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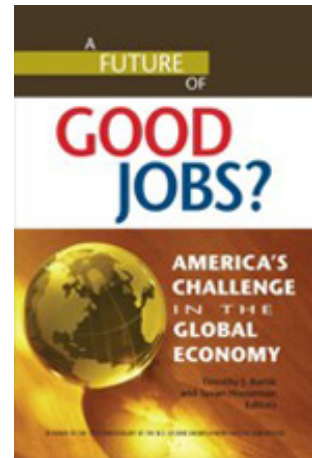
Upjohn Institute Press

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## Removing Barriers to Work for Older Americans

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Chapter 5 (pp.161-202) in:

**A Future of Good Jobs? : America's Challenge in the Global Economy**

Timothy J. Bartik and Susan N. Houseman, eds.

Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2008

DOI: 10.17848/9781435641037.ch5

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# 5

## Removing Barriers to Work for Older Americans

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Over the next dozen years, as the baby boomers age, the share of the population aged 55 and older is projected to grow dramatically, from 21.4 percent in 2000 to 25.1 percent by 2010 and 29.5 percent by 2020. Over the same period, the share of the population aged 25–54—the age group that historically has been attached most strongly to the labor market—is projected to fall from 43.4 percent in 2000 to 40.8 percent in 2010 and 37.7 percent in 2020 (U.S. Census Bureau 2002). Among other anticipated consequences, the aging of the population threatens the solvency of both the Social Security and the Medicare systems. Reflecting concerns over these trends, there is a growing consensus that increased employment among older Americans would be in the public interest.

Congress already has taken several important steps to encourage work at older ages. Recent changes to the law allow Social Security beneficiaries to earn more money without having their benefits reduced and permit workers under the normal retirement age to phase into retirement by collecting pension benefits while working a reduced schedule. Congress also has raised the age at which workers may collect full Social Security benefits—in effect making benefits less generous—and this too can be expected to increase older Americans' desire to work. Developments in the private sector, most notably the shift from defined benefit retirement plans to less generous defined contribution plans and the shrinking share of employers who offer retiree health benefits, have reinforced the effects of public policy changes. Americans are not sav-

ing enough to compensate for the reduction in public and private retirement benefits. If they wish to maintain their standard of living, many Americans will need to work later in life.

Although recent changes to federal policy have altered financial incentives in ways that should make it more attractive for older Americans to work, these policies have not addressed the barriers to finding suitable employment that older workers frequently face. Survey evidence shows that a high percentage of older Americans already wish to remain employed rather than withdrawing fully from the labor market, but many want or need to work fewer hours or to find less physically demanding jobs. Our research indicates that the need to make a job transition, particularly a job transition that involves a change of employer, is a major impediment to continued employment for seniors. In addition, as job stability has declined and the incidence of worker dislocation has risen over the last 20 years, a growing number of older Americans have found themselves involuntarily out of work and searching for a new job late in life. Many are unsuccessful in their search.

Although labor force participation among older women has grown in the last two decades, it has declined among men in their fifties. The decline in employment among older, less-educated men has been precipitous: labor force participation among men in their fifties with less than a high school education fell by 11 percentage points over the last two decades. The current low rate of labor force participation among men in their fifties—traditionally a group considered to be of preretirement age—does not portend well for increasing the labor force participation of these cohorts as they age.

Why is it so difficult for many older Americans, particularly the less educated, to transition to new employment? Part of the explanation may be that older workers—especially those who have worked for a single employer for an extended period and thus have no recent experience with having to find a job—do not have a clear idea about how to search for employment. Employer reluctance to hire older workers is another factor. Unwarranted stereotyping accounts for some of this reluctance to hire older workers, but more legitimate concerns about older workers as potential employees play a role as well. Lack of technical skills, low perceived returns to training, and high health insurance costs are among the most common reservations that employers cite about hiring older workers.

Job training and employment programs, currently funded under the Workforce Investment Act (WIA) and, to a lesser degree, the Trade Adjustment Assistance Act (TAA) and the Older Americans Act (OAA), are the primary active labor market programs through which the federal government seeks to overcome impediments to employment faced by workers. In real terms, federal funding for these programs has fallen significantly over the last decade. Moreover, services to older workers have been deemphasized under WIA compared to what they were under the Job Training Partnership Act (JTPA), WIA's predecessor, despite the fact that the population is aging and older workers' needs for such services likely have risen. Some states and private organizations have begun to take steps to address the impediments to employment that older workers face. Many of these initiatives have focused on public relations efforts to reduce what program managers perceive to be widespread discrimination by employers against older workers. Some state and private initiatives also have sought to improve the delivery of employment and training services to older job seekers, but funding for these initiatives has been limited.

Failure to develop and implement effective programs to retrain older workers and place them in jobs has high public costs. Among other concerns is the fact that many of those who fail to find work end up on public assistance in the form of Social Security Disability Insurance (SSDI), at least in some cases not because they cannot work but because they are unable to *find* work. Partly as a result, the costs of the SSDI program are soaring. Although the difficulties that older workers experience as they seek to transition to new jobs will not be easy to overcome, we propose the following five policy steps in order to begin to address the problem seriously:

- 1) Increase funding for employment and training programs that serve older workers.
- 2) Modify performance standards for WIA service providers to eliminate disincentives to serve older workers.
- 3) Experiment with promising approaches to serving an aging workforce more effectively, including
  - Improving outreach to seniors and to their potential employers,

- Posting older-worker specialists who are knowledgeable about the employment and training issues seniors often confront at “one-stop” centers, and
  - Providing specialized technical skills training for seniors.
- 4) Evaluate promising initiatives using rigorous methodologies to determine whether and to what extent they improve older workers’ employment prospects and would be cost-effective if adopted nationally.
  - 5) Reform health care financing to reduce disincentives to hiring older workers.

We elaborate upon these proposals later in the chapter.

## **RECENT TRENDS IN THE LABOR FORCE PARTICIPATION RATES OF OLDER AMERICANS**

Various researchers have noted the increasing rate of labor force participation among older Americans in recent decades (Burtless and Quinn 2002; Munnell and Sass 2007; Purcell 2005; Quinn 1999). Although the share of men aged 55 and older who were active in the labor force fell from the early 1900s through the mid-1980s, labor force participation rates leveled off beginning in 1985 and have risen slightly since the mid-1990s. Among women, the pre-1985 trend towards earlier retirement was offset by rising labor force participation overall, with the result that labor force participation rates among women 55 and older were relatively flat from the mid-1960s through the mid-1980s. Since the mid-1980s, labor force participation among older women aged 55 and older has trended upwards (Federal Interagency Forum on Aging-Related Statistics 2006).

These aggregate trends mask important differences, however, in trends across education groups and across more refined age categories. Although labor force participation rates have increased since the 1990s among older women in all age groupings (Figure 5.1), the increase in male labor force participation in recent years has occurred only among men over age 60 (Figure 5.2B) and has been most pronounced among men over age 65 (Figure 5.2C). As shown in Figure 5.2A, labor force

participation among men in their fifties—men traditionally considered to be of preretirement age—has actually continued to fall.

One possible explanation for the decline in labor force participation among men in their fifties could be that their financial situation has improved, either because their lifetime earnings have risen or because their wives are now more likely to be employed, making earlier retirement a more viable option. Examination of labor force participation trends by education level suggests that this is not what has happened. The labor force participation rate for college-educated men in their fifties has been fairly stable over the last 20 years but has declined for those with lower levels of education, especially those with less than a high school education. Between 1984 and 2005, the labor force participation rate for men aged 50–59 with less than a high school education dropped by 11 percentage points, and the decline for men aged 50–54 was almost as large as that for men 55–59. This drop can be explained neither by rising income levels (real wages for less-educated men have fallen) nor by increased spousal employment (labor force participation rates for women with less than a high school education have been stagnant). Below we discuss some of the factors that underlie these trends and the special policy challenges they pose.

