OLDER
AND OUT OF WORK

Jobs and Social Insurance for a Changing Economy

Randall W. Eberts and Richard A. Hobbie
Editors

NATIONAL
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OF SOCIAL
INSURANCE

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NATIONAL ACADEMY OF SOCIAL INSURANCE

The National Academy of Social Insurance (NASI) is a nonpro.t, nonpartisan research and education organization made up of the nation's leading experts in social insurance. Its mission is to promote understanding of how social insurance contributes to economic security and a vibrant economy.

Social insurance encompasses broad-based systems for insuring workers and their families against economic insecurity caused by loss of income from work and the cost of health care. NASI's scope covers social insurance such as Social Security; Medicare; workers' compensation; and unemployment insurance, related public assistance, and private employee benefits.

The Academy convenes steering committees and study panels that are charged with conducting research, issuing findings, and, in some cases, reaching recommendations based on their analysis. Members of these groups are selected for their recognized expertise and with due consideration for the balance of disciplines and perspectives appropriate to the project.

Contents

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Finally, we greatly appreciate the efforts of the authors of the papers in this volume in drafting and presenting their papers and in working with the editors. They have provided many insights that could guide policy as we seek to increase and improve America's workforce to meet the economic challenges ahead.

1
Introduction

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This volume of papers explores the labor market characteristics of older workers and critiques the effectiveness of workforce programs in addressing the needs of this growing segment of our population. The volume grew out of a conference sponsored by the National Academy of Social Insurance (NASI) and cochaired by Richard A. Hobbie of the National Association of State Workforce Agencies, Susan M. Daniels of Daniels and Associates, and Gloria T. Johnson of the Labor Coalition for Community Action. The purpose of the conference was to assemble labor and public policy experts to focus on the recent experience of older workers, review current policies that address their needs, identify gaps in the current workforce programs, and offer recommendations on how to .ll those gaps. The culmination of this effort is a collection of research that advances our understanding of the labor market experiences of older workers and points out some deficiencies in our current workforce programs.

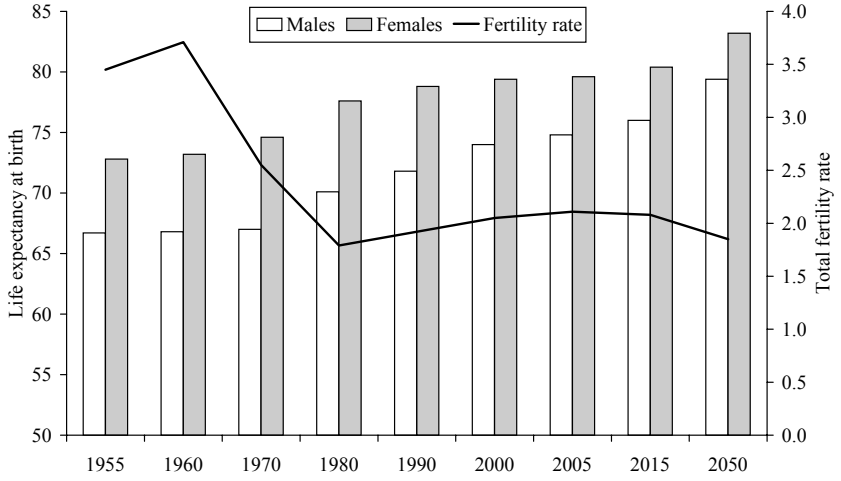
This chapter attempts to frame the issues covered in this volume by offering a statistical look at the population of older workers and placing the papers into the larger context of the growing literature on older workers. We start with a brief look at the labor force trends of older workers and highlight significant changes in older worker behavior over the recent past. We then provide an overview of the factors that may contribute to those changes as covered in the chapters included in the volume. Finally, we summarize the policy implications of these factors as suggested by the volume's contributors.

LABOR FORCE TRENDS OF OLDER WORk ERS

Older Americans are the fastest-growing segment of the U.S. population. The aging of the baby boomers (those born between 1946 and 1964) in combination with steadily declining mortality rates and progressively lower birth rates has contributed to a growing share of the population being between the ages of 45 and 64. Projections show that as the baby boom reaches this age range in 2010, the number of 45- to 64-year-olds will have increased by 29.7 percent. Their percentage of the total population will have risen from 22 to 26 percent, and their percentage of the working-age population will be 34 percent. The total population increase over the 10-year period from 2000 to 2010 is projected to be 9.5 percent, or less than one-third of the 29.7 percent population growth for the boomers (U.S. Census Bureau 2004). Yet their growing importance is not expected to stop there: longer life expectancy and lower fertility rates mean that the average age of the population will continue to rise. Figure 1.1 shows life expectancy at birth for selected years from 1955 to 2050 (projected), as well as the fertility rate during those same years. Figure 1.2 displays the results of the trends seen in Figure 1.1, namely the increasing share of older segments of the population. The latter .gure clearly illustrates that, whereas in 1990 the population was "bottom-heavy" (the youngest segments having a larger proportion of people), by 2050 it will be top-heavy (the oldest segments having a larger share).

In addition, during the period of 2000–2005, labor force activity of older workers, primarily men 62 years of age and older, has increased after decades of decline. During this time, the participation rate rose from 32.4 percent to 37.2 percent, while the overall rate for all workers declined (primarily because of the lower rate for younger workers). Both men and women experienced this increase, but the men's rate is higher than the women's (44.2 percent versus 31.4 percent). The participation rate for all ages beyond 62 increased, for both men and women. The highest percentage-point increase for men occurred right after the typical retirement-age cutoffs of 62 and 67, which are based on Social Security benefits payouts. For women, the increases were more uniform across the age groups. For men at age 71, participation rates increased from 18.0 percent to 23.8 percent between 2000 and 2005. For women

Figure 1.1 Fertility and Life Expectancy at Birth for Selected Years from 1955 to 2050, Projected (%)



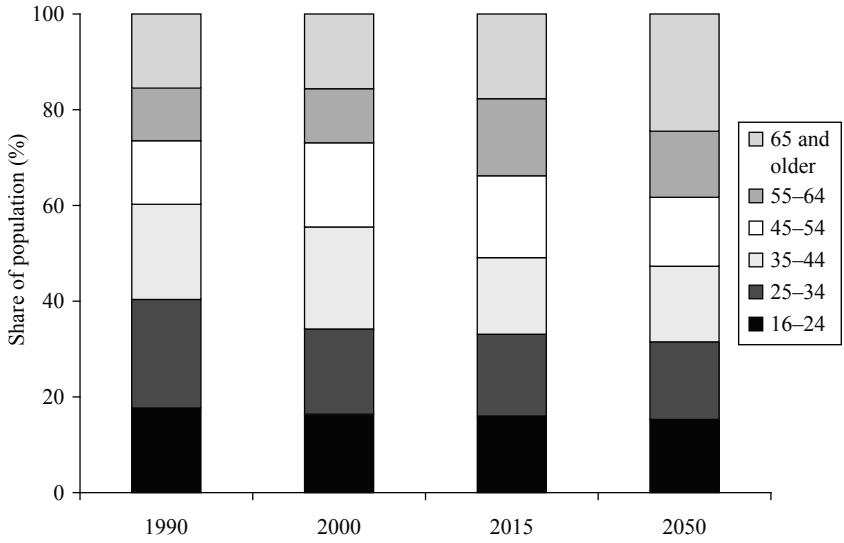
SOURCE: Fertility rate from United Nations Common Database. Life expectancy from National Center for Health Statistics, U.S. Life Tables, 2002.

at age 70, participation jumped from 10.9 to 16.7 percent over the same period.

While older workers have lower unemployment rates and thus make up a smaller share of the unemployed than younger workers, results show that this may be misleading, since older workers have higher job tenure. Holding tenure on the job constant, older workers are actually more likely than younger workers to be laid off. In addition, older workers are slightly more likely to be laid off today than they were in the past (Munnell and Sass 2007, p. 17). This greater tendency to be laid off with increasing age in today's market appears to be more pronounced for men than for women. Men's job stability, measured as years on the job (plus fractions of years for jobs with tenures of less than a year), has deteriorated in recent years (Farber 2007). Women do not seem to exhibit this same age differential with respect to job stability.

Older displaced workers also have the lowest reemployment rate and highest dropout rate of all age groups. Several reasons are offered for this lower level of job stability among older workers. One is the na-

Figure 1.2 Projected Share of Population by Age Range, 1990–2050 (%)



SOURCE: Authors' construction based on data taken from Toosi (2002).

ture of the jobs they typically hold: a larger proportion of older workers hold jobs in the manufacturing sector and other sectors that have been affected by globalization. Thus, we .nd that older workers appear to be hit harder by plant closures or moves than younger workers. Another reason is that older workers tend to have less formal education than their younger counterparts. Even though older workers have the advantage of many more years of on-the-job experience and should be more valuable to employers than younger workers for that reason, their lower levels of education may make it harder for them to adapt to new work demands when they lose their jobs and have to look for reemployment in another firm, industry, or even another occupation. The older cohorts of workers are less educated than the younger cohorts, but the extent varies by educational category. The largest difference between 55- to 64-year-olds and 45- to 54-year-olds is the percentage having attended some college and holding associate degrees from community colleges.

FACTORS AFFECTING LABOR MARk ET DECISIONS OF OLDER WORk ERS

This volume considers several prominent factors that have been offered to explain why older workers are increasingly staying in the labor force. Both cyclical and structural factors are discussed. For cyclical issues, the effect of job growth during the .rst half of this decade on low-wage older workers is discussed and the use of the Unemployment Insurance system and job search assistance services by older workers is explored. For structural issues, the possibilities of age discrimination and the effects of health coverage, disability insurance, and other social programs on decisions to work or transition into retirement are considered.

William M. Rodgers III, in Chapter 2, examines the impact of recent job growth on older workers. He finds that employment during the recovery period dating from the recession of 2000 until April 2008 grew by only 6.9 million jobs, compared with 14.4 million and 19.0 million jobs created during the same number of months after the recessions in 1990 and 1982, respectively. He concludes that the recent disappointing job growth is the result of shifts in investment, rising employer health insurance costs, and federal income tax cuts distributed substantially to higher income taxpayers. The shifts in investment involved comparatively less European investment in the United States and more U.S. investment abroad.

Rodgers notes that the slower job growth has hurt older workers, particularly low-income men 50–54 years old. Poor job growth in manufacturing, transportation, and public utilities in particular has made it difficult for men in this age range and income bracket to find and retain jobs. Women's job losses were not as great as men's because of their disproportionately higher employment in faster growing sectors, such as education and health care sectors.

One reason for the slower job growth of older workers could be age discrimination. The third chapter provides evidence suggesting that older workers seeking employment could face significant age-related employment discrimination. Joanna N. Lahey studied the responses of 2,000 firms in Boston, Massachusetts, and the same number of firms in St. Petersburg, Florida, to fictitious resumes of women 50 to 62 years

old versus women 35 to 50 years old who "applied" for entry-level jobs. She found that older women needed to send out 40 percent more resumes to be called for an interview. She also found that younger women were 40 percent more likely to be called for an interview than older women.

Having found some evidence suggesting employer discrimination against older women compared to younger women in entry-level jobs, Lahey asks, "Why do employers discriminate?" She found no evidence of employer animus against older workers but did .nd some evidence of statistical discrimination, which implies older workers were stereotyped in ways that hurt their chances as individuals. For example, she found some evidence in Massachusetts that employers are worried older women might not have the necessary computer skills for the job. She also mentions other evidence in the literature showing that employers have the perception that older workers—men in particular—might be more likely to sue on the basis of age discrimination if they are denied promotions after they are hired.

In Chapter 4, Christopher J. O'Leary and Randall W. Eberts examine the use of Unemployment Insurance by laid-off older workers and their likelihood of returning to work. O'Leary and Eberts compare older workers (50 years old or older) to younger workers (30 to 50 years old) in Michigan using unemployment insurance administrative records. They find that older workers are less likely to return to work than their younger counterparts, are less successful at finding work that pays the same as the job they lost, and have a shorter length of continuous employment after finding a job. All of their results control for workers' characteristics (such as education) and factors that affect their decision to return to work, including the receipt of income from private pensions, severance pay, vacation pay, Social Security, or other sources of income affecting UI benefit entitlement. Their findings are consistent with other studies.

O'Leary and Eberts's analysis offers two new insights. The first is that older workers who do return to work after an involuntary job separation maintain a closer attachment to their new employers than do their younger counterparts. While younger workers appear to have longer continuous employment spells after a job loss, older workers appear to stay with one employer longer, perhaps reflecting greater loyalty or greater benefits to their employers through their on-the-job

experience or other human capital attributes. The second .nding is that older workers who find a job in the first quarter after a UI claim have higher post-to-pre earnings gains than younger workers. However, this advantage diminishes quickly, and older workers fall behind younger workers by the eighth quarter after receiving UI benefits. O'Leary and Eberts conclude that the workforce system should pay more attention to older workers. In particular, it should help them return to work as soon as possible after they lose their jobs. Older workers should have equal opportunity with other workers. Employers should be aware of the reliability and loyalty of older workers to their new employers and take advantage of their productivity.

Job instability may also be caused by health issues facing older workers. Two chapters address the issue of disability and job participation. In Chapter 5, Robert T. Reville and Robert F. Schoeni analyze the Health and Retirement Study of individuals 51 to 61 years old and find that 20.5 percent have a health problem limiting the amount or type of work they can perform. The disability incidence of older workers is nearly three times that of workers between the ages of 16 and 30. Reville and Schoeni also report that 37 percent of those receiving Social Security Disability Insurance (SSDI) benefits said the cause was an accident, injury, or illness at work, which is also higher than for younger workers. Based on this information, they estimate the annual cost to the federal government under the SSDI and Medicare programs due to workplace injuries or illness is about $33 billion. They conclude that reducing workplace hazards not only reduces workers' compensation costs but potentially could save the federal government substantial sums in the SSDI and Medicare programs.

In looking at the disability and retirement numbers of aging baby boomers, Ralph E. Smith in Chapter 6 analyzes the leading edge of the baby boom generation, the first cohort of which turned 60 years old in 2006. He focuses on the individuals 50–61 years old and asks why some people in this age group stop working or looking for work before they become eligible for Social Security retirement benefits while others stay in the labor force long afterward. He finds that about one-third of the men and one-half of the women were not in the labor force in 2001. Being disabled was the most frequent reason they gave for not being in the labor force: two-thirds of these men (22 percent of total men) and two-fifths of the women (20 percent of total women) said

they were not in the labor force because they were disabled. Smith then explores the .nancial situation of those who did not work because of a disability. He finds that about 80 percent of the disabled received either Social Security Disability Insurance (SSDI) or Supplemental Security Income (SSI) and that only 21 percent of the men received a pension.

Nondisabled retired men 50–61 years old had median family incomes of about $30,000 and net worth of about $200,000 (including homes) in 2001. In contrast, disabled men 50–61 years old had median family incomes of only $20,000 and net worth of only $19,000—less than a tenth of that of retired men. The implication of these findings is that, as individuals try to stay in the labor force longer and the proportion with disabilities increases with age, there could be a growing gap between the economic status of older workers out of the labor force with disabilities and those who voluntarily retired without additional government assistance.

The next chapter examines the general health of the older population and its health care coverage, further emphasizing the effect of disabilities and other chronic health conditions on the financial well-being of older workers. Sara R. Collins, Karen Davis, Cathy Schoen, Michelle M. Doty, and Jennifer L. Kriss report in Chapter 7 that chronic health conditions, unstable health insurance coverage, reduced access to health care, and trouble paying medical bills make workers 50–64 years of age a highly vulnerable population group. The authors find that 20 percent of older workers are either uninsured or have a history of unstable coverage since age 50. Some 62 percent of 50- to 64-year-olds in working families have at least one of six chronic conditions (high blood pressure, arthritis, high cholesterol, heart disease, cancer, or diabetes). Older adults who are uninsured, or have individual coverage, and have low-to-moderate incomes have reduced access to care. One-third of these older adults reported medical-bill problems in the previous 12 months. Collins et al. also find that older workers are becoming less rather than more protected by the current health care–related programs. The decline in employer-sponsored coverage has pushed the number of uninsured older adult workers from 5.5 million in 2000 to 6.6 million in 2004. Furthermore, the percentage of firms that offer retiree health benefits has fallen precipitously. For firms with 200 or more employees, coverage has dropped from 66 percent to 36 percent. Even with the new Medicare prescription drug benefit and health savings accounts, the au-

thors foresee that a large and growing portion of retirees' income will be spent on health care. The conundrum, as pointed out by the authors, is that as employers increasingly need older workers to .ll job vacancies, they continue to disinvest in the health of these workers and thus contribute to a shrinking pool of productive workers.

POLICY CONSIDERATIONS

Paul N. Van de Water, in Chapter 8, continues the book's exploration of possible solutions to expanding the health insurance coverage of older Americans. He focuses on the ten years before they become eligible for Medicare at age 65, noting that 13 percent of the roughly 4 million persons who are between the ages of 55 and 64 have no health insurance. He acknowledges that lack of health care coverage is not limited to just older Americans, but he insists that a major difference for them is that they are at greater risk because they have more health problems than younger Americans. He notes that about one-fifth of this older population report that they are in fair to poor health, and a similar fraction report that they have work disabilities. He also points out that they pay more for health insurance: in 2002, the average annual health insurance premium for individuals 55–64 years old was $3,700, compared to $1,600 for individuals under 40 years old.

After reviewing the benefits and costs of recent tax credit proposals and policies, Van de Water concludes that lowering the age of Medicare eligibility from 65 to 62 years old would be a sure way to increase health insurance coverage for those in the 62–65 age group. He calculates that it would cost only about 0.2 percent of the taxable payroll; however, it might induce more individuals to retire early and more employers to drop health insurance coverage at a time when employers are looking to older workers to work later and longer. But, Van de Water asks, is denying Medicare coverage a fair way to encourage workers to work to a later age, or are there better ways? He speculates that increasing the normal retirement age under Social Security might be a better way to encourage older workers to stay in the labor force.

In Chapter 9, Joseph White offers a broader view of factors that drive policy considerations affecting older Americans. He argues that

three perceptions are key to shaping policy: 1) the fraction of Americans above retirement age will rise substantially as the post–World War II baby boom generation ages; 2) Americans 60 years old or older will be healthier in the future than they have been in the past, and, added to that, work in the future will be less physically demanding; and 3) a sizeable fraction of Americans 60 years old or older will not be able to work even though they do not meet the eligibility requirements of the SSDI program.

In looking at the question of whether it is time to retire the normal retirement age of 65 years old under Medicare or 66 to 67 years old under the Social Security Old Age program—in other words, to raise the retirement age—White sees many problems with such a policy change. On the demand side, he notes that employers might wittingly or unwittingly discriminate against older workers or that they might consider older workers to be too expensive to employ because of their relatively high wages and health insurance costs. White suggests stricter enforcement of antidiscrimination laws and universal health insurance as means to lower these barriers. On the supply side, older workers have chronic health problems; also, they often say they are interested in part-time, not full-time, work. Universal health insurance, decreased workplace hazards, and work incentives might lessen these barriers.

White also thinks that it is unfair to simply increase the retirement age, given that some workers have worked since they left high school, while others who have advanced degrees might not have started their work careers until they were at least 25 years old. Why, he argues, should some workers have to work 50 years until they reach, say, age 68, while others have to work only 40 years until they reach age 68? Couldn't the new policy for Social Security and Medicare factor in years of work with age to lessen this inequity? After all, many de.ned benefit plans have such schemes. However, White acknowledges that this approach, too, is not without problems, not the least of which would be the following two: 1) how to define years of work for employees and the self-employed using quarterly wage data, and 2) how to deal with parents who leave the labor force to care for children. Defining years of work in a single employer pension plan is relatively easy compared to its calculation under Social Security, which must deal with varied work histories containing multiple employers, periods of no employment, and the absence of data on hours or weeks worked.

In the tenth chapter, recognizing the importance of employment for older workers, the discussion returns to ways to keep older workers in jobs and assist them in returning to work. Carl Van Horn, Kathy Krepcio, and Neil Ridley note that the current workforce development system lacks the resources to deal with these issues. On the one hand, older dislocated workers increasingly demand reemployment services, and on the other, employers are asking for workers with speci.c skills. In the authors' opinion, the resources appropriated for Trade Adjustment Assistance (the programs for workers displaced by imports) and for Community Service for Older Americans (which provides work for older, low-income persons) are not enough to meet the growing demand by older workers and employers for workforce services. Recognizing that this situation is unlikely to change in light of the chronic federal budget deficit, they suggest less resource-intensive approaches. Such approaches include researching and providing information on promising practices and effective reemployment strategies that can be used locally, improved integration of public and private resources, and flexible strategies attuned to the needs of older workers. They conclude that providing reemployment assistance to older workers is important not only to help workers maintain their standard of living and live productive lives, but also to provide the U.S. economy with the skilled workers that it needs to continue to grow.

CONCLUSION

As shown in the statistics cited at the beginning of this chapter, not only is the American population aging but so is the American workforce, and at an even faster rate than the general population. Employers who have been somewhat reluctant to utilize older workers will soon be faced with the fact that, in order to compete in the global economy, they need workers with the skills, knowledge, and commitment that many older workers bring to their jobs. Policymakers can facilitate this process by adopting and expanding programs that will be beneficial for both employers and employees. The papers in this volume should be studied carefully, as they provide insights on how to expand and improve the American workforce to meet the demographic and financial challenges that lie ahead.

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2
The Consequences of Recent Job Growth on Older Low-Income Workers

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As of April 2008, the U.S. labor market was eight and a quarter years into the current business recovery cycle, yet only about 7 million jobs had been created, not even half the average growth that occurred during the four previous recoveries.[1] Although modest job growth has emerged since August 2003, the questions that Freeman and I asked in our earlier work (Freeman and Rodgers 2005a,b) still remain appropriate: Why has the macroeconomy produced historically slower job growth? Why has the job market recovered at a much slower pace than during previous recoveries? Does this slower pace of job growth signify a major shift in the link between the labor market and the business cycle or does it represent a temporary break in historical patterns, possibly stemming from the oddities of the 1990s boom?

Understanding the sources of this slower job growth is of particular importance for American families, policymakers, practitioners, and academics. During the recovery, productivity growth, .scal stimulus, and interest rates have been much more favorable than in previous recoveries. Yet growth in Gross Domestic Product has not been strong enough to generate job growth larger than or even similar to previous recoveries. Some cite job growth only since August 2003 to downplay the recovery's slower pace of growth, but even from August 2003 to January 2008, average monthly growth in total nonfarm employment has been 142,000, just above the 130,000-job monthly increase that is needed to accommodate labor force growth.[2] Even though the national unemployment rate is within the range of estimates that are considered to be the non-accelerating inflation rate of unemployment (NAIRU),

the employment-population ratio (the share of civilian population that is employed) is lower than when the U.S. unemployment rate was at a similar level during the 1990s boom.[3]

Because the labor market continues to play catch-up with past recoveries, many minority workers and workers with the fewest skills who bene.ted from the 1990s boom are having difficulty maintaining their gains. This is true for African Americans and new job entrants (Freeman and Rodgers 2005a,b). It is also true for the nation's fastest-growing minority group, Latinos. The lack of strong job creation has given rise to growing economic insecurities for Latinos (Gonzalez 2002; Kochhar 2003; Suro and Lowell 2002). Depending on their particular demographic characteristics, this has meant fewer jobs, lower wages, less health insurance, and declining pensions (Rodgers and Freeman 2006).

The analysis in this chapter focuses on describing the experiences of older Americans, defined as being of age 50 years and over. In a typical recovery, the labor market should become even more favorable to older workers than to the working population at large, since they have greater levels of education and experience than younger workers. However, an extensive body of literature on job displacement has shown that both the absolute and the relative probability of displacement among older workers have risen over the past several decades, regardless of the point in the business cycle (Gardner 1995; Peracchi and Welch 1994; Rodriguez and Zavodny 2003; Van Horn et al. 2005). A variety of factors have been identified as the causes, including corporate restructuring and rising health care and pension costs. The common rationale for the greater displacement has been firms' efforts to trim the higher-cost portions of their labor forces so that they can compete in global labor and product markets.

Given this structural increase in displacement and the slower pace of job growth, I explore whether the latter has adversely affected the employment outcomes of older workers. Has the recovery's slower pace of job growth put older workers at greater economic risk by not providing employment opportunities that offset the structural increase in the displacement? During previous recoveries, strong job growth provided older workers with opportunities, helping to moderate displacement's effects.

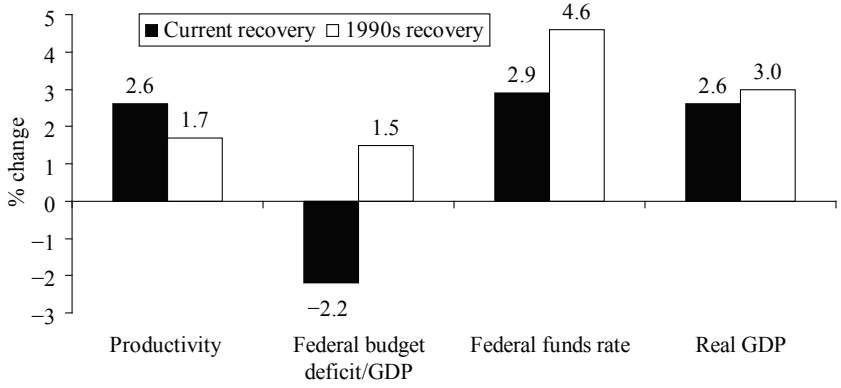
The results of my analysis show that

- Job growth continues to lag behind the growth that occurred during previous business cycles. As of April 2008, 6.9 million new jobs had been created, compared to 14.4 million during the 1990s recovery and 19.0 million during the recovery that started in November 1982.
- The slower pace of growth is potentially due to three new trends: shifts in investment, rising health-care costs, and .scal policy choices.
- The slower pace of employment growth has adversely affected older Americans. Full-year employment and private health insurance and pension coverage have either stagnated or trended downward, and the most consistent and strongest evidence of decline is among men aged 50 to 54.
- Older men's stagnation and losses are primarily due to their decline in manufacturing, transportation, and public utility employment, sectors of the economy that have lost jobs during the recovery. Older women's losses were dampened by their disproportionate presence in the education and health services sector, the recovery's fastest growing sector.
- Rising economic insecurity for older low-income families goes well beyond declining labor force attachment. Private-sector health insurance and pension coverage rates both fell. These erosions come on top of already significantly lower wages, health-insurance coverage, and pension coverage than enjoyed by the general working-age population.

A FRAMING OF THE CURRENT BUSINESS CYCLE: THE CATCH-UP ECONOMY

A puzzle for analysts and policymakers has emerged since November 2001. Figure 2.1 shows that during the current recovery, macroindicators have been at extremely favorable growth levels. First, productivity growth has averaged 2.6 percent, compared to 1.7 percent during

Figure 2.1 Macroeconomic Indicators for the Current Recovery and the 1990s Recovery, Showing Slower GDP Growth Despite Extremely Favorable Conditions

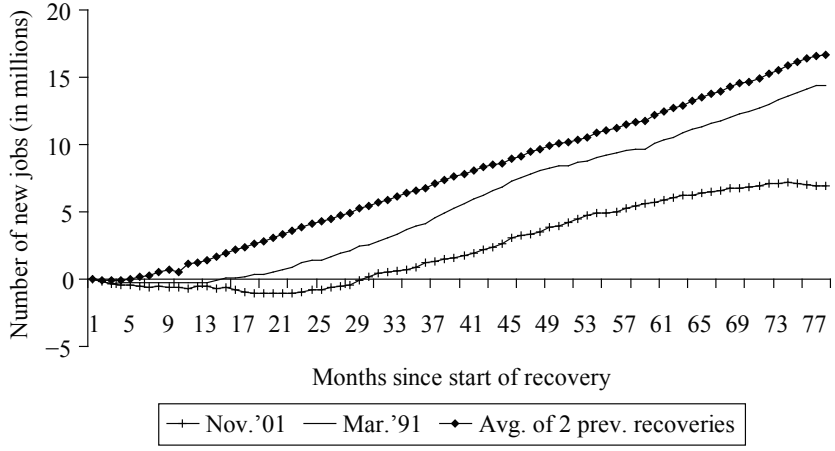


SOURCE: Author's tabulations of data from the Bureau of Labor Statistics, the Bureau of Economic Analysis, and the Federal Reserve Board of Governors.

the 1990s recovery. Second, as measured by the federal budget de.cit as a share of the Gross Domestic Product (GDP), fiscal stimulus has increased. During the 1990s recovery, the federal government ran surpluses of 1.5 percent of GDP. Today, we are in a deficit of 2.2 percent of GDP. Thus, the government shifted from taking in more revenue than its expenditures, to spending more than its revenue. Third, interest rates have been at record lows compared to past recoveries: the average for the federal funds rate is at 2.9 percent during the current business cycle, compared to 4.6 percent during the 1990s business cycle. Yet real GDP growth does not exceed growth during previous recoveries.

Furthermore, the growth in GDP has not been large enough to generate large and widespread job growth. To illustrate this point, Figure 2.2 contrasts (on a month-by-month basis) the November 2001–April 2008 recovery with both the 1990s recovery and the two previous recoveries that lasted as long as the current one. Even with the acceleration in job creation since August 2003, the 2001 recovery has had slower employment growth than all previous recoveries since 1960, including the 1990s recovery, when employment also took a long time to recover. After 78 months of this recovery, or by April 2008, 6.9 million new jobs

Figure 2.2 A Comparison of Cumulative Growth during the 2001 Recovery, the 1991 Recovery, and the Two Previous Recoveries



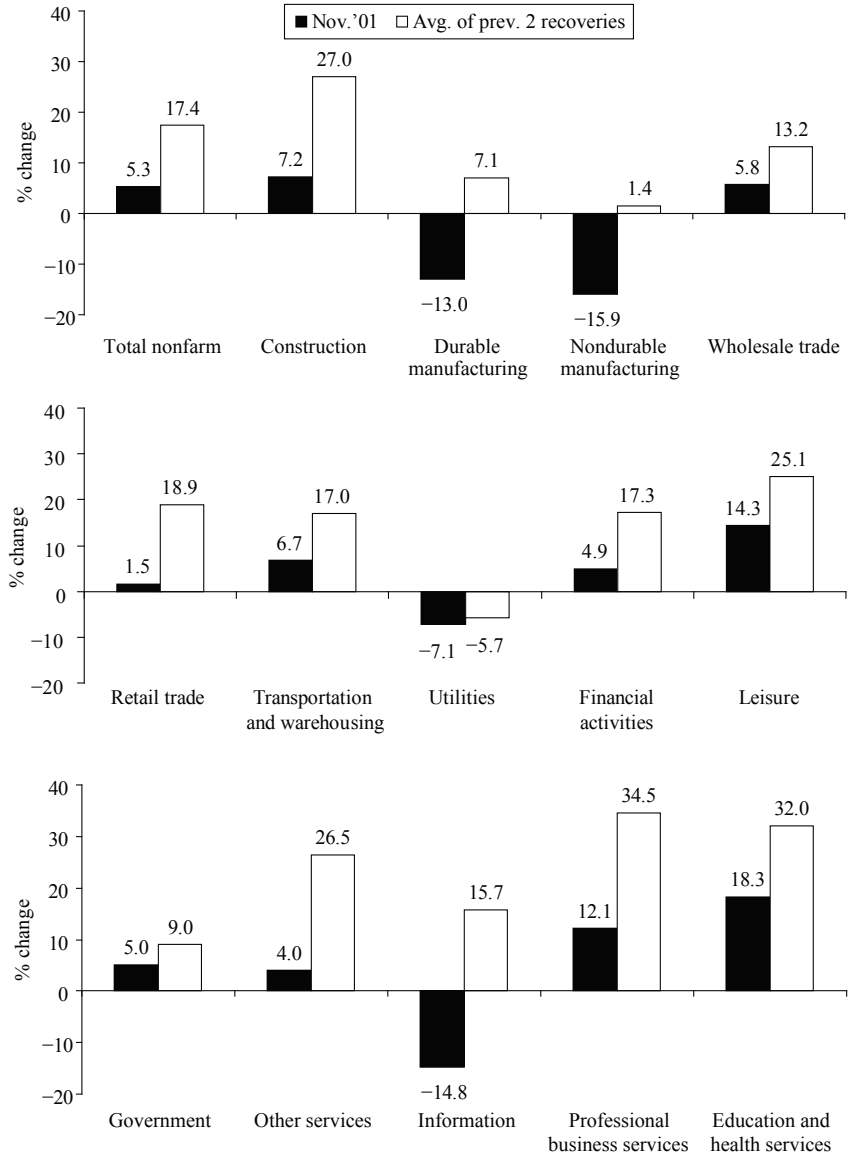
NOTE: Each series is benchmarked to the start of its recovery as de.ned by the NBER Business Cycle Dating Committee. Figures are through April 2008, the 78th month of the current recovery.

SOURCE: Nonfarm Payroll Establishment data, U.S. Department of Labor, Bureau of Labor Statistics.

had been created, compared to 14.4 and 19.0 million during the recoveries that followed the 1980s and 1990s recessions.[4]

The slower pace of job growth is broad-based. In fact, employment in many private-sector industries, such as manufacturing, in which older men are concentrated, remains well below where it was at the start of the recovery.[5] By April 2008, employment was 13.0 percent lower in durable manufacturing and 15.9 percent lower in nondurable manufacturing than when the recovery began (Figure 2.3). In contrast, by the seventy-eighth month of the previous recoveries, combined, nondurable and durable manufacturing had expanded by an average of 1.4 and 7.1 percent, respectively. Even with the recovery, employment remained 14.8 percent lower in the broad sector labeled information, which was supposed to produce good jobs to replace declining employment in traditional manufacturing. During earlier recoveries this sector had grown at an average rate of 15.7 percent.

Figure 2.3 Cumulative Employment Change by Industry after 78 Months of Recovery, for the 2001 Recovery and the Average of the Previous Two Recoveries



NOTE: Same as Figure 2.2.
SOURCE: Same as Figure 2.2.

