regulations and anti-age discrimination statutes, employers can effectively limit the amount of work performed by some older persons. Certain changes in these federal regulations could provide additional opportunities for older persons to continue their employment. Each of the options described below would not add to direct federal costs but could impose costs on employers. These options could generate between 20,000 and 200,000 additional jobs for older workers.

Require Continued Accrual of Private Pension Benefits. Under current law, federally regulated private pensions are allowed to cease accrual of benefits once workers become eligible for normal retirement. In one major study, nearly half of the plans had such limits. To reduce this work disincentive, the Congress could specify that plans covered under the Employee Retirement Income Security Act (ERISA) must continue pension accrual for work beyond the date of pension eligibility.

Increase Allowable Retirement Work Under Private Pensions. ERISA regulations allow private pensions to withhold all benefits from retirees who work more than 40 hours per month in so-called prohibited employment--which, depending on the plan, includes work for the same firm or in similar jobs in the same industry and area. This rule can effectively restrict employment once pension benefits are accepted. An alternative would be to allow only prorated reductions in benefits according to the amount of continued employment--for example, reducing benefits by one-half for a beneficary who works half time.

Eliminate Mandatory Retirement Because of Age. Removing the current age 70 upper limit on mandatory retirement under the Age Discrimination in Employment Act (ADEA) probably would also increase the employment of older workers. This change would require some employers to reevaluate extended work possibilities on the basis of employees' abilities, but would also ensure that employees would not have their careers terminated solely because of age. The impact of this change is uncertain, however, because it would depend in large part on future characteristics of private pension plans, since most mandatory retirement provisions apply to jobs covered by these plans.

Change Other Labor Market Programs

Providing employers with a wage subsidy for hiring certain older persons or assisting older persons to acquire skills valuable in expanding areas of the economy could increase employment prospects for these workers. Depending on the services or incentives provided, federal costs could range up to $3,500 per participant and could assist 30,000 to 75,000 older persons to obtain employment. Because participants in these programs would be given an advantage over younger nonparticipants, however, part of their increased employment probably would occur through displacement of younger workers.

Provide Employment Tax Credits for Older Workers. Offering a wage subsidy to employers of certain older persons could increase the demand for these workers. Such a subsidy could be provided either as a direct payment to the employer or as a tax reduction. It could be offered, for example, to employers of unemployed low-income older persons and could be provided through the existing Targeted Jobs Tax Credit.

96-296 O - 82 - 3

Assist Inexperienced Workers. Because of changing family situations and responsibilities, many older persons with little employment experience have the desire--or need--to enter the work-force. The federal government could assist these persons in obtaining so-called entry level jobs by providing work-experience and job-search assistance.

Assist Experienced Workers. Some older persons who have considerable employment experience but lack the opportunity or ability to continue in their former occupations could also be assisted in finding new employment. Such assistance could include job counseling to match their skills with employer demands and--when few opportunities could be found--help in obtaining vocational-technical training and limited educational enhancement to meet the skill requirements of available jobs.

CHAPTER I. INTRODUCTION

Existing federal policies both facilitate and encourage retirement through the provision of retirement income and other policies that reduce the rewards for working. As the number of older persons and their share of the population increase in the years ahead, current retirement patterns could have substantial effects not only on those persons but also on the economy and federal budget as well. For these reasons, the Congress might wish to review how federal policies affect retirement decisions and how they might be changed to enhance employment opportunities for those older persons who both were able and chose to continue working.

The Congress is now considering several issues that involve the causes or consequences of the growing number of nonemployed older persons. The benefit and financing provisions of the Social Security system continue to be of major concern. Several bills currently pending in the Congress highlight the ongoing review of federal regulation of private pensions under the Employee Retirement Income Security Act (ERISA). This year's reauthorization of employment and training legislation raises questions about the continuation of programs targeted on older workers. Finally, the Administration and several members of Congress have proposed amending the Age Discrimination in Employment Act to abolish the current allowable mandatory retirement age of 70.

THE AGING OF THE POPULATION

The importance of issues relating to work and retirement policies is based on the large and growing size of the older population. Today, more than one in five Americans are above 54 and one in nine--or nearly 25 million--are 65 or older (see Table 1). Over 9 million persons are 75 or older. In this paper, the term "older persons" generally is used to refer to those 55 and above, while "elderly" is reserved for those 65 and older.[1]

---

1. An appropriate definition of the age group that constitutes the "elderly" population depends on the aspect of behavior of (Continued)

TABLE 1. DEMOGRAPHIC CHARACTERISTICS OF THE POPULATION, BY AGE GROUP, MARCH 1981

Demographic Characteristics	All Ages	Age Group 0-54	55-64	65-74	75+
Number of Persons (In thousands)	225,242	178,851	21,705	15,523	9,163
Distribution (In percents)					
Sex					
Male	48.4	49.7	46.7	43.4	36.8
Female	51.6	50.3	53.3	56.6	63.2
Marital status					
Married	45.0	40.0	74.8	63.1	40.6
Widowed	5.7	0.8	11.7	26.3	51.2
Other	49.4	59.2	13.5	10.7	8.2
Geographical region					
Northeast	21.6	21.0	23.9	23.4	23.1
North Central	25.8	25.9	25.0	25.0	27.0
South	33.3	33.4	32.6	34.2	32.7
West	19.3	19.7	18.5	17.3	17.2

SOURCE: CBO tabulations based on the Bureau of the Census, Current Population Survey (March 1981).

---

1. (Continued) interest. Age of retirement and the age at which significant declines in health occur are the usual criteria that define old age. The typical use of the term elderly for those 65 and older is without strong factual support but has become ingrained in society. Adoption of 65 as the retirement age for Social Security helped to make that the standard age of retirement. With the increased incidence of early retirement in recent years, however, the term elderly is sometimes extended to include the 55 to 64 age group. Eligibility for private pension benefits at ages after 55 and the consequent changes in life style after acceptance of these benefits have popularized 55 as the beginning of old age. Conversely, with increases in life expectancy and improvement in the health of many older citizens, some maintain that the term elderly should apply only to those 68 or 70 and older.

Women constitute almost 60 percent of the 65-and-older population and one in three persons over 64 is widowed. Geographically, compared to persons of all ages, there are proportionately more elderly persons in the Northeast and fewer in the West.

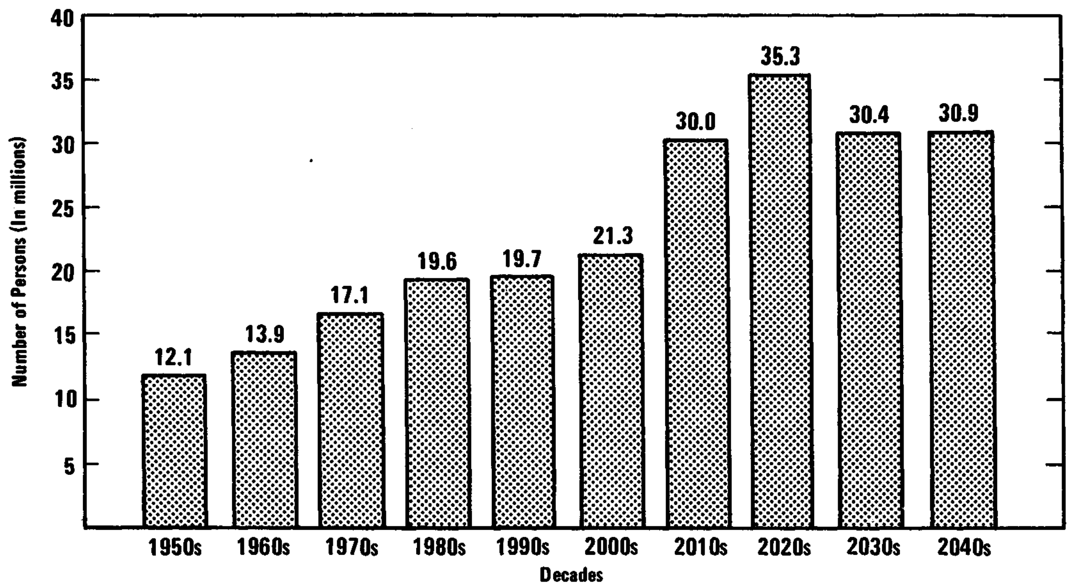
Over the next 30 years, the size of the elderly population is expected to grow at about the same rate as the entire population, but after about 2010, both the number of elderly persons and their share of the total population are projected to increase dramatically. (This report uses the intermediate assumptions in population projection reports by the Census Bureau and Social Security Administration.)[2] Approximately 20 million persons will reach 65 during each of the three decades from 1980 to 2010 (see Figure 1); however, that number will rise to over 30 million persons in the decades after 2010. The share of elderly in the population will remain at about 12 percent until 2010 and then probably will increase to over 18 percent by 2030 (see Figure 2). These trends reflect the aging of the large post-World War II baby boom and increases in life expectancy (see Table 2).

The sharp increase in the elderly population will result in a decline in the ratio of the working- to nonworking-age population --and, therefore, in a decline in the number of persons contributing to the Social Security system compared to the number of beneficiaries. Between 1980 and 2030, the ratio of the number of persons 20 to 64 to those over 64 is projected to decline from over 5-to-1 to 3-to-1. Similarly, the average number of workers per Social Security beneficiary is projected to decline from 3.7 in 1981 to 2.2 in 2030. The ratio of persons aged 20 to 64 to those who are either elderly or under age 20 will change by a lesser amount, in part because of a decrease in the size of the under-20 population.

---

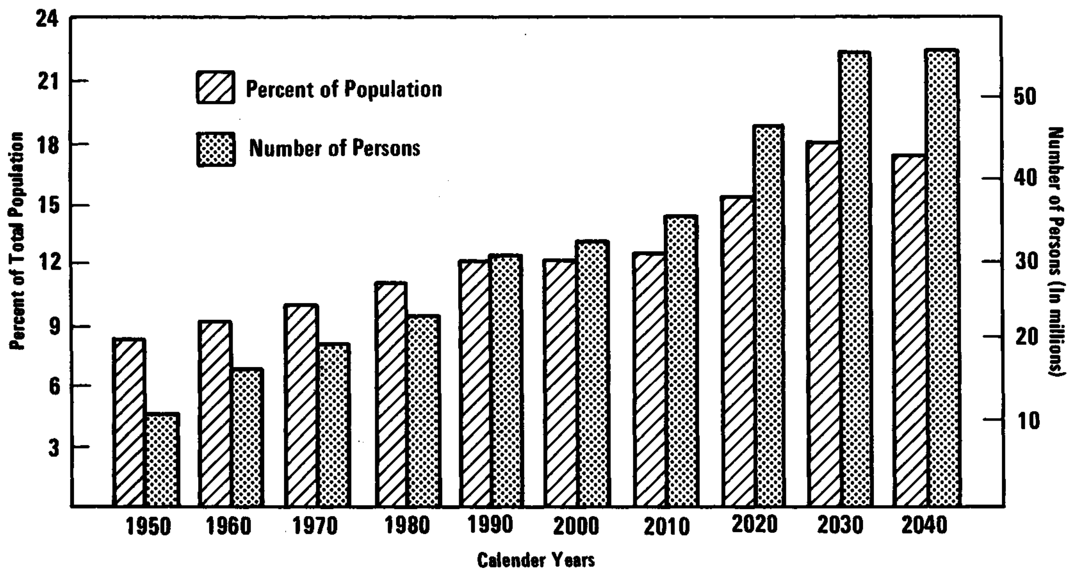
2. See Bureau of the Census, "True Level Population Projections" (1977); and Social Security Administration, Social Security Area Population Projections, 1981, Actuarial Study Number 85 (July 1981). These projections are based on several assumptions that, together, determine their accuracy. The intermediate assumptions in both sets of forecasts--the ones used in this analysis--include an average fertility rate of 2.1 children per woman, projected life expectancies increasing somewhat in future years, and annual net immigration of 400,000 persons.

