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On "Building A Better Labor Market: Empowering Older Workers For A Stronger Economy."

Working Toward a Strong Retirement: How Americans Defied the Sceptics to Extend Their Work Lives

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In 1934, the French entomologist Antoine Magnan calculated that bees should not be able to fly. The aerodynamics were all wrong.[1] Bees, not knowing this, flew anyway.

We've also heard for decades that Americans cannot work longer. We may even hear the same today. Our health is too poor, our jobs too strenuous, and age discrimination too widespread for longer work lives to contribute in any meaningful way to boosting income security in retirement.

But Americans didn't listen to the "experts" and they worked anyway. For decades labor force participation at older ages had been declining, encouraged by the introduction of early Social Security benefits in the late 1950s and early 1960s.[2] But today, Americans aged 62 to 65 are participating in the labor force at the highest rates since data collection began in the early 1960s. (See Figure 1.) The same general pattern holds if we look at all Americans aged 55 and over. And these haven't been minimum wage jobs: despite the growing number of near-retirees at work, the median earnings of working Americans aged 62 to 65 exceed those of younger workers.[3]

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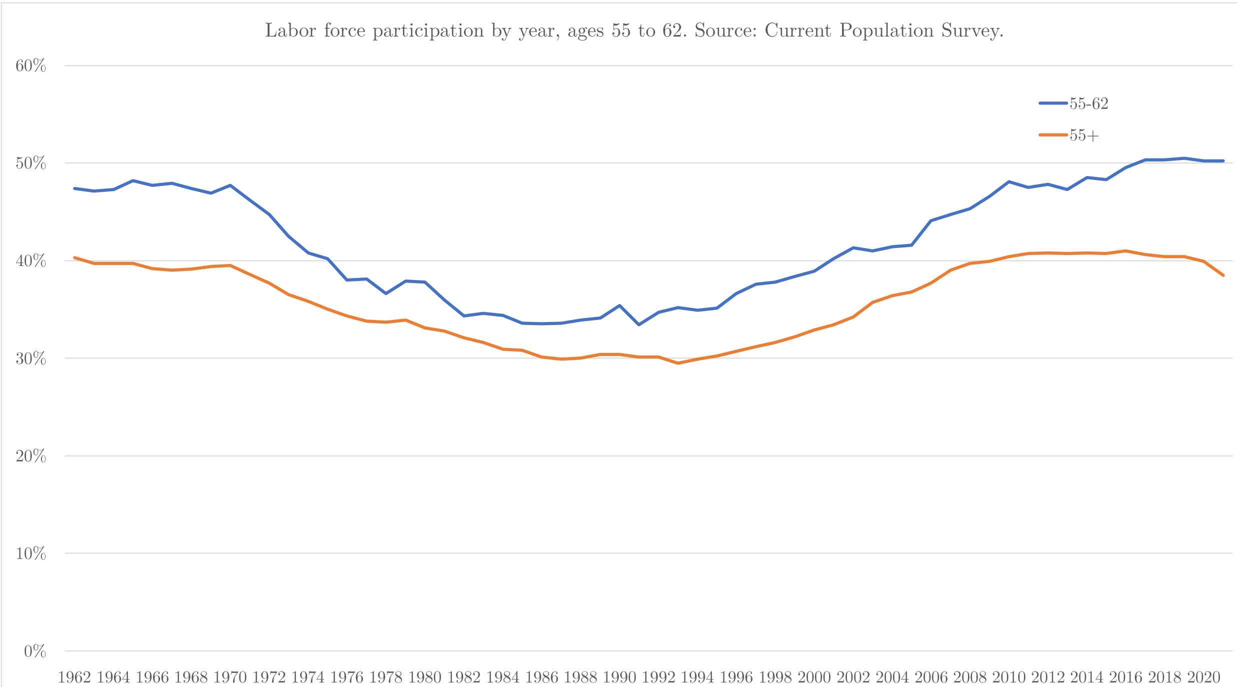
[1] CalTech. "Deciphering the Mystery of Bee Flight." November 29, 2005. https://www.caltech.edu/about/news/deciphering-mystery-bee-flight-1075

[2] Engelhardt, G. V., et al. (2020). "Early Social Security Claiming and Old-Age Poverty: Evidence from the Introduction of the Social Security Early Eligibility Age." Journal of Human Resources: 0119-9973R0111.

