

Labor Force Participation, Aging, Social Security and the Budget

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Conference on Old-Age Labor Supply and the Budget

The Brookings Institution

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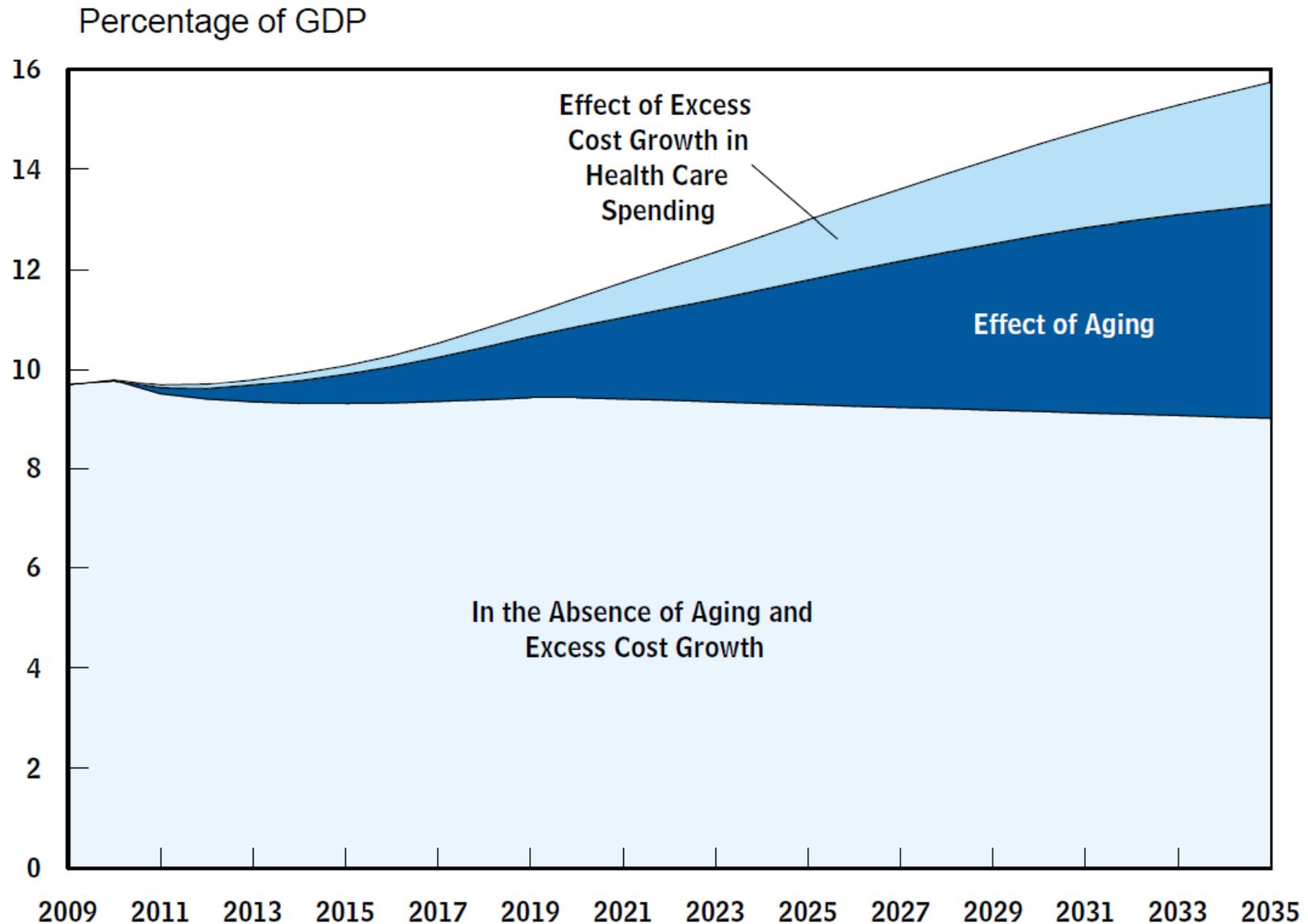
Why Retirement Age & Labor Force Participation Are So Important

Tend to be associated mainly with Social Security

Much bigger issue: how society should adjust to demographic changes affecting

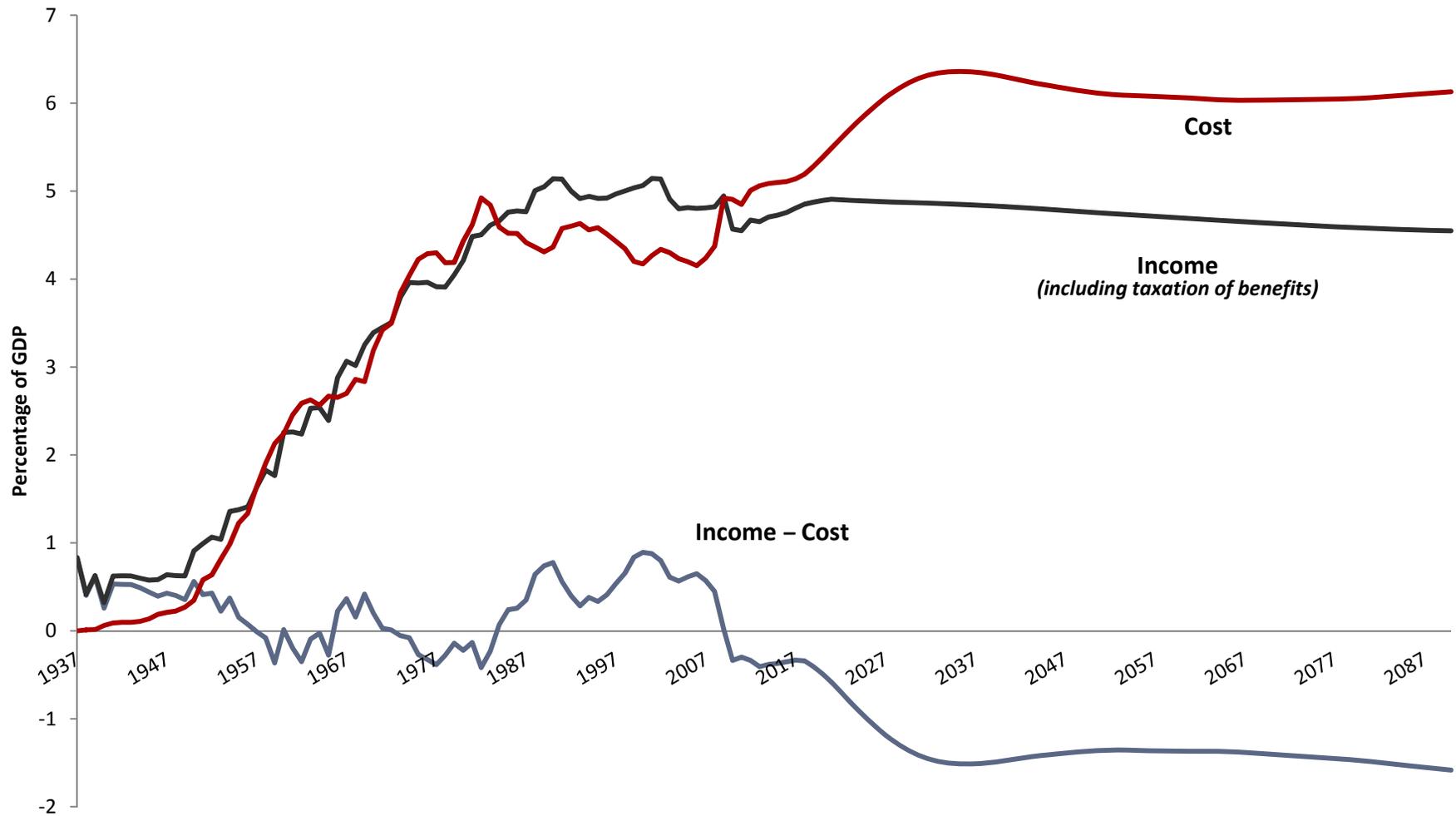
- GDP
- Personal Income
- Revenues (mainly income tax)
- Spending in the budget
 - CBO chart on spending (next slide) leaves out the first effects
 - A later study brings them back in