Figure 1.
Number of Persons Reaching Age 65, 1950 to 2049



SOURCES: Bureau of the Census, "True Level Population Projections"(1977), and unpublished data.

Figure 2.
Population Age 65 and Older, 1950 to 2040



SOURCES: Bureau of the Census, *Statistical Abstract of the United States* (1981), and "True Level Population Projections"(1977).

TABLE 2. PROJECTED DEMOGRAPHIC TRENDS, CALENDAR YEARS 1980, 2005, AND 2030

Demographic Trends	1980	2005	2030
Number of Persons (In thousands and as percent of total)[a]			
All ages	218,100	273,857	307,340
	(100.0)	(100.0)	(100.0)
55-64	20,904	29,010	32,236
	(9.6)	(10.6)	(10.5)
65-74	15,099	17,229	31,562
	(6.9)	(6.3)	(10.3)
75+	8,644	15,848	24,302
	(4.0)	(5.8)	(7.9)
Life Expectancy (In years)			
At Birth			
Males	69.8	73.2	74.2
Females	77.7	81.4	82.6
At Age 65			
Males	14.3	15.9	16.7
Females	18.7	21.4	22.4
Ratio of Population Aged 20 to 64 to			
Population aged 65+	5.2	4.9	3.0
Population aged 0-19 and 65+	1.3	1.5	1.2

SOURCES: Bureau of the Census, "True Level Population Projections" (1977); CBO tabulations based on Current Population Survey (March 1980); Statistical Abstract of the United States, 1980; and Social Security Administration, Social Security Area Population Projections, 1981.

a. Percentages appear in parentheses following number of persons.

PLAN OF THE PAPER

This paper analyzes the changing nature of older persons in the labor force, discusses factors that may affect their work decisions, and presents options for facilitating the employment of those who might choose to continue in, or reenter, the work force. Chapter II discusses the labor market consequences of a large and growing older population and implications for the economy and the federal budget. Chapter III considers some of the major determinants of retirement decisions, and Chapter IV analyzes several of the specific work incentives and disincentives for older persons embodied in federal programs and policies. Chapter V outlines options that could facilitate employment of older persons and reduce the costs of federal retirement programs.

CHAPTER II. LABOR MARKET, ECONOMIC, AND BUDGETARY IMPLICATIONS OF AN AGING POPULATION

Under virtually all alternative assumptions of demographic trends, the number of nonemployed older persons will increase rapidly during the next six decades. This growth has significant implications not only for future labor markets and the economy as a whole, but also for the federal government as a major provider of retirement income. This chapter describes the recent employment experiences of older persons, their projected future employment patterns, and some of the implications of this behavior for the economy and the federal budget.

RECENT AND PROJECTED EMPLOYMENT OF OLDER PERSONS

Recent Experience

The labor force participation of older persons has decreased rapidly in recent years, especially among older men (see Table 3). For men 55 and older, the participation rates--which measure the fractions of the relevant populations that are either employed or unemployed and searching for work--declined throughout the 1960-1980 period, with the largest impact on those aged 60 to 69. Declines were generally larger in the 1970s than in the 1960s. After increasing during the 1960s, the participation rates for women 55 to 64 have remained nearly constant, while those rates declined throughout the 1960-1980 period for elderly women.

Although there are proportionately fewer older persons in the work force than in the population, they are overrepresented in the ranks of self-employed and part-time workers (see Table 4). Older workers have a lower unemployment rate than younger ones, but when they do become unemployed, they remain so for longer periods on average.

Labor Force and Employment Projections

The rate of growth of the labor force from 1979 to 1995 is expected to be considerably less than in previous decades, with a projected annual growth rate of 1.3 percent compared to 2.2

96-296 O - 82 - 4

TABLE 3. LABOR FORCE PARTICIPATION RATES OF OLDER PERSONS, BY SEX AND AGE, CALENDAR YEARS 1960, 1970, AND 1980 (In percents)

Older Persons	1960	1970	1980
Males			
55-59	91.6	89.5	81.9
60-64	81.2	75.0	61.0
65-69	46.8	41.6	28.5
70+	24.4	17.7	13.1
Females			
55-59	42.2	49.0	48.6
60-64	31.4	36.1	33.3
65-69	17.6	17.3	15.1
70+	6.8	5.7	4.6

SOURCES: Bureau of Labor Statistics, Employment and Earnings, vol. 28 (January 1981); and unpublished data.

percent during the 1960-1980 period (see Table 5).[1] According to Bureau of Labor Statistics (BLS) projections, the labor force in 1995 will contain over 24 million more persons than in 1979, but the number of workers over 54 is projected to drop slightly. This decline, as well as a labor force reduction of 3 million 16-to-24 year olds, is expected to be more than offset, however, by an increase of nearly 29 million persons in the 25 to 54 age group.

---

1. The expected reduction in labor force growth results from a decline in the rate of growth of women entering the labor market, continuation of the trend to early retirement by older men, and a decrease in the size of the youth labor force.

TABLE 4. EMPLOYMENT CHARACTERISTICS, BY AGE GROUP AND SEX, AND UNEMPLOYMENT STATISTICS, CALENDAR YEAR 1980

	Age Group		
	16-54	55-64	65+
Characteristics			
Number Employed (In thousands of persons)			
Males	49,187	6,924	1,819
Females	35,893	4,441	1,108
Percent of Employed That Are			
Self-employed			
Males	9.2	16.5	32.3
Females	4.7	8.0	16.0
Part-time			
Males	11.4	8.2	49.4
Females	28.3	26.6	58.4
Unemployment Statistics			
Unemployment Rate (In percent of labor force)			
Males	7.3	3.4	3.1
Females	8.0	3.3	3.1
Average Duration of Unemployment (In weeks)			
Males	13.0	16.9	14.2
Females	10.1	13.4	14.0

SOURCES: Bureau of Labor Statistics, Employment and Unemployment: A Report on 1980, Special Labor Force Report 244 (April 1981); and CBO tabulations based on the Bureau of the Census, Current Population Survey (March 1980).

TABLE 5. PROJECTED CIVILIAN LABOR FORCE, BY AGE GROUP, CALENDAR YEARS 1979, 1985, 1990, AND 1995 (In millions of persons)

Age Group	Actual 1979	Projected Labor Force 1985	1990	1995
Total 16+	102.9	115.0	122.4	127.5
16-24	24.8	24.4	22.6	21.8
25-54	63.3	75.7	85.6	91.8
55-64	11.7	11.8	11.1	11.0
55-59	7.3	7.1	6.6	6.8
60-64	4.4	4.8	4.5	4.2
65+	3.1	3.0	3.1	2.9
65-69	1.8	1.8	1.8	1.6
70+	1.2	1.3	1.3	1.3

SOURCES: Howard N. Fullerton, Jr., "The 1995 Labor Force: A First Look," in Bureau of Labor Statistics, Monthly Labor Review, vol. 103 (December 1980), p. 16; and unpublished statistics.

NOTE: Details may not add to totals because of rounding.

During this period of slow labor force growth when the economy will be growing more rapidly than the labor force, temporary market imbalances for certain types of workers could provide older persons with new or extended employment opportunities. The greatest opportunities could arise in jobs for low-skill or inexperienced workers and, conversely, in some regions, in jobs requiring lengthy training or apprenticeship periods. Other older workers might face decreased employment prospects, however, because of the rapidly expanding size of the 25 to 54 work force.

According to employment projections, many working elderly today hold jobs in industries that can expect the greatest employment increases (see Table 6). Of the projected 1981-1990 increase in employment of 17 million workers, over 75 percent is expected to occur in the two largest industries--wholesale or retail trade and services. These two industries currently employ 60 percent of all workers age 65 and older.

Over 70 percent of the projected overall increase in employment also is expected to occur in three occupations in which many elderly currently work (see Table 7). These occupations--service, professional-technical, and clerical--are the three largest employers of the elderly today.[2]

Expanded opportunities for part-time employment may be available in the future since those industries and occupations projected to have the largest employment increases are also frequent users of part-time workers. While only 14 percent of all employees in nonfarm occupations in 1980 worked part-time voluntarily, 22 percent of employees in the trade and service industries and 20 percent in the service, professional-technical, and clerical occupations did so.

Even if lower growth in the future labor force does result in increased employment of older persons, the rapidly growing size of the older population will still result in an increasing number of nonemployed older persons. Between 1980 and 2030, for example, those persons 65 and older are projected to increase from 24 million to 56 million. If the labor force participation rate remained at its 1980 level, the number of nonworking elderly would increase from 21 million--or 9.5 percent of the total population --in 1980 to almost 49 million--or 15.9 percent of the total population--by 2030.

---

2. Those industries and occupations employing the largest numbers of elderly in 1981 are also the same as those that had the largest absolute growth in employment during the previous decade. The service and trade industries together accounted for over 50 percent of industry employment growth; and the professional-technical, manager-administrator, clerical, and service occupations represented 75 percent of occupational employment growth.

TABLE 6. EMPLOYMENT BY INDUSTRY, CALENDAR YEARS 1981 AND 1990

Industry	1981 65+	1981 All Ages	1990[a] All Ages	Projected Change in Employment 1981-1990	Average Annual Percent Change in Employment
All Industries (In thousands of persons)	3,119	107,348	124,186	16,838	1.6
Distribution (In percents)	100.0	100.0	100.0	---	---
Agriculture	9.2	3.0	2.0	-717	-2.8
Mining	0.4	1.0	0.8	-70	-0.7
Construction	3.8	6.4	6.3	975	1.5
Manufacturing-durables	6.1	13.4	12.4	1,019	0.8
Manufacturing-nondurables	5.6	8.8	7.4	-242	-0.3
Transportation	3.2	6.3	6.0	630	1.0
Trade-wholesale and retail	23.6	20.5	22.7	6,194	2.8
Finance, insurance and real estate	6.1	5.9	5.9	1,010	1.6
Services	37.8	29.5	31.3	7,156	2.3
Public administration	4.2	5.2	5.2	883	1.7

SOURCES: CBO tabulations based on the Bureau of the Census, Current Population Survey (March 1981); and Valerie A. Personick, "The Outlook for Industry Output and Employment Through 1990," in Bureau of Labor Statistics (BLS), Monthly Labor Review, vol. 104 (August 1981).

a. Employment levels are averages of BLS Low and High-I employment forecasts, which correspond to annual increases in employment from 1979 through 1990 of 1.4 percent and 2.1 percent, respectively. Employment in the service industry includes BLS service and private household categories; employment in public administration includes only those civilian government workers whose employment is not categorized in other industries in the Current Population Survey.