[3] Author's calculations from Current Population Survey data.

Figure 1.



Americans also are delaying claiming their Social Security retirement benefits. In 2020, men claimed Social Security retirement benefits an average of 1.3 years later than in 1990, while women claimed 1.4 years later.[4] Each year of delayed claiming results in an almost seven percent increase in monthly Social Security benefits for as long as the person lives, along with higher benefits for their surviving spouse. Delayed claiming is one reason why the average Social Security benefit paid to a new retiree in 2020 was 32 percent higher after inflation than the average benefit received by a new retiree in 2000.[5]

The data are now undeniable: if the conditions are right, *Americans can and will extend their work lives, and they have been rewarded for doing so.*

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[4] Source: Social Security Administration data.

[5] Source: Social Security Administration. Social Security Statistical Supplements, 2001 and 2021. Year 2000 benefits adjusted for inflation using PCE deflator.

A common response to these figures is that only high-income, highly-educated Americans are able to delay retirement. Low-earners, who are most at risk of poverty in old age, can't follow that same model, it is said. It is true that highly-educated workers with less physically-strenuous jobs face an easier time in extending their work lives. That pattern is not likely to change.

But over the last three decades, labor force participation among near-retirees has risen most rapidly among the least-educated workers. Federal data show that from 1992 to 2019, employment rates for individuals aged 62 to 65 and having only a high school diploma increased from 30 percent to 43 percent, which is a 45 percent relative increase in the share of that group who were still working. (See Table 1.) By contrast, employment rates for the best-educated Americans with a Master's degree or higher rose from 50 to 64 percent, a 28 percent relative increase. So despite the hurdles lower-income workers face, longer work lives have not been a story of the elite pulling away from the rest but of the least well-off Americans starting to catch up.

Table 1. Share of individuals aged 62-65 reporting being "at work," by highest level of education.

	HS	Some college, or Associates	BA	MA+
1992	30%	33%	42%	50%
2019	43%	46%	56%	64%
Relative change	45%	38%	34%	28%

Source: Current Population Survey. The relative change is the percent working in 2019 divided by the percent working in 1992, minus one.

The financial benefits of longer work lives. Much of the discussion of retirement policy focuses on encouraging Americans to save more for retirement. That is laudable, and Americans are saving dramatically more for retirement today than they did in the past.

But extended work lives may be an even more powerful way to increase retirement income security. Saving more during one's working years increase that person's retirement account balance, but does not increase their Social Security benefits or reduce the amount of time over which their savings must last. By contrast, working longer also increases retirement account balances via extra years of contributions and more time for balances to earn interest. But working longer also increases one's Social Security benefit and reduces the number of years over which one's savings must last.

My AEI colleague Sita Slavov and her co-authors have found that "delaying retirement by 3–6 months has the same impact on the retirement standard of living as saving an additional one-percentage point of labor earnings for 30 years."[6]

Some will counter that Americans worked longer only because they had to – a Dickensian vision where, faced with stingy Social Security benefits, inadequate savings, and the threat of poverty in old age, Americans had no choice but to work long past a decent retirement age.

