

Keeping Older People in the Labor Force

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“Improving Opportunities for Those Who Want to Work Longer”

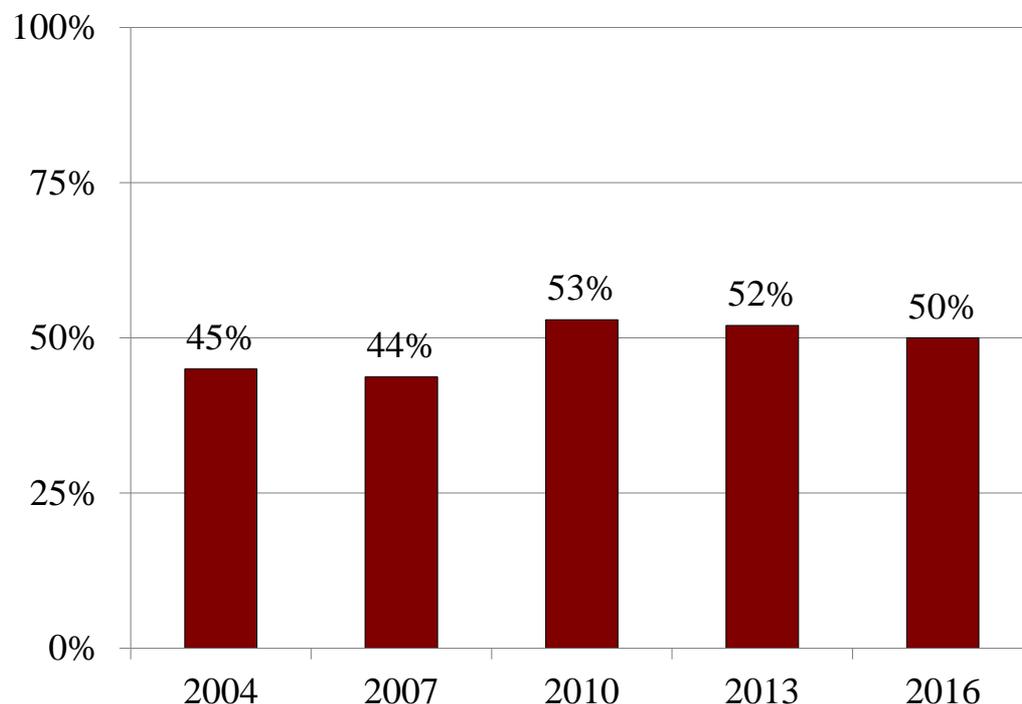
The Brookings Institution

Washington, DC

January 24, 2019

Half of working households are not on track to maintain their living standard in retirement.

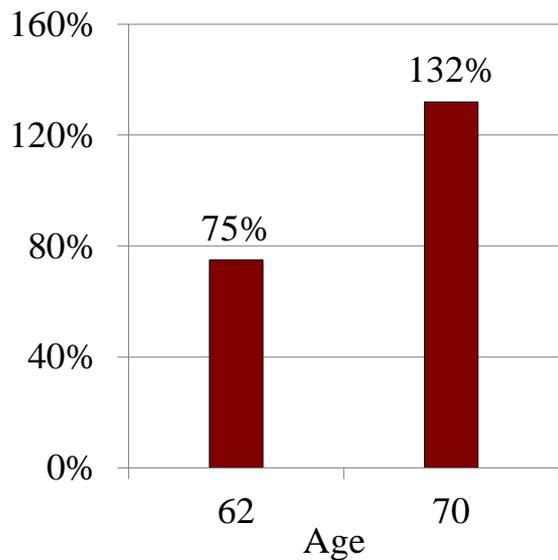
The National Retirement Risk Index, 2004-2016



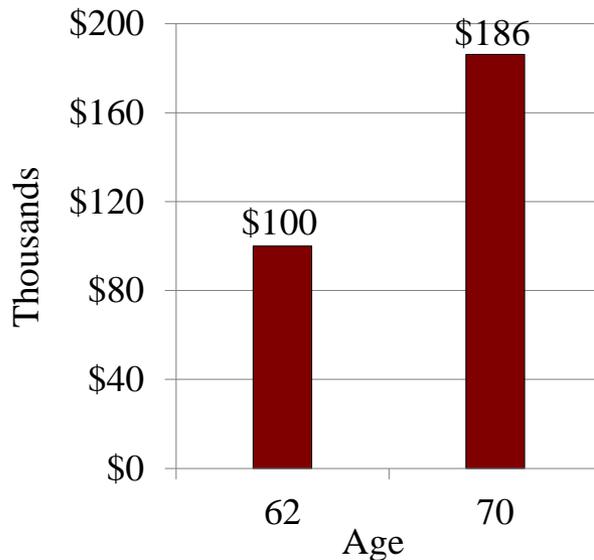
Source: Munnell, Alicia H., Wenliang Hou, and Geoffrey T. Sanzenbacher. 2018. "National Retirement Risk Index Shows Modest Improvement in 2016." *Issue in Brief* 18-1. Center for Retirement Research at Boston College.

Working longer is a powerful tool to improve retirement prospects.