TABLE 7. EMPLOYMENT BY OCCUPATION, CALENDAR YEARS 1981 AND 1990

Occupation	1981 65+	1981 All Ages	1990[a] All Ages	Projected Change in Employment 1981-1990	Average Annual Percent Change in Employment
All Occupations (In thousands of persons)	3,119	107,348	123,775	16,403	1.6
Distribution (In percents)	100.0	100.0	100.0	---	---
Professional-technical	13.3	15.7	16.6	3,777	2.3
Managers-administrators	13.2	11.2	8.8	-1,173	-1.1
Sales	10.3	6.2	6.7	1,652	2.5
Clerical	14.1	18.4	18.6	3,271	1.7
Craftsmen	7.3	12.8	12.1	1,209	0.9
Operatives	8.9	14.4	13.7	1,570	1.1
Nonfarm laborers	3.9	4.7	5.8	2,182	4.1
Private household	4.1	1.2	0.8	-325	-3.1
Service	16.3	13.0	15.0	4,554	3.2
Farmworker	8.6	2.4	1.9	-314	-1.4

SOURCES: CBO tabulations based on Bureau of the Census, Current Population Survey (March 1981); and Max L. Carey, "Occupational Employment Growth Through 1990," in Bureau of Labor Statistics (BLS), Monthly Labor Review, vol. 104 (August 1981).

a. Employment levels are averages of BLS Low and High-I employment forecasts (see footnote a in Table 6).

ECONOMIC AND BUDGETARY IMPLICATIONS

A growing number of older persons with continued low employment could bring about reduced incomes and increased federal spending for retirement support. A study by Data Resources, Incorporated (DRI) estimated some of the overall economic consequences of a continued decline in the employment of persons 55 and older.[3] This study considered two situations: one in which the labor force participation rates of workers 55 and older continued to decline at historical rates through 2005, and one in which the rates increased slightly, stabilizing at their 1970 levels by 1990, and then remained constant through 2005.

According to this study, a continued decline in the employment of older persons would worsen overall economic performance by lowering personal incomes and national output and increasing inflation; both employment and unemployment were projected to be lower as a result of the smaller labor force. Reduced employment by older persons was projected to add to other anticipated sources of decline in future labor force growth; by itself, it would lower the annual rate of economic growth by an average of 0.2 percentage points. The resulting lower level of production was projected to increase inflation by 0.2 percentage points annually. Income losses were expected to be felt not only by those older persons who lessened their employment, but also by others whose employment was reduced because of lower overall economic activity. Projected unemployment was lower, although the estimated number of persons employed declined as well.

Economic changes caused by a reduction in labor force participation of older workers can affect both the revenues and outlays of the federal government. Lower incomes and economic growth reduce revenues by lowering tax receipts. Reduced unemployment lowers federal outlays for various programs making payments to individuals. Higher inflation both increases federal revenues through higher tax receipts (because of "bracket creep") and raises outlays for programs whose costs are tied either directly or indirectly to the price level. In general, the effect of higher inflation on the federal budget is to increase revenues more than outlays.

---

3. Lawrence Olson and others, The Elderly and the Future Economy (Washington, D.C.: Data Resources, Inc., for the Corporation for Older Americans, January 1981).

The major direct budgetary effect of the growing number of nonemployed older persons is increased outlays for retirement support. Total Old Age and Survivors Insurance (OASI) payments are projected to grow from an estimated $137 billion in fiscal year 1982 to over $256 billion in fiscal year 1990. As a fraction of Social Security taxable payroll, OASI outlays are expected to increase from 10.1 percent in 1982 to 15.2 percent in 2030.

Direct support for persons 65 and older currently accounts for 28 percent of all federal spending--or almost $200 billion in fiscal year 1982.[4] By far the largest component of this spending is for retirement income, with an estimated $133 billion--or 19 percent of federal spending--going to persons 65 and older through Social Security and other federal retirement and survivor programs. Health-related expenditures for this group--including primarily Medicare--account for over $48 billion. Smaller expenditures include veterans' benefits and housing assistance.

---

4. See Appendix A for details concerning federal outlays for persons 65 and older.

CHAPTER III. DETERMINANTS OF LABOR FORCE PARTICIPATION DECISIONS OF OLDER PERSONS

The decision to retire is one of the major job-related choices people make and, once made, is usually not reversed.[1] Among the factors affecting this decision are:[2]

- Health limitations,
- Retirement income sources,
- The state of the economy, and
- Demand for older workers.

There are two related aspects of retirement decisions: why people retire in general, and why there has been a trend toward earlier retirement in recent decades.[3] Some factors that explain the decision to retire--such as poor health or simply the aging process--do not necessarily explain the trend to early retirement. The life expectancy of older persons, for example, has improved in recent years. The reasons for increased early retirement, therefore, are found in other factors, including wealth,

---

1. Of those elderly men not in the labor force in 1969, for example, only 20 percent had reentered the labor market by the end of 1973. See Robert L. Clark and David T. Barker, Reversing the Trend Toward Early Retirement (Washington, D.C.: American Enterprise Institute, 1981), p. 46.

2. Government programs and regulations affect several of these factors. For a more detailed discussion of the federal government's role, see Chapter IV.

3. The remainder of this chapter relies heavily on the analysis of Clark and Barker, Reversing the Trend Toward Early Retirement.

other sources of income such as pensions and disability compensation, and social forces.[4]

HEALTH LIMITATIONS

By affecting both the ability and desire of many older persons to work, the deterioration in health that accompanies aging is generally agreed to be a major determinant of retirement decisions. Health limitations also may lower a worker's productivity, thus reducing the wage an employer is willing to pay and restricting employment opportunities.[5]

Although several studies have concluded that health is a major factor in the decision to retire, the magnitude of the effect is uncertain. Of the retirees aged 62 to 64 who responded to one questionnaire, over 50 percent said that poor health was the major reason for their retirement.[6] Less than 25 percent of those retiring at age 65, however, listed poor health as the major reason for their decision. The effect of health on labor force participation also varies, depending on which measure of health is used. For example, older men with a health condition "limiting the kind or amount of work or housework" they could perform were found to be 20 percent less likely to be in the labor force than otherwise similar persons without that condition.[7] Alternatively,

---

4. Although there is general agreement on the potential determinants of retirement, there are conflicting estimates of the magnitude and timing of some of these effects. Methodological problems are inherent in many of the analyses of this subject and prevent a simple resolution of conflicting results.

5. The increased availability of disability compensation may be an important factor in allowing those with poor health to retire early. For a discussion of this and related issues, see Congressional Budget Office, Disability Compensation: Current Issues and Options for Change (June 1982).

6. Virginia Reno, "Why Men Stop Working Before Age 65," in Social Security Administration, Reaching Retirement Age, Research Report Number 47 (1976), p. 43.

7. Joseph Quinn, "Microeconomic Determinants of Early Retirement: A Cross-Sectional View of White Married Men," Journal of Human Resources, vol. 12 (Summer 1977), p. 337.

when "unable to work" was the measure, the likelihood of being in the labor force dropped by 60 percent.[8]

Whatever the precise magnitude of its effect, health status may or may not explain the trend toward earlier retirement. As indicated by measures such as life expectancy and the incidence of certain diseases, the health of older persons as a group has apparently improved over time. This trend should encourage later rather than earlier retirement, although no studies have attempted to isolate this effect. Alternatively, the incidence of certain chronic health conditions may be increasing, and this could result in more older persons reducing their work effort earlier in life.

RETIREMENT INCOME SOURCES

The availability of retirement income--primarily through public and private pensions--is an important reason both for retirement generally and for the trend toward earlier retirement.[9]

The Effect of Social Security on Retirement

The availability of Social Security benefits probably is responsible for almost half the reduction in labor force participation of elderly men since 1950. Estimates of the overall importance of Social Security in retirement decisions vary widely, however, and no consensus exists today.[10] For an individual

---

8. Clark and Barker, _Reversing the Trend Toward Early Retirement_, p. 41.

9. See Appendixes B and C for descriptions of the Social Security and private pension systems, respectively.

10. See, for example, Sheldon Danziger, Robert Haveman, and Robert Plotnick, "How Income Transfer Programs Affect Work, Savings, and the Income Distribution: A Critical Review," _Journal of Economic Literature_, vol. XIX (September 1981) p. 966; William G. Bowen and Aldrich T. Finegan, _The Economics of Labor Force Participation_ (Princeton University Press, 1969); and Clark and Barker, _Reversing the Trend Toward Early Retirement_, p. 25.

96-296 O - 82 - 5

worker age, marital and family status, past earnings history, and current employment all affect the extent to which the Social Security system penalizes or promotes employment during his later years.

Several features of Social Security encourage retirement for those eligible for benefits. The most important ones are that benefits are available for life and for a large majority of older persons. The coverage rate in paid employment is currently over 90 percent, and retirees can receive benefits as early as age 62.

Also, Social Security benefit levels have increased in recent years, resulting in more older persons accepting benefits at earlier ages. Even after adjusting for inflation, both normal and early retirement benefit levels increased by over 50 percent between 1968 and 1976, and benefits have been automatically indexed for inflation since 1975.[11] Further, at least for those who already have retired, expected benefits have significantly exceeded contributions. For example, for a married male worker with average earnings who retired at age 65 in 1980, the present value of OASI benefits was $124,000, compared to the accumulated value of employee contributions of $11,500.[12] These factors have provided a strong financial incentive to retire and collect benefits as soon as they become available, especially since early retirement benefits are 80 percent of the benefits received at 65.

Other features of Social Security act to reduce the effective wage for those who continue to work after accepting benefits, thus lowering the reward for continued employment. The effective wage is decreased by two features: the Social Security earnings test and payroll tax. For example, a 65-year-old person with earnings above the $6,000 earnings-test limit loses $0.50 in benefits for each $1 in earnings above that limit. This is equivalent to a 50 percent tax on that additional income, in addition to the 6.7 percent Social Security payroll tax, federal income taxes of at

---

11. For a discussion of how these benefit increases affected retirement, see, for example, Michael D. Hurd and Michael J. Boskin, The Effect of Social Security on Retirement in the Early 1970s, Working Paper No. 659 (Cambridge, Mass.: National Bureau of Economic Research April 1981).