In other sectors, although employment growth has occurred, it has been slower than the average over the last two recoveries that lasted at least 78 months. This is true for wholesale and retail trade and even for interest rate–sensitive industries, such as construction and .nancial activities. Employment in the wholesale and retail trade sectors is up 5.8 and 1.5 percent, whereas at the 78-month mark of previous recoveries employment had already grown by 13.2 (wholesale) and 18.9 (retail) percent. Construction employment grew by 7.2 percent this time, compared to 27.0 percent during the previous recoveries. Financial activities expanded by 4.9 percent during the current recovery, roughly one-quarter of the 17.3 percent growth in previous recoveries. Similarly, employment in the education and health services sector, where many older women are employed, grew at 18.3 percent in the 78 months since November 2001, or 57 percent as much as what occurred during earlier recoveries.[6]

POTENTIAL Ex PLANATIONS FOR THE "CATCH-UP ECONOMY"

Why has the labor market been slow to shift into a higher gear? Freeman and Rodgers (2005b) offer some preliminary answers to this question. In that work we identify three contributing, although not definitive, explanations for the new path of job growth: 1) U.S. performance in the international economy, 2) health care costs, and 3) the size and composition of the federal government's fiscal stimulus. The following provides an overview of the analysis on which these conclusions are made.

U.S. Performance in the International Economy

The first factor is the poor performance of the United States in the international economy since 2001. The U.S. trade deficit is the focus of the blame for this in the eyes of many analysts and policymakers. In the current recovery, the deficit has risen to levels that are unprecedented in our nation's experience. Table 2.1 illustrates this point. Between the fourth quarter of 2001 and the first quarter of 2008, the ratio of ex-

Table 2.1 Trade Balance in the 2001 and Earlier Recoveries, Real Gross Domestic Product (billions of chained 2000 dollars)

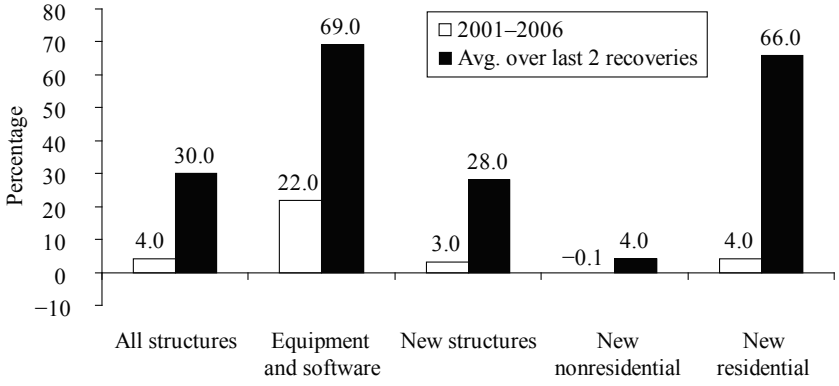
Recovery 2001–2008	GDP	Exports	Imports	(X-M)/GDP(%)
2001-4	9,910.0	980.3	1,394.9	−4.18
2008-1	11,693.1	1,483.8	1,979.7	−4.24
2001–2008	1,783.1	503.5	584.8	−0.06
1991–1997				
1991-1	7,040.8	563.2	581.5	−0.26
1997-2	8,665.8	941.8	1,034.8	−1.07
1991–1997	1,625.0	378.6	453.3	−0.81
1982–1989				
1982-4	5,189.8	285.7	311.4	−0.50
1989-1	6,918.1	485.9	577.2	−1.32
1982–1989	1,728.3	200.2	265.8	−0.82
1961–1967				
1961-1	2,491.2	91.6	97.8	−0.25
1967-2	3,464.3	129.3	164.8	−1.02
1961–1967	973.1	37.7	67.0	−0.78

NOTE: Figures are seasonally adjusted at annual rates.
SOURCE: Author's calculations from Bureau of Economic Analysis Table 1.1.6.

ports minus imports relative to GDP increased from −4.18 percent to −4.24 percent. This is the largest trade de.cit in U.S. economic history. However, the deficit's growth is not the largest increase on record. In the 1980s recovery, the trade deficit rose from −0.5 percent to −1.32 percent of GDP.

What is unprecedented is the slowdown in investment growth. In previous recoveries, investment flows moved in directions that presumably created U.S. jobs. Figure 2.4 compares different components of investment growth during the current recovery to those of previous recoveries. In each category, growth is weaker for the current recovery than it was during the average of the four recent recoveries. Most notable is the stagnation in nonresidential investment; during the two previous

Figure 2.4 Real Private Fixed Investment for the 2001–2007 Recovery and the Previous Two Recoveries

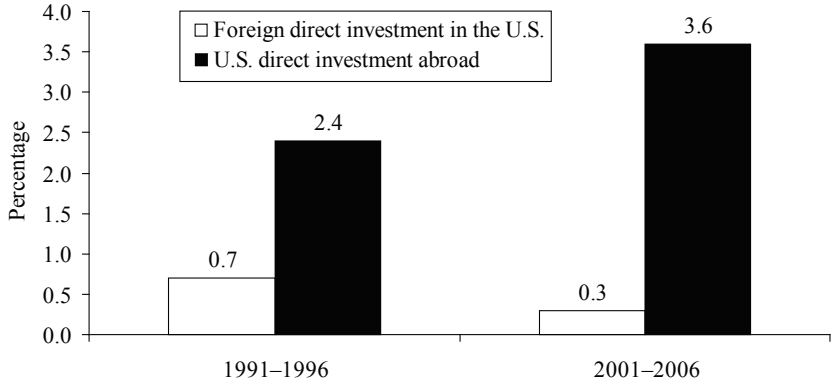


SOURCE: Bureau of Economic Analysis.

recoveries, this component grew at an average rate of 4.0 percent. Also of importance for explaining the slower pace of job growth are shifts in foreign direct investment (Figure 2.5). Foreign direct investment (FDI) in the United States as a share of GDP barely increased, rising by 0.3 percent from 2001 to 2006, which is consistent with previous recoveries, in which FDI in the United States as a share of GDP grew slightly. The drop is predominantly due to a decrease in Europe's direct investment in the United States. Also notable is the acceleration in U.S. foreign direct investment abroad. During the 1990s recovery, as a share of GDP, U.S. foreign direct investment abroad grew by 2.4 percent, while during the current business cycle foreign direct investment abroad has accelerated by 3.6 percent.

There has recently been a lot of discussion about the signi.cance (or lack thereof) of jobs being offshored in the recovery. Unfortunately, government statistics do not provide even crude measures of the number of jobs being offshored in the service industries. For example, while Indian exporters report several billion dollars of exports in computer-related and telecom services and many major U.S. companies proudly proclaim offshoring of service-sector work as a way to improve profits, government statistics record less than a billion dollars of service-sector

Figure 2.5 Change in Foreign Direct Investment in the United States as a Share of GDP, Compared with U.S. Direct Investment Abroad



SOURCE: Bureau of Economic Analysis.

imports from India and show them to have been declining over time. Meanwhile, BLS surveys record only a small number of job losses attributable to offshoring, in part because the questions about displaced workers are not asked in such a way as to obtain the appropriate statistic. The Government Accountability Of.ce (2004) recently examined the quality of official statistics and found them to provide little information for measuring offshoring's importance. Freeman and Rodgers's (2005b) review of the existing literature concludes that the Indian statistics and business announcements indicate that offshoring has cost the United States a significant number of jobs.[7]

However, attributing the slower pace of growth to trade, investment, and offshoring does not provide a complete explanation. The value of the dollar fell relative to the euro and the pound, despite rapid increases in productivity, and this weak performance by the United States in international markets demands a deeper explanation.

The Impact of Health Care Costs

The second factor behind the slower pace of job growth may be the U.S. mode of funding medical insurance. Health insurance spending per employee has risen sharply in the United States, albeit over a

longer period than the current recovery. It adds a substantial marginal cost to employing workers, and many .rms have sought ways to operate without committing themselves to permanent workers who obtain such benefits.

The Kaiser Family Foundation finds that between 2000 and 2004, employment of workers with employer-sponsored health care coverage fell by 4.9 percent, which is considerably greater than the overall fall in employment for that period. Gould (2004) and others continue to document the decline in employer-provided health coverage. This steady decline is consistent with the notion that some of the stagnant employment growth may be associated with rising health care costs, and ultimately with the country's approach to financing health insurance. Reber and Tyson (2004) also find statistical support for the theory of rising health insurance costs acting as a deterrent to employment growth.

The Impact of the Fiscal Stimulus

The third factor is the nature and composition of the federal government's fiscal stimulus, which gave the bulk of the tax cuts to wealthy people, whose propensity to spend quickly is likely to be less than that of people on middle incomes and below. Table 2.2 shows that between 2001 and 2007, the U.S. fiscal deficit rose by 2.1 percentage points relative to potential GDP, from a surplus of 1.0 percent to a deficit of 1.1 percent. It is almost double the deficit's 1.2 percent increase in the 1980s recovery. Yet between 2001 and 2007, despite the large stimulus, actual real GDP grew by just 18.0 percent—a growth rate approximately equal to or smaller than in previous recoveries, which had a fiscal stimulus no greater than today's stimulus. Real GDP grew by 33.3 percent from 1982 to 1989, by 23.1 percent from 1991 to 1997, and by 39.1 percent from 1961 to 1967.

Tax cuts, which in large measure benefited the superwealthy, and expenditures on Iraq were two major sources of fiscal stimulus; however, each probably had a smaller than hoped for impact on GDP growth. The job creation multipliers associated with these fiscal choices are probably smaller than if the tax cuts had been targeted toward middle- and lower-income families and Iraq expenditures had instead been targeted toward domestic investment.

Table 2.2 The Fiscal Stimulus as a Percentage of Potential GDP for the 2001 and Earlier Recoveries

Recovery	Surplus or deficit
1982	−1.3
1988	−2.5
Change	−1.2
1991	−2.5
1997	−1.0
Change	1.5
2001	1.0
2007	−1.1
Change	−2.1

NOTE: Figures are the standardized budget surplus or deficit as a share of potential GDP.
SOURCE: CBO (2006, Appendix F13).

Other Explanations: Structural Change and Productivity Growth

Freeman and Rodgers (2000) reject the idea that increased productivity explains the new pattern of job growth. This is a circular argument, they say. Instead, they contend that increases in productivity stemming from technological and other innovations shift the country's aggregate supply curve outward, which increases the growth of potential GDP and permits greater growth of employment without in.ation than would otherwise be the case.

Some have hypothesized that continuing structural change—i.e., the permanent relocation of workers from declining industries to growing ones—has contributed to the slower pace of growth. Groshen and Potter (2003) show that the share of total employment in industries undergoing structural change was 51.0 percent during the mid-1970s and 1980s recoveries and 57.0 percent during the 1990s recovery; it is 79.0 percent during the current recovery. Their research suggests that the United States is in the middle of a period of reaction to the overexpansion of the 1990s, making structural employment shifts the dominant source of changes in employment.

Linking Industry and Demographic Change

The changing industry distribution of employment from 2001 to 2007 potentially affects older workers differently than other Americans. Older workers (those at least 50 years of age) are concentrated in different industries than younger workers. Employment changes in the manufacturing, transportation, public utilities, and education and health services sectors are key to understanding the recent employment experiences of older workers.

For the purposes of this analysis, I de.ne an older worker as someone between 50 and 64 years of age. I divide this span into three age groups: 50 to 54, 55 to 60, and 61 to 64. To describe experiences across educational attainment and income, I create two subsamples: older individuals who have no more than a high school diploma, and older individuals whose family income puts them in the first (lowest) quartile of the family income distribution. I compare the outcomes of older workers in these subpopulations to 16- to 64-year-olds. See Appendix 2A for a full description of the data.

Table 2.3 shows the distribution of industry employment in 2001 by age and gender. All older men have a strong presence in manufacturing, while all women have an extremely strong presence in education and health services. Low-income men are less concentrated in manufacturing and more concentrated in trade.

The following two paragraphs describe the industry distributions in greater detail. Older men (50+) are concentrated in three industries: manufacturing (17.6 percent), trade (15.6 percent), and education and health services (18.1 percent). Just over half work in these three sectors. An additional one-fifth work in construction (9.6 percent) and professional business services (10.6 percent) sectors. Limiting the sample to older men with no more than a high school diploma leads to further concentration. Nearly 4 in 10 work in manufacturing (21.4 percent) and trade (17.7 percent). Adding the men who work in the transportation and public utilities (12.5 percent) and construction (13.6 percent) sectors raises the share to two-thirds. Older low-income men are less concentrated in manufacturing than other men: only 15.9 percent work in the sector. They have their greatest presence in the trade (21.9 percent) and professional business services sectors (17.3 percent). They

Table 2.3 2001 SIC Industry Distributions of Employment, by Age and Gender (%)

	Male					Female				
All	16–64	50+	50–54	55–59	60–64	16–64	50+	50–54	55–59	60–64
Mining	0.9	1.0	1.2	1.0	0.8	0.1	0.2	0.2	0.2	0.1
Construction	12.5	9.6	10.5	9.5	9.7	1.5	1.4	1.4	1.4	1.5
Manufacturing	17.7	17.6	19.4	19.2	17.8	9.5	9.7	10.3	10.7	9.2
Transportation and public utilities	9.5	10.3	11.4	11.3	9.5	4.3	3.9	4.4	3.8	3.8
Trade	20.4	15.6	14.2	15.3	16.3	21.4	16.7	14.7	16.1	18.6
Finance, insurance, and real estate	4.7	6.2	5.5	6.2	6.2	7.9	7.9	8.1	8.1	7.5
Professional business services	12.2	10.6	9.9	10.0	10.6	12.7	11.2	10.3	10.8	11.4
Education and health services	13.5	18.1	17.6	17.6	18.6	36.6	41.1	43.2	41.1	39.6
Public	4.7	5.9	6.9	5.9	4.5	4.4	5.7	6.0	5.7	5.3
No more than high school degree	16–64	50+	50–54	55–59	60–64	16–64	50+	50–54	55–59	60–64
Mining	1.2	1.3	1.7	1.4	0.9	0.1	0.1	0.2	0.1	0.1
Construction	17.5	13.6	15.8	13.6	13.7	1.7	1.6	1.6	1.5	1.6
Manufacturing	19.8	21.4	24.3	24.2	21.3	12.6	13.7	15.4	16.0	12.0
Transportation and public utilities	9.9	12.5	13.7	13.9	12.1	4.2	4.1	4.8	4.2	3.9
Trade	24.0	17.7	15.8	17.4	18.6	29.3	22.3	20.8	20.7	24.2
Finance, insurance, and real estate	2.1	3.4	2.6	3.1	3.3	7.0	7.5	8.2	7.8	6.7
Professional business services	12.2	11.5	10.6	10.3	11.2	15.2	13.8	12.9	13.7	13.6
Education and health services	5.4	7.4	6.6	7.5	7.8	24.6	29.3	29.5	28.8	29.7
Public	2.6	3.5	3.9	3.2	3.1	3.3	4.7	5.0	4.8	4.6

Family income in lowest quartile	16–64	50+	50–54	55–59	60–64	16–64	50+	50–54	55–59	60–64
Mining	0.6	0.7	0.5	0.5	1.7	0.1	0.1	0.0	0.3	0.0
Construction	18.6	15.0	18.0	13.1	13.7	1.3	1.2	1.6	0.8	1.6
Manufacturing	15.6	15.9	15.0	18.8	16.6	8.7	9.1	10.2	11.9	7.5
Transportation and public utilities	6.9	8.8	8.5	9.8	7.1	2.9	3.3	5.1	1.6	2.4
Trade	27.7	21.9	20.9	21.9	20.3	31.7	23.4	21.1	21.4	31.7
Finance, insurance, and real estate	2.9	3.5	2.9	3.4	5.8	4.5	4.3	4.7	4.2	3.6
Professional business services	15.8	17.3	16.8	16.8	19.9	18.3	19.8	21.3	19.3	15.9
Education and health services	9.9	13.7	13.8	13.1	12.4	30.2	36.0	33.9	38.3	33.3
Public	1.8	2.9	3.2	1.8	2.5	2.2	2.7	2.0	2.4	4.0

NOTE: The columns are the share of a particular group in each industry. “All” corresponds to all men at least 18 years of age that work in either the public or the private sector. Agriculture is the remaining industry share.
SOURCE: Authors’ calculations from the 2001 Outgoing Rotation Group CPS .le.

also have a strong presence in construction and in education and health services.

Older women have different industry distributions than older men. They are concentrated in wholesale and retail trade (16.7 percent) and heavily concentrated in the education and health services sector (41.1 percent): 57.8 percent of older women work in these two industries. This estimate falls to 51.6 percent when we limit the sample to older women with no more than a high school diploma, and it jumps back up to 59.4 percent when we focus on older low-income women.

We translate these patterns into expected shifts in demand for a demographic group's employment by computing a .xed weight index of the potential shift in employment for a group. To do this, we multiply each group's 2001 industry employment share by its industry employment growth from 2001 to 2007. We then sum the products to obtain a weighted average growth of employment.

Table 2.4 reports these expected shifts. For 16- to 64-year-old men, the shift that is due to changes in employment ranges from increases of 1.9 percent for all men and low-income men to a small increase of 0.4 percent for less-educated men for the years 2001–2007. The main reason for the stagnation is the concentration in the manufacturing sector for less-educated men. Men with no more than a high school diploma have the smallest expected increases in employment. Among these men, the expected increase is smallest for 50- to 54- and 55- to 59-year-old men. The small increase is due to their overrepresentation in manufacturing and in transportation and public utilities. Thirty-eight percent of 50- to 54-year-old men are employed in these two sectors. The 0.4 percent increase for less-educated 60- to 64-year-old men is also due to their overrepresentation in these two sectors.

For older women, the fixed-weight industry growth calculations suggest employment increases for most age and education groups. All have a large presence in the education and health services sector. The variation in their expected employment gains is due to their varying presence in the manufacturing sector. In 2001, 9.7 percent of older women were in manufacturing, compared to 13.7 percent of less-educated older women and 9.1 percent of low-income older women. Women 50 and over were predicted to have an 8.9 percent decrease in employment. Older less-educated women have a predicted 3.9 percent increase and

Table 2.4 Expected Change in Employment by Age, 2001–2007 (%)[a]

Male	16–64	50+	50–54	55–59	60–64	65+
All	1.9	2.7	2.6	2.3	2.6	3.8
No more than high school degree	0.4	0.5	0.3	0.0	0.5	1.9
Family income in lowest quartile	1.9	2.7	3.1	1.8	2.9	3.0
Female						
All	17.3	−8.9	9.4	0.9	12.8	15.2
No more than high school degree	2.9	3.9	3.8	3.6	4.1	4.8
Family income in lowest quartile	4.3	5.9	5.7	5.8	4.9	7.1

NOTE: Entries are constructed by multiplying a demographic group's 2001 industry employment shares (Table 2.8) by the industry's percentage employment growth from 2001 to 2006 and summing the products to obtain a weighted average growth of employment in the industries that employed the group. Industry employment growth is the difference from 2001 to 2006. In 2003 the industry codes changed. To link 2001 with 2006, we had to make several assumptions. The following is a list of the 2001 SIC (2003 SIC) codes. If an industry shown in Table 2.8 is not listed below, a direct match was able to be made: Transportation (Transportation and Warehousing), Communication and Public Utilities (Information), Utility and Sanitary Services (Utilities), Finance, Insurance, and Real Estate (Financial Activities), Entertainment and Recreation (Leisure and Hospitality), Professional and Business Services (Personal services including private households, business, auto, and repair services; Personal services excluding private households), Education and Health Services (Hospitals, medical services, except hospitals, educational services, social services), Other Professional Services (Other Services).

[a] This assumes that 2001 industry shares and actual CES employment change.

SOURCE: Author's tabulations of Current Employment Statistics data from the Bureau of Labor Statistics at www.bls.gov.

older low-income women have a 5.9 percent increase in employment. Across age, the expected employment patterns are similar.

THE CONSEq UENCES OF THE "CATCH UP" ECONOMY ON OLDER AMERICANS

Do the losses for men and the gains for women shown in the .xed-weight analysis translate into changes in labor force attachment? Do they translate into changes in benefit coverage? Before answering these

questions, I present an economic portrait of older Americans. The picture that emerges is one of not only current economic vulnerability, but of potential long-term economic vulnerability for individuals in the .rst (lowest) quartile of family income. Older low-income men and women have weaker labor force attachments than either the general population of 16- to 64-year-olds or other low-income 16- to 64-year-olds. Their benefit coverage rates are lower than the general population; however, they do exceed the rates of all low-income individuals. Older less-educated men and women are not at as great an economic risk as low-income men and women. Their labor force attachment and benefit levels are higher.

To develop this portrait in greater detail, Table 2.5 first reports summary statistics on years of schooling and potential experience for each category of men and women. As expected, older men and women, independent of education and income, have accumulated more years of experience. They also have fewer accumulated years of schooling than the general population. Still, the greater potential experience of older men and women should serve as a benefit during times of economic growth, even for less-educated and low-income men and women. For the latter, their greater experience should help to offset the adverse effects of their limited schooling. In sectors where internal labor markets exist, the experience of older workers should help to insulate them from fluctuations in the macroeconomy.

Table 2.6 presents employment-population ratios plus outcomes for four additional economic and social measures: hours worked per week, full-year work, private health insurance coverage, and pension coverage. The key result in this table is that older low-income men and women have weaker labor force attachments than all other 16- to 64-year-olds and than other low-income 16- to 64-year-olds. Their benefit coverage rates are lower than the general population, but they do exceed the coverage rates of low-income 16- to 64-year-olds.

Other notable trends in the table are that attachment falls as we move across age groups. It is important to see that all of the attachment measures at ages 50 to 54 exceed the measures for the general population. For example, 82.6 percent of 50- to 54-year-old men work full-year, compared to 73.8 percent of 16- to 64-year-old men. For 55- to 60-year-old men, this 82.6 percent figure falls to 74.2 percent, and it falls further, to 56.9 percent, for 61- to 64-year-old men. Attachment among similarly

Table 2.5 2006 Summary Statistics by Gender and Age

	Men		Women	
	Years of schooling	Potential experience	Years of schooling	Potential experience
All				
16–64	12.8	19.7	13.0	19.7
50–54	13.4	32.4	13.4	32.5
55–60	13.6	37.4	13.2	37.7
61–64	13.1	42.8	12.7	43.2
No more than high school degree				
16–64	10.6	24.6	10.7	27.9
50–54	10.8	35.0	10.9	35.0
55–60	10.8	40.2	10.9	40.1
61–64	10.6	45.4	10.8	45.2
Real family income in lowest first quartile				
16–64	11.4	18.6	11.7	19.3
50–54	11.5	34.3	11.7	34.2
55–60	11.7	39.3	11.6	39.4
61–64	11.5	44.6	11.4	44.7

NOTE: The sample consists of individuals that are at least 16 years of age and are white, black, or Hispanic. Individuals with no more than a high school degree either have only high school diplomas or GEDs or are high school dropouts. An individual's years of schooling are constructed using the method proposed in Jaeger (2003). "Potential experience" equals: age − years of schooling − 6.

SOURCE: Author's tabulations from the microdata of the March Annual Demographic Files of the Current Population Survey.

aged men and women is uniformly lower among less-educated and lower-income men and women than among the general population.

The biggest gaps in attachment exist between low-income men and women and the general population. In 2006, 51.4 percent of low-income 50- to 54-year-olds worked full-year, compared to 82.6 percent of all 50- to 54-year-old men, generating a 31.2-point gap in attachment. A 28.5-point gap even exists among women: 40.7 versus 69.2 percent. Even at ages 61 to 64, gaps in attachment are substantial.

The weaker attachment of men and women in the lowest quartile of the family income distribution extends to bene.ts. Between 40.0 and 46.1 percent of older low-income men have private health insurance

Table 2.6 2004 Labor Market Outcomes of Older Workers by Age, Gender, Education, and Income (%)

Panel A: Men						
Men	EPOP	Hours	Full-time work	Work full year	Private health insurance	With pension
16–64	0.782	32.5	0.686	0.734	0.723	0.449
50–54	0.835	36.6	0.778	0.817	0.796	0.574
55–60	0.754	32.0	0.678	0.736	0.781	0.550
61–64	0.562	22.7	0.464	0.559	0.737	0.524
No more than a high school degree						
16–64	0.711	28.4	0.610	0.640	0.615	0.322
50–54	0.770	32.5	0.711	0.749	0.689	0.465
55–60	0.681	28.2	0.615	0.652	0.679	0.457
61–64	0.490	19.5	0.410	0.474	0.631	0.448
Real family income in lowest (.rst) quartile						
16–64				0.534	0.392	0.156
50–54				0.460	0.404	0.220
55–60				0.440	0.456	0.206
61–64				0.258	0.463	0.223
Panel B: Women						
Women	EPOP	Hours	Full-time work	Work full year	Private health insurance	With pension
16–64	0.673	24.1	0.491	0.596	0.721	0.421
50–54	0.737	28.0	0.587	0.686	0.784	0.556
55–60	0.643	23.7	0.490	0.605	0.754	0.537
61–64	0.453	15.3	0.304	0.430	0.714	0.469
No more than a high school degree						
16–64	0.582	20.0	0.403	0.410	0.583	0.300
50–54	0.651	24.0	0.508	0.592	0.672	0.458
55–60	0.568	20.1	0.423	0.512	0.647	0.447
61–64	0.395	12.8	0.256	0.372	0.629	0.422
Real family income in lowest (first) quartile						
16–64				0.405	0.367	0.165
50–54				0.371	0.393	0.262
55–60				0.315	0.431	0.267
61–64				0.243	0.483	0.234

NOTE: To be included in the sample, an individual had to be at least 16 years of age. EPOP (employment-to-population ratio), hours, and full-time work come from the ORG. All other outcomes come from the Annual Demographic Files. Blank = not applicable.

SOURCE: Author's tabulations from the Outgoing Rotation Group (ORG) and March Annual Demographic Files of the Current Population Survey.

coverage. The rates for older men as a whole range from 73.9 to 78.7 percent. Even among older men with no more than a high school degree, more than two-thirds of them have health insurance. A similar pattern exists among women: the estimates on pension coverage reveal substantial differences between low-income men and women and the general population. More than a .fth of older low-income men and just under 40 percent of older low-income women are employed in firms that offer pension plans to their employees; these figures are around 55 percent for all male and female 16- to 64-year-olds and 60 percent for all older men and women (not shown). Shifting to who actually has an employer-provided pension reduces these figures, especially for low-income men and women. Approximately one-fifth of older low-income men and one-quarter of older low-income women have an employer-provided pension, compared to one-half of all older men and women and 41–44 percent of older men and women with no more than a high school degree (Table 2.6).

The Current Business Cycle: A Period of Growing Economic Insecurity?

I now describe the extent to which the slower pace of job growth during the current business cycle has led to greater economic insecurity for older workers, with a focus on low-income and less-educated individuals. The story that emerges is that during the 2001–2006 period, 50- to 54-year-old men and women experienced a consistent pattern of stagnation in attachment and decline in benefits.

Tables 2.7–2.9 report the analysis for full-year work, employer-provided health insurance, and pension coverage. On balance, the indicators suggest increased labor market insecurity among low-income 50- to 54-year-old men and women, with some evidence of a decline among men with no more than a high school degree. Full-year work stagnated for all 50- to 54-year-old low-income men and women. Private sector health insurance coverage declined for all older men and women. The sharpest drop occurred among men and women with no more than a high school degree. For example, the coverage of 50- to 54-year-old less-educated men and women fell 3.9 and 4.4 points, respectively. The fall in coverage for 50- to 54-year-old low-income men and women was 3.1 and 2.1 points.

Men were particularly affected by a decrease in the share of .rms that offer pension plans. Coverage trended downward for 50- to 54-year-olds and 55- to 59-year-olds. The decline among 50- to 54-year-olds is measured with the greatest precision. No systematic pattern of change exists for older women. The actual holding of a firm-provided pension fell among older men. Less-educated and low-income men were affected, but a decline also occurred in the general male population. Women's actual holding of pensions remained unchanged.

Is Growing Economic Insecurity a New Feature of Recoveries?

I now place the 2001 to 2006 erosions in attachment and benefits into a broader historical context. Are they a part of the recent path of slower job growth, potentially caused by the United States' performance in the international economy, increase in health care costs, and federal fiscal policy choices? To answer this question, I compare changes in our list of outcomes during the current business cycle to previous business cycles. If attachment and benefits typically rose during past recoveries, then the slower pace of job growth has been powerful enough to reduce the ability of older workers' greater labor market experience to fully insulate them from job losses. I find that the recent stagnation in low-income men and women's labor force attachment as well as their declines in benefits differs from previous recoveries. During the 1980s and 1990s recoveries, attachment and benefit levels did not fall.

Tables 2.7–2.9 report changes in the percentage of respondents that worked full-year, had private health insurance, and had pension coverage during the current and two previous recoveries. The figures in Table 2.7 for full-year work suggest that a break from previous recoveries has occurred for less-educated and low-income men and women. During the 1980s and 1990s recovery, full-year work among 50- to 54-year-old men and women typically increased, while it has remained unchanged during the current business cycle.

Recent patterns of job growth are associated with trends in older workers' private health insurance and pension coverage. Tables 2.8 and 2.9 report that employer-provided benefits have fallen. The drop in coverage has been greatest among less-educated men and women. More specifically, from 1991 to 1996 employer-provided health insurance coverage increased or remained the same. During the current recovery,

Table 2.7 Change in Share of Workers Working Full-Year by Recovery

	All			No more than high school degree			Family income in .rst quartile		
Men									
Age group	1982–87	1991–96	2001–06	1982–87	1991–96	2001–06	1982–87	1991–96	2001–06
50–54	0.033	0.020	−0.002	0.027	0.033	−0.010	0.019	0.021	−0.002
	(0.010)	(0.010)	(0.008)	(0.012)	(0.014)	(0.012)	(0.021)	(0.020)	(0.008)
55–59	0.006	0.015	0.003	0.019	0.022	−0.023	−0.018	0.055	0.003
	(0.010)	(0.010)	(0.008)	(0.012)	(0.014)	(0.012)	(0.021)	(0.020)	(0.008)
60–64	−0.024	0.008	0.020	−0.025	−0.012	0.012	−0.030	−0.020	0.020
	(0.010)	(0.010)	(0.008)	(0.012)	(0.014)	(0.012)	(0.021)	(0.020)	(0.008)
Women									
Age group	1982–87	1991–96	2001–06	1982–87	1991–96	2001–06	1982–87	1991–96	2001–06
50–54	0.071	0.045	0.000	0.055	0.029	−0.019	0.034	0.005	0.000
	(0.010)	(0.010)	(0.008)	(0.012)	(0.014)	(0.012)	(0.021)	(0.020)	(0.008)
55–59	0.043	0.031	0.013	0.038	0.018	−0.007	0.067	−0.012	0.013
	(0.010)	(0.010)	(0.008)	(0.012)	(0.014)	(0.012)	(0.021)	(0.020)	(0.008)
60–64	0.006	0.037	0.028	0.007	0.028	0.026	−0.015	0.012	0.028

NOTE: The columns correspond to the current and two previous recoveries: 1982–1987, 1991–1996, and 2001–2006. All respondents are men and women that are at least 16 years of age. Figures in parentheses are standard errors.

SOURCE: Author's calculations from the microdata of the March Annual Demographic Files of the Current Population Survey.

Table 2.8 Change in Share of Workers Having Private-Sector Health Insurance by Recovery

	All		No more than a high school degree		Family income in first quartile	
Men						
Age group	1991–96	2001–06	1991–96	2001–06	1991–96	2001–06
50–54	0.002	−0.031	−0.003	−0.039	0.009	−0.031
	(0.010)	(0.008)	(0.016)	(0.014)	(0.029)	(0.008)
55–59	0.025	−0.020	0.022	−0.054	0.076	−0.020
	(0.012)	(0.009)	(0.017)	(0.015)	(0.030)	(0.009)
60–64	−0.035	−0.004	−0.045	−0.003	−0.071	−0.004
	(0.012)	(0.011)	(0.017)	(0.017)	(0.028)	(0.011)
Women						
Age group	1991–96	2001–06	1991–96	2001–06	1991–96	2001–06
50–54	0.036	−0.021	0.020	−0.044	0.030	−0.021
	(0.011)	(0.008)	(0.015)	(0.014)	(0.029)	(0.008)
55–59	0.003	−0.005	−0.029	−0.042	−0.033	−0.005
	(0.012)	(0.009)	(0.015)	(0.015)	(0.027)	(0.009)
60–64	−0.001	0.000	0.000	−0.007	−0.003	0.000
	(0.012)	(0.011)	(0.015)	(0.015)	(0.024)	(0.011)

NOTE: The columns correspond to the previous and current recoveries of 1991–1996 and 2001–2006. All respondents are men and women that are at least 16 years of age. Figures in parentheses are standard errors.

SOURCE: Author's calculations from the microdata of the March Annual Demographic Files of the Current Population Survey.

the decline in coverage has occurred not only among low-income men and women, but also those with no more than a high school degree.

With respect to pensions, the share of older individuals included in pension plans either remained the same or increased during the 1990s recovery. Coverage fell during the current business cycle. During the 1990s recovery, there was little relationship between men's pensions and job growth, but since 2001 the share of .rms that offer plans has fallen. The decline has been among 50- to 54- and 55- to 59-year-old men. Women's pension coverage seems to have a different relation to the macroeconomy. Coverage increased during the 1990s by 4.6 points. Women with no more than a high school degree also saw their cover-

Table 2.9 Change in Share of Workers Having a Pension, by Recovery and Expansion

	All		No more than a high school degree		Family income in first quartile	
Men						
Age group	1991–96	2001–06	1991–96	2001–06	1991–96	2001–06
50–54	0.011	−0.052	0.002	−0.036	0.009	−0.031
	(0.012)	(0.009)	(0.018)	(0.015)	(0.029)	(0.008)
55–59	−0.011	−0.016	0.003	−0.056	0.076	−0.020
	(0.014)	(0.011)	(0.019)	(0.018)	(0.030)	(0.009)
60–64	0.005	−0.011	0.014	−0.032	−0.071	−0.004
	(0.017)	(0.015)	(0.023)	(0.022)	(0.028)	(0.011)
Women						
Age group	1991–96	2001–06	1991–96	2001–06	1991–96	2001–06
50–54	0.046	−0.026	0.027	−0.023	0.030	−0.021
	(0.013)	(0.010)	(0.018)	(0.016)	(0.029)	(0.008)
55–59	0.051	0.025	0.012	−0.003	−0.033	−0.005
	(0.016)	(0.012)	(0.020)	(0.019)	(0.027)	(0.009)
60–64	0.000	−0.018	0.012	−0.004	−0.003	0.000
	(0.019)	(0.016)	(0.023)	(0.022)	(0.024)	(0.011)

NOTE: The columns correspond to the previous and current recoveries of 1991–1996 and 2001–2006. All respondents are men and women that are at least 16 years of age. Figures in parentheses are standard errors.

