

# **Older and Out of Work**

## **Jobs and Social Insurance for a Changing Economy**

Randall W. Eberts  
Richard A. Hobbie  
*Editors*

2008

W.E. Upjohn Institute for Employment Research  
Kalamazoo, Michigan

# 1

## Introduction

Randall W. Eberts  
*W.E. Upjohn Institute for Employment Research*

Richard A. Hobbie  
*National Association of State Workforce Agencies*

This volume of papers explores the labor market characteristics of older workers and critiques the effectiveness of workforce programs in addressing the needs of this growing segment of our population. The volume grew out of a conference sponsored by the National Academy of Social Insurance (NASI) and cochaired by Richard A. Hobbie of the National Association of State Workforce Agencies, Susan M. Daniels of Daniels and Associates, and Gloria T. Johnson of the Labor Coalition for Community Action. The purpose of the conference was to assemble labor and public policy experts to focus on the recent experience of older workers, review current policies that address their needs, identify gaps in the current workforce programs, and offer recommendations on how to fill those gaps. The culmination of this effort is a collection of research that advances our understanding of the labor market experiences of older workers and points out some deficiencies in our current workforce programs.

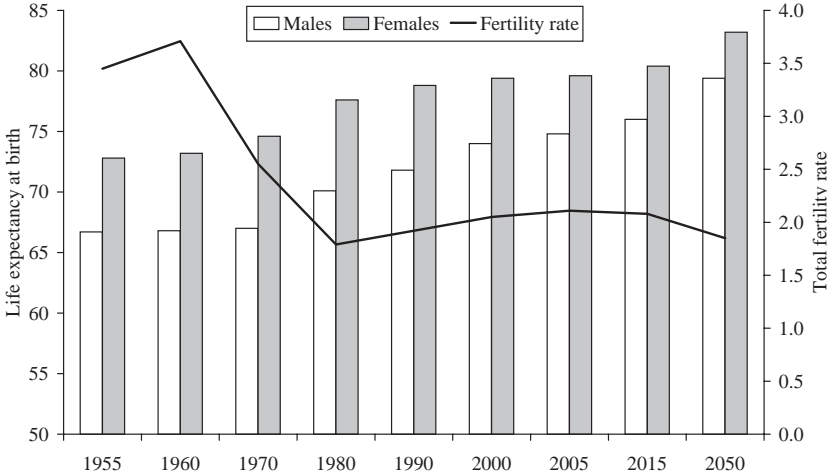
This chapter attempts to frame the issues covered in this volume by offering a statistical look at the population of older workers and placing the papers into the larger context of the growing literature on older workers. We start with a brief look at the labor force trends of older workers and highlight significant changes in older worker behavior over the recent past. We then provide an overview of the factors that may contribute to those changes as covered in the chapters included in the volume. Finally, we summarize the policy implications of these factors as suggested by the volume's contributors.

## LABOR FORCE TRENDS OF OLDER WORKERS

Older Americans are the fastest-growing segment of the U.S. population. The aging of the baby boomers (those born between 1946 and 1964) in combination with steadily declining mortality rates and progressively lower birth rates has contributed to a growing share of the population being between the ages of 45 and 64. Projections show that as the baby boom reaches this age range in 2010, the number of 45- to 64-year-olds will have increased by 29.7 percent. Their percentage of the total population will have risen from 22 to 26 percent, and their percentage of the working-age population will be 34 percent. The total population increase over the 10-year period from 2000 to 2010 is projected to be 9.5 percent, or less than one-third of the 29.7 percent population growth for the boomers (U.S. Census Bureau 2004). Yet their growing importance is not expected to stop there: longer life expectancy and lower fertility rates mean that the average age of the population will continue to rise. Figure 1.1 shows life expectancy at birth for selected years from 1955 to 2050 (projected), as well as the fertility rate during those same years. Figure 1.2 displays the results of the trends seen in Figure 1.1, namely the increasing share of older segments of the population. The latter figure clearly illustrates that, whereas in 1990 the population was “bottom-heavy” (the youngest segments having a larger proportion of people), by 2050 it will be top-heavy (the oldest segments having a larger share).