12. Social Security Administration calculations based on the Social Security Act as of January 1981. Interest and discount rates used were consistent with earnings of the Social Security trust funds.

least 12 percent of taxable income, and possibly state and local income taxes. The combined effect of these reductions can easily result in a tax rate of over 70 percent on earnings above the exempt amount.

Some features of Social Security promote continued work, however. Since the level of future benefits is determined partly by past Social Security taxable earnings, higher earnings may lead to higher benefits.[13] Future benefits are also increased by delaying retirement. A worker who retires and accepts Social Security benefits at 62 receives annually 80 percent of the benefits received by an otherwise similar worker retiring at age 65; by delaying retirement until age 72, a worker receives 121 percent of normal retirement benefits.

The Effect of Private Pensions on Retirement

Private pensions constitute a less extensive system of retirement income than Social Security, but probably have a greater impact on the retirement decisions of affected workers. An estimated one-half of all male and one-third of all female private-sector workers retiring between 1979 and 1982 were eligible for private pension benefits.[14]

Almost all research supports the proposition that the availability of private pension benefits reduces labor force participation, especially among workers in their fifties and early sixties. Data on newly entitled Social Security recipients aged 62 through 64 indicated that those also receiving private pension

13. This could occur because the real taxable earnings of an older worker may exceed those when the worker was young. It could also occur because the Social Security tax base was considerably lower in the 1950s and 1960s than it is today; thus, replacement of a prior year's taxable earnings with current taxable earnings might significantly increase future benefit payments. In 1965, for example, the maximum Social Security taxable earnings level was $12,900 (in 1982 dollars), compared to $32,400 in 1982.

14. James H. Schulz, Private Pension Policy Simulations (Brandeis University, 1980), p. 141, as cited in Department of Labor, Patterns of Worker Coverage by Private Pension Plans (1980), p. v.

benefits were more than twice as likely--57 percent to 27 percent--to want to retire than nonrecipients.[15] Another study calculated that the proportion of workers expecting to retire early was 66 percent for those with an expected annual pension above $7,750 (in 1982 dollars), while only 34 percent for those with expected benefits less than that amount.[16]

Some features of many private pensions also promote retirement at a younger age than Social Security. Early retirement provisions have continued to be liberalized in recent years, with over 75 percent of plans examined in one major study offering a fully accrued pension at some early retirement date.[17] A combination of age and service were the most prevalent requirements in that study, with age 55 and 10 years of service specified in about half of the plans.

Moreover, some private plans penalize employment beyond the normal age of retirement. Under such plans, workers otherwise eligible for benefits must forfeit them during any period in which they continue to work more than some minimum amount. Some multiemployer (collectively bargained) plans restrict post-retirement work in the same industry, trade or craft, and geographical region covered by the plan. Private pension plans may also cease accrual of pension benefits once workers reach normal retirement age, thus further reducing total compensation for continued work. Private pensions that do not reduce benefits for early retirement further decrease the gain from employment beyond early retirement eligibility.

Some features of private pensions do not promote earlier retirement, however. Unlike Social Security, benefits are usually not indexed for inflation. In one study, only 5 percent of private plans had automatic cost-of-living increases for retirees, and over 85 percent of plans had not increased benefits to

---

15. Reno, "Why Men Stop Working Before Age 65," p. 48.

16. Herbert Parnes and others, The Pre-Retirement Years Volume 4, Department of Labor, Manpower Research and Development Monograph 15 (1975), p. 165.

17. Bankers Trust Company, Corporate Pension Plan Study: A Guide for the 1980's (New York: Bankers Trust Company, 1980), p. 7.

retirees more than twice since 1975.[18] Also, unlike Social Security, the value of benefits does not generally exceed contributions.

THE STATE OF THE ECONOMY

General economic conditions affect labor force participation of older persons primarily through the availability of jobs and the effects of inflation on personal assets.[19] The higher the rate of unemployment, the less likely it is that older persons will find jobs, and the more likely it is that they will withdraw from the labor force. One study estimates that a one percentage point increase in the overall unemployment rate results in a 1.2 percentage point decrease in the labor force participation rate of workers 55 to 64.[20] Many unemployed older persons have comparatively short remaining work lives and, thus, job search has a relatively low potential payoff. Also, because many of these workers may have high levels of employer-specific job skills, they are less likely to find employment they view as suitable with other employers. Moreover, during a business cycle, the response of older workers to changes in the unemployment rate is not uniform. Relatively few older workers who drop out of the labor force during a recession are likely to return when the economy recovers.

Inflation, by contrast, can increase the labor supply of older persons by eroding the value of their accumulated assets. Among the principal sources of wealth of older persons--including

---

18. Bankers Trust Company, Corporate Pension Plan Study, p. 360.

19. There are two views concerning the response of workers to a spell of unemployment, whatever its cause. The discouraged-worker hypothesis states that after becoming unemployed and unsuccessfully searching for employment, a worker may become discouraged and leave the labor force. The added-worker hypothesis suggests that, if one member of a family becomes unemployed, additional family members may enter the labor force in an effort to maintain the family's income. Empirical studies suggest that the discouraged-worker effect is dominant for most older workers.

20. Clark and Barker, Reversing the Trend Toward Early Retirement, p. 46.

financial assets, homes, and private and public pensions--only public pensions typically have been directly indexed for inflation. Private pension benefits are usually stated in nominal terms and only intermittently adjusted for inflation, and then generally not increased enough to maintain their real purchasing power. Although the value of housing has at least kept up with inflation for most of the last decade, this may be of little help to older persons in maintaining an adequate standard of living unless they sell their homes.

DEMAND FOR OLDER WORKERS

The level of employment among older persons also depends on the demand for their services. On average, workers' abilities to perform some specific kinds of work decline in old age, thus affecting their employment opportunities. Psychological studies have found two variations in ability that may accompany the aging process: the slowed timing of perception and response, and a diminished capacity for short-term retention of information.[21] The importance of these factors in determining an older worker's productivity depends on the extent to which the worker's full capabilities are necessary to perform a job, and whether or not any impairment can be compensated for through job experience and training. According to these studies, there is considerable variation in the net effect of these factors on job performance depending on the types of jobs involved. For example, although the ability to do heavy manual labor declines with advancing years, the ability to perform less physically demanding jobs may not. This has led some researchers to conclude that chronological age is a poor indicator of work performance.[22]

The introduction of new techniques and the expansion of knowledge in an occupation may result in some portion of older workers' skills becoming obsolete, further reducing demand for their services.[23] According to some researchers, the combination

---

21. See, for example, Alan T. Welford, Ageing and Human Skill (Oxford University Press, 1958), as cited in Robert Clark, Juanita Kreps, and Joseph Spengler, "Economics of Aging: A Survey," Journal of Economic Literature, vol. XVI (September 1978), p. 927.

22. Clark, Kreps, and Spengler, "Economics of Aging," p. 927.

23. Ibid.

of decreased learning ability and obsolesence of skills implies that training costs are likely to be relatively high for older workers, especially those with lower than average education and skills.[24]

Offsetting these detractions, older persons have some work characteristics that enhance their desirability as employees. Older employees generally have lower turnover rates than younger workers, because of less frequent job changes and lower probabilities of quitting or being fired. Some research indicates that older workers may also display steadier, more consistent work patterns. Work injuries generally do not increase with age, although the types of accidents and durations of disability do vary with age.[25]

Federal protection from age discrimination for persons 40 to 70 also can increase the demand for elderly workers. In 1980, about 50 percent of all workers were in jobs with mandatory retirement provisions of 70 or later. Most of these jobs were also covered by private pensions. In one survey, an estimated 80 percent of employees who faced mandatory retirement also were covered by private pensions.[26]

---

24. R.M. Belbin, Training Methods for Older Workers, Employment of Older Worker Series, no. 2 (Paris: Organization for Economic Cooperation and Development, 1965), as cited in Clark, Kreps, and Spengler, "Economics of Aging," p. 928.

25. Clark, Kreps, and Spengler, "Economics of Aging," p. 928.

26. See Reno, "Why Men Stop Working Before Age 65," p. 45.

CHAPTER IV. FEDERAL PROGRAMS AND POLICIES AFFECTING EMPLOYMENT DECISIONS OF OLDER PERSONS

Through several programs and policies, the federal government significantly influences the employment and retirement decisions of older persons. On balance, the effect of these actions is to facilitate and encourage retirement. The federal income transfer and tax systems provide the strongest financial incentives to leave the work force. Those systems, as well as federal regulation of employer practices and other federal labor market programs, all provide both incentives and disincentives for continued work, however. This chapter describes the features of several federal programs and policies that affect the work and retirement decisions of older persons, including:

- Direct income transfer and tax programs
  - --Social Security
  - --Federal personal income tax;
- Regulation of employer practices
  - --Private pension regulation
  - --Anti-age discrimination statutes; and
- Other labor market programs
  - --Employment and training assistance
  - --Unemployment Insurance.

DIRECT INCOME TRANSFER AND TAX PROGRAMS

Social Security--the largest federal income transfer program--and the federal personal income tax include several major financial incentives and disincentives for work by older persons.

Social Security

As described in Chapter III, several provisions of Social Security affect the work effort of older persons. Once workers are eligible for benefits, the need to work can be reduced significantly by the guaranteed availability of benefits for life, at a level that is indexed for inflation. For most current retirees, expected benefits also exceed lifetime payroll tax contributions, thus increasing personal wealth and further reducing the need to work.

The earnings test in Social Security severely penalizes continued work by making benefit receipts conditional on at least partial labor force withdrawal. In 1982, retirees 65 to 71 lose $0.50 in benefits for each $1 they earn above an exempt amount of $6,000; retirees 62 to 64 lose the same amount for earnings above $4,440. This is equivalent to a tax of 50 percent on those extra earnings, in addition to the Social Security payroll tax and federal and state income taxes. In contrast, benefits are not reduced by the amount of unearned income--including, for example, dividend and interest income from investments and private pension benefits.

The set of provisions in Social Security that increases monthly benefits for delaying retirement can act as either an incentive or disincentive for continued work, depending on the characteristics of the particular worker and his or her family. After 62 and prior to 72, delaying retirement increases monthly benefits but reduces the amount of time the retiree can collect those benefits. For the recipient population as a whole, the increases in benefits for delaying retirement between 62 and 65 are approximately actuarily fair, while beyond 65 the increased credit for delayed retirement is less than actuarily fair.[1]

The features of Social Security that relate benefit levels to past earnings can encourage continued employment by some older persons. Although earnings are treated no differently in later

---

1. To be actuarily fair, the expected lifetime benefits should be the same regardless of when benefits are accepted. Beyond 65, the actuarily fair rate of benefit increase is over 7 percent annually, compared to the actual annual increase in benefits of 3 percent. See National Commission on Social Security, Social Security in America's Future, Final Report (March 1981), p. 135.

years than in earlier ones, the increase over time in the Social Security taxable earnings limit (the maximum creditable earnings is currently $32,400) can allow older persons who earn high incomes to increase their retirement benefits by continuing to work.

