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ABSTRACT

This document analyzes the labor market problems of displaced older workers. Chapter 1 is an introduction. Chapter 2 describes the magnitude of the problems of unemployment, discouragement, and displacement of older workers. The outcomes of unemployment are discussed, with attention to the duration of unemployment, the effects of displacement, and the effects of recessions. The special problems of older women (labor market re-entry, low wage employment, and occupational segregation) are addressed. Chapter 3 covers institutional impediments to employment of older workers, including Social Security regulations and pension plan provisions, the market for part-time jobs, and age discrimination. Chapter 4 offers conclusions. The conclusions are that (1) older workers are not as protected from job loss as is often assumed; (2) labor supply factors may be more important in explaining labor market difference between groups than is usually credited; (3) older workers who continue with their long-term employers or at least in their same occupations increase their chances of being paid properly; (4) older workers who have college education have greater flexibility in the job market; and (5) overall economic expansion is the factor that will most strongly influence the job market for older workers. An appendix gives a method for estimating duration of unemployment. A 64-item bibliography is included. (CML)

# FOREWORD

As we review the implications of an aging population, it becomes clear that we must pay particular attention to the problems of older workers. Public policy should strive to accommodate both those who are ready to retire and those who would like to continue to work. Institutional barriers must be lowered and innovative approaches developed. The efforts of private sector employers will be the major key to success.

This report, which was prepared by the Bureau of Labor Statistics, analyzes the labor market problems of displaced older workers. It reviews the available data on the extent and nature of unemployment, discouragement, and displacement. It also focuses on institutional arrangements, such as pension rules and the supply of part-time jobs that may limit the employment opportuities for older workers.

Older workers are a national resource. They are skilled and experienced. When they leave the labor force before they are ready, both they and society lose. I believe that attention to the developments discussed in this report will stimulate wide ranging discussion and lead to creative approaches on behalf of the Government and the private sector, to increase productivity, promote international competitiveness, and enhance the welfare of America's wage earners

*Ann McLaughlin*
Secretary
U.S. Department of Labor

# Preface

Congress, through the Labor Department Appropriations Act in Public Law 100-202, requested the Secretary of Labor to develop a report that addressed the labor market problems of older workers who had retired, who were pressured to leave a job, or who were reentering the labor force. This document is largely based on that report.

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# CHAPTER 1.
# Introduction

In recent years, Federal legislation has been passed to allow or encourage workers to extend their worklives. Anticipating a dramatic decline in the ratio of workers to retirees when the baby-boom generation retires, Social Security regulations have been altered to encourage later labor force withdrawal and to increase penalties for early retirement. In addition, age discrimination laws have been extended to protect workers from mandatory retirement at any age. At the same time, however, an opposite and more dominant force has influenced workers' retirement age, many employers have made earlier and earlier retirement possible through options offered in their pension plans.

The net result has been that retirement ages for men have fallen steadily during the post-World War II period.[1] In general, this has resulted from improvements in retirement resources—Social Security, pensions, and wealth.

Most workers today look forward to retirement at a relatively early age by historical standards—at age 62 or, often, younger. Even in hindsight, most are happy with the timing of their retirement decision. Some retirements, however, may not be strictly "voluntary," but, rather, they may be a response to actual or threatened job loss, or to a lack of adequate job opportunities for older workers. These retirements may only be voluntary to the extent that labor force withdrawal is the best option available. But some workers' "first choice"—either phased retirement, or a "second career" upon job loss or pension acceptance—is often not feasible because of institutional rules and job market realities. Workers faced with the choice between continued full-time employment (during which some pension benefits are often lost), part-time work for relatively low wages, or complete retirement generally opt for complete retirement.

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[1] The concept of retirement is more complex for women. That is because women in their fifties and sixties today often had very little work experience throughout their lives. As a result, they often do not choose a retirement age based on their own work history or pension resources. Labor force participation rates for women age 65 and over have followed the same trend as that for men—they have declined from a high of about 11 percent in the early 1960's to about 7 percent today. Participation rates for women age 55-64 have changed little over the last two decades.

This report recognizes that early retirement has been a welcome trend for the majority of older workers, and that today's earlier retirement ages have come about because of positive factors—increased real Social Security benefits, gains in pension coverage and levels, and increases in wealth among retirement-age individuals. Nevertheless, job market problems do exist for a relatively small group of older workers, and those persons are the focus of this report.

*Background.* The debate over retirement age has taken place as the economy has been undergoing a profound transformation. Despite substantial employment growth in many areas of the economy, the continued loss of jobs in manufacturing industries has displaced many workers from their long-held jobs, often with serious consequences to individuals, their families, and even whole communities. In addition, the increasingly competitive nature of many industries has led to "downsizing"—reductions in the size of a company's work force—and to mergers and acquisitions that often speed up cost cutting, resulting in the loss of jobs. Managers and other white-collar workers have also been among those losing their jobs as a result of these restructurings.

One of the many ways in which employers have responded to the current economic climate is through pension plan provisions that allow for much earlier retirement than had previously been common. Many have turned to the use of Early Retirement Incentive Plans (ERIP's) as a way to reduce their payrolls or to avoid layoffs. Such plans provide incentives for workers to retire earlier than they otherwise would have under the normal provisions of their pension plans. To many, ERIP's are seen as beneficial to both employees and employers. To others, these programs are viewed as thinly veiled attempts to target older workers for job loss.

The economy has experienced one of the longest peacetime expansions of this century—6 years as of this writing. However, the early 1980's were marked by two recessions in which several million workers lost their jobs in manufacturing, and job growth elsewhere was either slow or nonexistent. The plight of many middle-aged and older workers who were displaced from long-held jobs during the recession periods was well publicized in press accounts. And, while the extent and severity of such problems were difficult to quantify precisely, it was clear that some older workers had a difficult time reestablishing themselves in the job market.

Thus, during the decade of the 1980's, recession and economic restructuring have served to increase interest in the labor market situation of older workers. At the same time, another issue has continued to receive attention. Largely because of escalating divorce rates over several decades, changing views about work and marriage, and a desire for families to maintain or increase their living standards, significant numbers of women in their forties, fifites, and even some in their sixties reentered the labor force after considerable time outside of it, often with little experience and few current job skills.

While most of the growing body of research on older workers still focuses on the decision to retire, increasing attention has been given to those who do not wish to do so. This analysis focuses on the job market and institutional barriers to employment faced by those older persons who *would* prefer work to complete retirement.

*Organization of the report.* With these concerns as a backdrop, this report attempts to address as many of the issues related to the labor market problems of older workers as possible, given data limitations and measurement problems. Chapter 2 documents the extent of various labor market difficulties experienced by older workers, such as job loss, unemployment, displacement, etc., and examines the job market outcomes for persons who experience these problems. It continues with an examination of issues related to labor force reentry of older women.

Chapter 3 addresses the institutional impediments to employment of older workers, both in long-term careers and in postretirement jobs. More than any other factor, the extent of work activity of older persons seems to be affected by institutional rules—particularly those related to Social Security regulations and pension policy. The chapter is divided into three parts: the effects of Social Security and private pension regulations on work activity, the market for part-time jobs, and the importance of age discrimination. Chapter 4 offers some conclusions based on the study findings.

*Age coverage.* The legislation requesting this report recommends the inclusion of all workers age 40 and over as "older workers." For some issues, such an age break may be appropriate, for others, such as those

related to retirement, an older cutoff is more relevant In many cases, distinctions cannot be made between the labor market problems and behavior of older and younger workers until age 55 and older Often, data limitations dictate the age detail and range that are available for investigation.

*Data on minorities.* During the preparation of this report, a number of organizations requested that efforts be made to distinguish between the labor market problems of older white workers and those of a wide range of racial and ethnic minorities. Unfortunately, there is a paucity of data on older minority group members who are unemployed and/or displaced from their jobs This is generally because labor force surveys are too small to measure accurately the job market status of small population groups, particularly when the phenomenon being measured, such as unemployment, is experienced by only a small portion of the individuals in those groups. An extremely large (and costly) sample survey of the population would be required to allow for any substantial analysis of the labor market problems of the minority aged.

Still, there is no question that older blacks and other minorities are far more likely than whites to experience labor market problems. Limited available data suggest that older minority workers, like those of all ages, have higher rates of unemployment and discouragement and lower earnings than do older whites. These lifetime differences in employment and earnings generally mean fewer resources at retirement age. As a result, some older workers must maintain an attachment to the job market long after those with greater financial resources might have retired As additional evidence of the precarious financial status of many older blacks and Hispanics, a report of the National Commission for Employment Policy (1985) found that older blacks were four times and Hispanics three times as likely as whites to experience labor market problems [2]

[2] These estimates were as of 1980 and related to eligibility for Comprehensive Employment and Training Act training programs Low-income people who are part of the labor force are considered to have labor market problems whether they are employed or unemployed

# CHAPTER 2.
# Unemployment and Other Labor Market Problems

Any discussion of the labor market problems of older workers should not only quantify the extent of those problems but should also put them into a meaningful perspective. While a few issues, such as forced retirement and age discrimination, are unique to older persons, many labor market problems, such as unemployment, job displacement, and labor market discouragement, affect workers of all ages. The key issue is the extent to which both the incidence and outcomes of these problems are different for older persons than for others.

Several sources of data provide information on labor market problems. The most useful ones for comparing the extent and outcomes of these problems between workers of different age groups are those that provide information on the entire working-age population. For that reason, this analysis relies heavily on monthly data from the Current Population Survey, [3] as well as several of its supplements. Longitudinal surveys often provide information for workers in narrow age ranges only, and hence cannot be used to make intergenerational comparisons of labor market experiences. However, because they follow individuals over an extended period of time, longitudinal surveys are especially well suited for examining the outcomes of labor market difficulties.

Prior to a discussion of some of the specific measures of labor market problems, it is useful to summarize the labor market status of older workers. Table 1 presents labor force data for workers age 45 and over. Until age 62, a majority of men work, for women, labor force participation rates are below 50 percent at age 60 and beyond. [4] With each addi-

[3] The Current Population Survey is a survey of close to 60,000 households conducted by the Bureau of the Census for the Bureau of Labor Statistics. In addition to the regular monthly data, which provide measures (weighted to national population controls) for various demographic and labor force categories, the CPS can also be used to match respondents' labor force characteristics over periods ranging from a month to as long as 16 months. The 1-month match, referred to as gross flows data, is used several times in this report. Also, each March, respondents are asked a series of questions related to their labor market activity during the entire previous calendar year, rather than the 1-week time period used for identification of employment status in the monthly CPS. These March data are referred to as work experience data.

[4] These cross-sectional data for men basically show what happens as people age. For women, the decline in participation with age evident in the

*Continued*

tional year of age (beyond age 45), successively fewer men work and more are out of the labor force. Work activity drops off sharply at age 62 and again at age 65, corresponding to the age of first eligibility for Social Security retirement benefits and the age of eligibility for "full"-benefits. In total, about 1.2 million workers age 45 and over were unemployed (out of a total unemployment count of 7.4 million), but only about 80,000 were age 65 and over. These data point out that the types of labor market problems experienced by older workers (however that group is defined) will vary markedly by age. Thus, the key issues go from unemployment and job loss, among the youngest groups, to post-retirement employment opportunities and pension rules among the oldest.

Labor market data are sometimes difficult to interpret. Such commonly used measures as unemployment rates, duration of unemployment, and discouragement, for example, may mean something quite different for older workers than for younger ones. This analysis examines a wide range of labor force data and discusses both their strengths and limitations. Often, their limitations dominate. That, however, is an important conclusion of this research: that there is much we do not know about job loss or employment opportunities for older persons.

The discussion is divided into three parts. First, various labor market measures, such as unemployment, discouragement, and displacement, are examined to assess what we do and do not know about the number of persons who lose their jobs or who might want a job for other reasons. Second, the outcomes of job loss and job search are examined. This analysis also includes a brief discussion of the effects of recessions on older workers' employment and an examination of issues related to labor force problems of older women.

## Magnitude of the problems

### Unemployment

*Measurement and extent.* The definition of unemployment used in the Current Population Survey (CPS) is specific to be counted as unemployed, a person must not have worked at all during the reference week, have actively looked for work at some point during the previous

cross-sectional data reflects both an aging effect and large differences in the worklife patterns of successive generations of women (this is referred to as a cohort effect). See Herz (1988) for a discussion of the latter phenomenon.

