Older Americans' Economic Security

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Working Longer to Enhance Retirement Security

Richard W. Johnson

Our longer life span represents one of history's great achievements, but threatens to bankrupt Social Security. Because the typical retirement age has fallen over the last century while life spans have grown rapidly, retirees now collect benefits longer than ever before. If left unchanged, the system will soon pay out more than it collects, forcing policymakers to raise taxes on workers or cut benefits to retirees.

Encouraging older Americans to delay retirement would ease the economic pressures created by an aging population. Improved health and less-physical jobs mean that most of today's older adults can work longer than earlier generations. Increasing the average retirement age would expand the pool of productive workers and promote economic growth, generating additional goods and services to raise living standards for all Americans. Delaying retirement would also increase lifetime earnings and retirement savings for workers, improving their financial security at older ages.

Improving Health, Declining Job Demands Increase Work Capacity at Older Ages

Improved health and technological change enhance the ability to work at older ages. Between 1982 and 2002, the share of adults age 65 to 74 who described their health as fair or poor declined from 34 percent to 22 percent (National Center for Health Statistics 2005). These self-reported trends are consistent with other evidence of improved health at middle age and beyond over the past 25 years.

The decline of manufacturing jobs over the past 50 years and the computerization of the workplace have reduced the physical demands of work. Between 1950 and 1996, the share of workers in physically demanding jobs dropped from 20 to 7 percent (Steuerle, Spiro, and Johnson 1999). Between 1992 and 2002, the share of workers age 55 to 59 whose jobs never required physical effort increased from 32 to 38 percent (Johnson 2004).

Increased Work Promotes Economic Growth

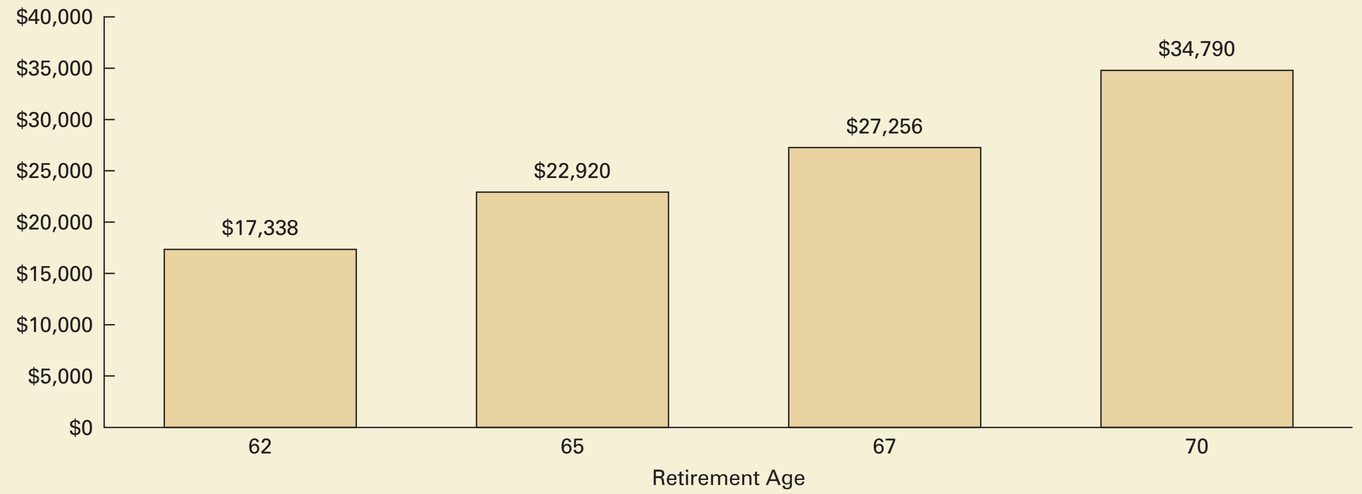
Unless more people choose to work at older ages, fewer people will be producing the goods and services the economy needs. In 2000, there were about 4.5 workers per nonworking adult age 65 and older. If current age- and gender-specific employment rates continue, there would be only 3.3 workers per nonworking older adult in 2020. About two-thirds of this shortfall could be eliminated if men age 55 and older in 2020 worked at the same rate as they did in 1950, when a majority worked until age 68 even though jobs were more difficult and health problems more prevalent (Johnson and Steuerle 2004). By working longer, people generate more for the economy and themselves, and help cover the costs of retirement programs and all other government efforts.

Working Longer Improves Financial Security

Financial security is improved at older ages by working longer. Workers who delay retirement earn more money, accumulate additional Social Security, and build more wealth in employer-sponsored pension plans. Most employers with retirement packages now offer defined contribution plans, such as 401(k)s, which generally function as tax-deferred retirement savings accounts into which both employers and employees contribute. The 401(k) typically grows with years of service, as more contributions are added. Working longer also extends retirement savings, reducing the years over which Social Security, pensions, and other wealth are spread.

By retiring at age 70 instead of age 62, a typical unmarried man could about double his annual income at age 75, net of federal income taxes and health insurance premiums (figure 1). Relative to the net income he would receive at age 75 if he retired at age 62, he would gain nearly $6,000 per year if he waited until age 65 to

FIGURE 1. Annual Income Net of Federal Income Taxes and Health Insurance Premiums at Age 75, by Retirement Age



Source: Butrica, Johnson, Smith, and Steuerle (2004).
Notes: Amounts are in constant 2004 dollars. Estimates refer to an unmarried man who turned 55 in 2005, spent some time in college, worked continuously after age 22 earning average wages, participated in a defined contribution retirement plan since age 35, and does not save outside of Social Security or his pension plan. At retirement, he purchased a single-life annuity with the proceeds from his private retirement plan. He paid premiums for Medicare and a supplemental Medigap policy. Estimates of federal income taxes assume that the tax cuts enacted in 2001 and 2003 expire in 2010.

retire, nearly $10,000 per year if he waited until age 67, and more than $17,000 per year if he waited until age 70. (Delaying retirement increases income similarly for women and married men.)

Impediments to Work at Older Ages

Most workers retire by their early 60s because of the availability of Social Security at age 62, generous private pensions, and other savings that enable many to live comfortably without working. Legal impediments limit phased-retirement programs that would allow older workers to reduce their work hours and receive some retirement benefits but still remain on the payroll, which many might prefer over dropping out of the labor force (Penner, Perun, and Steuerle 2003). The high cost of providing older workers with health benefits discourages some employers from hiring older people. And society still sends signals that old age starts at 65, when Medicare coverage begins. Efforts to address these issues could encourage older people to remain at work longer, promoting economic growth, their own retirement security, and the financial health of programs that support those unable to work.

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