## **AMERICAN WORKERS WILL WANT OR NEED TO WORK LATER IN LIFE THAN IN THE RECENT PAST**

For the past few decades, the health of older Americans has been improving, while changes in the mix of occupations associated with the growth of the service economy, as well as technological advances affecting many blue-collar jobs, have made work less physically demanding. In addition, life expectancies have increased steadily, increasing in turn the financial resources required to maintain individuals' standard of living over their lifespan (Munnell and Sass 2007; Technical Panel on Assumptions and Methods 2003). In the past, rising incomes and generous public and private retirement benefits made it attractive for Americans to retire at younger ages despite their increased life expectancy (Costa 1998). In the future, however, financial incentives are likely to make it more attractive for Americans to keep working longer.

Figure 5.1 Trends in Labor Force Participation Rates of Older Americans, 1984–2005, by Gender and Age (Women)

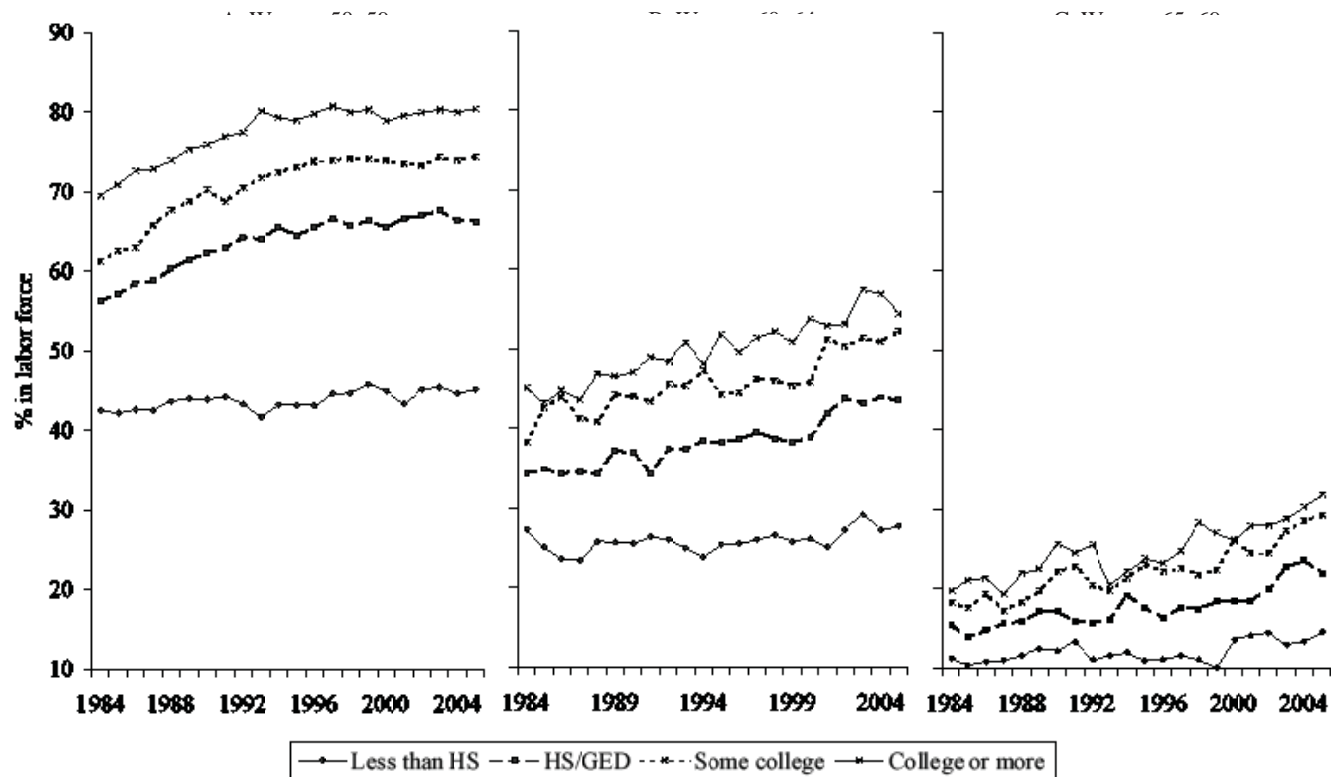
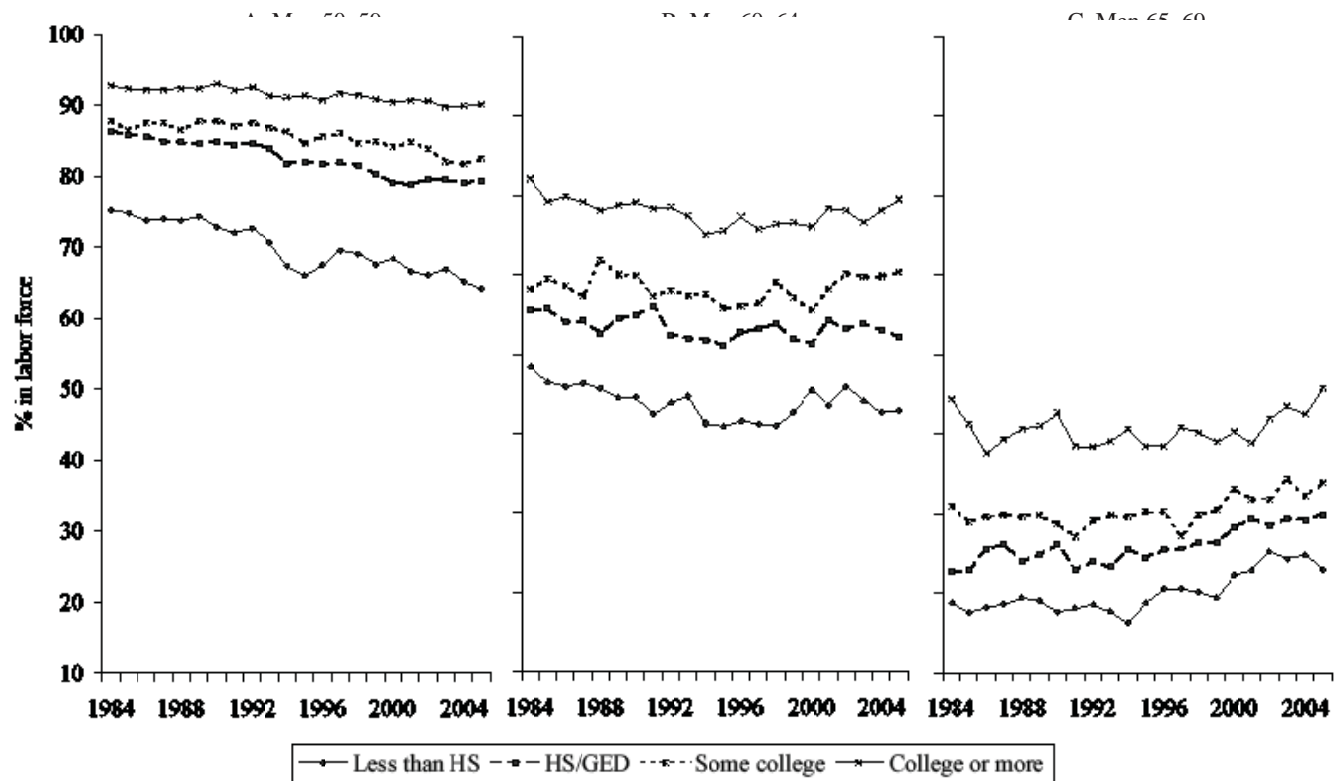


Figure 5.2 Trends in Labor Force Participation Rates of Older Americans, 1984–2005, by Gender and Age (Men)





## Social Security Reforms

Several features of the Social Security system discouraged work at older ages in the past. Recent changes have greatly reduced if not eliminated these disincentives. First, the Social Security earnings test, which determines any reduction in current monthly benefits for those with earnings from employment, has been liberalized for those between age 62 and the normal retirement age and eliminated for those above the normal retirement age. These changes allow beneficiaries to earn more without experiencing a reduction in their current Social Security benefits. Although under previous law those whose benefits were reduced because of the earnings test could expect to receive higher future benefits, this fact seems to have been poorly understood by benefit recipients, and consequently the liberalization of the earnings test appears to be one of the factors responsible for the recent increase in labor force participation at older ages (Munnell and Sass 2007).

