

HANDBOOK OF AGING AND THE SOCIAL SCIENCES

EIGHTH EDITION

Edited by

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Evolving Patterns of Work and Retirement

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INTRODUCTION

The work and retirement patterns of older Americans have changed dramatically since the turn of the last century. From the early 1900s to the mid-1980s, the story of retirement among men in America was straightforward – steady declines in labor force participation at older

ages (Burtless & Quinn, 2002; Purcell, 2009; Quinn, Burkhauser, & Myers, 1990). Growing prosperity permitted these earlier retirements, as Americans spent a portion of their newfound wealth on increased leisure later in life. Among older women, two trends – this early retirement trend and large increases in labor force participation after WWII – largely offset each other,

leading to stable labor force participation rates between the 1960s and the mid-1980s (Purcell, 2009; Quinn, Cahill, & Giandrea, 2011). Since the mid-1980s, however, both older men and women have been working longer than prior trends would have predicted.

In addition to the timing of retirement, the pathways to labor force exit have evolved as well. The stereotypical view of retirement – a one-time transition from full-time work to complete labor force withdrawal – fails to capture the diversity of retirement patterns today (Cahill, Giandrea, & Quinn, 2006, 2012; Quinn, 2010; Shultz & Wang, 2011). Among those with career jobs later in life, the majority move to another job before leaving the labor force completely (Cahill, Giandrea, & Quinn, 2013c; Ruhm, 1990, 1991). In addition, a sizable minority reenter the labor force after an initial exit (Cahill, Giandrea, & Quinn, 2011a; Maestas, 2010). For most, retirement is not a one-time permanent event, but rather a process.

The factors behind these retirement decisions are many. Changes in economic incentives within the traditional pillars of retirement income – Social Security, private pensions, and savings – have altered the relative attractiveness of work and leisure later in life, almost always in favor of work (Burkhauser & Rovba, 2009; Gruber & Wise, 2004; Quinn et al., 2011). As a result, earnings have become a critical fourth leg of the retirement income stool (Munnell, 2007; Munnell & Sass, 2008). Recent evidence suggests that macroeconomic forces may also be playing a role among the Early Boomers, who experienced the recent Great Recession while on the cusp of retirement (Bosworth & Burtless, 2011; Butrica, Johnson, & Smith, 2011; Cahill et al., 2013c; Coile & Levine, 2011; Gorodnichenko, Song, & Stolyarov, 2013; Gustman, Steinmeier, & Tabatabai, 2011; McFall, 2011; Sass, Monk, & Haverstick, 2010).

All in all, continued work later in life among older Americans appears to be a good thing for many in light of the realities of our aging

society. Individuals benefit from a more secure financial position, reducing the probability of reductions in living standards. Employers benefit from a larger pool of skilled workers with a lifetime of experience. The nation as a whole benefits as well, with more economically productive citizens. While continued work appears to be a good thing on balance, it is important to note that, for some, continued work may not be an option. Individuals with poor health and/or a history of intermittent, low-paying, and physically demanding jobs may simply not be able to continue working beyond traditional retirement ages. Their plight is of particular concern. For these older Americans at the lower end of the socioeconomic scale, few options may be available to counter earnings losses, resulting in lower living standards and the possibility of financial hardship at older ages.

As we highlight throughout this chapter, older Americans on the cusp of retirement today face a very different economic landscape than did prior cohorts and will need to adjust to these changing circumstances. Indeed, evidence suggests that the reversal of the early retirement trend has already been underway for nearly three decades, and that older workers remain productive (Burtless, 2013). Moreover, the aging of our society is only beginning (Board of Trustees of OASDI, 2014). When it comes to the retirement trends of older Americans, an old adage applies: the only constant is change.

The next section documents the beginning and decline of early retirement in America. The section “A Closer Look at the Retirement Process in the Modern Era” examines retirement in the modern era and older Americans’ diverse patterns and determinants of labor force withdrawal. The next section documents changes to the traditional pillars of retirement income and how they relate to labor force participation. The section “The Increasing Importance of Macroeconomic Influences” describes recent research on the impact of macroeconomic influences on both the timing of retirement and

retirement patterns. The final section looks ahead. With our aging population and increasing strains on our existing sources of retirement income, continued labor force participation later in life is the most likely and most promising outcome for many older Americans. Earnings are already a substantial income source for many and are likely to grow in importance.

THE BEGINNING AND END OF EARLIER AND EARLIER RETIREMENT

The retirement environment in the United States looks very different today than it did in the past. Older Americans today are responding to a new set of economic circumstances and incentives and are now working at rates not seen for nearly 30 years (Burkhauser & Rovba, 2009; Quinn et al., 2011). Just as the world of retirement today looks very different from what it was in the mid-1980s, the latter was very different from the world of retirement in the early part of the last century.

At the turn of the last century, the typical older American male worked as long as possible. The average retirement age among men in 1910 was 73 (Quinn et al., 2011), at a time when jobs were more physically demanding and life expectancy at birth was more than 20 years less than it is today (Arias, 2012). The reason most people worked later in life was fairly straightforward – to avoid poverty in a world without a financial safety net. As recently as 1959, the poverty rate among Americans aged 65 years and older was 35%, higher than any other age group (DeNavas-Walt, Proctor, & Smith, 2012).

