



THE RECENT TREND TOWARDS LATER RETIREMENT

By Leora Friedberg*

INTRODUCTION

A dramatic decline in work at older ages persisted over most of the twentieth century. Recently, however, retirement ages stabilized, prompting debate as to whether the early retirement trend had stopped or simply paused.

This *brief* shows that the trend towards earlier retirement has not just leveled off but has apparently reversed, with especially large increases in labor supply of women in late middle age. It then offers some explanations for this apparent reversal. Many of the likely causes of delayed retirement could potentially have greater effects on successive birth cohorts nearing retirement, making it possible that the trend towards delayed retirement will continue.

LONG-TERM RETIREMENT TRENDS

The dramatic decline in work at older ages may have begun as early as the late nineteenth century and then persisted well into the late twentieth century. Repro-

ducing statistics based on the Decennial Census from a detailed analysis of this period, Figure 1 shows data on the percentage of men working by age.¹

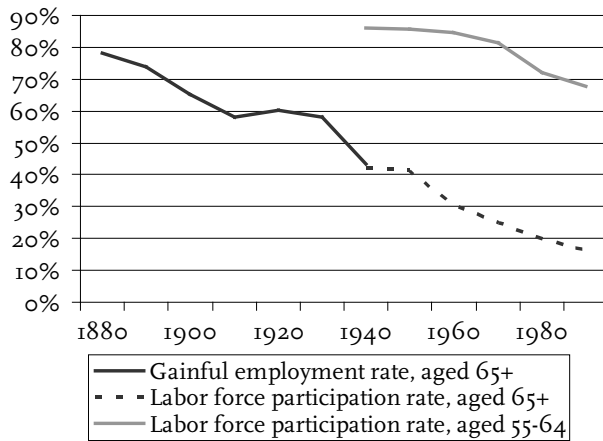
The Census measured the *gainful employment* rate until 1940 and then the *labor force participation* rate, defined as the percentage of the population working or actively looking for a job. The gainful employment rate among men aged 65 and over fell from 78 percent in 1880 to 44 percent in 1940, while the labor force participation rate fell from 42 percent in 1940 to 16 percent in 1990 — so about half of the long-run decline may have occurred by the mid-twentieth century, and half occurred after that. In addition, the participation rate for men aged 55-64 began to decline at mid-century, from 86 percent in 1940 to 68 percent in 1990. Women's retirement ages have been subject to countervailing trends. The general tendency toward earlier retirement has been roughly offset by the increase in the share of women working at every age.

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FIGURE 1. MEN'S WORK RATES BY AGE, 1880-1990



Source: Costa (1998) from U.S. Census Bureau, *Decennial Census*, 1880-1990.

The very long-run decline in retirement ages has been somewhat puzzling, given that people are living longer than ever and staying healthier at all ages, while most work has grown much less physically demanding. It has also raised policy concerns, as earlier retirement was not accompanied by increases in savings rates. Thus, the declining retirement age may be associated with increasing dependency on Social Security, on Medicare and Medicaid, and on the grown children of retirees.

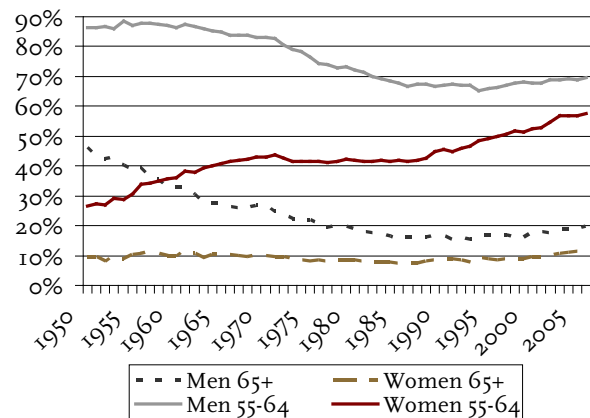
RECENT RETIREMENT TRENDS

More recently, retirement ages have flattened out, prompting a debate among researchers as to whether the early retirement trend has stopped or simply paused. One side concludes that the trend has stopped due to economic, policy, and demographic changes.² The other side stresses that long-run growth in incomes and the desire for more leisure suggest only a pause.³ Figure 2 shows more recent data on annual labor force participation rates for men and women published by the U.S. Bureau of Labor Statistics.

Figure 2 confirms the decline in men's participation rates through around 1980, but it also makes it clear that rates flattened out in the 1980s and early 1990s and since then have shown signs of reversing. For women, a similar, though muted, pattern is observed at ages 65 and over, while women aged 55-64 have dramatically increased their labor supply since around 1990.

Among men aged 65 and over, participation rates hovered at about 15 percent from 1984 until 1999 and then started rising gradually, reaching nearly 20 percent in 2006. Among women in the same age range, rates stayed below 10 percent through the early 1990s and then rose to 11 percent in 2006. For men aged 55-64, participation rates rose from about 65 percent through the late 1990s to nearly 70 percent in 2006. For women, the rate stayed slightly over 40 percent from the 1970s through the late 1980s and then rose steadily, reaching 58 percent in 2006. While the increases for other groups have been small, they have been persistent for the last 5-10 years, through various stages of the business cycle.