Second, new rules regarding the delayed retirement credit are being phased in. When fully implemented in 2008, these rules will approximately equate the actuarial present value of Social Security benefits received by those who choose to delay receipt of benefits to the value for those who begin collecting benefits at the normal retirement age. By reducing the penalty previously imposed on those who chose to continue working past the normal retirement age, the delayed retirement credit appears already to have increased work among those age 65 and older (Munnell and Sass, 2007).

A third change whose full effect has not yet been felt is the scheduled increase in the normal retirement age—the age at which individuals may begin to receive full benefits—from 65 to 67. Although workers still may retire and begin to collect Social Security benefits at 62, their monthly benefit amount will be proportionately lower than would have been true in the past, reflecting the larger actuarial reduction needed to equate the expected present value of lifetime benefits for a person retiring at age 62 to that for someone retiring at age 67 as opposed to age 65. This is a reduction in benefits that should increase the number of Americans who want to work at older ages (Munnell and Sass 2007; Thompson 2004).

## Changes to Private Sector Retirement Plans

Roughly half of workers of retirement age are covered by an employer pension plan, but the character of those plans has changed a great deal. Data from the Survey of Consumer Finance show that the share of those with a pension covered by a defined benefit plan fell from 87 percent to 44 percent between 1983 and 1998; over the same time period, the share covered by a defined contribution plan rose from 40 percent to 79 percent (Friedberg and Webb 2005). Analysis of data collected from employers by the Bureau of Labor Statistics (BLS) shows that the shift away from defined benefit plans towards defined contribution plans continued through 2005. In addition, many employers offering defined benefit plans have converted them to cash balance or pension equity plans that in important respects are more like a defined contribution plan than the traditional defined benefit plan (Costo 2006).

The ongoing shift in employer-sponsored retirement plans from defined benefit to defined contribution plans is providing additional financial incentives to workers to retire at an older age. The traditional defined benefit plan imposes a significant financial penalty for working past a certain age; in contrast, the present value of retirement benefits under a defined contribution plan continues to grow so long as the individual continues to work (Friedberg and Webb 2005). Further, although this would not have to be the case, defined contribution plans tend to be less generous than defined benefit plans in practice. Ghilarducci and Sun (2006) find that employers contribute significantly less per capita under defined contribution plans than under defined benefit plans. Similarly, the cash balance plans offered by employers who have converted from traditional defined benefit plans generally have been less generous than the plans they replaced (Government Accountability Office 2005a). Research has concluded that participants in defined contribution plans retire later on average—perhaps as much as two years later—than participants in defined benefit plans and that the shift towards defined contribution plans has been an important reason for the recent increases in labor force participation at older ages (Friedberg and Webb 2005; Munnell, Cahill, and Jivan 2003).

New rules regarding phased retirement plans included in the Pension Protection Act of 2006 also may increase the share of older individuals who choose to work.<sup>1</sup> The new rules allow in-service distributions from

defined benefit pension plans to employees aged 62 and older, meaning that they are allowed to reduce their hours on the job while beginning to collect pension benefits, something that had not previously been permitted for employees below the normal retirement age specified in their employer's pension plan.<sup>2</sup>

### **Falling Retiree Health Benefit Coverage**

Paralleling these changes in pension benefits has been a decline in the coverage and generosity of retiree health insurance. As medical-care costs have risen, so too have the costs of retiree health insurance. In addition, the rules that govern how firms must account for those costs have changed in a way that makes it less attractive for firms to offer a retiree health insurance plan. Federal Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 106, issued in 1990, requires companies to report retiree health insurance benefits as a liability on their financial accounting statements.

Issuance of this standard is widely believed to have triggered a reduction in the coverage of such plans. Data from employer surveys sponsored by the Kaiser Family Foundation show that the fraction of companies with 200 or more employees offering retiree benefits fell from 66 percent in 1988 to 36 percent in 1993 and has fluctuated between 35 and 40 percent since that time, except for a dip in 2005 (Johnson 2007; McCormack et. al 2002). Other data from the Medical Expenditure Panel Survey Insurance Component (MEPSIC), an employer survey that covers both large and small employers, show that the share of private sector employees who work for an employer with a retiree health plan fell between 1997 and 2003 (Buchmueller, Johnson, and Lo Sasso 2006). Furthermore, in recent years a growing share of firms with plans have closed them to new retirees (Eibner, Zawacki, and Zimmerman 2007). In coming years, all of these changes can be expected to reduce significantly the share of retirees with employer-sponsored health coverage. In addition, the premium contributions that eligible workers must pay to be covered have risen sharply (Buchmueller, Johnson, and Lo Sasso 2006). Increases in the cost of coverage may strain the finances of older individuals and also may reduce take-up rates, further depressing the share of retirees with employer-provided health insurance coverage.

## **Inadequate Savings Rates**

The ongoing shift away from defined benefit plans and anticipated declines in retiree health insurance coverage imply that fewer Americans will enjoy generous company-provided benefits in the future, and hence that they will need to save more to ensure adequate income in retirement. Yet a recent survey of adults conducted by the Employee Benefit Research Institute (EBRI) shows that many do not fully understand how these changes affect their retirement security, and, among those who do, few have altered their savings behavior to compensate for the decline in generosity of retirement income provided by employers. EBRI found that large numbers of adults grossly underestimated the amount of savings they would need to cover expected medical expenses in old age and overestimated their chances of receiving traditional defined benefit pension plans (Helman, Copeland, and VanDerhei 2006).

More generally, recent studies have highlighted the fact that many individuals are not saving sufficiently to maintain living standards in old age (Congressional Budget Office 2003). One effective method of increasing retirement savings would be to change default options to require employees who do not wish to participate in 401(k) and similar retirement plans to opt out rather than to require those who wish to participate to opt in (Madrian and Shea 2001). The Pension Protection Act creates a safe harbor for such automatic enrollment plans in the form of minimum employer contribution schedules that, if adopted, exempt the employer from the usual nondiscrimination tests otherwise required to ensure that 401(k) plans do not offer disproportionate benefits to highly paid employees (Deloitte 2006). This safe harbor provision should encourage more employers to adopt an automatic enrollment default. Another proposed reform would replace incentives for retirement savings that operate by making contributions to retirement plans tax deductible—an incentive that is worth considerably more to high-income households than to low- or middle-income households because of their higher marginal tax rates—with a plan that matches contributions up to some threshold amount (Gale, Gruber, and Orszag 2006).

It is unclear how effective such reforms can be in increasing retirement savings for the typical American. Their adoption would not change the fundamental fact that wages for middle- and lower-income Americans have been stagnant or falling, and that many feel they have limited

slack in their household budgets to set aside money for retirement. This problem is implicit in the analysis of Scholz, Seshadri, and Khitatrakun (2006), who challenge the conventional wisdom that Americans are not saving optimally for retirement. For individuals with low or modest incomes, “optimal” savings may be at or near zero with standard discount rates. Instead of relying on savings, many Americans, because of declining Social Security and pension benefits, may need to delay full retirement to maintain their living standards.

### **THE PROBLEM: OLDER WORKERS MAY HAVE DIFFICULTY FINDING SUITABLE EMPLOYMENT**

The premise that there will be a growing supply of older Americans who want to work seems uncontroversial. Recent Social Security and pension policy reforms, coupled with inadequate retirement and savings income and the decline in retiree health benefits, will give more older Americans an incentive to postpone retirement or reenter the labor force. By itself, an increase in the number of older workers seeking employment will put downward pressure on their wages or, if wages do not adjust smoothly, will result in involuntary or disguised unemployment.

#### **Employer Demand for Older Workers**

Some have argued that any increase in the supply of older Americans seeking employment will be matched or exceeded by an increase in demand among employers seeking to hire them. Many policy analysts predict that, faced with massive retirements among the baby boom generation, employers soon will face serious labor shortages. This, they believe, will induce employers to work harder to retain their existing workforce and to recruit more actively among the pool of retirees (AARP 2006; Dychtwald, Erickson, and Morison 2006; Ernst and Young 2006; Judy and D’Amico 1997). These analysts predict that employers’ need for older workers will lead them to be more accommodating both of older workers’ physical limitations and of their desires for more flexible employment, including part-time or part-year work. Under this scenario, older workers will find it relatively easy to arrange

flexible, phased retirement with their existing employer or to land an attractive job with a new employer.

