

DO OLDER WORKERS FACE DISCRIMINATION?

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Introduction

As the leading edge of the baby boom generation approaches 60, growing evidence suggests that many may want to work beyond traditional retirement ages. Longer work lives may be desirable for a combination of reasons, including financial need, robust health, and the desire to stay active, productive, and engaged.

Financial need may be the single most important incentive to work longer. Even at today's level of Social Security benefits, many older Americans need to work as they have little income from other sources. Indeed, one-third of those over 65 rely on Social Security for virtually all of their income.¹ A disproportionate share of these Social Security dependent beneficiaries are women. In addition, as baby boomers begin to retire, the need for income will become even more important for two reasons. First, Social Security benefits are expected to replace a smaller share of individuals' pre-retirement income due to changes under current law, such as the rise in the full benefits retirement age, and the need to solve the program's long-term financial shortfall.² Second, 401(k) plans have replaced traditional defined benefit plans as the dominant pension vehicle, and benefits from 401(k)s are much less certain than those from traditional plans.³

Fortunately, older Americans are now more capable of working at later ages than in years past. Several studies suggest that today's 70 year olds are comparable in health and mental function to 65 year olds from 30 years ago.⁴ In addition to the monetary rewards, work also offers health and psychological benefits. Working in later ages may contribute to an older person's mental acuity and provide a sense of usefulness. Indeed, when surveyed, many people say they wish to continue working at least part time into later ages as a bridge to retirement.⁵

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Americans will need to work longer, they are capable of working longer, and many say they wish to work longer. But will they be able to find work at later ages? This brief describes existing evidence on age discrimination and summarizes the results of a recent experiment that found that older job applicants are treated differently than younger applicants. It then explores possible reasons for this differential treatment.

Existing Evidence on Age Discrimination

What, exactly, is discrimination? In its most pure sense, discrimination is simply treating people in one group differently than people in another group, based solely on perceived group characteristics rather than individual differences. The most worrisome type of discrimination is what economists term *animus* or "taste-based" discrimination. Taste-based discrimination occurs when one group dislikes another group for no good reason. This type of discrimination does not benefit anyone economically. However, another type of discrimination is almost as troubling. This type arises in situations where an employer faces significant costs to find out specific characteristics of an individual applicant or worker. To avoid these costs, the employer may make assumptions about the applicant based on group characteristics. Thus, an employer may assume that a college graduate will be a higher skilled worker than a high school graduate, regardless of actual ability. When this type of discrimination is based on a group-status that a high ability worker can change, such as education level, economists generally do not worry about it. However, when the group in question is based on race, gender, or age, then many high ability workers may be unjustly discriminated against because it is costly for employers to test true ability.

To a casual news reader, it may seem obvious that age discrimination exists. Newspapers are full of stories about people over the age of 50 having difficulty finding jobs or being laid off. Recent class-action suits, such as the one sparked by mass layoffs at Home Depot, make headlines. However, these could merely be isolated cases getting a lot of press attention, specifically because they are so rare. Additionally, just because older workers are having more trouble finding jobs than younger workers does not mean that firms are systematically choosing not to hire an older worker over a younger worker. Older workers may be used to getting higher wages based on their expertise in a former firm, or what econo-

mists term "firm-specific human capital." Once they leave their old firm, they can not always use the skills that made them an asset to the old firm because the new firm may not need all of those skills. Thus, they may be less valuable to the new firm, and an older worker expecting to be paid the same wage will be unable to find work at that price. Older workers may also be clustered in industries and occupations where demand for workers is lower, or they may have less education on average than younger workers. Any of these situations would lead to older workers having more difficulty finding jobs.

Americans will need to work longer, but will they be able to find jobs at older ages?

Until recently, there has been very little evidence to show whether or not age discrimination exists in hiring.⁶ One study finds that although most older workers plan to continue working at least part time instead of fully retiring, those who have to change jobs in order to reduce hours are likely to stop working entirely.⁷ This finding suggests that workers who would have to switch jobs to cut hours are either more likely to change their minds about working part time or else something prevents them from finding a new job. Another study, which used the Displaced Workers Survey from the Current Population Survey, finds that older workers who have lost their jobs because of lay-offs or plant closings take longer to find a new job than younger workers who have similarly lost their jobs.⁸ These findings could be evidence of discrimination against older job seekers. However, it may be that older job seekers are more picky about their wages or the type of employment they are willing to accept than younger seekers.