These labor supply patterns late in life began to change in the early 1900s. Costa (1998, 1999) documented steady declines in labor force participation rates among older American men as far back as the late 1800s. Further, as private pensions became a reliable source of income for an increasing fraction of older American men

in the mid-1900s, more people could leave the labor force without being thrust into poverty.

The Social Security Act of 1935 created the Old-Age and Survivors Insurance (OASI) program ("Social Security") (Perun & Dilley, 2011). Social Security provided insurance against poverty at older ages on a much larger scale than private pensions and enabled more older Americans to exit the labor force, even though their health might have permitted continued work. As America grew more prosperous, the OASDI program (which also provided disability insurance) expanded its coverage and employers began providing pension benefits more widely (Board of Trustees of OASDI, 2014; Congressional Budget Office, 2001; Sass, 1997). The availability of public and for many, private pensions, along with increases in other forms of wealth, such as housing and financial assets, allowed Americans to afford more leisure over their lifetimes, including earlier retirement (Burtless & Quinn, 2002).

In response to these changes, the labor force participation rates of older Americans declined precipitously through the mid-1980s (Purcell, 2009; Quinn, 1999). By 1990, the average retirement age of men – here, the youngest age at which one half of the population is out of the labor force – was just 63 years and reached a low of 62 in 1994 (Burtless & Quinn, 2002; Quinn et al., 2011). Many older Americans in the 1980s and 1990s could expect 20 or more years of retirement. Even as older Americans left the labor force earlier and earlier, their poverty rate declined dramatically, from 35% in 1959 to less than 15% in the mid-1980s, to 10% in 2005, and near 9% in 2012 (DeNavas-Walt et al., 2012).

The end of the era of progressively earlier retirement began with several important changes in the late 1970s and early 1980s. Mandatory retirement, which once covered about one half of the American workforce, was first delayed (from age 65 to 70 in 1978) and then eliminated for the vast majority of workers in 1986 (von Wachter, 2002). In 1983, Social Security

amendments gradually raised the normal retirement age (NRA) to 66 and eventually to 67 for individuals born after 1959 (Congressional Budget Office, 2001). This increase in the NRA is equivalent to an across-the-board decline in lifetime Social Security benefits. In addition, Social Security's delayed retirement credit (DRC) had previously created a work disincentive (or retirement incentive) because increases in monthly benefits from postponing benefit receipt beyond the NRA were insufficient to compensate for the benefits foregone. The DRC was gradually increased from 3% to 8% for each year that benefits are postponed beyond the NRA, and now expected lifetime benefits remain more or less the same regardless of when benefits are first claimed between the ages of 62 and 70 (Munnell, 2013). This adjustment means that the work disincentive due to the DRC has been removed. Finally, the long-term financial outlook for Social Security may well require further reductions in benefits (perhaps through further increases in the NRA) and/or increases in the revenues that fund the program (Board of Trustees of OASDI, 2014; Congressional Budget Office, 2002, 2009; Lavery, 2009).

The 1980s also brought about a gradual shift in the nature of private pensions, and a move toward a "do-it-yourself" approach to retirement planning (Munnell, 2007). In the private sector, traditional defined-benefit (DB) plans, which provide lifetime annuities typically based on tenure with the firm and some measure of final salary, are being supplanted by defined-contribution (DC) plans, like 401(k)s (Copeland, 2009). While most traditional DB plans have age-specific work disincentives, usually at the earliest age of pension eligibility, DC plans are tax-deferred individual savings accounts with no such age-specific incentives (Munnell, 2006). In addition, individuals assume significant risks under DC plans, most notably investment risk and longevity risk, which are shouldered by employers under DB plans (Munnell & Sundén, 2004).

Private savings rates also began to decline in the 1980s and have since reached their lowest levels since the Great Depression, albeit with an uptick between 2008 and 2012, and then another decline (Federal Reserve Bank of St. Louis, 2014; US Department of Commerce, Bureau of Economic Analysis, 2013). In addition, fewer firms are providing post-retirement health benefits (Fronstin & Adams, 2012) and more employers are offering health plans with health savings accounts, which are tax-exempt accounts that can be used to pay health expenses (Fronstin, 2014). With these changes to Social Security, private pensions, and savings, along with potential cutbacks in Medicare and Medicaid generosity, many older Americans face a less attractive retirement environment than prior cohorts did, and many will face a choice between working longer or living poorer in retirement. For those unable to continue working, there may be little choice but to accept a lower standard of living at older ages.

The large influx of women into the labor force after WWII has had a substantial impact on retirement patterns. With labor force participation rates among older women now approaching those of older men (Quinn et al., 2011), and with more women's work histories including career employment, the labor force withdrawal patterns of older men and women are becoming more similar (Cahill, Giandrea, & Quinn, 2013a). Recently, however, the Great Recession and the subsequent sluggish recovery may have impacted older men and women differently, with the prevalence of bridge employment continuing to rise among women but declining slightly among men (Cahill et al., 2013a,c).

Retirement in the United States has changed over time, from a phenomenon enjoyed by the few at the beginning of the last century to the earlier and earlier retirements of most through the mid-1980s, and the reversal of that trend since then. The next section examines retirement in the modern era in more detail – when and how older Americans leave the labor force.