Other researchers are more skeptical that the future will be this rosy for seniors. Although the baby boom generation already has started to retire, existing research finds little evidence that companies are moving to establish broad-based worker retention programs (AARP 2006; Ernst and Young 2006; Government Accountability Office 2005b). A large employer survey about phased retirement options offered to white-collar workers found that such programs were uncommon and that, when these programs were offered, employers typically operated informally, choosing to make special arrangements for the most valued employees (Hutchens 2007). Dychtwald, Erickson, and Morison (2006), who make a strong case that employers will need to retain employees to avoid shortfalls in the near future, also acknowledge that employers will want to be selective in whom they retain. For this reason, they advocate liberalization of “nondiscrimination tests for flexible retirement plans so that employers [can] more easily customize work arrangements and offer them to employees with exceptionally valuable skills and experience without breaking antidiscrimination laws and uniformity mandates” (p. 62). Low-skilled workers, who are the most vulnerable to cuts in Social Security and in the worst position to increase their own savings for retirement, arguably are the least likely to benefit from any growth in employer retention programs. Freeman (2006) also has criticized the labor shortage hypothesis, arguing that employers will meet any shortages with immigration and offshoring. Again, the least skilled workers are of greatest concern, because they tend to be the most adversely affected by pressures from immigration and offshoring.

### **Evidence on the Difficulty Older Workers Face in Finding New Work**

Many older Americans work long hours or in physically demanding jobs and would like to cut back on their hours or change the type of work they do as they age. Although much of the literature on retirement transitions discusses the prevalence of so-called bridge jobs, it appears that far more individuals would like to work in later years than in fact do so. For example, 73 percent of workers aged 51 to 61 surveyed in the 1992 Health and Retirement Study (HRS) said that they would like to

continue paid work following retirement (AARP 1998). Other surveys have yielded similar findings. Yet actual employment rates among older Americans are far lower than one might expect from these survey responses. In 2001, when those interviewed for the 1992 HRS would have been aged 60 to 70, only 57 percent of men and 44 percent of women aged 60 to 64, and only 32 percent of men and 21 percent of women aged 65 to 69 were employed either part-time or full-time. Other data show that among men aged 55 to 64 who received pension or retirement-plan income in 2002 just over a third were working in March 2003, and the corresponding share among men 65 and older was only 12 percent (Purcell 2005).

Although there are multiple reasons why the number of individuals who plan to work in later years is substantially higher than the number who, in fact, realize their plans, our research suggests that the difficulty older workers experience with transitioning to new jobs is a significant factor. We draw on panel data from the Health and Retirement Study. The HRS panel includes a representative sample of Americans born in the years 1931 to 1941. Seven waves with interviews conducted biennially from 1992 to 2004 are currently available. In each wave, survey participants answer detailed questions about many aspects of their health, work, and finances. We use questions about future plans for work and retirement that were asked of individuals employed at the time of the survey. We then exploit the panel structure of the data to examine whether individuals followed through on these plans.<sup>3</sup>

Among those with definite future work or retirement plans, a minority (39 percent) indicated that they planned to stop work altogether, and almost as many indicated that they planned to work fewer hours (29 percent) or change the type of work they do (7 percent) (Table 5.1). Exploiting the fact that the HRS reinterviews the same individuals at two-year intervals, we examine the degree to which individuals followed through on these work and retirement plans. Specifically, we identify the subset of individuals who indicated during the interview that they planned to stop work altogether, cut back on their hours, or change the type of work they do within the following two years. We then look at whether what they are doing at the subsequent two interviews—which take place about two years and about four years later—is consistent with their stated plans. We classify people as having reduced their weekly hours if the sum of weekly hours worked on all jobs dropped by

**Table 5.1 Plans for Work and Retirement**

Plan	Percent of observations for which plan reported	
	Including “Don’t know”	Excluding “Don’t know”
Stop work altogether	24.5	39.3
Work fewer hours	18.6	29.8
Change type of work	4.5	7.3
Never stop work	7.8	12.4
Other	7.0	11.2
Don’t know	37.7	n.a.

SOURCE: Authors’ calculations from waves 1–7 of the Health and Retirement Study (1992–2004), based on 18,758 reports of individuals’ work and retirement plans. All estimates constructed using HRS sample weights.

eight hours or more between waves. Whether individuals have changed the type of work they do is somewhat subjective, and there is no clean measure of such a work change in the HRS. We consider anyone who changed occupation to have changed the type of work they were doing. Because our measure of work and retirement plans groups those who plan to change their type of work with those who plan to begin working for themselves, we also treat those who move from employee to self-employed status, or the reverse, as having changed their type of work.

Table 5.2 compares individuals’ work and retirement plans with what they were actually doing when next interviewed two years later. Most interesting is the fact that those with near-term plans to stop work altogether were much more likely to follow through on those plans than were individuals who planned to reduce their hours of work or change the type of work they do. Whereas about 65 percent of those who planned to retire fully were not working at the next interview about two years later, only 35 percent of those who planned to reduce their hours and 24 percent of those who planned to change the type of work they do followed through on their plans. Roughly half of those who failed to realize plans to reduce their hours or change their type of work made no changes in their employment situation and roughly half stopped working altogether. Although various factors, such as an unanticipated worsening of health status, may help explain why relatively few follow through on these stated plans, analysis we have done suggests that, for many older workers, the need to change jobs is an



**Table 5.2 Labor Market Outcomes among Those with Near-Term Plans to Stop Work, Work Fewer Hours, or Change Type of Work (%)**

Change planned within 2 years	Work or retirement outcome after 2 years						<i>N</i>
	Realized plan	Reduced hours of work	Changed type of work	Reduced hours and changed type of work	Stopped work	No changes	
Stop work altogether	64.8	9.7	2.5	8.6	64.8	14.5	751
Work fewer hours	34.9	25.5	6.9	9.4	27.7	30.5	569
Change kind of work	24.4	12.3	6.5	17.9	33.9	29.5	123

SOURCE: Authors' calculations from waves 1–7 of the Health and Retirement Study. Calculations based on reports from individuals who indicated that they planned to stop work or make significant changes to hours worked or job held within two years and who were interviewed in the following wave. Information on plans collected in waves 1 through 6; information on outcomes collected in following wave. All estimates constructed using HRS sample weights. In computing the percent distribution of work and retirement outcomes for people with given plans, we excluded a small number of cases (2 percent or fewer) for which the outcome could not be determined.

important impediment to reducing hours and changing the type of work they do. In Abraham and Houseman (2005) we show that, among the employed, those who reported that their employer allowed employees to reduce work hours were much more likely to plan to reduce work hours and, if they had such plans, were much more likely to realize their plans to reduce hours than were individuals whose employers did not allow such flexibility.

Because it may take more time than initially anticipated to make a planned change, especially when the change entails finding a new job, we also examine whether individuals realized their stated plans either by the next wave interview, about two years later, or by the subsequent interview, about four years later.<sup>4</sup> When examined over this longer period, a higher percentage of individuals realized plans to reduce their work hours or change their type of work. Even over this longer horizon, however, only half of those planning to reduce their hours and a third of those planning to change the type of work they do appear to have followed through on their plans, compared to about 80 percent who followed through on plans to stop work altogether. Four years after stating plans to reduce their hours or change their type of work, those who failed to realize these plans were roughly twice as likely to have stopped working altogether as they were to be still working.

In analysis not reported here, we find that adults with low education levels have the most difficulty making such job transitions, as is consistent with prior research on dislocated workers discussed below. Less-educated individuals were significantly less likely to formulate plans to reduce their hours of work or change the type of work they do, and, conditional on having such plans, were significantly less likely than more-educated workers to follow through on those plans. We estimate that those who have not completed high school were 11 to 17 percentage points less likely to follow through on plans to reduce their hours and 10 to 17 percentage points less likely to follow through on plans to change the type of work they do.<sup>5</sup>

### **Declining Job Stability and Its Consequences**

The apparent decline in job stability in recent years poses a further obstacle for older workers who wish to continue working. Although long-term jobs are still quite common among older workers (Stevens

2006), recent evidence suggests that they are less common than they used to be. In a detailed look at trends in employment over the last 50 years, Farber (2006) finds that mean and median job tenure among men have declined for all age groups, as has the incidence of being in a long-lasting job (one that lasts at least 10 or 20 years). The largest declines have been among older men. Comparing men born in the 1930s to those born in the 1950s, for example, Farber shows that median job tenure at age 50 decreased by more than two years, from 11.9 years to 9.7 years. In addition, Farber finds some evidence of job churning (which he defines as jobs lasting less than a year) among men in their thirties. Men in their twenties always have experienced a lot of job turnover, a fact interpreted to mean that they were trying out various jobs before settling in to long-term employment. The fact that job churning has increased significantly among men in their thirties suggests that men today may be having more difficulty finding a suitable long-term job than were men in previous generations.