Factors Explaining Future Federal Spending on Medicare, Medicaid, and Social Security



Source: CBO, 2009. "Aging and Health: The Challenges of Entitlement Growth."
Presentation for Association for Public Policy Analysis and Management.

Social Security Cost and Income, Excluding Interest



Notes: 2012 OASDI Trustees' Report and Statistical Supplement. Projections assume Intermediate Cost Scenario. Yearly income only. Caleb Quakenbush and C. Eugene Steuerle, The Urban Institute, 2012. Based on earlier work with Stephanie Rennane.

A Digression on “Aging”

Living longer vs. lower birth rates
Both unfortunately defined as “aging”

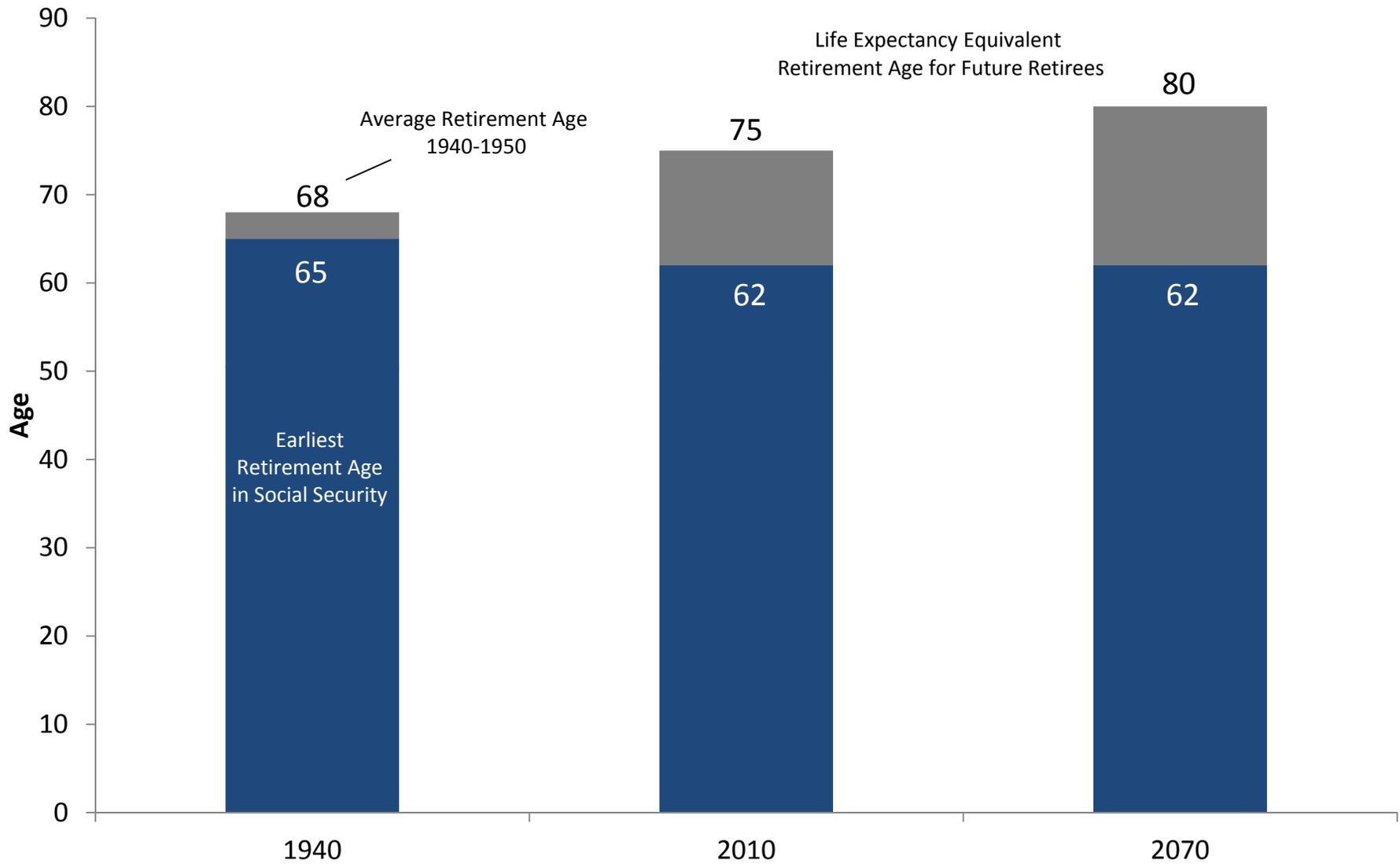
Policy Problem:

- Past and scheduled increase in retirement years over the decades involves very large per person benefit expansion
- Baby boom hump does mean a larger portion of population in last years of life and a smaller portion in more healthy years

Research Problem:

- Estimates over time should often classify those with equivalent need by remaining (or relative remaining) life expectancy
 - Else not “sampling from same set”
- By life expectancy, a 68-year in 1940 is similar to a 75 year old today

Program Retirement Age, Indexed for Life Expectancy



Source: Stephanie Rennane and C. Eugene Steuerle, The Urban Institute, 2010.
Based on data from the Social Security Administration, Birth Cohort Tables.

INTERPRETING LFPR TRENDS

We've been underestimating LFPR of older individuals for some time

WHY?

- Theory naively conflated full retirement with leisure
- Models left out some inelasticity of labor demand
 - Thus, earlier retirement largely supported by women and baby boomers in last half of 20th century
 - Consider if fertility rate falls
 - From 3.0 to 0.0
 - From 3.0 to 2.0