**Table 1.** Labor force status of the civilian noninstitutional population age 45 and over by sex and age, 1987 annual averages

(Numbers in thousands)

| Sex and age | Population | Labor force | | | | | |
|---|---|---|---|---|---|---|---|
| | | Employed | | Unemployed | | Not in labor force | |
| | | Number | Percent [1] | Number | Percent [1] | Number | Percent [1] |
| **TOTAL** | | | | | | | |
| 45-54 years | 23,183 | 17,487 | 75 4 | 723 | 3 1 | 4,972 | 21 4 |
| 55 years and over | 49,943 | 14,506 | 29 0 | 490 | 1 0 | 34,946 | 70 0 |
| 55-64 years | 21,835 | 11,465 | 52 5 | 412 | 1 9 | 9,958 | 45 6 |
| 55-59 years | 11,036 | 6,949 | 63 0 | 255 | 2 3 | 3,832 | 34 7 |
| 60-61 years | 4,420 | 2,275 | 51 5 | 87 | 2 0 | 2,058 | 46 6 |
| 62-64 years | 6,379 | 2,240 | 35 1 | 70 | 1 1 | 4,068 | 63 8 |
| 65 years and over | 28,108 | 3,041 | 10 8 | 78 | 3 | 24,989 | 88 9 |
| 65-69 years | 9,736 | 1,850 | 19 0 | 50 | 5 | 7,837 | 80 5 |
| 70 years and over | 18,372 | 1,191 | 6 5 | 29 | 2 | 17,152 | 93 4 |
| **Men** | | | | | | | |
| 45-54 years | 11,215 | 9,750 | 86 9 | 426 | 3 8 | 1,039 | 9 3 |
| 55 years and over | 21,899 | 8,532 | 39 0 | 307 | 1 4 | 13,060 | 59 6 |
| 55-64 years | 10,267 | 6,682 | 65 1 | 258 | 2 5 | 3,327 | 32 4 |
| 55-59 years | 5,249 | 4,027 | 76 7 | 158 | 3 0 | 1,064 | 20 3 |
| 60-61 years | 2,068 | 1,343 | 64 9 | 55 | 2 7 | 671 | 32 4 |
| 62-64 years | 2,950 | 1,312 | 44 5 | 45 | 1 5 | 1,592 | 54 0 |
| 65 years and over | 11,632 | 1,850 | 15 9 | 49 | 4 | 9,733 | 83 7 |
| 65-69 years | 4,411 | 1,108 | 25 1 | 30 | 7 | 3,273 | 74 2 |
| 70 years and over | 7,221 | 742 | 10 3 | 19 | 3 | 6,460 | 89 5 |
| **Women** | | | | | | | |
| 45-54 years | 11,968 | 7,737 | 64 6 | 298 | 2 5 | 3,934 | 32 9 |
| 55 years and over | 28,054 | 5,973 | 21 3 | 184 | 7 | 21,886 | 78 0 |
| 55-64 years | 11,567 | 4,783 | 41 4 | 155 | 1 3 | 6,630 | 57 3 |
| 55-59 years | 5,787 | 2,922 | 50 5 | 97 | 1 7 | 2,767 | 47 8 |
| 60 61 years | 2,352 | 932 | 39 6 | 32 | 1 4 | 1,387 | 59 0 |
| 62-64 years | 3,429 | 928 | 27 1 | 25 | 7 | 2,476 | 72 2 |
| 65 years and over | 16,476 | 1,191 | 7 2 | 30 | 2 | 15,256 | 92 6 |
| 65-69 years | 5,325 | 742 | 13 9 | 20 | 4 | 4,564 | 85 7 |
| 70 years and over | 11,151 | 449 | 4 0 | 10 | 1 | 10,692 | 95 9 |

[1] Percent of population. For the unemployed, this figure should not be confused with an unemployment rate, which is the unemployed as a proportion of the labor force.

*Source: Bureau of Labor Statistics, Current Population Survey*

4 weeks, and be available for work at the time of the survey. [5] Thus, simply put, the unemployed must be jobseekers. Many have lost their jobs, but others have quit theirs or have begun a job search after being out of the labor force. Not included in the category are persons who are out of the labor force (not working or looking for work), whether or not they might want a job under certain circumstances. The magnitude of unemployment among older workers is shown in table 1. In 1987, about 700,000 persons ages 45 to 54, 400,000 ages 55 to 64, and fewer than 100,000 age 65 and older were unemployed in an average month. Men and women had fairly similar unemployment rates at each age.

The unemployment rates for older workers are well below the average for all workers. However, since the national average is inflated by the markedly high jobless rates for youth, it is most appropriate to omit workers under age 25 from the comparison with older workers, whatever the age cutoff. The tabulation below shows unemployment rates for men and women in various age groups in 1987.

**Unemployment rates, 1987 annual averages**

| Age | Men | Women |
|---|---|---|
| 25-34 years | 5.9 | 6.2 |
| 35-44 years | 4.4 | 4.6 |
| 45-54 years | 4.2 | 3.7 |
| 55-64 years | 3.7 | 3.1 |
| 65 years and over | 2.6 | 2.4 |

Prior to the 1970's, the jobless rate for men age 55 and over tended to be higher than the rate for 25-to 54-year-olds. Since then, not only has the situation been reversed, but the gap between the older and younger groups has continued to grow and has tended to widen in recessions and narrow in recoveries. Some possible reasons for the recent differences in the rate of joblessness favoring older men include the following:

[5] Persons on layoff from a job to which they expect to be recalled or who are scheduled to begin a new wage and salary job within 30 days are the exceptions to the job search requirement in the unemployment concept.

- Improvements in pension income have made retirement a viable alternative to employment for many older potential jobseekers. Several large increases in Social Security benefits were instituted in the early 1970's and payments were subsequently indexed to the Consumer Price Index to protect against erosion from inflation. Coverage of employees by private pensions has also increased since the 1960's. Thus, some persons who may have had to find a job in the past are now better able to retire (or stay retired).
- There has been a considerable increase in the use of early retirement inducements to lower labor costs and avoid layoffs. This method used to be closely associated with recessions, but the increased competitive pressure of the 1980's has made this a fairly common occurrence, even in a time of general economic expansion. Thus, older persons may avoid further work, and possibly layoff, by retiring, an option not available to younger workers.
- Rates of labor force reentry (proportion of workers who were out of the labor force in the previous month who are in the labor force in the current month) for older men are generally down from the late 1960's and early 1970's. That is, retired workers are more likely to stay retired. Thus, there may have been some downward pressure on older workers' jobless rates as fewer persons outside the labor force undertook a job search.

The above points all focus on the increase in both the incidence and permanence of retirement as explanations for the decline in unemployment among older persons. The option of being out of the labor force, not feasible for most middle-aged workers (particularly men), complicates unemployment comparisons between age groups in two ways. First, the incidence of unemployment among older persons is limited by labor force withdrawal. For example, a 40-year-old job loser is much more likely to show up in the CPS as unemployed than is a 62-year-old, who may choose to retire rather than undertake a job search. Secondly, duration of unemployment may be lowered by labor force withdrawal after an unsuccessful job search, in other words, a large proportion of the unemployment spells of older persons end in labor force withdrawal

rather than employment. Had these persons persisted in their job searches, average durations of unemployment would probably be higher than they are. (See Rones, 1983.)

*Are older jobseekers marginal jobseekers?* Two groups of older workers exhibit quite different unemployment characteristics. For those between the ages of 40 and 54, unemployment is fairly easy to interpret. There is little question that most jobseekers in that age group are in the job market largely for financial reasons. They generally look for full-time work until they find a job (rather than give up their job search) because, aside from the earnings of other family members, they usually have no other major source of income to rely on if they end a search unsuccessfully.

It is tempting to portray older jobseekers age 55 and beyond as more marginal labor force participants—as many may have viable nonwork options. This characterization is consistent with the fact that a relatively high proportion end their unemployment spells by leaving the labor force rather than by gaining employment. While it is difficult to measure how much someone wants or needs a job, some data on job search and reason for unemployment shed light on the issue.

The data presented in table 2 tend to support the contention that the older the jobseeker, the more marginal the job search. However, the stereotype of the older person as not needing work is, in many cases, invalid. Generally, the higher the nonwage income, the less pressing the need for employment, but, for many workers, retirement income is not available prior to age 62 (age of Social Security eligibility). Thus, before that age, an older person may be no more able to finance extended time away from work than a middle-aged worker. In fact, as shown in table 2, prior to age 62, the vast majority of older unemployed workers were receiving neither Social Security nor other pension (including government pension) benefits. Fewer than 1 in 5 60 and 61-year-olds was receiving a pension other than Social Security. At age 62 and beyond, however, the majority of jobseekers have other sources of income. [6]

While these data clearly indicate that many older unemployed persons do have access to pension income, those still looking for work are

[6] Data for persons in the oldest groups, especially those based on a single month, should be viewed with caution because of the relatively small number of unemployed persons these ages in the CPS sample.

**Table 2. Pension receipt in 1986 of unemployed persons age 50 and over by sex and age, March 1987**

(Percent distribution)

| Sex and age | Total | No Social Security or pension | Social Security, no pension | Pension, no Social Security | Both |
|---|---|---|---|---|---|
| **Men** | | | | | |
| 50-54 years | 100 | 91 | 1 | 8 | — |
| 55-59 years | 100 | 82 | 1 | 16 | 1 |
| 60-61 years | 100 | 75 | 7 | 18 | — |
| 62-64 years | 100 | 45 | 40 | 9 | 4 |
| 65 years and over | 100 | 16 | 51 | 2 | 31 |
| **Women** [1] | | | | | |
| 50-54 years | 100 | 96 | 4 | — | — |
| 55-59 years | 100 | 83 | 7 | 10 | — |
| 60-61 years | 100 | 93 | 5 | 5 | — |
| 62-64 years | 100 | 29 | 52 | 5 | 17 |
| 65 years and over | 100 | 6 | 52 | 3 | 42 |

[1] Much of the pension receipt for women age 62 and over reflects benefits based on the earnings records of their husbands

*Source: Bureau of Labor Statistics, March 1987 Current Population Survey income supplement*

far less likely to have pensions than are persons the same age who are retired. For example, among unemployed men ages 62 to 64, 45 percent had no pension income, and among those 65 and over, 16 percent had none. Of those out of the labor force the corresponding figures were only 16 percent and 3 percent, respectively. This supports the thesis that older unemployed workers tend to be those who are least able to afford to retire. (See Fraker, 1983, Harris, 1981 and 1976, and McConnell, 1983.)

Other characteristics of unemployed persons prior to age 62 indicate that job search is often very serious. The majority of older jobseekers under age 62 are persons who begin looking for work immediately after losing a job, they are not leaving retirement to look for work. As table 3 shows, in 1987, three-fourths of the unemployed men ages 55 to 59

were job losers—persons who were either on layoff or were permanently separated from their jobs.

**Table 3.** Percent distribution of unemployed workers by reason for unemployment, sex, and age, 1987 annual averages

| Sex and age | Total | Job losers | Job leavers | Entrants |
|---|---|---|---|---|
| **Men** | | | | |
| 25–54 years | 100 0 | 72 9 | 11 7 | 15 4 |
| 55–59 years. | 100 0 | 75 3 | 6 8 | 17 9 |
| 60–64 years . | 100 0 | 68 2 | 9 0 | 22 8 |
| 65 years and over | 100 0 | 45 1 | 6 9 | 47 9 |
| **Women** | | | | |
| 25–54 years . | 100 0 | 42 2 | 14 8 | 43 0 |
| 55–59 years .. . | 100 0 | 51 9 | 12 2 | 35 9 |
| 60–64 years | 100 0 | 58 1 | 7 9 | 34 0 |
| 65 years and over | 100 0 | 38 8 | 6 2 | 55.0 |

*Source Bureau of Labor Statistics, Current Population Survey*

Further evidence of the labor force commitment of jobseekers in their late fifties is shown in the tabulation below. Almost all of the unemployed men ages 55 to 59, and three-quarters of the unemployed women in that age group, were looking for full-time jobs in 1987.

**Percent of unemployed seeking full-time jobs, 1987 annual averages**

| Age | Men | Women |
|---|---|---|
| 45–54 years | 96 9 | 80.2 |
| 55–59 years | 92 4 | 75.3 |
| 60–64 years . | 82 0 | 62 1 |
| 65 years and over | 46 9 | 40 0 |

In general, then, there is little evidence to distinguish the level of labor force commitment of unemployed persons in their late fifties and early sixties from that of central-age workers Older jobseekers in this age range are largely people who lost their jobs, need (or want) full-time work, and do not have adequate financial resources to support themselves if they withdraw from the labor force.

Once individuals reach age 62, most have the option of receiving Social Security benefits From that age on, with each year, unemployed

workers are progressively more likely to take on the characteristics of a marginal jobseeker—someone who has retirement income, who is looking for part-time work (often to stay under the Social Security earnings limit), and who might give up a job search without finding a job. To illustrate the last point, table 4 uses CPS gross flows data and shows that the probability of unemployed workers in various age groups going from unemployment to outside the labor force in successive months in 1987 was greatest for older jobseekers. (See footnote 6.)

**Table 4.** Monthly probabilities of labor force withdrawal from unemployment by sex and age, 1987 annual averages

(Percent)

| Age | Men | Women |
|---|---|---|
| 45-54 years | 12.0 | 25.0 |
| 55-59 years | 14.0 | 26.8 |
| 60-64 years | 26.9 | 34.9 |
| 65 years and over | 42.6 | 42.9 |

*Source: Bureau of Labor Statistics, Current Population Survey gross flows data*

Also, according to CPS data collected in 1976, job search efforts of men age 65 and older are less intensive than those of younger men, the older group spent roughly half as much time in job search as their 25-to 54-year-old counterparts (Rosenfeld, 1977). (Women's job search effort was essentially the same across the age spectrum.) Finally, older jobseekers are less likely than younger ones to persevere in their job search, although it is not clear to what extent aborting a search is job market related. (This issue is discussed later in the section on duration of unemployment.)

This discussion is not intended to understate the seriousness of the oldest groups' job search efforts. The fact that persons age 65 and older, ages at which most are retired, would look for work is evidence of need—either financial, psychological, or both. That their job search efforts often do not result in employment is certainly cause for concern.

## Discouragement

A second widely used measure of labor market difficulty is that of labor market discouragement, a measure of the failure of the job market for persons outside the labor force. Technically, discouraged workers are persons who are not in the labor force who say they want a job but are not looking for one because they believe they would be unsuccessful if they were to undertake a search. There is no presumption that any recent job search has taken place by discouraged workers. In fact, some have not looked for work for many years and have no plans to do so (Rones, 1983. Also, see Flaim, 1984, for a discussion of the labor market attachment of discouraged workers in general.)

Despite the marginal labor market attachment of some older discouraged workers, the measure is still important for analyzing this group. A worker does not necessarily have to engage in an active job search to conclude that the prospects of finding an acceptable job are not good. In certain circumstances, one may presume job prospects to be bleak without actually testing the waters. If persons indicate that they are available for work and want jobs, some credence must be given to that response Also, those outside the labor force make up the vast majority of the older population, and labor market discouragement is often the only available measure of that group's potential labor supply.

Table 5 presents the official unemployment rate for workers in various age groups alongside a modified jobless rate that includes discouraged workers (in both the numerator and denominator). This is not to suggest that they should be included, but, rather, demonstrates the effect on the jobless measure if they were.

