

WORKING PAPER

Executive Summary

JANUARY 2006, WP # 2006-2

center for
retirement
research
at boston college

POLICIES TO PROMOTE LABOR FORCE PARTICIPATION OF OLDER PEOPLE

BY ALICIA H. MUNNELL

That older people will need to work longer in order to ensure a secure retirement is undeniable. Social Security, the backbone of the retirement system, will not replace as much pre-retirement income in the future as it does today. Employer-sponsored pensions also involve considerably more uncertainty given the shift from defined benefit to 401(k) plans. With institutional saving arrangements on the decline, one might have thought that people would be saving more on their own. But personal saving outside of pension plans is virtually non-existent. Combine the retirement income crunch with the dramatic increase in life expectancy, and continued employment in later life appears like a promising option for ensuring the financial security of older Americans. The hard questions are whether older people will offer their services and whether employers will retain or hire them.

On the supply side, despite the need to build up their stock of “retirement wealth,” older people may find the availability of Social Security benefits at age 62 too tempting and continue to retire early. And not all older people can work. Some have health problems or have been laid off and unable to find another job, and others see continued employment as simply too onerous. For those who want to work, meaningful jobs may continue to require full-time employment, an arrangement inconsistent with the desires of many older people.

On the demand side, the decline in fertility rates that followed the boom is likely to cause labor supply to grow more slowly than labor demand, creating a tight labor market and improving the employment prospects of older workers. Offsetting the overall tight labor market, however, are a number of factors. First, older workers are expensive. They are paid more, sometimes in excess of their productivity. They involve expensive health care costs and rapidly rising pension costs under traditional defined benefit pension plans. Second, employers generally resist part-time employment, which is the preferred mode for many older workers. Third, age discrimination, while technically illegal, probably exists.

This paper explores the potential supply of and demand for older workers and looks at some proposals to help increase the labor force participation of this group. Section I summarizes today's retirement patterns and argues that pressure on the nation's retirement programs will require older people to work longer. Section II explores impediments to keeping older people in the labor force – namely, the availability of Social Security benefits at 62, the health and employment limitations of some workers, and the potential lack of jobs with enough flexibility. Section III shifts to the employers' side and looks at the potential increase in the demand for labor generally as the ratio of older people to those of working age increases. Employers can respond by adding more capital, tapping immigrants and women, or by outsourcing, but it is not clear that these responses will alleviate the pressure on wages. Another option is to employ more older workers, given that they will be healthier and better educated than in the past and that jobs will be less physically demanding. But older workers also have some disadvantages. The most important, as discussed in Section IV, is the fact that they tend to be expensive. Section V explores some policy proposals to improve both the supply of and demand for older workers. Unfortunately, other than increasing Social Security's Earliest Eligibility Age from 62 to say 64, the realistic options are few. Section VI concludes that keeping older workers in the labor force may well be good for both workers and employers, but it is not obvious that it will happen.

© 2006, by Trustees of Boston College, Center for Retirement Research. All rights reserved. The research reported herein was performed, in part, pursuant to a grant from the Atlantic Philanthropies. The findings and conclusions expressed are solely those of the authors and do not represent the views of the Atlantic Philanthropies or Boston College.

CENTER FOR RETIREMENT RESEARCH AT BOSTON COLLEGE

Fulton Hall 550, 140 Commonwealth Avenue, Chestnut Hill, MA 02467-3808
phone 617.552.1762 fax 617.552.0191 crr@bc.edu www.bc.edu/crr