In addition, during the period of 2000–2005, labor force activity of older workers, primarily men 62 years of age and older, has increased after decades of decline. During this time, the participation rate rose from 32.4 percent to 37.2 percent, while the overall rate for all workers declined (primarily because of the lower rate for younger workers). Both men and women experienced this increase, but the men’s rate is higher than the women’s (44.2 percent versus 31.4 percent). The participation rate for all ages beyond 62 increased, for both men and women. The highest percentage-point increase for men occurred right after the typical retirement-age cutoffs of 62 and 67, which are based on Social Security benefits payouts. For women, the increases were more uniform across the age groups. For men at age 71, participation rates increased from 18.0 percent to 23.8 percent between 2000 and 2005. For women

**Figure 1.1 Fertility and Life Expectancy at Birth for Selected Years from 1955 to 2050, Projected (%)**

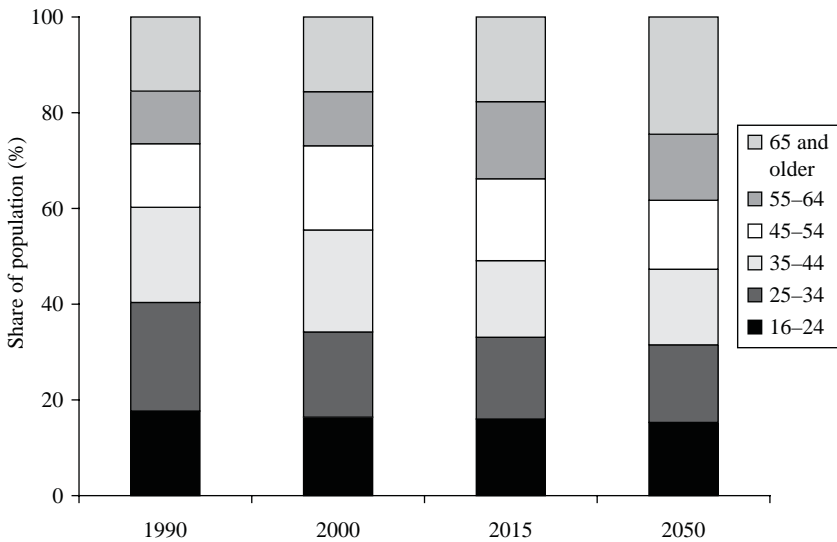


SOURCE: Fertility rate from United Nations Common Database. Life expectancy from National Center for Health Statistics, U.S. Life Tables, 2002.

at age 70, participation jumped from 10.9 to 16.7 percent over the same period.

While older workers have lower unemployment rates and thus make up a smaller share of the unemployed than younger workers, results show that this may be misleading, since older workers have higher job tenure. Holding tenure on the job constant, older workers are actually more likely than younger workers to be laid off. In addition, older workers are slightly more likely to be laid off today than they were in the past (Munnell and Sass 2007, p. 17). This greater tendency to be laid off with increasing age in today’s market appears to be more pronounced for men than for women. Men’s job stability, measured as years on the job (plus fractions of years for jobs with tenures of less than a year), has deteriorated in recent years (Farber 2007). Women do not seem to exhibit this same age differential with respect to job stability.

Older displaced workers also have the lowest reemployment rate and highest dropout rate of all age groups. Several reasons are offered for this lower level of job stability among older workers. One is the na-

**Figure 1.2 Projected Share of Population by Age Range, 1990–2050 (%)**

SOURCE: Authors' construction based on data taken from Toosi (2002).

ture of the jobs they typically hold: a larger proportion of older workers hold jobs in the manufacturing sector and other sectors that have been affected by globalization. Thus, we find that older workers appear to be hit harder by plant closures or moves than younger workers. Another reason is that older workers tend to have less formal education than their younger counterparts. Even though older workers have the advantage of many more years of on-the-job experience and should be more valuable to employers than younger workers for that reason, their lower levels of education may make it harder for them to adapt to new work demands when they lose their jobs and have to look for reemployment in another firm, industry, or even another occupation. The older cohorts of workers are less educated than the younger cohorts, but the extent varies by educational category. The largest difference between 55- to 64-year-olds and 45- to 54-year-olds is the percentage having attended some college and holding associate degrees from community colleges.

## **FACTORS AFFECTING LABOR MARKET DECISIONS OF OLDER WORKERS**

This volume considers several prominent factors that have been offered to explain why older workers are increasingly staying in the labor force. Both cyclical and structural factors are discussed. For cyclical issues, the effect of job growth during the first half of this decade on low-wage older workers is discussed and the use of the Unemployment Insurance system and job search assistance services by older workers is explored. For structural issues, the possibilities of age discrimination and the effects of health coverage, disability insurance, and other social programs on decisions to work or transition into retirement are considered.