Differences in the two rates for older workers reflect a population phenomenon more than a job market one. For example, 12 times as many women age 65 and over are outside the labor force as inside. Thus, even if a very small portion of the not-in-labor-force group was made up of discouraged workers, they would have a large effect on the small labor-force-based measure And, in fact, discouraged workers are only a minuscule portion of persons age 65 and older who are out of the labor force--only about 100,000 out of 25 million--less than half of 1 percent At the other extreme, only about 6 percent of central-age men are out of the labor force, a very small pool from which discouraged workers may come.

Modifying the unemployment rate to include discouraged workers has virtually no effect for central-age men and a only a small effect for

women in that age group. At the other extreme, however, for women age 65 and older, the new "jobless rate" is almost triple the original rate.

**Table 5.** Civilian worker unemployment rate and modified rate including discouraged workers, number unemployed, and discouraged workers by sex and age, 1987 annual averages

(Numbers in thousands)

| Sex and age | Official unemployment rate | Rate including discouraged workers | Unemployed persons | Discouraged workers |
|---|---|---|---|---|
| **Men** | | | | |
| 25-54 years | 5.0 | 5.4 | 2,283 | 178 |
| 55-59 years | 3.8 | 4.6 | 158 | 34 |
| 60-64 years | 3.6 | 4.8 | 100 | 34 |
| 65 years and over | 2.6 | 4.8 | 49 | 44 |
| **Women** | | | | |
| 25-54 years | 5.1 | 5.9 | 1,850 | 338 |
| 55-59 years | 3.2 | 4.3 | 97 | 33 |
| 60-64 years | 3.0 | 4.9 | 57 | 38 |
| 65 years and over | 2.4 | 7.1 | 30 | 61 |

*Source: Bureau of Labor Statistics, Current Population Survey*

In conclusion, one needs to be careful when analyzing the statement that older workers tend to be "overrepresented" among discouraged workers. Such a finding is to be expected when the potential pool of discouraged workers includes all those outside the labor force, a group that accounts for the majority of the older population. The real problem of discouragement, however, may be understated by the official measure. For many retirees, the types of job offers available to older workers are at such odds with their job market aspirations that they may not even consider employment an option. In addition, Social Security and private pension rules often provide substantial disincentives to work after retirement. (See chapter 3.) Thus, some individuals who report that they "do not want a job now" could be responding to what they perceive as the prevailing conditions of employment.

## Displacement

*CPS displaced worker survey.* Older workers, like workers of other ages, have been affected by structural changes in the economy. These include changing demographics, increased foreign competition, and long-term shifts in the industrial structure of employment. Special supplements to the Current Population Survey conducted in 1984 and 1986 found that about 5 million experienced workers lost their jobs as a result of plant closings, slack work, or the abolition of a job or shift during the 5 years preceding each survey (Horvath, 1987, and Flaim and Sehgal, 1985) The January 1986 supplement found that 950,000 of these displaced workers were age 55 or older. (See table 6.) Thus, older workers constituted almost one-fifth of all displaced workers identified in the supplement.

The tabulation below presents displacement rates for workers in 1984 by age:

| Age | Displacement rate |
|---|---|
| **TOTAL** | 1 63 |
| 25-34 years | 1 95 |
| 35-44 years | 1 54 |
| 45-54 years | 1 33 |
| 55 years and over | 1 57 |

*Source Bureau of Labor Statistics, January 1986 Current Population Survey supplement*

These represent the proportion of workers with 3 years of employer tenure who were displaced from their jobs. That year was chosen because it was felt to provide the most accurate single-year measure of displacement of the 5 years recorded in the January 1986 survey—1981 to 1985 [7] (Rates cannot be derived for the entire period, since a 5-year employment total—the necessary denominator—could not be estimated ) The appropriate denominator in such a calculation would be the number of employed persons in January 1984 who had at least 3 years

[7] The earlier years may understate displacement because of problems of recall (such events may be reported to have occurred more recently than they actually did) and the year immediately preceding the survey may be inflated because persons who will eventually be recalled to their jobs may, at the time of the survey, perceive their displacement as permanent.

of tenure. Since employer tenure data were not collected in 1984, tenure distributions for each age group were taken from a 1983 supplement to the CPS and applied to the 1984 displacement data. (Applying the tenure distribution from 1987, the next, and most recent, survey, provides essentially the same relative displacement rates between age groups in 1984 as do the 1983 tenure data.)

**Table 6.** Employment status of displaced workers [1] by sex and age, January 1986

| Sex and age | Number (thousands) | Percent distribution by employment status | | | |
|---|---|---|---|---|---|
| | | Total | Employed | Unemployed | Not in labor force |
| **TOTAL** | | | | | |
| Total, 20 years and over | 5,130 | 100.0 | 66.9 | 17.8 | 15.3 |
| 20-24 years | 222 | 100.0 | 69.1 | 23.2 | 7.7 |
| 25-54 years | 3,950 | 100.0 | 72.5 | 18.1 | 9.4 |
| 55-64 years | 789 | 100.0 | 47.4 | 17.6 | 35.0 |
| 65 years and over | 169 | 100.0 | 23.4 | 4.3 | 72.4 |
| **Men** | | | | | |
| Total, 20 years and over | 3,321 | 100.0 | 70.9 | 18.6 | 10.5 |
| 20-24 years | 146 | 100.0 | 74.1 | 20.4 | 5.5 |
| 25-54 years | 2,605 | 100.0 | 76.1 | 19.6 | 4.4 |
| 55-64 years | 482 | 100.0 | 50.2 | 15.3 | 34.5 |
| 65 years and over | 87 | 100.0 | 24.5 | 6.2 | 69.3 |
| **Women** | | | | | |
| Total, 20 years and over | 1,810 | 100.0 | 59.6 | 16.2 | 24.1 |
| 20-24 years | 76 | 100.0 | 59.6 | 28.7 | 11.8 |
| 25-54 years | 1,345 | 100.0 | 65.7 | 15.2 | 19.0 |
| 55-64 years | 307 | 100.0 | 43.1 | 21.2 | 35.8 |
| 65 years and over | 82 | 100.0 | 22.2 | 2.2 | 75.6 |

[1] Data refer to persons with tenure of 3 years or more who lost or left a job between January 1981 and January 1986 because of plant closings or moves, slack work, or the abolishment of their positions or shifts

*Source: Bureau of Labor Statistics, January 1986 Current Population Survey displaced worker supplement*

In 1984, workers age 55 and over had displacement rates that were almost identical to those of workers ages 35 to 44 and slightly above

those of workers ages 45 to 54. That may seem surprising, in that older workers are generally perceived as being more insulated from layoff

**Table 7.** Displaced workers[1] by reason for job loss, sex, and age, January 1986

| Sex and age | Total displaced (thousands) | Percent distribution by reason for job loss | | | |
|---|---|---|---|---|---|
| | | Total | Plant or company closed or moved | Slack work | Position or shift abolished |
| **TOTAL** | | | | | |
| Total, 20 years and over | 5,130 | 100.0 | 54.7 | 31.2 | 14.0 |
| 20-24 years | 222 | 100.0 | 56.8 | 30.4 | 12.8 |
| 25-54 years | 3,950 | 100.0 | 52.2 | 33.9 | 13.9 |
| 55-64 years | 789 | 100.0 | 65.0 | 20.5 | 14.5 |
| 65 years and over | 169 | 100.0 | 64.0 | 21.0 | 14.9 |
| **Men** | | | | | |
| Total, 20 years and over | 3,321 | 100.0 | 53.7 | 34.5 | 11.8 |
| 20-24 years | 146 | 100.0 | 58.3 | 32.2 | 9.5 |
| 25-54 years | 2,605 | 100.0 | 51.3 | 37.1 | 11.5 |
| 55-64 years | 482 | 100.0 | 64.4 | 22.7 | 12.8 |
| 65 years and over | 87 | 100.0 | 57.0 | 24.2 | 18.9 |
| **Women** | | | | | |
| Total, 20 years and over | 1,810 | 100.0 | 56.7 | 25.3 | 18.0 |
| 20-24 years | 76 | 100.0 | 54.0 | 27.0 | 19.1 |
| 25-54 years | 1,345 | 100.0 | 53.9 | 27.5 | 18.6 |
| 55-64 years | 307 | 100.0 | 65.9 | 17.0 | 17.1 |
| 65 years and over | 82 | 100.0 | 71.6 | 17.7 | 10.8 |

[1] Data refer to persons with tenure of 3 years or more who lost or left a job between January 1981 and January 1986 because of plant closings or moves, slack work, or the abolishment of their positions or shifts

*Source: Bureau of Labor Statistics, January 1986 Current Population Survey displaced worker supplement*

than their younger counterparts. On the other hand, a larger proportion of the displacement reported by older workers than by younger ones (in the entire 5-year sample) was the result of plant closings, events from which seniority offers no protection. In fact, two-thirds of the older displaced workers cited plant closings as the cause for their displacement. (See table 7.) Older women, because of their much shorter average tenure than men, rarely enjoy even the limited protection afforded by seniority. Also, declining industries—from which workers are most likely to be displaced—tend to have an older age profile than

growing industries. For example, in 1987, 18 percent of workers in manufacturing were ages 45 to 54, compared to only 11 and 13 percent, respectively, in the faster-growing retail and business and repair services industries. Thus, their concentration in declining industries puts older workers at a relatively high risk for losing their jobs.

*Other measures of displacement.* No national survey provides a complete count of job loss; the CPS, for example, limits the count of job losers to those who are not working but who are actively looking for work. However, the National Longitudinal Survey (NLS) of Mature Men has been used by Parnes et al (1977, 1981) to document the extent of job loss among long-service male workers between 1966 and 1975. While somewhat old, these data and the authors' analysis are still useful in the unemployment discussion. Among men who were ages 55 to 69 in 1976, 1 in 14 had lost a job in which he had been employed at least 5 years during the previous 10 years. This represented about half a million such men in the population.

Like displaced worker data from the CPS, the NLS data show that permanent displacement hit men in all occupational groups, irrespective of educational background or job tenure. Shapiro and Sandell (1984), also using NLS data, analyzed all job losses, rather than just those from long-term service, and found that a disproportionate share of job loss occurred among workers with short tenure.

### Data issues

The Current Population Survey and other data sources provide a wide range of measures of labor market performance of older workers. Proper analysis of these data, however, requires that their precise concepts and definitions be understood.

By itself, the unemployment rate is clearly not sufficient as a measure of the relative job market difficulties faced by older and younger workers. Unemployment rates for workers in their fifties and sixties are much lower than those of workers in their twenties and thirties. This is partly because older workers are less apt to leave a job voluntarily to search for another. But there is also the question of seniority. Many analysts believe that older workers who have seniority are protected

against job loss. Such a line of reasoning, however, assumes that job loss is less likely for older workers than for younger ones—a conclusion that cannot be made from unemployment statistics. Unemployment is a better proxy for job loss for other groups--men in their thirties and forties, for example. This is largely because many older job losers avoid unemployment by withdrawing from the labor force, an option not feasible for most younger workers. While unemployment statistics *are* an excellent measure of job search activity—exactly what they are designed to be—their use for other purposes is limited. Other measures of labor market problems, mentioned earlier, are similarly limited in that intergroup differences are often difficult to interpret.

The best data currently available on job loss of workers of different ages—those obtained from several supplements to the Current Population Survey on permanent displacement—indicate that older workers may suffer nearly as much job loss as younger ones. This suggests that other factors may offset any advantages seniority provides to older workers. These data on displacement are collected infrequently, they only count certain types of job loss, and their 5-year retrospective nature presents some technical problems.

The most important longitudinal data base for this type of analysis—the National Longitudinal Survey (NLS)—was specifically designed to measure many of the labor market problems experienced by older workers. It permits analysis of problems as individuals age, but does not permit comparison of labor market problems of survey participants with those of workers in other age groups. Furthermore, the NLS panels on mature men were discontinued in the early 1980's, leaving only information on labor market developments of a younger group of women. The biggest advantage of longitudinal panel surveys is that, by following the same people over an extended period of time, they can be used to examine the *outcomes*, such as changes in earnings or labor force status, of various labor market events experienced by individuals. For that purpose, the NLS data are utilized extensively in this report.

## Outcomes of Unemployment and Displacement

What happens to older workers when they lose a job or become unemployed? With younger workers, the eventual outcome of unemployment is usually employment. Particularly among men in the central ages of 25 to 54, few have resources that allow them to spend an extended period of time out of the labor force. The receipt of unemployment insurance may allow workers to finance job search for some period of time, but eventually, the vast majority of these workers will find employment.

For older workers, the scenario may be very different. As shown in table 8, the probabilities of an unemployed person leaving the labor force increase sharply around retirement age. Fully 43 percent of both unemployed men and women age 65 and over, for example, were not in the labor force after being unemployed the previous month. This compared with only 11 percent of the men between the ages of 25 and 54. In addition, the probability of finding a job tends to be lower for older workers than for younger ones. (See footnote 6.)

**Table 8.** Labor force status in current month of persons unemployed in previous month by sex and age, 1987 annual averages

(Percent distribution)

| Sex and age | Total | Employed | Unemployed | Not in labor force |
|---|---|---|---|---|
| **Men** | | | | |
| 25-54 years | 100.0 | 29.1 | 60.0 | 10.9 |
| 55-59 years | 100.0 | 23.6 | 62.4 | 14.0 |
| 60-64 years | 100.0 | 17.3 | 55.8 | 26.9 |
| 65 years and over | 100.0 | 19.1 | 38.3 | 42.6 |
| **Women** | | | | |
| 25-54 years | 100.0 | 24.0 | 51.1 | 24.8 |
| 55-59 years | 100.0 | 21.6 | 51.5 | 26.8 |
| 60-64 years | 100.0 | 20.6 | 46.0 | 34.9 |
| 65 years and over | 100.0 | 14.3 | 39.[illegible] | 42.9 |

*Source: Bureau of Labor Statistics, Current Population Survey, gross flows data.*

## Duration of unemployment

One of the most important issues related to job loss is the amount of time persons spend unemployed when they do look for work. That older job losers have longer durations of unemployment than do younger ones is usually considered a truism. For example, a National Commission for Employment Policy (1985) report stated, "While persons over 45 have the lowest unemployment rates, when they do lose their jobs they take longer to find new ones—at least up to age 60, when retirement rather than continued job search becomes a standard option." The data presented here suggest that, while that statement might be true, the evidence is ambiguous.