SOURCE: Author's calculations from the microdata of the March Annual Demographic Files of the Current Population Survey.

age rate jump by 2.7 points. During the current recovery, the growth in coverage has fallen for older women in these age groups.

SUMMARY AND CONCLUSION

In recent work, Freeman and Rodgers (2005a) and Rodgers and Freeman (2006) found that the slower pace of job growth has had an adverse impact on the employment outcomes of blacks, Latinos, and youth. These .ndings should not be too surprising. A large literature has

demonstrated the greater sensitivity of these demographic groups' labor market outcomes to the macroeconomy.[8]

This chapter shows that the slower pace of job growth has even affected older workers. Job growth during the recovery has not been large enough to offset the adverse impact of the structural increases in displacement that have occurred over the past two decades. Low-income men and women who already have weaker labor force attachment, lower private health insurance and pension coverage rates saw the greatest erosions in their economic security. Unlike youth, who have longer time horizons to recoup losses, older workers have fewer years, even if they choose to extend their working careers past the age of 65. To my knowledge, employment and wage losses for this recovery have not been estimated, but for earlier periods Chan and Stevens (2001, 2004), Kletzer and Fairlie (2003), and others have found that older displaced workers experienced major reductions in income even if they were able to return to the labor market. Future work should compare the CPS Displaced Worker Surveys for 2001–2006 to earlier surveys.

The slower pace of job growth poses a challenge to economic and social policy. As long as the United States makes full employment its main source of economic protection for workers, the job market has to attain something similar to the late 1990s labor market tightness for economic growth to be broadly shared. But given the weaker labor force attachment, and the lower health insurance and pension coverage rates of older low-income and less-educated Americans, even a return to the 1990s tightness may not be enough to signi.cantly improve their prospects for greater economic security. Stronger job growth is only a first step to offsetting the secular increase in the displacement of older workers. Additional public policy answers are needed to ensure that older Americans—particularly low-income Americans—can achieve economic security in the future.

Appendix 2A

This study uses several data sets. The .rst is made up of the published monthly employment figures from the establishment-level Current Employment Statistics (CES). The monthly time series used in the analysis spans from February 1961 to April 2008, covering five boom, bust, and recovery episodes. We use the NBER dating committee's designations to identify the episodes. The microdata comes from the annual Merged Outgoing Rotation Group Files of the Current Population Survey (1979 to 2006). We use the data files produced by Unicon Research Corporation. However, this gain in heterogeneity comes with costs. Because the files start in 1979, we can only document the recovery of the 1974-to-1984 episode. Furthermore, the annual nature of the data means that we can only approximate the recovery and boom episodes, which are 1982 to 1987, 1982 to 1989, 1991 to 1996, 1991 to 2000, and 2001 to 2006.

The samples are composed of all black, white, and Hispanic men and women that are 16 to 64 years of age. Three subsamples of older individuals are created: 50 to 54 years old, 55 to 60 years old, and 60 to 64 years old. The less-educated sample consists of men and women who have completed no more than a high school degree. The low-income subsample is composed of men and women aged 50 and older whose family income is in the lowest quartile of the family income distribution.

The employment-population ratio is the ratio of the number of employed to the sum of the number looking for work, the number working, the number with a job but not working, and all those who are out of the labor force. The ratio is constructed from the MLR (Monthly Labor Force Recode) variable in the Unicon Research Corporation CPS Utilities files.[1] In these files, the variable has been made consistent across time to reflect changes in the question. We use the MLR variable to construct the employment-population ratio. This is the share of the civilian population that is employed. In a period of weak job growth, it has the benefit of capturing both the longer time it takes to find a job (unemployment) and decisions to leave the labor force (labor force participation).

A third data source is the annual demographic files from the March Current Population Survey (1963 to 2006), also available from Unicon Research Corporation. We use these data to describe patterns in full-year work, private health insurance coverage, and pension coverage. For example, the 2005 file contains information on weeks worked for calendar year 2004. To describe annual labor force attachment, we construct the percentage of respondents that worked a full year (at least 39 weeks).

The .les start in 1963, and, with the combination of information available to construct detailed Hispanic measures, we are able to roughly describe two boom and three recovery episodes: boom episodes 1982 to 1989 and 1991 to 2000, and recovery episodes 1982 to 1987, 1991 to 1996 and 2001 to 2006. We chose the recovery lengths to match the current length of the recovery and the availability of data.[2]

Appendix Notes

1. The original location, length, and name are as follows: 1994 to 2003 (180, 2, PEMLR), 1989 to 1993 (348, 1, A-LFSR), and 1979 to 1988 (109, 1, ESR).
2. These three recovery episodes (also mentioned in Table 2.7) end a year earlier than the three recovery periods given in endnote 6 because for that series more recent data was available.

Notes

A version of this chapter originally was presented at the National Academy of Social Insurance's eighteenth annual conference, "Older and Out of Work: Jobs and Social Insurance for a Changing Economy," January 19, 2006. It is published here with the permission of the National Academy of Social Insurance.

1. The National Bureau of Economic Research has designated November 2001 as the start of the recovery. As of April 2008, the economy was in its seventy-eighth month of expansion. Job creation still signi.cantly lagged behind historical growth.
2. Excluding the months of September 2005 to May 2006 (i.e., the nine-month period following Hurricanes Katrina and Rita) raises the average monthly job growth to 120,000 for the period from August 2003 to April 2008.
3. For most of 2005, the national unemployment rate ranged from 4.9 to 5.1 percent. During this period, the employment-population ratio was 62.7 percent. In 1997, in the midst of the 1990s recovery, the unemployment rate fell to between 4.9 and 5.1 percent. At that time, over 8 million jobs had been created. As a result, the employment-population ratio was 63.8 percent.
4. These increases translate into 5.3 percent growth for the current recovery, 13.2 percent for the 1990s recovery, 21.4 percent for the 1980s recovery, and 18.7 percent for the early 1970s recovery. Percentages are derived from author tabulations of the Bureau of Labor Statistics' Current Employment Statistics (CES) employer survey.
5. The number of manufacturing jobs fell from 15,825,000 in November 2001 to 13,596,000 in April 2008, a decline of 2,229,000.
6. The slow jobs recovery shows some variation across states. Looking at the past three recoveries—2001 to 2007, 1991 to 1997, and 1982 to 1988—average state employment growth was 15.1 and 16.9 percent in the first two recoveries, while during the current recovery employment has stagnated, growing at only 5.7 percent.
7. Estimates from business groups of offshoring's impact are as high as 400,000 jobs per year, which would make offshoring a major contributor to the recovery's being weaker than expected.
8. See, for example, Cherry and Rodgers (2000) for studies that document the benefits of the low unemployment rates of the 1990s on minorities and youth. Earlier studies reached the same conclusions: Clark and Summers (1981) found this to be the case in their time series study of the relationship of youth joblessness and employment to adult unemployment. Freeman (1991) finds similar results using cross-area variation in youth employment and earnings in the 1980s. For a survey on estimates for the 1960s and 1970s, see DeFreitas (1986). For more recent work, see DeFreitas (1991), Freeman and Holzer (1986), Myers (1989), Stratton (1993), and Farber (1997). Studies that use various waves of the displaced-worker survey also examine this issue: see, for example, Kletzer (1991) and Hipple (1997).

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3
Age Discrimination and Hiring

Evidence from a Labor Market Experiment

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In its current state, the Social Security trust fund will reach zero in 2041 (Diamond and Orszag 2002). Social Security's future includes some combination of reduced bene.ts and increased taxes. One commonly suggested solution to the Social Security problem is to encourage older workers to continue working past retirement (Diamond and Orszag 2002). Not only would these workers still be paying Social Security taxes, but the normal retirement age could then be raised (thus cutting benefits) without compromising the living standards of these older workers. Will Americans be able to find work at older ages? This chapter discusses an experiment demonstrating that older Americans wishing to find employment face labor market discrimination.

Even at today's level of Social Security benefits, many older Americans will need to work. According to the Social Security Administration (2004), one-third of those over 65 rely on Social Security for virtually all of their income. Additionally, Bernheim (1997) suggests that baby boomers on average are only saving a third of what would be needed to maintain a preretirement standard of living after retirement. This lack of adequate retirement savings is especially acute for older women who have been separated from their spouses unexpectedly. On average, women suffer a 30 percent drop in living standards upon the death of a husband (Holden and Zick 1998), and the poverty rate for older widows is 15 percent (Favreault and Sammartino 2002).

This need for employment for older workers is even larger under projected conditions. Social Security benefits are expected to replace a smaller share of individuals' preretirement income because of changes to the law and the need to solve the program's long-term financial short-

fall by increasing the full-bene.ts retirement age (Munnell 2003). Additionally, defined-contribution 401(k) plans have replaced traditional defined-benefit plans as the dominant pension vehicle, and 401(k) benefits are much less certain than those from traditional plans (Munnell and Sundén 2004).

Fortunately, older Americans are capable of working at later ages than in years past. Studies suggest that today's 70-year-olds are comparable in health and mental function to 65-year-olds from 30 years ago (Baldes, Reese, and Nejselroade 1988; Schaie 1996). In addition to the monetary benefits of working, there are also health and psychological benefits. Working in later ages may contribute to an older person's mental acuity and provide a sense of usefulness. When surveyed, many people say they wish to continue working at least part time into later ages as a bridge to retirement (Abraham and Houseman 2004).

Americans will need to work longer, they are capable of working longer, and many say they wish to work longer. But will they be able to find work at later ages? If employers are not willing to hire older workers, then cutting Social Security benefits may impose a greater burden on older Americans than thought.

Ev IDENCE OF AGE DISCRIMINATION FROM Ex ISTING LITERATURE

In its most basic sense, discrimination is defined as treating people in one group differently from people in another group, based on group characteristics rather than on individual differences. Thus, preferring workers with college degrees is a form of discrimination against workers with only high school diplomas. The most worrisome type of discrimination, the type we think of when we ordinarily use the term "discrimination," is what economists term animus or taste-based discrimination. Taste-based discrimination occurs when people in one group irrationally dislike those in another group. This form of discrimination does not benefit employers economically.

Another type of discrimination, statistical discrimination, arises in situations where an employer faces significant costs in finding out specific characteristics for an individual applicant or worker. To avoid

these costs, the employer makes assumptions about the applicant based on group characteristics. For example, an employer may assume that a college graduate will be a more highly skilled worker than a high school graduate, regardless of actual ability. When this type of discrimination is based on a group status that a high-ability worker can change, such as education level, it is not considered a problem; high-ability people will usually sort into the highly skilled group. However, when the group in question is based on immutable characteristics such as race, gender, or age, then high-ability workers may be unjustly discriminated against, because it is costly for employers to test for true ability.

It may seem obvious that age discrimination exists: newspapers contain many stories of people over the age of 50 having dif.culty finding jobs or being laid off. Class-action suits, such as one sparked by mass layoffs at Home Depot, make headlines. However, these could be isolated cases getting press attention specifically because they are so rare. Additionally, even if older workers have more trouble finding jobs than do younger workers, that does not mean firms are systematically choosing to hire younger workers over older ones. Older workers may be used to getting higher wages based on their expertise in a former firm, or what is termed "firm-specific human capital." But once an older worker leaves the old firm, that worker cannot always use the skills that made him or her an asset to the old firm because the new firm may not need all of those skills. Thus, the worker may be less valuable to the new firm, and an older worker expecting to be paid the same wage will be unable to find work at that wage. Additionally, older workers may be clustered in industries and occupations where demand for workers is lower, or they may have less education on average than younger workers. Any of these possibilities would lead to older workers having more difficulty finding jobs.

There has been little evidence presented regarding the existence of age discrimination in hiring. One study, by Abraham and Houseman (2004), finds that although most older workers plan to work at least part time instead of fully retiring, those who must change jobs in order to reduce hours are more likely to stop working entirely than those who have the option of flexible hours on their preretirement jobs. This finding suggests either that workers who would have to switch jobs to cut hours are more likely to change their minds about working part time than are workers with more flexible preretirement jobs, or that

something prevents these workers from .nding new jobs. Diamond and Hausman (1984) find, using the Displaced Workers Survey from the Current Population Survey, that older workers who have lost their jobs because of layoffs or plant closings take longer to find new jobs than do younger workers who have lost their jobs in similar fashion (see also Chan and Stevens 2004). These findings could be evidence of discrimination against older job seekers. However, it may also be that older job seekers choose to hold out for higher wages or different types of employment than do younger seekers.

Psychologists have tested for age discrimination more directly. In psychology studies, undergraduates or human resource managers who are given resumes identical except for age and asked to hypothetically choose between them will usually choose the younger of the two candidates (e.g., Nelson 2002). While these studies suggest that age discrimination does exist in labor markets, they are not conclusive because they do not measure what is actually going on in the hiring process. For example, because it is illegal to discriminate based on age, even if hiring managers actually do prefer younger workers, in practice they may hire the older worker at least some of the time because they fear incurring lawsuits.

Ex PERIMENTAL Ev IDENCE OF AGE DISCRIMINATION IN THE LABOR MARk ET

Perhaps the best way to test to see whether there is age discrimination in the labor market is to enter the labor market itself and test the genuine reactions of employers faced with choices. In Lahey (2008), I did so by sending out resumes for fictitious job applicants of different ages and measuring the response rate of employers asking for interviews. This type of study is called an audit study and has been useful in the past for determining race and gender discrimination in labor and housing markets.

There are some limits to the audit technology. Because it is difficult to find an older person whose qualifications are identical to those of a younger person, I could not actually send people to interview for jobs. Thus I only have information about the first part of the hiring screening

process—from resume to interview. However, studies on gender and race .nd additional discrimination once the candidates have reached the interview stage, so it is likely that older applicants who are interviewed will not be preferred over younger applicants. Thus my findings probably represent a lower bound on discrimination.

In this experiment, I sent 4,000 resumes to 2,000 firms in Boston and another 4,000 resumes to 2,000 firms in St. Petersburg, Florida. These resumes were for job applicants between the ages of 35 and 62; each firm received a resume from an older applicant and a younger one. Since most people do not actually put their ages on resumes but do put the date of their educational degrees, age is indicated by date of high school graduation. Job listings were found in the Sunday want ads for that city and through cold-calling firms listed in city phone books.

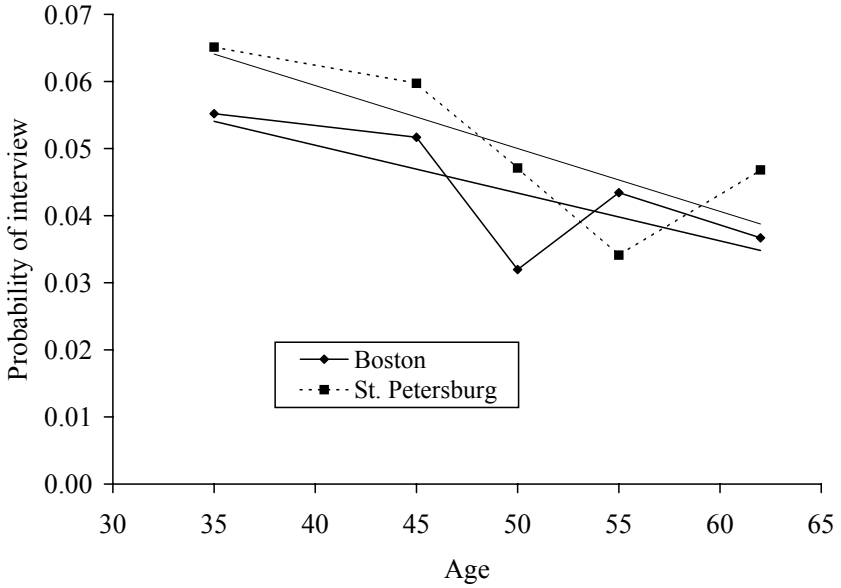
I was worried that employers might infer things about the resumes that I could not measure differentially by age for workers, so I had to limit the types of resumes I looked at. Because I do not know what employers value in a work history, I only applied for entry-level jobs or jobs that required up to a year of education and experience combined. These included positions such as clerical worker, licensed practical nurse, air conditioner repairperson, and nail technician, among others. The fictitious applicants also had short work histories in entry-level fields such as data entry or fast food. I also looked solely at women. When an adult man applies for an entry-level job, especially with only a short work history, the employer is likely to think that there is something wrong with that man. In the worst-case scenario, the employer might think that the man had been incarcerated, and that an older man had been incarcerated for a longer period than a younger man with the same resume. However, employers may generally assume that a female applicant has been at home taking care of her family, regardless of age (Sorensen 1993). Since the majority of the jobs my hypothetical applicants applied for were in female-dominated industries, my experiment gives an accurate picture of the job opportunities available for one of the most at-risk populations of older workers—recent widows and divorcées needing to find work. This population is very likely to be affected by policy changes.

AGE DISCRIMINATION DOES Ex IST

Figure 3.1 shows the downward trend by age of the probability of being called in for an interview in the two cities. I found that a younger worker is more than 40 percent more likely to be called for an interview than an older worker, where "older" is de.ned as age 50 or older. In Massachusetts, this trend translates into a younger job seeker needing to send out 19 resumes for one interview request, while an older job seeker must send 27. In Florida these numbers are 16.4 and 23, so the gap is similar.

Of course, these numbers are only averages and include people applying for different types of jobs, as well as resumes that have different educational requirements, such as a nursing certificate for those applying for licensed practical nurse (LPN) positions or a cosmetology license for hair stylist applicants. Thus, applicants in different fields may

Figure 3.1 Probability of Obtaining an Interview, by Age



SOURCE: Author's calculations.

have to send out a different number of applications before .nding employment. For example, a younger worker qualified as a licensed practical nurse in Florida would have to respond to 5.5 ads before receiving an interview offer, whereas an older worker would have to respond to 10. However, a younger worker looking for clerical work in Massachusetts would have to send out 32 job applications, and an older worker would have to send 72.

But, one may argue, it does not cost much for someone to apply for a few more jobs. Surely an older worker can simply send out more resumes than a younger one to get the same number of interview requests. Even sending out 72 applications (in the hope of getting one interview) is the work of a Sunday afternoon with the want ads. However, this reasoning assumes that there are an unlimited number of job openings available each week. Obviously there are not. Although a paper for a metropolitan area such as St. Petersburg–Tampa Bay may have two or three dozen ads for LPNs or dental assistants in its Sunday classifieds, there are many fewer jobs advertised for other positions. Generally, fewer than 10 ads for a preschool teacher or a hairdresser run each week. Some positions are rarely advertised at all, such as gem appraiser (an occupation that requires 6 months to a year of training). Additionally, many of the ads run for more than one week at a time, thus making a portion of the ads in a week repeats from the previous week. So it may take an older job seeker considerable time to find a position.

How long will it take an older worker to find a job compared to a younger worker, assuming she applies to all applicable ads in the paper every week? If we assume that it takes 7–10 interviews to obtain a position (which may be optimistic, since that is the estimate for college graduates), then a younger LPN will receive a job offer in a week, and an older LPN will only have to wait three weeks for a job offer. At the other extreme, it will take 6–10 weeks for a younger worker to receive a clerical job offer (assuming that half of the ads each week are repeats), and an older worker will not receive a job offer for 14–20 weeks. The wait could be even longer, since within a five-month period there are even more repeat ads, as places that advertised and rejected the older worker in month one may advertise again in month five if they failed to find a suitable hire.

Thus there are real welfare effects to this age discrimination for older workers, especially for the ones who most need work: those with

low savings. We cannot just cut bene.ts and assume that older workers will be able to find employment without a problem.

WHY DO EMPLOYERS DISCRIMINATE?

The question of why employers prefer younger workers to older workers is still an open one. The answer to this question can guide appropriate policy recommendations concerning the needs and wants of older job seekers. For example, if the problem is simply an irrational dislike of older people, educating employers or more strictly enforcing discrimination laws in hiring may be the appropriate action. However, if older workers in general lack certain skills, then additional training programs for these workers may be the best first step. Additionally, if the reason for differential hiring is that older workers cost the company more in health insurance, then the government may want to subsidize these costs or encourage methods of providing health insurance that shift costs from the firm to the worker, such as private health accounts.

Box 3.1 shows a list of the top 10 reasons given in a 1984 survey of 363 companies that asked employers why other employers might be reluctant to hire older workers (Rhine 1984). Some of these reasons do not apply to the entry-level setup for which I found discrimination. For example, since those were entry-level jobs, the length of the career path is short, thus the career potential (the most listed reason) should not matter. Salary expectations (reason 5) may also be less of an issue, because these jobs often have set salary schedules. Additionally, the resumes list current work experience, so there should not be worries about the reason the applicant left the previous job (reason 9), since the applicant is currently employed. Because I find discrimination even in the absence of these possible reasons, there must be other explanations for the differential treatment.

I explore some of the other reasons listed using my experimental framework described above. For example, if employers think that older workers are more likely to lack computer skills than are younger workers (a version of reason 7, knowledge and skills obsolescence), then if an older worker can indicate that she has these skills, an employer will be less likely to discriminate against her. Thus information about com-

Box 3.1 Age Discrimination May Occur for Many Reasons

The following are reasons for differential hiring suggested by survey respondents. They said discrimination may take place when companies fear that older workers have one or more of the following attributes:

1. Short career potential (relative to human capital investment)
2. Lack of energy
3. High costs of health insurance, life insurance, and pensions
4. Less flexibility or adaptability
5. Higher salary expectations
6. Health risks leading to absences
7. Obsolete knowledge and skills
8. A tendency to block career paths of younger workers
9. Incompetence (an employer may have suspicions about an older worker's competence because the employer may wonder why the older worker left a previous job)
10. A tendency to file a discrimination suit if later fired or not promoted

NOTE: This list was compiled from a 1984 survey of 363 companies, in which hiring managers were asked for reasons that other companies might discriminate against older workers.
SOURCE: Rhine (1984).

puter skills should help the older job seeker more than the younger if it is indicated for both, because the employer may already assume that the younger job seeker has these skills. Similarly, an attendance award on a previous job should alleviate worries that an older worker will have more absences than will a similarly quali.ed younger worker (reason 6). Using this technique, I find that only the Massachusetts sample shows evidence that employers may fear a lack of computer skills. I find no evidence in either sample that employers are worried about absences.

I also tested for other reasons on the list, with less success. To see whether reason 2, lack of energy, is a reason employers prefer not to hire older workers, I put on some resumes that the applicant plays a sport. I find that including this item harms both older and younger workers, so it is probably not signaling energy but rather the likelihood of get-

ting an injury while playing sports over the weekend. Similarly, putting down "I am .exible" or "I am willing to embrace change," as the AARP suggests to signal flexibility and adaptability (reason 4), actually hurts older workers. Instead of showing flexibility and adaptability, such statements may just be showing that the applicant is a member of the AARP. The remaining reasons for differential treatment could not be tested in this experimental framework. However, something can be said about them based on other studies.

Fear of lawsuits under age-discrimination laws is one reason that employers may discriminate against older job applicants, at least among male candidates. Employers may be afraid to hire older workers because older workers can sue under the Age Discrimination in Employment Act of 1967 if they are later fired or if they fail to be promoted. It is much easier for an employer to avoid these kinds of lawsuits by simply choosing not to hire an older worker, since the older worker generally cannot prove that he or she has been discriminated against during the hiring stage. In Lahey (forthcoming), I compare labor market outcomes of older people in states where it is easier to sue under age discrimination laws (those with local laws) to outcomes of older people in states where it is not as easy (those without such laws).

I find that older white men in states where it is easier to sue are less likely to be hired than such men in states where it is more difficult. They are also less likely to be fired and more likely to say they are retired. Overall, in states where it is easier to sue, older white men work fewer weeks out of the year than those in states where it is harder to sue. These findings suggest a story in which firms that are in states where it is easier to sue do not wish to hire older men, are afraid to fire older men, and remove older men through strong incentives to retire.

However, fear of lawsuits under age discrimination laws cannot tell the entire story. Ease of lawsuit filing has no effect on the hiring possibilities for women (Lahey, forthcoming). This result could be because older women are the least litigious group in the United States—in general, older women just do not sue. Thus employers do not see potential lawsuits as a possible cost to hiring older women.

Health insurance and pension costs are another piece of the puzzle needing further study. Scott, Berger, and Garen (1995) found that firms that offer health insurance are less likely to hire older workers than are firms that do not. However, this test is imperfect because firms that of-

fer health insurance are different from those that do not: .rms that offer benefits tend to be clustered in different industries, and they tend to be larger, have steeper salary schedules, and possibly higher levels of productivity than those that do not (Idson and Oi 1999). Any of these differences could be a reason for not hiring older workers, regardless of health insurance status. Thus, more work needs to be done in this area.

A final possible reason for differential treatment of older workers, one not mentioned in the Rhine (1984) survey, is an irrational dislike of older people in the workplace. This reason for differential treatment is the first that usually comes to mind when we think of the word "discrimination." It could be that employers just do not want to hire older workers. Alternatively, employees may not like working with older workers, or customers could dislike buying products from older sellers. I tested the first possibility—that employers dislike hiring older workers for no good economic reason—by comparing the interview request behavior of firms in the sample that had separate human resources departments and those that did not. The idea behind this comparison is that firms with human resources departments know that discriminating solely on the basis of age is illegal, but that firms with these departments also have a better idea of the actual costs and productivities of workers of different ages. I found that, if anything, firms with human resources departments are more likely to hire younger workers than firms without human resources departments, although this result is not significant at the 5 percent level. This finding suggests that there is no employer animus against hiring older workers; because human resources departments are trained in discrimination law, we would expect firms with human resources departments to hire more older workers than firms without such departments if animus were the main reason for age differences in hiring.

I tested the possibilities that either employees or consumers dislike interacting with older workers by making an assumption that older people dislike associating with other older people less than younger people dislike associating with older people. Using this assumption, I matched the age distribution of an area with the interview rates in the sample by zip code. This test found that neither the age distribution of employees nor that of customers in a zip code had any effect on the interview rates in an area. Thus, the result provided no evidence of this kind of irrational discrimination. However, there are two problems with this method:

.rst, age distribution information was available only by zip code rather than by firm, thus preventing an exact match with the age composition of the firms doing the hiring. This limitation means that the results are biased toward finding no result, as it is not clear that the test is measuring what it is intended to measure. Second, the assumption about age preferences may not be true: older and younger people may have no difference in preference for whom they associate with, or older people may prefer being with younger people to a much greater extent than younger people do.

CONCLUSION

The evidence presented paints a picture of age discrimination against older workers in labor markets. The demand for labor from older workers is smaller than that from younger workers. Simply encouraging older workers to reenter the labor force will not guarantee that they will be able to find jobs in a timely manner, if at all. This finding has important implications for older job seekers who are most likely to need work—those who have lost jobs and those with little work experience who unexpectedly need to enter the labor market, such as widows, divorcées, or those whose spouses have lost jobs.

More research needs to be done to determine exactly why employers prefer younger workers. Any plan that requires older people to find employment in order to maintain a certain quality of life needs to consider the demand for older workers and the reasons employers may discriminate against this group.

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4
Reemployment and Earnings Recovery among Older Unemployment Insurance Claimants

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In recent years, a growing proportion of older workers have suffered involuntary job loss. Previous research shows that older workers have more dif.culty getting back to work than younger workers. They also suffer larger earnings loss once reemployed than younger workers. For all workers, the Unemployment Insurance (UI) System provides temporary wage replacement for those who have lost their jobs through no fault of their own. An unanswered question, and one that we address in this chapter, is "How do workers at different points in their working life use and benefit from UI?"

FACTORS IN OLDER WORk ERS' DIFFERING EMPLOYMENT PATTERNS

There are several reasons why younger and older workers may have differing degrees of access to UI benefits, and why their employment patterns after receiving UI benefits may differ. With respect to access and eligibility, workers must have sufficient employment and earnings history prior to being laid off in order to qualify for UI benefits. Employment patterns and earnings levels may differ by age and other characteristics, leading to differences in access and eligibility between younger and older workers. After a layoff, finding reemployment and regaining prior earnings levels depend upon the aspirations of workers to remain

attached to the labor market and to qualify for job openings. Here too, age may be a factor in looking for and qualifying for work. Older workers, particularly those approaching retirement age, may be interested in transitioning to retirement through a series of "bridge jobs," which may not provide the same earnings levels and job stability offered by longer-term career jobs. Furthermore, employers may be reluctant to hire older workers, whose pay levels may not match their perceived productivity. UI is an important source of income security for older workers and a potential in.uence on work and retirement decisions.

Older workers shoulder a relatively small share of the nation's unemployment burden, while enjoying a higher-than-average chance of receiving UI compensation when jobless and seeking work. As the workforce ages, understanding the unemployment patterns of older workers and the role of UI in bridging the earnings gap of displaced workers will help inform policymakers and program administrators as to the demand placed on UI and the gaps that may exist in providing the level of benefits intended.

This chapter examines the labor market adjustment of older workers versus younger workers after they file a claim for UI benefits. Unlike previous studies, which are based on survey data, our study relies on a census of UI claimants constructed from records maintained for program administration. Using data on UI claimants in a large, industrialized midwestern state, we examine patterns of reemployment, earnings, and employment stability following job loss. We compare the employment and earnings experience following a claim for UI benefits of older workers (those 50 years of age and older) with that of younger, prime-aged workers (those between the ages of 30 and 49).

We focus on a sample of UI claimants eligible for benefit payments and examine contrasting patterns of reemployment, earnings, and employment stability. The sample includes all UI claimants within the state during 2001, the first year of an economic downturn. To track employment patterns for each worker, our analysis relies on quarterly UI claimant earnings records for the first 11 quarters after the worker files a claim for benefits.

The chapter proceeds in the next section by reviewing previous related research and stating our expected results based on theoretical considerations. In the third section, we describe our sample of UI claimants, define older and younger workers, and compare the characteristics

of older and younger age groups within each sample. Next, in the fourth section, we provide a brief overview of our methodology for analyzing reemployment, earnings, and employment stability. In the .fth section, we examine contrasting patterns of reemployment between the two age groups. This is followed by (six) analysis of earnings recovery, and then (seven) employment stability as measured by the observable employment rate and job tenure with a post-UI-claim employer. We then, in the eighth section, examine the question of whether claimants who return to work more quickly have better future labor-market success. The ninth and final section offers a summary and conclusion.

BACk GROUND

The share of older workers among the labor force, the total unemployed, and the insured unemployed for the United States in 2002 are reported in Table 4.1. The figures are based on monthly averages for the year and indicate that those aged 45 years and over make up one-third of the labor force, constitute only one-fifth of those experiencing unemployment, but include one-third of all UI beneficiaries. These national numbers suggest that, relative to their numbers in the labor force, older workers make up a proportionately small share of the unemployed but have a higher-than-average chance of receiving UI compensation while jobless and seeking work.

Previous studies of the job loss and recovery experience of older workers refine the perspective offered by the national averages. In recent years, an increasing proportion of older workers have suffered involuntary job loss (Farber, Haltiwanger, and Abraham 1997, p. 59), although younger workers still experience a disproportionately large share of job layoffs. However, after being laid off, older workers have relatively more difficulty gaining reemployment and recovering to prior earnings levels (Chan and Stevens 2001, p. 484). A recent study finds that a younger worker (49 years of age or less) is 40 percent more likely to be called back for an interview than an older worker (Lahey 2005). Consequently, it takes older workers longer to find a job than younger workers (Diamond and Hausman 1984; Lahey 2005). The greater earnings decline among older job losers has been attributed to their longer

Table 4.1 Labor Force, Unemployment, and UI Receipt by Age for United States, 2002

	Total	≤24	25–34	35–44	45–54	55–64	≥65
Labor force[a] (000s)	144,863	22,366	32,196	36,926	32,597	16,309	4,469
% of labor force		15.4	22.2	25.5	22.5	11.3	3.1
Total unemployed[b] (000s)	8,378	2,683	1,890	1,691	1,315	635	163
% total unemployed		32.0	22.6	20.2	15.7	7.6	1.9
% insured unemployed[c]		9.7	23.6	26.6	24.0	12.6	2.9

[a]Data from the *Handbook of U.S. Labor Statistics*, 7th ed., Table 1-7 (Jacobs and Ryan 2004).

[b]Data from the *Handbook of U.S. Labor Statistics*, 7th ed., Table 1-28 (Jacobs and Ryan 2004).

[c]Age information not available for 4.0 percent of beneficiaries. Data from the U.S. Department of Labor, UI Service (USDOL 2008).

SOURCE: Jacobs and Ryan (2004).

job tenure and higher pre-separation earnings (Kuhn and Sweetman 1999, pp. 671–672). Although they experience greater earnings declines, older workers are more likely to qualify for UI and to draw more bene.ts during jobless periods (O'Leary and Wandner 2001, p. 87).

Earnings impacts of involuntary job loss for the general workforce have been estimated to be on the order of one-quarter of prior earnings levels (Jacobson, LaLonde, and Sullivan 1993). As workers age, the work-leisure decision increasingly includes the option of retirement. When approaching retirement age, it is common to work reduced hours on the career job, or to migrate to a "bridge" job as a step in the transition toward full retirement out of the labor market (Quinn 2000).

If involuntary job separation means the career job is no longer available, the shift to another job involves the loss of firm-specific human capital and most likely means lower earnings potential. The shift to another job can also involve a change in occupation and further loss in value of accumulated occupation-specific human capital. For members of industrial unions, reemployment in new industries may mean the loss of union rents from earnings.

As people approach the end of their working years, they also tend to be reaching lifetime peak levels of asset accumulation. Furthermore, as

people reach the age of 60, they have the option of making withdrawals from their 401k retirement accounts without penalty. As they advance in age to their late 60s, they are eligible for full Social Security bene.ts. By 70, they must begin to withdraw from pretax retirement savings accounts. All of these events make it easier for older workers to transition into bridge jobs or full retirement.