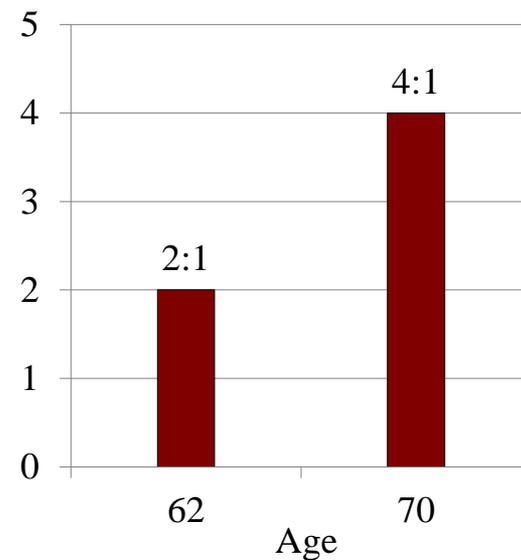
Social Security Benefits Up 76%



401(k) Assets Nearly Double



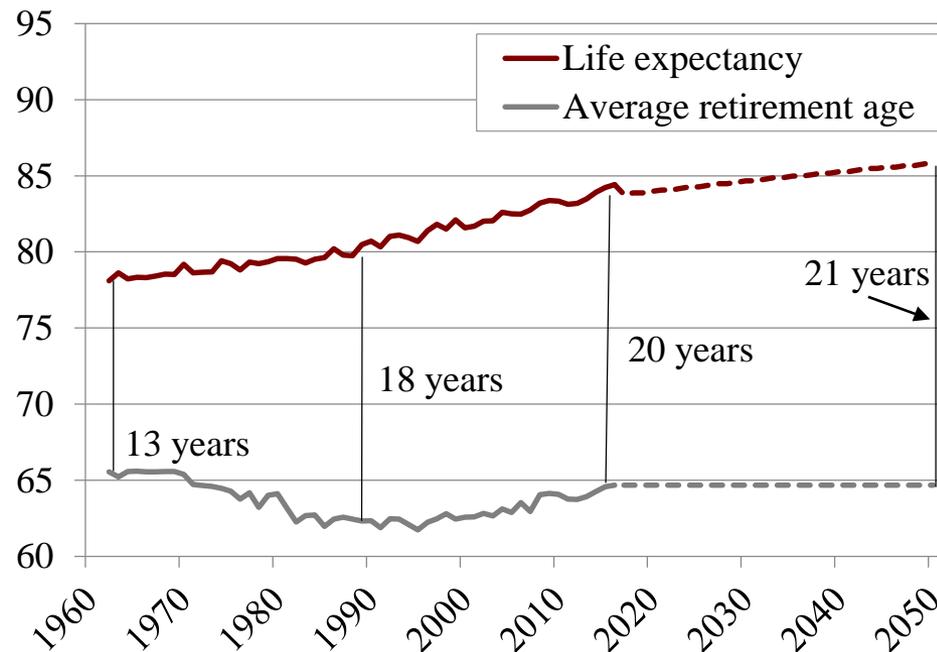
Increased Ratio of Working to Retirement Years



Sources: Authors' calculations; and Ellis, Charles D., Alicia H. Munnell, and Andrew D. Eschtruth. 2014. *Falling Short: The Coming Retirement Crisis and What to Do About It*. Oxford University Press.

Despite an uptick in the average retirement age, the length of retirement is still rising.

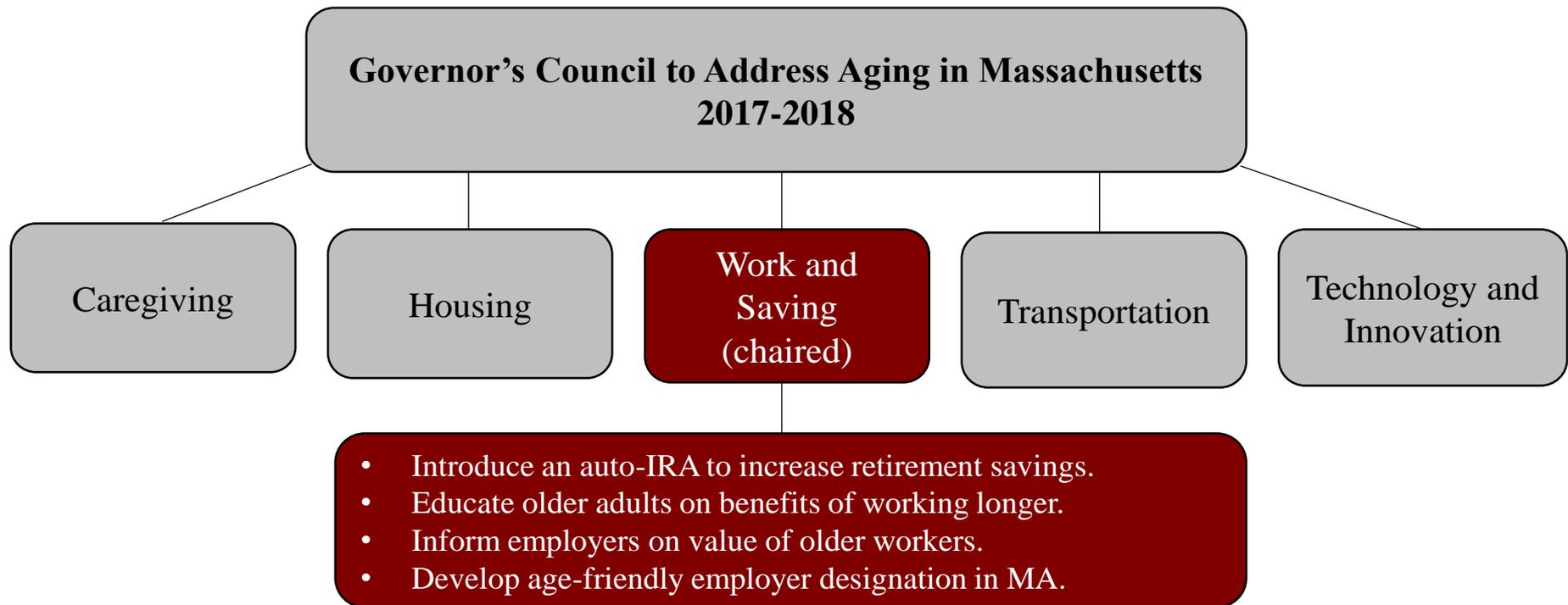
Average Years in Retirement for Men, 1962-2050



Note: Average retirement defined as when 50 percent of individuals are not participating in the labor force. Life expectancy is cohort life expectancy at age 65 from the *Social Security Trustees Report*.

Sources: Authors' estimates from U.S. Bureau of Labor Statistics. *Current Population Survey*, 1962-2017; and U.S. Social Security Administration. 2017. *Social Security Trustees Report*.

Recently, we have been forced to think of options to encourage working longer.



The key to the workgroup's vision was the active involvement of the governor.

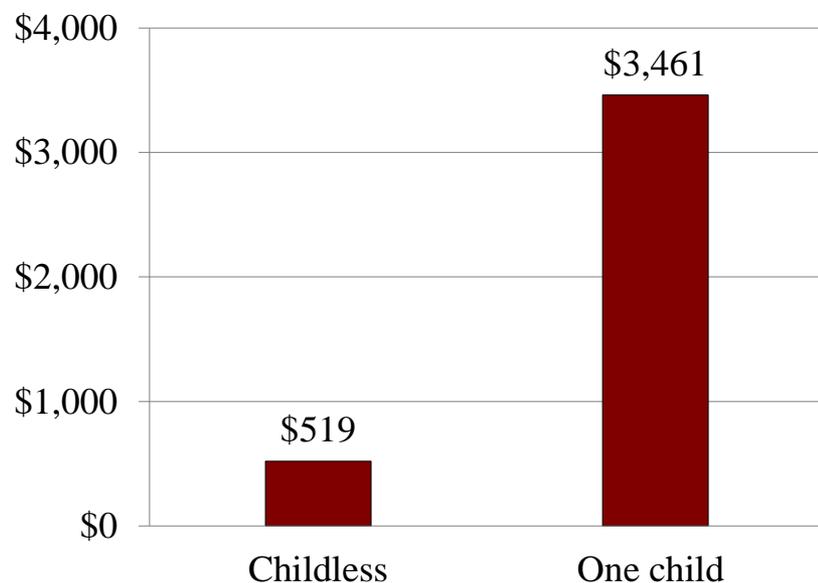
- On the employee side, the governor would host events on the importance of working longer.
- On the employer side, the governor would meet with local business leaders to share the business case for older workers.