And yet even this claim falls in the face of the data, which show that *retirees' incomes are at record highs* and *poverty in old age has never been lower*. Retiree incomes aren't simply higher on average, driven by a small number of very high-income seniors while most other seniors did poorly. Census Bureau research shows that the median, or typical, retirees' income has never been higher. Incomes at the 25th and 75th percentiles of the income distribution, which might be taken to mark the lower- and upper-middle class,

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[6] Bronshtein, G., et al. (2019). "The power of working longer." Journal of Pension Economics & Finance **18**(4): 623-644.

also have never been higher. And poverty in old age, which represents the incomes of the poorest U.S. retirees, is at record lows.[7]

But it is not merely extended work lives that is driving these positive results. Research from the Internal Revenue Service shows that the typical retiree had an income three years after retiring that was 95 percent of their income just prior to retirement, even if they did not continue to work in retirement.[8] Americans *could* have retired earlier and still enjoyed very high incomes; instead, they worked longer and now enjoy the highest incomes on record.

And not merely the highest retirement incomes in U.S. history, but the highest in the world. Data from the Organization for Economic Cooperation and Development (OECD) show that the median U.S. retiree's disposable income of $38,920 in 2019 was the highest in the world. (Figure 2.) Disposable income, according to the OECD, "represents the money available to a household for spending on goods or services."[9] Again, the median is the typical retiree, not merely the best-off senior. While Congressional hearings rightly focus on problems that need to be solved, we should not ignore our accomplishments.

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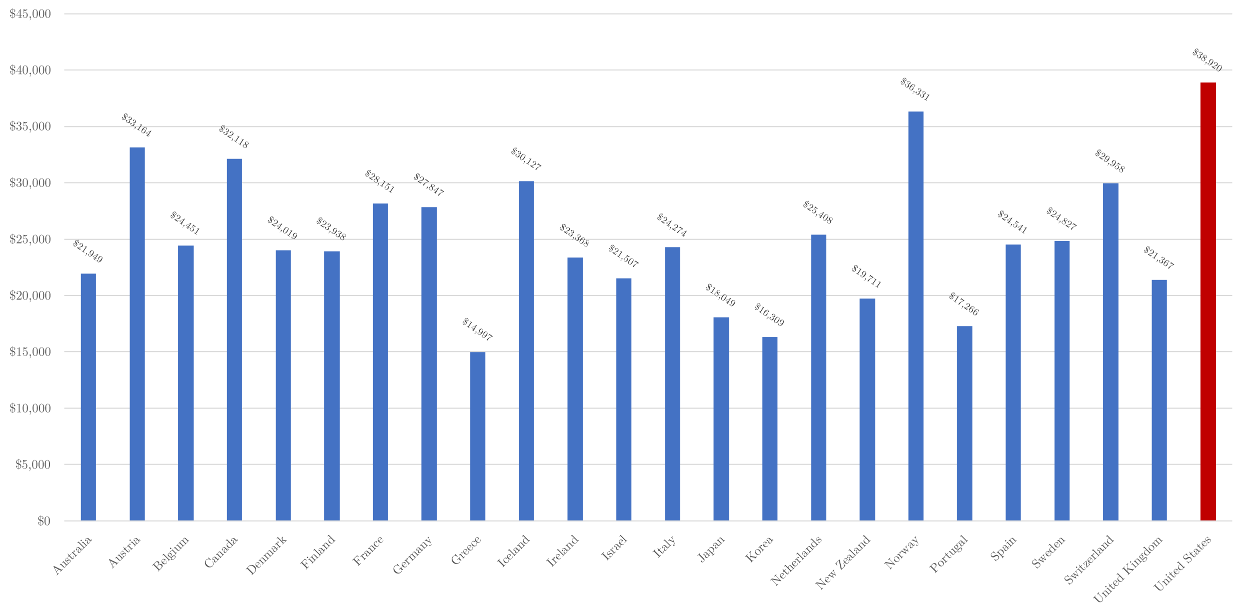
[7] Bee, A. and J. Mitchell (2017). Do older Americans have more income than we think? Proceedings. Annual Conference on Taxation and Minutes of the Annual Meeting of the National Tax Association, JSTOR.

[8] Brady, P. J., et al. (2016). Using panel tax data to examine the transition to retirementibid.