Federal Personal Income Tax

Taxation of earnings reduces the reward for work for persons of all ages and can discourage employment. For earnings above certain exempt amounts--which differ according to each taxpayer's personal situation--the 1982 tax rate increases from approximately 12 percent to 50 percent as income increases, thus providing a progressively stronger disincentive to work.

On the other hand, several provisions of the federal tax code potentially reduce the tax liability of older persons and can affect the attractiveness of being employed. First, Social Security benefits--unlike those from private pensions--are exempt from federal tax. In fiscal year 1982, the exemption of OASI benefits from tax will reduce tax revenues by an estimated $12 billion. Second, persons 65 or older are allowed an additional exemption of $1,000 from taxable income. In calendar year 1981, an estimated 11.6 million elderly persons took this exemption on their income tax returns. Third, low-income elderly persons are allowed a tax credit of 15 percent of a portion of their income if they receive less than $2,500 in nontaxable pension benefits--such as from Social Security--and have less than $12,500 in adjusted gross income.[2] An estimated $104 million was credited against taxes in 1981 on the basis of 711,000 tax returns using this credit.

These provisions both encourage and discourage continued employment, and the net impact on employment by older persons depends on the particular individual. Because they can reduce the amount of tax paid, these provisions can increase after-tax income and provide a disincentive for continued employment. They can also reduce the tax rate on earned income, thus increasing the reward for continued employment.

---

2. For couples, the amounts are $3,750 in nontaxable pension income and $17,500 in adjusted gross income.

REGULATION OF EMPLOYER PRACTICES

The federal government also affects retirement decisions indirectly through the regulation of private pensions under the Employee Retirement Income Security Act (ERISA)[3] and through provisions in the Age Discrimination in Employment Act.

Private Pension Regulation

While ERISA acts to ensure minimum participation and vesting standards, private pensions are permitted certain latitudes that can create work disincentives when an employee reaches the age of pension eligiblity. First, the receipt of benefits is usually conditional on the employee's separation from the firm. Beginning in 1982, a Department of Labor ERISA regulation increased from zero to 40 hours per month the maximum allowable amount a person can work without loss of private pension benefits.[4] Before this regulatory change, reemployment on even a part-time basis could result in complete elimination of a worker's pension benefit during the period of employment, creating an all-or-nothing earnings test. Although beneficiaries of pensions from single-employer plans cannot lose benefits by working in other firms, participants in multiemployer plans can be prohibited from working in the same industry, trade or craft, and geographical area in order to receive their benefits.

Second, under ERISA and the 1978 amendments to the Age Discrimination in Employment Act, employers are not required to accrue additional pension benefits to employees who are eligible for normal (unreduced) pensions. Since the accrual of pension benefits can be a relatively large portion of a worker's compensation, the loss of this accrual reduces the value of continued employment. An estimated 27 percent of workers are covered by private pension plans that offer no increase in benefits after

---

3. See Appendix C for a brief description of participation and vesting standards under ERISA. For a more detailed description of ERISA, see Ray Schmitt, "Private Pension Plan Reform: A Summary of the Employee Retirement Income Security Act of 1974," Congressional Research Service, Report Number 79-38 EPW.

4. See Federal Register, vol. 46 (December 4, 1981), pp. 59243-46.

they attain eligibility for normal retirement; an additional 22 percent are in plans that limit benefit accrual according to age and service standards.[5]

Anti-Age Discrimination Statutes

The federal government facilitates employment of older persons through the Age Discrimination in Employment Act (ADEA). Provisions of this law prohibit age discrimination against persons between 40 and 70 in hiring; job retention; compensation; and the terms, conditions, and privileges of employment. Exceptions to ADEA include any action in which age is a bona fide occupational qualification necessary for normal operation of the business, or in which the differentiation is based on reasonable factors other than age.

While ADEA potentially could eliminate significant barriers to continued employment, the actual consequences of this legislation have been less pronounced. The Department of Labor, for example, estimates that raising the minimum age of mandatory retirement from 65 to 70--as was done in the 1978 amendments to ADEA--will result in an additional 220,000 male workers 60 through 70 remaining in the labor force by the year 2000, or about a 5 percent increase.[6]

OTHER LABOR MARKET PROGRAMS

The federal government also affects the labor market for older workers through programs that provide employment and training assistance for such persons and through the provision of unemployment insurance. The participation of older workers in employment and training programs is quite low, however, in large part because of their relatively short remaining work lives and the consequent reduced value of finding employment. Because of their low unemployment rates and the availability of retirement income, relatively few older workers collect unemployment benefits.

---

5. Department of Labor, Interim Report: Studies on the Effects of Raising the Age Limit in the Age Discrimination in Employment Act (December 1981), p. 234.

6. Department of Labor, Interim Report, p. 199.

Employment and Training Programs

The federal government promotes continued employment of older persons through work support and training programs funded under the Senior Community Service Employment Program and the Comprehensive Employment and Training Act. Only a small proportion of the eligible population is served under these programs, however.

Senior Community Service Employment Program (SCSEP). This program, authorized under Title V of the Older Americans Act of 1965, provides subsidized part-time employment for low-income persons 55 and older. The program year 1981-1982 appropriation for SCSEP was $277 million, which supported about 54,000 job slots.

Program participants--two-thirds of whom are female--work an average of 20 to 25 hours per week in a wide variety of community service activities and facilities, including energy conservation and restoration projects, nutrition programs, day-care centers, and hospitals. The average hourly wage earned by this work force is about $3.50. All participants are economically disadvantaged and more than half are over 65. Recent annual placement rates in unsubsidized jobs have been less than 15 percent of program participants.

Comprehensive Employment and Training Act (CETA). A small number of older persons also receive training under CETA programs. In calendar year 1980, 19,000 persons 55 and older participated in skill training and updating programs under Titles II-B and II-C of CETA, accounting for about 2 percent of all participants served under these titles. Assistance included institutional and on-the-job training, work experience, and job-search support. Some older persons also enrolled in Title III programs in second-career training; most of these, however, were demonstration projects that served very few older persons.

Unemployment Insurance

The availability of unemployment compensation discourages persons of all ages from seeking work by reducing the cost of being unemployed. Unemployment benefits usually replace about half of former wages and generally last for up to 26 weeks, or longer during periods of high unemployment. These benefits are exempt from income taxation for single workers with incomes under $20,000 and under $25,000 for couples filing joint tax returns.

The disincentive for seeking reemployment can be especially strong for older workers. In addition to receiving unemployment compensation, unemployed older workers may also receive Social Security and private pension benefits, further increasing their incomes while not employed. The Congress reduced this disincentive in 1980, however, by requiring that unemployment compensation be reduced by a portion of retirement benefits, depending on the amount contributed by the most recent employer.[7] According to this statute, unemployment compensation generally is reduced by the entire amount of a private pension and by either half or all of Social Security benefits (depending on state law). It typically is not reduced, however, by the amount of a military pension.

Firms that wish to cushion the transition to retirement can also use unemployment compensation to provide additional benefits to workers reaching retirement age, although there is little evidence on the extent of this use. An employer, for example, could lay off older workers rather than retiring them, thus making those workers eligible for unemployment compensation. The employees could then collect unemployment benefits for a period of time before switching to retirement benefits, thus potentially increasing their total income during the retirement process.

7. Multiemployer Pension Plan Amendents Act of 1980 (P.L. 96-364).

CHAPTER V. OPTIONS FOR CONTINUED EMPLOYMENT BY OLDER WORKERS

The federal government has been reasonably successful in developing programs that allow and encourage many older persons to retire. Given the increasing share of elderly in the population and the implications for future federal retirement costs, however, questions arise concerning whether there is too great an incentive to retire and at too young an age, and whether there are too few opportunities for continued work. The Congress might wish to consider changes in federal programs and policies to facilitate and encourage continued employment by those older persons who could and chose to continue to work. Options include those to:

- o Modify provisions of the Social Security system;
- o Revise existing regulations for employers; and
- o Change other labor market programs that affect the supply of and demand for older workers.

The options likely to have the largest effects on employment probably would involve changing Social Security either by offering strong financial incentives for continued employment--thereby causing large increases in federal outlays--or by penalizing retirement--thereby resulting in large federal savings. Increases in employment also could be obtained, however, by other alternatives involving smaller federal outlays or changes in federal regulations. Further, any option that increases employment could also increase federal revenues from payroll and income taxes, thus offsetting part of its cost.

Much of the employment stimulated by these options probably would be part time. Part-time employment can be an appealing and practical way of remaining in, or reentering, the work force because it allows older persons to supplement their incomes while lowering their work pace.[1] Employers are often reluctant to hire

1. A recent Harris Poll reported that of those employed persons 55 to 64, 79 percent said they would prefer part-time work to retiring completely. See Harris and Associates, Aging in the Eighties: America In Transition (1981).

part-time workers, however, because of perceived high fringe benefit costs, administrative difficulties, and lower productivity. To increase part-time employment, these negative factors must be outweighed by positive attributes of older workers, including stability, experience, and, in some cases, high skill levels.

Underlying the success of any of these options is, of course, a strong economy. The extent to which employment gains by older persons are made at the expense of younger ones would be determined largely by the rate of future economic growth. Displacement could be reduced, however, by targeting employment efforts on industries and occupations in which workers will be in greatest future demand. Also, anticipated lower labor force growth in the future probably would result in less displacement of other workers.

MODIFY THE SOCIAL SECURITY SYSTEM

Aside from problems of deteriorating health, Social Security probably has the largest influence on the employment decisions of older persons. Certain changes in this system could increase significantly the incentive for older persons to continue working and decrease the propensity to retire early. Alternatives include modifying the following elements:

- Age-benefit structure; and

- Earnings test.

Change the Social Security Age-Benefit Structure

Changing the relationship between the retirement age and Social Security benefit levels usually has been proposed as a means of addressing the long-term financial problems of the Social Security system, rather than as a means of providing greater employment opportunities for older persons.[2] Many of these pro-

---

2. Proposals to change the age-benefit structure in Social Security have been offered by many groups, including the National Commission on Social Security (1981), the President's Commission on Pension Policy (1981), the Reagan Administration (1981), the 1979 Advisory Council on Social Security, and several members of Congress. For a description of these proposals see CBO, Long-Run Options for the Social Security System (forthcoming, 1982).

posed changes also could affect significantly the behavior of older workers. Because such changes could disrupt the long-standing plans of many persons, and because the largest financial problems for Social Security are several decades in the future, proposals to change the age-benefit structure usually include a lengthy transition period from the current to the new system, with changes typically beginning after 1990 and concluding after 2000.