Psychologists have tested for age discrimination more directly. In studies where undergraduates or human resource managers are given resumes that are identical except for age and asked to hypothetically choose between them, they will usually choose the younger of the two candidates.⁹ While these studies are highly suggestive that age discrimination does exist in labor markets, they are not conclusive since they do not measure what is actually going on in the hiring process. For example, since it is illegal to discriminate based on age, even if hiring managers hypothetically prefer younger workers, they may hire the older worker at least some of the time in practice because they fear potential lawsuits.

An Experiment to Test for Age Discrimination

Perhaps the best way to test for age discrimination in the labor market is to enter the labor market itself and look at the genuine reactions of employers faced with choices. In a recent study, I adopted this approach by sending out resumes for job applicants with different ages and measuring the response rate of employers asking for interviews.¹⁰ This type of study is called an Audit study and has been useful in the past for determining race and gender discrimination in labor and housing markets.

The Audit technology does have some limitations. Since it is difficult to find an older person who is identical to a younger person except for age, one can not actually send people to interview for jobs. Thus, information is only available for the first part of the hiring screening process — from resume to interview. However, studies on gender and race find additional discrimination once the candidates have reached the interview stage, so it is likely that older applicants being interviewed will not be preferred over younger applicants.

The experiment in this particular study involved sending 4000 resumes to firms in Boston, MA and St. Petersburg, Florida. These resumes were for job applicants between the ages of 35 and 62. Since most people do not actually put their ages on resumes, age was indicated by date of high school graduation. Job listings were found via the local Sunday want-ads and through cold-calling firms listed in local phone books.

Because employers might infer things that could not be measured about the resumes differently for older workers than for younger workers, the study looked at limited types of resumes. To avoid the issue of what employers value in a work history, the experiment only applied to entry-level jobs, or jobs that required up to a year of education and experience combined. These included positions such as clerical work, licensed practical nurse (LPN), air conditioner repair-person, and nail tech. Applicants also have short work histories in more basic entry-level fields such as data entry or fast food. The sample was also limited to women. When an adult man applies for an entry-level job with only a short work history, the employer is likely to think that there is something wrong with him. In the worst case scenario, the employer might think the man had been incarcerated, and the older man incarcerated for longer than the younger with the same resume. With a female applicant, however, employers generally assume that

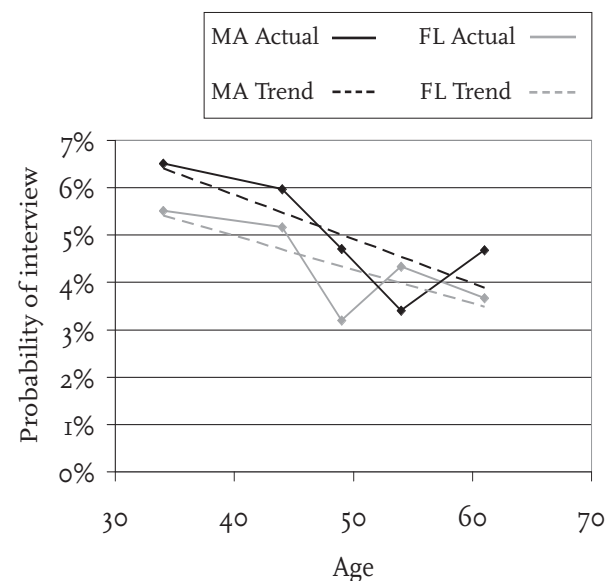
— regardless of age — she has been at home taking care of her family. Since the majority of the jobs applied for are in female-dominated industries, the experiment gives an accurate picture of the job opportunities for one of the most at-risk populations of older workers — recent widows and divorcees.

New Evidence on Age Discrimination

Figure 1 shows the downward trend by age of the probability of being called in for an interview in the two cities. A younger worker in either state is more than 40 percent more likely to be called back for an interview than an older worker, where older is defined as age 50 or older.¹¹ In Massachusetts, this trend translates into a younger seeker needing to send in 19 resumes for one interview request compared to 27 for an older worker. Similarly, in Florida the comparable numbers of resumes are 16 and 23 respectively.

FIGURE 1. OLDER JOB APPLICANTS ARE LESS LIKELY TO GET INTERVIEWS

Probability of an Interview by Age



Source: Lahey (2005a).

Of course, these numbers are only averages. They include people applying for different types of jobs, as well as resumes that have different educational requirements, such as nursing certificates for those applying for LPN positions or a cosmetology license for hair stylist applicants. Thus, different

parts of the population may end up having to send a different number of applications before finding employment. For example, a younger worker qualified as an LPN in Florida would have to respond to 5.5 ads before receiving an interview offer, whereas an older worker would have to respond to 10. In contrast, finding clerical work is harder — in Massachusetts, it takes 32 applications for a younger worker and 72 for an older worker.