[9] Disposable income includes: [I]ncome from economic activity (wages and salaries; profits of self-employed business owners), property income (dividends, interests and rents), social benefits in cash (retirement pensions, unemployment benefits, family allowances, basic income support, etc.), and social transfers in kind (goods and services such as health care, education and housing, received either free of charge or at reduced prices). OECD. "Better Life Index." https://www.oecdbetterlifeindex.org/topics/income/

Figure 2.

Median disposable incomes, residents aged 65 and over. Figures for 2019 or most recent available year, and adjusted for purchasing power parity. Source: OECD.



Effects of the COVID-19 Pandemic.

Despite significant progress over the past several decades, the past two years have been difficult ones for the nation and for the labor market for near-retirees. The initial onset of the COVID-19 pandemic increased unemployment and pushed many older Americans out of their jobs. Even today, some may fear returning to work.

The short-term financial situation for older Americans has not been a dire one. In part this is due to a variety of federal assistance packages, including direct payments to Americans. But even with the recovery from COVID incomplete, older Americans today continue to work at levels that are far above those of the 1990s.

From 2019 to 2020 the official poverty rate among Americans aged 62 and over dropped by one percentage point, from 10 percent to nine percent, and remained at nine percent in 2021.[10] In the Federal Reserve's Survey of Household Economics and Decisionmaking (SHED), only 5.5 percent of Americans aged 62 to 64 – marginal workers who may have been most likely to have been pushed out of the labor force due to COVID-19 – described their financial situation as "finding it hard to get by." This figure is comparable to earlier years of the SHED survey, which runs back to 2013, indicating no great change in the self-reported financial health of near-retirees.

Headlines have trumpeted the larger numbers of Americans who are retired over the past year, but the story is more nuanced than COVID pushing Americans from work into retirement. Researchers at the Federal Reserve have concluded that the higher number of retirees today comes not from more Americans retiring, but from fewer retirees "unretiring" and returning to work.[11] The reasons for falling "unretirement" are less clear. It could come from a health fear of Covid or the lack of available jobs, although the latter appears less likely in today's labor market where employers are begging for employees. An alternative explanation is that Covid-related federal grants have improved the balance sheets of retirees such that fewer feel the need to return to work.

This explanation is supported by the fact that, of Americans aged 55 to 64 who reported themselves as "retired" in 2020 and 2021, 98.2 percent report in federal data that they do not wish to work either full- or part-time if a job were available.[12] More research

[10] The figure for 2021 was calculated by the authors from Current Population Survey data and is not an official figure. In addition, various research, including from the U.S. Census Bureau and the Social Security Administration, has found that the official poverty rate significantly overstates the share of retirees with sub-poverty level incomes, because the federal survey used to measure incomes dramatically undercounts the benefits that Americans receive from private retirement plans and other sources.

[11] Nie, J. and S.-K. X. Yang (2021). "What Has Driven the Recent Increase in Retirements?" Federal Reserve Bank of Kansas City, Economic Bulletin, August **11**.

[12] Author's calculations, Current Population Survey.

is needed, but one should not jump to the conclusion that rising numbers of retirees over the past several years reflects a collapse in retirement preparation among old Americans.

Despite the great progress that Americans have made in extending their work lives and enhancing their retirement incomes, there still are significant impediments to expanded work at older ages. Two of these impediments are presented by Social Security and Medicare.

Extended work lives rarely increase lifetime Social Security benefits. The taxes we pay to Social Security and Medicare are termed "contributions," because in return for those taxes we earn the right to future benefits.[13] To the degree that this link between taxes and benefits exists, Social Security and Medicare taxes would be viewed as deferred income, similar to 401(k) contributions, and should not discourage labor supply in the way that ordinary income taxes do.

However, most older Americans who choose to work longer receive little or no additional Social Security or Medicare benefits in return for the additional taxes they pay. For Social Security there are two reasons for this. First, Social Security benefits are based upon a worker's highest 35 years of earnings. Earnings beyond that 35th year increase benefits only to the extent that they exceed the lowest of the 35 years already used in the benefit formula.[14] Second, many women continue to receive an auxiliary Social Security benefit based upon their husband's earnings. A retiree is entitled to a benefit based upon

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[13] Legally, this is not how Social Security actually works. In fact, payroll taxes are based upon wages and benefits are calculated upon wages subject to taxes, but there is no direct legal link between taxes paid and the benefits to which a participant is entitled.