Recent data on duration of unemployment for workers of various ages come directly, or can be derived, from a number of sources, including: 1) the regular monthly CPS, 2) the CPS gross flows data, 3) the work experience supplement to the CPS, and 4) the Survey of Income and Program Participation (SIPP). Each of these data sources allows for the estimation of duration of unemployment, however, the findings regarding age differences are often unclear or even contradictory. Although the discussion that follows is somewhat lengthy, it is warranted since a basic premise—the positive relationship between age and duration of unemployment—and its interpretation are in question.

*The monthly CPS.* The most often used data on duration of unemployment for persons of various age groups are the only regularly published data on that topic, which come from the monthly CPS. As shown in table 9, these data indicate a steadily rising median duration of unemployment with age, up until age 65. Durations among workers age 65 and older are held (or brought) down by the high probability of jobseekers that age ending their search by leaving the labor force.

These CPS data refer to the amount of time that persons who are currently unemployed have been looking for work. Thus, they do not measure the length of a *completed* spell of unemployment, rather, they measure the current length of an *in-progress* spell. Such data may tell little about the eventual length of a completed spell.

*Gross flows.* CPS gross flows data can be used to estimate the duration of a completed spell of unemployment. Since these data match the labor force status of individuals in consecutive months, the probabilities of a person who was unemployed in a given month ending that spell of

**Table 9.** Median duration of in-progress spells of unemployment by sex and age, 1987 annual averages

(In weeks)

| Age | Men | Women |
|---|---|---|
| 16-19 years | 4.4 | 4.0 |
| 20-24 years | 6.3 | 4.6 |
| 25-34 years | 8.4 | 6.1 |
| 35-44 years | 10.8 | 6.8 |
| 45-54 years | 12.4 | 7.3 |
| 55-64 years | 13.2 | 7.9 |
| 65 years and over | 8.1 | 6.5 |

*Source: Bureau of Labor Statistics, Current Population Survey*

unemployment by the next month can be estimated, as was done in tables 4 and 8. The technique used to convert these probabilities into estimates of the duration of a completed spell of unemployment is described in the appendix.

Table 10 provides estimates of the expected duration in weeks of a completed spell of unemployment for workers in various age groups. The results indicate that, unlike in the basic CPS data, duration may not go up with age; in fact, in 1987, durations for men were flat through age 59 and declined thereafter. Using this technique, Rones (1983) found that over the entire 1968-81 period, men age 60 and over had an estimated duration of a completed spell of unemployment that was about 1 week shorter than that for men ages 25 to 44.

But the CPS gross flows data in table 8 also show that many older jobseekers end their job search without finding work. In fact, for men in the oldest age groups and for women of all ages, more spells of unemployment are ended in labor force withdrawal than in employment. In this calculation, such labor force withdrawal serves to lower the expected durations of unemployment for older workers relative to younger ones.

What would happen if this calculation were limited to those who actually went from unemployment to employment? Table 10 also presents an estimate of the expected duration of a completed spell of unemployment that is limited to those who find a job. Since the likelihood of

Table 10. Expected duration of a completed spell of unemployment and a successfully completed spell by sex and age, 1987 annual averages

| Sex and age | Expected duration (in weeks) | |
|---|---|---|
| | Completed spell of unemployment | Successfully completed spell of unemployment [1] |
| **Men** | | |
| 25-34 years | 10 3 | 12 4 |
| 35-44 years | 11 2 | 13.5 |
| 45-54 years | 11 5 | 14.9 |
| 55-59 years | 11 4 | 15 7 |
| 60-64 years | 9 7 | 18.2 |
| 65 years and over | 7 0 | 12 9 |
| **Women** | | |
| 25-34 years | 8 7 | 13 5 |
| 35-44 years | 8.9 | 13.5 |
| 45-54 years | 8 7 | 13 2 |
| 55-59 years | 8 9 | 14.5 |
| 60-64 years | 7.7 | 13.9 |
| 65 years and over | 7 5 | 16 1 |

[1] Expected duration for spells ending in employment

*Source Bureau of Labor Statistics, Current Population Survey gross flows data*

going from unemployed to employed is lower for older male jobseekers than for younger ones, the expected durations of successfully completed spells are higher for the older groups. This finding, then, supports the contention that older jobseekers may take longer to find a job, though it is not clear to what extent this is related to employers', or to jobseekers', preferences or behavior. The relatively short durations of unemployment for men age 65 and over might suggest that they have an easier time finding employment (the part-time jobs for which they look may be more plentiful than the full-time ones sought by younger workers) On the other hand, it may mean that an individual's job search behavior and alternatives to employment may be as important as employers' preferences in determining the outcome of unemployment.

*The CPS work experience supplement.* Each March, the CPS includes a series of supplemental questions on labor force activity during the previous calendar year—including weeks employed, weeks unemployed, and weeks out of the labor force Unemployment may involve more

than one spell, and older and younger persons with unemployment are about equally likely to have had more than one jobless spell. As shown in table 11, for the recessionary year 1982 and for 1987, there were not large differences in the number of weeks of unemployment across the age spectrum, although the medians are highest for 55-to 64-year-olds. In fact, in either measure—the median time unemployed or the percent unemployed 15 weeks or more—few differences exist between age groups.

**Table 11.** Median weeks of unemployment and percent unemployed 15 weeks or more by sex and age, 1982 and 1987

| Sex and age | Median weeks of unemployment experienced | | Percent unemployed 15 weeks or more | |
|---|---|---|---|---|
| | 1982 | 1987 | 1982 | 1987 |
| **Men** | | | | |
| 25-34 years | 17 3 | 14 6 | 53.0 | 45.7 |
| 35-44 years | 17 5 | 14 5 | 52 7 | 44.8 |
| 45-54 years | 17 1 | 15 9 | 51.1 | 48.6 |
| 55-64 years | 17 9 | 17 1 | 52.5 | 51.4 |
| 65 years and over | 17 7 | 14 6 | 54 6 | 46 2 |
| **Women** | | | | |
| 25-34 years | 13 9 | 11 3 | 44 5 | 35 2 |
| 35-44 years | 14 1 | 12 2 | 44 5 | 38 7 |
| 45-54 years | 14 6 | 13 9 | 45 3 | 42.0 |
| 55-64 years | 17 1 | 14 4 | 47 7 | 44.7 |
| 65 years and over | 14 4 | 12 4 | 45.5 | 41.4 |

*Source: Bureau of Labor Statistics, March 1983 and 1988 CPS work experience supplements*

*Survey of Income and Program Participation (SIPP).* Data from the SIPP were used to estimate the length of a completed spell of unemployment for workers whose entire spell of unemployment took place within the (roughly) 1 year covered by the available data. [8] (Spells that

[8] Unemployment spells can be interrupted by short spells of employment or periods out of the labor force lasting no more than a few weeks at a time

*Continued*

had started prior to the survey period or had continued beyond it were not counted because the full length of those spells could not be calculated.) In line with the CPS work experience data, there seems to be little relationship between age and duration of job search, although, for men, durations are slightly higher above age 55. (See table 12. Note that these data are in months, not weeks, as in the CPS measures.) In addition, there appears to be no difference whether one looks at all completed spells or just those that ended in employment. This implies that spells ending in labor force withdrawal tend to last just as long as those ending in employment.

Persons who drop out of the labor force without finding a job are different from those who persevere in their job search until they find employment. As reported by Fraker (1983) in his analysis of Retirement History Survey data from the early 1970's, persons who drop out tend to be those with prospects for the lowest wages or those with the greatest amounts of nonwage income. Those who find employment either have the best prospects (which would give them a shorter duration) or the most need (a case could be made for this resulting in either a long or short average duration of unemployment).

The SIPP data suggest that, on average, older workers take about the same amount of time to find a job as younger ones, a finding which conflicts with the CPS gross flows data. But are the SIPP findings reasonable? Many observers interpret differences in duration of unemployment among age groups as reflecting primarily (or exclusively) the demand for younger, rather than older, workers. However, the data indicating that duration of unemployment may not be any longer for older than for younger workers suggest that other factors must also be influential. (The gross flows data also suggest this, as discussed in that section.) In fact, supply factors may be just as important. On average, an older jobseeker is likely to have more financial assets.[9] (Avery et al,

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The 1983-84 SIPP longitudinal research file is a preliminary file produced by the Census Bureau on a limited basis to stimulate research that might improve understanding and analysis of longitudinal data from the SIPP. Estimates produced from the file and findings based on those estimates should be regarded as tentative.

[9] According to the Survey of Consumer Finances (Avery et al, 1984) both older labor force participants and retirees over the age of 55 have considerably higher mean and median levels of financial assets than do younger persons. These data do not, however, distinguish between unemployed and employed labor force participants.

1984), fewer financial responsibilities [10] (U.S. Bureau of the Census, 1988), and more nonwage income than a younger unemployed person. For some older persons, these factors may make retirement possible, allowing for an aborted job search. For others, these same factors may prolong the job search, as older persons may be able to absorb the costs of an extended period of unemployment. As a result, it is difficult to determine what durations of unemployment mean for groups who not only face different job market offers, but who also have different work and nonwork options.

Thus, the data on duration of unemployment may not provide a useful indication of how difficult it is for persons of various ages to find work. Duration of unemployment measures how long people (who may have very different job market motivations) have been looking for a job, or how long they take to find one. The notion that older workers have a harder time finding a job than do younger ones, while quite possibly true, is not clearly supported empirically.

### Displacement

What happens to older workers who can be specifically identified as having lost their jobs? The 1986 CPS displaced worker survey (mentioned earlier) showed that older displaced workers were less likely to be reemployed and far more likely to be out of the labor force than were their younger counterparts. Those 55-to 64 years old were about as likely as all displaced workers to be measured as unemployed, but those 65 years or older were very much less likely to be. (See table 6.)

Among unemployed displaced workers, almost 30 percent of those 25 to 54 years of age reported that they were on layoff—an indication that the worker perceived some probability of recall. Only 21 percent of older displaced workers (both sexes combined) were classified as on layoff—not surprising when such a large proportion (two thirds) were victims of plant closings. (See table 13.)

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[10] According to the Census Bureau (1988), 4 of 5 "householders"ages 25 to 44 live in families with related children under the age of 18. Only a third of those ages 45 to 64 have dependent children, as do only 6 percent of householders age 65 and over.

Table 12. Median duration of completed spells of unemployment in 1984 by sex and age

| Sex and age | Median duration (in months) | |
|---|---|---|
| | Completed spell of unemployment | Successfully completed spell of unemployment |
| **Men** | | |
| 25-34 years | 3 3 | 3 3 |
| 35-44 years | 3.4 | 3 4 |
| 45-54 years | 3 3 | 3 4 |
| 55-61 years | 4 1 | 3 9 |
| 62-64 years | 3 7 | 3.8 |
| 65 years and over | 4 0 | 3 4 |
| **Women** | | |
| 25-34 years | 3 1 | 3 1 |
| 35-44 years | 3 4 | 3 5 |
| 45-54 years | 3 3 | 3.2 |
| 55-61 years | 2 7 | 2.8 |
| 62-64 years | 3.5 | 2 7 |
| 65 years and over | 2 8 | 2.5 |

*Source U S Bureau of the Census Special file from Survey of Income and Program Participation (See footnote 5 )*

Among persons who were no longer in the labor force, the reason for nonparticipation differed by age. Older displaced workers reported, at a rate almost triple that of their younger counterparts, that the reason they were not currently looking for a job was that they thought it would be impossible to find one That is, 17 percent of older displacees who were out of the labor force were discouraged workers, compared to only about 6 percent in the central-age group. Those most likely to be discouraged about the prospects of finding work were 55-to 64-year-olds.

Even among the reemployed, the impact of displacement is often severe for older workers. Among those who had lost full-time wage and salary jobs and who subsequently found full-time work, older persons were more likely than others to have suffered a 20-percent or greater loss in earnings relative to those in their previous job. Also, they were less likely to be earning more than they had been before displacement. (See table 14.)

Podgursky and Swaim (1987), using January 1984 displacement data, also found that, on average, persons with long tenure on their lost job

**Table 13.** Percent distribution of unemployed displaced workers by reason for unemployment, sex, and age, January 1986

| Sex and age | Total unemployed | Job losers | | Job leavers | Entrants |
|---|---|---|---|---|---|
| | | On layoff | Other | | |
| **Men** | | | | | |
| 25–54 years | 100.0 | 30.2 | 60.8 | 3.9 | 5.1 |
| 55 years and over | 100.0 | 26.3 | 62.5 | 2.5 | 8.8 |
| **Women** | | | | | |
| 25–54 years | 100.0 | 26.3 | 55.6 | 4.9 | 13.2 |
| 55 years and over | 100.0 | 15.2 | 75.8 | 0.0 | 9.1 |

*Source: Bureau of Labor Statistics, January 1986 Current Population Survey displaced worker supplement*

often had the most substantial earnings losses. Among employees with many years of tenure, earnings losses were greatest for men in blue-collar jobs, particularly for those in higher wage factory jobs.