Among the ways to modify the age-benefit structure are changing the age of entitlement for full and reduced benefits or restructuring the amounts by which benefits are reduced for early retirement and increased for delayed retirement. Several proposals call for increasing the normal retirement age--as well as the maximum eligible age for claiming disability benefits--from 65 to 68. Some plans would also increase the eligible age for early retirement benefits from 62 to 65, while others would leave the 62-year age limit intact but require larger benefit reductions for those retiring this early. Reluctance to increase the age for early retirement, even if the normal retirement age is increased, is usually based on concern for older persons in poor health and for those with poor employment prospects who might find it difficult to remain employed until 65.

These proposals to raise the age of retirement would result in lower Social Security outlays because they would either limit eligibility for benefits or reduce benefit amounts. Although, if enacted, any such changes probably would not be implemented for several years, an indication of their eventual impact could be obtained by considering their results if effected in 1983. For example, if increases in the early and normal retirement ages to 65 and 68, respectively, were fully implemented in 1983, Social Security outlays to over 2 million retired-worker beneficiaries 62 to 64 and their dependents would be reduced by over $17 billion.[3] Extending the work lives of older persons would also result in increases in their incomes and in the total production of the economy.

Since life expectancies are longer now than in 1935 when the retirement age was set in the Social Security Act, some analysts contend that retirement ages should also be increased to maintain

---

3. This estimate assumes that the maximum age of eligibility for claiming disability benefits would also be increased to 68 and includes an offset for increased payment of disability compensation to those 65 to 68.

the same proportion of life spent in retirement. Opponents argue that, although life expectancies are greater today than in the past, the general health of many older persons has not improved greatly and, therefore, the retirement age should not be increased.

Another change in Social Security could alter the amounts by which benefits are adjusted for early and delayed retirement. Reducing benefits for retirement at 62, for example, to 55 percent of full benefits instead of the current 80 percent (as was proposed by the Administration in 1981) would offer a strong financial incentive for workers to remain in the work force until age 65 when they could collect full benefits. Under this option, Social Security outlays also would decrease, however, because many people probably would still retire before 65. Assuming this change applied only to those reaching 62 after its implementation, initial savings would be relatively low--less than $1 billion during the first year and about $2 billion during the second (in 1983 dollars)--but outlay savings would continue to grow rapidly for several years as a greater share of the elderly population was included in the new rule. As many as one million persons 62 to 64 might delay their retirement somewhat because of this change, including perhaps 400,000 persons who would not retire until age 65.

Increasing the amount of the delayed retirement credit also would promote later retirement, but probably would affect many fewer persons. If the credit was increased to an average annual rate of 7 percent from its present 3 percent, for example, approximately 10 percent of persons who otherwise would have retired at age 65--or less than 30,000 persons annually--might postpone their retirement. Although this change would increase Social Security expenditures in the long run, outlays would be reduced in the first few years because of continued work by some elderly who otherwise would have retired and begun to collect benefits.

Modify the Social Security Earnings Test

Certain changes in the Social Security earnings test might induce beneficiaries to continue working, but also would worsen the financial position of the Social Security trust funds.[4] These changes include restricting the ages for which the test applies,

4. See p. 28 in Chapter IV for an explanation of the earnings test.

increasing the amount of annual exempt earnings, or completely eliminating the test. They would affect persons currently receiving reduced benefits because of the earnings test as well as other persons who have restricted their employment so as not to have their benefits reduced.[5]

The Social Security Administration estimates that lowering the maximum age for the earnings test from 71 to 69 in 1983--as will occur under current law--would increase benefit payments to 150,000 to 200,000 persons and cost $600 million. Further reduction of the maximum age to 64 in 1983 could increase benefits to an additional 900,000 persons and cost $3.5 billion more. Completely eliminating the test could increase benefits to approximately 2 million persons by nearly $8 billion in 1983, compared to the test with maximum age 69.[6] The increase in employment that will result from reducing the maximum age to 69 will probably be small, although further reducing the age to 64 could add 75,000 to 300,000 persons age 65 to 69 to the work force--plus increase the number of hours worked by over 200,000 workers. There is no reliable estimate of the employment that would be stimulated by total elimination of the test.

Increasing the amount of exempt earnings for persons 65 and older would also increase benefit payments and employment. If the earnings test limit was increased to $10,000 in 1983, approximately $900 million in additional benefits would be paid. If the exempt amount was increased to $20,000 in 1983, $2 billion in additional benefits probably would be paid. Although the employment increases that would result from these changes would be less than

---

5. Another approach for modifying the earnings test would be to return to the pre-1977 statute which tested earnings on a monthly, rather than annual, basis. Instead of withholding benefits when annual income is greater than $6,000, benefits could be withheld during any month in which earnings exceeded the prorated monthly limit of $500. This option would allow elderly workers to move in and out of employment while retaining their Social Security benefits when they are not employed. The administrative costs of this option could be higher than under the current law, but this change would allow more flexibility in terms of seasonal or part-year employment.

6. The reason for this large effect is that many persons 62 to 64 who work and do not collect benefits would likely begin to collect benefits if the test were removed for that age group.

those from total elimination of the test for those 65 and older, firm estimates are not available.

These changes in the earnings test could result in additional payroll and income tax revenues, thereby offsetting part of the increased outlays. The increased work effort both by those older persons who are currently working and by those who might be induced to reenter the labor force would add to revenues. A 1979 study by the Social Security Administration investigated the potential tax revenue effects of removing the earnings test for those 65 and older.[7] According to that study, approximately 16 percent of the resulting increase in benefits could be offset by increased tax revenues based on the increased work activity of those persons 65 and older who were not completely retired before this change. If 5 percent of those fully retired former workers 65 to 69 were to resume their employment as well, an additional 32 percent of increased benefit costs could be offset by resulting tax increases. (This 5 percent figure would represent an additional 150,000 persons in the work force.) Thus, under this scenario, almost half of the increased benefit costs could be offset by increased tax revenues.

Modifying the earnings test would not benefit those with low earnings, but the relation between total income and changes in the earnings test is less clear. Data on persons affected by the test in 1977 indicate that 16 percent of affected retired-worker beneficiaries had less than $6,500 in earnings, while 42 percent had earnings above $16,000 (both in 1982 dollars).[8] These data do not include unearned income, however, and do not reveal the relation between total income and incidence of the test. Also, the same earnings test limit represents different levels of purchasing power in different regions of the nation, depending on the cost of living in each area.

The basis for much of the argument for and against the earnings test in general, and changes in that test in particular,

---

7. Josephine G. Gordon and Robert N. Schoeplein, "Tax Impact From Elimination of the Retirement Test," Social Security Bulletin, vol. 42 (September, 1979).

8. Barbara A. Lingg, "Beneficiaries Affected by the Annual Earnings Test in 1977," Social Security Bulletin, vol. 43 (December 1980), p. 7.

rests on the insurance versus welfare nature of Social Security. Some proponents of easing or eliminating the test argue that Social Security benefits should be paid as a matter of right since contributions were made by workers.[9] Others maintain that removal of the test would undermine the main purpose of the Social Security program--to replace earnings losses caused by retirement.

Certain combinations of options could strongly encourage continued employment without increasing Social Security outlays. For example, early retirement benefits could be reduced to 55 percent of full benefits while, simultaneously, the earnings test could be removed for those 65 and older. These changes would encourage persons to continue working until 65 and beyond and would also reduce Social Security outlays. In the long run, the savings from reducing early retirement benefits would be approximately five times larger than the cost of removing the earnings test.[10]

REVISE EXISTING REGULATIONS FOR EMPLOYERS

Changes in federal regulations of private pension systems and anti-age discrimination laws could provide additional opportunities for older persons to continue their employment. Although there would be no increase in direct federal costs as a result of these changes, they could increase costs for employers and decrease their flexibility in dealing with older workers. Specific options include those to:

- Require continued accrual of private pension benefits for work after the normal retirement age;
- Increase the amount of allowable work without the loss of private pension benefits; and
- Raise the minimum allowable mandatory retirement age.

---

9. As described in Chapter III, however, this argument is mitigated somewhat by the fact that, for a particular worker, the present value of past employee and employer contributions are considerably less than the present value of benefits.

10. As a fraction of taxable payroll, the Social Security Administration estimates that the long-term savings from reducing age-62 benefits to 55 percent of full benefits would be 0.71 percent; the estimated cost of eliminating the earnings test for those 65 and older would be approximately 0.14 percent.

Require Continued Accrual of Private Pension Benefits

If pension plans regulated under the Employee Retirement Income Security Act (ERISA) were required to continue to accrue pension credits for work even after a person has met the age and service requirements for normal pension benefits, this would encourage some persons to continue working after becoming eligible for benefits. Currently, employment beyond normal retirement need not add to a worker's (deferred) pension amount.

If this change were implemented, an estimated 50,000 more men 60 to 70 would be employed in the year 2000, assuming the mandatory retirement limit of age 70 was retained. If that limit was removed as well, a total of 68,000 more men aged 60 to 70 probably would be in the work force by that year.[11] These estimates represent approximately 1.0 and 1.5 percent, respectively, of the predicted male work force in 2000.[12]

Requiring private pensions to continue benefit accrual would give them less flexibility, but would increase the number of older persons seeking employment. The potential expansion in employment could be limited, however, because of the increased cost of employing older workers, and because private pensions might react by modifying other features, such as reducing benefit levels, to compensate for this change.

Increase Allowable Work After Retirement Under Private Pensions

Under present regulations, a pensioner can work up to 40 hours per month without losing his pension. Another option for modifying private pension regulations would be to increase the amount a beneficiary could work without the suspension of bene-

---

11. Department of Labor, Interim Report, p. 223. In both cases the increase in employment of those over 70 is thought to be small, although no estimate is provided. Without the mandatory retirement age of 70, slightly more men aged 60 to 70 would respond to this change, presumably because their continued employment could not be arbitrarily terminated at 70.

12. Because of data limitations, the effect on the female work force was not estimated.

fits. Currently, there is no statutory provision delimiting the exact amount of allowable employment; the present level was set by Department of Labor regulations for plans covered by ERISA. Expansion of the amount of allowable work, perhaps by law, would be most useful to retirees in multiemployer pension plans. The benefit suspension provisions in those plans effectively limit work after retirement not only with the same firm but also in the same industry, trade or craft, and geographical region.

Because over 85 percent of private pension beneficiaries also receive Social Security, the effect of changing this provision would be determined in part by the amount of the Social Security earnings test. At 40 hours per month and $10 per hour, for example, a worker's part-time earnings of $4,800 annually would exceed the present earnings limit for Social Security beneficiaries under 65 ($4,440), but would be less than the $6,000 limit for beneficiaries 65 to 71. If the earnings test limits were raised or eliminated, raising the 40-hour limit for private pensions could have a significant effect on part-time employment by private pension beneficiaries.