Research evidence suggests that at least some of the decline in job stability among older workers is associated with layoffs. While the incidence of layoff is lower among older than among younger workers, the gap has narrowed in recent recessions (Farber 2005), and, conditional on tenure in the job, workers aged 45 to 64 have become substantially more susceptible to job loss (Farber 2007).

The narrowing gap between the dislocation rates of younger and older workers may be related to an aging workforce in sectors—like manufacturing—that are especially sensitive to business cycles and that have experienced large secular declines in employment in recent years. Case study evidence also suggests that business perceptions about the desirability of retaining older workers when there is a layoff may be changing. Historically, layoffs generally occurred in inverse seniority order, even in the absence of union contracts dictating such layoff rules (Abraham and Medoff 1984). This pattern has been widely interpreted to imply that employers value the skills and experience of their long-tenure employees, though other research has indicated that the higher pay of more senior workers cannot be fully justified on the basis of their higher productivity (Medoff and Abraham 1980, 1981; Hellerstein and Neumark 2007). Recent high-profile cases involving Wal-Mart and Circuit City indicate that at least some employers have concluded that the extra pay long-tenure employees typically receive exceeds any ad-

ditional productivity garnered from their experience and have adopted policies that some allege discourage long-term employment (Greenhouse and Barbaro 2006; Leonhardt 2007). Besides wages that arguably rise faster than productivity, the high cost of providing health insurance for older workers provides an incentive to companies to lower the average age at the workplace.

Taken as a whole, the evidence of a decline in job stability implies that older workers will be less able to rely on long-term jobs that last until retirement and more likely to need to search for new jobs, possibly in new fields, late in their working life. Yet research on dislocated workers—defined as those who have lost their job for economic reasons—unambiguously shows that older workers have an especially difficult time making job transitions. Using data from the Health and Retirement Study, Chan and Stevens (2001) find large and long-lasting adverse effects of job loss on employment among older workers. Only 61 percent of men and 55 percent of women who involuntarily lose their jobs are reemployed two years following job loss. Compared to similar workers who do not lose their jobs, individuals who experience job loss at age 55 are an estimated 20 percentage points less likely to hold a job at age 59. Farber (2005) finds similarly low levels of reemployment among older, displaced workers. He also finds much lower reemployment rates among less-educated workers. Among displaced workers who become reemployed, older displaced workers, who on average had longer tenure and were earning more on the job they lost, also experience substantially higher earnings losses.

What happens to older dislocated workers who fail to find new jobs? Many appear to wind up in the Social Security Disability Insurance (SSDI) program, collecting benefits from SSDI until they qualify for regular, age-related Social Security benefits. The fraction of the U.S. adult population on SSDI has grown dramatically over the last 20 years, increasing from 2.2 percent of 25-to-64-year-olds in 1985 to 4.1 percent in 2005. The largest increases have occurred among older, less-educated subgroups. Using data from the Survey of Income and Program Participation (SIPP), Autor and Duggan (2006) estimate that between 1984 and 2004 the rate of SSDI receipt rose from 14.8 to 19.7 percent among male high school dropouts aged 55 to 64 and from 9.1 to 12.7 percent among female high school dropouts of the same ages. The approximately 5-percentage-point increase in disability coverage among

high school dropout men aged 55 to 64 compares to an 8-percentage-point decline in the labor force participation rate in this age group over the same period. Autor and Duggan point to increases in the generosity of benefits and to changes that have made it easier to qualify for benefits when an individual has difficulty finding employment—not true increases in the incidence of disability—as explanations for the dramatic growth in the program. They argue cogently that SSDI has become a program for the unemployable.

### **WHY DO OLDER WORKERS OFTEN HAVE DIFFICULTY FINDING NEW JOBS?**

The above evidence indicates that older workers, particularly less skilled and less educated workers, have difficulty transitioning to new jobs. Part of the problem undoubtedly is that many of these workers do not know how to go about looking for a job. And even before they start, many are convinced that employers simply are not interested in hiring older workers, which itself may discourage active search (Government Accountability Office 2005b).

An audit study conducted by Lahey (2008) provides perhaps the best research evidence to date of employer discrimination against older workers applying for entry-level jobs. In her study, Lahey sent resumes of women to be considered for entry-level positions to prospective employers in Boston, Massachusetts, and St. Petersburg, Florida. The resumes were carefully written to appear nearly identical, except that information on the resumes indicated that some applicants were relatively young (age 35 or 45), while others were older (age 50, 55, or 62). Younger applicants were more than 40 percent more likely than older applicants to be called in to interview for the position. Two commonly offered reasons why employers, all else being the same, might prefer younger to older workers are that older workers lack necessary skills, especially technical skills, and that their wage and benefits costs are too high.

### **Lack Necessary Skills**

Although skills and experience are much-touted assets of older workers (see, for instance, AARP 2005), years of work experience may benefit an older worker primarily in the job in which he or she accrued that experience. Unless the skills from one job are readily transferable to another job, years of accrued experience provide an older worker with little advantage when those workers want or need to change jobs. Moreover, businesses indicate one problem they have with hiring older workers is that they often lack up-to-date technical skills (Arizona Mature Worker Initiative 2006). Older workers themselves sometimes acknowledge their lack of computer skills (Government Accountability Office 2005b). Employers may be reluctant to invest in training older workers given the relatively short time that they can be expected to continue working (Arizona Mature Worker Initiative 2006). Perceptions that older workers are more rigid and slower to learn may reinforce employers' unwillingness to hire older workers who require training (Bendick, Jackson, and Romero 1996).

Beyond lacking technical skills, older job applicants may not possess physical or social attributes that are important in some jobs. Older workers may no longer have the physical stamina or dexterity to handle certain jobs, particularly jobs in low-skilled manual occupations in which many less-educated individuals historically have been employed. In addition, employers believe that some older workers would find it difficult to accept being part of an ethnically or culturally diverse workforce, meaning that their presence could undermine effective communication and smooth functioning in many workplace settings (Arizona Mature Worker Initiative 2006).

### **High Wage and Benefits Costs**

Based on analyses of personnel records for the salaried workforces of several large companies, Medoff and Abraham (1980, 1981) find that senior workers receive higher pay than equally productive junior workers. Hellerstein and Neumark (2007) find that manufacturing workers aged 55 and over are less productive than younger workers, but this lower productivity is not matched by lower earnings. The high earnings of older workers relative to their productivity is widely seen as an

impediment to the hiring of older workers in many developed countries (OECD 2006). Recent high-profile cases in the United States suggest that relatively high pay for workers with long job tenures is becoming an important human resources issue for cost-conscious corporations. A memorandum by a top Wal-Mart executive to its board of directors, for instance, outlined a proposed policy to increase turnover and thereby reduce the average tenure of its stores' employees, which it calls associates, by setting wage caps on certain positions and requiring staff to work nights and weekends. The memo noted that the cost of an associate with seven years of tenure was 55 percent more than the cost of an associate with one year of tenure, yet the productivity of the two was the same. Similar concerns at Circuit City led to dismissals of about 8 percent of its employees who were deemed overpaid so that these employees could be replaced by lower-cost workers (Leonhardt 2007).

Although human resource practices that reward employee performance with pay raises that exceed employees' productivity growth may be coming to an end, the apparent pervasiveness of the practice points to another reason why employers are reluctant to hire older workers as new employees. According to one survey, employers believe that many older workers expect higher salaries than those that come with the jobs for which they are applying (Arizona Mature Worker Initiative 2006). A corollary is that employers fear that, if older workers take a job with lower wages than they feel entitled to, they may view the relatively low wages as unfair; consequently they may have low morale and perform poorly on the job. Thus, employers may be reluctant to hire a person who has earned significantly higher wages in the past, even if that individual indicates a willingness to accept the job.