Receipt of UI benefits tends to increase the duration of jobless spells (Decker 1997, pp. 285–298). The maximum entitled duration of regular UI benefits in nearly all states is 26 weeks, and typically about one-third of beneficiaries exhaust their benefit entitlement. For older workers, UI benefits could act as additional severance income, easing the transition to a bridge job or to full retirement. In this chapter we contrast differences in rates of reemployment, reemployment earnings, and employment stability between older and prime-aged UI claimants.

Given the greater range of post–job separation options for older workers and the possibility for employer bias against hiring older workers, we expect reemployment rates to be somewhat lower for older workers, and UI benefit eligibility to reinforce the lower reemployment rates for older workers. In addition, with the higher levels of pre-UI claim earnings for older workers, we expect that older workers will suffer larger relative earnings declines upon reemployment following an involuntary job separation.

Among those who do gain reemployment following a UI claim, theory does not guide us as to whether older or younger claimants will experience greater job stability in new jobs. It may be the case that older workers, having accumulated more general human capital, could more easily adapt to new working situations. If this is true, older workers may be more stable in new jobs, but this is an empirical question.

SAMPLES FOR ANALYSIS

The samples of younger and older workers are derived from UI claims in a major industrial midwestern state during the labor market contraction in 2001. From administrative records of all UI claimants within that state, we selected a sample of claimants aged 30 and over who had experienced a job separation. This sample was then divided

Table 4.2 Sample Size of UI Claimants and Rates of Eligibility and Bene.t Exhaustion, 2001

	Overall	Older	Younger
(1) UI Claimants	329,935	92,811	237,124
(2) UI-Eligible	275,943	82,288	193,655
(3) UI-Ineligible	53,992	10,523	43,469
(4) UI Exhaustees	81,539	24,523	57,016
UI Eligibility and Benefit Exhaustion Rates			
UI Eligibility Rate (2)/(1)	0.836	0.887	0.817
UI Benefit Exhaustion Rate (4)/(2)	0.295	0.298	0.294

NOTE: Older claimants are defined as those aged 50 years and over; younger, those aged 30 to 49 years.
SOURCE: Authors' tabulation of state UI agency data for claimants aged 30 and over.

into a sample of older workers (de.ned as aged 50 years and over) and prime-aged or younger workers (defined as between the ages of 30 and 49). Our full sample includes 329,935 UI claimants aged 30 and over, of whom 28.1 percent are older workers.

Table 4.2 summarizes the composition of our sample in terms of UI eligibility and exhaustion of UI entitlement for benefit years started in calendar year 2001. Overall, 83.6 percent of claimants were UI-eligible, and 29.5 percent of eligible claimants had exhausted their initial entitlement of regular UI benefits. Older claimants had an appreciably higher rate of UI benefit eligibility (88.7 percent compared to 81.7 percent for younger claimants), but among UI-eligible claimants older workers exhausted benefit entitlements at about the same rate as younger, prime-aged claimants (29.8 percent, compared to 29.4 percent for younger claimants).

The means of outcome variables and claimant characteristics for our samples are summarized in Table 4.3. The first three rows in the table are common UI outcomes measured over the benefit year: weeks of UI benefits drawn, the fraction of UI entitlement used, and the proportion of claimants drawing their full monetary entitlement (i.e., the UI benefit exhaustion rate). Among those eligible for UI, there are no appreciable differences between older and younger UI claimants in terms of UI weeks drawn or the rate of exhausting UI benefit entitlements. Neither are there significant differences for the two age groups from the overall means of 14.9 weeks of UI drawn in the benefit year and 58.2 percent

Table 4.3 Means of Outcomes and Characteristics of UI-Eligible Claimants

	UI-Eligible		
	Overall	Older	Younger
Full-time equivalent weeks of UI	14.9	14.8	15.0
Fraction of entitlement/benefits used	0.582	0.574	0.585
Exhausted regular UI	0.295	0.298	0.294
Employed one quarter after BYB	0.676	0.675	0.676
Age as of BYB	43.3	54.7	38.5
Gender, female	0.329	0.323	0.332
Race			
White	0.834	0.856	0.824
African American	0.124	0.105	0.132
Hispanic	0.020	0.015	0.022
Education			
Less than high school	0.198	0.223	0.187
High school grad/GED	0.510	0.489	0.519
Some college	0.195	0.189	0.198
Bachelor's degree or higher	0.097	0.098	0.096
Base period earnings ($)	32,224	37,121	30,144
Entitlement length (weeks)	25.8	25.8	25.8
Weekly benefit amount ($)	274	277	272
WBA at maximum	0.219	0.196	0.228
Work search exempt	0.345	0.386	0.327
Sample size	275,943	82,288	193,655

NOTE: Older claimants are defined as those aged 50 years and over; younger, those aged 30 to 49 years.
SOURCE: Authors' tabulation of state UI agency data for claimants aged 30 and over.

of entitled bene.ts drawn. (Again, the maximum duration of regular UI benefits is 26 weeks.)

As defined by the new U.S. Department of Labor (USDOL) performance indicator for reemployment, among those eligible for UI benefits, there is virtually no difference in reemployment between older and younger claimants. The USDOL indicator defines employment after BYB as the presence of earnings in quarterly UI wage records in the quarter after the benefit year begin date (BYB). In our sample, 67.5

percent of older claimants and 67.6 percent of younger claimants were employed after BYB.

The similarities in outcomes between older and younger UI-eligible claimants occur despite signi.cant differences between the two groups in terms of some measurable characteristics correlated with employment and earnings. Older eligible claimants are more likely to be white and to have a lower level of educational attainment than younger claimants. Older workers also have significantly higher levels of prior earnings, with income in the 12-month UI base period being nearly $7,000 higher.[1]

In terms of UI program entitlements among eligible claimants, the mean entitled duration was 25.8 weeks for both older and younger groups, the average weekly benefit amount (WBA) was $5 higher for older claimants at $277, the percentage at the state WBA maximum was 3.2 percentage points higher for younger claimants, and the percentage exempt from job search was 5.9 percent higher for older claimants.[2]

EMPIRICAL RESULTS

With a full year of UI claims inflow for a major midwestern industrial state, we have more than sufficient data to view trends in employment, earnings, and employment stability. Our data include quarterly earnings records for each UI claimant, provided by employers to the state employment security agency. The data include at least six quarters preceding the quarter of UI claim and at least 11 quarters after the claim for all claimants in our analysis sample. We examine the earnings data directly and use earnings data as evidence of employment in a quarter.[3]

We examine reemployment rates, earnings, and subsequent employment stability in sequence, using similar empirical strategies for each. We begin by tabulating the rate of first-time reemployment observed in each quarter after the calendar quarter within which the individual filed a UI benefit claim. We then perform unadjusted tests for differences in mean values of outcomes across the subgroups of interest.[4]

Since older and younger UI claimants differ significantly in terms of observable characteristics, it would not be surprising to observe different labor market outcomes across the groups. That is, observed out-

comes may differ by age because of characteristics associated with age, rather than because of the difference in age alone. To remove the in.u - ence of factors correlated with age when comparing outcomes for the two different age groups, we estimate the differences between older and younger UI claimants, controlling for observable characteristics. Our list of control variables includes factors that can affect the decision of older workers to return to work, such as the presence of income from private pensions, severance pay, vacation pay, Social Security, or other sources of income affecting UI benefit entitlement.[5]

REEMPLOYMENT RATES

How quickly do older and younger workers regain employment after a job loss? To examine this question, we calculate the quarterly time pattern of reemployment after a UI claim. Reemployment is computed as the ratio of those who gain reemployment for the first time in a quarter after BYB relative to the UI claimants yet to return to work. This concept is called a conditional hazard rate to reemployment, or the exit rate from joblessness.[6]

Table 4.4 presents hazard rate computations for older and younger UI claimants who are eligible for UI benefits. The rows in the table present results for 11 quarters after the quarter of the BYB date, which falls in the quarter of the UI claim. The columns headed "Reemployment rate" list hazard rates of exit to reemployment for each quarter after the quarter of claim for younger and older claimants. After the first quarter, the exit rate for older eligible UI claimants is consistently below that for younger eligible claimants. Differences range from 1.4 to 6.5 percentage points. This can be seen graphically in Figure 4.1: the hazard rate curve for older claimants is strictly below the curve for younger claimants. Tests of statistical significance indicate that, except for the first quarter, differences in exit rates between the two groups are statistically significant at a high degree of confidence.

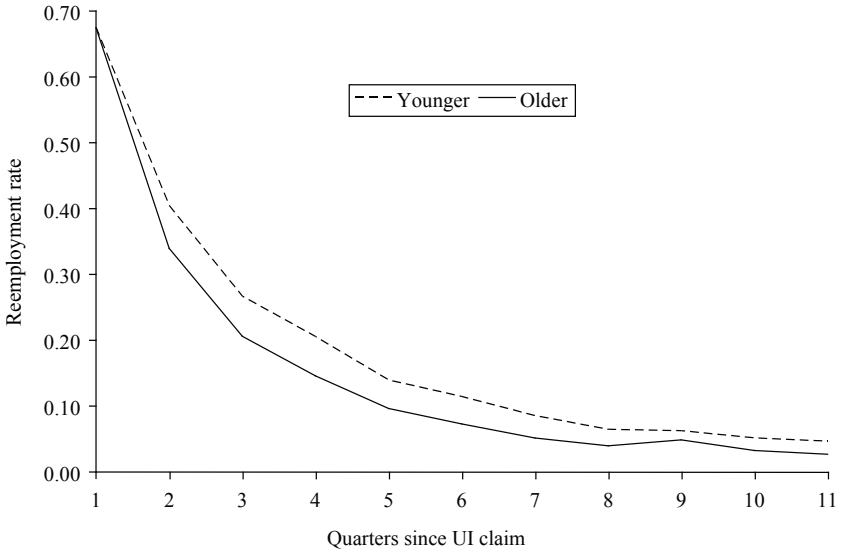
Because older and younger claimants differ in characteristics that affect reemployment, it is important to control for these characteristics when estimating the difference, by age, in rates of returning to work. Reemployment rates are adjusted for such factors using two estima-

Table 4.4 Comparison of Reemployment Rates between Older and Younger UI Claimants

UI-eligible										
Quarters after BYB	Sample size		Reemployment rate		Simple difference		OLS difference		Logit difference	
	Younger	Older	Younger	Older	Difference	*t*-stat	Difference	*t*-stat	Difference	*t*-stat
1	193,655	82,288	0.676	0.675	0.000	−0.23	−0.028	−14.59	−0.019	−13.86
2	62,794	26,720	0.405	0.340	−0.065	−18.34	−0.049	−13.59	−0.032	−13.38
3	37,340	17,628	0.267	0.207	−0.061	−15.48	−0.055	−13.37	−0.032	−13.29
4	27,352	13,987	0.206	0.147	−0.060	−14.79	−0.058	−13.69	−0.032	−13.55
5	21,706	11,935	0.140	0.097	−0.043	−11.51	−0.046	−11.54	−0.024	−11.51
6	18,660	10,777	0.115	0.074	−0.042	−11.54	−0.045	−11.65	−0.022	−11.63
7	16,507	9,984	0.086	0.052	−0.034	−10.33	−0.035	−9.82	−0.016	−9.68
8	15,081	9,462	0.065	0.040	−0.025	−8.32	−0.029	−8.91	−0.013	−8.95
9	14,095	9,080	0.063	0.049	−0.014	−4.46	−0.023	−6.86	−0.011	−7.05
10	13,202	8,632	0.052	0.033	−0.019	−6.67	−0.022	−7.30	−0.010	−7.30
11	12,511	8,345	0.048	0.027	−0.020	−7.32	−0.021	−6.97	−0.009	−6.91
Weighted average										
Quarters 1–11					−0.026		−0.037		−0.022	
Quarters 2–11					−0.047		−0.044		−0.024	

NOTE: Blank = not applicable.
SOURCE: Authors' estimates based on state UI agency data for claimants aged 30 and over.

Figure 4.1 Comparison of Reemployment Rates between Older and Younger UI Claimants



tion techniques. The .rst technique is ordinary least squares. Using the adjusted reemployment rates obtained by this technique, the range of estimated effects narrows slightly compared with the range of simple or unadjusted differences. The range of adjusted differences is between 2.1 and 5.8 percentage points.

Using ordinary least squares to estimate equations with a dependent variable taking on values between 0 and 1 can lead to biased estimates, since values of the predicted dependent variable may lie outside the 0–1 range. An alternative is logit analysis, which constrains predicted dependent values, forcing them to be within the 0–1 range. Adjusting reemployment rates using the logit methodology yields smaller differences in a narrower range. The range of logit estimates is 0.9 to 3.2 percentage points over older UI claimants.[7] Another way to compare the three estimates is to compute the weighted average of the differences over the 11 quarters, using the sample sizes as the weighting factors. The logit technique yields the most conservative estimates, or the least difference between older and younger workers.

Among those eligible for UI, the rate of returning to work by younger workers exceeds that for older workers by the greatest mar-

gin in quarters 2 through 5 after the claim for bene.ts. These quarters include the period in which beneficiaries may exhaust their 26 weeks of UI benefits. Assuming that they maintain continuing UI benefit eligibility by remaining able, available, and actively seeking work, and by not refusing any offers of suitable work, beneficiaries may draw out available benefits during a 52-week period starting from their benefit year begin (BYB) date. That period is called the UI benefit year. Since the maximum benefit entitlement is 26 weeks at the full weekly benefit amount (WBA), entitlements may be exhausted during quarters 2 through 4 after the calendar quarter of the BYB. Thus, it appears that younger workers return to work with greater frequency than older workers around the period in which they may exhaust benefits.

EARNINGS RECOv ERY

To what extent do older and younger displaced workers regain the earnings levels they achieved before losing their jobs? As previously mentioned, involuntary job loss has been estimated to significantly depress subsequent earnings. Furthermore, earnings loss is believed to be greater among older workers. In this section, we compare quarterly earnings of older and younger workers before and after they make a UI claim.

We define earnings recovery as the ratio of average quarterly earnings after the claim to average quarterly earnings before the claim. We call this the post- to pre-UI-claim earnings ratio. The value of the ratio for any quarter is computed on the sample of older and younger workers first reemployed in that quarter.[8] After the claim, we average earnings across all quarters in which earnings are greater than zero. Before the claim, we average earnings across quarters 3 through 6 prior to BYB. Excluding the two quarters immediately before BYB approximates permanent earnings levels since the earnings of displaced workers commonly decline near the time of job loss—an earnings pattern often referred to as the Ashenfelter dip in earnings (Ashenfelter 1978).

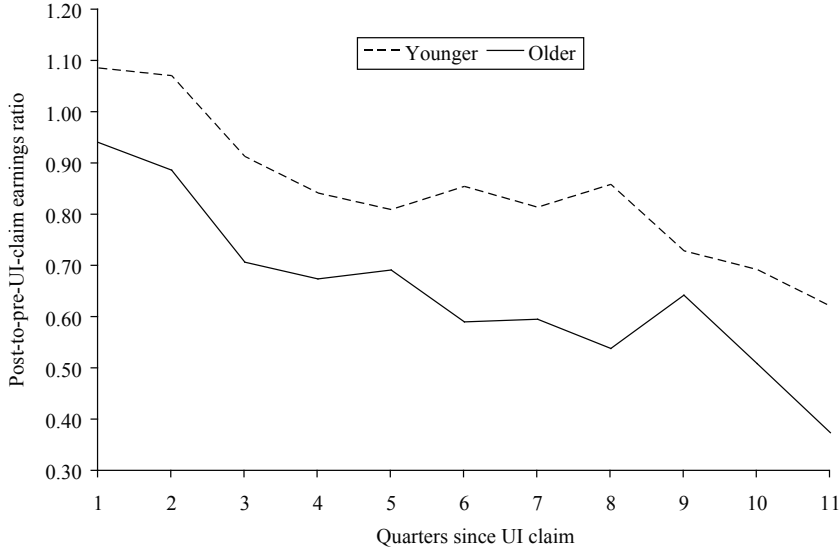
Among UI-eligible claimants who found reemployment in the first or second quarter after claiming benefits, younger workers have higher average quarterly earnings relative to prior earnings than do older work-

Table 4.5 Comparison of Post- to Pre-UI-Claim Earnings Ratios between Older and Younger Claimants

UI-eligible								
Quarters	Sample size		Post-to-pre ratio		Simple difference		OLS difference	
after BYB	Younger	Older	Younger	Older	Difference	*t*-stat	Difference	*t*-stat
1	129,650	55,287	1.085	0.940	−0.146	−23.47	−0.009	−1.39
2	25,041	8,982	1.071	0.886	−0.185	−10.09	−0.042	−2.24
3	9,807	3,615	0.912	0.706	−0.206	−7.07	−0.058	−1.94
4	5,574	2,031	0.841	0.674	−0.168	−6.01	−0.043	−1.56
5	2,989	1,149	0.809	0.691	−0.118	−2.32	0.007	0.14
6	2,116	778	0.854	0.590	−0.264	−4.77	−0.096	−1.69
7	1,391	519	0.814	0.595	−0.219	−3.25	−0.034	−0.50
8	966	373	0.858	0.538	−0.320	−3.09	−0.193	−1.74
9	870	441	0.729	0.642	−0.087	−0.72	0.136	1.01
10	676	283	0.692	0.508	−0.184	−2.50	0.079	0.98
11	584	226	0.621	0.373	−0.247	−3.34	−0.165	−1.97

SOURCE: Authors' estimates based on state UI agency data for claimants aged 30 and over.

Figure 4.2 Comparison of Post- to Pre-UI-Claim Earnings Ratios between Older and Younger Claimants



ers. This can be seen in Table 4.5 and in Figure 4.2. The post-to-pre-UI-claim earnings ratio is higher for younger workers than for older workers for all quarters listed in the table. Also, younger workers who .nd reemployment in the first two quarters after BYB actually earn more after the UI claim than before. Based on the unadjusted differences shown in Table 4.5, older workers earn less after their claim than before, for all quarters, recovering about 20 percent less of prior earnings than do younger claimants. However, after controlling for differences in worker characteristics, the advantage held by younger claimants diminishes in all quarters and disappears in some quarters. The results also reveal that finding a job as soon as possible after the BYB is associated with higher post-UI-claim earnings. This tendency is evidenced by the fact that the ratio falls faster for older workers than for younger workers during the first eight quarters. By the eighth quarter, the ratio for older workers is only 57 percent of the ratio in the first quarter, whereas the ratio for younger workers is 80 percent of the ratio in the first quarter.

EMPLOYMENT STABILITY

How stable are jobs after reemployment for older and younger workers? Two different measures of employment stability are examined. The .rst measure captures the proportion of the time a person holds a job and is referred to as the employment rate; the second measure tracks tenure with a worker's main employer after he or she returns to work and is called job tenure. For the first measure, we record the proportion of quarters a UI claimant is employed once that claimant finds a job.[9] This measure captures the stability or sustainability of employment after a worker becomes reemployed. For this measure, the individual could change employers each quarter (or more frequently) and still be considered employed. For the second measure, we check to see how long the claimant stays working for the main employer in his or her reemployment quarter. This measure records the attachment to one specific employer.

Employment Rates

As reported in Table 4.6, the proportion of quarters a person is working ranges from 73 to 92 percent. The employment rates follow a U-shaped pattern, as shown in Figure 4.3. The highest rates are recorded in the last quarters, but this may only reflect the shorter time period in which to observe employment behavior. Younger workers have an advantage over older workers, particularly in the first four quarters after BYB. The difference ranges from 4.2 percentage points in the first quarter to 2.5 percentage points in the fourth quarter. Younger workers' advantage over older workers increases slightly for the first four periods after controlling for differences in worker characteristics.

Job Tenure

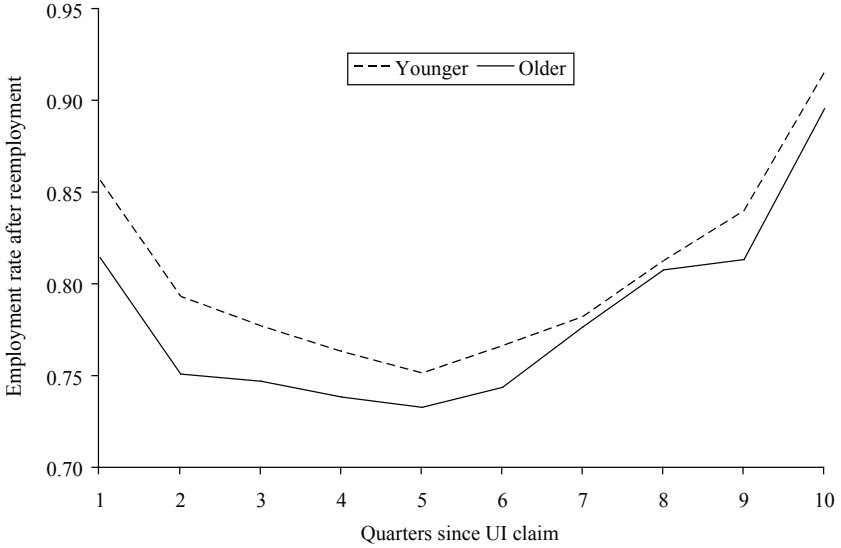
This measure records tenure with one employer by counting the number of quarters the worker is with the major employer he or she first started with immediately after reemployment. Since quarterly UI wage records for a particular claimant often contain earnings from more than one employer in a given quarter, we define the major employer for

Table 4.6 Comparison of Employment Rates after Reemployment between Older and Younger UI Claimants

UI-eligible								
Quarters after BYB	Sample size		Reemployment rate		Simple difference		OLS difference	
	Younger	Older	Younger	Older	Difference	*t*-stat	Difference	*t*-stat
1	130,861	55,568	0.856	0.814	−0.042	−33.72	−0.056	−43.87
2	25,454	9,092	0.793	0.751	−0.042	−13.49	−0.041	−12.86
3	9,988	3,641	0.777	0.747	−0.030	−5.41	−0.040	−7.14
4	5,646	2,052	0.763	0.738	−0.025	−3.21	−0.032	−4.06
5	3,046	1,158	0.751	0.733	−0.019	−1.76	−0.016	−1.54
6	2,153	793	0.766	0.744	−0.023	−1.87	−0.050	−4.02
7	1,426	522	0.782	0.777	−0.006	−0.38	−0.020	−1.28
8	986	382	0.813	0.808	−0.005	−0.32	−0.020	−1.14
9	893	448	0.840	0.813	−0.027	−1.97	−0.003	−0.18
10	691	287	0.915	0.895	−0.020	−1.47	−0.025	−1.63

SOURCE: Authors' estimates based on state UI agency data for claimants aged 30 and over.

Figure 4.3 Comparison of Employment Rates after Reemployment between Older and Younger UI Claimants



a claimant in a quarter as being the employer paying the most wages to the claimant in that quarter.

Table 4.7 summarizes job tenure for those .nding jobs in the various quarters after BYB. Older workers have a clear advantage over younger workers for at least the first six quarters. Older workers remain employed with their initial employer at a significantly higher rate than younger workers, with the advantage ranging from 4.0 to 11.3 percentage points. Controlling for observable worker characteristics reduces the advantage of older workers for all of the first six quarters.[10] These results can be viewed graphically in Figure 4.4, which shows that older claimants maintain longer job tenure among the reemployed. The advantage diminishes somewhat each quarter, but tenure is higher for older claimants among each reemployment quarter cohort.

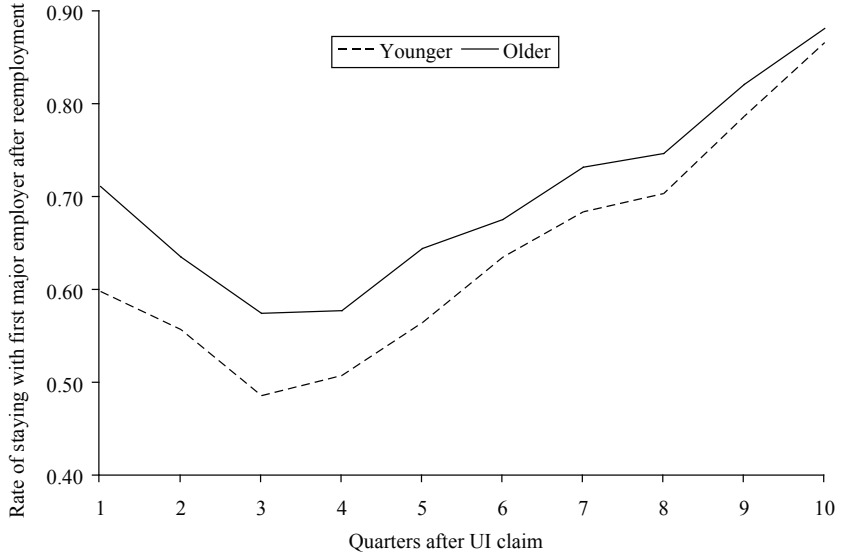
Regarding overall stability of employment after a UI claim, younger, prime-aged UI claimants return to more steady regular participation in the labor force, but older workers establish stronger employment bonds with their first employer after a UI claim.

Table 4.7 Comparison of the Rate of Staying with the First Major Employer after Reemployment between Older and Younger UI Claimants

	UI-eligible							
Quarters	Sample size		Same employer rate		Simple difference		OLS difference	
after BYB	Younger	Older	Younger	Older	Difference	*t*-stat	Difference	*t*-stat
1	126,973	53,224	0.598	0.711	0.113	52.48	0.050	24.06
2	24,435	8,510	0.557	0.635	0.078	14.85	0.060	11.39
3	9,406	3,347	0.486	0.574	0.089	10.42	0.065	7.39
4	5,189	1,798	0.507	0.577	0.070	5.97	0.047	3.88
5	2,687	984	0.564	0.644	0.080	5.09	0.052	3.16
6	1,931	684	0.635	0.675	0.040	2.20	0.026	1.32
7	1,250	452	0.684	0.732	0.048	2.15	0.038	1.57
8	857	340	0.703	0.746	0.043	1.66	0.026	0.90
9	765	391	0.786	0.821	0.034	1.49	0.022	0.83
10	564	225	0.866	0.881	0.015	0.58	0.018	0.58
11	—	—	—	—	—	—	—	—

NOTE: — = not available.
SOURCE: Authors' estimates based on state UI agency data for claimants aged 30 and over.

Figure 4.4 Comparison of Rates of Staying with the First Major Employer after Reemployment between Older and Younger UI Claimants



EARLY RETURN TO WORk

When we examine the employment outcomes of UI claimants returning to work at various times after being displaced, a general trend emerges. Those who .nd employment sooner after a claim have better subsequent labor market success. Not only is this result observed in a comparison of unadjusted means, it also seems to hold up when controlling for observable personal characteristics, UI eligibility parameters, and regional labor market conditions. To test this observation more precisely, we created subsamples of claimants reemployed in either the first or second quarter after their UI claim. We then estimated regression models for the three key outcomes after reemployment: earnings recovery, employment rate, and job tenure.

Estimating OLS regression models on a sample of UI-eligible claimants reemployed in either the first or second quarter after their UI claim permits us to contrast whether getting employed in the first quarter as opposed to the second quarter after the UI claim leads to better

labor market success in the near term. By con.ning our analysis to this simple question, we avoid issues of small sample sizes and misleading values for the dependent variable based on reemployment late in the observable period.

Our models include an indicator (dummy) variable for being employed in the first quarter after the UI claim, dummy variables for older claimants aged 50 to 65 years, and an interaction between these two variables. Table 4.8 presents the key parameter estimates from these models, which also include the full set of control variables listed above for claimant characteristics, program entitlements, and labor market conditions.

Table 4.8 Impact of Early Reemployment on Earnings Recovery, Employment, and Job Tenure, as Estimated on UI-Eligible Claimants Reemployed in the First or Second q uarter after Their UI Claim

	Earnings recovery[a]	Employment rate[b]	Job tenure[c]
Impact for younger, prime-aged UI claimants	−0.022** (−2.53)	0.028** (14.60)	−0.029** (10.54)
Difference for older UI claimants from younger	0.063** (3.83)	−0.019** (−5.24)	0.004 (0.77)
Impact for older UI claimants	0.041** (2.84)	0.009** (2.90)	−0.025** (5.54)

NOTE: **Statistically significant at the 95 percent confidence level in a two-tailed test. *t*-statistics in parentheses.

Parameters estimated in OLS regression models controlling for a full set of individual characteristics and UI program entitlement parameters as listed in endnote 5.

[a] Earnings recovery = the ratio of post-to-pre-UI-claim quarterly earnings. Preclaim earnings are mean earnings in Quarters 3, 4, 5, and 6 preceding the claim, and post-claim earnings are mean earnings in quarters after the claim with earnings.

[b] Employment rate = the proportion of quarters with earnings as evidence of employment, starting with the quarter of reemployment after the UI claim.

[c] Job tenure = the proportion of quarters where the major employer is the same as the one in the first quarter of reemployment after the UI claim. The major employer is the employer in the quarter from whom the greatest earnings were received.

SOURCE: Based on state UI agency data for claimants aged 30 to 65 years.

Earnings Recovery

In terms of earnings recovery, results from estimation of this model suggest there are bene.ts for older UI claimants in returning to work quickly, but not for their younger counterparts. Older UI claimants who go back to work in the quarter immediately following the claim have a mean post-to-pre-UI-claim earnings ratio 4.1 percentage points higher than those who return to work in the second quarter after the claim. However, the comparable estimate for younger UI claimants is a net loss of 2.2 percentage points. The difference in the first-quarter impact estimates between older and younger workers is 6.3 percentage points. So in terms of earnings recovery, when we control for other factors, returning to work quickly is particularly advantageous for older UI claimants.

Employment Rates

Compared to UI-eligible claimants who return to work in the second quarter after the claim, those going back to work in the first quarter have better success at maintaining employment in the near term. The employment rate improvement is greater for younger claimants than for older workers. The mean increase in employment rate for younger UI claimants is a 2.8-percentage-point increase during the remaining 10 quarters. The boost for older claimants is a modest but statistically significant 0.9 percentage points.

Job Tenure

Job tenure on the first job after reemployment is the one outcome measure where older claimants consistently do better than younger claimants. However, early return to work does not provide a boost to job tenure on the reemployment job for either age group, and the impact of early return is not statistically different across the two groups. The mean impacts are −2.9 percentage points for younger UI claimants and −2.5 percentage points for older claimants.[11]

SUMMARY AND CONCLUSION

This chapter examines the employment outcomes of older workers versus younger workers after both groups have .led a claim for Unemployment Insurance. Using UI administrative records of a major midwestern state, we find that older workers, relative to their younger counterparts, return to work at lower rates, are less successful at returning to the earnings levels achieved before they lost their jobs, and are less likely to have sustained employment after returning to work. These results are consistent with the findings of previous studies of older workers based on general survey data of dislocated workers.

One finding not reported in the earlier literature is that older workers who do gain reemployment after an involuntary job separation maintain a closer attachment to their new employers than do their younger counterparts.[12] The longer employer attachments observed for older workers should be an appealing quality for prospective employers, if this longevity reflects greater loyalty and human capital possessed by older workers.

We also find that those who return to work in the very first quarter after a UI claim have higher near-term employment rates than those returning to work only one quarter later. Controlling for observable factors, the employment rate advantage for younger workers may be as large as 2.8 percentage points in the near-term employment rate, whereas the advantage for older workers is much less—a 0.9-percentage-point gain. Returning to work quickly was also found to benefit older UI claimants by boosting the mean post-to-pre earnings ratio by 4.1 percentage points.

Several important lessons emerge from this research. First, since older UI claimants are at a disadvantage in seeking reemployment relative to their younger counterparts, more attention should be paid to identifying the reasons for this deficit. If employer initiatives are a primary factor, including perhaps age discrimination, then measures need to be taken to ensure that older workers are given the same opportunities for reemployment as similarly qualified younger workers. Second, the public workforce system may need to give closer attention to the needs of older workers. Typically, older workers, because of their long history of workforce attachment, are not considered a vulnerable group

and therefore services are not tailored to their needs. It may be the case, however, that because of their long job tenure they have not had much experience in searching for a job, and so such services as resume writing and interviewing techniques may be particularly useful skills for older workers to learn. Third, employers seeking to .ll their staffing needs should be made aware of the reliability of older UI claimants. Finally, although this is a tentative result, workers of all ages appear to benefit from returning to work as soon as possible. The public labor exchange system, in combination with the UI system, has recognized the need to direct individuals to services as soon as possible after they lose their jobs, through the Worker Profiling and Reemployment Services program. However, this program identifies only those who are likely to exhaust UI benefits as candidates for early intervention. More attention should be paid to the specific needs of older workers in receiving early assistance. Doing so may improve the labor market success of older workers.

Notes

Opinions expressed are our own and do not necessarily reflect the position of the W.E. Upjohn Institute for Employment Research. We thank Ken Kline for excellent research assistance and contributions, and Claire Black for help in production and presentation. Any errors or omissions are our responsibility. This chapter derives from a paper originally prepared for the National Academy of Social Insurance conference "Older and Out of Work: Jobs and Social Insurance for a Changing Economy," held January 19–20, 2006, at the National Press Club, Washington, D.C. It relies on results presented in an earlier, related report submitted to the U.S. Department of Labor as part of the Administrative Data Research and Evaluation (ADARE) Project (O'Leary 2006b).

1. The UI program base period for earnings is the first four of the five completed calendar quarters immediately preceding the quarter of the UI claim for benefits. The level of base period earnings is a measure of the degree of labor force attachment and a prime factor in determining eligibility for UI benefits.
2. Most UI claimants must register for active job search with the state employment service to maintain continuing eligibility for UI. Exemptions from registration include claimants designated by their employer as being on a fixed-term layoff awaiting recall to their prior job, union members who get job referrals from union hiring halls, and participants in job training approved by the state employment commissioner (O'Leary 2006a).
3. Any positive level of earnings reported for the quarter is taken as evidence of employment in that quarter. Our results were virtually unchanged when we tried

an alternative threshold of $100 in earnings for the quarter—the Social Security de.nition of insured employment.

