

Mitigating Push Factors of Early Retirement

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Executive Summary

Declining fertility rates, increasing life expectancies, and the aging of the baby boomers signal a crisis for the United States' public pension system. Part of this problem is early exit from the workforce – increased years in retirement. A number of push factors, such as age discrimination, stereotypes related to the elderly, and misperceptions about older workers' productivity, compel older workers to retire before their functional capacity to work significantly decreases. Policies to engage older workers in lifelong learning, educate employers, and strengthen anti-age-discrimination laws can help combat these push factors. Among these options, employer education has the clearest impact on mitigating push factors.

Background

Declining fertility rates, increasing life expectancies, and the aging of the baby boomers are increasing the average age of the US population. By 2030, more than 20 percent of the US population is projected to be aged 65 and older, compared with 13 percent in 2010. At the same time, the working-age population is shrinking from 62.7 percent today to a projected 56.9 percent in 2060.ⁱ Furthermore, people are spending increased amounts of time in retirement - average life expectancy in US is 78 while the retirement age is 67.ⁱⁱ

These demographic and lifestyle changes have heavy implications for the US's public pension system - Social Security is experiencing a declining worker-to-beneficiary ratio, which will fall from 3.3 in 2005 to 2.1 in 2040.ⁱⁱⁱ This trend is unsustainable.

One of the most effective ways to combat this trend is to enable people to work longer, because workers do not draw a pension and also continue to pay taxes and social security contributions.^{iv} However, there are both pull factors (such as financial incentives for early retirement) and push factors (such as age discrimination, concerns about lower productivity and individual's limited notions of employability) that work against extending working years. Thus far, policy measures have been focused on limiting pull factors, but have not been as active in combatting push factors.^v

Problem

Age discrimination, stereotypes, and misperceptions about older people's productivity all serve as push factors that push elderly workers to retire earlier than they would have otherwise. A study by America's AARP found that two-thirds of older workers had witnessed or experienced discrimination on age grounds.^{vi} Even if companies have a 'no age discrimination policy,' in practice evidence of discrimination is found.^{vii} Negative stereotypes that older workers are somehow less flexible or less receptive to new technologies or skills remain widespread. Other stereotypes affecting older workers include: they are less flexible, more resistant to change, less alert and generally less productive.^{viii} Studies show that employers have less faith in older workers' productivity and younger workers are preferred when hiring, despite the fact that the empirical evidence concerning an age related productivity decline and an age related pay-productivity gap is conflicting.^{ix} These attitudes and practices discourage elderly workers from staying in the workforce.

Options

Build up infrastructure for lifelong learning

Given the transition to the knowledge economy, which requires continual learning of new skills and technologies,^x increasing the reach of lifelong learning programs such as Lifelong Learning Institutes (LLIs), Elderhostel, and Universities of the Third Age (U3As) can help equip the elderly with skills that increase their employability.^{xi}

Pros: Cognitive-training studies have demonstrated that older adults can improve cognitive functioning when provided with training in strategies that promote thinking and remembering.^{xii} These cognitive skills are what employers in the knowledge economy tend to value.^{xiii} Furthermore, there is strong evidence that learning promotes well-being and positive health outcomes,^{xiv} which decreases healthcare costs.

Cons: Many of the lifelong learning programs that already exist have a degree of elitism - particular effort needs to be made to include less educated, lower socioeconomic class elders. There is also a stigma attached to these programs for men; women tend to participate in lifelong learning programs at much higher rates.^{xv} Finally, there is no substantial evidence that employers take participation in these programs as a signal of increased employability.

Employer education

Finland successfully combatted early withdrawal from the labor market with an employer education model that focused on employee health, skills, management style, job demands and work environment.^{xvi} Public institutions like the National Institute on Aging and private organizations such as the American Association of Retired Persons have already seen success in changing public perceptions of issues related to the elderly^{xvii} – these institutions can be partners in implementing an employer education program to rid employers of misperceptions of older workers and to create work environments that are more adaptable for all ages.