Women accounted for slightly more than 40 percent of the displacement of older workers measured in the January 1986 CPS survey. One factor that increases women's vulnerability to such permanent job loss is their concentration in manufacturing industries that have been particularly hard hit by foreign competition. In 1987, women accounted for 33 percent of employment in all manufacturing industries, but 78 percent in apparel (and other textile products), 55 percent in leather and leather products, and 48 percent in textile mill products. While nearly 7 in 10 displaced workers in all industries were working as of the survey date, only 5 in 10 formerly employed in apparel and textiles had found jobs. Fully 30 percent of workers displaced from those industries were out of the labor force.

Using NLS data on women who were ages 45 to 59 in 1982, Gagen (1987) found that "job loss led to an increase in women's unemployment and to their leaving the labor force, suggesting underutilization as well as reduced labor supply are the legacies of displacement for women (p. 170)." Wage deterioration is a problem for all groups of displaced workers, although perhaps less so for women than for men. Older women tend to have less employer and occupational tenure than

do their male counterparts, and, hence, probably lose less in terms of firm or occupation-specific human capital. Also, because women's earnings in general are quite low, there is less room for wage erosion to occur.[11] In the same study, Gagen also found, not surprisingly, that women with relatively high wages before displacement were much more likely to suffer wage declines than were women with low predisplacement wages.

Although frequently cited as a severe problem for older workers, changes in occupation subsequent to displacement occur slightly less often among older workers than among workers ages 25 to 54. Nearly half of reemployed displaced workers in both groups were in jobs at least broadly similar to their old vocations. On the other hand, because fewer older displacees actually return to work (perhaps many withdrew from the labor force rather than accept such an occupational downgrade), the proportion of all displaced workers employed in their old profession is lower among older persons. Parnes et al (1981), in their analysis of the NLS cohort of middle-aged and older men, found that job losers in that sample did experience a slide down the occupational ladder. About 45 percent of the displaced workers were in jobs of lower status in 1976 than in 1966, compared with 26 percent of a control group of nondisplaced workers. Similarly, the average hourly earnings of displaced workers in 1976 were one-fifth below those for the control group.

As was the case for all displaced workers identified in the CPS supplement, just under two-thirds of older workers who lost jobs received unemployment insurance benefits. However, older workers more frequently reported long-term (27 weeks or more) receipt of unemployment benefits and were less likely to move to another city or county in search of a new job.

Pensions or Social Security provided some cushion against more severe hardships for many displaced older workers. As shown in table 15, just under one-half of all displaced workers age 55 years and over received a pension, Social Security benefits, or some combination of both. Unemployed persons were those most likely to be without such benefits, their continued job search was, by implication, a reflection of their lack of alternative sources of income. Over three-quarters of dis-

[11] The data shown in table 14 may understate this effect. Among women who are shown to have experienced earnings losses of 20 percent or more, losses may be more concentrated around that 20-percent mark than they are for men.

**Table 14.** Percent distribution of displaced workers who lost full-time wage and salary jobs between January 1981 and 1986, and who were reemployed in January 1986, by earnings at new job, sex, and age

| Sex and age | Reemployed in full-time wage and salary jobs | | | | |
|---|---|---|---|---|---|
| | | Earnings relative to lost job | | | |
| | Total | 20 percent or more below | Below, but within 20 percent | Equal or above, but within 20 percent | 20 percent or more above |
| **TOTAL** | | | | | |
| 25-54 years | 100 0 | 29 6 | 13 5 | 26 4 | 30 6 |
| 55 years and over | 100 0 | 38 0 | 20 0 | 24 9 | 17.1 |
| **Men** | | | | | |
| 25-54 years | 100 0 | 31.3 | 12 9 | 26 0 | 29.8 |
| 55 years and over | 100 0 | 42 3 | 17 8 | 27 6 | 12 3 |
| **Women** | | | | | |
| 25-54 years | 100 0 | 25 0 | 15 2 | 27 3 | 32.6 |
| 55 years and over | 100 0 | 29 3 | 24 4 | 19 5 | 26 8 |

*Source Bureau of Labor Statistics, January 1986 Current Population Survey displaced worker supplement*

placed older workers who left the work force had some pension and/or Social Security income Even among the currently employed, about a third of older displaced workers received pensions or Social Security benefits or, infrequently, both. In contrast, virtually none of the displaced workers ages 25 to 54 years received retirement benefits.

In summary, the limited information available on the subject suggests that displacement from a job, and particularly a career, often has very serious long term effects on workers' economic security. While many quickly recover by promptly acquiring another job at comparable wages, many others experience extended periods of unemployment, find jobs in new occupations in which their earning power is greatly reduced, or even withdraw from the labor force. From one point of view, older workers are most negatively affected by displacement, because they rarely have the opportunity to recoup the associated losses.

Thus, displacement late in one's worklife often has a permanent negative economic effect.

The outcomes of older workers' displacement appear, in general, to be worse than those of younger job losers. Older workers are more likely than young ones to leave the labor force and to cite labor market discouragement as their reason for not looking for work. For some, however, such labor force withdrawal, when accompanied by pension resources, is a "luxury" not available to younger job losers. Still, having the retirement option does not indicate that an individual has been spared serious negative consequences of losing a job. Pension amounts for those workers probably provide only a fraction of predisplacement earnings.

Researchers have stressed that retirement, particularly when coupled with some form of pension receipt, provides a socially acceptable way for some workers to deal with problems of chronic unemployment (Bould, 1980, and Griffith, 1984). They stress that policies related to retirement prior to age 65 should take into account the role of unemployment in pushing workers out of the labor force into early retirement.

**Table 15.** Percent distribution of pension receipt of displaced and nondisplaced workers by labor force status and age, January 1986

| Age and pension status | Total | | Employed | | Unemployed | | Not in labor force | |
|---|---|---|---|---|---|---|---|---|
| | D[1] | N[2] | D[1] | N[2] | D[1] | N[2] | D[1] | N[2] |
| **25-54 years** | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Pension, no Social Security | 2 | 2 | 2 | 1 | 3 | 1 | 4 | 3 |
| Social Security, no pension | 1 | 2 | (1) | 1 | 1 | 2 | 1 | 8 |
| Both | (1) | (1) | (1) | (1) | (1) | (1) | (1) | 1 |
| Neither | 97 | 96 | 98 | 98 | 96 | 96 | 95 | 89 |
| **55 years and over** | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Pension, no Social Security | 17 | 6 | 17 | 7 | 10 | 9 | 20 | 5 |
| Social Security, no pension | 18 | 42 | 12 | 16 | 6 | 19 | 28 | 53 |
| Both | 13 | 20 | 3 | 5 | 3 | 5 | 28 | 26 |
| Neither | 52 | 33 | 68 | 72 | 82 | 67 | 24 | 16 |

[1] Displaced
[2] Nondisplaced
(1) Less than 0.5 percent

*Source: Bureau of Labor Statistics, January 1986 Current Population Survey displaced worker supplement*

When they do find jobs, older workers are more likely to end up in part-time employment than are younger ones. Given the higher incidence of voluntary part-time work among older persons in general, however, this outcome is difficult to interpret. When reemployed at full-time jobs, older workers are more likely to have experienced wage losses, reflecting the higher levels of firm-specific human capital they lose due to displacement. Low wages of women in general probably make wage loss less of an issue for older women than for men, but displaced older women are those most likely to withdraw from the labor force entirely.

### Effects of recessions

Much of the information thus far in this report has related to recent events and developments in the work force—events that have occurred during an unusually long period of economic expansion. Evidence suggests, however, that the incidence and severity of labor market problems experienced by older workers increase considerably in recessions.

Unemployment and displacement increase for all groups during recessionary periods. Older workers' unemployment tends to rise at a slower rate than that of central-age workers (see table 16), although it is not clear whether the same can be said for job loss. For those older workers who do experience unemployment or job loss during recessions, the outcomes are often quite severe. As evidence, Shapiro and Sandell (1984), using National Longitudinal Survey data for older men, found that the national unemployment rate had a profound effect on their probabilities of labor force withdrawal and on the duration of unemployment for those who chose to look for work. (Duration of unemployment, of course, rises for all groups during a recession.) Likewise, while they found little or no earnings reductions for reemployed job losers during the period of very low unemployment in the late 1960's, losses averaged about 6 percent for persons who lost their jobs during the 1970's. [12]

[12] This calculation does not include earnings losses for the period without work, or for persons who were unable to find a job

Table 16. Percent increase in the number of unemployed persons during various recessions, by age

| Age | Recessions [1] | | |
|---|---|---|---|
| | 1969-70 | 1973-75 | 1980-82 [2] |
| 20-24 years | 118 | 102 | 88 |
| 25-54 years | 107 | 128 | 145 |
| 55 years and over | 97 | 97 | 90 |

[1] The peaks and troughs in unemployment (seasonally adjusted quarterly averages) for each age group were used rather than the official peaks and troughs as designated by the National Bureau of Economic Research

[2] The period from early 1980 to late 1982 is treated as a single recession rather than as two separate ones

*Source Bureau of Labor Statistics. Current Population Survey*

While other researchers have measured the effects of unemployment on labor force withdrawal (Bould, 1980 and Griffith, 1984), they do not compare that phenomenon over the business cycle. It can be inferred, however, that, if older individuals who experience unemployment have a high probability of retiring, then such a phenomenon occurs more frequently in recessions, when more people are unemployed.

## Special Problems of Older Women

### Labor market reentry

Interest in labor market reentry by middle-aged and older women has increased in recent years. Key questions include: Why do women leave the labor force and why do they return? What happens to women who seek employment after a period of absence from the labor force? How many experience unemployment? What types of job offers are available? What kind of wages do they obtain? What barriers do they face to reemployment?

Women leave the labor force for many reasons. While rearing children is most frequently cited, many leave to care for ailing or elderly family members or to move from one geographic location to another—often to accommodate a spouse's employment transfer (Shaw, 1988). Similarly, women enter the labor force for diverse reasons. While some seek employment primarily to gain personal satisfaction, most enter out of economic necessity—often in response to widowhood or to separation and divorce. A husband's low earnings, disability, or unemployment can also precipitate women's labor market reentry.

Because understanding women's labor market exit and reentry behavior requires that individuals be followed over an extended period of time, the most useful data come from the National Longitudinal Survey (NLS). One of the groups surveyed in the various NLS panels was the mature women's cohort, who were ages 30 to 44 in 1967 and were between 50 and 64 when last interviewed in 1987

Evidence from the NLS points to a tremendous variation in these women's worklife patterns and indicates that as many as two-thirds may have experienced reentry. Shaw (1986) found that among NLS respondents, only 20 percent of women had worked continuously (26 weeks or more each year) from 1967 to 1982, while an even smaller proportion, 13 percent, had no work experience at all. The remaining 67 percent exhibited various patterns of labor force entry, withdrawal, and/or reentry.

Labor force reentry rates of adult women have risen substantially in recent years—that is, those out of the labor force are more likely to seek employment than they were in the past. According to the CPS gross flows data, in 1970, 6.1 percent of all women in their late thirties and early forties who were out of the labor force in an average month had entered by the following month. By 1987, that rate had increased to 10.4 percent. This measure of labor force reentry also increased for

women in their late forties and fifties, but declined slightly for those age 60 and over.

It is important to note that the experiences of members of the NLS mature women's cohort may be unique to their generation. These women first entered the labor force in the 1940's and 1950's, when most women were not usually expected or encouraged to work. Marital status often determined their work activity, and women reentering the labor force had a wide range of employment experiences. Also, black women were much more likely to have worked than were white women.

In the future, reentrants will have had more work experience than those before them. Women in their twenties and thirties today have a much stronger work attachment than did their mothers or grandmothers when they were that age, in 1987, 7 in 10 women between the ages of 25 and 34 were in the labor force, twice the proportion three decades earlier. Also, in the future, variations by marital status and race will be much less dramatic (Herz, 1988).

*Unemployment among reentrants.* In 1987, more than a third of all female jobseekers age 45 and older reported that they were entering the labor force (primarily as reentrants but also a few as first-timers). This is more than twice the proportion of entrants among unemployed men. In an average week, roughly 180,000 women age 45 and over were unemployed entrants.

While it is often assumed that labor force reentry necessarily involves unemployment, research using the NLS found that only about a third of female reentrants in 1972 experienced a period of unemployment before finding a job (Jones, 1983). Most moved directly into employment from out of the labor force—perhaps by being offered a job through friends or other contacts, or by returning to a previous job. In general, the fewer years of work experience and education a woman had completed, the greater were her chances of being unemployed at reentry.

Unfortunately, the women most likely to experience unemployment tend to be those with the fewest resources to finance a job search. Women who are reentering the work force after divorce or their husband's death, for example, often do not have recent work experience (some do not have any) and may lack the money needed to support themselves or their children during a prolonged job search.

*Wages at reentry.* The wages of reentrants may be lower than those of continuous workers for a number of reasons. First, women who take time out of the labor force lose work experience—which generally leads to higher earnings. Second, workers may suffer some degree of "skill depreciation," making them less attractive to employers even in their old occupations. And third, leaving the labor force ceases the accrual of firm-specific human capital. In other words, in a new job, a worker is often "starting over."

Estimates of wage loss at reentry have varied widely. Applebaum (1981) found that years of schooling completed, post-school investments in human capital (especially completing a training program), and types of jobs held prior to leaving the labor force all affected the level of wages and prestige of jobs women held after reentry.

The effect of skill depreciation may be minimal. Most studies have found that when female reentrants are paid less at a new job than they were before they left the labor force, they quickly catch up (Shaw, 1982 and 1983). The fact that many women earn very low wages both prior to leaving the labor force and again upon reentrance indicates that the widespread employment of women, especially older women, in low-wage jobs, is probably of greater concern than is wage loss due to reentry.

### Low-wage employment and occupational segregation

Job search is often defined as successful if a job is found, although even such success may leave women on the economic margin. As table 17 illustrates, in 1987, women age 16 and over who worked full time and year round had median annual earnings of $17,047, 65 percent of men's ($26,312). Earnings were highest for women in the 35 to 44 age group, at $19,319, but were still well below those for men the same ages.