4. For technical details of our research methodologies see O'Leary (2006b).
5. Our models include control variables for individual claimant characteristics, program entitlement parameters, and local labor market conditions. These are as follows: county unemployment rate in the quarter of UI claim, the change in the county unemployment rate (rate in the UI claim quarter minus the rate in the previous quarter), indicator for older claimant (aged 50–65), indicator for sex (male = 1), race indicators (six categories), education indicators (four categories), UI base period earnings (earnings in the first four of the five calendar quarters preceding the quarter of the UI claim), the number of employers in the UI earnings base period, the UI weekly benefit amount (WBA), an indicator for the WBA being at the state-allowed maximum of $289, entitled weeks of UI compensation (maximum 26 weeks), job search–exempt (principally on standby awaiting employer recall or a member of a union hiring hall), indicators for benefit year begin (BYB) date in each of four calendar quarters, indicator variable for "has dependents," indicator for "has a handicap," indicator for deductions made from UI for severance pay, indicator for deductions made for vacation pay, indicator for deductions made for company pension income, indicator for deductions made for Social Security benefit income, indicator for deductions made for other reasons, indicators for prior industry of employment (21 NAICS groups), indicators for county of residence, and a set of indicator variables for residence in neighboring states.
6. Technical details are explained in O'Leary (2006b).
7. Since the main dependent variable of interest—proportion returning to work—is a fraction between zero and one, the regression model predicts the probability of reemployment. The OLS estimation is a linear probability model, which may yield biased estimates. OLS estimates may be biased since the range of variation in the dependent variable is constrained to the zero-one interval. Maddala (1983, pp. 1–11) suggests using the logit. Our tables of results present logit estimates, which tend to be smaller differences between the two age groups.
8. Sample sizes in Table 4.5 can be compared to those in Table 4.4 by quarter. The differences are due to the fact that claimants with average prior quarterly earnings of less than $100 were excluded to eliminate outliers. Regressions to estimate adjusted differences in earnings between younger and older claimants also include a variable for the number of postunemployment quarters with earnings, because the reemployment quarter is most likely a quarter with less-than-full-time quarterly hours of work.
9. The denominator used in calculating the employment rate depends upon when the claimant finds a job. To measure the employment rate for a claimant employed the first quarter after the claim, the denominator of the employment rate would be 11, and the numerator would be the number of quarters with earnings over that period. For a claimant who first gains reemployment in the fifth quarter after the claim, the employment rate would be based on the seven observable quarters, including the quarter of reemployment. While comparisons between older and younger reemployed workers in a given period are valid, comparisons between those reem-

ployed in different quarters after the BYB are not valid, due to differences in the number of quarters observed after reemployment.

10. In addition to the control variables listed above, the job tenure regressions include a variable for the number of postreemployment quarters with earnings. This factor adjusts for the fact that the job tenure rate tends to be higher for those with fewer observable quarters remaining after reemployment.
11. There is one caveat in interpreting these results. While we have tried to control for as many factors as possible that could affect these employment outcomes, there may be other, unobserved factors that are also at play. These factors may be more than just a person's motivation and perseverance in looking for a job. It is possible that those who .nd a job in the first quarter have attributes that are attractive to employers and that give them an advantage over others in qualifying for a job. Therefore, without disentangling these effects even further, we are reluctant to attach a causal interpretation to these results that would lead to a policy recommendation, such as that workers should find a job as soon as possible in order to improve their employment outcomes. There is no doubt that finding a suitable job as soon as possible is desirable, but that alone may not ensure better outcomes.
12. UI-eligible claimants must have been involuntarily separated from their previous employers, and some of the UI-ineligible claimants may also have been involuntarily separated, although they failed to qualify for UI benefits because of inadequate levels of prior earnings to be insured against joblessness.

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5
The Fraction of Disability Caused at Work

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Studies of the economic and social consequences of disability among adults have documented the disadvantages that confront individuals with disabilities. Among these consequences are lower employment and earnings (Burkhauser, Daly, and Houtenville 2001) and higher medical expenditures (Trupin, Rice, and Max 1995). Noneconomic consequences include increased social isolation and entry into nursing homes (Freedman et al. 1994). Much of this literature is cited as having provided motivation for antidiscrimination policies and income-support programs for the disabled, such as the Americans with Disabilities Act of 1990, which extended to disabled individuals the right to sue for discrimination and for accommodations in public places, and the Social Security Disability Insurance (SSDI) program, which in 2000 provided $55 billion in income support for the disabled (Thompson Williams, Reno, and Burton 2003).

A separate literature has focused on the economic and social consequences of workplace injuries and illnesses, which have been shown to lead to lower employment rates for years after the injury, thus producing signi.cant losses in income (Berkowitz and Burton 1987; Biddle, Boden, and Reville 2001; Reville and Schoeni 2001). Much of this literature is cited to motivate an entirely different set of public policies, such as adequate and equitable workers' compensation benefits and workplace injury and illness prevention programs. Workers' compensation provides indemnity benefits and medical care to injured workers,

and in 2001 it cost employers $63.9 billion (Thompson Williams, Reno, and Burton 2003).

The public policies for these two social problems—disability and workplace injuries—are distinct, as are the associated research literatures, and yet the phenomena are intimately related. Workplace injuries and illnesses sometimes lead to disabilities. Disabled individuals may draw income support at different times in their lives from both workers' compensation and Social Security Disability Insurance. A signi.cant portion of workers' compensation benefits is compensation for "permanent partial disability," which is caused by chronic, disabling health conditions. Despite this similarity, even the philosophies of the two sets of public policies are distinct: disability policy emphasizes income support and nondiscrimination; occupational injury and illness policy emphasizes compensation and prevention.

This chapter investigates the fraction of the disabled population that is disabled because of work using a nationally representative database of adults aged 51 to 61 in 1992. Disability is defined using two methods: 1) individuals reporting a work-limiting impairment or health condition, and 2) individuals receiving Social Security Disability Insurance. The former group is considerably larger and is commonly used in the literature to measure the prevalence of disability (Burkhauser and Daly 2002). This research permits fuller estimates of the costs of occupational injuries and provides insights into the extent to which disability and its associated public expenditures may be prevented through improved workplace safety.

METHODS

After a search of all nationally representative databases that may be used to examine this question (Reville, Bhattacharya, and Sager Weinstein 2001), we identified two surveys as being suitable: the Health and Retirement Study (HRS) and the Survey of Income and Program Participation (SIPP). The HRS, which is based on a face-to-face interview, surveys individuals in the noninstitutionalized population in 1992 who were born between 1931 and 1941 (Juster and Suzman 1995). Sponsored by the National Institute on Aging and conducted by the Institute

for Social Research at the University of Michigan, the HRS includes an oversample of blacks and Hispanics (at a rate of two to one for each group, relative to whites) and of residents of Florida. The response rate is 82 percent. When weights are used to account for differential selection for the study and nonresponse to the study, the sample is representative of the national population aged 51 to 61 in 1992. We do not use later waves of the HRS, a longitudinal survey that interviews respondents every other year, because the information on workplace hazards was collected only for 1992.

We use the SIPP to con.rm the estimates of workplace attribution that were measured using the HRS. Like the HRS, the SIPP is based on a face-to-face interview. However, the SIPP, which is conducted by the U.S. Census Bureau, is representative of the noninstitutionalized population of all ages. Wave 2 of the 1992 SIPP panel is used because it contains most of the survey information needed to determine the attribution of disability.

Both surveys collect extensive information on income, employment, demographics, and health. Our study examined two measures of disability. The first is a widely used indicator of work limitation, phrased as: "Do you have any impairment or health problem that limits the kind or amount of paid work that you can do?" The question is slightly different in the SIPP: "Do you have a physical, mental, or other health condition which limits the kind or amount of work that you can do?" The second measure, which is examined using the HRS, is participation in the Social Security Disability Insurance program in 1991 (the calendar year before the survey year). Social Security Disability Insurance recipients are at least as disabled as individuals with work limitations. Specifically, SSDI recipients have been found by the Social Security Administration to be "unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment expected to result in death or that has lasted or can be expected to last for a continuous period of at least 12 months." Disability Insurance recipients are of interest both as a measure of disability and, in their own right, as recipients of a federal income-support program that is not necessarily targeted toward occupational injuries.

Using each of the two measures of disability above, we then estimate the proportion of the disabled populations whose disability can be

attributed to work. Five different de.nitions of workplace attribution are examined.

De.nition 1 is the most direct; it includes accidents and injuries. After being asked to report the main condition that caused their disability, respondents were asked, "Was the impairment or health problem you just mentioned the result of an accident or injury?" If they answered "yes," they were then asked whether the injury took place at work, home, or someplace else.

Definition 2 includes disabilities that are caused by the nature of the work, as indicated by an affirmative response to the following question: "Was this impairment or health problem in any way caused by the nature of your work?"

Definition 3 includes nonpermanent impairments from workplace hazards. Disabled individuals are assumed to be in this category if they reported that they have ever had to breathe any kind of dust, fumes, or vapors or have ever been exposed to organic solvents or pesticides at work; that they feel they have been harmed by this exposure; and that they do not believe the harm to be permanent.

Definition 4 includes permanent impairments from workplace hazards. It is identical to Definition 3 but only includes those disabled individuals who think the harm was permanent. To satisfy Definitions 3 and 4, the impairment had to have occurred after the person started working regularly.

Definition 5 is the broadest; it includes all four of these possibilities.

The SIPP contains data that allow for estimation of the first definition, using the same wording of the question as in the HRS. However, SIPP data are not collected that would allow for estimation of Definitions 2, 3, 4, or 5. Therefore, estimates of Definition 1 are calculated using the SIPP, both to confirm the HRS estimates and also to provide estimates for a broader range of ages.

We expect disabled people whose impairments are due to accidents and injuries to have different conditions from disabled people whose

impairments arise from the nature of their work or from workplace hazards. We expect that accidents and injuries will lead to more problems of the musculoskeletal system, while exposures to workplace hazards will be more likely to lead to problems with the heart, circulatory, and respiratory systems. We use reports of the type of condition of disability to determine whether this pattern is observed in the data.

Estimates of the attribution of disability are presented separately for Hispanics, non-Hispanic whites, and non-Hispanic blacks, as well as for men and women within each of these racial and ethnic groups.[1] Sample weights are used for all calculations; hence the estimates are nationally representative for the given age group. Standard errors of the estimates are reported in each table.

One limitation of the study is that estimates of workplace attribution of disability are based on data reported by the workers themselves. For instance, workers' compensation may provide an incentive to attribute a health condition to work, which may in.ate the estimates of work-relatedness. It is also likely that some disabilities are caused by a mixture of work and nonwork factors. As a result, providing retrospective reports of the single cause of the disability over a period of many years may be difficult. Additionally, self-reports of workers' compensation receipt may be underestimated if, for instance, respondents perceive a stigma attached to workers' compensation. For these reasons, future research and data collection should use longitudinal surveys to examine reports of injury, accidents, disability, and participation in workers' compensation and Social Security Disability Insurance, in order to enhance the understanding of the dynamics of these processes.

RESULTS

Work Limitation

Among the population aged 51 to 61, 20.5 percent have a health problem that limits the amount or kind of work they can do (Table 5.1). The rates for men (20.4 percent) and women (20.6 percent) are virtually identical. The rates are roughly the same for Hispanics and non-Hispanic blacks (about 28 percent), with non-Hispanic whites about 10

Table 5.1 Proportion of the Population Aged 51–61 Who Were Disabled, 1992

Population (unweighted observations)	Disabled: health limits amount or kind of work	Disabled: receives SSDI
All ($N = 9754$)	0.205	0.059
	(0.004)	(0.002)
Men ($N = 4595$)	0.204	0.068
	(0.006)	(0.004)
Non-Hispanic white ($N = 3379$)	0.190	0.059
	(0.007)	(0.004)
Non-Hispanic black ($N = 706$)	0.287	0.136
	(0.017)	(0.013)
Hispanic ($N = 411$)	0.266	0.094
	(0.022)	(0.014)
Non-Hispanic other ($N = 99$)	0.189	0.032
	(0.040)	(0.018)
Women ($N = 5159$)	0.206	0.051
	(0.006)	(0.003)
Non-Hispanic white ($N = 3593$)	0.188	0.039
	(0.007)	(0.003)
Non-Hispanic black ($N = 969$)	0.282	0.123
	(0.014)	(0.011)
Hispanic ($N = 492$)	0.282	0.076
	(0.020)	(0.012)
Non-Hispanic other ($N = 105$)	0.234	0.045
	(0.042)	(0.020)

NOTE: Standard errors reported in parentheses. SSDI stands for Social Security Disability Insurance.
SOURCE: 1992 Health and Retirement Study.

percentage points lower than either of these two groups. The differences across racial groups are very similar for men and women.

Among the disabled population aged 51 to 61, 17 percent report that the impairment that caused them to be disabled was the result of an accident or injury at work (De.nition 1 in Table 5.2). An additional 14.7 percent stated that the impairment was due to the nature of their work (though not to an accident or injury at work). Relatively few additional disabled individuals were impaired because of workplace hazards (as

Table 5.2 Proportion of the Disabled Population Aged 51–61 Whose Disability Was Due to Work, by De.nition of Workplace Attribution of Disability

Definition of work-relatedness	
Definition 1: caused by accident or injury at work.	0.170 (0.008)
Definition 2: caused by nature of work, but not by Definition 1.	0.147 (0.008)
Definition 3: nonpermanent impairment from workplace hazards that occurred after started working regularly, but not Definitions 1 or 2.	0.008 (0.002)
Definition 4: permanent impairment from workplace hazards that occurred after started working regularly, but not Definitions 1, 2, or 3.	0.038 (0.004)
Definition 5: any of the above.	0.363 (0.011)

NOTE: Standard errors reported in parentheses.
SOURCE: 1992 Health and Retirement Study.

distinguished from an accident or injury at work or the nature of their work)—0.8 percent of those who were nonpermanently impaired and 3.8 percent of those who were permanently impaired. Combining all four categories, 36.3 percent of disabled individuals attribute their disability to work (Table 5.2).

Estimates from the SIPP corroborate the estimates of the HRS. Using De.nition 1, 15.3 percent of adults aged 51 to 61 in the SIPP attribute their disability to an accident or injury at work; this estimate is similar to the estimate of 17 percent from the HRS shown in Table 5.2. The workplace is less likely to be the source of impairment for young, disabled people; in the SIPP, an estimated 6.1 percent of the population aged 16 to 30 is disabled. The lower rate is not surprising, since this group has worked relatively few years. For people aged 16 to 61, 13.7 percent fall under Definition 1, attributing their disability to accidents and injuries at work.

Estimates in Table 5.3 confirm our expectation that, relative to disabled people with impairments caused by the nature of work or workplace hazards, disabled individuals whose impairment is caused by an accident or injury are more likely to have musculoskeletal conditions

Table 5.3 Proportion of Persons Whose Disability Was Due to Workplace Accidents or Exposure to Hazards, by Type of Condition and De.nition of Workplace Attribution of Disability

Type of condition	People with disability caused by accident or injury at work (De.nition 1)	People with disability caused by nature of work, or with nonpermanent or permanent impairment from workplace hazards that occurred after started working regularly (Definition 2, 3, or 4)	Either (Definition 5)
Musculoskeletal system and connective tissue	0.783	0.401	0.580
	(0.022)	(0.025)	(0.018)
Heart, circulatory, and blood conditions	0.034	0.245	0.146
	(0.010)	(0.022)	(0.013)
Respiratory system conditions	0.021	0.142	0.085
	(0.008)	(0.018)	(0.010)
Neurological and sensory conditions	0.067	0.062	0.064
	(0.013)	(0.012)	(0.009)
Emotional and psychological conditions	0.009	0.030	0.020
	(0.005)	(0.009)	(0.005)
All other conditions	0.087	0.120	0.104
	(0.015)	(0.016)	(0.011)

NOTE: Standard errors reported in parentheses.
SOURCE: 1992 Health and Retirement Study.

than heart, circulatory, or blood conditions. More than three-quarters (78.3 percent) of workplace accident or injury victims have conditions related to the musculoskeletal and connective tissues, compared with 40.1 percent for the group of disabled individuals in the other three de.nitions. At the same time, the latter group is seven times more likely to have a heart, circulatory, or blood condition (24.5 percent versus 3.4 percent) or a respiratory condition (14.2 percent versus 2.1 percent).

Among the disabled, men are much more likely than women to suffer an impairment that is due to work (50 percent for men compared with 23.9 percent for women in Definition 5 in Table 5.4). This difference is not surprising given the differences in labor force attachment of men and women in this cohort. But since the gap in labor force attachment between men and women has narrowed for more recent birth cohorts, the corresponding gender gap in the connection of workplace injuries and accidents to disability is also likely to diminish.

Among disabled women, the racial and ethnic differences in workplace attribution are fairly small, ranging from 23.8 percent to 26.8 percent (Table 5.4). The racial and ethnic disparities are larger among men, spanning more than 15 percentage points. Hispanic men have the highest level of workplace attribution at 55.8 percent, and non-Hispanic blacks have the lowest at 40.4. Non-Hispanic whites are in the middle of this range at 50.8 percent (Table 5.4).

Social Security Disability Insurance Participation

Although 20.5 percent of adults aged 51 to 61 report a health condition that limits the kind or amount of work they can do, just 5.9 percent are enrolled in the Social Security Disability Insurance program (Table 5.1). The rate of enrollment is low because this program is intended to provide income support to a more severely disabled population, namely those whose health condition prevents them from working rather than limits the amount or type of work they can do. Disability Insurance participation rates are somewhat higher for men (6.8 percent) than for women (5.1 percent). Blacks and Hispanics are much more likely to be enrolled in the program than are whites (Table 5.1).

However, the proportion of the disabled population whose impairment is due to work is virtually the same regardless of the definition of disability: 36.5 percent among SSDI recipients (under the all-inclusive

Table 5.4 Proportion of the Disabled Population Aged 51–61 Whose Disability is Due to Work, by Sex, Race, and Ethnicity

	Definition of work-relatedness	
	Definition 1	Definition 5
All	0.170	0.363
	(0.008)	(0.011)
Men	0.242	0.500
	(0.014)	(0.016)
Non-Hispanic white	0.233	0.508
	(0.017)	(0.020)
Non-Hispanic black	0.205	0.404
	(0.029)	(0.035)
Hispanic	0.364	0.558
	(0.046)	(0.048)
Women	0.106	0.239
	(0.009)	(0.013)
Non-Hispanic white	0.106	0.239
	(0.012)	(0.016)
Non-Hispanic black	0.100	0.238
	(0.019)	(0.026)
Hispanic	0.134	0.268
	(0.029)	(0.037)

NOTE: Standard errors reported in parentheses. Definition 1: caused by accident or injury at work. Definition 5: caused by accident or injury at work, caused by nature of work, or by permanent or nonpermanent impairment from workplace hazards and occurred after started working regularly.
SOURCE: 1992 Health and Retirement Study.

De.nition 5 in Table 5.5) and 36.3 percent among people who report that their health limits the amount or kind of work they can do (Definition 5 in Table 5.4). Among men on Disability Insurance, almost half (45 percent) were disabled because of work, while the rate for women on Disability Insurance (26.2 percent) was again about half of that for men (Definition 5 in Table 5.5). Racial and ethnic differences are fairly small for both men and women. In sum, a large share of SSDI recipients became disabled because of an accident, injury, or exposure to hazards at work.

Table 5.5 Proportion of SSDI Participants Whose Disability is Due to Work, by Sex, Race, Ethnicity, and De.nition of Workplace Attribution of Disability

	Definition of work-relatedness	
Population	Definition 1	Definition 5
All	0.157	0.365
	(0.014)	(0.019)
Men	0.207	0.450
	(0.022)	(0.027)
Non-Hispanic white	0.212	0.464
	(0.029)	(0.038)
Non-Hispanic black	0.197	0.400
	(0.042)	(0.051)
Hispanic	0.190	0.410
	(0.063)	(0.079)
Women	0.097	0.262
	(0.017)	(0.025)
Non-Hispanic white	0.083	0.265
	(0.023)	(0.037)
Non-Hispanic black	0.102	0.260
	(0.029)	(0.041)
Hispanic	0.162	0.270
	(0.060)	(0.072)

NOTE: Standard errors reported in parentheses. SSDI stands for Social Security Disability Insurance. Definition 1: caused by accident or injury at work. Definition 5: caused by accident or injury at work, caused by nature of work, or by permanent or nonpermanent impairment from workplace hazards and occurred after started working regularly.

SOURCE: 1992 Health and Retirement Study.

Although a large share of the disabled population became impaired because of their jobs, relatively few have ever received workers' compensation. Among all disabled people ("disabled" being de.ned as having a health problem that limits the amount or kind of work that they can do), just 5.3 percent ever received workers' compensation (Table 5.6). This low rate of participation is consistent with a growing body of evidence that shows that many injured workers do not claim benefits from workers' compensation (Burton and Spieler 2001). At the same time, 28.9 percent were currently enrolled in Social Security Disability

Table 5.6 Proportion of the Disabled Population Aged 51–61 Receiving Social Security Disability Insurance (SSDI) or Workers' Compensation, or Both

Disabled population	Currently receiving SSDI	Currently receiving workers' compensation	Ever received workers' compensation
All disabled[a]	0.289	0.017	0.053
	(0.010)	(0.003)	(0.005)
Disabled[a] and satisfies definition 5	0.290	0.045	0.123
	(0.017)	(0.008)	(0.012)
Disabled[a] and receives SSDI	1.000	0.021	0.047
		(0.006)	(0.008)

NOTE: Standard errors reported in parentheses. Blank = not applicable. Definition 5: caused by accident or injury at work, caused by nature of work, or by permanent or nonpermanent impairment from workplace hazards and occurred after started working regularly.

[a] "Disabled" refers to people whose health limits the amount or kind of work they can do.

SOURCE: 1992 Health and Retirement Study.

Insurance (Table 5.6). (Information on whether someone has ever received Social Security Disability Insurance in the past is not reported in the HRS.) More signi.cantly , even among the disabled who report that their health condition was caused by their work, just 12.3 percent ever received workers' compensation, while nearly three in ten (29 percent) were currently enrolled in Social Security Disability Insurance. Moreover, among those on Disability Insurance, only a small fraction (4.7 percent) had ever received workers' compensation (Table 5.6).

CONCLUSION

This study finds that among people aged 51 to 61 whose health limits the amount or kind of work that they can do, 36.3 percent report that an injury, accident, or illness at work caused the disability. This rate is higher among men than among women, which is consistent with the fact that within these birth cohorts men were employed for a much greater share of their lives than were women. With more recent study cohorts,

men and women have had more similar work attachment patterns, suggesting that the workplace may become a more common source of disability for women. At the same time, during the past 40 years, the share of workers in physically demanding jobs has declined (Murphy and Welch 1993), which may reduce the importance of workplace injuries overall. However, the new occupations may be associated with a different set of health conditions, such as repetitive stress injuries, obesity, and stress-induced mental illness. In fact, the prevalence of disability among 45- to 54-year-olds increased between the late 1980s and late 1990s (Burton and Spieler 2001), a period during which policy changes made it more dif.cult for injured workers to receive workers' compensation (Spieler and Burton 1998).

Workers' compensation is designed to provide cash and medical assistance to employees injured on the job. These benefits totaled $49.4 billion in 2001 (Thompson Williams, Reno, and Burton 2003). However, as shown in this study, 37 percent of recipients of Social Security Disability Insurance became disabled at work, implying that the societal costs of workplace injuries are much higher than what is suggested by estimates that rely only on workers' compensation benefits. In 2001, participants in the SSDI program received a total of $59.6 billion in cash benefits and $29.7 billion in Medicare expenditures (Thompson Williams, Reno, and Burton 2003). A simple extrapolation of our estimate that 37 percent of recipients of Disability Insurance are disabled because of work implies that occupational injuries and illnesses in 2001 accounted for $22.1 billion (37 percent of $59.6 billion) in SSDI payments and $11.0 billion (37 percent of $29.7 billion) in Medicare expenditures, or $33.1 billion in total. This additional annual expenditure on social insurance is not counted as a cost of workplace injuries in the United States. Because of this, workplace injury prevention may have far greater social benefits than has been previously realized. Moreover, effective interventions and rehabilitations not only reduce workers' compensation costs and increase employment, but they also most likely reduce SSDI and Medicare expenditures.

The results of this study suggest that Social Security Disability Insurance is serving as a major if not primary source of insurance for workplace disabilities. Coordinating the workers' compensation and SSDI programs likely could yield substantial benefits, because their target service populations overlap. Presumably some people who are

injured at work apply for and receive workers' compensation and never apply for Disability Insurance. Others enroll only in Social Security Disability Insurance, and a third group participates in the workers' compensation program for some period and then eventually applies for Disability Insurance. We do not know how common each pathway of program utilization is, but an understanding of who applies for which programs, why they make these decisions, and the timing of these decisions over the course of their lives is fundamental to the optimal provision of services to the disabled population.

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1. Table 5.1, which includes the category "non-Hispanic other," was excluded from these estimates. We do not report estimates of our .ve definitions for non-Hispanic other because of small sample sizes. More specifically, we never report attribution of disability for non-Hispanic other.

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6
Disability and Retirement among Aging Baby Boomers

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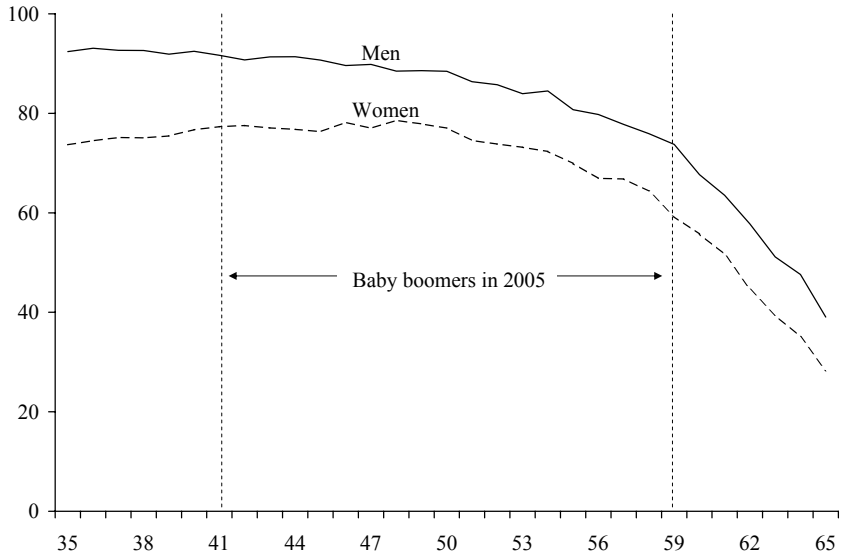
Congressional Budget Of.ce

Members of the leading edge of the baby-boom generation—the large number of people born between 1946 and 1964—turn 60 this year. Most of them will become eligible for Social Security retirement bene.ts when they reach age 62. And at age 65, they will qualify for Medicare. Considerable attention has been paid to whether boomers have saved enough to afford to retire and to whether they will decide to continue working once they become eligible for Social Security and Medicare.

Many boomers, however, are not waiting until age 62 or 65 to stop working. Many have already stopped. Moreover, if they follow in the footsteps of workers now in their early 60s, perhaps one-third of the men and nearly half of the women will be out of the labor force before their 62nd birthday (Figure 6.1). By the time they are in their late 50s or early 60s, the majority of the people not in the labor force give "retired" as their main reason for not working. But before that age, disability is a more common reason than retirement (Figures 6.2A and 6.2B).

This chapter examines the characteristics of men and women who leave the labor force before reaching age 62 and analyzes their income sources given that they no longer work for pay. Most of the analysis concentrates on men and women ages 50 to 61 who were not in the labor force at any time during 2001, a group that includes not just the oldest boomers (those ages 50 to 55 in 2001), but also people born just before them. (Information about the latter group offers insights into what could be in store for boomers as they age.) The empirical findings presented here are largely based on an analysis of data from the Survey of Income and Program Participation (SIPP).[1]

Figure 6.1 Labor Force Participation Rates of Men and Women by Age, 2005 (% of population)

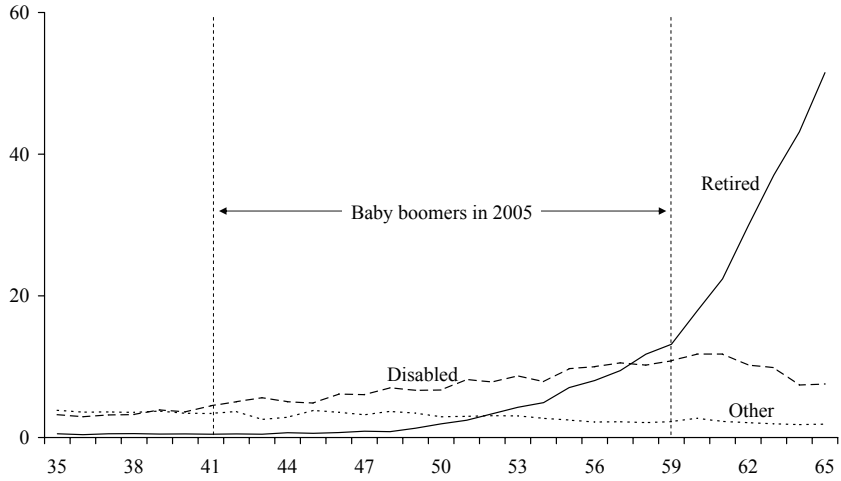


SOURCE: Estimates based on data from the Current Population Survey for 2005.

Those data have several limitations, so attention should focus on the qualitative .ndings rather than on the precise estimates. One drawback is that the data are based on survey responses, which are not always accurate. Moreover, some of the questions (such as those that attempt to identify why respondents were not in the labor force or those that try to determine the presence of a disability) call for judgments on the part of the respondents, rather than for strictly objective facts. In addition, care should be taken in extrapolating the results presented here to the future activities or well-being of younger baby boomers. For example, fewer of them probably will receive defined benefit pensions when they leave the labor force, but more of them likely will have participated in 401(k) or other defined contribution plans.

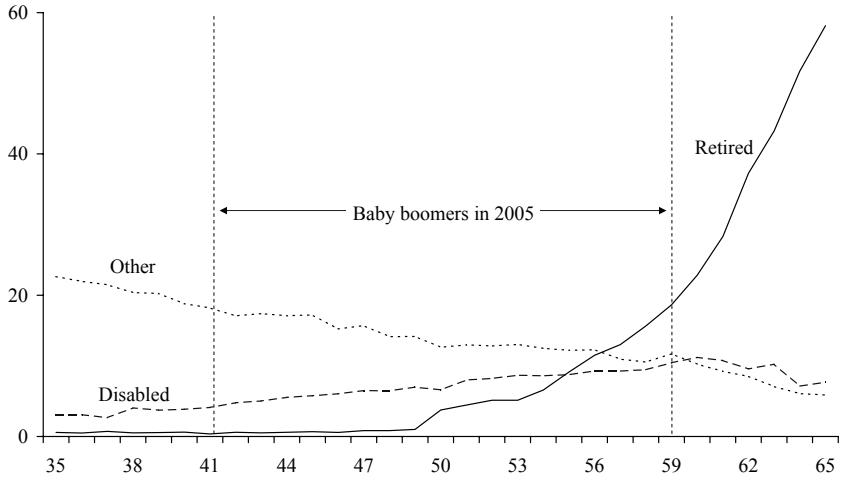
The analysis indicates that, overall, the men and women in their 50s and early 60s who were not in the labor force in 2001 had much lower median family incomes, fewer assets, and higher poverty rates than men and women in their age range who were still in the labor force

Figure 6.2A Men Not in Labor Force in 2005, by Age (% of population)



SOURCE: Estimates based on data from the Current Population Survey for 2005.

Figure 6.2B Women Not in Labor Force in 2005, by Age (% of population)



SOURCE: Estimates based on data from the Current Population Survey for 2005.

(Table 6.1).[2] Similar patterns were found for both the early baby boomers (ages 50 to 55) and the cohort that preceded them (ages 56 to 61), as reported in Tables 6.2A and 6.2B.

In addition, the people who were out of the labor force before becoming eligible for Social Security retired-worker bene.ts said they were not working for one of several reasons. The most frequent reason they offered was that they were disabled; this accounted for almost two-thirds of the men who were not in the labor force and two-fifths of the women. Most of the other men said that they were retired. Most of the other women said that they were retired, caring for others, or not interested in working.

Survey responses indicate that the circumstances of those not in the labor force because of a disability are quite different from those who have retired. Among the findings presented in this chapter are these:

- Men and women not in the labor force because of a disability generally had much lower income, higher poverty rates, and fewer assets than those who were retired. The higher income of retired workers, especially the men, was due in large part to their receipt of a pension. Nearly three-quarters of the retired men and one-third of the retired women received income from a defined benefit pension of their own.
- About 80 percent of the men and women who reported that they were not working because of a disability received Social Security Disability Insurance (SSDI) benefits or were in a family that received payments from the Supplemental Security Income (SSI) program, or both. Far fewer of those respondents—21 percent of the men and 9 percent of the women—received a pension. They also had fewer years of education than men and women not in the labor force for other reasons.
- While most of the individuals who were not in the labor force either because of a disability or because they were retired had health insurance, the sources of that coverage varied greatly, depending on the reason for nonparticipation. For instance, the major sources of coverage for the disabled were Medicare and Medicaid. The single major source of health insurance for retired workers, however, was from an employer (either the retiree's own former employer or the current or former employer of the retiree's spouse).

Table 6.1 Labor Force Status, Income, and Assets of Men and Women Ages 50–61 and the Main Reason for Nonparticipation, 2001

	Not in labor force during 2001, by reason				In labor force at any time during 2001
	Retired	Disabled	Other[a]	Total	
Men					
Size of group					
% of total	4	9	1	14	86
% of total not in labor force	32	64	4	100	
Income and assets					
Median family income	30,000	20,000	—	23,000	62,000
Median net worth, including home equity	231,000	19,000	—	61,000	148,000
Median net worth, excluding home equity	89,000	2,000	—	8,000	55,000
% poor	15	24	—	21	3
Women					
Size of group					
% of total	6	10	8	24	76
% of total not in labor force	26	40	34	100	
Income and assets					
Median family income	34,000	19,000	43,000	30,000	54,000
Median net worth, including home equity	218,000	14,000	120,000	82,000	132,000
Median net worth, excluding home equity	90,000	1,000	27,000	13,000	42,000
% poor	14	34	10	21	3

NOTE: Respondents were included in the labor force if they reported that they had worked or looked for work at any time during 2001. Blank = not applicable. — = not available because of the small sample size.