But at the national level, options can also include economic incentives.

	Incentive	Education
Employee	Expand Earned Income Tax Credit	Clarify Benefits of Working Longer through 3-part Campaign
Employer	Restore Mandatory Retirement	Make the Business Case for Older Workers

One potential economic incentive is the EITC, but it currently does little for the childless and excludes older workers.

Maximum EITC Benefit, 2018



Age Eligibility for Childless Workers, 2018

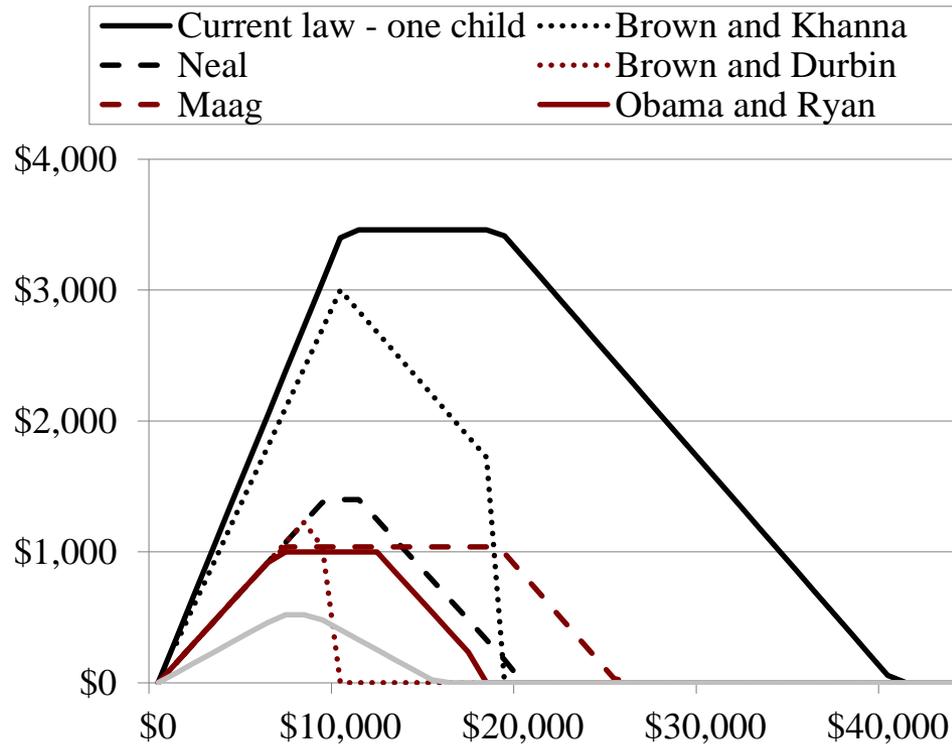
Age	Eligibility
18-24	Out
25-64	In
65+	Out

Notes: Assumes all income comes from earnings. Amounts are for taxpayers filing as single or head of household.

Sources: Authors' calculations based on IRS (2018).

To date, proposals to expand the childless credit are modest and rarely raise eligible age.

Proposals to Expand Childless Workers' EITC Amount



Notes: Assumes all income comes from earnings. Amounts are for taxpayers filing as single or head of household.

Sources: Executive Office of the President and U.S. Treasury Department (2014); Neal (2017); Brown and Durbin (2017); Brown and Khanna (2017); Maag (2018); and authors' calculations based on IRS (2018).

Raising the childless credit to \$2,000 and extending it to those ages 65-70 could help.

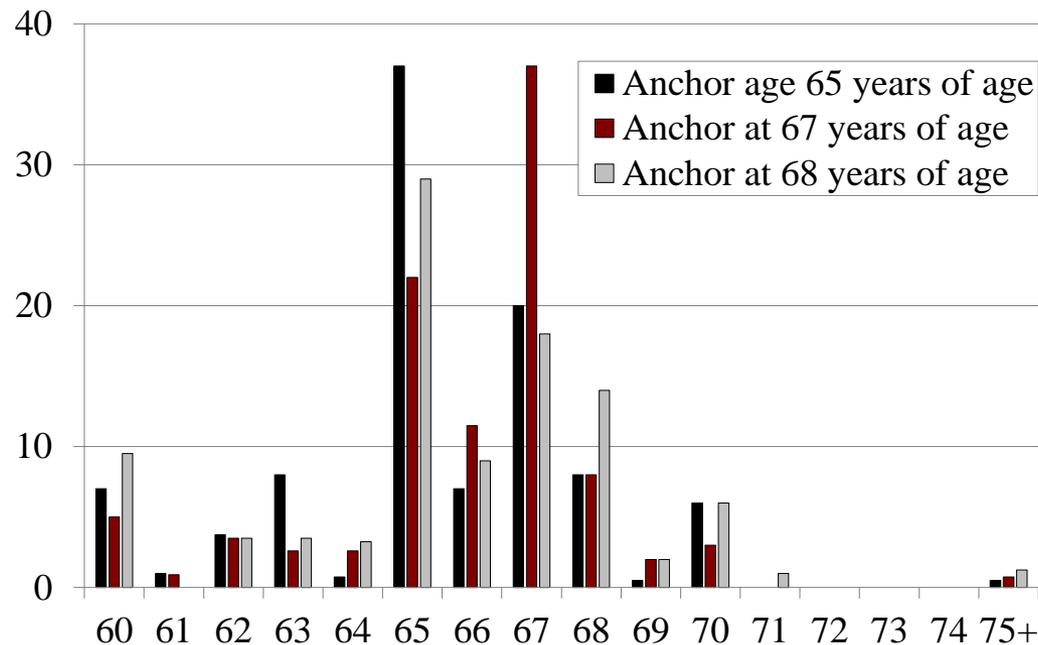
- Older low-income workers would earn a higher post-tax wage, which could offset disincentives to work.
- Our back-of-the-envelope estimate suggests a cost of \$300 billion dollars over 10 years.

Next, let's look at opportunities to educate employees.

	Incentive	Education
Employee	Expand Earned Income Tax Credit	Clarify Benefits of Working Longer through 3-part Campaign
Employer	Restore Mandatory Retirement	Make the Business Case for Older Workers

We need a national retirement age to serve as an anchor for retirement planning.

Age Anchor Effect on Expected Retirement Age



Source: Vermeer, Niels. 2016. "Age Anchors and the Expected Retirement Age: An Experimental Study." *De Economist* 164(3): 255-279.

Age 65 used to be our anchor, but it has disappeared.