An alternative would be to require that pension benefits be provided on a prorated basis according to the fraction of full-time hours worked by a pension beneficiary. For example, a person working half time would receive half of the full pension amount. Approximately 20,000 additional retirees 65 to 69 might choose to work part-time under this rule, at an added cost to private plans of $20 million.[13]

This option would allow increased flexibility in part-time employment for affected older workers and would also protect private pensions from having their plans used to subsidize nonplan employers by providing full benefits while beneficiaries work for those other firms. It could reduce plan flexibility in designing benefit structures, however, and could increase plan costs, because current benefit suspensions would be reduced and because some workers would retire earlier and then work part-time.

---

13. According to one estimate, there were about 66,000 pensioners 65 to 69 who did not work because of the suspension rule which existed before 1982. If all such persons worked part-time, pension costs would have increased by an estimated $70 million. See Department of Labor, "Regulatory Impact Analysis: Suspension of Pension Benefits Upon Reemployment of Retirees," undated manuscript, p. 16.

Raise the Minimum Allowable Mandatory Retirement Age

Another option affecting the practices of employers of older workers would be to remove the retirement limit of age 70 under the Age Discrimination in Employment Act (ADEA). While eliminating this upper limit could have a moderate impact on employment of older persons, its effect on the labor force as a whole would likely be small.[14] If the upper-age limit were removed altogether, the Department of Labor estimated that 195,000 additional male workers 60 to 70 probably would remain in the labor force in the year 2000. The majority of this increase was predicted to occur in the 65 to 70 age group, in which 65,000 additional workers 65 to 67 and 90,000 aged 68 to 70 were forecast. The report estimated that the increase of 195,000 workers would represent about 5 percent of the 60 to 70 male work force, but less than 0.2 percent of the total work force in the year 2000.

The eventual impact of changing the mandatory retirement age would also depend on the characteristics of future private pension plans. If employers could not dismiss workers on the basis of age but were permitted to structure fringe benefits to make it very expensive to continue working beyond a particular point, then changes in mandatory retirement rules would have only a modest aggregate impact. On the other hand, if employers were to remove these financial disincentives to work, the effect of this change in ADEA could be more pronounced.

One argument in favor of raising the allowable mandatory retirement age is that the present limit allows judgments based solely on age to supercede job performance considerations. Job performance, it is argued, is not necessarily related to age, and in many occupations there are larger differences in job accomplishments among workers of a given age than between age groups. Moreover, even if the upper limit on coverage was eliminated, ADEA provisions would still allow employers to restrict employment of older workers in cases in which age was a bona fide occupational qualification or in which differentiation was based on reasonable factors other than age.

Several arguments have been made against raising the upper age limit. Some analysts maintain that, on average, certain skills and abilities do decline with age and that age does offer employers some information on expected job performance. Others contend that job termination on the basis of age provides

---

14. Department of Labor, Interim Report, p. 231.

employers with an impersonal and impartial way of retiring older workers who may be, in fact, less productive. Still others contend that wage inflexibility created in collective bargaining agreements--through work rules and seniority systems, for example--necessitates mandatory retirement rules. Some also argue that mandatory retirement should be required to make room for younger workers and to allow for more rapid job promotions.

CHANGE OTHER LABOR MARKET PROGRAMS

The federal government could increase both the demand for and supply of older workers by targeting employment assistance for those persons. Demand could be enhanced by providing employment subsidies to firms that hire older workers, and more older persons could be induced to continue or resume their employment by programs to improve their employability.

Because older participants in these programs would be given an advantage over younger nonparticipants, some of their increased employment would come at the expense of jobs for younger persons who were not assisted. Some maintain that this advantage would better be given to younger persons because of their longer remaining work lives, while others argue that older workers should be treated equally with younger persons who are assisted by other federal programs such as CETA. Also, some of the assistance probably would be provided to older persons who might have obtained jobs without this help.

Provide Employment Tax Credits for Older Workers

Increased demand for older workers could be stimulated by providing an employment subsidy for their wages. This could be accomplished by paying employers directly or by reducing the employers' federal tax liability. The tax reduction could be incorporated into the existing Targeted Jobs Tax Credit (TJTC), which provides employers with a nonrefundable credit on a portion of the wages paid to certain economically disadvantaged or handicapped persons.[15] The current tax credit is 50 percent of the

---

15. The groups currently targeted for assistance under the TJTC include economically disadvantaged 18-to-24-year olds, Vietnam era veterans, former convicts, and youths 16 to 19 in co- (Continued)

first $6,000 in wages during the first year of employment and 25 percent during the second year. From its beginning in 1979 through the end of 1981, nearly 800,000 workers have been certified for the credit at an estimated cost in foregone tax revenues of $1.2 billion.

The cost of adding older workers as a target group to the TJTC program would depend on how the target group was defined, on the increased demand for these workers, and on the number of interested eligible persons physically able to use the credit. If the group was defined as those low-income persons 62 and older who have not been employed in at least 26 weeks, then 1.5 million persons 62 to 69 and 2.6 million 70 and older would be eligible.[16] Annual costs could range from $50 million--if 2 percent of the 1.5 million eligible persons 62 through 69 used the credit--to $250 million if 10 percent used the credit.[17] Assuming that one-fifth of these jobs would neither displace other workers nor would have gone to those unemployed older persons in the absence of the credit, these costs could be partially offset by increased Social Security tax revenues ranging from $7 million to $35 million, and by increased income taxes and reduced Social Security benefits.

---

15. (Continued)
operative education programs; vocational rehabilitation referrals; general assistance, Supplemental Security Income, and AFDC recipients; and former CETA Public Service Employment participants.

    A person is considered economically disadvantaged if he or she is in a family with income less than 70 percent of the Bureau of Labor Statistics (BLS) lower-living standard. In 1980 this included, for example, persons in a four-person urban family with income less than $9,800.

16. In 1980, approximately 4.5 million of the 31 million persons 62 and older were in families with incomes below 70 percent of the BLS lower-living standard, and 4.1 million of these persons did not work during that year.

17. One study of the TJTC indicated that, during a recent period, 2.3 percent of newly hired potentially eligible disadvantaged youths used the tax credit. See Congressional Budget Office, Improving Youth Employment Prospects: Issues and Options (February 1982) p. 32.

Because of the limit on the amount of wages subject to the tax credit and the earnings-test limitation in Social Security, the likely effect of adding this target group to the TJTC would be primarily to create part-time jobs for older persons. Both the employee and employer would incur large reductions in the value of further employment after a certain income had been earned--$6,000 annually for employers, and the earnings-test limit for employees collecting Social Security benefits.

Although such a credit would be efficient in that the cost would be directly related to job placements, many jobs for the targeted workers probably would displace other workers.[18] Supporters of this option contend that a tax credit of limited duration could allow many older workers to prove their value to employers, implying that jobs created by this provision would extend beyond the period of the tax credit. Based on the history of tax credit programs for disadvantaged workers, some opponents contend that targeted employment tax credits simply are not effective in stimulating demand for targeted workers and largely subsidize employment that would have occurred without the credits.

Increase Employability

Another approach to facilitate employment by older persons would be to increase their employability. Specific options include:

- Provide work-experience and job-search assistance to those older persons wishing to enter or reenter the labor force; and

- Provide specific retraining of more skilled older workers who have been displaced from their former jobs or who wish to change careers.

Assist Inexperienced Workers.[19] Because of changing family situations and responsibilities, many persons who have not experienced long periods of employment reach later life with the

---

18. See CBO, Improving Youth Employment Prospects, p. 33.

19. For a more complete discussion of issues and options involving inexperienced workers of all ages--and especially youth--see CBO, Improving Youth Employment Prospects.

freedom, time, and in some cases the financial need to enter or reenter the work force. As a result of their limited prior work experience, however, they may lack the specific work skills to qualify for many jobs, and may also lack information on effective job-search techniques.

Although their potential work opportunities in entry level jobs may be similar to those of disadvantaged workers such as minority youth, the only handicap of these older persons aside from their age is the lack of a formal employment history. They have generally spent years in nonmarket work, such as housewives and volunteers, and possess the stability and judgment of more experienced workers. What they lack, however, is an introduction to a more formal work environment.[22]

The federal government could assist these potential labor market entrants and reentrants by providing counseling on job-search strategies and by facilitating work experience. Federally financed job-search assistance is now provided by the Employment Service (ES)--a federally funded and state administered system of approximately 2,600 offices throughout the country.[20] Although the ES has had limited experience in instruction programs for job-search assistance, demonstration projects have met with some success.[21] One program provided disadvantaged youth with two days of intensive instruction in job-search techniques and three additional days of supervised job-search activity. The results of this program indicate that it did help participants to find employment faster than nonparticipants. The cost of the program was approximately $200 per participant.[23]

---

20. See CBO, Improving Youth Employment Prospects, pp. 70-73; and Employment and Training Report of the President, 1981, p. 46.

21. See CBO, Improving Youth Employment Prospects, p. 74.

22. For a discussion of the effectiveness of federal training programs, see CBO, CETA Training Programs: Do They Work for Adults? (July 1982).

23. A longer experimental program consisted of one week of job-search training and an additional three weeks of support services. This program was more expensive--about $1,000 per participant--but produced similar results in terms of more rapid job placements.

Additional assistance to inexperienced older persons could be provided through federal support of work-experience programs. For example, the federal government could provide work experience for these persons by funding a six-month employment program offering half-time jobs at the minimum wage. The cost of this support in 1983 would be approximately $3,500 per participant. Existing research indicates that work experience has been successful in increasing employment for women, although probably not for men.[24]

Assist Experienced Workers.[25] A second group of older persons who currently do not fare well in the labor market are skilled older workers who have either been displaced from former jobs--for example, by plant closings or by age-based policies of firms--or who, for various reasons, wish to embark on second careers. These workers are similar to inexperienced workers in that they could benefit from enhanced job-search capabilities but are different because they typically have many years of successful labor market experience and need only to acquire new skills to fit them for jobs in greater demand.[26]

These workers could be helped through job counseling and specific skill enhancement programs. Job counseling could be provided by the Employment Service and could consist of matching the abilities of these workers to existing employer demands. In addition, the ES could also provide training in effective job-search techniques.

As with dislocated workers of all ages, many of these older workers have strong labor market skills and are only in need of retraining for jobs in areas of current demand. Of the several skill enhancement techniques appropriate for dislocated workers, two would be most appropriate for older persons: vocational-

---

24. See CBO, CETA Training Programs.

25. For a more complete discussion of the problems of dislocated skilled workers and options to assist them, see CBO, Dislocated Workers: Issues and Federal Options (July 1982).