William M. Rodgers III, in Chapter 2, examines the impact of recent job growth on older workers. He finds that employment during the recovery period dating from the recession of 2000 until April 2008 grew by only 6.9 million jobs, compared with 14.4 million and 19.0 million jobs created during the same number of months after the recessions in 1990 and 1982, respectively. He concludes that the recent disappointing job growth is the result of shifts in investment, rising employer health insurance costs, and federal income tax cuts distributed substantially to higher income taxpayers. The shifts in investment involved comparatively less European investment in the United States and more U.S. investment abroad.

Rodgers notes that the slower job growth has hurt older workers, particularly low-income men 50–54 years old. Poor job growth in manufacturing, transportation, and public utilities in particular has made it difficult for men in this age range and income bracket to find and retain jobs. Women's job losses were not as great as men's because of their disproportionately higher employment in faster growing sectors, such as education and health care sectors.

One reason for the slower job growth of older workers could be age discrimination. The third chapter provides evidence suggesting that older workers seeking employment could face significant age-related employment discrimination. Joanna N. Lahey studied the responses of 2,000 firms in Boston, Massachusetts, and the same number of firms in St. Petersburg, Florida, to fictitious resumes of women 50 to 62 years

old versus women 35 to 50 years old who “applied” for entry-level jobs. She found that older women needed to send out 40 percent more resumes to be called for an interview. She also found that younger women were 40 percent more likely to be called for an interview than older women.

Having found some evidence suggesting employer discrimination against older women compared to younger women in entry-level jobs, Lahey asks, “Why do employers discriminate?” She found no evidence of employer animus against older workers but did find some evidence of statistical discrimination, which implies older workers were stereotyped in ways that hurt their chances as individuals. For example, she found some evidence in Massachusetts that employers are worried older women might not have the necessary computer skills for the job. She also mentions other evidence in the literature showing that employers have the perception that older workers—men in particular—might be more likely to sue on the basis of age discrimination if they are denied promotions after they are hired.

In Chapter 4, Christopher J. O’Leary and Randall W. Eberts examine the use of Unemployment Insurance by laid-off older workers and their likelihood of returning to work. O’Leary and Eberts compare older workers (50 years old or older) to younger workers (30 to 50 years old) in Michigan using unemployment insurance administrative records. They find that older workers are less likely to return to work than their younger counterparts, are less successful at finding work that pays the same as the job they lost, and have a shorter length of continuous employment after finding a job. All of their results control for workers’ characteristics (such as education) and factors that affect their decision to return to work, including the receipt of income from private pensions, severance pay, vacation pay, Social Security, or other sources of income affecting UI benefit entitlement. Their findings are consistent with other studies.

O’Leary and Eberts’s analysis offers two new insights. The first is that older workers who do return to work after an involuntary job separation maintain a closer attachment to their new employers than do their younger counterparts. While younger workers appear to have longer continuous employment spells after a job loss, older workers appear to stay with one employer longer, perhaps reflecting greater loyalty or greater benefits to their employers through their on-the-job

experience or other human capital attributes. The second finding is that older workers who find a job in the first quarter after a UI claim have higher post-to-pre earnings gains than younger workers. However, this advantage diminishes quickly, and older workers fall behind younger workers by the eighth quarter after receiving UI benefits. O'Leary and Eberts conclude that the workforce system should pay more attention to older workers. In particular, it should help them return to work as soon as possible after they lose their jobs. Older workers should have equal opportunity with other workers. Employers should be aware of the reliability and loyalty of older workers to their new employers and take advantage of their productivity.

Job instability may also be caused by health issues facing older workers. Two chapters address the issue of disability and job participation. In Chapter 5, Robert T. Reville and Robert F. Schoeni analyze the Health and Retirement Study of individuals 51 to 61 years old and find that 20.5 percent have a health problem limiting the amount or type of work they can perform. The disability incidence of older workers is nearly three times that of workers between the ages of 16 and 30. Reville and Schoeni also report that 37 percent of those receiving Social Security Disability Insurance (SSDI) benefits said the cause was an accident, injury, or illness at work, which is also higher than for younger workers. Based on this information, they estimate the annual cost to the federal government under the SSDI and Medicare programs due to workplace injuries or illness is about \$33 billion. They conclude that reducing workplace hazards not only reduces workers' compensation costs but potentially could save the federal government substantial sums in the SSDI and Medicare programs.