Older workers also are more expensive to insure. Health insurance has become the most costly worker benefit (Government Accountability Office 2006a), and according to analysis by Towers Perrin for the AARP (AARP 2005), on average, workers aged 50 to 65 have medical expenses that are 1.4 to 2.2 times higher than workers in their thirties and forties, translating into significantly higher health insurance costs. One of the leading obstacles to hiring older workers, according to employer surveys, is the high cost of providing them with health insurance (Arizona Mature Worker Initiative 2006). One study found that employers with health benefit plans are significantly less likely to hire persons aged 55–64 than are employers who do not offer health insurance

(Scott, Berger, and Garen 1995). And the issue of high health insurance costs generally does not go away once the older worker reaches age 65 and thus qualifies for Medicare coverage. Under existing Medicare rules, if an employee aged 65 or over working for an employer with 20 or more employees is covered by employer-provided health insurance, in most cases that insurance policy, not Medicare, is the first payer for any claim that may be made.

## **POLICIES**

The aging of the American population is expected to place severe strains on the Social Security and Medicare systems in the coming decades and has led to a broad consensus that it is in the public interest to increase employment among older Americans. The perceived need to increase employment among older Americans comes at a time when their job tenure is on the decline and job loss is on the rise. Although labor force participation among older women has risen in recent decades and labor force participation among men over age 65 has edged up since the mid-1990s, labor force participation among men in their fifties—i.e., men in their immediate preretirement years—has declined over the last two decades. The decline has been particularly marked for less-educated men.

As discussed earlier in the chapter, selected policies designed to provide greater incentives for older Americans to work have been adopted. Most notably, the age at which individuals will qualify to retire with full Social Security benefits is rising from age 65 to age 67. For those with traditional defined benefit pensions, reforms to ERISA will facilitate workers' participation in phased retirement programs within their company. Still, for many workers, whether because they seek a change in hours or job duties or because they are forced out of their jobs, continued employment at older ages will require a change of employers. The failure by many to make these job transitions has significant, if hidden, public costs, which include growing dependence of older Americans on the Social Security system and other forms of public assistance. Policies that provide financial incentives to older Americans to work, we believe, must be supplemented by policies that ease job transitions and



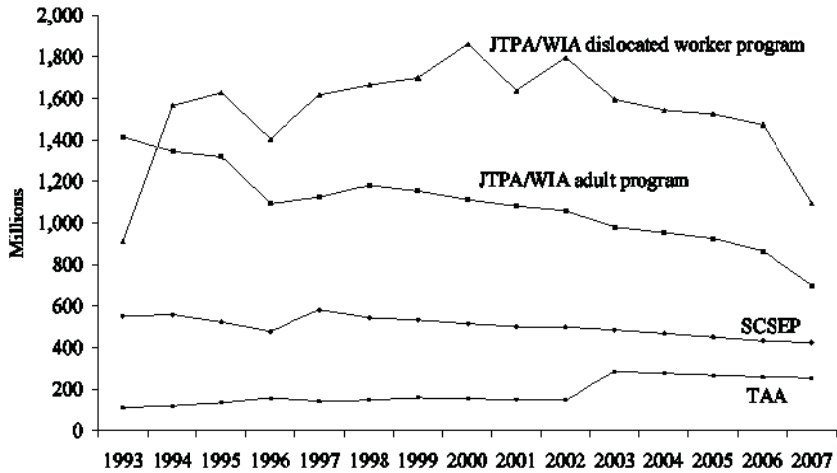
remove some of the substantial barriers to being hired that older Americans face. Below we review federal employment and training programs that serve older workers and recent initiatives that some states have taken to facilitate employment among older Americans. We conclude by outlining policies that we believe are needed to fill existing gaps.

### **Federal Programs**

The Senior Community Services Employment Program (SCSEP) is the only federal employment program that specifically targets older Americans. SCSEP serves approximately two-thirds of individuals aged 55 and over who receive federal employment and training services (General Accounting Office 2003). Funded under the Older Americans Act of 1965, the SCSEP program provides subsidized part-time and community service employment for individuals aged 55 and older who have incomes below 125 percent of the poverty level. Historically, moving participants to unsubsidized employment was not a stated goal of the program. Although this was changed in 2000, placement rates into unsubsidized employment remain relatively low (Government Accountability Office 2006b). According to official program statistics, in recent years SCSEP has served around 100,000 seniors nationwide (Table 5.3), most of them over age 65. The U.S. Department of Labor estimates that this represents fewer than 1 percent of the eligible population (Government Accountability Office 2006b). Program funding has been stagnant in current dollars and, as shown in Figure 5.3, has been falling in real terms since the late 1990s.

The Work Force Investment Act (WIA) is the country's primary employment and training services program, although the number of older workers who are served by WIA programs is considerably smaller than the number served by SCSEP (Table 5.3).<sup>6</sup> WIA provides basic labor market information and preliminary job skills services to any adult 18 or over who seeks them. More intensive job search assistance and training services are limited to individuals enrolled in one of three funded WIA programs: the adult, dislocated worker, and youth programs. Older Americans are served under the first two programs. Priority for enrollment in the WIA adult program is given to individuals on public assistance and others in low-income households. Enrollment in the WIA

**Figure 5.3 Trends in Real Spending on Employment and Training Programs (2006 constant dollars)**



SOURCE: Budget numbers from U.S. Department of Labor, Employment and Training Administration, Training and Employment Programs Budget Authority. PY 1984–2004, <http://www.doleta.gov/budget/tepbah.pdf>. The authors deflated all budget figures using the CPI Series CUUROOOOASAO.

dislocated worker program is reserved for individuals permanently laid off from jobs.

In July 2000, the WIA adult and dislocated worker programs replaced similar programs funded under the Job Training Partnership Act (JTPA). The JTPA dislocated worker program enjoyed funding increases that offset declines in funding for the JTPA adult program over much of the 1990s, but under WIA, funding for both programs has been stagnant in current dollars and falling in real dollars. In constant dollars, total funding for the WIA adult and dislocated worker programs was 35 percent lower in 2007 than funding for the comparable JTPA programs had been ten years earlier, and the decline has been even steeper relative to the size of the working-age population. Within this funding context, official program statistics show that the absolute number of workers over age 55 served by WIA programs has been lower than the number served under the corresponding JTPA programs and that older workers have declined as a fraction of all adults served.<sup>7</sup>

**Table 5.3 Data on Program Exiters, JTPA, WIA, and SCSEP Programs, 1997–2004**

	Program year							
	1997	1998	1999	2000	2001	2002	2003	2004
SCSEP program								
Program exiters								
<i>N</i>						96,852	105,829	93,000
As % of population 55–64						0.38	0.38	0.32
JTPA/WIA adult programs								
Program exiters								
<i>N</i>	159,389	163,223	142,147	109,868	193,518	261,544	229,607	225,683
As % of population	0.10	0.10	0.09	0.07	0.11	0.15	0.13	0.13
Program exiters age 55+								
<i>N</i>	14,823	15,180	14,073	6,922	11,418	14,385	13,776	13,541
As % of population 55–64	0.07	0.07	0.06	0.03	0.05	0.06	0.05	0.05
As % of all exiters	9.30	9.30	9.90	6.30	5.90	5.50	6.00	6.00
JTPA/WIA dislocated worker programs								
Program exiters								
<i>N</i>	266,112	240,896	205,637	99,491	147,715	200,264	194,425	178,446
As % of population	0.16	0.15	0.12	0.06	0.09	0.12	0.11	0.10
Program exiters age 55+								
<i>N</i>	26,611	24,812	22,826	11,441	16,692	22,229	21,970	21,592
As % of population 55–64	0.12	0.11	0.10	0.05	0.07	0.09	0.08	0.07
As % of all exiters	10.00	10.30	11.10	11.50	11.30	11.10	11.30	12.10

JTPA/WIA adult plus dislocated worker programs								
Program exiters								
<i>N</i>	425,501	404,119	347,784	209,359	341,233	461,808	424,032	404,129
As % of population	0.26	0.24	0.21	0.12	0.20	0.27	0.24	0.22
Program exiters age 55+								
<i>N</i>	41,434	39,992	36,898	18,363	28,109	36,614	35,746	35,133
As % of population 55–64	0.19	0.18	0.16	0.08	0.12	0.14	0.13	0.12
As % of all exiters	9.74	9.90	10.61	8.77	8.24	7.93	8.43	8.69
Trade adjustment assistance programs								
Program exiters								
<i>N</i>					26,363	24,883	30,047	
As % of population					0.01	0.01	0.02	
Program exiters age 55+								
<i>N</i>					3,045	2,924	3,933	
As % of population 55–64					0.01	0.01	0.01	
As % of all exiters					11.55	11.75	13.09	

SOURCE: Data on programs from Social Policy Research Associates (PY 1997–2000), the 2001 WIASRD Data Book, [http://www.doleta.gov/performance/results/PY\\_2001\\_WIASRD\\_Databook.pdf](http://www.doleta.gov/performance/results/PY_2001_WIASRD_Databook.pdf) (PY 2001), and the corresponding data books and links for PY2002 through PY2004.