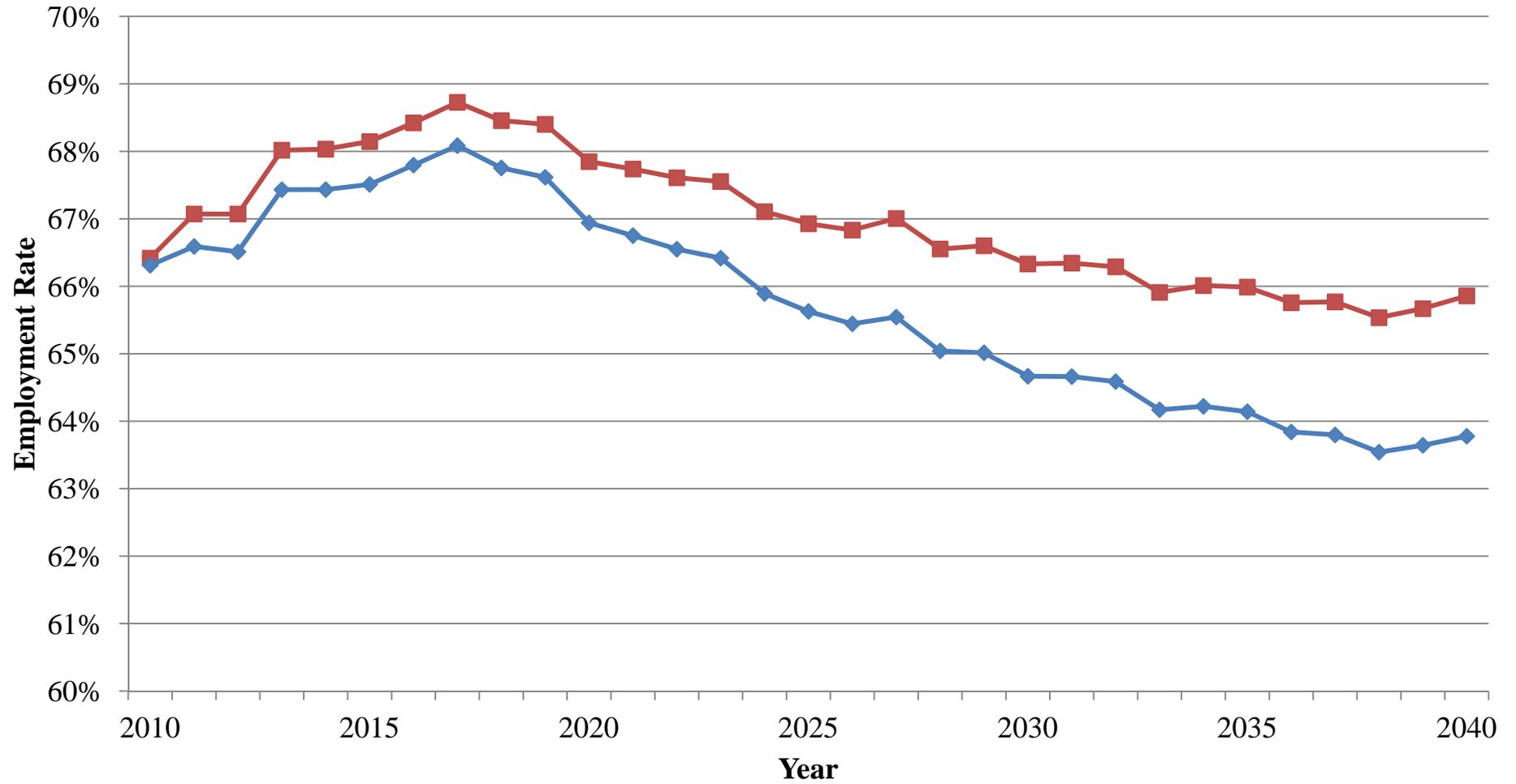
Wouldn't you expect LFPR of older individuals to rise?

Burtless: Past Trends and Further Implications from Persistence

- Higher LFPR and earnings of older workers
 - At all educational levels
 - Not just part-time work
 - Often through continuous employment
- Based on already observed increases in “persistence,” SSA projections too low

Employment Rate Among Adults Age 16+ by Year and Simulation

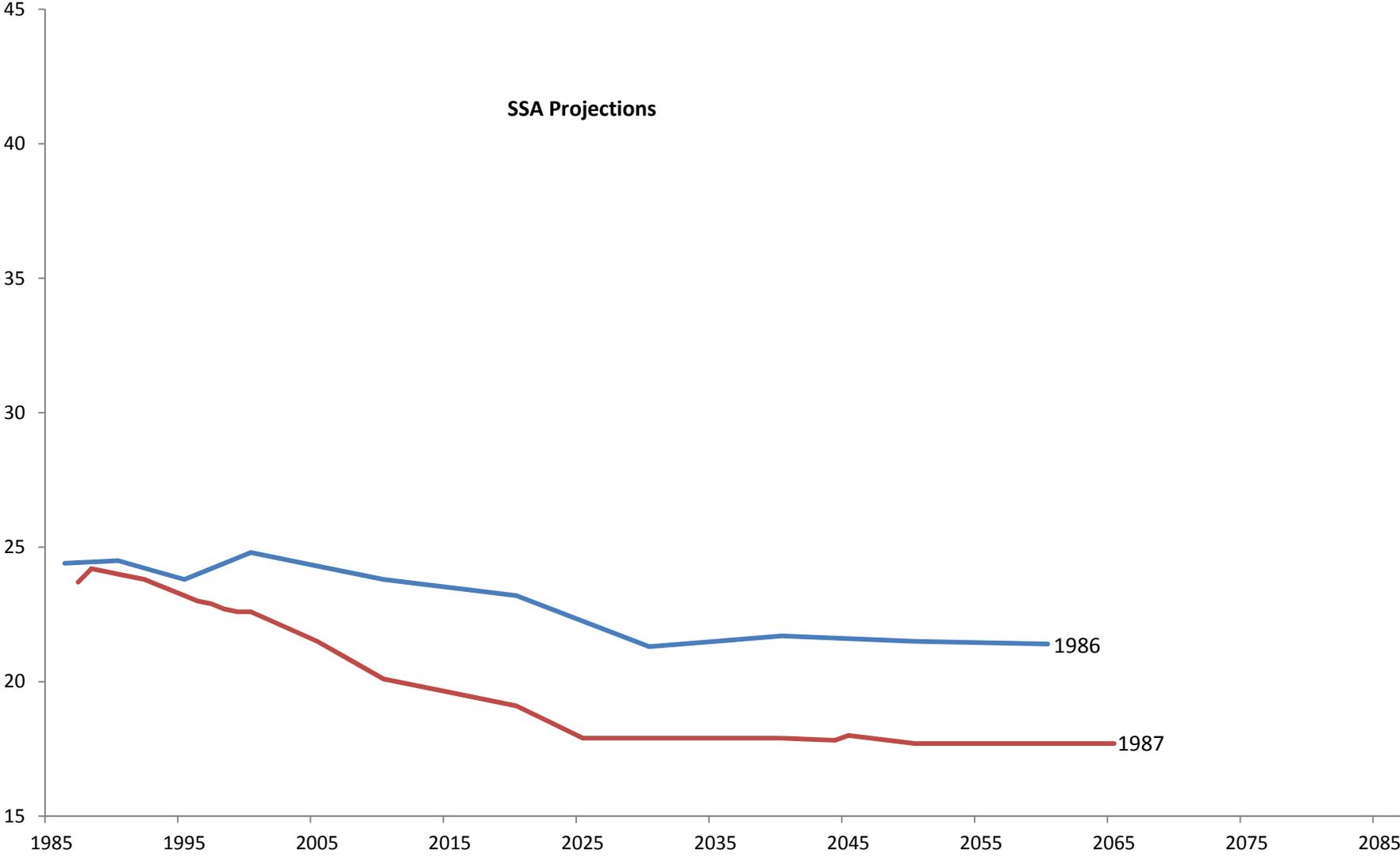
Alt 1 Baseline



My Conclusions on LFPR

- Yes, SSA Projections definitely too low
- “A Prediction: Older Individuals Will Work More (2001)”
 - SSA’s own type of “persistence” bias:
 - **Today = tomorrow**
 - **For each age group**
 - As if size of each age group (weights) don’t matter
- Burtless projections very helpful
 - But may still underestimate future LFPR
 - Because of labor force demand

Participation Rates: Trustees' Assumptions versus Actual (Men, Ages 65-69)



Source: Bureau of Labor Statistics and authors' compilations of data from Social Security Actuary.

