CENTER for RETIREMENT RESEARCH at BOSTON COLLEGE

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THE AVERAGE RETIREMENT AGE – AN UPDATE

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Introduction

After nearly a century of decline, work activity among older people began to increase in the 1980s in response to a variety of factors. The question is whether the impacts of those factors have played themselves out in recent years or whether the trend toward working longer has continued. Since working longer is the key to a secure retirement, the labor force activity of people in their 50s and 60s is a crucial issue.

This *brief* proceeds in four steps. The first section describes the turnaround in labor force activity that began in the 1980s, within the context of the long-run decline in the labor force participation of men. The second section describes the factors responsible for that turnaround. The third section looks at the labor force participation rates of men and women for four years – 1963, 1983, 2003, and 2013 – showing recent workforce activity significantly above the low point in the 1980s. The fourth constructs, for men and women, average retirement ages – the age when 50 percent of the population is out of the labor force. Today's average retirement ages of 64 for men and 62 for women are just about where they were a decade ago, suggesting that some of the factors spurring the turnaround since the 1980s may have exhausted themselves. The final section concludes that, given the importance of working longer for retirement security, a major educational initiative may be warranted to help convince individuals of the benefits.

A Long-term Perspective

Beginning around 1880, the percentage of the older male population at work began to decline sharply (see Figure 1 on the next page). Experts attribute this decline to an unexpected and substantial stream of income from old-age pensions for Civil War veterans.[1] As the veterans died off, work rates did not return to their previous levels, a pattern that probably reflects the impact of rising incomes and the reluctance of employers to retain older workers. The next big decline in the work rates of older men occurred after World War II, a response to the increasing availability of Social Security benefits and the expansion of employer pensions. The introduction of Medicare in 1965 and the sharp increase in Social Security benefits in 1972 probably led to the final leg of the decline in workforce activity of older men. And, because benefits were available at 62, Social Security may

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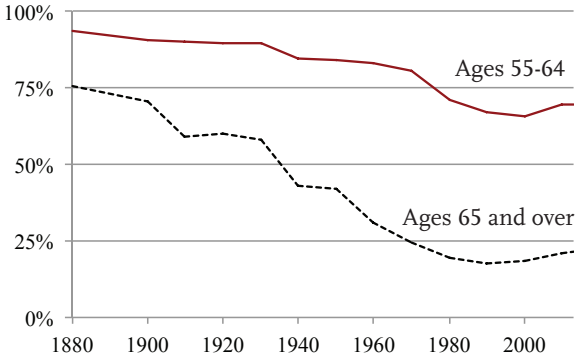
Figure 1. Workforce Participation Rates of Men, Ages 55-64 and 65 and Over, 1880-2013



Notes: Work rates during 1880-1930 are any reported gainful occupation; work rates during 1940-2013 are labor force participation rates – working or seeking work.
Source: Ruggles et al. (2010), with data through 2013.

also explain part of the decline in workforce activity for men 55-64. The downward trajectory stopped around the mid-1980s and, since then, the labor force participation of men 55-64 and men 65 and over has gradually increased. Many factors help explain this turnaround.[2]

Factors Behind the Turnaround

The turnaround can be attributed to changes in the provision of retirement income, the health and education of the workforce, the nature of jobs, the advantage of Medicare in a high health cost environment, and non-pecuniary factors. A brief word about each:

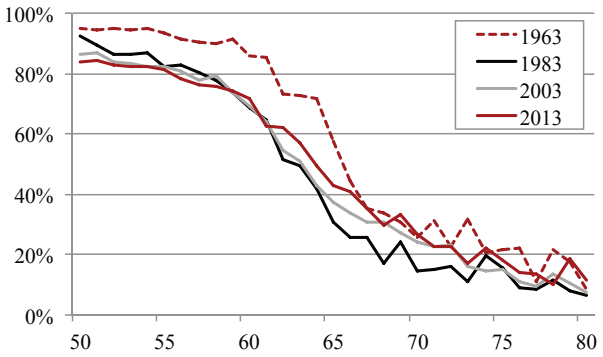
- *Social Security*. Program changes made work more attractive relative to retirement. The liberalization, and for some the elimination, of the earnings test removed what many saw as an impediment to continued work.[3] The delayed retirement credit, which increases benefits for each year that claiming is delayed between the Full Retirement Age and age 70, has also improved incentives to keep working.[4]
- *Pension type*. The shift from defined benefit to 401(k) plans eliminated built-in incentives to retire. Studies show that workers covered by 401(k) plans retire a year or two later on average than similarly situated workers covered by a defined benefit plan.[5]
- *Improved health and longevity*. Life expectancy for men at 65 has increased about four years since 1980, and evidence suggests that people may be healthier as well, particularly those with higher socioeconomic status.[6] The correlation between health and labor force activity is very strong.
- *Education*. People with more education work longer. Over the last 30 years, education levels have increased significantly, and the movement of large numbers of men up the educational ladder helps explain the increase in participation rates of older men.[7]
- *Less physically demanding jobs*. With the shift away from manufacturing, jobs now involve more knowledge-based activities, which put less strain on older bodies.[8]
- *Joint decision-making*. More women are working, wives on average are three years younger than their husbands, and husbands and wives like to coordinate their retirement. If wives wait to retire until age 62 to qualify for Social Security, that pattern would push their husbands' retirement age towards 65.[9]
- *Decline of retiree health insurance*. Combine the decline of employer-provided retiree health insurance with the rapid rise in health care costs, and workers have a strong incentive to keep working to maintain their employer's health coverage until they qualify for Medicare at 65.[10]
- *Non-pecuniary factors*. Older workers tend to be among the more educated, the healthiest, and the wealthiest.[11] Until recently at least, their wages have been lower than those earned by their younger counterparts and lower than their own past earnings. This pattern suggests that money may not be the only motivator.

As a result of these various factors, labor force activity has increased for both men and women.

Labor Force Participation Rates: 1963, 1983, 2003, 2013

Figure 2 presents the percentage of men ages 50-80 in the labor force at each age for four different years. Although the figure shows many interesting developments, the most important for the present discussion is that: 1) at ages 60 and above, labor force participation is now noticeably higher than in 1983; and 2) not much has changed between 2003 and 2013.[12] It is also striking, however, that labor force activity at younger ages remains well below that in 1963.

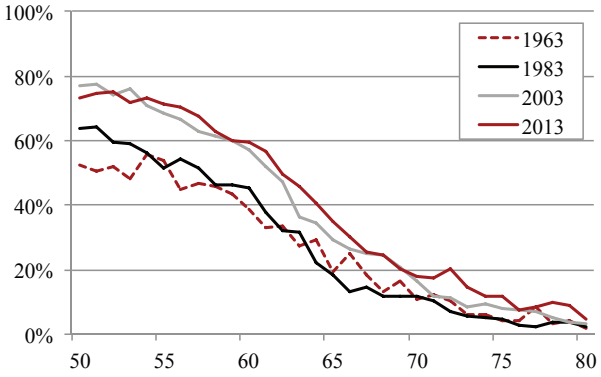
Figure 2. Labor Force Participation Rates of Men Ages 50-80



Source: Author's calculations from U.S. Census Bureau, *Current Population Survey* (CPS) (1963, 1983, 1993, 2013).

Figure 3 displays the same information for women, albeit the patterns are very different. The role of women changed enormously over the 20th century, and these changes had a profound effect on their labor force participation. Each cohort of women has spent more time in the labor force than the previous cohort, increasing the likelihood that they would be working at older ages. By 2013, a higher percentage of women were in the labor force than ever before. Interestingly, the data for women in their 50s also show that the pattern of ever-increasing labor force participation may have run its course in that the participation rates for 2003 and 2013 are very similar. Thus, changes in the work patterns of older women in the future will have more to do with retirement decisions than cohort effects.