Under JTPA, states were required to set aside 5 percent of their adult program allotment for older workers. This provision was dropped in WIA and, as can be seen in Table 5.3, the share of those in the adult program who are aged 55 and over declined from about 9 percent in the JTPA adult program to about 6 percent in the WIA adult program. Although one might hypothesize that eliminating the quota on spending for older workers in WIA resulted in a more efficient allocation of resources, recent government reports have raised concerns that the federal performance standards used to evaluate organizations that administer the WIA programs have resulted in a bias against serving older workers. Until 2005, the performance standards for WIA service providers included measures of participants' postprogram earnings relative to their preprogram earnings. Some observers think that this created a disincentive to serve older workers, many of whom have considerable prior work experience and may wish to transition from full-time to part-time employment (General Accounting Office 2003). In an attempt to address this problem, revised performance standards introduced in 2006 substitute a measure of postprogram earnings for the previous earnings change measure (Employment and Training Administration 2006). However, even this new measure may discourage providers from serving older workers, who are likely to seek part-time work and thus have relatively low earnings.

Older workers also may receive job search assistance and training under Trade Adjustment Assistance programs, which are reserved specifically for workers displaced by foreign trade. Fewer than 4,000 TAA-qualified workers—about 13 percent of all participants in TAA training and placement programs—were 55 or older in 2003. The Trade Act of 2002 wrote into law a five-year demonstration program under which eligible workers aged 55 and older who agree to forgo TAA-funded training and are able to find jobs within 26 weeks that pay less than their previous earnings (and less than \$50,000) are eligible for a wage subsidy of up to \$10,000 cumulatively to supplement their earnings. States moved slowly to implement the demonstration program and, as was the case with a similar Canadian program in place from 1995 to 1998 (Levine 2007), take-up of the TAA wage subsidies has been relatively low. In addition to a lack of awareness of the program and not wishing to forgo the possibility of training, eligible workers who did not partici-

pate cite the difficulty of finding a job within six months as required by program rules (Government Accountability Office 2006c).

### **Recent State Initiatives**

Although the federal government has taken no major policy initiative for older workers in recent years, a few states are beginning to take steps to address what is perceived as a growing need for employment services among this population. To identify innovative policies at the state level, we conducted an informal survey of relevant state workforce agencies through their national association (the National Association of State Workforce Agencies). Although most states do not have older worker programs besides the federally funded SCSEP, 10 states responded to our survey with information on initiatives they are currently taking or planning. In some instances, the AARP has worked with states to plan and implement initiatives. In addition, the National Governors Association has selected eight states to participate in a policy academy designed to develop model programs to meet the needs of mature workers (National Governors Association 2007).

These state initiatives generally fall into three broad categories. The first is employer outreach and education. Several states have initiated programs to advise employers on how to accommodate an aging workforce. Initiatives also include information campaigns to combat what are regarded as inaccurate and damaging stereotypes of older workers with the aim of reducing discriminatory practices against those workers. These public relations efforts emphasize positive attributes of older workers relative to young workers, such as reliability and good social skills. Patterned in part on an AARP program, efforts in several states also feature or are planning to feature employers who evidence a commitment to hiring and promoting older workers. The idea behind these programs is at one level to help seniors connect with employers who are willing to hire them, but at a deeper level to provide positive public relations for the identified companies and advance the notion that hiring older workers is a good business practice.<sup>8</sup>

A second area involves outreach and better delivery of existing services to older workers. One of the most common initiatives adopted by states is to place an older worker specialist in the one-stop centers, which serve as the central clearinghouse for all workforce development

programs under WIA. This specialist would be able to better direct older workers to services meeting their specific needs and, some think, make older workers feel more welcome at one-stops. The concern that older workers are often reluctant to go to one-stop centers was expressed by a number of state workforce representatives, some of whom consequently planned outreach efforts at senior centers and other places where seniors might congregate. Such outreach may also involve providing access to job listings at these remote sites.

A third area involves tailoring programs to meet specific needs of older workers. One program, for instance, emphasizes peer counseling, networking, life planning seminars, and other resources targeting those over 50 who are changing jobs and even careers. In addition to having special planning and counseling needs, older individuals often lack basic technical and computer skills that are needed for many jobs, and, indeed that may be needed even to find a job. Training in Internet job search and in the basic computer skills required on many jobs is widely recognized as a prevalent need among older workers. Arizona, for instance, is planning the development of a Web-based mechanism for posting jobs and resumes that would be technologically friendly for older workers and efficient for businesses. Some states offer free or reduced tuition to older adults who wish to advance their skills at public postsecondary institutions.

In sum, states are experimenting with a variety of approaches to increase workforce participation among seniors. These efforts involve changing employer perceptions of older workers and hence receptiveness to hiring them, reaching out to older individuals who may be unaware of work opportunities, and tailoring programs to meet the special needs of older workers. We are aware of no serious effort to evaluate any of these initiatives, which, given the lack of federal funding or other resources available, are all modest in scope.

### **Policy Recommendations**

Several circumstances, discussed above, serve as a backdrop for our policy recommendations: 1) there is a public interest in increasing employment among older Americans, 2) many older workers will need to make job changes late in life in order to remain employed, 3) older workers face significant impediments to finding new employment, and

4) public funding for employment and training programs that help older workers has been low and is falling. These facts lead us to make the following recommendations:

**Increase funding for employment and training programs to help smooth employment transitions for older workers.** While the population of older workers is growing and many in this population will need to make job transitions to remain employed, overall funding for the major government programs designed to help workers prepare for and find employment has fallen by over a third in real terms in the last decade, and older workers have received a shrinking share of that shrinking pie. The chances that an older person who leaves or loses a job will reenter employment are low unless the individual transitions to a new job in a reasonably short period of time. Because many who fail to find jobs end up collecting Social Security disability payments or some other form of public assistance, it is critical to have effective programs to help older workers transition to new jobs.

To put the funding of workforce programs for older workers in some perspective, in 2004 about 0.1 percent of the adult population aged 55 to 64 participated in a WIA adult or dislocated worker program.<sup>9</sup> In the same year, about 9 percent of those aged 55 to 64 were collecting SSDI, at an average annual cost per participant of two-and-a-half to three times that of the average cost per participant of serving someone in a WIA program. Although by no means does everyone who drops out of the labor force qualify for SSDI, individuals who fail to find employment are much more likely to receive other forms of public assistance, such as food stamps, Medicaid, and public housing. Even a return-to-work program with a modest success rate could save taxpayer dollars.

In the absence of better information on the return-on-investment to be expected from increased expenditures on such programs, history may provide some useful context. Returning real expenditures on the employment and training programs that serve older workers (SCSEP, the WIA adult program, the WIA dislocated worker program, and the TAA program) to the level of a decade ago would require an increase in total spending of about 40 percent. Taking into account the growth in population that has occurred over the past 10 years and returning spending per working age adult (aged 25–64) to its 1997 level would require an increase in spending of about 48 percent.