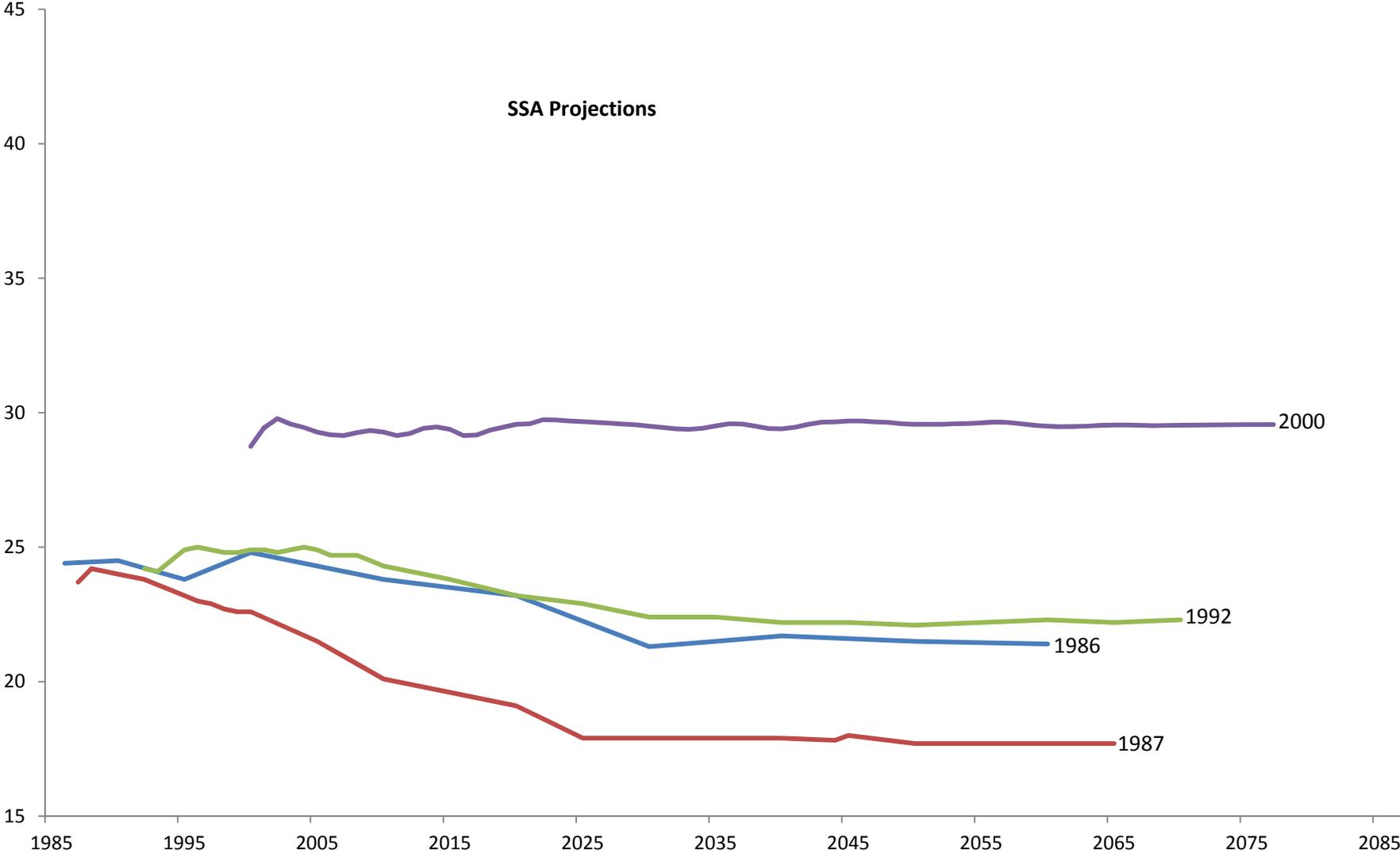
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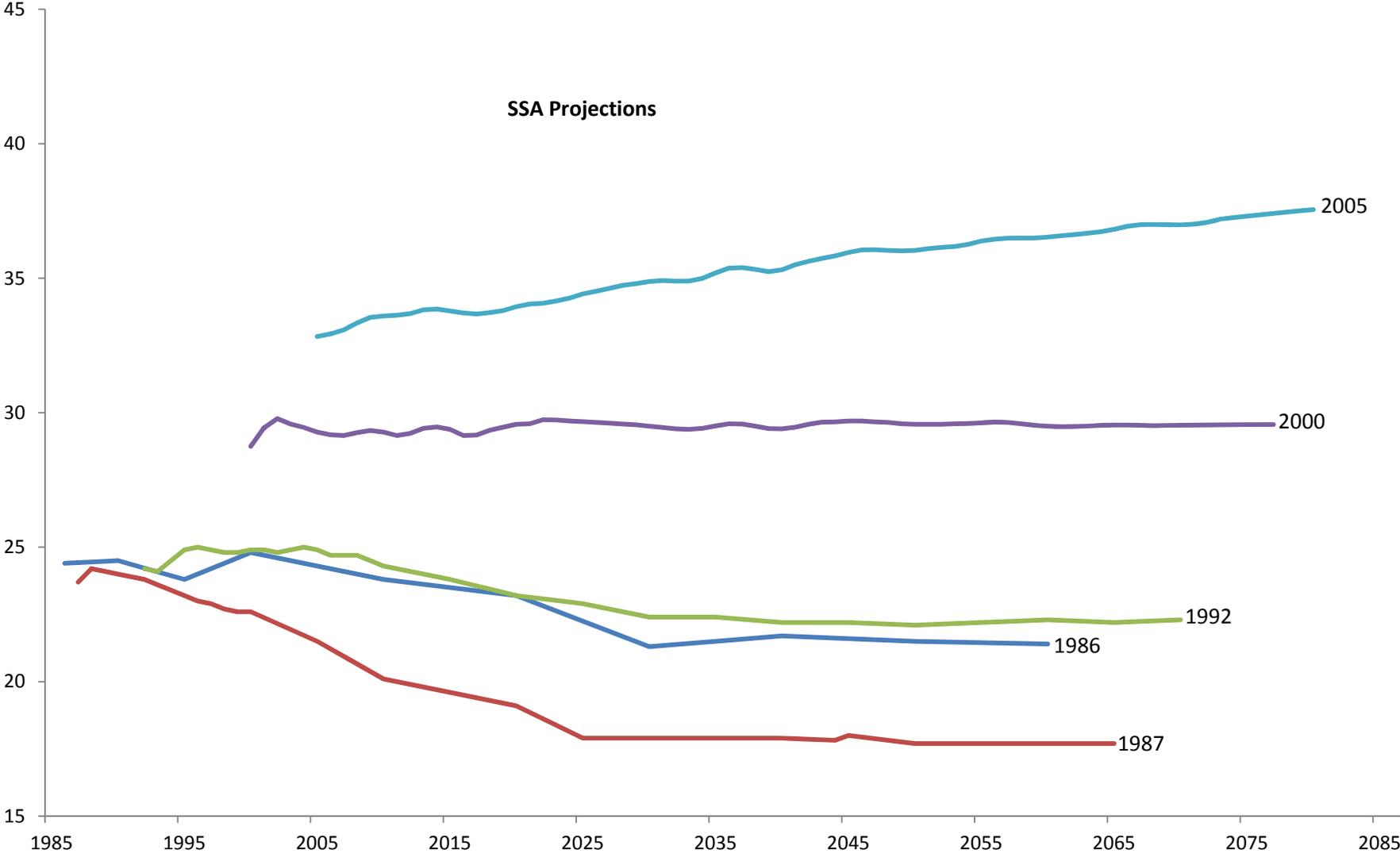
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