In looking at the disability and retirement numbers of aging baby boomers, Ralph E. Smith in Chapter 6 analyzes the leading edge of the baby boom generation, the first cohort of which turned 60 years old in 2006. He focuses on the individuals 50–61 years old and asks why some people in this age group stop working or looking for work before they become eligible for Social Security retirement benefits while others stay in the labor force long afterward. He finds that about one-third of the men and one-half of the women were not in the labor force in 2001. Being disabled was the most frequent reason they gave for not being in the labor force: two-thirds of these men (22 percent of total men) and two-fifths of the women (20 percent of total women) said

they were not in the labor force because they were disabled. Smith then explores the financial situation of those who did not work because of a disability. He finds that about 80 percent of the disabled received either Social Security Disability Insurance (SSDI) or Supplemental Security Income (SSI) and that only 21 percent of the men received a pension.

Nondisabled retired men 50–61 years old had median family incomes of about \$30,000 and net worth of about \$200,000 (including homes) in 2001. In contrast, disabled men 50–61 years old had median family incomes of only \$20,000 and net worth of only \$19,000—less than a tenth of that of retired men. The implication of these findings is that, as individuals try to stay in the labor force longer and the proportion with disabilities increases with age, there could be a growing gap between the economic status of older workers out of the labor force with disabilities and those who voluntarily retired without additional government assistance.

The next chapter examines the general health of the older population and its health care coverage, further emphasizing the effect of disabilities and other chronic health conditions on the financial well-being of older workers. Sara R. Collins, Karen Davis, Cathy Schoen, Michelle M. Doty, and Jennifer L. Kriss report in Chapter 7 that chronic health conditions, unstable health insurance coverage, reduced access to health care, and trouble paying medical bills make workers 50–64 years of age a highly vulnerable population group. The authors find that 20 percent of older workers are either uninsured or have a history of unstable coverage since age 50. Some 62 percent of 50- to 64-year-olds in working families have at least one of six chronic conditions (high blood pressure, arthritis, high cholesterol, heart disease, cancer, or diabetes). Older adults who are uninsured, or have individual coverage, and have low-to-moderate incomes have reduced access to care. One-third of these older adults reported medical-bill problems in the previous 12 months. Collins et al. also find that older workers are becoming less rather than more protected by the current health care–related programs. The decline in employer-sponsored coverage has pushed the number of uninsured older adult workers from 5.5 million in 2000 to 6.6 million in 2004. Furthermore, the percentage of firms that offer retiree health benefits has fallen precipitously. For firms with 200 or more employees, coverage has dropped from 66 percent to 36 percent. Even with the new Medicare prescription drug benefit and health savings accounts, the au-

thors foresee that a large and growing portion of retirees' income will be spent on health care. The conundrum, as pointed out by the authors, is that as employers increasingly need older workers to fill job vacancies, they continue to disinvest in the health of these workers and thus contribute to a shrinking pool of productive workers.

## **POLICY CONSIDERATIONS**

Paul N. Van de Water, in Chapter 8, continues the book's exploration of possible solutions to expanding the health insurance coverage of older Americans. He focuses on the ten years before they become eligible for Medicare at age 65, noting that 13 percent of the roughly 4 million persons who are between the ages of 55 and 64 have no health insurance. He acknowledges that lack of health care coverage is not limited to just older Americans, but he insists that a major difference for them is that they are at greater risk because they have more health problems than younger Americans. He notes that about one-fifth of this older population report that they are in fair to poor health, and a similar fraction report that they have work disabilities. He also points out that they pay more for health insurance: in 2002, the average annual health insurance premium for individuals 55–64 years old was \$3,700, compared to \$1,600 for individuals under 40 years old.

After reviewing the benefits and costs of recent tax credit proposals and policies, Van de Water concludes that lowering the age of Medicare eligibility from 65 to 62 years old would be a sure way to increase health insurance coverage for those in the 62–65 age group. He calculates that it would cost only about 0.2 percent of the taxable payroll; however, it might induce more individuals to retire early and more employers to drop health insurance coverage at a time when employers are looking to older workers to work later and longer. But, Van de Water asks, is denying Medicare coverage a fair way to encourage workers to work to a later age, or are there better ways? He speculates that increasing the normal retirement age under Social Security might be a better way to encourage older workers to stay in the labor force.