26. In March 1980, there were about 20,000 unemployed workers 60 to 64 who had been laid off or had lost their jobs in declining industries. There were 30,000 unemployed who had formerly worked in declining occupations and 40,000 unemployed in regions that included declining industries. See CBO, Dislocated Workers.

technical training and limited educational training.[27] Vocational-technical training would be appropriate for skilled blue-collar workers who need to acquire additional specific skills to match available jobs. This training could, perhaps, be most efficiently provided by existing private organizations that are in close touch with local labor markets and whose continued existence requires that they provide those skills in greatest demand.[28] Federal support could consist of subsidizing the costs of tuition and expenses, which for similar training in other programs has cost about $3,200 per participant.

Limited continuing education could be provided by study in community colleges. This educational enhancement could allow those more educated experienced workers to transfer their technical or managerial skills into expanding areas, such as computer technology. Tuition costs would be about $400 annually for this training, plus the costs of any needed counseling to select the best fields of study.

The potential success of these programs in assisting older persons to retrain is uncertain, however, and could be limited. Not only do the effects on employment depend on the overall availability of jobs in the economy, but, because many older persons probably would not relocate to find employment, they also depend on local labor market conditions. Even with favorable employment possibilities, however, these programs are untested on older workers and actual gains in employment are uncertain.

---

27. Ibid.

28. Ibid.

APPENDIXES

APPENDIX A. FEDERAL OUTLAYS FOR PERSONS 65 AND OLDER

TABLE A-1. ESTIMATED FEDERAL OUTLAYS FOR PERSONS 65 AND OLDER, BY PROGRAM, FISCAL YEAR 1982 (In billions of dollars)

Program	Outlays
Social Security	111.8
Medicare	39.7
Other Federal Retirement and Survivor Programs	21.1
Medicaid	6.5
Veterans' Benefits	4.3
Housing Assistance	3.3
Supplemental Security Income	2.9
Other Federal Health Programs	2.3
Administration on Aging	0.7
Food Stamps	0.6
Title XX Social Services	0.4
Energy Assistance	0.2
Other	2.4
Total	196.2

SOURCE: Office of Management and Budget, 1981.

APPENDIX B. FACTORS AFFECTING BENEFITS UNDER THE SOCIAL SECURITY SYSTEM

This appendix describes some of the major benefit provisions of the Old-Age and Survivors Insurance (OASI) system.[1]

DETERMINANTS OF BENEFITS

Benefits are payable to workers, their dependents, or their survivors based on the earnings records of the workers.[2] Insured status is determined by quarters of coverage.[3] Some kinds of benefits are payable only if the worker has enough quarters of coverage to be "fully insured," and others are payable only if the worker is "currently insured." Other tests apply for disabled workers, which are funded from the Disability Insurance trust fund and are not discussed in this paper.

---

1. For descriptions of the Social Security system, see Robert J. Myers, "Summary of the Provisions of the Old-Age, Survivors, and Disability Insurance System, the Hospital Insurance System, and the Supplementary Medical Insurance System," Social Security Administration (August 1981); and Commerce Clearing House, Social Security Benefits Including Medicare (Chicago: 1981).

2. Workers and employers in covered employment contribute equally to Social Security: in 1982, each party pays 6.7 percent of the first $32,400 in taxable wages and salaries. Self-employed persons pay a tax of 9.35 percent on the first $32,400 of taxable earnings. In December 1976, approximately 80 million of the 88 million workers in paid civilian employment were covered by Social Security. This coverage rate of 91 percent in December 1976 compares to 90 percent in 1970 and 88 percent in 1960.

3. To be credited with a quarter of coverage prior to 1978, wages must have been at least $50 during that quarter; for 1978, one quarter of coverage (up to four) was credited for each $250 of annual earnings. Since 1978, the required earnings per year has increased according to the average amount of covered earnings; in 1982 the amount is $340.

To qualify as fully insured, a worker must have at least one quarter of coverage for every year after 1950 (or the year he is 21, if later) and before benefits commence. The maximum number of quarters of coverage required is 40. A fully insured person is eligible for all benefits except disability.[4]

Currently insured status requires six quarters of coverage within the 13-quarter period immediately preceding entitlement for old-age or death benefits. Eligibility for this status provides only child, parent, and lump-sum survivor benefits.

COMPUTATION OF BENEFIT AMOUNTS

Once a worker's insured status has been verified, the amount of benefits can be determined. The link between the worker's earnings history and benefit level is the primary insurance amount (PIA). It is calculated in one of two ways, using either the average monthly wage (AMW) or the average indexed monthly earnings (AIME).

If a worker became eligible before 1979, his benefits are calculated using the AMW. This amount is equal to average monthly earnings during the worker's computation period, which includes the years between 1951 and age 62 (if the worker was born before 1930), or the number of years since reaching age 21 (if he was born after 1930), but not counting the five years of his lowest earnings.

If the worker became eligible after 1979, his benefits are calculated using the AIME.[5] As with the AMW, the AIME is based on covered earnings in the computation period. Before averaging, however, each year's earnings are first inflated, or indexed, generally to the year in which the worker reached 60.

---

4. Disability benefits also require disability insured status. This generally requires 20 quarters of coverage in the 40-quarter period ending when the disability begins.

5. Under certain circumstances a transitional method of calculation is also used, and benefits are the higher of those based on the transitional method and those calculated using the AIME.

As indicated above, calculation of the PIA is based on either the AMW or AIME. Using the AIME, the PIA in 1982 is equal to 90 percent of the first \$230 of AIME, plus 32 percent of the next \$1,158 of AIME, plus 15 percent of the AIME in excess of \$1,388. Using the AMW, the PIA is calculated in a similar, but more complicated, manner. Benefits are based on the PIA in the following manner:

- Old-age benefits for retirement at 65 are equal to the worker's PIA;

- Spouse and child benefits are generally each 50 percent of the PIA;

- Widow's benefits are equal to the deceased worker's PIA, and benefits for the children of deceased workers are 75 percent of the PIA; and

- A family maximum places an upper bound on total benefits based on the earnings of one worker.

ADJUSTMENTS TO BENEFITS

Monthly benefit amounts also depend on the age at which retirees accept benefits and on the amount of earnings received while collecting benefits.

Full benefits are available for retirement at 65, and reduced benefits as early as 62. Benefit amounts are permanently reduced by 0.56 percent of the PIA for each month of retirement which occurs before 65; thus, retirees at age 62 receive 80 percent of full benefits. In 1981, of those persons eligible for retired-worker benefits, 54 percent of men and 59 percent of women accepted them before age 65.[6]

Benefits are increased by delaying retirement beyond 65 and until 72. For each month's delay, benefits are permanently increased by 0.25 percent; thus, benefits for retirement at 68, for example, would be 109 percent of the amount received by retiring at 65.

---

6. Social Security Bulletin: Annual Statistical Supplement, 1980, p. 104.

The earnings test, or retirement test, may reduce benefit amounts for those persons who collect benefits and work simultaneously. For each dollar in earnings above a certain limit, benefits are reduced by $0.50. In 1982, the earnings test limit is $6,000 for persons 65 through 71, and $4,440 for those under 65. During the initial year of receipt of benefits, the test is applied on a monthly--rather than annual--basis, using prorated monthly limits of $500 and $370, respectively.

In 1977, the most recent year for which data are available, over 1.1 million retired-worker beneficiaries 62 through 71 received reduced benefits because of the earnings test;[7] this represented 9.5 percent of the eligible population. Benefit reductions amounted to $2.9 billion in 1977 and represented 62 percent of their benefits before reduction. Of all retired-worker beneficiaries whose benefits were reduced, one-third lost all benefits. Beginning in 1983, the maximum age for application of the earnings test is scheduled to be reduced from 71 to 69.[8]

---

7. Barbara A. Lingg, "Beneficiaries Affected by the Annual Earnings Test in 1977," Social Security Bulletin, vol. 43 (December 1980), p. 5.

8. This change was originally scheduled to become effective in 1982, but was postponed for one year by the Omnibus Reconciliation Act of 1981 (P.L. 97-35).

APPENDIX C. PRIVATE PENSION COVERAGE AND BENEFITS

This appendix describes the workers covered by private pension plans, the benefits paid by the pensions, and the Employee Retirement Income Security Act (ERISA) rules on private pension participation and vesting.

COVERAGE

From 1950 to 1975, the portion of the private-sector wage and salary work force covered by private pension plans increased from 25 to 49 percent. Since then, that fraction has remained relatively constant at slightly less than 50 percent. In 1979, about 35 million private-sector wage and salary workers participated in private pension plans. Participation was highest in manufacturing, mining, and transportation, with over 75 percent of the work force covered in those industries, and lowest in the trade, construction, and service industries with about 43 percent covered. Coverage tended to be greater in large than small firms, with over 80 percent of workers covered by private pensions in firms employing more than 500 workers, and 34 percent in firms with fewer than 100 workers.[1]

BENEFITS

In most private pension plans, 65 is the normal retirement age, but many allow retirement as early as 55, or after a certain length of service. In 1979, an estimated 9.6 million persons received private pension benefits, about twice the number in 1970.[2]

---

1. Sylvester J. Schieber, "Trends in Pension Coverage and Benefit Receipt" (Washington, D.C.: Employee Benefit Research Institute, 1981); and Department of Labor, Labor-Management Services Administration, "Patterns of Worker Coverage by Private Pension Plans" (1980).

2. Sylvester J. Schieber and Patricia M. George, Retirement Income Opportunities in an Aging America: Coverage and Benefit Entitlement (Washington, D.C.: Employee Benefit Research Institute, 1981) p. 62.

Average monthly pension benefits have grown in the past few decades, but have remained relatively stable at about 25 percent of average earnings.[3]

PARTICIPATION AND VESTING[4]

ERISA's major provisions relating to private pension plan participation and vesting of benefits include:

- Participation. Generally, employees who reach age 25 and have one year of service must be eligible to participate in any plan. Employees with less than 1,000 hours of employment in one year, however, need not be credited with a year of service for purposes of eligibility rules.

- Vesting. Participants whose pensions have been vested retain the right to all or part of accrued retirement benefits even if they leave the job before retirement. A plan must generally meet one of three alternative minimum vesting formulas:

  --Total vesting after ten years of service;

  --Vesting of 25 percent after five years of service, increasing by five percent each year for the next five years and by ten percent annually for the following five years, resulting in fully vested rights after 15 years; or

  --50 percent vesting when the employee's age plus years of service totals 45 years, increasing thereafter by ten percentage points each year until fully vested.

---

3. Robert L. Clark and David T. Barker, Reversing the Trend Toward Early Retirement (Washington, D.C.: American Enterprise Institute, 1981), p. 37.

4. See Ray Schmitt, "Private Pension Plan Reform: A Summary of the Employee Retirement Income Security Act (ERISA) of 1974," Congressional Research Service Report Number 79-38 EPW (March 1979), p. 8.

- Joint Survivor Annuity Requirements. All participants must have the option of continuing pensions to spouses if the retirees die before their spouses. The benefits provided to surviving spouses must be at least 50 percent of the employees' pensions. Employees' pensions may be reduced to meet the cost of this option.