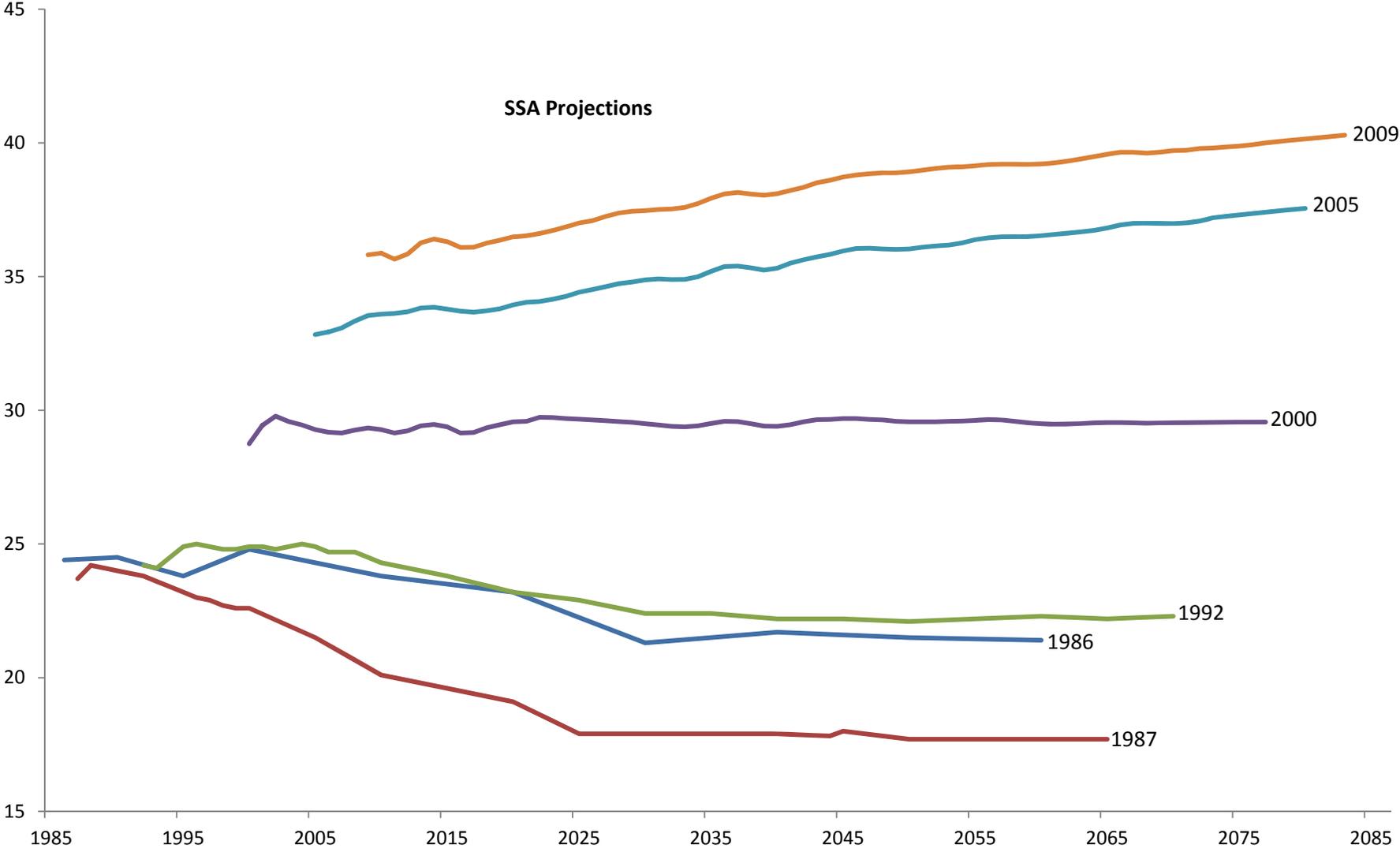
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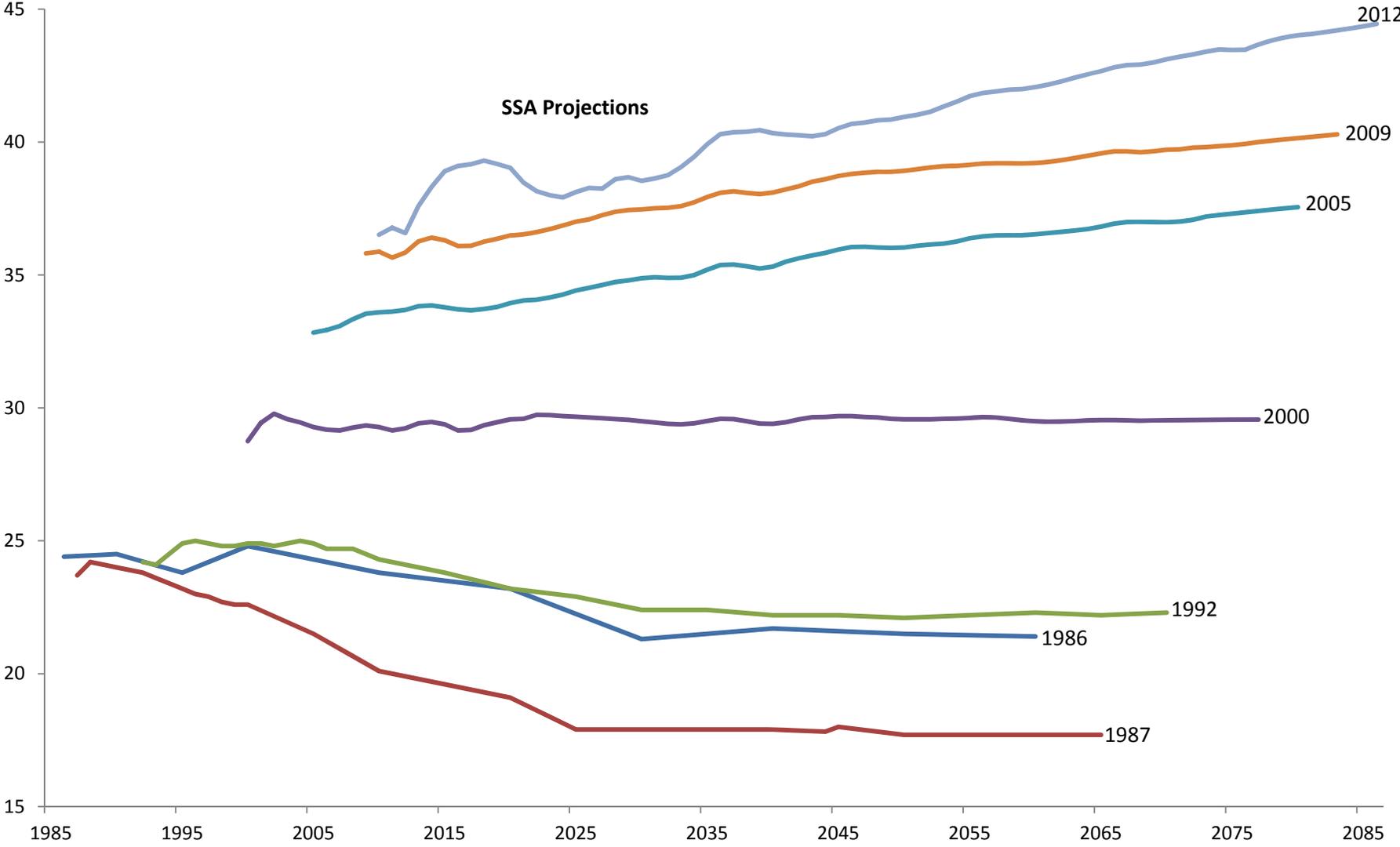