Some may argue that applying for a few more jobs imposes no major hardship on an older worker. However, this reasoning assumes that an infinite number of jobs are available. Obviously, they are not. For example, a newspaper for a metropolitan area such as St. Petersburg-Tampa Bay may have two or three dozen ads each week for LPNs or dental assistants, but fewer than 10 ads for pre-school teachers or hair dressers; and some positions — such as gem appraiser — are rarely advertised at all. Additionally, many ads run for more than one week at a time, so a number of ads in any given week are simply repeats from the previous week. So, it may take an older job seeker a considerable time to find a position.

How much longer will it take an older worker to find a job compared to a younger worker, assuming she applies to all applicable ads in the paper every week? If we assume that it takes 7-10 interviews to obtain a position (which may be optimistic, since that is the estimate for college graduates), then a younger LPN will receive a job offer in a week, and an older LPN will only have to wait 3 weeks for a job offer. At the other extreme, a younger worker will take 6-10 weeks to receive a clerical job offer (assuming that half of the ads each week are repeats), and an older worker will not receive a job offer for 14-20 weeks! This wait could be even longer, since a five-month period involves a number of repeat ads; places that advertised and rejected the older worker in month one will advertise again in month five. Thus, employers clearly do treat older workers differently and the impact can be really harmful, especially for those with low savings who most need work.

Why Would Employers Discriminate?

The question of why employers prefer younger workers to older workers is still an open one. It is important to know the answer to this question in order to make appropriate policy recommendations concerning the needs and desires of older job seekers. For example, if the problem is simply an irrational dislike of older people, educating employers or more strictly

enforcing discrimination laws in hiring may be appropriate. However, if older workers in general lack certain skills, then additional training programs for these workers may help. If older workers cost the company more in terms of health insurance, then the government may want to subsidize these costs or encourage methods of health insurance that shift costs from the firm to the worker, such as private health accounts.

Table 1 shows a list of the top 10 reasons offered by employers as to why other employers might be reluctant to hire older workers. Some of these reasons do not apply to the entry-level experiment described above. For example, since the length of the career path for entry-level jobs is short, career potential (the most listed reason) should not matter. Salary expectations (reason 5) may also be less of an issue, since these jobs often have set salary schedules. Additionally, the resumes used in the experiment list current work experience, so the new employer should not be worried about the reason why the applicant left the previous job (reason 9).

Some of the other reasons listed can be explored using the experimental framework described above. For example, if employers think that older workers are more likely to lack computer skills than younger

TABLE I. AGE DISCRIMINATION MAY OCCUR FOR MANY REASONS

Reasons for Differential Hiring Suggested by Survey Respondents

-
1. Shorter career potential (specific human capital investment)
 2. Lack energy
 3. Costs of health and life insurance and pensions
 4. Less flexible/adaptable
 5. Higher salary expectations
 6. Health risks = absences
 7. Knowledge and skills obsolescence
 8. Block career paths of younger workers
 9. Suspicion about competence (why leave job?)
 10. Fear of discrimination suit
-

Source: Rhine (1984).

workers (a version of reason 7, knowledge and skills obsolescence), an older worker who indicates that she has these skills should face less discrimination. In addition, information about computer skills should help the older seeker more than the younger one, because the employer already assumes that the younger seeker has these skills. Similarly, an attendance award on a previous job should alleviate worries that an older worker will have more absences than a similarly qualified younger worker (reason 6). Using this technique of adding information about certain skills or qualities to selected resumes, the study finds that employers may fear a lack of computer skills, but only in the Massachusetts sample. It also finds no evidence that employers are worried about absences.

The experiment tried to test for a few of the other reasons on the list as well, with less success. To see if reason 2, lack of energy, is a reason employers prefer not to hire older workers, some resumes included that the applicant plays a sport. This item turned out to harm both older and younger workers, so it is probably not signaling energy, but rather the likelihood of getting an injury while playing sports over the weekend. Similarly, putting down "I am flexible" or "I am willing to embrace change," as the AARP suggests to signal flexibility and adaptability (reason 4), actually hurts older workers. Instead of showing flexibility and adaptability, such statements may just be showing that the applicant is a member of the AARP. The remaining reasons for differential treatment could not be tested under this scenario. However, some evidence is available from other studies.