[14] Social Security's benefit formula actually worsens this effect, because before a year's earnings are inserted into the formula they first are "indexed" for the growth of national average wages from the time the earnings took place to the year the worker turned age 60. This indexing makes it even less likely that new earnings occurring during delayed retirement would replace earnings already among the highest 35 counted in the Social Security benefit formula.

their own earnings or a benefit equal to 50 percent of the higher-earning spouse's benefit, but not both. In these cases, additional work – even if it increases their worker's benefit – would generally be offset by a lower spousal benefit.

Research I conducted while at the Social Security Administration showed that the median individual who delayed retirement by one year and continued to work receives back only around 2.5 cents in additional benefits for each dollar of additional Social Security taxes they pay.[15] Less than one-in-10 near retirees who delays retirement receives additional Social Security benefits equal to the additional taxes they pay. For most individuals delayed retirement would bring zero additional Medicare benefits, because Medicare benefits are conditional only upon qualifying but beyond that do not vary with the amount of taxes paid prior to retirement.

This implies that for most Americans nearing retirement, nearly all of the 15.3 percent combined Social Security and Medicare payroll tax is not a "contribution" for which benefits are received in return but a "pure tax" on labor. Various research has found that near-retirees are particularly sensitive to tax rates, because – unlike middle-aged workers with mortgages and college to pay for – most near-retirees face fewer direct financial pressures and have the option to claim Social Security.[16] Thus, Social Security's benefit formula very likely reduces incentives for Americans to extend their work lives.

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[15] Reznik, G., et al. (2009). "Social security and marginal returns to work near retirement." Social Security Issue Paper(2009-02).

[16] See French, E. (2005). "The effects of health, wealth, and wages on labour supply and retirement behaviour." The Review of Economic Studies **72**(2): 395-427.
and Laitner, J. and D. Silverman (2012). "Consumption, retirement and social security: Evaluating the efficiency of reform that encourages longer careers." Journal of public Economics **96**(7-8): 615-634.

Some countries resolve this by ceasing collecting of pension payroll taxes on older workers. For instance, in the United Kingdom the National Insurance contribution ceases once an individual reaches the state pension eligibility age. I have proposed reducing the Social Security payroll tax beginning at age 62 as part of larger reforms to ensure solvency and strengthen the safety net against poverty in old age.[17] Lowering the payroll tax on older workers would reduce Social Security revenues, but individuals who continued to work would pay additional federal income and Medicare taxes.

Medicare as Secondary Payer. Medicare plays an additional role in penalizing work at older ages. Medicare begins providing health benefits at age 65, with the important exception of seniors who continue to work in a job where the employer provides health coverage. In those cases, federal law designates Medicare as the "secondary payer," meaning that Medicare covers only costs that are not covered under the employer's own plan. This policy saves Medicare money but it also makes older Americans more expensive to hire. Employers are not given the option to not offer health coverage to older workers, nor can they compensate older workers who opt out of employer-sponsored health coverage with higher wages. Either employers swallow those costs themselves, in which case seniors become less attractive to hire, or employers pass those costs on via lower wages to older employees, in which case work becomes less attractive to retirees. For a 65-year-old, the health costs that employers are forced to bear could reduce employee wages by 15 to 20 percent.[18] Some commentators have called for lowering the Medicare eligibility age from 65 to as low as age 50, which can make these circumstances even more complex.

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[17] Biggs, A. G. (2013). "A New Vision for Social Security." National Affairs (Summer).

[18] Goda, G. S., et al. (2007). A tax on work for the elderly: Medicare as a secondary payer, National Bureau of Economic Research Cambridge, Mass., USA.