FIGURE 2. LABOR FORCE PARTICIPATION RATES BY AGE AND SEX, 1950-2006 (ANNUAL)



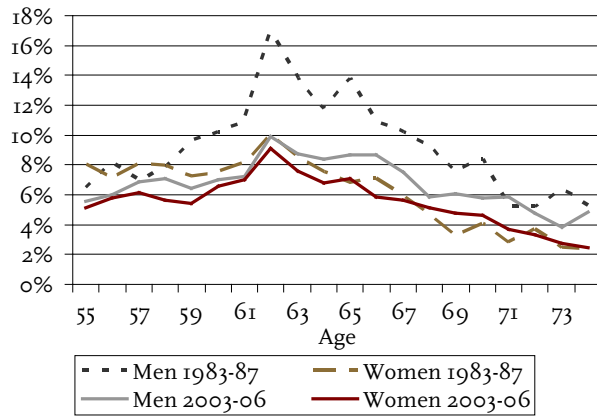
Source: U.S. Census Bureau, *Current Population Survey* (CPS), 1950-2006.

RECENT RETIREMENT RATES BY AGE

Analyzing changes in age-specific retirement rates provides more information about recent retirement patterns. Figure 3 compares men's and women's retirement rates — the percentage retiring at each age among those who were working in the previous year — using data from the *Current Population Survey* of the mid-1980s and the mid-2000s. This analysis uses averages across a few years of data in both periods in order to smooth out short-term fluctuations and obtain similar sample sizes.

Figure 3 shows that retirement rates changed a great deal for men over this period, but not for women. Men's retirement rates declined sharply be-

FIGURE 3. RETIREMENT RATES* BY AGE AND SEX, 1983-1987 AND 2003-2006



* The retirement rate equals the percentage who are not working during the survey week in March of the current year, among those who worked at all in the previous year, computed using survey weights.

Source: Author's calculations using U.S. Census Bureau, CPS (various years).

ginning at age 59 and persisting through their sixties. The biggest decline is at age 62, with 17 percent of the workforce retiring at this age during 1983-87, compared to 10 percent during 2003-06. At age 65, the retirement rate declined from 14 percent to 9 percent.

On the other hand, women have somewhat similar retirement rates across this twenty-year period. The patterns are remarkably close from around age 60 and on, while rates declined for women in their late fifties. For example, at age 59, the rate dropped from 7 percent to 5 percent, with similar magnitudes observed back to age 55. Thus, the sharp increase in labor supply for women aged 55-64 is due both to more women working as they enter this age range and to fewer retiring in this range.

EXPLANATIONS FOR THE REVERSAL IN RETIREMENT TRENDS

While this *brief* does not provide new evidence on why people may be working longer, it will assess several factors suggested by researchers. The first set of factors is the slowing down or reversal of incentives that used to favor earlier retirement, and the second involves new trends appearing in the last twenty years. Although these explanations stress changes in the economic environment, it is also possible that preferences have changed or that individuals have responded to the prospect of longer lifespans.

SHIFTS IN EARLIER INCENTIVES FAVORING RETIREMENT

Over a period of a few decades, a range of economic incentives increasingly favored early retirement. One set of incentives arose from government programs providing support for the elderly — through retirement and disability benefits from Social Security, health insurance from Medicare, and long-term care insurance from Medicaid. These programs were established during the mid-twentieth century and then expanded over a long period. Beginning around the 1970s-1980s, though, the growth in generosity of these programs was reversed or roughly stabilized. Additional incentives for early retirement arose with the spread of employer pensions beginning in the 1940s. Pension coverage flattened out in the 1970s and has fallen more recently. Besides these trends in generosity and coverage, some specific work deterrents embedded in these programs have been moderated in recent decades, as discussed below.

SOCIAL SECURITY

Over the same period during which the Social Security benefit increases were halted and then reversed, other retirement incentives were also moderated. When Social Security was established, the retirement earnings test conditioned the receipt of benefits on complete withdrawal from the labor force. Since then, the earnings test has been relaxed in stages, with substantial changes in 1972, 1978, 1983, 1990, 1996, and 2000. At this point, the earnings test applies from age 62 until the Normal Retirement Age (currently set at 66) and allows for roughly \$12,500 in annual earnings before reducing benefits by \$1 for each additional \$2 in earnings. One study showed that the 1978 and 1983 liberalization of earnings test rules significantly raised labor supply among older workers, while another found that the most recent change in 2000 — which eliminated the earnings test above the Normal Retirement Age — also encouraged workers under that age to postpone retirement.⁴

The Delayed Retirement Credit (DRC), which applies from the Normal Retirement Age until age 70, has also grown more generous over this period. The DRC rewards delays in receiving Social Security by raising future benefits. It was established in 1973 but remained small for some time, was bumped up in 1990, and has since increased steadily so that it is now approximately actuarially fair — meaning

that the increase in benefits resulting from postponing claiming compensates the average individual for the benefits foregone. The gains in the DRC make it more lucrative for workers in their late sixties to remain in the labor force.