- Private sector pension plans, which used age 65, have been replaced by 401(k) plans with no anchor age.
- Mandatory retirement at age 65 has been eliminated.
- Government retirement anchors have proliferated:
 - 62 for early Social Security retirement;
 - 65 for Medicare eligibility;
 - 66 and 6 months for SS “full retirement age;” and
 - 70 for the last year of the delayed retirement credit.

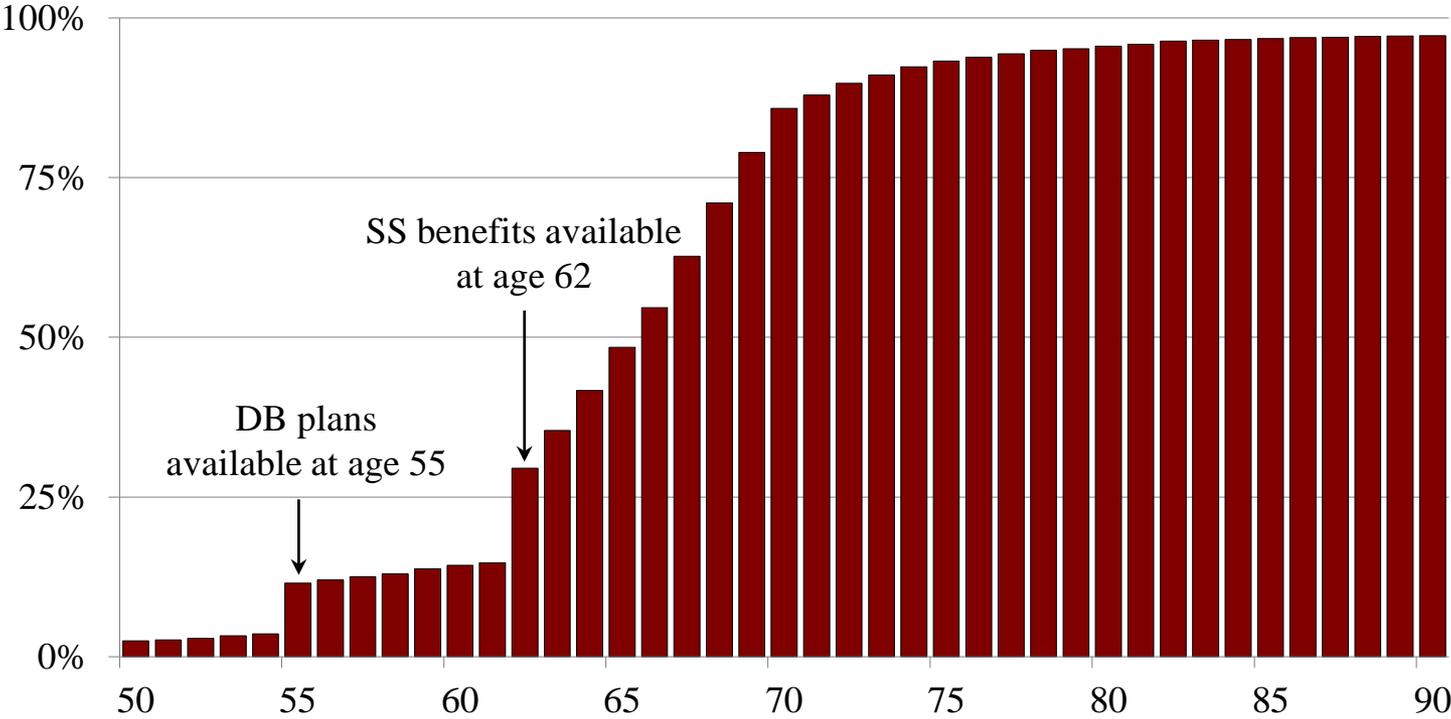
We think setting the national retirement age at 70 makes a lot of sense.

- Age 70 yields the highest monthly Social Security benefit.
- It also retains the 1940 ratio of retirement to work years.
- So, retiring before 70 really means retiring *early*.



At age 70, most would have a secure retirement.

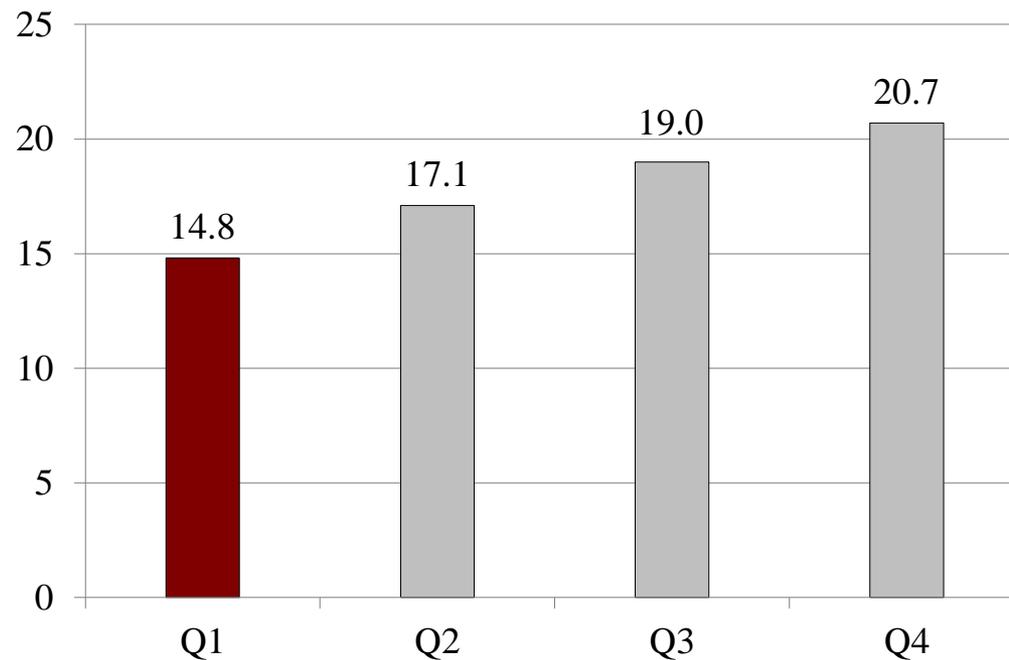
Cumulative Readiness by Retirement Age



Source: Munnell, Alicia H., Anthony Webb, Luke Delorme, and Francesca Golub-Sass. 2012. "National Retirement Risk Index: How Much Longer Do We Need to Work?" *Issue in Brief* 12-12. Center for Retirement Research at Boston College.

Of course, not everyone can work until age 70. So, the campaign must be handled with care.