**Modify WIA performance standards to eliminate disincentives to serve older workers.** The performance standards currently used to evaluate the federally funded WIA programs include a measure of the subsequent earnings of participants taken from state unemployment insurance quarterly wage records data. Because these data record only total earnings in a quarter, not hourly wages, and because older workers are more likely than younger workers to want part-time employment, this performance standard creates an unintended disincentive for program operators to serve older workers. Although it is an improvement upon the previously used measures that compared postprogram earnings to preprogram earnings, the WIA earnings performance standard requires further modification to eliminate this disincentive. One straightforward way to do this would be to develop different standards to be applied to clients of different ages. For instance, performance measures for employment services programs operating in the United Kingdom and Australia explicitly take into account the fact that some individuals face more serious barriers to employment than others; thus, service providers receive more credit for placing clients with significant employment barriers, such as older workers, into jobs (OECD 2006).

**Tailor programs to meet needs of older workers.** As a general proposition, it is important that programs be designed appropriately to meet the needs of special populations, including older workers. Experimentation with initiatives for older workers such as those recently taken or planned by some states should be encouraged. Promising approaches include outreach and education efforts directed towards both employers and seniors, placing older-worker specialists in one-stop employment centers, and developing job-search assistance programs and job training courses that address skill deficiencies common among seniors, such as deficiencies in basic computer skills. Experiences in Australia suggest that older people particularly benefit from intensive assistance that includes a personal coach and career counseling (OECD 2006).

**Rigorously evaluate older-worker initiatives.** While we are confident that program providers can do a better job of serving older workers and helping them to find employment, it must be emphasized that relatively little is known about how this can best be done. Rigorous evaluation of new initiatives at the state level to assess their effective-

ness and their suitability as models for the national level must be an integral part of any new funding for such programs. In the same spirit, the planned evaluation of the wage subsidies for older workers, introduced as part of the Trade Adjustment Assistance program, should be completed. Programs that prove to be cost-effective should be promoted and expanded.

**Reform health-care financing to reduce disincentives to hiring older workers.** The high cost of providing health insurance for older workers is a major impediment to reemployment in good, full-time jobs for older workers. For those aged 65 and older, making Medicare rather than the employer insurance policy the first payer in the event of a claim would help address this problem. However, such reform will not help the bulk of older workers, who are under age 65 and thus not yet eligible for Medicare. A growing consensus of experts agrees that “the employer-sponsored system of benefits in its current form may not be sustainable, largely because productivity growth is unlikely to support rising benefit costs” (Government Accountability Office 2006a, p. 26). Health insurance reform of a more comprehensive nature, as addressed in detail by Swartz (2008), is needed to remove this serious barrier to employment for other older workers.

## CONCLUSION

Over the coming decades, work for pay is likely to be increasingly important to the financial well-being of many older Americans. Higher rates of employment at older ages also could help with addressing the long-term funding problems faced by the Social Security and Medicare systems.

To date, public policy initiatives intended to increase employment among older Americans have focused primarily on monetary incentives. Recent changes to the Social Security system that allow Social Security recipients to earn more without having their benefits reduced, that make the present value of benefits roughly independent of the age of retirement rather than favoring those who retire early, and that raise the age at which recipients qualify for full benefits should make employment

significantly more attractive to older Americans. Furthermore, trends in private-sector benefits should reinforce the incentives associated with these recent changes in the Social Security system. In particular, the marked shift from defined-benefit pension plans to less generous defined-contribution pension plans and the sharp declines in the coverage of retiree health insurance plans, together with the fact that savings for retirement have not risen to offset the reduction in the generosity of the pension and health benefits available to retirees, should provide additional encouragement for Americans to work at older ages.

Although the altered financial incentives associated with recent policy and labor market changes unquestionably will be important in promoting employment among older Americans, we have argued in this chapter that policies designed to make work more attractive financially should be accompanied by policies designed to improve the functioning of labor markets for older workers. Our research as well as research by others points to the special challenges to remaining employed that older individuals face, even when they possess the ability and the desire to continue working. These problems are particularly acute for low-educated workers and for older individuals who attempt to transition to new jobs.

We have advocated policies to help ensure that older workers who wish to remain employed are able to do so. The measures we propose should make it easier for older workers to search for a job and should help to address some of the legitimate concerns that employers have about hiring older workers. Although these measures are unlikely to address fully the problems we have diagnosed, they would make an excellent start and seem likely to have a significant societal payoff.

## Notes

This paper was prepared for A Future of Good Jobs: America's Challenge in the Global Economy, a conference sponsored by the W.E. Upjohn Institute held in Washington, DC on June 22, 2007. We have benefited from conversations with many individuals, including Linda Levine, Blake Naughton, Debra Whitman, and Julie Whittaker of the Congressional Research Service; Dianne Blank, Barbara Bovbjerg, Mindy Bowman, Alicia Cackley, and Sigurd Nilsen of the Government Accountability Office; and Emily Allen, Dalmer Hoskins, Sara Rix, and Jim Seith of AARP. Richard Hobbie of the National Association of State Workforce Agencies kindly assisted us with an informal

survey of association members. We are also grateful to Lillian Vesic-Petrovic for excellent research assistance.

1. For a description of these rules, see Deloitte (2006).
2. Although the share of older individuals who work should increase, the effect of this change on total hours of work is ambiguous. Total hours of work could increase if those choosing phased retirement would otherwise have quit working altogether, or they could decrease if those choosing phased retirement would otherwise have worked full time. Although the context is somewhat different, the analysis reported by Gustman and Steinmeier (2007) of the effects of eliminating the Social Security earnings test for those below normal retirement age suggests the former effect may dominate.
3. This work updates research reported in Abraham and Houseman (2005). That paper contains a more detailed discussion of the HRS and the questions pertaining to future work and retirement plans that we use.
4. For instance, consider an individual who stated in the 1992 interview that he planned to reduce his work hours by 1994. We count that individual as having realized his stated plans if he was working at least eight fewer hours per week either at the 1994 or at the 1996 interview. Because we only observe work hours at the point in time of the interview, we do not know if an individual who is observed to be working the same hours as before or who has stopped working altogether reduced hours between interviews.
5. These estimates come from multivariate regression analyses that control for age, gender, and time period in addition to education level. This analysis is available from the authors on request.
6. We do not consider the Employment Service programs, which provide free labor exchange services to job seekers and employers but do not offer the more intensive counseling, job placement, or training services of the other federal programs discussed in this chapter.
7. Figures for program year 2000 were affected by the transition from JTPA to WIA and do not reflect true changes in the population served. More generally, the accuracy of data on the number of exiters from JTPA and WIA programs has been questioned because states have discretion in defining whom to count as an exiter (General Accounting Office 2004; Government Accountability Office 2005c). As long as how states define exiters has not changed significantly over time, these data should be indicative of broad trends both in the total number served and in the number of older individuals served.
8. Public information campaigns and employer guidelines to combat discrimination against older workers have been a leading strategy used in many countries to try to increase the hiring of older workers (OECD 2006).
9. This figure comes from Table 5.3. For the purpose of the calculations reported there we have assumed that all program exiters aged 55 and older were aged 55–64.

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Susan N. Houseman  
*Editors*

2008

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

## Library of Congress Cataloging-in-Publication Data

A future of good jobs? America's challenge in the global economy / Timothy J. Bartik, Susan N. Houseman, editors.

p. cm.

The outgrowth of a conference sponsored by the Upjohn Institute in Washington, D.C., in June 2007. Includes bibliographical references and index.

ISBN-13: 978-0-88099-331-9 (pbk. : alk. paper)

ISBN-10: 0-88099-331-6 (pbk. : alk. paper)

ISBN-13: 978-0-88099-332-6 (hardcover : alk. paper)

ISBN-10: 0-88099-332-4 (hardcover : alk. paper)

1. Labor market—United States—Congresses. 2. Labor supply—United States—Congresses. 3. Manpower policy—United States—Congresses. 4. Industrial management—United States—Congresses. 5. Occupational training—United States—Congresses. I. Bartik, Timothy J. II. Houseman, Susan N., 1956- III. W.E. Upjohn Institute for Employment Research.

HD5724.F88 2008

331.10973—dc22

2008003946

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W.E. Upjohn Institute for Employment Research  
300 S. Westnedge Avenue  
Kalamazoo, Michigan 49007-4686

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Cover design by Alcorn Publication Design.

Index prepared by Diane Worden.

Printed in the United States of America.

Printed on recycled paper.