EMPLOYER PENSIONS

By around 1980, almost half of all workers were covered by a pension. Defined benefit (DB) pension plans used to predominate in the workplace. The expected present value of a DB pension typically increased very slowly in the early years of a career and then more rapidly after roughly 10-20 years, a pattern that encouraged younger workers to stay in a job; but after around 20-30 years of tenure or at ages 55-65, pension accruals then dropped or became negative, encouraging retirement.⁵ One study estimated the effects of Social Security and DB pensions on retirement of workers covered by both and concluded that DB pensions do more to encourage early retirement than does Social Security.⁶

CHANGES IN PUBLIC POLICY, PRIVATE PENSIONS, AND HEALTH CARE SUGGEST THAT PEOPLE MAY WORK LONGER.

The structure of typical pensions has undergone a major shift since the early 1980s, though, with most pensioned workers now covered by defined contribution (DC) plans. DC plans are generally portable, accrue smoothly, and do not target retirement at any particular age. Researchers have estimated that workers with typical DC plans retire one to two years later, on average, compared to workers with typical DB plans.⁷ While older workers still have relatively high rates of DB coverage, this is changing rapidly as workers with DC plans age, so further changes in aggregate retirement patterns of workers with pensions are likely.

Other features of the shift from DB to DC plans have not been studied systematically but may also influence retirement. Most DB plans used to offer an annuity after retirement, while most DC plans and an increasing number of current DB plans pay out a lump sum. This feature shifts the risk of uncertain lifespans from employers to workers. Workers who

bear this risk should, in turn, either consume their post-retirement wealth more slowly, save more before retiring, or retire later. Thus, a delay in retirement may result as workers perceive this shift in life-span risk. Similarly, DC plans shift investment risk onto workers, who now bear the risks (and gain the potential rewards) of their investment choices. This shift will increase the variability of pension wealth and thus can be expected to increase the variability of retirement ages, both across individuals and across cohorts that experience different investment returns.

HEALTH CARE AND HEALTH INSURANCE

A great deal of attention has been given to rising health care costs and falling health insurance coverage over the last fifteen years. The increase in costs represents a major source of uncertainty for most people, though one that is ameliorated by the provision of private insurance from employers and public insurance from Medicare. However, Medicare did not cover prescription drug costs until 2006, and the run-up in drug costs has been substantial. Moreover, some employers have dropped health insurance coverage for current workers and an increasing number have done so for retired workers, while most have boosted the cost of insurance for those who continue to be covered. Researchers have shown that a significant number of workers delay retirement until health insurance coverage is available.⁸ This pattern may explain why more workers have been delaying retirement until age 65 in recent years, and the lack of drug coverage in Medicare until recently could explain further delays.

OTHER FEATURES OF THE JOB MARKET

Lastly, some evidence suggests that jobs have grown more flexible for older workers, as they tend to take more part-time and “bridge” jobs on their path to retirement.⁹ Moreover, judicial and legislative action eroded mandatory retirement provisions through the late 1970s and mid-1980s. More recently, one study documents an increase in part-time work among older workers, although not for any other age group.¹⁰ This increase was particularly notable among relatively educated and well-off workers, suggesting an increase in demand for job flexibility.

CONCLUSION

At this stage, it remains to be seen whether recent increases in retirement ages, which have reversed the century-long trend towards earlier retirement, halt, continue slowly, or speed up. Many of the changes in Social Security, private pensions, and health care that could explain the shifting trends are ongoing, which suggests that retirement ages could continue to rise.

A final point is that many of these changes are associated with increased uncertainty about the future economic environment surrounding retirement — about the long-term viability of Social Security and potential benefit reductions, about the risks associated with the massive shift from DB to DC pensions, and about future health and long-term care costs. This rise in uncertainty may itself induce people to delay retirement in order to work and save more.

ENDNOTES

- 1 Costa (1998).
- 2 Quinn (1999).
- 3 Costa (1999).
- 4 See, respectively, Friedberg (2000) and Friedberg and Webb (2006).
- 5 The expected present value of a defined benefit pension is computed as the future benefits that are expected if the individual stays in the same job and experiences typical earnings growth until retirement, discounted back to the present.
- 6 Samwick (1998).
- 7 Friedberg and Webb (2005); and Munnell, Triest, and Jivan (2004).
- 8 Gruber and Madrian (1994).
- 9 Ruhm (1990).
- 10 Friedberg (2004).

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The Center for Retirement Research at Boston College was established in 1998 through a grant from the Social Security Administration. The Center's mission is to produce first-class research and forge a strong link between the academic community and decision-makers in the public and private sectors around an issue of critical importance to the nation's future.

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