[a] Most of the men and women in this category reported that they were taking care of others or were not interested in working.

SOURCE: Estimates based on data from the 2001 Survey of Income and Program Participation (U.S. Census Bureau 2006).

Table 6.2A Labor Force Status, Income, and Assets of Early Baby Boomers (Ages 50–55) and the Main Reason for Nonparticipation, 2001

	Not in labor force during 2001, by reason				In labor force at any time during 2001
	Retired	Disabled	Other[a]	Total	
Men					
Size of group					
% of total	1	8	1	10	90
% of total not in labor force	15	79	6	100	
Income and assets					
Median family income	—	21,000	—	22,000	64,000
Median net worth, including home equity	—	15,000	—	35,000	133,000
Median net worth, excluding home equity	—	2,000	—	2,000	47,000
% poor	—	21	—	20	2
Women					
Size of group					
% of total	2	9	9	20	80
% of total not in labor force	12	44	44	100	
Income and assets					
Median family income	—	18,000	42,000	30,000	58,000
Median net worth, including home equity	—	9,000	104,000	63,000	126,000
Median net worth, excluding home equity	—	1,000	24,000	7,000	40,000
% poor	—	34	12	22	3

NOTE: Respondents were included in the labor force if they reported that they had worked or looked for work at any time during 2001. Blank = not applicable. — = not available because of the small sample size.

[a] Most of the men and women in this category reported that they were taking care of others or were not interested in working.

SOURCE: Estimates based on data from the 2001 Survey of Income and Program Participation (U.S. Census Bureau 2006).

Table 6.2B Labor Force Status, Income, and Assets of World War II Cohort (Ages 56–61) and the Main Reason for Nonparticipation, 2001

	Not in labor force during 2001, by reason				In labor force at any time during 2001
	Retired	Disabled	Other[a]	Total	
Men					
Size of group					
% of total	8	10	1	19	81
% of total not in labor force	44	53	3	100	
Income and assets					
Median family income	30,000	19,000	—	25,000	59,000
Median net worth, including home equity	256,000	20,000	—	90,000	170,000
Median net worth, excluding home equity	96,000	4,000	—	13,000	69,000
% poor	16	27	—	22	3
Women					
Size of group					
% of total	12	12	8	32	68
% of total not in labor force	38	36	26	100	
Income and assets					
Median family income	34,000	19,000	44,000	31,000	49,000
Median net worth, including home equity	202,000	22,000	146,000	100,00	144,000
Median net worth, excluding home equity	71,000	2,000	33,000	18,000	47,000
% poor	15	34	7	20	4

NOTE: Respondents were included in the labor force if they reported that they had worked or looked for work at any time during 2001. Blank = not applicable. — = not available because of the small sample size.

[a] Most of the men and women in this category reported that they were taking care of others or were not interested in working.

SOURCE: Estimates based on data from the 2001 Survey of Income and Program Participation (U.S. Census Bureau 2006).

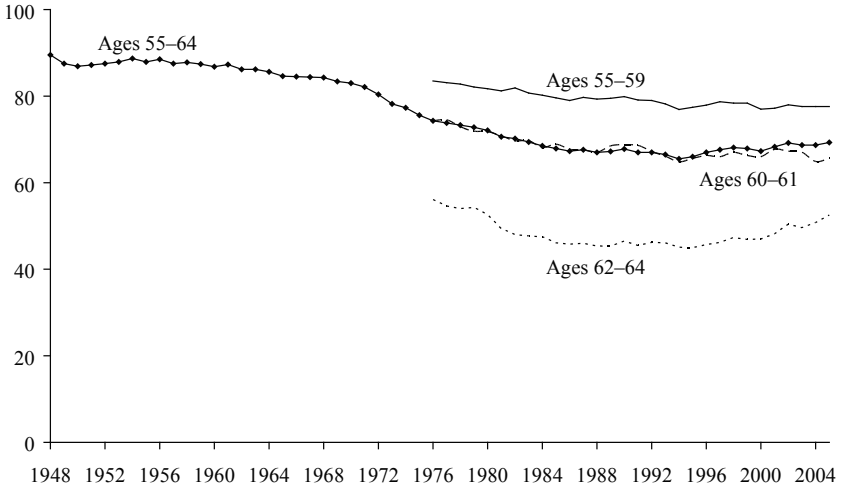
PARTICIPATION IN, AND WITHDRAWAL FROM, THE LABOR FORCE

Since the .rst baby boomers were born in 1946, major changes have occurred in the labor force participation patterns of older men and women (Figures 6.3A and 6.3B). In the late 1940s and early 1950s, nine out of ten men ages 55 to 64 were participating in the labor force, compared with fewer than one in three women. Since the mid-1980s, however, only about two-thirds of men in that age group have been in the labor force. Meanwhile, the labor force participation rate of women in that age group (as well as in other age groups) rose appreciably: in recent years, well over half have been in the labor force.

Why do some people stop working or looking for work before they become eligible for Social Security retirement benefits while others stay in the labor force long afterward? Individuals stop participating in the labor force if they decide that the benefits of working or seeking work no longer outweigh the costs of doing so. Those benefits include not just the after-tax wages and other job-related remuneration, but also non-financial benefits, such as personal satisfaction and a social network. Likewise, the costs go well beyond the out-of-pocket expenses related to working (such as those for commuting and clothing). For most workers, the major cost is the value of the activities forgone while working—that is, the benefits they would have derived from whatever they could have done instead.

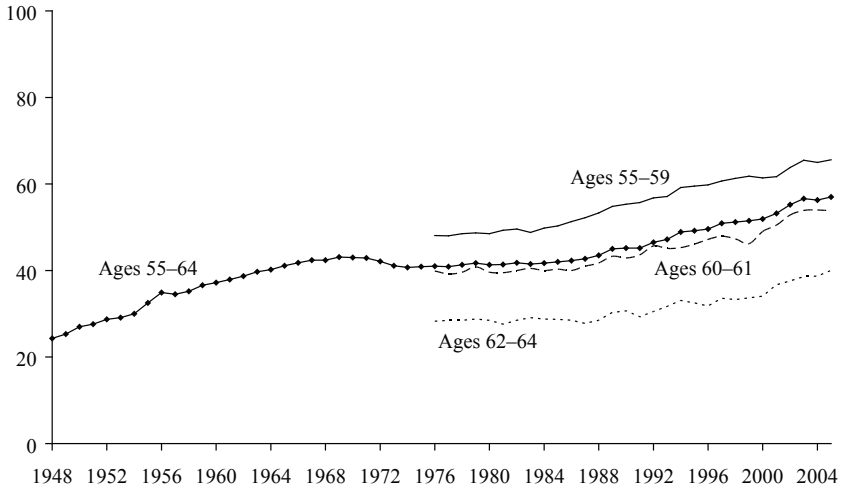
An extensive body of literature on retirement decisions highlights the work disincentives or barriers that lead many workers to decide to stop working well before they become eligible for Social Security retirement benefits. The availability and structure of defined benefit (DB) pension plans, in particular, have been linked to early retirement. In those plans, when workers reach a certain age and have been with their employer a specified number of years, they qualify for a pension. Certain features of DB plans place a large effective tax on people who, once eligible for a pension, remain with the same employer. Those features include less-than-actuarially-fair accrual rates for additional pension benefits and legal restrictions that limit the ability of a worker to draw a pension while continuing to work for that employer.

Figure 6.3A Labor Force Participation Rates of Men Ages 55–64, 1948–2005 (%)



SOURCE: Author's estimates based on data from the Bureau of Labor Statistics.

Figure 6.3B Labor Force Participation Rates of Women Ages 55–64, 1948–2005 (%)



SOURCE: Author's estimates based on data from the Bureau of Labor Statistics.

Although workers can respond to those disincentives by changing employers rather than retiring, the compensation from their next-best job may be well below what they currently earn. For employers, seniority-based systems may result in wages for older workers that exceed their actual or perceived productivity, discouraging them from employing those workers. Higher average costs of health insurance for older workers may further reduce employers' incentives to employ them. Likewise, older workers who lose their jobs may have considerable dif.culty finding a new one that pays nearly as much as the one they lost, and they might respond by leaving the labor force (BLS 2004).[3]

Researchers have linked the long-term decline in the labor force participation of older men to the growth in the nation's affluence (Costa 1998). Pensions, Social Security, and private savings have enabled many workers to exit the labor force without being financially dependent on their children. The early retirement incentives commonly found in DB pension plans, noted above, may further encourage workers to leave the labor force before they become eligible for Social Security retirement benefits. In recent years, however, the decline in DB pension plan coverage and the rise of 401(k) and other defined contribution plans have reduced the fraction of the workforce facing those incentives (Friedberg and Webb 2003).

The future course of the labor force participation rate of older men is difficult to predict, in part because of different expected trends in its determinants. The nation's economy is likely to continue to grow, which could facilitate early retirement. However, the switch from defined benefit pension plans to defined contribution plans, along with increasing life spans, could discourage early retirement. The Congressional Budget Office (CBO) projects that the participation rate of men in their late 50s and early 60s will remain near its current level during the next decade (CBO 2004a). The CBO anticipates that the participation rate of women in that age group will continue to rise, however, as younger women with a greater attachment to the labor force than their predecessors reach that age range.

WHO STOPS WORk ING BEFORE AGE 62, AND WHAT DO THEY LIv E ON?

The analysis presented here is based largely on information from the 2001 Survey of Income and Program Participation (SIPP). The sample relevant to this analysis consists of about 8,500 men and women ages 50 through 61 in 2001. The majority of that group was born during the baby boom. The others (ages 56 and older) were born earlier, but their inclusion provides additional information about the characteristics and resources of people who leave the labor force before becoming eligible for Social Security retirement bene.ts. For the purposes of this analysis, particular attention is paid to the characteristics, income, and assets of the 14 percent of men and 24 percent of women ages 50 through 61 who reported that they had not worked or looked for work at any time during 2001. (Additional information about the SIPP is provided in Appendix 6A.)

Those who were not in the labor force during that period were classified by the main reason they provided for not working: retired (32 percent of the men and 26 percent of the women not in the labor force); disabled (64 percent of the men and 40 percent of the women); and taking care of others, not interested in working, temporarily ill or injured, could not find work, or other reasons (4 percent of the men and 35 percent of the women).[4]

Based on information the respondents provided about their previous employment history and about their activities during the following year (2002), most of the men and women who were not in the labor force at any time in 2001 appear to have once worked but to have totally withdrawn from the labor force. Only 3 percent of the male respondents who were not in the labor force in 2001, and 12 percent of the women, said they had never worked. Among the respondents for whom information was available for all of 2002, only 5 percent of the men and 6 percent of the women reported any subsequent earnings, and most of them earned less than $6,000 that year.

Income and Assets

The men and women in their 50s and early 60s who were not in the labor force had much lower median family incomes than the men and women who were still in the labor force (Table 6.1). They also had far fewer assets.

Among the men and women who were not in the labor force, those who had retired generally were in a much stronger .nancial position than those who were out of the labor force because of a disability. (Retired workers typically had lower incomes than those who were still in the labor force, but more assets.) Retired men had a median family income of about $30,000 and a net worth, including home equity, that exceeded $200,000.[5] The median income of disabled men was only about $20,000, and their net worth (at $19,000) was less than one-tenth that of retired men. Similar differences were found for retired and disabled women.

For many people, equity in one's home is their largest single asset. Excluding home equity from calculations of their net worth made the differences between retired and disabled men and women more stark: The typical retired man or woman was in a household with a net worth of about $90,000. The household net worth, excluding home equity, of the median disabled man or woman, however, was only about $1,000 or $2,000.

The differences in average well-being may well be even larger than those estimates of income and net worth suggest, for two reasons. First, most of the retired men and women could anticipate becoming eligible for Social Security retired worker benefits when they reach age 62, which will add to their other income. But the majority of disabled men and women were already receiving a Social Security disability benefit and will not become eligible for any additional Social Security benefit at age 62.[6]

Second, workers who decided to retire because they felt that they could afford to do so and wanted to do something else with their time presumably were better off than if they had remained at work, assuming that their expectations were realized. Even though they no longer had the earnings from their former job, they had more time to do other things. Those who were not working because of a disability may have had less of a choice.

The higher average income of the men and women who had retired rather than left the labor force because of a disability is largely associated with the greater likelihood of their having a pension. Nearly three-quarters of the men and about one-third of the women who had retired were receiving a pension in 2001, accounting for a substantial portion of their average income (Tables 6.3 and 6.4).[7] Most of the average income of retired men came from their pensions, earnings of family members (usually a wife), and income from assets. For retired women, their husband's pension and Social Security also were major sources.[8]

Bene.ts from Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI), along with the earnings of family members, were the main sources of income for disabled men and women. Almost two-thirds of the disabled men received Social Security disability benefits and more than one-third received SSI. A slightly smaller portion of the disabled women received Social Security disability benefits, but more received SSI. Few disabled men or women received pensions, and, among those who did, their average pension was only about half that of retired pensioners.

Those women not in the labor force because they were caring for others or because of other reasons had a much higher median income than women who said they were retired or disabled. That difference is largely attributable to the fact that a much higher percentage of them had husbands still in the workforce and that their husbands' average earnings were substantially higher than the earnings of retired or disabled women's husbands.

Care must be taken in drawing conclusions about the future economic well-being of the people not in the labor force in 2001 or the well-being of workers who subsequently leave the labor force. In particular, the value of various assets—including homes and stocks—could well be different in the future. Also, it is likely that a smaller percentage of future retired workers will have participated in defined benefit pension plans, as coverage in those plans gives way to coverage in defined contribution plans, such as 401(k) plans.[9]

Poverty

Another gauge of a group's economic status is the percentage who are poor. In 2001, an individual under age 65 was considered poor by

Table 6.3 Sources of Income for Men Ages 50–61 Not Participating in the Labor Force, 2001

Income source	% receiving income from designated source	Average annual amount ($)	
		For recipients of income from designated source	For all in group
Retired			
All available sources[a]	99	33,800	33,400
Earnings of spouse or other family members	38	26,100	9,800
Pension			
Own	73	19,300	14,100
Spouse	10	6,500	700
Social Security			
Own	4	7,100	300
Spouse or other family members	11	8,100	900
Property	82	5,400	4,400
Supplemental Security Income	5	7,800	400
Veterans' bene.ts	5	10,800	500
Workers' compensation	2	6,200	100
Disabled			
All available sources[a]	99	28,700	28,300
Earnings of spouse or other family members	44	24,900	11,100
Pension			
Own	21	10,300	2,100
Spouse	3	10,800	300
Social Security			
Own	64	8,600	5,500
Spouse or other family members	24	8,100	1,900
Property	43	1,100	500
Supplemental Security Income	37	6,100	2,300
Veterans' benefits	15	11,400	1,700
Workers' compensation	6	8,800	500

[a] Includes some sources not listed.

SOURCE: Estimates based on data from the 2001 Survey of Income and Program Participation (U.S. Census Bureau 2006).

Table 6.4 Sources of Income for Women Ages 50–61 Not Participating in the Labor Force, 2001

Income source	% receiving income from designated source	Average annual amount ($)	
		For recipients of income from designated source	For all in group
Retired			
All available sources[a]	100	44,300	44,300
Earnings of spouse or other family members	46	46,400	21,400
Pension			
Own	35	13,600	4,800
Spouse	44	16,900	7,500
Social Security			
Own	15	4,000	600
Spouse or other family members	34	10,500	3,600
Property	82	5,200	4,300
Supplemental Security Income	6	5,800	400
Veterans' bene.ts	6	7,200	500
Disabled			
All available sources[a]	99	25,900	25,800
Earnings of spouse or other family members	48	26,100	12,500
Pension			
Own	9	7,700	700
Spouse	13	11,600	1,500
Social Security			
Own	58	5,800	3,400
Spouse or other family members	30	8,100	2,400
Property	38	1,900	700
Supplemental Security Income	44	5,000	2,200
Veterans' benefits	4	5,600	200
Workers' compensation	4	6,000	300

[a] Includes some sources not listed.

SOURCE: Estimates based on data from the 2001 Survey of Income and Program Participation (U.S. Census Bureau 2006).

the Bureau of the Census if his or her family's cash income for the year was below about $9,200. The threshold for a married couple was about $11,900.

In general, people in their 50s and early 60s who are working are at or near their peak earning years. Thus, it is not surprising that very few of those who remained in the labor force were poor. Likewise, it is not surprising that the men and women who were not in the labor force had a much higher poverty rate than did those in the labor force: 21 percent versus 3 percent (Table 6.5).

Here again, the retired workers fared much better than men and women who were not in the labor force because of a disability. Fifteen percent of the retired men and 14 percent of the retired women had incomes below the poverty threshold, compared with 24 percent of the disabled men and 34 percent of the disabled women.

One limitation of the way poverty is measured is that it does not take into account the assets owned by individuals and their families except

Table 6.5 Poverty Rates of Labor Force Participants and Nonparticipants Ages 50–61, 2001 (%)

	Not in labor force during 2001, by reason				In labor force at any time during 2001
	Retired	Disabled	Other[a]	Total	
Based on cash income					
Men	15	24	—	21	3
Women	14	34	10	21	3
Based on cash income plus annuity value of net worth (excluding home equity)					
Men	11	24	—	20	3
Women	11	33	9	19	3
Based on cash income plus annuity value of net worth (including home equity)					
Men	5	23	—	17	2
Women	9	31	8	17	3

NOTE: — = not available because of the small sample size.

[a] Most of the men and women in this category reported that they were taking care of others or not interested in working.

SOURCE: Estimates based on data from the 2001 Survey of Income and Program Participation (U.S. Census Bureau 2006).

to the extent that the assets produce current income (for example, interest and dividends). Two people may both have the same cash income, but if one owns a house and has an Individual Retirement Account and the other does not, their actual economic situations are quite different. The assets are available to meet future spending needs, whether or not they produce current income.

The extent to which the retired workers with low incomes but substantial assets might be better off than their annual income suggests can be gauged by translating those assets into the annual income they would produce if converted into an annuity. Such a calculation, using each retired worker's net worth, excluding home equity, reduces the estimated number of poor retired workers: the percentage of retired men with family income below their poverty threshold falls from 15 percent to 11 percent; the percentage of retired women counted as poor falls from 14 percent to 11 percent.[10] Annuitizing their home equity, as well, reduces the estimated poverty rates of retired men and retired women to about 5 percent and 9 percent.

Including the annuity value of the assets of those men and women not in the labor force because of a disability makes very little difference because they have so few assets—especially the ones with low cash incomes. Even allowing for their home equity, about one-quarter of the disabled men and one-third of the disabled women still would have income below the poverty threshold.

Health Insurance

Besides causing a decline in cash income, withdrawal from the labor force also may put at risk a worker's access to health insurance. Most adults under age 65 obtain health insurance coverage through their own or their spouse's employer. The cost of employer-sponsored insurance generally is much lower than the cost of insurance that a worker can obtain in the individual market. Moreover, employers typically pay the majority of the premium, which is not counted as taxable income to the worker.

Most men and women ages 50 through 61 were covered by a health insurance policy at the end of 2001, whether or not they were in the labor force (Table 6.6). Most of those in the labor force were covered by an employer-sponsored plan—either through their own current or former employer or that of their spouse.

Table 6.6 Health Insurance Coverage among Labor Force Participants and Nonparticipants Ages 50–61, 2001 (%)

Source of coverage	Not in labor force during 2001 and reason				In labor force at any time during 2001
	Retired	Disabled	Other[a]	Total	
Men[b]					
Employer-sponsored	76	33	—	47	82
Medicare, Medicaid	4	52	—	35	1
Other coverage	11	4	—	7	6
Uninsured	9	11	—	11	11
Women[b]					
Employer-sponsored	73	27	64	52	82
Medicare, Medicaid	4	53	6	24	2
Other coverage	14	7	11	10	7
Uninsured	9	13	19	14	9

NOTE: — = not available because of the small sample size.

[a] Most of the men and women in this category reported that they were taking care of others or were not interested in working.

[b] Columns for each gender sum to 100.

SOURCE: Estimates based on data from the 2001 Survey of Income and Program Participation (U.S. Census Bureau 2006).

The main source of health insurance for people not in the labor force varied widely, depending on whether they were not working because of a disability, because they had retired, or for other reasons. About half of the disabled were covered by Medicare or Medicaid, whereas roughly three-quarters of the retired men and women were covered by employer-sponsored health insurance (either their own or that of a spouse). Women who were not in the labor force because they were caring for others, not interested in working, or for other reasons were more likely than other women to be uninsured (19 percent, compared with 13 percent of disabled women, 9 percent of retired women, and 9 percent of women still in the labor force).

Characteristics of Men and Women Not in the Labor Force

As noted above, 14 percent of the men and 24 percent of the women ages 50 to 61 were not in the labor force in 2001. They differed from

their contemporaries who remained in the labor force in several ways (Tables 6.7 and 6.8). Moreover, among the men and women not in the labor force, the ones who had left the labor force because of a disability were generally different from those who had retired.[11]

Educational attainment

Only 13 percent of the men ages 50 to 61 who were not in the labor force in 2001 had graduated from college, compared with 34 percent of the men still in the labor force. Likewise, about one-quarter of the men no longer in the labor force had not completed high school, compared with only one in ten of the men still in the labor force.

Those differences are almost entirely accounted for by the much lower educational attainment of men who were not in the labor force because of a disability rather than because they had retired. Only 5 percent of the disabled men had graduated from college, while 34 percent had not .nished high school. Meanwhile, the educational attainment of men who said that they had retired was akin to that of men still in the labor force.

The situation for women is similar. Few of the women not in the labor force because of a disability had graduated from college, while 40 percent of the disabled women had not completed high school. Women who had retired were also more likely than women still in the labor force to have not completed high school, but the difference was much smaller. (Women not in the labor force for other reasons, such as caring for others, were more likely to have completed high school than the disabled women, but less likely than the retired women.)

Marital status

A much smaller percentage of men not in the labor force were married (55 percent), compared with men in the labor force (74 percent). Again, most of that difference is associated with the men not in the labor force because of a disability: only half of the men not in the labor force because of a disability were married, compared with over two-thirds of retired men.

Although women not in the labor force were as likely to be married as those in the labor force, there were major differences between those women not in the labor force because of a disability and other women.

Table 6.7 Characteristics of Men Ages 50–61, 2001 (%)

	Not in labor force during 2001 and reason				In labor force at any time during 2001
	Retired	Disabled	Other[a]	Total	
Education					
Did not .nish high school	11	34	—	26	11
High school diploma	33	37	—	35	26
Some college	26	24	—	25	28
College graduate	30	5	—	13	34
Marital status					
Married	70	49	—	55	74
Divorced, separated, widowed	23	36	—	31	20
Never married	8	15	—	14	5
Origin					
Native-born	96	91	—	93	89
Foreign-born	4	9	—	7	11
Age last worked					
50 or later	84	32	—	49	100
Before 50	15	64	—	48	0
Never employed	1	4	—	3	0
Disability status					
Work-limiting disability	28	100	—	25	16
None	72	0	—	75	84

NOTE: — = not available because of the small size of the sample. Columns in all categories sum to 100 except for "Education," columns 4 and 5, and "Marital status," columns 1 and 5, which sum to 99, 99, 101, and 99, respectively, because of rounding.

[a] Most of the men in this category reported that they were taking care of others or were not interested in working.

SOURCE: Estimates based on data from the 2001 Survey of Income and Program Participation (U.S. Census Bureau 2006).

Table 6.8 Characteristics of Women Ages 50–61, 2001 (%)

	Not in labor force during 2001 and reason				In labor force at any time during 2001
	Retired	Disabled	Other[a]	Total	
Education					
Did not .nish high school	15	40	26	29	8
High school diploma	32	34	34	34	33
Some college	24	22	24	23	31
College graduate	29	4	15	14	28
Marital status					
Married	75	46	83	66	65
Divorced, separated, widowed	19	46	13	28	29
Never married	6	8	3	6	7
Origin					
Native-born	88	91	81	87	90
Foreign-born	12	9	19	13	10
Age last worked					
50 or later	60	25	29	35	100
Before 50	32	64	55	53	0
Never employed	8	11	16	12	0
Disability status					
Work-limiting disability	28	99	26	55	15
None	72	1	74	45	85

NOTE: Columns in all categories sum to 100 except for "Education," column 3, and "Marital status," columns 3 and 5, which sum to 99, 99, and 101, respectively, because of rounding.

[a] Most of the women in this category reported that they were taking care of others or were not interested in working.

SOURCE: Estimates based on data from the 2001 Survey of Income and Program Participation (U.S. Census Bureau 2006).

Less than half of the disabled women were married, compared with three-quarters of the women who had retired.

Origin

Men not born in the United States were slightly more likely to be in the labor force than were native-born men; by contrast, foreign-born women were slightly less likely to be in the labor force. For men, the biggest difference was in the share retired: only 4 percent of retired men were foreign-born, compared with 9 percent of men not in the labor force because of a disability and 11 percent of men in the labor force. Foreign-born women were much more likely than native-born women to be out of the labor force because they were taking care of others or not interested in working: they composed 19 percent of that group, compared with only 10 percent of the women in the labor force.

Age last worked

Nearly all (97 percent) of the men who were not in the labor force said that they had once worked. Those who left the labor force because of a disability were much more likely than the retired workers to have withdrawn before age 50. A lower percentage of women not in the labor force (88 percent) said that they had once worked, and many more (53 percent) said that they had stopped working before age 50.

Disability Status

Respondents—whether or not they were working—also were asked whether they had "a physical, mental or other health condition that limits the kind or amount of work you can do." Not surprisingly, virtually all who reported that the main reason they were not in the labor force was a disability answered that question af.rmatively . In addition, about 15 percent of the men and women who were still in the labor force said that they had a work-limiting disability, as did almost 30 percent of the retired workers. That is, while having a work-limiting disability did not necessarily result in an individual's leaving the labor force, it did increase the likelihood that they would do so (Box 6.1).

Box 6.1 What Does "Disabled" Mean?

Most of the analysis in this paper is based on a self-reported interpretation of why people are not working rather than on an objective measure of impairment. Respondents in the Survey of Income and Program Participation (SIPP) were classi.ed as disabled for this analysis if they said that the main reason they were not working was that they had a chronic health condition or disability, rather than because they had retired, were caring for others, were not interested in working, or for other reasons. An additional, more expansive measure of disability available in SIPP (also used in this paper) is based on individuals' responses to a question about whether they had "a physical, mental or other health condition that limits the kind or amount of work you can do." About 15 percent of the respondents who were still in the labor force and almost 30 percent of the retired workers said that they did have a work-limiting disability. As suggested by those responses, individuals can consider themselves to have a disability and yet still continue to work.

Researchers have long debated how best to define and measure disability (Stapleton and Burkhauser 2003).[12] Some definitions are based on whether an individual has one or more specific impairments—for example, the loss of a leg. Others, such as the work-limiting disability measurement noted above, are based on a functional limitation that could be affected by circumstances other than the specific impairment itself. For example, a person with a college degree working in an office is less likely than a high school dropout to consider the loss of a leg to be a relevant disability.

Different public programs and policies use varying criteria. The Americans with Disabilities Act, for example, defines disability as a physical or mental impairment that substantially limits one or more of the major life activities. Eligibility for benefits from the Social Security Disability Insurance program is based, in part, on a much narrower criterion: the inability to engage in "substantial gainful activity" by reason of a physical or mental impairment that is expected to last for at least 12 months or to result in death.

Appendix 6A
The Survey of Income and Program Participation

The Survey of Income and Program Participation (SIPP) is a longitudinal survey of the population of the United States that has been conducted by the Census Bureau since the mid-1980s. Each panel consists of a nationally representative sample of households selected by the bureau and interviewed every four months for up to four years. The sample of the population used in this paper came from the panel begun in 2001, the most recent panel available. The panel originally consisted of about 35,000 households, although attrition reduced the size of the panel interviewed in subsequent waves of the survey. The sample relevant to the main part of the analysis presented in this paper consists of about 8,500 people—about 4,100 men and 4,400 women—for whom suf-.cient information existed for each month in 2001 (the first three or four waves of the survey, depending on when the respondents were first interviewed) and who were ages 50 through 61 at the end of the year.

CHARACTERISTICS AND LABOR FORCE STATUS

Most of the information about the personal characteristics of the respondents reported in the analysis of individuals ages 50 through 61 comes from responses to questions asked in the third or fourth interview. The age of respondents in December 2001 was calculated based on their reported date of birth; in cases in which the year, but not the month, of birth was reported, July was used.

Labor force status was determined based on answers to questions about activities during each month of 2001. Individuals were counted as participating in the labor force during 2001 if they had worked or looked for work at any time during that year. Otherwise, they were counted as not in the labor force.

Respondents not in the labor force were categorized based on their answer to the question "What is the main reason you did not work at a job or business between . . . and today?" Those who responded that they were retired or that they were unable to work because of a chronic health condition or disability were classified, respectively, as "retired" or "disabled." Those who said that

they were temporarily unable to work because of an injury or illness, pregnancy or childbirth, taking care of children or other persons, going to school, unable to .nd work, on layoff, not interested in working at a job, or for another reason were classified as "other." However, about 80 respondents who said that they were receiving Social Security Disability Insurance benefits did not give disability as their main reason for not working. For this analysis, they were reclassified as disabled (raising the total number classified as disabled to 836 respondents).

INCOME, POv ERTY, AND ASSETS

The sources and amount of a respondent's annual income were calculated by summing the respondent's answers to the monthly income questions asked in each interview. The annual incomes reported in this paper were calculated by summing the income reported from the 12 months of 2001. Individuals were counted as poor if their family income fell below the poverty thresholds established by the Census Bureau for their family size.

The Census Bureau collected asset information for each household in a set of supplementary questions asked during the third interview, which occurred in late 2001. Net worth is based on the sum of the market value of assets owned by every member of the respondent's household minus the liabilities owed by household members. Assets include homes, other real estate, cars, businesses, and financial assets. Individual retirement accounts are included, but the value of future Social Security and pension benefits is not. Unlike the information on income, the data on assets and liabilities include household members who are not related to the respondent.

Respondents might report that they were receiving benefits from one public program when those benefits actually came from another source, or might incorrectly report the amount of income they had received. For example, some of the respondents who said that they received Social Security retired-worker benefits were not old enough to be eligible for those benefits. (That particular discrepancy could result from a mistake either in the source of their income or in their age.)

ANNUITIz ING NET WORTH

All else being equal, someone who is not in the labor force and has a large amount of assets but very little income is in a better position to meet his or her spending needs than someone with the same income who has few assets. Some respondents who lived in households with substantial net worth reported little or no income from interest, dividends, or other asset-related sources. In many cases, the lack of reported income simply re.ects the fact that some assets—notably the equity in owner-occupied homes—do not produce cash income. In some cases, the lack of reported income may be because the actual owner of the asset is someone living in the respondent's household who is not related to the respondent. In other cases, the respondents may not report income from an asset because they do not consider that income as available for current consumption or because they did not remember that particular income source. Interest and dividends from assets held in a 401(k) or an IRA, for example, might not be reported because they are not considered current income for tax purposes.

To get an indication of how much difference those assets might make, the annual income that each respondent's reported level of assets could generate if those assets were used to purchase an annuity was calculated. For a single person, the annuity would provide an annual income for the remainder of his or her life, adjusted each year for inflation up to 3 percent. For a married person, the annuity would provide an annual income for the remainder of the life of the annuitant or his or her spouse, also adjusted for inflation. The specific annuity rates used for those calculations were based on the age and marital status of the respondent, using rates quoted by the Thrift Savings Plan on its Web site in mid-September 2004. The relevant rates ranged from 3.7 percent for a married annuitant aged 50 to 5.9 percent for a single annuitant aged 61. For example, the annuity for a single person aged 61 who reported a net worth of $100,000 would be $5,900 a year. If the amount from the annuity exceeded the interest, dividends, and other property income reported by that person, it was substituted for the reported amount of property income and used to produce an adjusted income. Two sets of estimates were made: one based on the annuitization of the respondent's entire net worth (including home equity) and the other based on net worth excluding home equity.

Adjusted poverty rates and near-poverty rates were then calculated for each labor force status group based on those adjusted incomes. As reported in the text, the adjustments were largest for the men and women who were not in the labor force because they had retired.

Notes

This chapter was originally prepared for presentation at the eighteenth annual Policy Research Conference of the National Academy of Social Insurance, Washington, D.C., January 20, 2006. The views expressed are those of the author and should not be interpreted as being those of the Congressional Budget Of.ce.

1. An earlier version of this paper was issued as a Congressional Budget Office paper titled *Disability and Retirement: The Early Exit of Baby Boomers from the Labor Force* (2004b).
2. The poverty threshold in 2001 for a person under age 65 was about $9,200; for a married couple, it was about $11,900.
3. In January 2004, about 57 percent of workers aged 55 to 64 who were displaced in 2001, 2002, or 2003 were reemployed, compared with 69 percent of the displaced workers aged 25 to 54. See Bureau of Labor Statistics (2004).
4. See Box 6.1 for a discussion of issues related to the measurement of disability. A small number of individuals who reported that they received Social Security Disability Insurance (SSDI) benefits but did not give disability as their main reason for not working were reclassified as disabled. Most of the respondents who gave a reason other than retirement or disability said that they were taking care of others or not interested in working.
5. Unlike the data on income, the information about assets and liabilities from the SIPP includes members of a household not related to the respondent. For example, some of the respondents may have been renting part of someone else's home. If the respondent shared living quarters with unrelated persons (that is, did not have a separate entrance or kitchen), his or her assets and liabilities were counted.

   Although the assets recorded in the SIPP include the value of various retirement accounts (such as IRAs and 401[k]s), they do not include the value of Social Security benefits and defined benefit pensions that the respondents or other members of their household might later receive.
6. In most cases, they will continue to receive the same monthly Social Security benefit, adjusted for inflation, for the rest of their lives. If they are married, however, their spouse might become eligible for a new benefit or a higher benefit when he or she reaches age 62.
7. The average annual incomes displayed in Tables 6.3 and 6.4 are higher than the median incomes reported in Table 6.1. Although medians are better for depicting the income of a typical person in a group, such as retired men, average incomes provide a better base for describing the sources of a group's income.
8. Four percent of the retired men and 10 percent of the retired women said that they received their own Social Security benefits on the basis of being a retired worker. Because workers do not become eligible for retired worker benefits until age 62, those respondents were mistaken either about receiving Social Security, about the reason they were receiving it, or about their age. (About 5 percent of the retired women said that they received Social Security benefits because they were the

widow of a deceased worker, which is permitted at age 60 or at any age if caring for a minor child.)