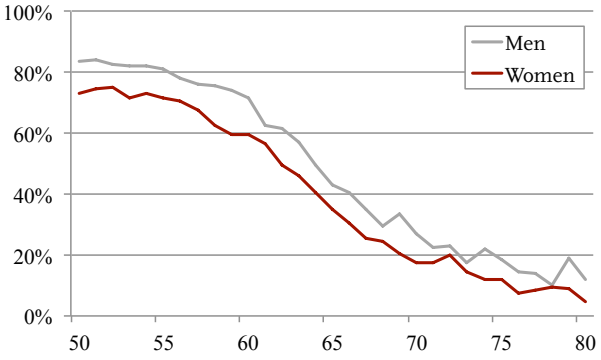
Figure 3. Labor Force Participation Rates of Women Ages 50-80



Source: Author's calculations from CPS (1963, 1983, 1993, 2013).

Figure 4 shows that the labor force participation rate for women is now very close to that for men, particularly for workers over age 65.

Figure 4. Labor Force Participation Rates of Men and Women Ages 50-80, 2013

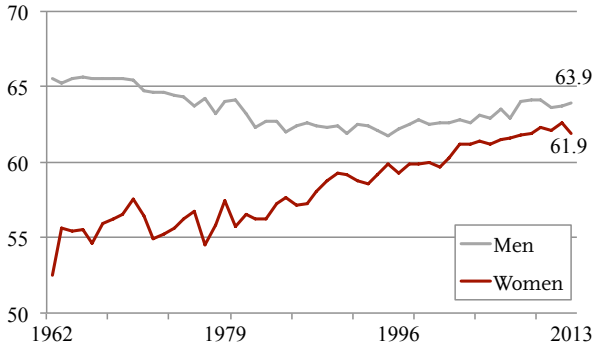


Source: Author's calculations from CPS (2013).

Average Retirement Age

The data on labor force participation can be used to construct an average retirement age, defined as the age at which the labor force participation rate drops below 50 percent. Based on this definition, in 2013 the average retirement age was about 64 for men and about 62 for women (see Figure 5 on the next page).

Figure 5. Average Retirement Age, 1962-2013



Source: Author's calculations from CPS (1962-2013).

Determining trends in the average retirement age for women is complicated, because, as discussed, women's work patterns reflect the increasing participation of cohorts over time as well as the factors that affect retirement behavior. While the figure suggests that their retirement age rose dramatically from 55 in the 1960s to 62 in 2013, the apparent low retirement ages in the early 1960s simply reflect the fact that few women had spent much time in the labor force.

Conclusion

The levelling off of the average retirement age suggests that earlier drivers of working longer are no longer having a substantial impact: Social Security's delayed retirement credit is fully phased in; the shift from defined benefit to defined contribution plans is nearly complete in the private sector; delay due to the availability of Medicare has played its role; education is no longer increasing; improvements in health may have stabilized; and increases in longevity may not be salient. Yet, working longer is the key to a secure retirement. Monthly Social Security benefits claimed at age 70 are 76 percent higher than those claimed at 62. The fact that people are always amazed when presented with this information suggests that a major educational initiative may be warranted.

Endnotes

1 Costa (1998).

2 Friedberg (2007).

3 Engelhardt and Kumar (2007); and Friedberg and Webb (2006).

4 Song and Manchester (2007); and Kopczuk and Song (2008).

5 Friedberg and Webb (2005); and Munnell, Cahill, and Jivan (2003).

6 U.S. Social Security Administration (2014); and Munnell and Sass (2008).

7 Burtless (2013) documents this trend but suggests that, going forward, the contribution of education to rising labor force participation will taper off.

8 Johnson (2004).

9 Schirle (2007).

10 Gustman and Steinmeier (1994); and Monk and Munnell (2009). The Affordable Care Act, which was designed to make it easier for individuals to obtain insurance outside of employment, may reduce this incentive somewhat. See Congressional Budget Office (2014).

11 Lahey, Kim, and Newman (2006); and Maestas (2005).

12 As suggested earlier, this recent stability in the labor force participation rates of older workers may indicate that the factors that were driving increased participation rates have played themselves out. One factor not yet mentioned, though, is likely still nudging workers to retire later than they otherwise would: the gradual increase in Social Security's Full Retirement Age (FRA). For example, Song and Manchester (2007) report that each two-month increase in the FRA is associated with a 0.7 to 1.0 month increase in the Social Security claiming age.

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