Disability-Free Life Expectancy for Males at Age 50, 2017



Source: Authors' update of Munnell, Alicia H., Mauricio Soto, and Alex Golub-Sass. 2008. "Will People Be Healthy Enough to Work Longer?" Working Paper 2008-11. Center for Retirement Research at Boston College.

Second, people may think their 401(k) balance seems like a lot of money.



Note: The monthly income estimate is for a joint and survivor annuity for a 65-year-old husband with a 63-year old wife.

Source: ImmediateAnnuities.com.

But a seemingly large balance does not translate to a high monthly retirement income.



Note: The monthly income estimate is for a joint and survivor annuity for a 65-year-old husband with a 63-year old wife.

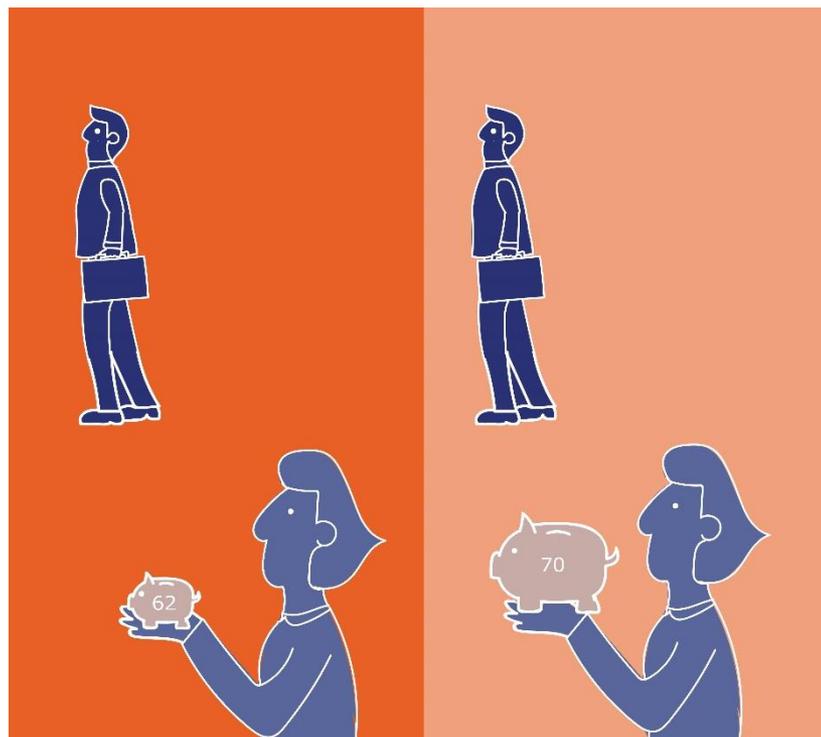
Source: ImmediateAnnuities.com.

To weaken this “money illusion,” report how 401(k) assets translate to lifetime income.

- This shift would help participants have a better sense of how much monthly income they will have in retirement.
- The hope is that it will improve saving decisions and could signal that they need to work longer.

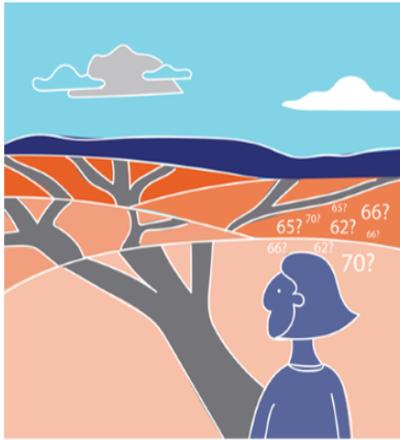
Third, provide materials to educate workers on the benefits of working longer.

- One product is a quick pitch (an “elevator speech”) for busy people.



Another is a PowerPoint on key considerations for the retirement decision.

The age at which you retire is your most important financial decision.



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The first step in deciding when to retire is to figure out how much you need.

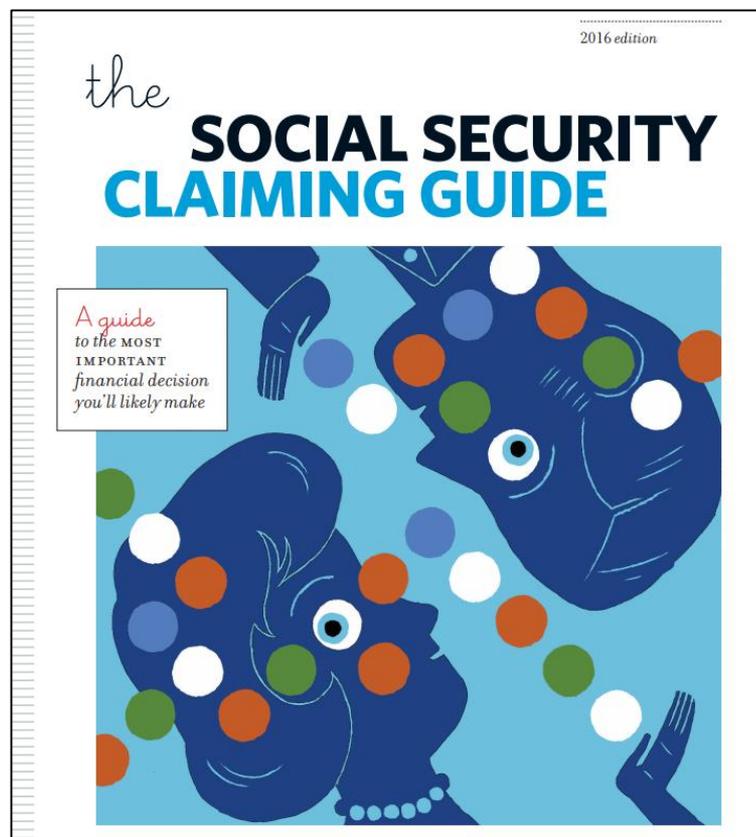
Typically, you need about 75 percent of your earnings because:

- you will pay less in taxes;
- you won't need to save for retirement;
- your mortgage may be paid off; and
- your kids will be on their own.



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And a third is the *Social Security Claiming Guide* for making the claiming decision.



Should you delay or claim right away?

The illustration shows a large, black, ornate clock face with a white dial and colorful dots (orange, blue, green) for hour markers. A woman in a black dress stands on the left, and a man in a black suit stands on the right. The clock hands are positioned at approximately 10:10.

No one wants to draw down all their savings. Savings are valuable as a reserve, can be invested in high-yielding assets, or left as an inheritance. But drawing an income out of your savings, over an extended period of time in retirement, can be tricky.

So it could make sense to use some of your assets to live on and delay claiming Social Security:

- ✓ If you need to assure you and your spouse a higher basic income for the rest of your lives.
- ✓ If you will still have enough savings for "rainy day" emergencies.

The choice is whether to use your savings to buy stocks, bonds, CDs, real estate, some other investment, or, in effect, a higher monthly Social Security benefit.