Pros: Employer education programs can help combat stereotypes and stereotype threat for older adults in the workplace.^{xviii} These programs encourage employers to invest in the development of older workers, which in turn helps maintain these workers' cognitive function. Workers with rewarding jobs generally want to stay in the workforce when they are older, whereas those with poorer environments or an instrumental approach to work are more likely to leave.^{xix}

Cons: Employer education programs would likely be opt-in, and unless they were state-subsidized, would place the burden of cost on the employers. Thus, they may not see wide reach and impact.

Strengthen anti-age-discrimination legislation

The federal government can pass legislation to reduce the prevalence of early retirement policies and to monitor age discrimination in hiring in new industries such as IT, which have seen "particularly rampant" ageism.^{xx}

Pros: The combination of powerful, relevant interest groups and the elderly population's political clout (as demonstrated by their high voter turnout rates) would make this option politically feasible.

Employers may find more costs associated with practicing age-discrimination, and will weigh this element in their hiring practices.

Cons: Many forms of discrimination cannot be easily monitored - information asymmetries enable employers to maintain more subtle forms of discrimination. For instance, employers can also justify their decisions to sack older workers by alluding to new skill requirements. Moreover, enactment of anti-age-discrimination laws in other nations has not raised older workforce participation rates.^{xxi}

Recommendation

Implement an employer education program. This option directly targets the majority of the push factors for early exit from the workforce for the elderly – age discrimination, stereotyping, and misperceptions about worker productivity. Strengthening anti-age-discrimination legislation will not have much marginal impact, as a great extent of age discrimination today is implicit. Lifelong learning programs, while effective in bettering cognitive and health outcomes, do not translate directly to increased employability for older workers.

ⁱ Bernstein, R. (n.d.). U.S. Census Bureau Projections Show a Slower Growing, Older, More Diverse Nation a Half Century from Now. *U.S. Census Bureau*. Retrieved October 5, 2014, from <https://www.census.gov/newsroom/releases/archives/population/cb12-243.html>

ⁱⁱ Beck, B. (2009, June 27). A slow-burning fuse: ageing population economy. *The Economist*, 391, 1-16.

ⁱⁱⁱ Reznik, G. (n.d.). Coping with the Demographic Challenge: Fewer Children and Living Longer. *US Social Security Administration*. Retrieved October 3, 2014, from <http://www.ssa.gov/policy/docs/ssb/v66n4/v66n4p37.html>

^{iv} Beck

^v Baruch, Y., Sayce, S., & Gregoriou, A. (2014). Retirement in a Global Labor Market. *Personnel Review*, 43, 464-482.

^{vi} Coggan, P. (2011, April 9). Falling short: A special report on pensions. *The Economist*, 399, 1-26.

^{vii} Thorsen, S., Rugulies, R., L  ngaard, K., Borg, V., Thielen, K., & Bjorner, J. B. (2012). The association between psychosocial work environment, attitudes towards older workers (ageism) and planned retirement. *International Archives of Occupational and Environmental Health*, 85(4), 437-445.

^{viii} Wood, G., Wilkinson, A., & Harcourt, M. (2008). Age Discrimination And Working Life: Perspectives And Contestations - A Review Of The Contemporary Literature. *International Journal of Management Reviews*, 10(4), 425-442.

^{ix} Ours, J. V. (2009). Will You Still Need Me When I'm 64?. *De Economist*, 157, 441-460.

^x Alina, P. (2011). Transforming Learning for Lifelong Learning in the Knowledge Economy. *International DAAAM*, 22, 1-3.

^{xi} Merriam, S., & Kee, Y. (2014). Promoting Community Wellbeing: The Case for Lifelong Learning for Older Adults. *Adult Education Quarterly*, 64, 128-146.

^{xii} Hertzog, C., Kramer, A. F., Wilson, R. S., & Lindenberger, U. (2008). Enrichment Effects On Adult Cognitive Development: Can The Functional Capacity Of Older Adults Be Preserved And Enhanced?. *Psychological Science in the Public Interest*, 9(1), 1-65.

^{xiii} Beck

^{xiv} Merriam

^{xv} Merriam

^{xvi} Baruch

^{xvii} Hertzog

^{xviii} Hertzog

^{xix} Wood

^{xx} Wood

^{xxi} Wood