Older women earned even less than women in the central age group—those in their late fifties or early sixties earned $16,721, and those 65 or older, $15,200. Furthermore, these full-time, year-round earnings were higher than those received by the average older woman worker, as most over age 61 worked either part time, part year, or both.

**Table 17.** Median annual earnings of year-round, full-time workers by sex and age, 1987

| Age | Both sexes | Men | Women |
|---|---|---|---|
| 16 years and over | $21,823 | $26,312 | $17,047 |
| 16-24 years | 13,143 | 13,996 | 12,591 |
| 25-34 years | 20,753 | 23,603 | 17,237 |
| 35-44 years | 25,545 | 30,514 | 19,319 |
| 45-54 years | 25,657 | 32,397 | 18,356 |
| 55-64 years | 23,959 | 30,031 | 16,721 |
| 65 years and over | 19,418 | 25,382 | 15,200 |

*Source: Bureau of Labor Statistics, March 1988 Current Population Survey income supplement*

Recent media attention has focused on movement into nontraditional jobs; yet women are still concentrated in a few low-paying occupations. Fully half of women in their late twenties and early thirties, and 6 of 10 of those age 55 and older, are currently employed in three traditionally female job categories—retail sales, administrative support (including clerical), and services (Herz, 1988) These jobs are often low-skilled and pay wages that are well below average. In 1987, the median earnings of all year-round, full-time workers in retail sales were $12,508, in administrative support, $17,207; and in services, $13,571. In contrast, the national average for all occupations was $21,680. Private household jobs, in which older black women predominate, paid only $6,955—about equal to the annualized minimum wage. Thus, for many women, the best possible job search outcome—finding a job—provides only a marginal level of economic security.

Several explanations have been offered for women's occupational segregation and low wages. Human capital explanations stress the importance of educational levels and work experience These supply-side explanations also suggest that some women may only be willing to take jobs that are compatible with home responsibilities, such as in services and education. Demand-side explanations usually stress discrimination, such as in hiring and promotion policies (Roos and Reskin, 1984)

From a human capital standpoint, older women are probably at the greatest disadvantage in the labor market, on average, they have less experience than men and less education than both men and younger women. In 1987, as table 18 illustrates, 4 in 10 women age 55 or older had not completed high school, compared to only 1 in 10 women between ages 25 and 34. Only 9 percent of older women had completed 4

or more years of college, this compared with 16 percent of men age 55 and older and 22 percent of young (25 to 34) women. Educational attainment was especially low among black women age 55 or older, with fully 66 percent having less than a high school education.

**Table 18.** Educational attainment of the population by sex and selected ages, March 1988

(Percent distribution)

| Years of school completed | Men | | Women | |
|---|---|---|---|---|
| | 25-34 years | 55 years and over | 25-34 years | 55 years and over |
| **TOTAL** .... | 100 0 | 100 0 | 100 0 | 100 0 |
| **High school:** | | | | |
| Less than 4 years | 14 9 | 40.7 | 12 5 | 39.9 |
| 4 years | 40 3 | 31.6 | 42 9 | 39 2 |
| **College:** .. .. . . ... ... ..... . | | | | |
| 1 to 3 years . . ..... ..... | 19 8 | 11 2 | 22.1 | 11 5 |
| 4 years or more..... .. . ... . | 25 0 | 16 4 | 22 4 | 9 4 |

*Source Bureau of Labor Statistics, March 1988 Current Population Survey*

Explanations for women's occupational segregation also focus on employers' preferences—such as for a homogeneous work force—and on formal and informal policies that discriminate on the basis of sex. Even policies that are not intended to be discriminatory, such as promotions based on seniority and preferences for veterans, often work against the advancement of women. Also, jobs held by white men are most likely to provide training, which results in their career advancement (Hoffman, 1981) Hence, their employment in low-wage jobs is often only temporary The jobs held by women (and black men), in contrast, often lack such training opportunities, and career advancement is frequently more lateral than upward, locking workers into relatively low-paid employment (Roos and Reskin, 1984)

The extent of sex discrimination is extremely difficult to measure, although it is clear that women currently in their forties, fifties, and sixties have experienced more overt sex discrimination than other groups.

Prior to the passage of the Civil Rights Act of 1964, employers could advertise positions under sex-labeled classifications. Also, Title VII of the Act made illegal protective labor laws that limited the types of jobs women could hold and the number of hours they could work (National Research Council, 1986, chapter 3). Still, despite legal protections against sex discrimination, researchers have found little decline in occupational segregation in recent years, what small changes have occurred have been limited to young women (National Research Council, 1986, chapter 2).

Older women may also be subject to age discrimination, particularly in hiring. A study of age discrimination cases filed under the Age Discrimination in Employment Act found that lawsuits filed by older women were most often for discrimination in hiring and promotion, while older men cited involuntary retirement or termination more often (McConnell, 1983). This reflects the fact that older women are much more likely than older men to be out of the labor force, and, hence, to be subject to hiring discrimination. Informal networks and employers' contact systems used in hiring are likely to exclude older women, who have often been out of the labor force for several years and who may have had only minimal work experience. Finally, promotion systems that favor long-service workers are not helpful to middle-aged or older women who have had fewer years of work experience or have changed employers upon returning to the labor force. (See chapter 3 for a further discussion of age discrimination.)

# CHAPTER 3.
# Institutional Impediments to Employment of Older Workers

Much of the discussion of job market problems presented in this report relates to workers who have lost a job in which they had some career investment. Most workers, however, end their careers by receiving any expected pension benefits at the expected time and retiring. And, as often reported, the age of retirement has fallen steadily. Early retirement—a term often used to describe retirement that occurs before the age of 65—has become the norm. In fact, almost 4 of every 5 workers who obtained their initial awards for Social Security benefits in 1986 were between the ages of 62 and 64, and the vast majority were 62 (Social Security Administration, 1987). Similarly, BLS data show that, by age 62, almost half of all men are completely out of the labor force (they are neither working nor looking for work) and by age 64, three-fifths are "retired" by that definition.

The majority of retirements are abrupt, largely reflecting the attractiveness of retirement to many who have worked since very young ages. Still, a sizable share of workers prior to retirement age indicate that they would prefer a phased retirement. Harris (1981), for example, found that 36 percent of workers age 55 and over said tht they would prefer to retire gradually as opposed to stopping work completely. Jon-row et al (1987) also cite a number of studies that report workers' preference for phased retirement. A common finding is that the majority of workers who say that they would like to work part time beyond their normal retirement age want to remain in either their same line of work or with the same employer. Workers quite accurately perceive that their value to their current employer is much greater than it would be to a new one, particularly in a new occupation. Also, like most workers, they are probably more comfortable with their current employer than they would be with a new one. In fact, while relatively few Social Security beneficiaries work, among those employed part time, more than half of women and a third of men had stayed with the same employer (Iams, 1987).

Many of those who would prefer to have a phased retirement do not have that opportunity, either because of unanticipated events, such as a disability or illness or a change in family responsibilities, or because of employers' preferences and pension rules that make such hours reductions impractical. This chapter discusses various institutional disincen-

tives to work at older ages. It is divided into three sections: 1) the impact of Social Security regulations and pension policies on work activity, 2) the market for part-time jobs after retirement, and 3) age discrimination.

## Social Security Regulations and Pension Plan Provisions

A worker is unlikely to postpone retirement, or to work after retirement, if it makes little or no financial sense to do so. Since private and public pension regulations and policies often disallow or penalize work past a certain age, persons who might work under different rules do not do so under those in effect. While Social Security regulations have been modified in recent years to eliminate some of the built-in disincentives to employment, private pensions have trended in the other direction, making early retirement increasingly attractive. How do such rules and regulations influence workers' decisions on whether or not and how much to work?

### Social Security

By the late 1970's, it had become apparent that the Social Security system would be facing serious financial difficulties in the 1980's and beyond. Expenditures of the Old Age, Survivors, and Disability Insurance (OASDI) program had exceeded revenues since 1975. The program needed approximately $150–$200 billion to continue to be financially viable through the 1980's, and deficits over the next 75 years were estimated at 1.8 percent of taxable payrolls. A series of quick legislative measures (such as reallocation of Social Security program funds) were passed at the same time that broad reforms to improve the system were being developed. In 1982, the bipartisan National Committee on Social Security Reform provided recommendations for sweeping reforms. The resulting legislation—the Social Security Amendments of 1983—included several reforms designed to reduce disincentives to work and to encourage older persons to remain in the labor force (Svahn and Ross, 1983). How the current program works, what evidence of work disincentives exists, and long-term reforms to the program and their potential effects are discussed below.

*How the current program works.* Social Security benefits are a function of lifetime earnings. In determining benefits, annual earnings between 1951 and the year of retirement are averaged and adjusted for inflation to derive an Average Index of Monthly Earnings (AIME). A benefit formula is then applied to this AIME to determine an individual's full benefit amount--or Primary Insurance Amount (PIA). The percentage of the PIA that an individual actually receives depends on both age of

retirement and, if he or she continues to work, current earnings (Social Security Administration, 1987).

Currently, individuals are eligible to receive full benefits (equal to 100 percent of PIA) at age 65—the "normal" retirement age defined in the Social Security program. Reduced benefits equal to 80 percent of the PIA are available at age 62. For every month after age 62 that receipt is deferred, the 20 percent early retirement penalty is reduced by 0.56 percent (or 6.67 percent per year) so that the full PIA level is earned at age 65. If an individual chooses to continue working beyond age 65, he or she receives a delayed retirement credit of 3 percent per year. For example, a person working (and deferring Social Security receipt) to age 68 could expect to receive benefits equal to 109 percent of his/her determined PIA.

Workers may earn up to a specified exempt amount before their Social Security benefits are reduced. Currently, Social Security recipients younger than age 65 can earn up to $6,120, after which their benefit amount is reduced by $1 for every $2 earned. Workers between ages 65 and 70 can earn $8,400 before being subject to benefit reductions. After age 70, the earnings test no longer applies (Social Security Administration, 1987).

*Disincentives to work.* Studies have been conducted that examine the extent to which these rules may limit the work activity of older persons. A recent study by Fields and Mitchell (1987) examined the benefit stream available to an "illustrative" worker at various retirement ages in 1982. The researchers found that, although the level of benefits increased for each year of additional work, gains from additional benefits were more than offset by the fewer number of years of benefit receipt. In fact, the present value of total future benefits for a person who continued working until age 68 was only 90 percent of that for a worker who retired at age 60. This "penalty" for retiring at 68 is largely the result of the 3-percent delayed retirement credit, which is far below the actuarially neutral level (the level at which the value of benefits for an average worker would be the same regardless of when he or she retires). Thus, they concluded, the current system provides incentives to retire before the age of 65 rather than after. Other studies (Hall and Johnson, 1980; Burkhauser, 1980) have found similar results.

The impact of the earnings test on work activity has also been widely examined. One study found that male Social Security beneficiaries in 1982 had median earnings of $4,391—just below the $4,400 earnings test

level that year. Beneficiaries between ages 65 and 71, who could earn up to $6,000 before benefits were reduced,[13] consistently had higher earnings than recipients younger than age 65 (Iams, 1987). Median earnings for men ages 65 to 71 were $5,460. Also, Burtless and Moffitt (1985) found that workers kept postretirement hours to the level at which total earnings equaled the exempt amount. Such an avoidance of earnings in excess of the exempt amount is understandable. Not only would half of any excess earnings be lost through Social Security reductions, but earnings would also be subject to Federal, State, and local income taxes as well as Social Security withholdings. Another oft-cited effect of the earnings test is that it might entice some persons to work "under the table" who might otherwise have paid Social Security and income taxes on their earnings.

It is still not clear, however, to what extent Social Security encourages retirement or discourages continued work. In fact, some researchers believe that the method of calculating Social Security benefits may cause some workers to delay retirement. Because the most recent (and presumably highest) years of earnings are averaged in benefit computation, some researchers have concluded that workers may choose to work later, replacing low earnings years with higher ones and subsequently increasing their Social Security benefit (Blinder, Gordon, and Wise, 1980).

*Changes in the program.* The Social Security Amendments of 1983 contained several long-term provisions designed to remove work disincentives. These included the following (Svahn and Ross, 1983).

1) *An increase in the normal retirement age.* The retirement age at which beneficiaries are eligible to receive full benefits will increase by 2 months per year for persons reaching age 62 in 2000–2005, will remain at 66 for those reaching 62 between 2005 and 2016, and will increase by 2 months per year for persons reaching age 62 in 2017 to 2022. The normal retirement age will remain at 67 for those reaching age 62 after 2022.

[13] In 1982, workers were subject to an earnings test until age 72. Currently, benefits are not reduced for earnings after age 70.

2) *An increase in the early retirement penalty.* Reduced benefits will continue to be available at age 62, but reduction factors will be revised to a maximum of 30 percent (for workers entitled at 62 when normal retirement age is 67) compared to the prior 20 percent

3) *An increase in the delayed retirement credit.* The delayed retirement credit will increase by half a percentage point every other year from 3 percent for workers age 62 prior to 1987 to 8 percent per year for workers age 62 after 2004.

4) *A decrease in the withholding rate under the earnings test.* Beginning in 1990, the withholding rate will decrease from $1 of every $2 above the exempt amount for persons who attain full retirement age to $1 of every $3. Beginning in 2000, the age at which this occurs will increase as the normal retirement age increases

*Potential effects of the changes.* Most analysts believe that changes in retirement ages as a result of this legislation may be very small. This is clear when the changes are dissected. For example, while earnings above the exempt amount will be subject to a one-third offset under the new law rather than the present one-half, those earnings are also subject to Federal, State, and local taxes and Social Security withholdings. Thus, the system still provides disincentives to exceed the exempt amount.