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Three strategies exist to get the word out on working longer:

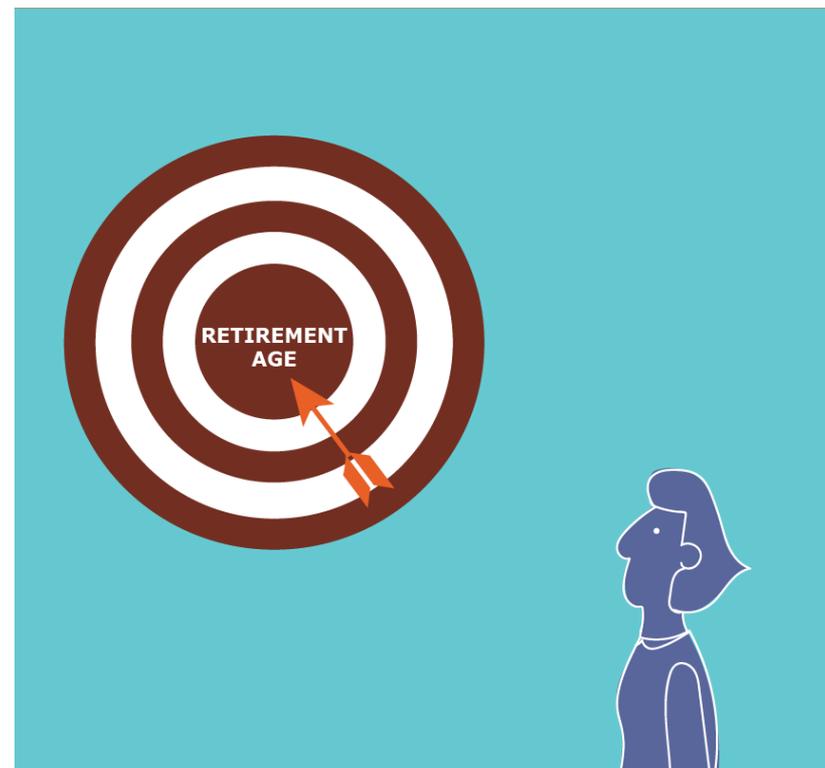
- request that governors host events on the importance of working longer;
- distribute the presentations and accompanying materials through employers and other relevant organizations; and
- publish suite of educational materials on state's website.

Next, let's consider incentives on the employer side.

	Incentive	Education
Employee	Expand Earned Income Tax Credit	Clarify Benefits of Working Longer through 3-part Campaign
Employer	Restore Mandatory Retirement	Make the Business Case for Older Workers

Surprisingly, mandatory retirement could help both employers and older workers.

- Mandatory retirement would limit the employer's risk of compensation outpacing productivity.
- Putting a lid on tenure could make hiring older workers more attractive.



A proposal to reinstate mandatory retirement would certainly be controversial.

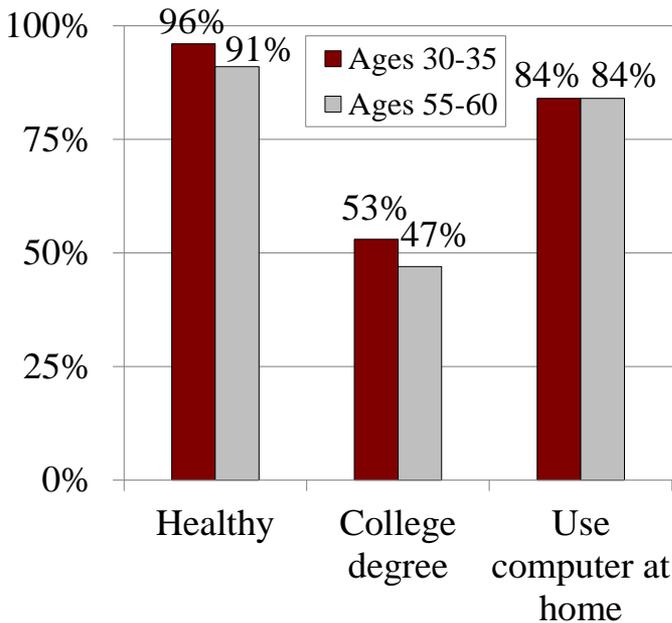
- Create a default mandatory retirement age of 70 and allow firms to opt out or set a higher age.
- Those employers that choose the default would have to notify employees six months before the mandatory retirement age.
- Employers would be required to consider employees' requests to work beyond the mandatory retirement age.

Finally, education options for employers.

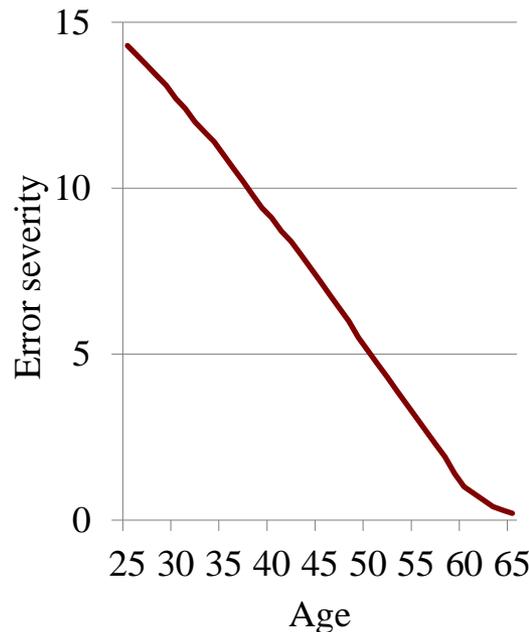
	Incentive	Education
Employee	Expand Earned Income Tax Credit	Clarify Benefits of Working Longer through 3-part Campaign
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A business case for older workers could convince employers to hire and retain them.

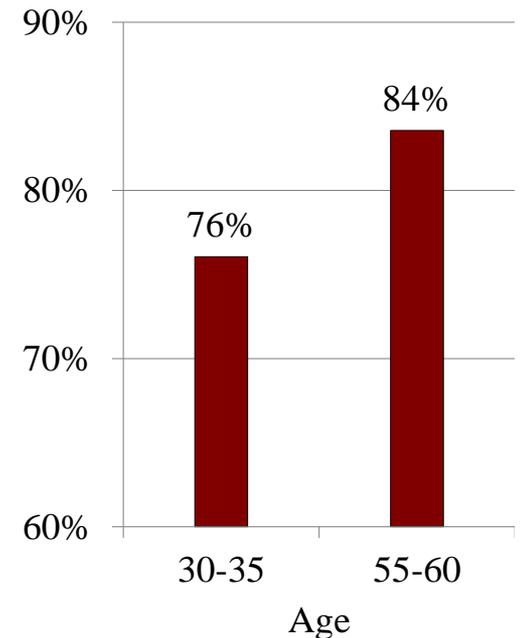
They are healthy, well-educated, and computer savvy...