Together, the implicit taxes presented by Social Security and Medicare can significantly lower either the availability of jobs for seniors or the wages that those jobs will pay.

Thinking about age discrimination. Various research has shown that, when employers are presented with identical resumes where age is the only difference between two candidates, employers will often opt for the younger applicant.[19] This is, on its face, evidence of age discrimination. Moreover, there is conflicting evidence regarding the effect that that state laws against age discrimination have had on employment. Some studies have found that state anti-discrimination laws provide a small bump up in employment at older ages.[20] Others have found the opposite, that anti-discrimination laws result in lower employment rates among near-retirees.[21]

Amidst those conflicting findings we should consider why age discrimination exists. One reason is that, at any given level of salary, older employees are likely to carry higher healthcare costs for the employer. Even if two employees' salaries are the same, an employer must pay more in total compensation for an older employee than a younger worker. This implies that the seemingly-identical workers compared in resume tests are not identical in terms of employer costs.

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[19] For instance see Neumark, D., et al. (2016). "Experimental age discrimination evidence and the Heckman critique." American Economic Review **106**(5): 303-308.

[20] Neumark, D. and J. Song (2013). "Do stronger age discrimination laws make Social Security reforms more effective?" Journal of public Economics **108**: 1-16.

[21] Lahey, Joanna. "State age protection laws and the Age Discrimination in Employment Act." The Journal of Law and Economics 51, no. 3 (2008): 433-460.

Likewise, many employers invest in their workers via job training or other resources. A younger employee might remain on the job longer, giving more time for employer investments to pay off.

None of this is to say that we should abide or tolerate overt age discrimination. But it is to point out that that older workers may come with certain costs or disadvantages and policymakers should think of ways to offset them. For instance, any policies that work to reduce the United States' very high health care costs would disproportionately help older workers, who bear more of that burden.

Job training, such as in the Supporting Older Workers Act, could *in theory* help older Americans upgrade their skills to make them more attractive to employers. However, federal job training programs have a mixed record of success. Most programs provide only career counseling, which is cheaper but also less effective than explicit skills training. Compared to workers who received only career counseling, participants who received skills training were about 17 percent more likely to find a job and earned 30 percent more when they did find work. However, even skills training might be better targeted in providing training in areas that the federal government projects will generate more job openings in future years.[22]

A tight labor market is the best social program. The point of focusing on the positive is not to deny the need to do better. It is to point toward factors that have driven enormous positive changes for America's seniors and think how we can harness those forces to produce further improvements. In my view, the most effective thing we can

[22] Douglas Holtz-Eakin and Tom Lee. "An Analysis of Federal Training Programs." American Action Forum, September 17, 2019.

do to help Americans work longer and profit from that work is to maintain a tight labor market.

The economic environment of low unemployment and high wage growth just prior to the COVID pandemic was not merely good for older workers. It also was good for workers with disabilities, who after decades of falling employment rates finally saw an uptick in employment. A tight labor market was good for Americans who might have a spotty work record, a past drug problem or a criminal record. And a tight labor market was good for low-wage workers, who saw their pay increase and earnings inequality fall. A vibrant labor market is also the best defense against age discrimination. An employer is least likely to get away with discrimination when employees have many other jobs to choose from.

I don’t believe there is any single policy that can maintain the kind of labor market that the United States experienced just prior to the COVID pandemic. Times will change, economic conditions will differ, and various shocks will affect the economy.

But policymakers can think about the types of policies that affect employment among older workers. It is tempting to lure Americans into work with higher minimum wages, guaranteed paid leave or other benefits. And these may work to an extent. But those same policies can make older workers less attractive to employers, thereby reducing the demand for employees.

There is no magic solution to further increasing work at older ages. Rather, Congress should simply work to keep the economy strong and the labor market vibrant, while reducing government-controlled factors – such as health care costs and disincentives built into the Social Security benefit formula – that can maker older workers less attractive to employers and work less attractive to America’s near-retirees.