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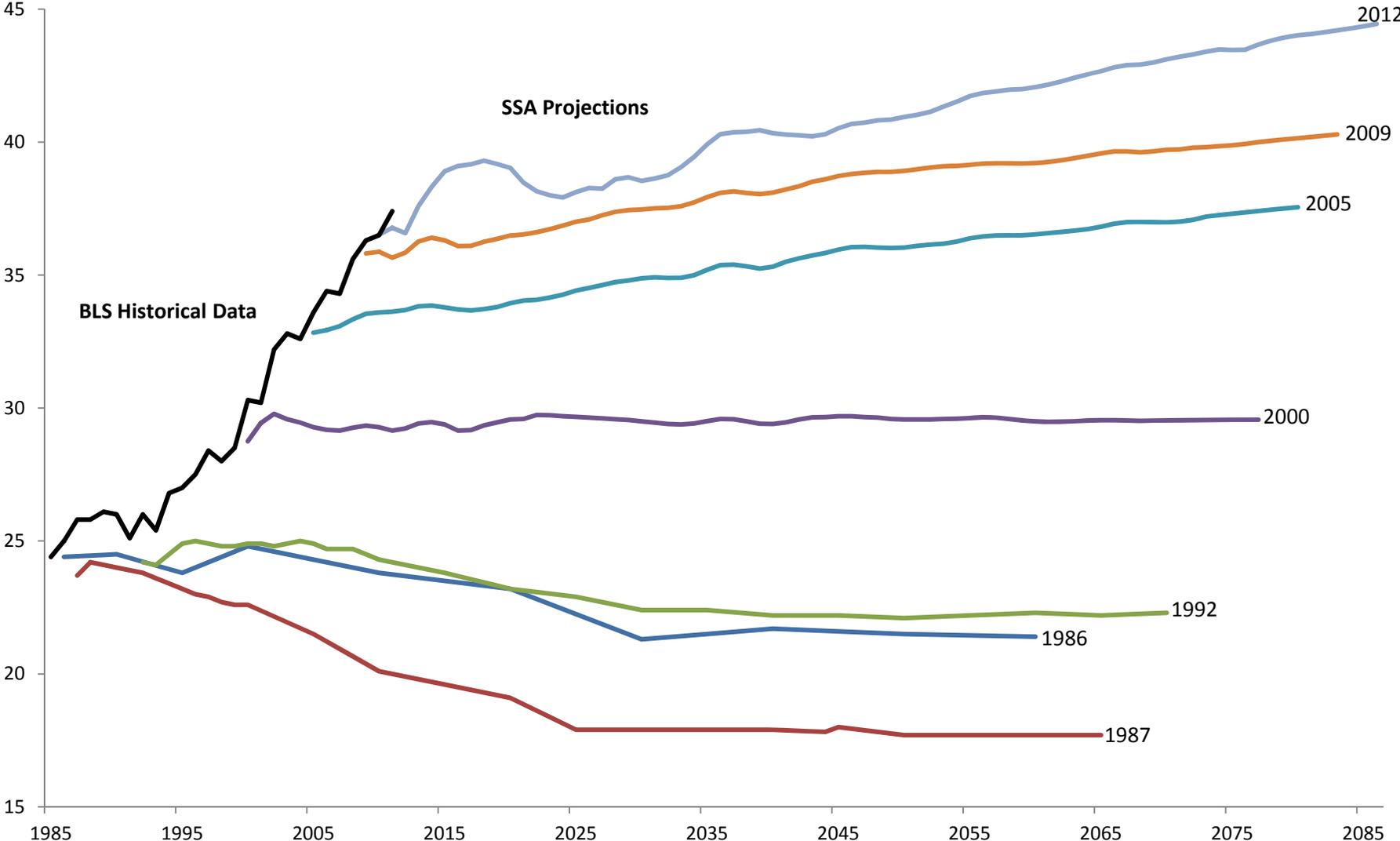
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Policy & Policy Process Implications