...make less severe errors...



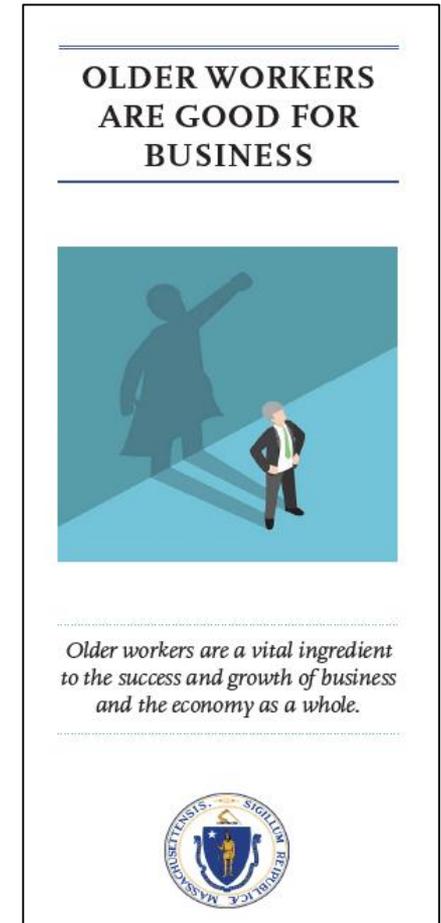
...and are more likely to stay on over the next two years.



Sources: U.S. Census Bureau, *Current Population Survey* (2010, 2017); Borsch-Supan and Weiss (2013); and authors' calculations from University of Michigan, *Panel Study on Income Dynamics* (2005-2007).

Again, the governor's bully pulpit plays a key role by educating employers.

- Host an event with business leaders to share “Business Case for Older Workers.”
- Encourage business leaders to share the information with their peers, creating a ripple effect.



At the national level, DOL could support such an effort by launching a pilot program.

- Interested governors would partner with DOL to distribute information to employers.
- DOL would assess the effectiveness of these pilot programs for potential rollout on a national scale.

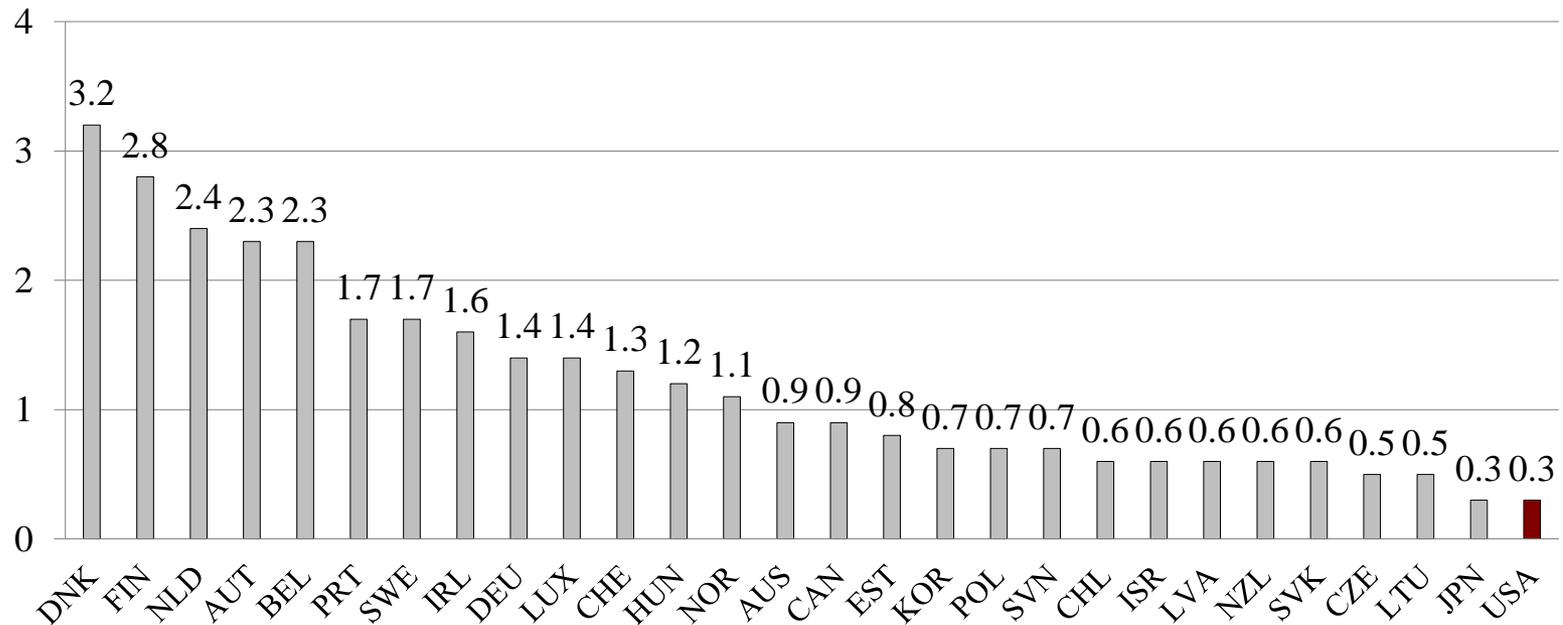
Our proposals exclude two popular suggestions.

- Increase job training for older workers.
- Expand opportunities for phased retirement.



The U.S. does not seem interested in public training programs.

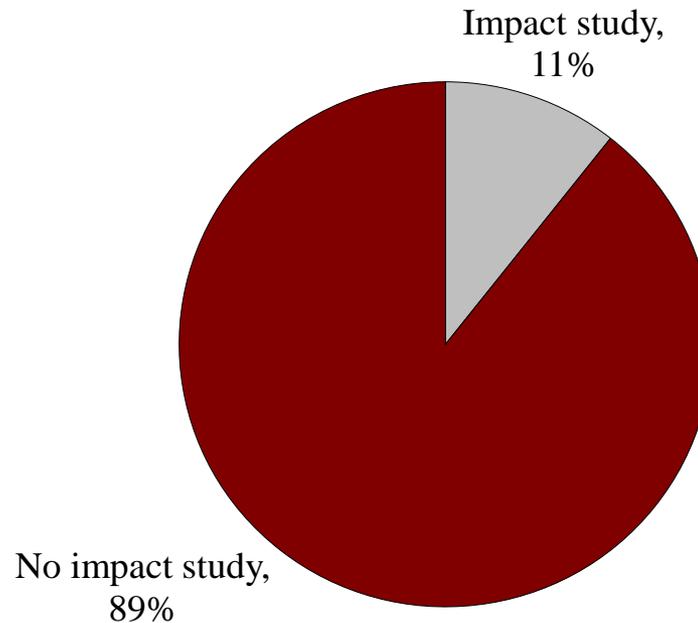
Public Expenditures on Labor Market Programs as a Percentage of GDP, 2016



Source: Organization for Economic Cooperation and Development. 2016. "Public Spending on Labor Markets."