Fear of lawsuits under age discrimination laws is one part of the story. Employers may be afraid to hire older workers because older workers can sue under the age discrimination act if they are later fired or fail to be promoted. It is much easier for an employer to avoid these kinds of lawsuits by simply failing to hire an older worker, since the older worker generally cannot prove that he or she has been discriminated against during the hiring stage. Another study I conducted compares labor market outcomes of older people in states where it is easier to sue under age discrimination laws (those with local laws) to older people in states where it is not as easy (those without such laws).¹² State age discrimination laws are important because they allow people more time to file complaints than the federal Equal Employment Opportunity Commission (EEOC) — 300 days versus 180 days — and a state's Fair Employment Practices office can often process claims more quickly than the EEOC.¹³

White older men in states where it is easier to sue are less likely to be hired than such men in states

where it is more difficult. They are also less likely to be fired and more likely to say they are retired. Overall, in states where it is easier to sue, older white men work fewer weeks per year than those in states where it is harder to sue. These findings suggest a story in which firms that are in states where it is easier to sue do not wish to hire older men, are afraid to fire older men, and remove older men through strong incentives to retire.

However, fear of lawsuits under age discrimination laws cannot tell the entire story. Ease of lawsuit has no effect on the hiring possibilities for women. This fact could be because older women are the least litigious group in the United States — in general, older women just do not sue. Thus employers do not see potential lawsuits as a possible cost to hiring an older woman.

Evidence shows that employers prefer younger job applicants over older applicants.

Health insurance and pension costs may be another piece of the puzzle that has not yet been fully explored. One study has found that firms which offer health insurance are less likely to hire older workers than firms that do not.¹⁴ However, this test is imperfect because firms that offer health insurance are very different from those that do not. Not only do firms offering benefits tend to be clustered in different industries, they tend to be larger, have steeper salary schedules and possibly higher levels of productivity.¹⁵ Any of these differences could be a reason for not hiring older workers, regardless of health insurance status. Thus, more work needs to be done in this area.

A final possible reason for differential treatment of older workers, one not mentioned in the survey summarized in Table 1, is an irrational dislike of older people in the workplace. This reason for differential treatment is the first that usually comes to mind when we think of the word "discrimination." It could be that employers just don't want to hire older workers. Or it could be that employees don't like working with older workers. Or people could dislike buying products that older workers are selling. The experiment described earlier tested this possibility by making an assumption that older people dislike hanging around older people more than younger people do. Using this assumption, the study matched the age distribution of an area with the interview rates in the sample by zipcode. This test found that

neither the age distribution of employees or of customers in a zipcode has any effect on the interview rates in an area. Thus, the result provided no evidence for this kind of irrational discrimination. However, this method has two problems: first, age distribution information was available only by zipcode rather than by firm, thus preventing an exact match up with the age composition of the firms doing the hiring. This limitation means that the results are biased toward finding no result, since it is not clear that the test is measuring what it is intended to measure. Second, the assumption about age preferences may not be true: older and younger people may have no difference in preferences for whom they associate with, or older people may prefer being with younger people to a much greater extent than younger people do.

Conclusion

The evidence presented paints a picture of age discrimination against older workers in labor markets. The demand for labor from older workers is smaller than that from younger workers. Simply encouraging older workers to reenter the labor force will not guarantee that they will be able to find jobs in a timely manner, if at all. This finding has important implications for older seekers who are most likely to need work — those who have lost jobs and those with little work experience who unexpectedly need to enter the labor market, such as widows, divorcees, or those whose spouses have lost jobs.

More research needs to be done to ferret out exactly why employers prefer younger workers. Any plan which requires older people to find employment in order to maintain a quality of life needs to consider the demand for older workers and the reasons employers may discriminate against this group.

Endnotes

- 1 U.S. Social Security Administration (2004).
- 2 Munnell (2003).
- 3 Munnell and Sundén (2004).
- 4 Schaie (1996). See also Baltes, et al. (1988).
- 5 Abraham and Houseman (2004).
- 6 Bendick, et al. (1996).
- 7 Abraham and Houseman (2004).
- 8 Diamond and Hausman (1984). See also Sewin and Stevens (2004).
- 9 For example, Nelson (2002).
- 10 Lahey (2005a).
- 11 A younger worker in Massachusetts is 42 percent more likely to be offered an interview than an older worker; the corresponding figure for Florida is 46 percent.
- 12 Lahey (2005b).
- 13 For further details on filing discrimination claims, see U.S. Equal Employment Opportunity Commission (2005).
- 14 Scott, et al. (1995).
- 15 Idson and Oi (1999).

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