- LFPR effects extend well beyond Social Security
 - GDP, personal income, and income tax revenues
 - Johnson, Smith, and Steuerle;
 - Johnson & Smith (this study)
 - CBO recent study
 - Largest gains for those with lowest earnings
- A huge policy process problem
 - SSA doesn't show most of these effects in reform efforts
 - CBO so far hasn't either

Main Influences on Early Retirement

Health? No

- Most report good or excellent health

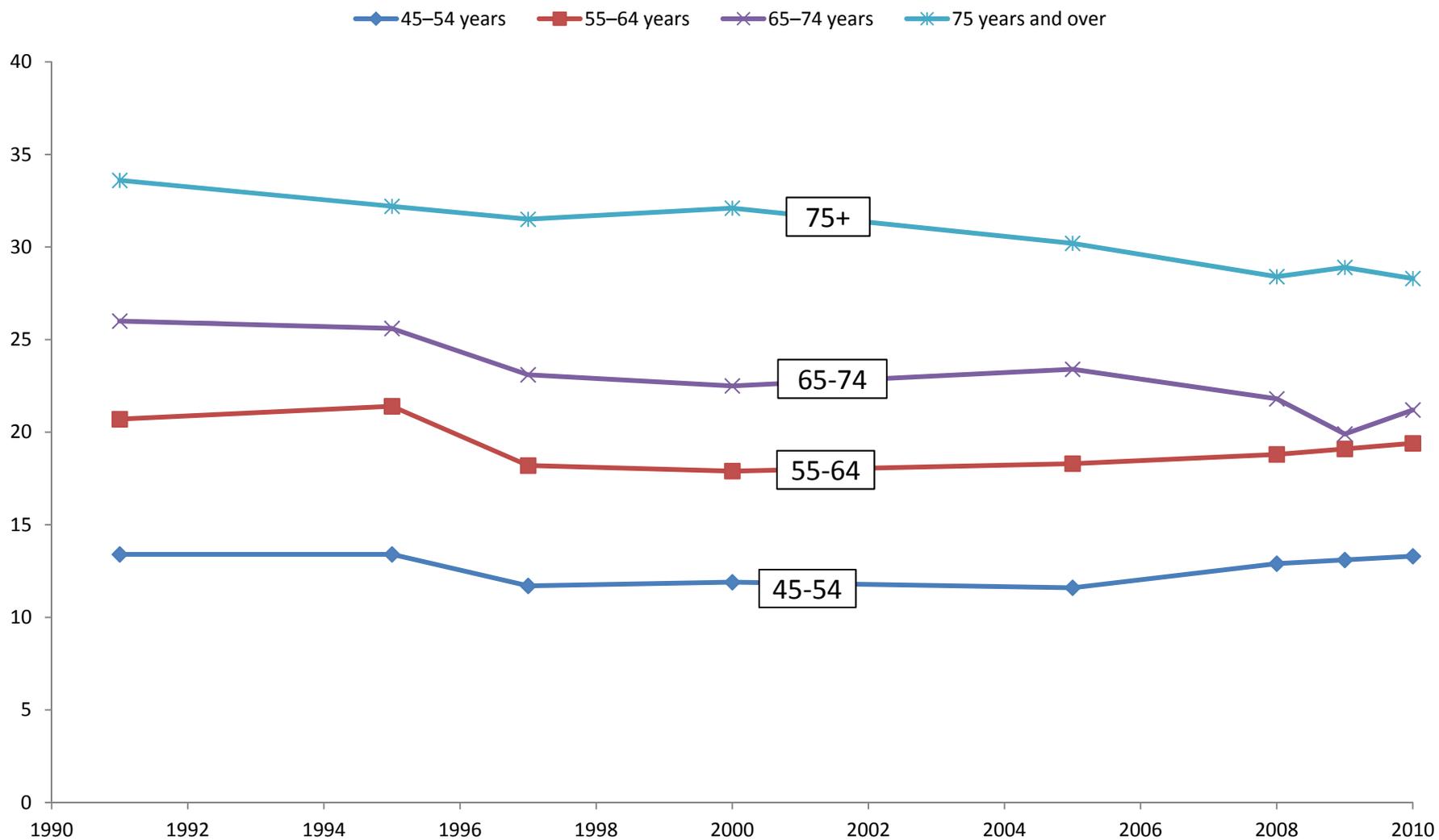
Physical demands? No

- Declining over time

Benefit ages & announcement effects? Yes

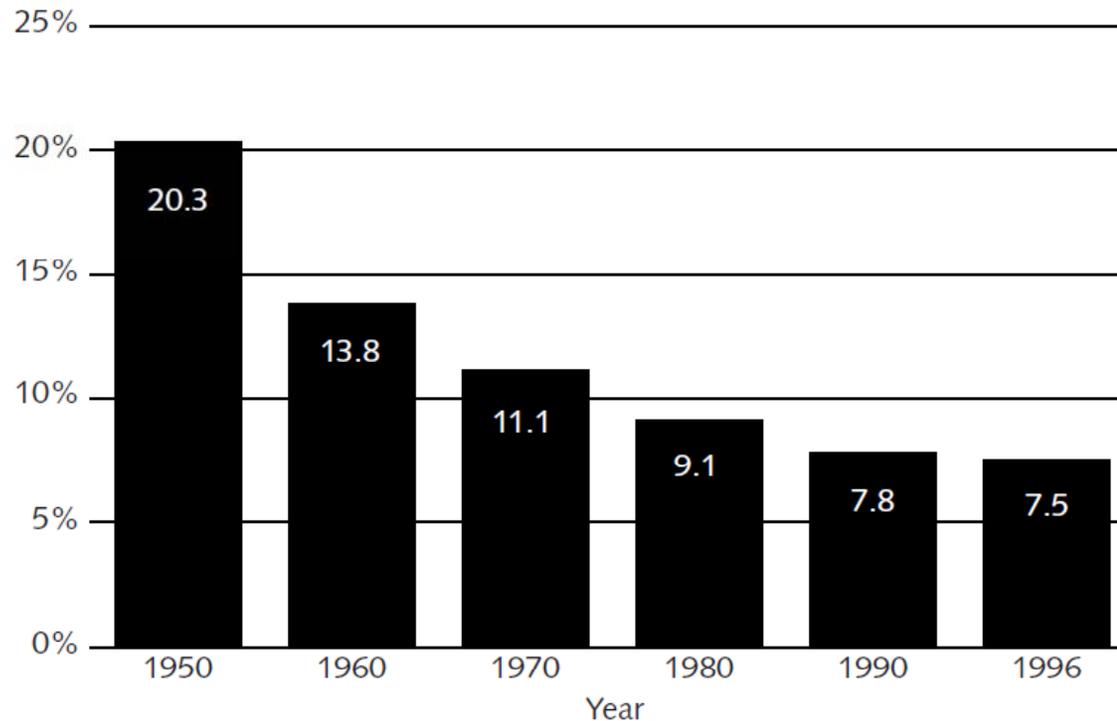
- Cushing-Daniels and Steuerle—initial age
- Joyce Manchester & others—changes in normal retirement age

Percent of Population Reporting Fair or Poor Health by Year and Age



U.S. Department of Health and Human Services, Center for Disease Control,
"Health, United States, 2011 with Special Feature on Socioeconomic Status and Health."