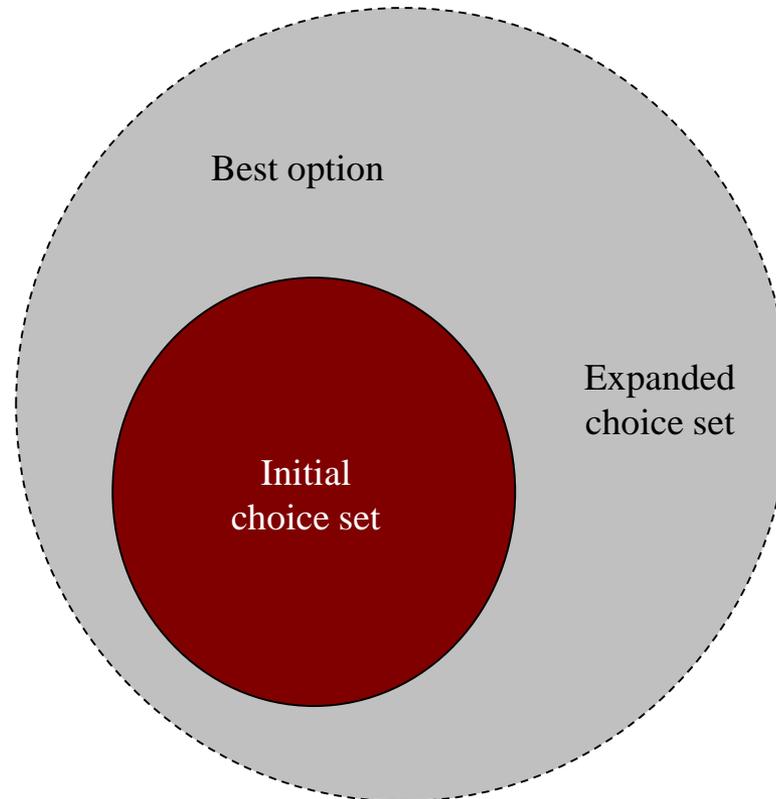
And the effectiveness of these programs is also unclear.

Share of Federal Job Training Programs Performing Impact Studies



Source: U.S. Government Accountability Office. 2011. *Multiple Employment and Training Programs: Providing Information on Colocating Services and Consolidating Administrative Structures Could Promote Efficiencies*. Report GAO-11-92. Washington, DC.

In theory, phased retirement seems like a good idea.



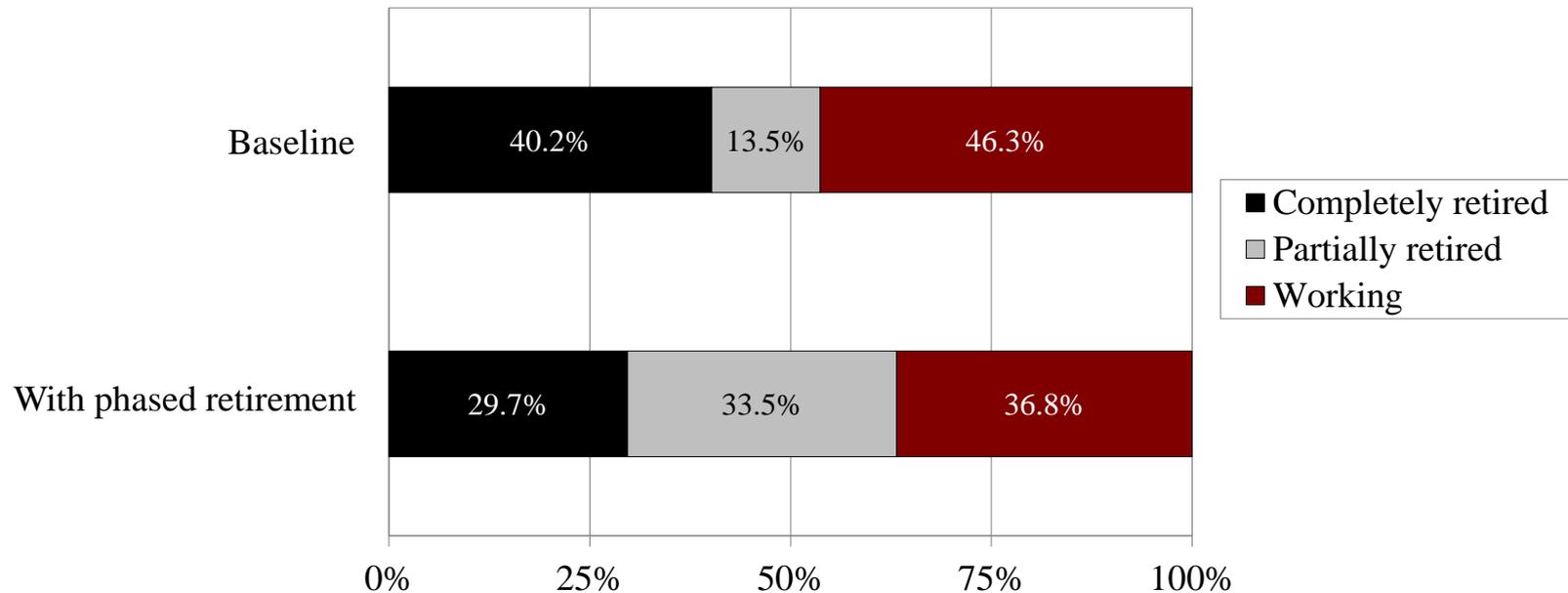
Source: Authors' illustration.

But, phased retirement is a diversion from the need to work longer.

- It hurts the attractiveness of older workers because they appear to require special care;
- may not improve workers' happiness, which appears to depend more on their control over the nature and timing of their retirement; and...

...might not result in increased employment.

Results of Retirement Simulations from Allowing Phased Retirement Option at Age 62



Source: Gustman, Alan L. and Thomas L. Steinmeier. 2007. "Projecting Behavioral Responses to the Next Generation of Retirement Policies." Working Paper W12958. Cambridge, MA: National Bureau of Economic Research.

Conclusion

- The single best way to ensure that today's workers can enjoy a secure retirement is:
 - to encourage them to stay in the labor force longer; and
 - convince employers to hire and retain them.
- The next step is to convince policymakers to actively and energetically support these types of initiatives.