Gustman and Steinmeier (1985) studied the potential impact of 1983 reforms and concluded that "in comparison with the previous rules, the 1983 rules, when they take full effect, should have a fairly small impact on the number of people working full time and the number retired before age 65, but at age 65 and thereafter, the percentage of individuals working full time would be noticeably increased [largely due to the scheduled increase in the delayed retirement credit] and the percentages working part time and retired would both decline." In another study, Fields and Mitchell (1986) found that increasing the normal retirement age from 65 to 68 (although the legislation only raises it to age 67) could be expected to increase average retirement age by only 1.6 months. They also found that the largest increase (still only 3.1 months) occurred when the percentage of total benefits received at age 62 was reduced from 80 to 55 percent (the reforms only reduced the percentage to 70 percent) and the delayed retirement credit was increased to 20 percent (from the current 9 percent) at age 68.

## Other Pensions

Another factor that would limit or completely offset the effectiveness of any changes in Social Security regulations is that retirement decisions are rarely based on Social Security benefit levels alone, they also depend, among other things, on preferences for leisure over work, on health status, and on other income sources. Though most workers can no longer be forced to retire because of their age, many other provisions in pension plans encourage workers to retire at specific ages, often well before the normal retirement age of 65 in the Social Security program. And, as Beck (1985) found, in general, it does not take large amounts of pension income to induce workers to retire.

*Retirement provisions.* While individuals are not eligible for full Social Security benefits before age 65, normal (full-benefit) retirement ages in private and other government pensions tend to be much earlier. In recent years, retirement programs have become increasingly liberal, allowing full benefits at earlier and earlier ages. Seventy-nine percent of pension plans surveyed by the Bureau of Labor Statistics in 1983 had no minimum retirement age or provided full benefits at age 62 or earlier, up from 55 percent in 1974. And 37 percent of those plans allowed for full-benefit retirement as early as age 55, usually with 30 years of service (Bell and Marclay, 1987).

Almost all private pensions surveyed by BLS in both 1974 and 1983 permitted early retirement, although at reduced benefits. Over the 1974–83 period, however, both age and years-of-service requirements for early retirement declined. In 1983, the length of service required for early retirement (with reduced benefits) at age 55 averaged 7 years and 2 months, down from 10 years and 3 months in 1974 (Bell and Marclay, 1987).

Individuals who opt for early retirement usually receive reduced benefits. However, reduction percentages are not always actuarially neutral; the greater number of years of pension receipt (due to early retirement) often more than offset any decline in benefits. Similarly, actuarial beyond normal retirement age for those who delay retirement is often less than actuarially neutral and acts as a substantial disincentive to continued work.

Recently, several studies of pension plan incentives have been conducted. Fields and Mitchell (1984) examined 10 pension plans from the 1978 Benefits Amounts Survey and found that, in five, the present value of net pension benefits (for an "illustrative" worker) was greatest for workers retiring at age 60. Four of the 10 plans paid the highest benefits at age 61 or 62, and the remaining plan at age 66. Also, in a study of more than 2000 pension plans, Kotlikoff and Wise (1984) found that plan provisions strongly discouraged work after a normal retirement age, and some after an early retirement age. Continued work does provide additional earnings, however, the foregone pension benefits (as with deferred Social Security benefits) result in an implicit tax on earnings which may be as high as 100 percent (Kotlikoff and Wise, 1987).

Some pension provisions penalize continued work activity by ending pension accrual altogether. Although the Omnibus Budget Act of 1986, prohibited the denial of pension accrual for persons over age 65, caps are still permitted on years of service that may be counted toward a pension and on total benefit levels (Moore, 1988) These provisions effectively reduce compensation for persons who continue working after reaching either the maximum levels of credited service or pension benefits.

*Combining pensions and Social Security.* Not only do pension plans provid different options and retirement incentives than Social Security, but, in many cases, pension benefits are derived using a formula that accounts for Social Security benefits. Thus, changes in Social Security policy designed to alter work patterns may be undermined by the structure of pension plans.

A 1986 survey of employee benefits in medium and large-size firms found that 62 percent of all full-time participants in defined-benefit pension plans were in plans "integrated," or combined, with Social Security in some way (U.S. Bureau of Labor Statistics, 1987). Sixty-nine percent of the employees in these integrated plans had offset provisions, pension benefits were derived as a function of Social Security payments (usually pension levels were reduced by 50 percent of an individual's Social Security benefit). For example, workers with expected pension benefits of $8,000 and expected Social Security benefits of $2,000 would actually receive pension benefits of $7,000—that is, $8,000-(.50 x $2,000) in addition to their $2,000 Social Security benefit. In this way, public policy efforts to increase incentives to work by reducing benefits would be countered by a 50-percent increase in private benefits. A re-

duction of $1,000 in Social Security benefits, for example, would be countered by a $500 corresponding increase in pension benefits. Plans with excess formulas also recognize the structure of Social Security benefits and attempt to increase benefits to workers with higher earnings (whose Social Security benefits replace a smaller share of earnings). This is accomplished by applying higher benefit accrual percentages to earnings above a specified limit—usually equal to the Social Security taxable maximum (Bell and Hill, 1984).

Some retirees receive supplemental benefits to their pensions to compensate for retiring prior to eligibility for Social Security payments. A 1984 BLS survey of pension plans found that 11 percent of all plan participants could receive supplements upon early retirement. Ten percent were eligible for supplements on top of their full benefits if they retired "normally" before age 62—when they would become eligible for reduced Social Security benefits (Bell and Marclay, 1987). These supplemental payments are often equal to or greater than Social Security benefits. Each of these pension provisions which integrate Social Security and pension benefits may mitigate any changes in incentives that Social Security reforms are intended to produce

Recently, researchers have begun to compare the incentive effects of Social Security and private pension provisions on individual retirement decisions. A study by Stock and Wise (1988) modeled the retirement behavior of employees in a large firm and found that increases in the firm's early retirement age would dramatically reduce the number of workers retiring by age 60. In contrast, the effects of changes in Social Security rules would be minimal. Also, the researchers concluded that "Changes in Social Security provisions that would otherwise encourage workers to continue working can easily be offset by countervailing changes in the provisions of the firm's pension plan."

### Early Retirement Incentive Plans

Early withdrawal from the labor force has expanded with the increasing use of Early Retirement Incentive Plans (ERIP's). These allow workers to retire earlier than the normal terms of their pension plans would allow. Typically, ERIP's either liberalize the requirements for pension eligibility or provide employees with richer pension benefits.

Some also offer early retirees either a continuation or an improvement in medical coverage after their separation from service. ERIP's are typically offered for only a short period of time, after which the normal plan rules apply.

ERIP's, in many ways, are simply an extension of the trend toward early retirement made possible by pension plan provisions already discussed. The key issue related to ERIP's is whether they are truly voluntary: Do workers perceive turning down these offers as being a viable option? Are workers satisfied with the early retirement decision?

Two facts are critical to the discussion of ERIP's. First, no one knows how prevalent they are. The few surveys of employers conducted to date often are not representative samples of all employers, and often have low response rates, hence, the results of reporting firms may not reflect those of all firms.

Second, and probably the most important for policy considerations, it is difficult to distinguish between voluntary and involuntary separations that occur as a result of these plans. One study of ERIP's indicates that companies, workers, and unions have embraced them (Mutschler et al, 1984). At the same time, a study conducted for the Public Policy Institute of the American Association of Retired Persons (AARP) concludes that such plans are primarily "older worker termination programs" (Meier, 1986) and that neither the individuals involved nor the Nation's interests are well served by them.

The plans seem to be voluntary to the extent that available data show that the majority of eligible workers do not accept them. A study by Hewitt Associates (1986) indicates that, on average, about a third of workers accept ERIP's when offered. Some companies, though, have had far more workers accept these offers than they had expected, causing a damaging loss of experienced personnel. On the other hand, the numerous lawsuits related to these plans suggest that some older workers view them as forced retirement schemes (Fay, undated).

The Hewitt Associates' analysis of the prevalence of ERIP's is the most extensive to date. Of the 529 companies responding to their 1985 survey, a third reported that they had utilized *early retirement windows* (where the employee is given a specific period of time in which to decide whether to retire with the improved benefit package) or other types of voluntary separation plans. About 40 percent of the companies that had used ERIP's had offered them more than once. Plans were offered far more frequently by the largest firms than by smaller ones; over half of companies employing more than 25,000 persons had used

them And, as mentioned above, about a third of all eligible employees accepted these offers, although about 1 in 4 plans had acceptance rates of at least 75 percent.

Employees' views of such plans are difficult to interpret. The AARP report makes no mention of ERIP's as a welcome offer to many older workers who may view retirement quite positively. Yet substantial numbers of workers welcome the opportunity to retire earlier than "normal." In a survey of workers age 40 and over conducted for AARP by the Gallup Organization (AARP, 1986), 41 percent of all workers surveyed responded that they would be likely to accept incentive offers for early retirement. Affirmative responses were most common among workers with high levels of income and education.

Mutschler, Schultz, and Leavitt (1984) studied persons who had retired with and without special incentives from an unidentified Fortune 500 company They found that employees clearly responded to the economic incentives of the ERIP's under study—the better the retirement package, the more likely workers were to accept it. Also, there was no evidence that those accepting the offer had suffered financially as a result (which would have indicated coercion), however, the authors did express some concern over the long-term effects of inflation on the value of retirees' pensions Other than this study, little is known about the conditions under which workers accept ERIP's and the outcomes of that decision.

As with unemployment, the hazy distinction between voluntary and involuntary retirement makes analysis of a key labor force issue difficult. The voluntary nature of ERIP's may not even be a static concept. An individual who had positive views about accepting an "early out" at the time of the offer may have a very negative view after the fact, or vice versa While it certainly is possible to better quantify the use of ERIP's than has been done so far, to evaluate the effect of these programs on workers' financial and nonfinancial well-being would be far more complicated.

In summary, the incentives in Social Security and private pension policies do not always operate in the same direction Changes in Social Security rules passed in 1983 were designed to increase work incentives for older persons, although most analysts expect them to have only a

minor impact on retirement ages. This is largely because the changes themselves do not dramatically alter the basic incentive structure of Social Security. In any case, any changes in Social Security regulations may be offset by pension plan provisions that encourage retirement or penalize continued work activity. It is unclear exactly what long-term impact Social Security reforms will have on the work activity of older persons, however, it is clear that private pensions have not followed Social Security's lead in encouraging later retirement. While pension policies that allow retirement well before age 65 are undoubtedly attractive to many older workers, those who might prefer to continue to work part time often do not or cannot. Some reasons for this are discussed in the next section.

## The Market for Part-Time Jobs

Many observers have noted that older workers are often faced with a choice of whether to continue full time in a long-held job or to completely withdraw from the labor force. the majority reject part-time employment, which usually pays low wages and provides very few benefits. Whether or not part-time work by older persons will become more common in the future depends on many diverse factors, including pension and Social Security regulations that determine levels of nonwage income and place restrictions on employment, the characteristics of part-time jobs, and the preference for leisure over work at older ages.

Relatively few older persons work after beginning to receive retirement benefits, and those who do usually have very low levels of nonwage retirement income (McConnell, 1980). Many older men, however, despite very small pension benefit levels, still do not seek employment (Beck, 1985). According to data from the Social Security New Beneficiary Survey, fewer than 1 in 4 persons was employed at all 18 months to 2 years after first receiving retired-worker benefits (Iams, 1987). Also, as pointed out in an earlier section on discouragement, among those who are *not* in the labor force, 95 percent respond to the CPS that they "do not want a job now, either full or part time."

Does this low level of work activity beyond retirement mean that older persons simply do not want to work, or is it a reflection of poor employment options? While the preference for leisure over work is very strong for many older persons, it is also possible that many say they do not want to work because they see only very limited choices. As discussed previously, substantial institutional barriers—especially the Social Security earnings test—provide strong disincentives to full-time work at later ages. And pension provisions often make continued work for one's employer unjustifiable. Older workers, then, are often funnelled into the part-time job market, where options are frequently limited to low-paid employment. The solution, many argue, would be to expand opportunities for part-time work to include jobs that are well paid and provide nonwage benefits (McConnell et al, 1980, Kahne, 1985).

There is little doubt that part-time work done by older workers is usually low paid Researchers have found that hourly wages tend to decline about 30 to 40 percent when hours are reduced from 35 to 20 (Jondrow et al, 1987) However, low pay is not necessarily evidence of

age discrimination. In fact, Jondrow found that " .the scarcity of well-paid part-time jobs is not a matter of discrimination against older workers; such jobs are scarce throughout the economy (p. 96)."

A primary reason for the scarcity of well-paying part-time jobs is the high cost of such schedules to employers. Training costs, for example, are largely identical for full-and part-time workers, as are many administrative costs. A short workweek raises the hourly costs to employers for such expenses. In contrast, jobs that generally require little training do not significantly raise the costs to employers of offering part-time schedules, especially if the benefit packages are more limited than those given full-time workers. These jobs, by their nature, are usually low skilled and provide low pay.

Whether such a restrictive market for part-time jobs for older persons is the only possible scenario is still open to question. Hilda Kahne (1985), in her book Reconceiving Part-Time Work, distinguishes between "New Concept" part-time work and "Old Concept" work. The latter was described above—work at very low pay rates, often in low-wage industries, and with few benefits. The former, Kahne envisions, would be work done in the full range of industries and occupations and would generally provide pro-rated full-time wages and benefits. Kahne presents a convincing argument for the potential interest for such employment from the older workers' point of view, however, she does less to explain how such jobs make sense for employers, particularly those not facing labor shortages For now, at least, it appears that such "New Concept" job market offers lag behind workers' desire for them.