U.S. Workers in Physically Demanding Jobs

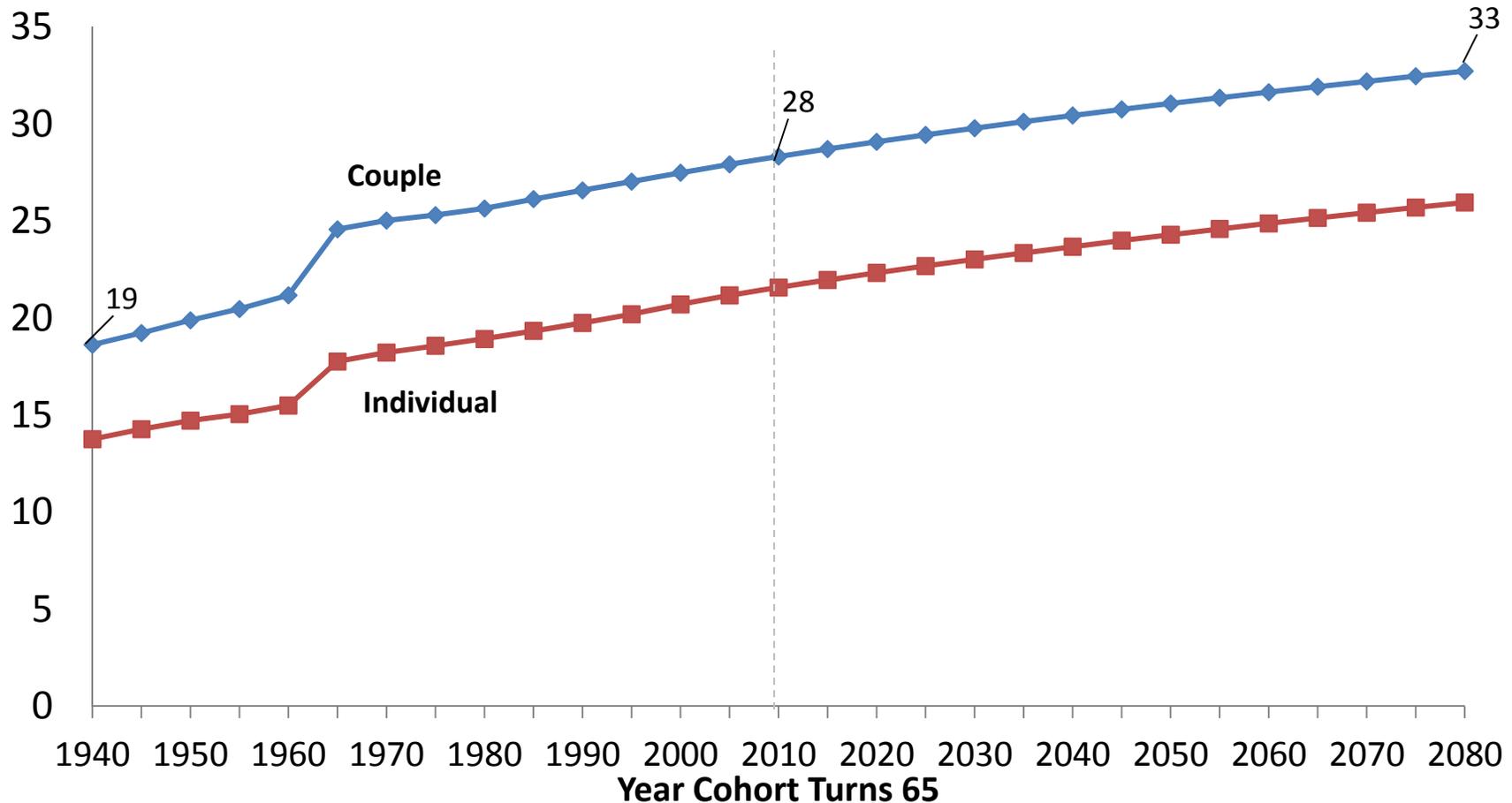


Source: The Urban Institute, 1999. Based on the U.S. Department of Labor, *Dictionary of Occupational Titles* (1977) and the U.S. Bureau of the Census Current Population Survey, 1971, 1981, 1991, and 1997. Data points for 1950 and 1960 are taken from the U.S. Social Security Administration study *Increasing the Retirement Age: Effect on Older Workers in Physically Demanding Occupations or Ill Health*, 1986.

Consequences of Middle Age, Old Age, and Survivors Insurance

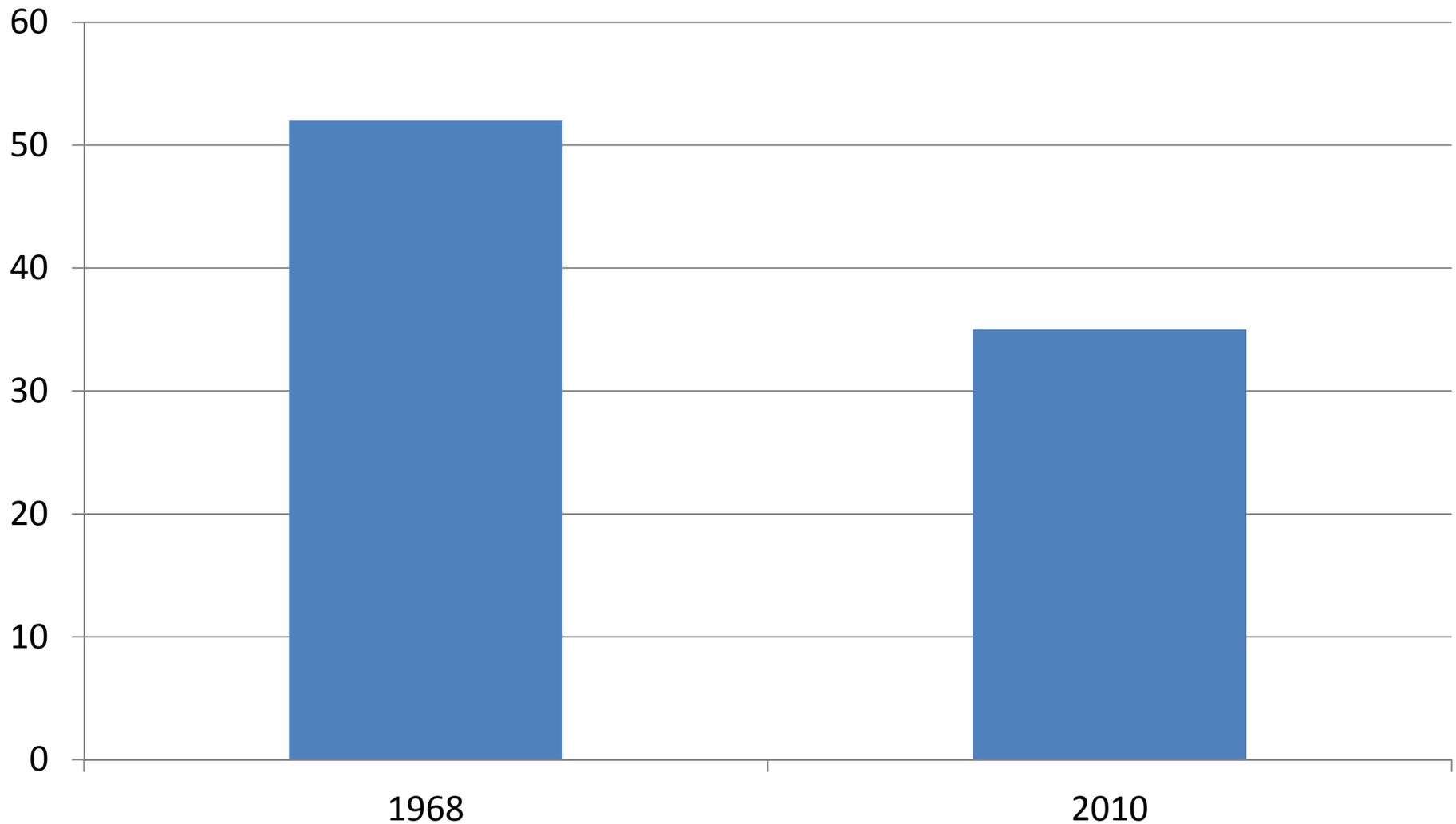
- Expected years of benefits (couple) approach 30
- Benefits less & less concentrated among old
- Large consequences for revenues & income
- “Replacement rates” fall significantly in retirement (e.g., age 62 versus age 90)
- Distribution of income among old becomes more unequal?

Expected Years of Retirement Benefits, Earliest Retirement Age



C. E. Steuerle and S. Rennane, Urban Institute 2010. Calculations based on mortality data from the 2010 OASDI Trustees' Report. Assumption: in a couple, at least one partner is still living. ERA was set at 62 for women in 1956 and men in 1961.

Percentage of Men's Social Security Benefits Going to Men With Less Than 10 Years Remaining Life Expectancy



Notes: Based on data from the Social Security Administration's 2009 Annual Statistical Supplement. Stephanie Rennane and C. Eugene Steuerle, The Urban Institute, 2010.

Summary

- Demand for older workers likely to continue rising
 - These papers one more piece of evidence
 - Most models fail to account for labor force demand
 - Older workers to the first half of the 21st century like women in last half of 20th:
 - The largest pool of underutilized talent in the country
- Defining longer lives as “aging” misleading
 - For policy & research
- Social Security reform not just about Social Security
 - Estimators need to show effects on GDP, income & revenues
- Many reasons to restore retirement systems to old age, not middle age, support
 - LFPR adds to them
 - Regardless of Social Security’s long-term balances