In Chapter 9, Joseph White offers a broader view of factors that drive policy considerations affecting older Americans. He argues that

three perceptions are key to shaping policy: 1) the fraction of Americans above retirement age will rise substantially as the post–World War II baby boom generation ages; 2) Americans 60 years old or older will be healthier in the future than they have been in the past, and, added to that, work in the future will be less physically demanding; and 3) a sizeable fraction of Americans 60 years old or older will not be able to work even though they do not meet the eligibility requirements of the SSDI program.

In looking at the question of whether it is time to retire the normal retirement age of 65 years old under Medicare or 66 to 67 years old under the Social Security Old Age program—in other words, to raise the retirement age—White sees many problems with such a policy change. On the demand side, he notes that employers might wittingly or unwittingly discriminate against older workers or that they might consider older workers to be too expensive to employ because of their relatively high wages and health insurance costs. White suggests stricter enforcement of antidiscrimination laws and universal health insurance as means to lower these barriers. On the supply side, older workers have chronic health problems; also, they often say they are interested in part-time, not full-time, work. Universal health insurance, decreased workplace hazards, and work incentives might lessen these barriers.

White also thinks that it is unfair to simply increase the retirement age, given that some workers have worked since they left high school, while others who have advanced degrees might not have started their work careers until they were at least 25 years old. Why, he argues, should some workers have to work 50 years until they reach, say, age 68, while others have to work only 40 years until they reach age 68? Couldn't the new policy for Social Security and Medicare factor in years of work with age to lessen this inequity? After all, many defined benefit plans have such schemes. However, White acknowledges that this approach, too, is not without problems, not the least of which would be the following two: 1) how to define years of work for employees and the self-employed using quarterly wage data, and 2) how to deal with parents who leave the labor force to care for children. Defining years of work in a single employer pension plan is relatively easy compared to its calculation under Social Security, which must deal with varied work histories containing multiple employers, periods of no employment, and the absence of data on hours or weeks worked.

In the tenth chapter, recognizing the importance of employment for older workers, the discussion returns to ways to keep older workers in jobs and assist them in returning to work. Carl Van Horn, Kathy Krepcio, and Neil Ridley note that the current workforce development system lacks the resources to deal with these issues. On the one hand, older dislocated workers increasingly demand reemployment services, and on the other, employers are asking for workers with specific skills. In the authors' opinion, the resources appropriated for Trade Adjustment Assistance (the programs for workers displaced by imports) and for Community Service for Older Americans (which provides work for older, low-income persons) are not enough to meet the growing demand by older workers and employers for workforce services. Recognizing that this situation is unlikely to change in light of the chronic federal budget deficit, they suggest less resource-intensive approaches. Such approaches include researching and providing information on promising practices and effective reemployment strategies that can be used locally, improved integration of public and private resources, and flexible strategies attuned to the needs of older workers. They conclude that providing reemployment assistance to older workers is important not only to help workers maintain their standard of living and live productive lives, but also to provide the U.S. economy with the skilled workers that it needs to continue to grow.

## CONCLUSION

As shown in the statistics cited at the beginning of this chapter, not only is the American population aging but so is the American workforce, and at an even faster rate than the general population. Employers who have been somewhat reluctant to utilize older workers will soon be faced with the fact that, in order to compete in the global economy, they need workers with the skills, knowledge, and commitment that many older workers bring to their jobs. Policymakers can facilitate this process by adopting and expanding programs that will be beneficial for both employers and employees. The papers in this volume should be studied carefully, as they provide insights on how to expand and improve the American workforce to meet the demographic and financial challenges that lie ahead.

## References

- Farber, Henry S. 2007. "Job Loss and the Decline in Job Security in the United States." Working Paper No. 520. Princeton, NJ: Princeton University, Industrial Relations Section.
- Munnell, Alicia H., and Steven A. Sass. 2007. "The Labor Supply of Older Americans." Paper presented at the Federal Reserve Bank of Boston Summer Conference "Labor Supply in the New Century," held in Boston June 18–20.
- Toosi, Mitra. 2002. "A Century of Change: The U.S. Labor Force, 1950–2050." *Monthly Labor Review* 125(5): 15–28.
- U.S. Census Bureau. 2004. *U.S. Interim Projections by Age, Sex, Race, and Hispanic Origin: 2000–2050*. Washington, DC: U.S. Census Bureau. <http://www.census.gov/ipc/www/usinterimproj/> (accessed June 2, 2008).