9. During the past decade, the percentage of full-time workers in private industry who participated in DB plans fell from 33 to 24 percent, while participation in de.ned contribution plans rose from 40 to 48 percent. See Wiatrowski (2004).
10. The annuity rate was calculated based on the individual's age and marital status. For example, for nonmarried individuals, it ranged from 4.4 percent for a person aged 50 to 5.9 percent for a person aged 61; for married individuals the range was 3.7 to 4.8 percent. Those rates were based on the annuities offered to retired federal workers through the Thrift Savings Plan in September 2004. The annuity option in which payments increased by up to 3 percent per year, based on increases in the consumer price index, was used. Joint life annuities with 100 percent payment to the survivor were used for married individuals.

    For this calculation, each person's total family income was increased by the difference between the estimated annuity value of their net worth, excluding home equity, and their reported property income. If their reported property income was higher than the estimated annuity, no adjustment was made.
11. The patterns among people aged 50 to 61 described here were found for narrower age groups as well, with the important difference being that older members of this group had uniformly lower labor force participation rates.
12. For a recent comprehensive examination of this topic, see Stapleton and Burkhauser (2003). Much of the discussion in this box is based on that volume.

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7
Health Coverage for Aging Baby Boomers

Findings from the Commonwealth Fund Survey of Older Adults

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Annual growth in U.S. health care costs is outstripping yearly increases in workers' wages by a substantial margin. In 2007, employer health insurance premiums climbed by 6.1 percent, while average wages climbed by 3.7 percent (Claxton et al. 2007). Employers are responding to rising premiums by shifting more of their costs to employees in the form of greater premium contributions, higher deductibles, larger copayments, and slower wage increases (Claxton et al. 2007; Collins et al. 2004). Some employers, particularly small .rms, are dropping coverage altogether.

The combination of rising out-of-pocket health care costs and sluggish wage growth threatens workers' ability to save for retirement. This is particularly true for older adults aged 50 to 64—baby boomers—whose per-capita health care expenditures are more than twice those of younger adults. In addition, the continuing erosion of retiree health coverage in companies across the country means that health costs could claim an increasingly large share of older adults' savings after retirement (Kaiser Family Foundation and HRET 2005; Fronstin 2005).

The Commonwealth Fund Survey of Older Adults finds that one out of five baby boomers aged 50 to 64 in working families has spent some

time uninsured since his or her .ftieth birthday and that more than half of those in lower-income families reported having been uninsured for a time. This is despite the fact that more than 60 percent of this age group is living with at least one chronic health condition. In addition, older adults with low or moderate incomes or with coverage purchased in the individual market spend a large share of their income on out-of-pocket health care costs and premiums. Unstable coverage and high out-of-pocket costs can leave older adults vulnerable, resulting in neglected health care needs, accumulating medical debt, and a hampered ability to save for retirement.

The Fund's survey, conducted by International Communications Research, a firm headquartered in Media, Pennsylvania, from August 14 through November 21, 2004, consists of 25-minute telephone interviews done with a random, nationally representative sample of 2,007 adults aged 50 to 70 in the continental United States. This chapter builds on and includes some prior analyses published in a 2005 Fund report but provides a new analysis of the extent and quality of health insurance coverage of baby boomers in working households, with a special emphasis on those with low or moderate incomes (Collins et al. 2005). It focuses on the challenges facing those older adults who are younger than 65, in the workforce, and not disabled or retired, and thus able to continue to earn income and build savings. The sample includes 50- to 64-year-olds who are either working or have a spouse or partner who is working. It does not include individuals and couples in this age group who said they were not working because they were retired, disabled, or unemployed for other reasons. It also excludes those who were enrolled in Medicare because of a disability. Appendix 7A includes a complete explanation of the survey methodology.

BABY BOOMERS IN WORk ING FAMILIES: HOW WELL ARE THEY PROTECTED?

The purpose of health insurance coverage is to provide affordable access to care and to protect against the potentially catastrophic costs of illness and injury. Among older adults, chronic health problems and other medical needs associated with advancing age make access to care

and protection against high costs particularly important. Poor health can erode older adults' ability to be engaged in productive work or other daily activities and thus their ability to generate earned income prior to retirement. Moreover, if adults in these vulnerable years postpone or do not receive essential care for chronic health conditions such as diabetes, arthritis, high cholesterol, or high blood pressure, they are at risk of entering the Medicare program in deteriorating health and with much more costly conditions (Baker et al. 2001; McWilliams et al. 2003, 2004).

Older Adults Have High Rates of Chronic Health Conditions

The incidence of chronic conditions increases dramatically with age, placing older adults at greater risk of incurring high medical costs than younger adults (Short, Shea, and Powell 2003). Indeed, per-capita health care expenditures among adults aged 50 to 64 are more than three times those of adults in their twenties (Collins et al. 2007).

The survey asked respondents whether a doctor had told them they had any of the following six chronic conditions: 1) hypertension or high blood pressure, 2) heart disease or heart attack, 3) cancer, 4) diabetes, 5) arthritis, or 6) high cholesterol. Sixty-two percent of 50- to 64-year-olds in working households reported they had at least one of these six conditions. High blood pressure, arthritis, and high cholesterol were the most common problems, as about 30 percent of respondents cited any one of the three (Table 7.1).

The survey also asked people to describe their health status and whether they had a disability that prevented them from fully participating in work or other daily activities, such as housework. Some 15 percent of older adults in working households described their health as either fair or poor, and 15 percent had a limiting disability (Table 7.1). Reports of fair or poor health status were substantially higher among those in low- or moderate-income working families: one-third (33 percent) of adults 50 to 64 in working households with incomes under $25,000 and nearly a quarter (23 percent) of those in households with incomes between $25,000 and $39,999 reported that their health was fair or poor, compared with 9 percent of adults 50 to 64 in households with incomes of $60,000 or more.[1] Likewise, older adults in low- or moderate-income households were far more likely to report a limiting

Table 7.1 Health Status of Adults Aged 50–64 in Working Families (%)

		Household income			
	Total 50–64	<$25,000	$25,000–$39,999	$40,000–$59,999	$60,000+
Self-rated health status					
Excellent or very good	59	41	48	60	67
Good	26	25	29	29	23
Fair or poor	15	33	23	11	9
Disability or handicap limits daily activities	15	25	21	16	10
Current health conditions					
Hypertension/high blood pressure	32	36	31	34	29
Heart disease/heart attack	9	14	7	10	8
Cancer	3	5	4	3	3
Diabetes	10	14	12	8	8
Arthritis	29	35	30	30	28
High cholesterol	31	26	33	30	32
Any of the above conditions	62	65	62	62	62
Has health problems[a]	66	73	66	63	65
N (in millions, estimated)	35.1	4.7	5.6	6.0	14.6
Distribution	100	14	16	17	42

NOTE: Base consists of adults aged 50–64 who are employed full-time or part-time or whose spouses are employed, not on Medicare. Columns 2 and 5 in the "Self-rated health status" category sum to 99, not 100, because of rounding.

[a] Rates own health as fair or poor or has chronic health problem or condition.

SOURCE: Commonwealth Fund (2004).

disability. One-quarter (25 percent) of adults 50 to 64 with household incomes under $25,000 and one-.fth (21 percent) of those with incomes between $25,000 and $39,999 reported a disability. This was more than twice the rate of adults aged 50 to 64 with household incomes of $60,000 or more.

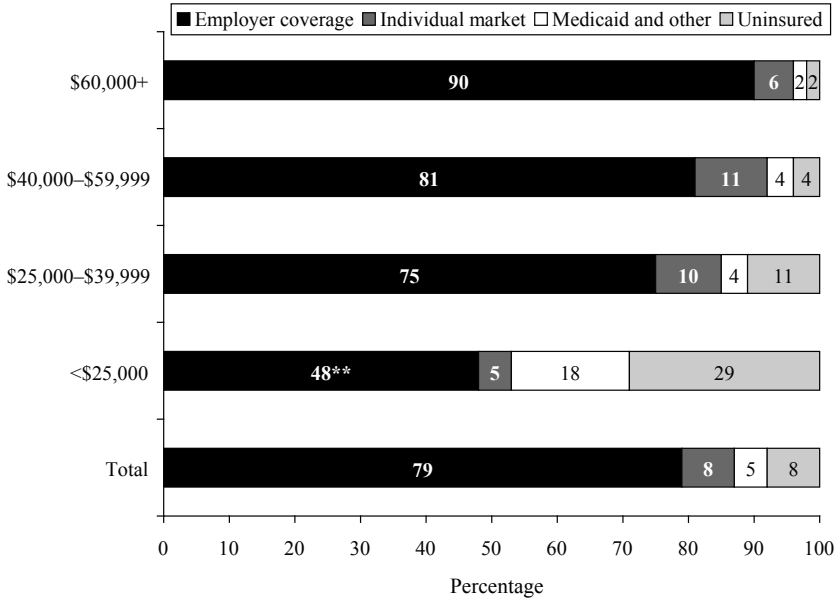
Many Working Older Adults Have Unstable Health Insurance Coverage

Employer-sponsored coverage forms the backbone of the U.S. system of health insurance: nearly 80 percent of older adults in working

families have coverage through an employer, either their own or that of a spouse (Figure 7.1; Table 7.2). But the likelihood of having employer-based coverage drops precipitously in households with low incomes. Fewer than half (48 percent) of older adults in working households with incomes under $25,000 are insured through an employer. Three-quarters (75 percent) of older adults in households with incomes between $25,000 and $39,999 have employer coverage. In contrast, nine-tenths (90 percent) of older adults in households earning $60,000 or more a year have insurance through a job.

There are few affordable options for health insurance for people outside the employer system. About 8 percent of older adults in working families have coverage they purchase on the individual market, and

Figure 7.1 Source of Insurance Coverage by Income



NOTE: The x axis shows percentage of adults aged 50–64 not on Medicare who are employed or whose spouses are employed. Income groups on y axis are based on 2003 household income. ** Difference across income is statistically signi.cant at $p \leq 0.05$ or better.

SOURCE: Commonwealth Fund (2004).

Table 7.2 Insurance History of Adults Aged 50–64 in Working Families (%)

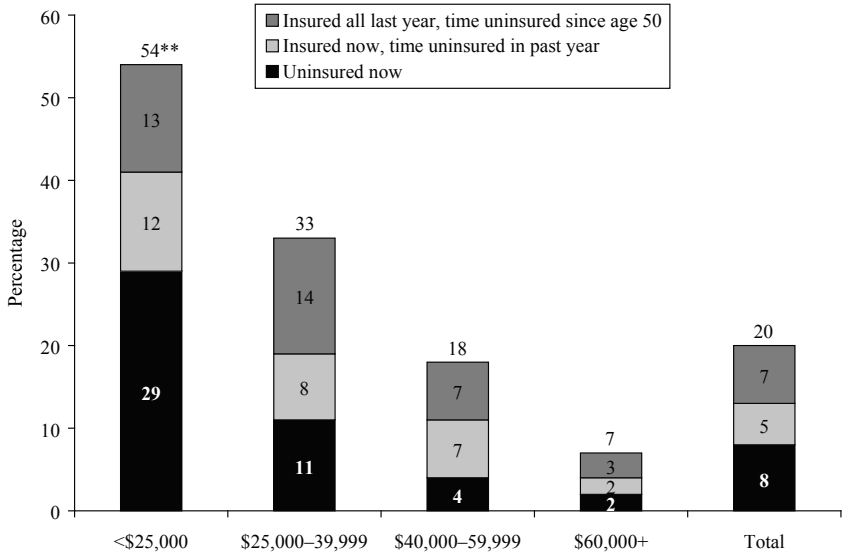
	Total 50–64	Household income <$25,000	$25,000–$39,999	$40,000–$59,999	$60,000+
Insurance type					
Employer	79	48	75	81	90
Individual	8	5	10	11	6
Medicaid and other	5	18	4	4	2
Uninsured	8	29	11	4	2
Insurance history					
Insured continuously, no gaps	79	46	67	83	93
Uninsured now	8	29	11	4	2
Insured now, time uninsured in past year	5	12	8	7	2
Insured all year, time uninsured since age 50	7	13	14	7	3
General experience with health insurance as adult					
Insured all of the time	64	35	47	57	81
Insured most of the time	23	26	37	32	17
Only insured some of the time	7	18	10	7	2
Rarely or never insured	5	21	5	4	1
N (in millions, estimated)	35.1	4.7	5.6	6.0	14.6
Distribution	100	14	16	17	42

NOTE: Base consists of adults aged 50–64 who are employed full-time or part-time or whose spouses are employed, not on Medicare. All categories sum to 100 except columns 1 and 4 in "Insurance history" and columns 1, 3, and 5 in "General experience," which sum to 99 or 101 because of rounding.
SOURCE: Commonwealth Fund (2004).

5 percent are insured through Medicaid or other publicly funded programs (Figure 7.1; Table 7.2). About 8 percent were uninsured at the time of the survey.

Many older adults also have a history of unstable coverage. In addition to the 8 percent of working adults who were uninsured at the time of the survey (roughly 3 million), 5 percent, or 2 million, had coverage at the time of the survey but had experienced a period without insurance in the past year (Table 7.2). An additional 7 percent of respondents, or 2.5 million, had been covered in the past year but had spent some

Figure 7.2 Insurance Instability among Older Adults in Working Families



NOTE: Percentage of adults aged 50–64 not on Medicare who are employed or whose spouses are employed. Income groups are based on 2003 household income. ** Difference across income is statistically signi.cant at $p \leq 0.05$ or better.
SOURCE: Commonwealth Fund (2004).

time without coverage since turning 50. Taken together, this means that 20 percent of older adults in working families, or 7.5 million, were either uninsured at the time of the survey or had histories of unstable coverage.

Older adults in working households with low or moderate incomes report particularly high rates of unstable coverage. More than half (54 percent) of older adults in working families with incomes of less than $25,000 were uninsured when surveyed, had spent time without coverage in the past year, or were without coverage at some point since turning 50 (Figure 7.2). One-third (33 percent) of older adults earning between $25,000 and $39,999 had experienced a time without coverage. By way of contrast, only 7 percent of older adults earning more than $60,000 reported a time uninsured.

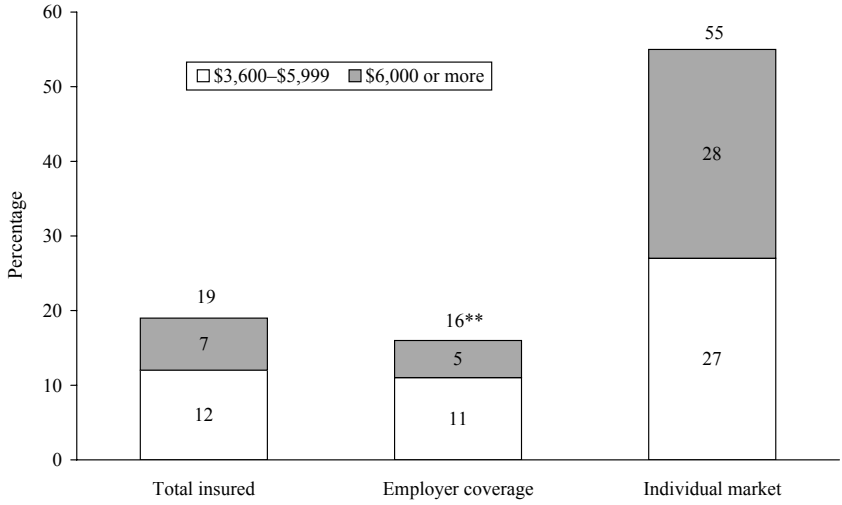
vulnerable Adults Spend Substantially on Coverage and Health Care

Like the rest of the population, older adults spend different sums of money each year on their health care, depending on whether they have insurance coverage, what type of coverage they have, and how healthy they are. Annual out-of-pocket costs are generally affected by insurance premium costs; by the size of deductibles, copayments, and coinsurance; and by use. Premiums vary widely depending on whether coverage is through an employer or the individual market. Premiums also vary signi.cantly across employers and by services included, such as prescription drugs. The size of deductibles—the portion of health care costs paid by individuals out-of-pocket before coverage begins—also depends on the source of coverage. Finally, nearly everyone pays a share of the cost (in the form of a copayment or coinsurance) when they receive care or purchase prescription drugs. Those without coverage may pay the full charge for prescriptions or services.

Premiums. Most insured working older adults contribute toward their health insurance premiums; only 15 percent face no premium costs. But those working older adults who must buy coverage on the individual market face the steepest costs. In most states, underwriting practices in the individual market take into account age and health status. Because their age places older adults in a higher risk category for chronic health problems and catastrophic illness, they face much higher premiums for individual coverage than do their peers who have employer coverage. More than half (55 percent) of older adults with coverage on the individual market spend $300 or more per month—$3,600 or more annually—on premiums, and more than a quarter (28 percent) spend $500 or more a month, or $6,000 or more annually (Figure 7.3; Table 7.3). In contrast, only 16 percent of older adults with employer coverage spend in excess of $3,600 a year on premiums (Collins, Davis, and Ho 2005).[2]

As a share of income, premium costs impose substantial burdens on older adults who have coverage through the individual market. Nearly three in five (58 percent) older adults with coverage on the individual market spend 5 percent or more of their income on health insurance premiums, and more than one in three (35 percent) spends 10 percent or

Figure 7.3 Annual Premiums among Older Adults in Working Families



NOTE: Percentage of adults aged 50–64 not on Medicare who are employed or whose spouses are employed. ** Difference across insurance coverage is statistically significant at $p \leq 0.05$ or better.
SOURCE: Commonwealth Fund (2004).

more (Table 7.3). In contrast, among older adults with employer-based coverage, just one in .ve (20 percent) spends 5 percent or more of his or her income on premiums, and only one in 14 (7 percent) spends 10 percent or more.

Older adults with low or moderate incomes also spend large shares of their incomes on premiums. Nearly two of five (37 percent) insured working older adults with a household income under $40,000 spend 5 percent or more of their income on premiums, and nearly one-quarter (23 percent) spend 10 percent or more. The burden on older adults in higher-income households is relatively lower: fewer than one in five older adults (19 percent) with a household income of $60,000 or more spends 5 percent or more of his or her income on premiums, and only one in 25 (4 percent) spends 10 percent or more.

Many older adults report difficulties affording their premiums, particularly those who have individual coverage or low incomes. More than three of five older adults (62 percent) with individual coverage

Table 7.3 Health Insurance Expenses of Insured Adults Aged 50–64 in Working Families (%)

	Insurance source			Household income			
Insurance premium expenses	Total insured	Employer coverage	Individual market	<$25,000	$25,000–$39,999	$40,000–$59,999	$60,000+
Monthly premium costs (respondents who are insured)							
None	15	14	3	25	15	14	13
Less than $100	27	28	16	33	31	32	24
$100–$199	21	23	7	18	22	21	20
$200–$299	11	11	14	3	7	11	14
$300–$499	12	11	27	11	13	9	13
$500 or more	7	5	28	3	7	7	9
Spend annually 5% or more of income	23	20	58	38	37	27	19
Spend annually 10% or more of income	10	7	35	23	23	9	4
Paying premium is very or somewhat dif.cult (respondents who pay a premium)	31	26	62	53	44	40	20
Annual deductible per person (respondents who are insured)							
No deductible	34	33	19	35	33	32	37
Less than $500	33	37	9	29	31	33	34
$500–$999	12	13	13	8	11	14	13
$1,000 or more	11	8	48	8	15	13	9
N (in millions, estimated)	32.2	27.7	2.8	3.4	5.0	5.8	14.3
Distribution	100	86	9	10	15	18	44

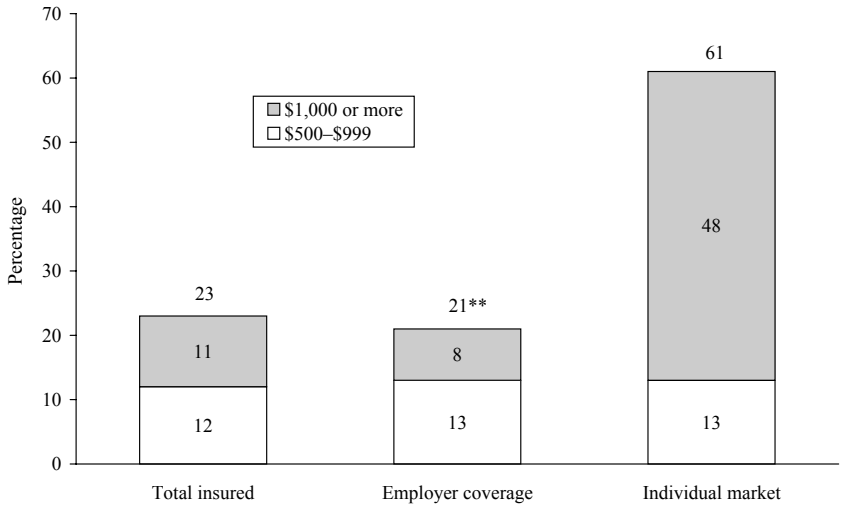
NOTE: Base consists of insured adults aged 50–64 who are employed full-time or part-time or whose spouses are employed, not on Medicare. Column numbers within the categories "Monthly premium costs" and "Annual deductible per person" do not add up to 100 because the table omits the answer "Don't know; refused," which accounted for a small percentage of responses.

SOURCE: Commonwealth Fund (2004).

said that it was very or somewhat dif.cult to afford their premiums, compared with about one-quarter (26 percent) of those with employer coverage. More than half of adults (53 percent) with incomes under $25,000 and more than two in five of those with incomes between $25,000 and $59,999 reported that it was difficult to afford their premiums, compared with only one in five (20 percent) of those with incomes of $60,000 or more (Table 7.3).

Deductibles. More than half (56 percent) of insured older adults have deductibles, and about 23 percent face a deductible of $500 or more annually (Table 7.3). Even though they pay far more in premiums, older adults with individual coverage face much higher deductibles than those with employer coverage. Nearly half (48 percent) of older adults with individual coverage have per-person annual deductibles of $1,000 or more (Figure 7.4). In comparison, about 8 percent of older adults with employer coverage face deductibles of $1,000 or more per year.

Figure 7.4 Annual Deductibles among Older Adults in Working Families

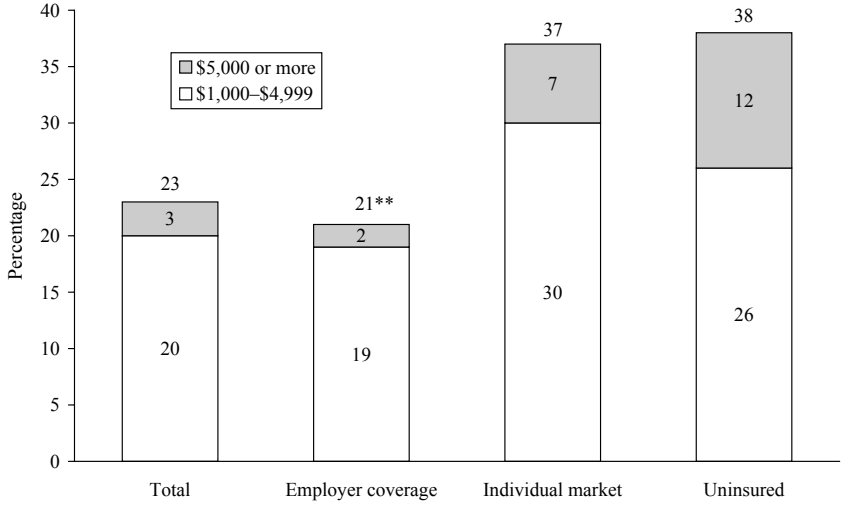


NOTE: Percentage of adults aged 50–64 not on Medicare who are employed or whose spouses are employed. ** Difference across insurance coverage is statistically significant at $p \leq 0.05$ or better.
SOURCE: Commonwealth Fund (2004).

Out-of-pocket costs. Out-of-pocket health care spending among older adults in working families with individual coverage, excluding premiums, is similar in magnitude to spending among uninsured older adults in working families. The survey found that 38 percent of uninsured older adults and 37 percent of older adults with coverage through the individual market spent $1,000 or more per year on out-of-pocket health care costs, including prescription drugs (Figure 7.5, Table 7.4). In contrast, 21 percent of older adults with employer coverage spent $1,000 or more.

Compared with those who have employer coverage, more older adults in working households who are uninsured or have individual coverage spend a large share of their income on out-of–pocket costs. One-third (34 percent) of older adults who were uninsured at the time of the survey and slightly fewer (31 percent) of those with individual coverage spent 5 percent or more of their income on out-of-pocket medical

Figure 7.5 Annual Out-of-Pocket Medical Expenses among Older Adults in Working Families



NOTE: Percentage of adults aged 50–64 not on Medicare who are employed or whose spouses are employed. Medical expenses include prescription drug purchases. ** Difference across insurance coverage is statistically signi.cant at $p \leq 0.05$ or better.
SOURCE: Commonwealth Fund (2004).

costs (Table 7.4). In contrast, only one in nine (11 percent) of older adults with employer coverage spent this great a share of income on out-of-pocket costs.

Similarly, older adults in low- or moderate-income working households are more likely to spend a disproportionately large share of their income on out-of-pocket costs compared to those in higher-income households. About one-quarter (26 percent) of older adults in households with incomes under $25,000 spent 5 percent or more of their income on out-of-pocket costs, compared with just 4 percent of those in households with incomes of $60,000 or more (Table 7.4).

Combined costs. High premiums, high deductibles, and high out-of-pocket costs can add up to substantial expenditures for insured older adults in working families, particularly those with individual coverage or low incomes. In the survey, half (50 percent) of older adults with individual coverage spent $5,500 or more per year on insurance premiums and health care costs, compared with one in seven (15 percent) of those with employer coverage (Table 7.4). As a share of income, three-fourths (75 percent) of older adults with individual coverage spent 5 percent or more of their income on premiums and health care costs and nearly half (48 percent) spent 10 percent or more. In contrast, fewer than three in eight older adults (36 percent) with employer coverage spent 5 percent or more of their income on out-of-pocket costs and premiums, and only one in seven (14 percent) spent 10 percent or more.

Older adults in low- or moderate-income working households (including those with and without health insurance) also experience a heavy burden of out-of-pocket health care costs and premiums. At least one-half (50–55 percent) of older adults in households with incomes under $40,000 spent 5 percent or more of their income on out-of-pocket costs and premiums, and more than one-third (34–35 percent) spent 10 percent or more (Figure 7.6). Among older adults in working households with slightly higher incomes—$40,000–$59,999—more than two in .ve (43 percent) spent 5 percent or more of their income on out-of-pocket costs and premiums, and one in six (17 percent) spent 10 percent or more. Fewer older adults in higher-income households had large cost burdens: only two out of seven (28 percent) of those earning $60,000 or more spent 5 percent or more of their income, and only one in 16 (6 percent) spent 10 percent or more.

Table 7.4 Health Care Expenses of Adults Aged 50–64 in Working Families (%)

	Total 50–64	Insurance source			Household income			
		Employer	Individual	Uninsured	<$25,000	$25,000–$39,999	$40,000–$59,999	$60,000+
Prescription drug expenses								
Has prescription drug coverage (respondents who are insured)	93	95	74	0	89	90	95	95
Takes prescription drugs on regular basis	64	68	61	39	55	60	62	69
Annual out-of-pocket medical expenses, including prescription drugs								
Less than $100	21	19	17	28	30	26	19	17
$100–$499	38	41	26	22	39	32	40	39
$500–$999	16	17	17	11	11	13	17	17
$1,000–$4,999	20	19	30	26	16	23	21	21
$5,000 or more	3	2	7	12	4	4	2	4
Spent annually 5% or more of income[a]	15	11	31	34	26	27	23	4
Total annual out-of-pocket medical expenses[b]								
Less than $500	18	14	5	51	34	16	15	13
$500–$999	21	23	15	11	23	23	27	19
$1,000–$2,999	18	22	4	0	13	20	19	19
$3,000–$5,499	24	25	27	26	19	24	21	28
$5,500–$9,999	13	12	36	12	9	13	12	16
$10,000 or more	4	3	14	0	1	4	5	5
Spent annually 5% or more of income[a,b]	39	36	75	34	50	55	43	28
Spent annually 10% or more of income[a,b]	18	14	48	26	34	35	17	6

N (in millions, estimated)	35.1	27.7	2.8	2.8	4.7	5.6	6.0	14.6
Distribution	100	79	8	8	14	16	17	42

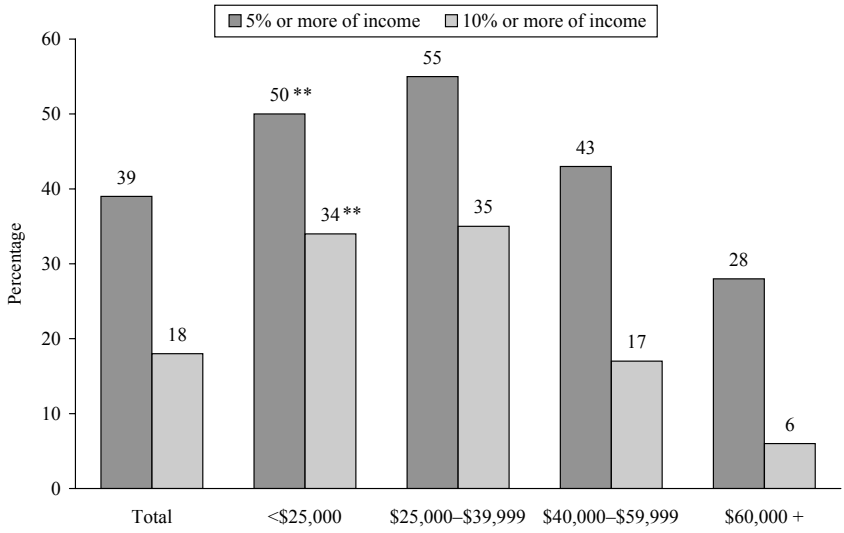
NOTE: Base consists of adults aged 50–64 who are employed full-time or part-time or whose spouses are employed, not on Medicare. Column numbers within the categories "Annual out-of-pocket medical expenses including prescription drugs" and "Total annual out-of-pocket medical expenses" do not add up to 100 because the table omits the answer "Don't know; refused," which accounted for a small percentage of responses.

[a] Among respondents reporting income.

[b] Includes health insurance premiums (for insured only) as well as medical expenses including prescription drugs.

SOURCE: Commonwealth Fund (2004).

Figure 7.6 Percentage of Older Adults Who Spend 5% or More and 10% or More of Annual Income on Out-of-Pocket Medical Expenses and Premiums, by Income



NOTE: Percentage of adults aged 50–64 not on Medicare who are employed or whose spouses are employed. Income groups are based on 2003 household income. ** Difference across income is statistically significant at $p \leq 0.05$ or better.
SOURCE: Commonwealth Fund (2004).

Underinsurance. Cathy Schoen and colleagues at the Commonwealth Fund developed a measure of "underinsurance" based on high out-of-pocket costs and deductibles relative to income (Schoen et al. 2005). They de.ned people who were insured all year as underinsured if 1) their medical expenses (excluding premiums) amounted to 10 percent or more of their income; 2) their medical expenses (excluding premiums) totaled 5 percent or more of their income and they were in households with incomes of less than 200 percent of the poverty level; or 3) their health plan deductibles were 5 percent or more of their income. When this measure is applied to older adults insured all year in working families in the survey (Commonwealth Fund 2004), about 6 percent, or 1.8 million people, are found to be underinsured (data not shown).

Access to Care Encumbered by Insurance Status and Income Level

High out-of-pocket costs appear to interfere with older adults' access to the health care system. The survey asked respondents whether they had failed to seek medical care because of cost in the last 12 months. In particular, respondents were asked if they had failed to have a prescription .lled; had skipped a medical test, treatment, or follow-up visit recommended by a doctor; had had a medical problem but chose not to go to a doctor or clinic; or had not seen a specialist when a doctor or the respondent thought it was needed.

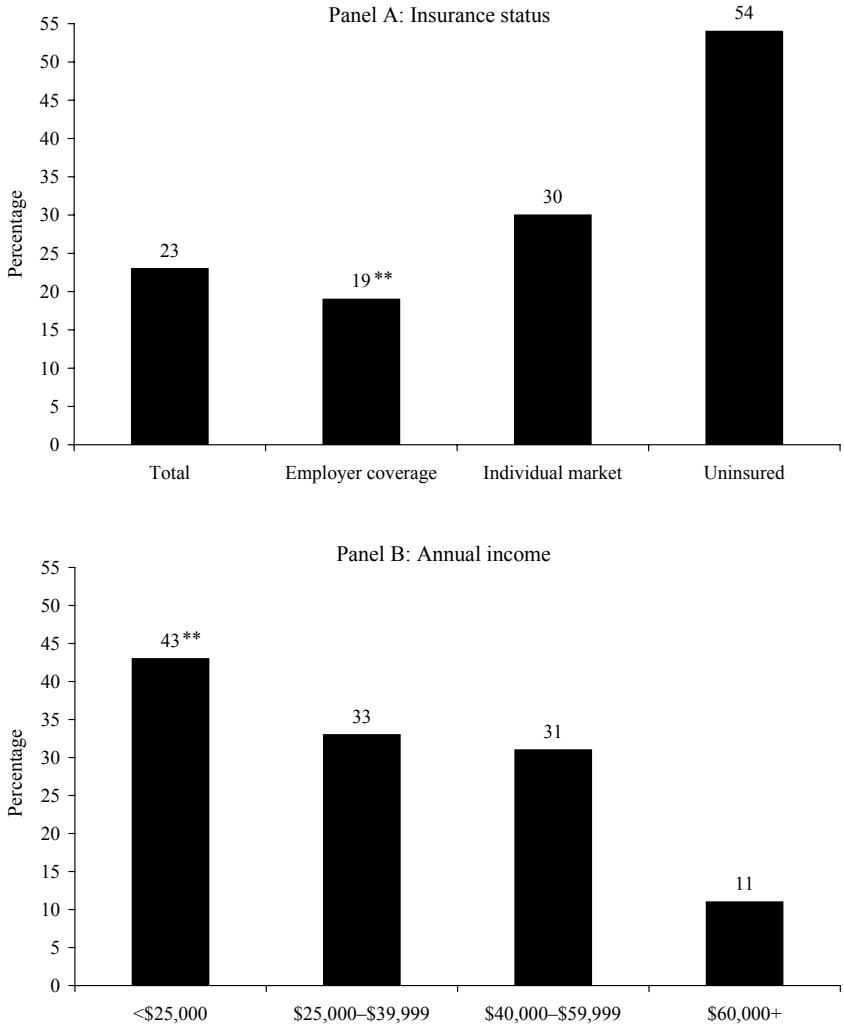
Nearly one-quarter (23 percent) of older adults in working households reported at least one cost-related access problem (Figure 7.7A). On average, those who were most exposed to the costs of health care—whether because they are uninsured or because they have individual coverage—were most likely to report not seeking care because of cost. More than half (54 percent) of uninsured older adults and nearly one-third (30 percent) of older adults with individual coverage reported at least one access problem.