As the younger population has declined and the growth rate in the female labor force has slowed (Fullerton, 1987), some service-sector employers have begun to target jobs to older workers. Such employment will be attractive to a narrow range of elderly persons, however, as it is typically part-time work with few fringe benefits While widespread worker shortages may occur in the future (see, for example, Olson, 1981), their effect on employment opportunities for older workers is difficult to predict, particularly in the context of today's institutional structures that strongly favor early retirement

## Age Discrimination

When any group's labor market experiences are found to be inferior to another's, the issue of discrimination is always a subject for discussion. However, discrimination is one of the most difficult labor market influences to identify and quantify. This is because it is difficult to discern whether between-group differences in earnings or unemployment, for example, are the result of discrimination or of real differences in productivity or labor market goals. These measurement problems have limited the amount of research conducted on age discrimination in employment. Yet, if asked, virtually everyone would suggest that discrimination does take place in the job market—that hiring, training, and promotion decisions involving older persons are not entirely age, sex, and race neutral.

Regarding the earnings of older workers, Wanner and McDonald (1983), using NLS data for mature men, found that as the men in the sample aged between 1966 and 1976 (and gained tenure and experience), they had a substantial decline (in real terms) in earnings. This occurred during a period of sizable increases in earnings among all workers The poor earnings performance among older workers was determined to be unrelated to any decrease that might have been associated with job changing. The authors identified three theoretical explanations for this First, human capital theorists in economics would attribute the lower earnings of older workers primarily to lower productivity, perhaps related to skill obsolescence and employers' reluctance to invest in the upgrading of those skills This would seem reasonable, given the relatively short payoff time for such an investment. Second, equity theorists in sociology argue that wages reflect not only productivity, but also need, and that declining wages at older ages describe a legitimate lifetime earnings profile. Workers' preferences for increased leisure (largely associated with declining financial need) may partly explain the earnings profiles of older workers found by Wanner and McDonald Although their methodology accounts for reductions in the number of weeks worked, by their own admission, they may have missed some of the hours effect, such as by not incorporating older workers' lower propensity to accept overtime work

Wanner and McDonald prefer a third explanation. Employers assume that older workers will accept lower levels of salary increases, or fewer of them, because older persons' ability to find comparable alternative employment is quite low Certainly, human capital theorists would

agree that workers accumulate extensive firm-specific human capital for which a new employer would be unwilling to compensate them. McConnell (1983), in his assessment of age discrimination, also highlights this decline in leverage for older workers brought about by their high cost of job switching.

In examining the wage decline for workers who were forced to look for a new job, Shapiro and Sandell (1985), also using NLS data for older men, found little evidence of discrimination. In fact, they determined that about 90 percent of any loss in earnings in workers' new jobs reflected a loss of their firm-specific human capital. While this is a real and important earnings loss for many workers, it cannot be said that such earnings declines are the result of unfair practices by employers, who would not be expected to pay for skills, knowledge, or experience that are not specifically transferable to a new job.

It is interesting to examine workers' own perceptions of discrimination. In the previously mentioned survey conducted by the Gallup Organization in 1985 (AARP, 1986), a sample of workers age 40 and over was asked whether they had experienced age discrimination. Only about 6 percent answered in the affirmative, most of whom said that they had been denied a promotion or a chance to get ahead because of their age. The perception of age discrimination increased with age—4 percent of workers in their forties felt that they had experienced age discrimination, compared with 10 percent of those age 63 and over. It is not clear whether the greater affirmative response for the older group represents increased discrimination with age (though it seems reasonable that this would be the case) or whether it is because they had more years in which they could have been the victims of discrimination. A shortcoming of this survey, and most others, is that respondents are employed persons only, thus, those who may be unemployed or out of the labor force who have been victims of age discrimination are not included. These may be the groups of older persons who have been most hurt by discriminatory employment practices.

Further insight into age bias comes from employers' perceptions of older workers. Rosen and Jerdee (1985) found that many managers exhibited age discrimination in their personnel decisions. They asked 6,000 readers of Harvard Business Review (most of whom were in management positions) to make management decisions in seven hypothetical cases. In half of the respondents' questionnaires, the worker in question was a younger person, in the other half, an older one. Except for the age of the workers, the scenarios were identical. In the almost 1,600

returned survey forms, respondents consistently made different hiring, promotion, discipline, and training decisions based on the stated age of the worker in question. Yet in a final set of questions, respondents indicated a very high level of support for nondiscriminatory business practices. Interestingly, respondents age 50 and over were consistently more supportive of the older worker than were younger respondents, from which the authors concluded that an older worker's best prospect for fair treatment appeared to be working for an older supervisor.

The above research and other similar work suggest that age discrimination may exist among persons who make decisions about older workers' employment and advancement opportunities. Nevertheless, relatively few older workers say that they have been the victims of age discrimination. Few older workers find themselves looking for a job, where they would be most exposed to discrimination. Also, their high levels of experience on the job may provide many older workers with the skills and abilities that keep them from being marginal employees. Researchers indicate, however, that it is the poor performer who is most likely to perceive discrimination. In addition, the promotion expectations (or desires) of some workers may decline with age, often due to a desire to stay in a "comfort zone" toward the end of a career.

# CHAPTER 4.
# Conclusions

One of the most important findings of this report is that comparing the incidence of job market problems for labor force groups with very different options, financial requirements, and motivations may be more complex than is often recognized. Most research on the labor market problems of older workers has come to the same conclusions. 1) older workers are less likely than younger ones to lose their jobs, and 2) when they do, it takes older persons considerably longer to find a job. While these outcomes are plausible, research for this report suggests that older workers may not be as protected from job loss as is often assumed, or is often inferred from their very low unemployment rates.

The analysis of many measures of labor market problems is complicated by the fact that some older workers follow job loss or an unsuccessful job search by retiring. As a result, unemployment rates understate older workers' job market difficulties, many older job losers, for instance, never become unemployed. Also, data on duration of unemployment may not accurately portray the difficulties older persons have in finding work. That is not to say that those older job losers who do have the option of retiring are hurt less than others by job loss. Earnings loss, for many, maybe even most, has serious long-term financial consequences, and retirement after losing a job may simply be a socially acceptable alternative to an extended period of unemployment.

Over the past 2 years, there has been an explosion of interest in the data problems related to older persons, especially those related to social, economic, and health issues. The Interagency Forum on Aging-Related Statistics—composed of Federal agencies with an interest in the area—has been active in assessing data needs and planning strategies for meeting these needs. High on the agenda has been the expansion of longitudinal data on the elderly The importance of such data can only increase as the baby-boom generation approaches retirement .

Another major finding of this report is that labor supply factors may be more important in explaining labor market differences between groups than they are usually credited for. Whenever a labor market measure, such as earnings or unemployment, indicates that one group is better off than another, demand issues--discrimination, in particular—are often offered as the reason for those differences. This is not to say that age bias is not a deterrent to the employment of some older workers—it certainly is. However, the fact that many healthy older persons

may be happy not working is often overlooked, many retirees are firm in their preference for leisure over earnings. For those who may prefer to work, however, pension rules or job market realities severely limit their options and opportunities.

*Institutional barriers to employment.* Many retirements that appear on the surface to be purely voluntary probably occur among individuals who would have preferred to continue working. Often, workers express preferences for continued employment after they retire. Yet, when the time comes, the majority go directly from full-time, career employment into complete retirement, without any phase-out period. Most who do enter the part-time job market quickly find that their value to employers has been eroded to the point where employment is not a viable option.

Such a paucity of acceptable part-time job opportunities is not necessarily the result of age discrimination, part-time jobs tend to pay low wages for everybody. Employers are reluctant to offer part-time opportunities in many jobs, particularly those at higher levels, because administrative and training costs often make it expensive, on an hourly basis, to hire part-time help. As a result, jobs for which part-time opportunities are readily available tend to be those that require little training. Most often, these are low-skill jobs that tend to pay low wages.

The worst "pay cut" occurs when a worker looks for a job in a different occupation than the one from which he or she retired. In that case, an employer might offer little or no more than an entry level wage, because the individual is, indeed, a new entrant to the occupation. Even if an employer did place some value on the older person's past experience, the upper limit of wages in most part-time jobs is well below those in full-time ones.

The best scenario, then, for older workers who wish to stay employed is continuing with their long-term employers (or at least in their same occupations), to whom they would retain the highest value. In fact, workers near retirement age say that they would prefer to have a phased retirement, particularly with their current employer (Jondrow, 1987). This rarely happens, however, for many reasons. Workers who continue to work beyond the age at which they could retire often pay a steep price for that work. Historically, private pension plans allowed for no additional accrual of pension benefits beyond a certain age. While recent changes in pension law prohibit that practice, other provisions still allow for workers to be penalized for continued employment.

Also, Social Security regulations provide a very small additional benefit for those who choose to defer receipt until after age 65, at present, the delayed retirement credit is only 3 percent for each year of work after age 65 While the 1983 Social Security Amendments will raise that credit in future years, eventually to 8 percent, such an increase does not apply to those currently making retirement decisions.

If workers choose to receive Social Security benefits and to continue working, they typically will keep earnings below the exempt amount—beyond which benefits are reduced one dollar for every two dollars earned. That threshold is currently $6,120 for beneficiaries ages 62 to 64 and $8,400 for those ages 65 to 70. Such an offset, coupled with taxes on that income, makes it unreasonable for most workers to continue in their full-time jobs while receiving Social Security retirement benefits Thus, those who wish to continue to work generally must choose whether to keep working full time and defer their Social Security benefits (and, hence, have the present value of those benefits decline each year), or to receive benefits and be limited in the amount they can earn.

*Conflicting attitudes toward work and retirement.* No consensus now exists among the Federal Government, private employers, and workers on a need to push up the normal age of retirement. However, two key actions intended to enable workers to extend their worklives have been taken in recent years. The Age Discrimination in Employment Act now forbids the forced retirement of workers in most occupations at any age Also, because of both short-and long-term problems in funding the Social Security retirement trust fund, the 1983 Amendments to the Social Security Act increased the penalties for those who retire early and decreased penalties for those who choose to continue working. Some of these changes, however, will be phased in over several decades. In fact, in the near future, neither legislative effort is expected to have a substantial effect on workers' retirement patterns.

Other reasons besides pension funding issues have been cited as justification for older retirement ages. An often-used rationale for raising retirement ages is that, since people are living longer, they are healthier and thus better able to work more years. Yet that conclusion may be inaccurate, people are living longer, but they may not be healthier.

Such an increase in lifespan may be associated with longer periods of chronic illness and dependency rather than additional years of well being and independent functioning (National Research Council, 1988).

Some prominent participants in the retirement-age discussion believe that the decline in work activity among older persons is innately bad because it relegates older persons to an unfulfilling retirement with negative consequences for both physical and mental health. This view does not reflect the preferences of the millions of Americans who are presently looking forward to retiring from what is often, for this generation, physically demanding work. Having a fair opportunity to continue in meaningful employment is quite different from being penalized for not doing so.

*Looking ahead.* Over the last few years, retirement ages seem to have stabilized, or edged up slightly (Moen, 1988). Such a pause in the long-term downtrend is not unusual during an extended period of economic expansion. It is too early to predict with confidence that retirement ages will soon begin to rise. Changes in the benefit structure of Social Security will have only a minor impact on retirement ages if employers and employees continue to prefer earlier retirement ages.

Over the next few decades, several factors might lead to both expanded demand for older workers and increased desire by older persons to continue on the job. Most importantly, the changing demographic makeup of the population will restrict the supply of labor, labor force growth is projected to expand at only half the rate during the 1986–2000 period that it did in the prior 14 years (Fullerton, 1987). Perhaps more and more employers will follow the lead of those few who have already developed programs designed to provide attractive, often innovative, work options for retirement-age workers. [14]

In addition, with each successive generation of older workers, fewer will have worked in physically demanding jobs and more will have the

[14] It is often argued that such improved employment offers in response to labor shortages will serve to raise older workers' labor force participation rates. This may be the case in the short run. In the long run, however, the opposite might occur. Employers faced with labor shortages must compete for a full age-range of workers, not just older ones. They do that by making the employment package more attractive, generally through higher wages or improved benefits. One of the benefits that might prove attractive to younger workers would be better pension benefits, which would eventually lead to even earlier pension receipt.

educational background, particularly a college education, that will allow them more flexibility in the job market. Such profiles generally are associated with relatively high participation rates and late retirement.

The factor that will most strongly influence the job market for older workers is the overall pace of economic expansion, which directly affects job creation and unemployment. If employers need older workers, they will create ways to both attract and retain them. Today, clearly, employers' perceptions are often that older workers' early retirement is an attractive way to make work force adjustments, perhaps even avoiding layoffs, and to cut labor costs. In that environment, older persons may be pushed from their jobs. Some will have adequate financial resources, while others will be in a more precarious situation.

# Appendix: Method for Estimating Duration of Unemployment from CPS Gross Flows Data

The probability of leaving, or escaping, unemployment is the sum of the probabilities of going from unemployment to employment and from unemployment to not in the labor force:

$$pESC = \frac{UE + UN}{U(t-1)},$$

where pESC is the probability of escape, UE and UN are the probabilities of going from unemployed (U) to employed (E) and not in labor force (N), respectively, between months t-1 and t, and U(t-1) is the number of unemployed persons in the previous month. The expected duration of a completed spell of unemployment is the reciprocal of the probability of escape:

$$E(D) = 1/pESC,$$

where E(D) is the expected duration of a completed spell of unemployment (Rones, 1983, and Bowers, 1980). This technique assumes that unemployed persons, regardless of their current length of joblessness, have the same probability of escape -- that is, the probability of escape is independent of duration.

The estimates computed from the above formula are based on monthly escape probabilities. A calculation of a completed spell in weeks would be:

$$E(D) \frac{1}{pESC} \times 4.3,$$

where 4.3 is the number of weeks in the average month.

The equation for the calculations for the expected duration of a successfully completed spell of unemployment is:

$$E(D) = \frac{pUE + pUU}{pUE} \times 4.3$$

The equation removes UN from the numerator and the denominator.

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