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Session:

Parallel Session 2B: Surveys and Data Combination

Title:

The increasing labor-force participation of older workers and its effect on U.S. retirement income

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Summary:

The post-World War II trend to earlier retirement began to reverse in the mid-1980s. In 1985, the labor force participation rate of men was 51 percent at age 62, declining to 31 percent at age 65. (The comparable statistics for women were 32 and 16 percent.) By 2008, the participation rate for 62-year old men increased to 57 percent, and to 44 percent at age 65. (For women, the comparable statistics were 48 and 33 percent.) The increased participation rates are associated with a substantial shift from part-time to full-time work among seniors. Since 1995, the percentage of workers age 65 and older who work full time increased from 44 percent to 56 percent (2007).

A mix of supply-side and demand-side factors has been identified with the increased participation of older workers. Despite conflicting evidence about the relative importance of specific factors, there is general agreement that policy changes with regard to public and private pensions, as well as the removal of barriers to work (for example, the 1978 Age Discrimination in Employment Act), have cumulatively improved incentives to work at older ages. One policy goal is to improve the adequacy of retirement income by increasing retirement savings and lessening the need to draw down assets during the early years of old age.

The current study focuses on the importance of these additional labor market earnings for the incomes of retirees. How is the annual distribution of retirement income affected by earnings? For example, the aggregate income share represented by earnings for all aged units age 65 and

older in 1996 was 20 percent, increasing to 23 percent in 2000, and to 28 percent in 2006. Underlying those aggregate shares is a great deal of variation. For example, in 2006 labor market earnings were negligible for the bottom quintile of income received by aged units (households with a person age 65+), but constituted more than 40 percent of income for the highest quintile. Between those extremes lies a variety of circumstances that determine the extent to which older workers are dependent on earnings to supplement other income sources.

The research investigates the characteristics (examples: sex, age, marital status, household size/composition, health, education, private pension coverage, total income, lifetime earnings) of older workers and how these have changed during the past 25 years. The primary focus will be on how personal characteristics and economic circumstances in various parts of the annual income distribution are related to earnings. Which seniors report earnings and how do they differ from those of earlier birth cohorts? Has the propensity to work among public and private pension beneficiaries changed over time? How has the joint distribution of earnings, private pensions, and Social Security benefits changed subsequent to changes in the Social Security program (increasing the full retirement age and the delayed retirement credit; elimination of the earnings test at the full retirement age)?

The primary data sources for this study are the 1985-2008 public-use Current Population Surveys (Annual Social and Economic files). We will also use restricted-access versions of the CPS data that have been exact-matched to earnings and benefit information maintained by the Social Security Administration.

The paper's topic should be of interest to an international audience. The concerns raised by an aging population are common to many countries, some of whose populations are aging at a more rapid rate than the U.S. Continued improvements in mortality will increase the burden of financing retirements both privately and publicly. Higher public pension retirement ages and extended working lives are options for helping ease the financial burden of supporting the projected higher numbers of retirees. Recent U.S. experience may be helpful in understanding the effects of these policies, but it is important to learn more about how these changes play out within a diverse population.