Older adults in low- and moderate-income working households were also more likely to report cost-related access problems. More than two out of five (43 percent) older adults in households with incomes under $25,000 and about one in three (31–33 percent) of those in households with incomes between $25,000 and $59,999 reported that they had not received health care because of costs (Figure 7.7B). In contrast, just one in nine (11 percent) of older adults with incomes of $60,000 or more reported access problems.

Older Adults Report High Rates of Medical Bill Problems

The survey asked older adults about their ability to pay their medical bills in the past 12 months, including whether there were times when they had had difficulty paying or were unable to pay their bills, whether they had been contacted by a collection agency concerning outstanding medical bills, or whether they had had to change their lifestyle significantly in order to pay their bills. People who reported no medical bill problems in the past 12 months were asked if they were currently paying off medical debt they had incurred in the past three years.

Figure 7.7 Percentage of Older Adults Who Have at Least One of Four Cost-Related Access Problems,[a] by Insurance Status and Income



NOTE: Percentage of adults aged 50–64 not on Medicare who are employed or whose spouses are employed. Income groups are based on 2003 household income. ** Difference across insurance coverage/income is statistically signi.cant at $p \leq 0.05$ or better.

[a] Did not fill a prescription; did not see a specialist when needed; skipped recommended medical test, treatment, or follow-up; did not see doctor when sick.

SOURCE: Commonwealth Fund (2004).

More than one-third (35 percent) of older adults in working households either had had a medical bill problem in the past 12 months or were paying off accrued medical debt (Figure 7.8A; Table 7.5). The problem was most severe among uninsured older adults: more than half (56 percent) reported dif.culty paying medical bills or said they had accrued medical debt. Rates were also high among older adults with individual coverage: more than two in five (45 percent) reported struggling to pay medical bills or having medical debt.

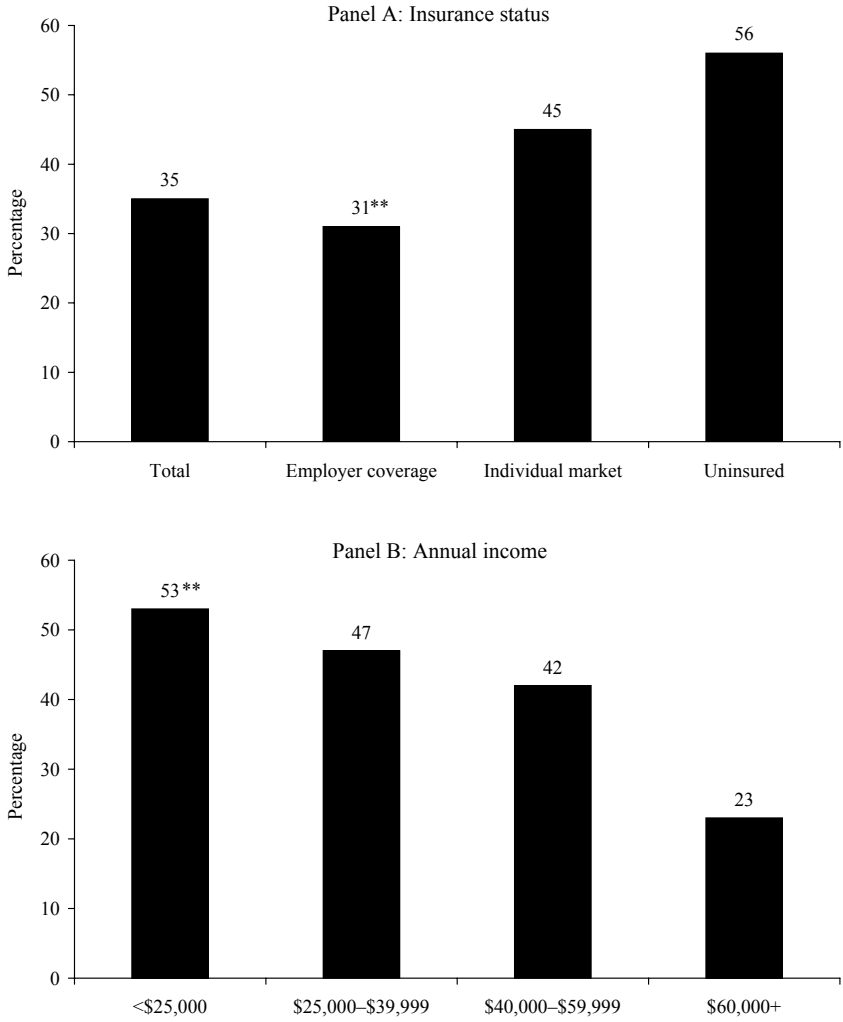
The reported rates of medical bill problems and debt in working households showed stark differences between low- or moderate-income older adults and higher-income older adults (Figure 7.8B). More than half (53 percent) of older adults in households with incomes under $25,000 and more than two of five (42–47 percent) in households with incomes between $25,000 and $59,999 reported bill problems or debt. This was about double the rate of those in households with incomes of $60,000 or more: only 23 percent of this income group reported bill problems or debt.

Older Adults Concerned They Will Not Be Able to Afford Health Care

Against a backdrop of eroding retiree health insurance coverage and rapidly rising health care costs, a majority of older adults in working families express fear they will not be able to afford health care in the future. Two-thirds (66 percent) of older adults in working households said they were very or somewhat worried they might not be able to afford needed medical care in the future (Table 7.6). Uninsured older adults and those with low or moderate incomes were the most concerned about being able to afford health care: about three-quarters of uninsured older adults (74 percent) and those with low or moderate income (72–76 percent) were very or somewhat worried.

Older adults also are concerned that they will not be able to afford the costs of insurance coverage in the future. Nearly three-quarters (74 percent) of older adults in working families said they were very or somewhat worried that health insurance would become so expensive that they would not be able to afford it (Figure 7.9A). Affordability concerns again were the highest among uninsured older adults and those with low or moderate incomes: about four out of five older adults (81

Figure 7.8 Percentage of Older Adults with Medical Bill Problems[a] or Accrued Medical Debt, by Insurance Status and Income

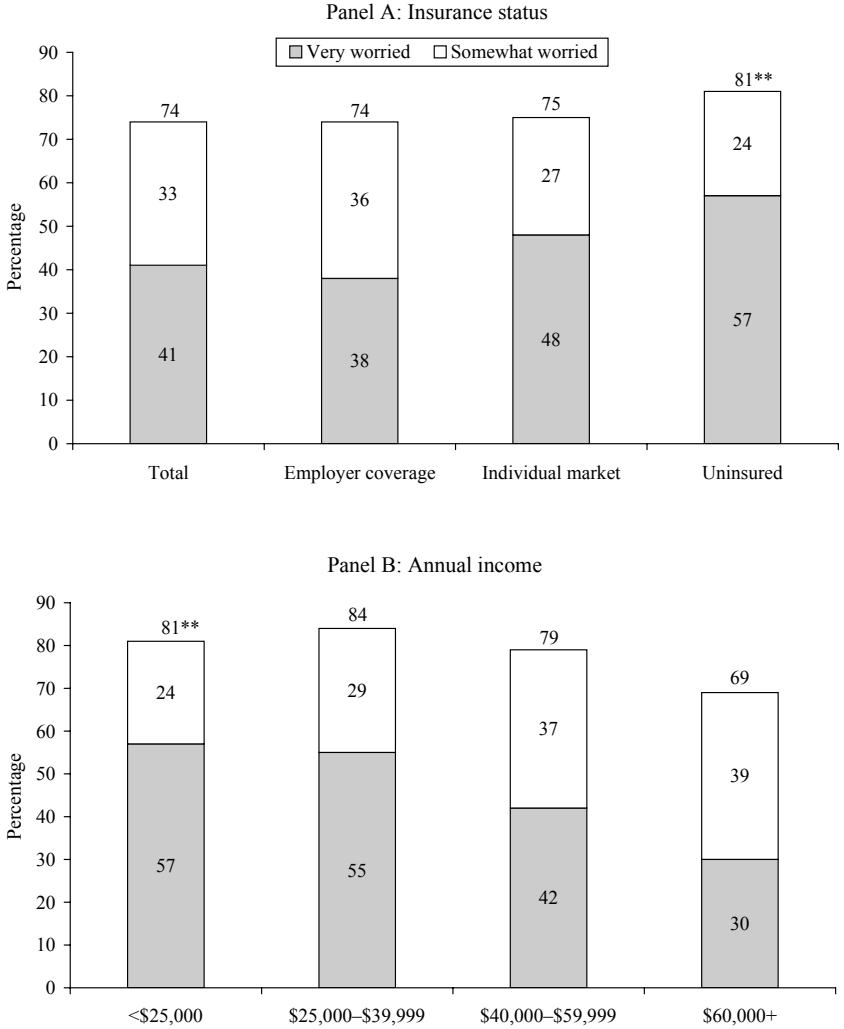


NOTE: Percentage of adults aged 50–64 not on Medicare who are employed or whose spouses are employed. Income groups are based on 2003 household income. ** Difference across insurance coverage/income is statistically signi.cant at $p \leq 0.05$ or better.

[a] Problems paying/not able to pay medical bills, contacted by a collection agency for medical bills, had to change way of life to pay bills, or has medical debt being paid off over time.

SOURCE: Commonwealth Fund (2004).

Figure 7.9 Percentage of Older Adults Who Are Worried That Health Insurance Will Become So Expensive That They Will Not Be Able to Afford It



NOTE: Percentage of adults aged 50–64 not on Medicare who are employed or whose spouses are employed. Income groups are based on 2003 household income. ** Difference between uninsured and employer coverage is statistically significant at $p \leq 0.05$ or better; difference across income is statistically significant at $p \leq 0.05$ or better.

SOURCE: Commonwealth Fund (2004).

Table 7.5 Access Problems, Out-of-Pocket Costs, and Medical Bill Problems for Adults Aged 50–64 in Working Families (%)

		Insurance source			Household income			
	Total 50–64	Employer	Individual	Uninsured	<$25,000	$25,000–$39,999	$40,000–$59,999	$60,000+
Access problems in past year								
Went without needed care because of cost:								
Did not .ll prescription	13	12	14	22	28	19	17	6
Skipped recommended test or follow-up	12	9	17	35	22	17	16	5
Had a medical problem, did not visit doctor or clinic	11	8	15	39	24	21	12	4
Did not get needed specialist care	8	7	11	25	13	14	10	5
At least one of four access problems because of cost	23	19	30	54	43	33	31	11
Medical bill problems in past year								
Not able to pay medical bills	16	13	22	35	33	22	23	7
Contacted by a collection agency for medical bills	14	12	12	27	27	20	15	8
Had to change way of life to pay bills	11	8	18	30	28	17	11	4
Any bill problem	25	21	34	49	48	36	31	13
Medical bills/debt being paid over time	12	12	16	13	10	17	16	11
Base: any bill problem or medical debt	35	31	45	56	53	47	42	23
Insurance status of person/s when having difficulties with medical bills								
Insured at time care was provided	73	85	81	14	41	68	84	92
Uninsured at time care was provided	25	14	17	79	55	30	15	8

N (in millions, estimated)	35.1	27.7	2.8	2.8	4.7	5.6	6.0	14.6
Distribution	100	79	8	8	14	16	17	42

NOTE: Base consists of adults aged 50–64 who are employed full-time or part-time or whose spouses are employed, not on Medicare.
SOURCE: Commonwealth Fund (2004).

Table 7.6 Concerns About Affordability, Con.dence in Futur e Care, and Satisfaction with Quality of Care (%)

		Insurance source			Household income			
	Total	Employer	Individual	Uninsured	<$25,000	$25,000–$39,999	$40,000–$59,999	$60,000+
How worried are you that you won't be able to afford the medical care you will need?								
Very worried	30	28	33	48	45	40	32	22
Somewhat worried	36	38	36	26	31	36	40	37
Not too worried	17	18	11	9	11	8	12	23
Not at all worried	16	16	19	13	9	15	15	18
How worried are you that health insurance will become so expensive you will not be able to afford it?								
Very worried	41	38	48	57	57	55	42	30
Somewhat worried	33	36	27	24	24	29	37	39
Not too worried	13	14	8	2	7	6	10	17
Not at all worried	13	12	16	13	10	11	10	14
Overall, how satis.ed are you with the quality of health care you have received in the past 12 months?								
Very satisfied	53	58	44	17	46	40	49	63
Somewhat satisfied	28	28	35	21	24	36	32	24
Somewhat dissatisfied	5	5	8	2	6	5	7	5
Very dissatisfied	4	3	4	17	8	6	3	2
Have not received health care	8	5	8	41	16	11	8	5

How con.dent are you that you will get the best medical care available when you need it?								
Very confident	48	51	45	19	40	39	44	55
Somewhat confident	34	35	42	21	26	37	38	35
Not too confident	9	9	9	12	13	11	9	8
Not at all confident	7	4	4	38	17	10	7	2
How worried are you that you won't be able to get the type of specialist you will need?								
Very worried	27	25	25	49	40	37	26	20
Somewhat worried	32	33	36	19	29	33	37	33
Not too worried	20	22	14	14	16	11	16	26
Not at all worried	20	20	24	14	13	19	20	22
N (in millions, estimated)	35.1	27.7	2.8	2.8	4.7	5.6	6.0	14.6
Distribution	100	79	8	8	14	16	17	42

NOTE: Base consists of adults aged 50–64 who are employed full-time or part-time or whose spouses are employed, not on Medicare. In cases where the column numbers within a category do not add up to 100, it's because the table omits the answer "Don't know; refused," which accounted for a small percentage of responses in some columns. In some categories columns add up to more than 100 because of rounding.

SOURCE: Commonwealth Fund (2004).

percent) without insurance coverage or with low or moderate income (79–84 percent) were very or somewhat worried about not being able to afford insurance (Figure 7.9A–B). Still, even among those in higher-income households, more than two-thirds (69 percent) were also concerned about affording health insurance.

OLDER ADULTS SUPPORT POLICY SOLUTIONS TO IMPROv E HEALTH AND FINANCIAL SECURITY

Older adults' concerns about their health security are re.ected in their desire for public policy solutions that might bolster it. The survey asked respondents about their interest in two strategies intended to improve their access to health insurance and help them save for their future health and long-term care needs.

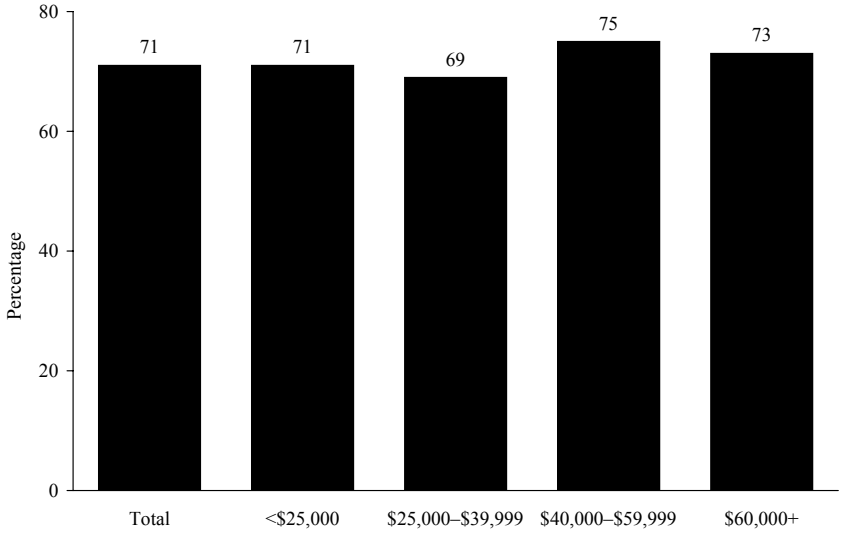
New Medicare Health Accounts to Help Older Adults Save for Long-Term Care and Other Costs

Concerned about not being able to pay for their health care in the future, older adults are interested in new strategies to help them save for future health care costs. The survey asked older adults if they would be interested in having 1 percent of their earnings deducted from their paychecks and placed into a Medicare health account. They could then use the accumulated savings in their accounts to pay for long-term care or other health services that Medicare does not cover. A substantial majority of older adults in working families, 71 percent, said they would be interested in participating in such an automatic savings plan (Figure 7.10). There was broad-based support across income groups, regions of the country, health status, and political affiliations (Table 7.7).

Buying into Medicare before Age 65

The survey also asked older adults if they would be interested in having Medicare coverage before their sixty-fifth birthday if it were available. Seventy-two percent of older adults in working households said they would be very or somewhat interested in enrolling in Medicare

Figure 7.10 Interest in Having Medicare Health Accounts[a] among Older Adults in Working Families



NOTE: Percentage of adults aged 50–64 not on Medicare who are employed or whose spouses are employed. Income groups are based on 2003 household income.

[a] Respondents were asked, "In thinking about paying for your health care in the future, would you be interested in having 1 percent of your (and/or your spouse's) earnings deducted from your paycheck(s), tax-free, and placed in your own Medicare account(s) to use for long-term care or other expenses not covered by Medicare?"

SOURCE: Commonwealth Fund (2004).

before age 65 (Figure 7.11A; Table 7.8). Interest was highest among people with the least protection from health care costs: 96 percent of uninsured older adults in working households and 81 percent of those with coverage on the individual market were very or somewhat interested in early participation in Medicare. In addition, a large majority (70 percent) of older adults with employer-based insurance coverage were interested in getting into Medicare. While interest was highest among older adults in lower- or moderate-income working households, two-thirds (66 percent) of those with incomes above $60,000 also were somewhat or very interested in receiving Medicare before age 65 (Figure 7.11B).

Table 7.7 Interest in Medicare Health Accounts for Long-Term Care and Other Medical Expenses (%)

	Yes, would be interested	No, would not be interested	Don't know/refused
Age			
50–54	77	19	4
55–59	67	25	8
60–64	64	28	8
Gender			
Male	70	24	5
Female	72	21	7
Region of the United States			
Northeast	77	17	6
North-central	68	26	5
South	72	23	6
West	68	24	8
Race/ethnicity			
Non-Hispanic white	72	22	6
Non-Hispanic black	74	23	4
Hispanic	63	24	13
Insurance status			
Uninsured	54	32	14
Employer	73	21	5
Individual	62	28	10
Medicaid and other	74	22	5
Income			
Less than $25,000	71	25	4
$25,000–$39,999	69	23	8
$40,000–$59,999	75	20	5
$60,000 or more	73	23	4
Work status			
Employed	71	23	6
Not currently employed	73	21	6
Self-rated health status			
Excellent or very good	71	24	5
Good	71	23	6
Fair or poor	72	17	11

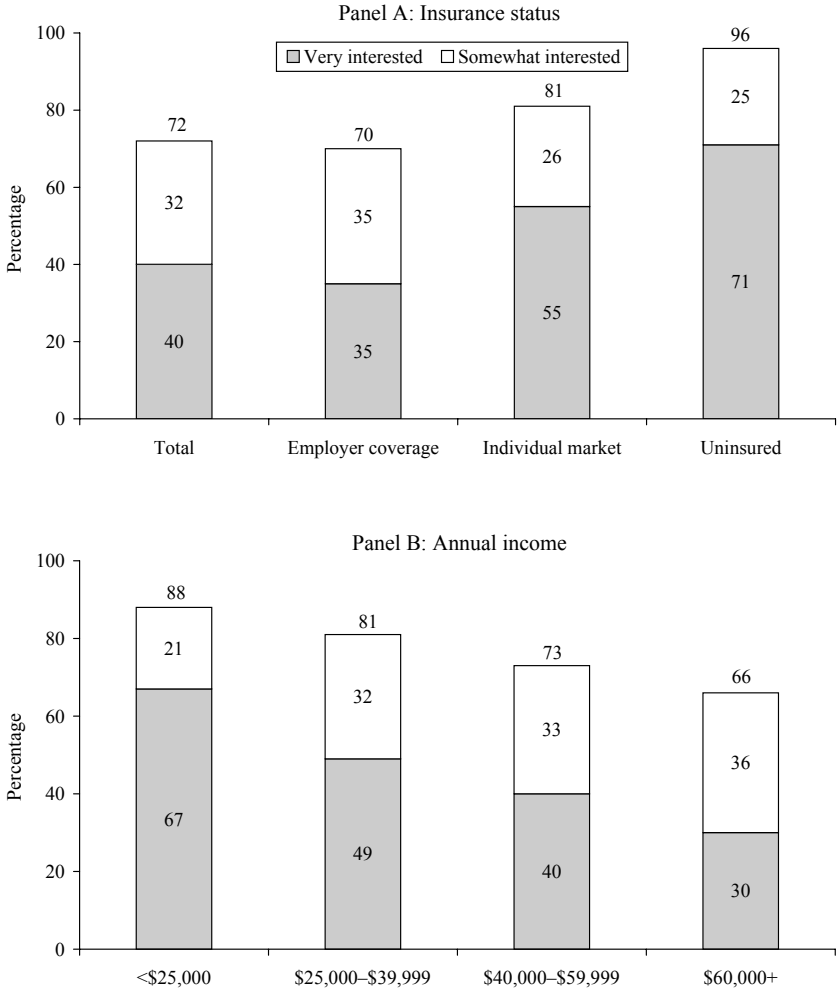
Table 7.7 (continued)

	Yes, would be interested	No, would not be interested	Don't know/refused
Political affiliation			
Democrat	71	23	6
Republican	74	22	5
Independent	70	24	6
Other	72	24	4
Voter registration status			
Not registered	68	19	13
Registered	71	23	5
N (in millions, estimated)	24.8	8.0	2.2
Distribution	71	23	6

NOTE: Some rows sum to 99 or 101 percent because of rounding. Base consists of adults aged 50–64 who are employed full-time or part-time or whose spouses are employed, not on Medicare. Respondents were asked the following question: "In thinking about paying for your health care in the future, would you be interested in having 1 percent of your (and/or your spouse's) earnings deducted from your paycheck(s), tax-free, and placed in your own Medicare account(s) to use for long-term care or other expenses not covered by Medicare (when you become covered by Medicare)?"
SOURCE: Commonwealth Fund (2004).

Additionally, the survey asked older adults which source of insurance they would trust most to provide health insurance to older adults under the age of 65: the Medicare program, employers, or the private individual market. Thirty-.ve percent of older adults in working families said they would most trust Medicare, while 32 percent would trust employers the most, and 25 percent would trust the individual market (Table 7.9). Uninsured older adults, those with low incomes, and minorities were by far the most trusting of Medicare: 50 percent or more selected the program over other sources. Registered Democrats more often selected the Medicare program, whereas Republicans gravitated toward employers and the individual market. While those with employer coverage most often chose employers as their most trusted source, those with coverage on the individual market split about evenly between trusting the Medicare program (43 percent) and the individual market (40 percent).

Figure 7.11 Percentage of Older Adults Who Are very Interested or Somewhat Interested in Receiving Medicare before Age 65, by Insurance Status and Income



NOTE: Percentage of adults aged 50–64 not on Medicare who are employed or whose spouses are employed. Income groups are based on 2003 household income.
SOURCE: Commonwealth Fund (2004).

SUMMARY

High rates of chronic health conditions make older adults a vulnerable population. While being uninsured or underinsured at any age is risky, older adults without adequate coverage are at particular risk, both physically and .nancially , from skipping needed care, spending large shares of their income on out-of-pocket costs, and accumulating medical debt.

McWilliams et al. (2003, 2004) find that uninsured adults aged 55–64 have a greatly reduced access to preventive care and estimate that more than 13,000 premature deaths occur annually in this age group because of lack of health insurance coverage. Poor health can hinder older adults' ability to participate in daily activities and accumulate income prior to retirement. Moreover, if adults in these vulnerable years postpone or do not receive essential care for chronic health conditions such as diabetes, arthritis, or high blood pressure, they are at risk of entering the Medicare program in deteriorating health and with much more costly medical conditions (Friedland and Summer 2005).

Yet despite evidence that exposure to medical costs is unhealthy for older adults and potentially harmful for the Medicare program and the U.S. economy overall, older adults are becoming less rather than more protected. According to the most recent U.S. census data, the number of uninsured older adults aged 50 to 64 climbed from 6 million in 2004 to 7.1 million in 2006, with nearly all the increase attributable to a decline in employer-sponsored coverage.[3] In addition, the percentage of firms with 200 or more employees that offer retiree health benefits has fallen from 66 percent in 1988 to 36 percent in 2005 (Kaiser Family Foundation and HRET 2005). Companies that still offer retiree health benefits are making those benefits less generous. According to a recent survey of large employers by the Henry J. Kaiser Family Foundation and Hewitt Associates, 71 percent of companies said they had increased retiree premium contributions in the past year and 33 percent had increased service copayments or coinsurance (Kaiser Family Foundation and Hewitt Associates 2005).

The erosion of retiree health benefits is a financial blow to older adults. Hewitt Associates estimates that medical costs can amount to 20 percent of annual preretirement income for workers who retire at age

Table 7.8 Interest in Enrolling in Medicare before Age 65 If It Were Available to Ages 50–64

	Very interested	Somewhat interested	Not too interested	Not interested at all
Age				
50–54	37	36	14	9
55–59	42	31	11	13
60–64	44	25	9	18
Gender				
Male	37	34	11	15
Female	43	30	13	10
Region of the U.S.				
Northeast	41	27	16	11
North-central	40	33	11	11
South	42	33	11	11
West	37	33	12	16
Race/ethnicity				
Non-Hispanic white	36	34	13	13
Non-Hispanic black	53	29	9	6
Hispanic	58	27	7	5
Insurance status				
Uninsured	71	25	0	4
Employer	35	35	14	13
Individual	55	26	4	10
Medicaid and other	52	16	8	21
Income				
Less than $25,000	67	21	6	6
$25,000–$39,999	49	32	9	8
$40,000–$59,999	40	33	13	11
$60,000 or more	30	36	14	16
Work status				
Employed	41	31	13	13
Not currently employed	36	41	9	11
Self-rated health status				
Excellent or very good	36	32	14	15
Good	43	34	9	11
Fair or poor	53	31	8	5
Political af.liation				
Democrat	47	30	11	10
Republican	32	34	14	16
Independent	35	33	15	14
Other	46	33	8	9

Table 7.8 (continued)

	Very interested	Somewhat interested	Not too interested	Not interested at all
Voter registration status				
Not registered	54	32	7	5
Registered	38	32	13	13
N (in millions, estimated)	13.8	11.0	4.1	4.3
Distribution	40	32	12	12

NOTE: Base consists of adults aged 50–64 who are employed full-time or part-time or whose spouses are employed, not on Medicare. Respondents were asked the following question: "If Medicare were available to adults aged 50 to 64, how interested would you be in getting Medicare insurance before you turn 65?" In cases where the numbers within a row do not add up to 100, it's because the table omits the answers "It depends" and "Don't know; refused," which accounted for a small percentage of responses in most rows.

SOURCE: Commonwealth Fund (2004).

65 without employer health bene.ts (Hewitt Associates 2003). Early retirees without employer coverage can expect to spend an estimated 40 percent of preretirement income on their medical expenses. While the new Medicare prescription drug benefit will offset some of those costs for beneficiaries, retirees without retiree health benefits will continue to see a large portion of their income go toward health care costs.

Recent research also shows that health savings accounts (HSAs), which have been promoted in part as a way for individuals to save for future health care costs, will have a limited impact on the overall savings of those who decide to use them (Fronstin and Salisbury 2004). Moreover, people who open HSAs must have a high-deductible health plan of at least $1,000 for individuals and $2,000 for families. This means that, depending on whether and how much their employers contribute to their HSAs, participants' ability to save for their retirement during their working years could be weakened by the demands on their incomes from higher out-of-pocket health costs (Davis, Doty, and Ho 2005). In addition, a survey by the Employee Benefit Research Institute and the Commonwealth Fund found that adults with HSA-eligible, high-deductible health plans were more likely to say they had delayed or avoided care when they were sick. Problems were found to be particularly pronounced among those with health problems or with incomes under $50,000. This raises concerns that people in these plans,

Table 7.9 Most Trusted Source to Provide Health Insurance for Adults Aged 50–64 in Working Families (%)

	Medicare	Employers	Private individual market	None of these/ don't know/ refused
Age				
50–54	31	36	25	9
55–59	38	30	23	9
60–64	40	28	26	6
Gender				
Male	37	30	26	7
Female	33	34	23	9
Region of the U.S.				
Northeast	32	33	24	12
North-central	36	39	21	4
South	38	29	26	7
West	33	30	27	9
Race/ethnicity				
Non-Hispanic white	31	35	26	8
Non-Hispanic black	53	31	11	4
Hispanic	50	14	24	13
Insurance status				
Uninsured	64	5	22	9
Employer	30	39	24	8
Individual	43	10	40	7
Medicaid and other	57	14	19	10
Income				
Less than $25,000	55	20	16	8
$25,000–$39,999	36	32	24	8
$40,000–$59,999	34	32	27	7
$60,000 or more	28	37	27	7
Work status				
Employed	36	33	24	8
Not currently employed	32	28	30	10
Self-rated health status				
Excellent or very good	32	33	29	7
Good	39	35	19	7
Fair or poor	42	27	18	13

Table 7.9 (continued)

	Medicare	Employers	Private individual market	None of these/ don't know/ refused
Political af.liation				
Democrat	41	32	18	9
Republican	24	34	34	8
Independent	37	35	25	3
Other	38	29	22	11
Voter registration status				
Not registered	51	22	18	9
Registered	33	34	25	8
N (in millions, estimated)	12.3	11.3	8.6	2.8
Distribution	35	32	25	8

NOTE: Base consists of adults aged 50–64 who are employed full-time or part-time or whose spouses are employed, not on Medicare. Some rows sum to 99 or 101 because of rounding.
SOURCE: Commonwealth Fund (2004).

especially those with chronic conditions and low or moderate incomes, will neglect to get needed health care that might help them avoid more serious and costly health problems in the future (Fronstin and Collins 2005).

Similarly, because of older adults' high rates of chronic conditions, proposals that seek to expand coverage by providing tax credits to those with low incomes to buy coverage on the individual market are unlikely to substantially increase access to meaningful and affordable coverage. This is because older adults have much greater health needs and are at greater risk of catastrophic illness—characteristics that, in most states, underwriters are allowed to take into consideration when writing individual insurance policies. Earlier research by the Commonwealth Fund has found that the individual market is generally not an affordable option for older adults with low and moderate incomes, even with large tax credits and community rating regulations (Collins, Berkson, and Downey 2002; Gabel, Dhont, and Pickreign 2002; Simantov, Schoen, and Bruegman 2001; Turnbull and Kane 2005).

What is to be done? The Commonwealth Fund Survey of Older Adults (Commonwealth Fund 2004) shows that older adults in working

families are very interested in Medicare accounts in which they could set aside income to save for long-term and other noncovered health care expenses. In addition, a large majority of older adults in working households would be interested in participating in the Medicare program before the age of 65. To help facilitate participation, subsidies for a buy-in could be linked to income: those with household incomes of less than 200 percent of the poverty level would pay no more than 5 percent of their income, and those with higher incomes would pay no more than 10 percent. In addition to these options, eliminating the two-year waiting period to be placed on the disabled rolls of the Medicare program would directly address the .nancial hardship of those who become too ill or disabled to work (Dale and Verdier 2003).

Companies' cutting back on the health care of older adults through the erosion of employee and retiree health benefits will serve only to worsen the health and financial status of older adults and magnify the financing issues currently looming in front of Medicare. Instead, targeted investments in older workers' health care would help those in this age group remain productive members of the workforce throughout their working years and would improve their chances of entering their retirement and the Medicare program in good health.

Appendix 7A
Survey Methodology

The Commonwealth Fund Survey of Older Adults was conducted by International Communications Research of Media, Pennsylvania, from August 14 through November 21, 2004. The survey consisted of 25-minute telephone interviews in either English or Spanish and drew on a random, nationally representative sample of 2,007 adults aged 50–70 living in the continental United States. The survey included 1,591 adults aged 50–64 and 416 adults aged 65–70 (Commonwealth Fund 2004).

Of the 1,591 adults aged 50–64 surveyed, this chapter looks at 1,189 adults who were not in Medicare and were employed full-time or part-time or had a spouse who was employed. Of the 402 50- to 64-year-olds in nonworking households excluded from our analysis, 46 percent were not working because they were retired, 37 percent were not working because they were disabled, and about 17 percent were not working for other reasons. Among excluded respondents who had spouses, 53 percent of spouses were retired, 20 percent were not working because they were disabled, and 23 percent were not working for other reasons. Excluded older adults reported a much lower health status than those in the analysis: 42 percent reported being in fair or poor health, compared with 15 percent of those in working families. About 80 percent of 50- to 64-year-olds in the nonworking group had at least one of six chronic conditions—1) hypertension or high blood pressure, 2) heart disease or heart attack, 3) cancer, 4) diabetes, 5) arthritis, or 6) high cholesterol—compared with 62 percent of those in working families. The nonworking group also had lower incomes on average than those in working families: 41 percent were in households with incomes under 200 percent of the poverty level, compared with 15 percent of those in working families. In terms of insurance coverage, 31 percent of the nonworking group were enrolled in Medicare, 36 percent had employer bene.ts, 6 percent had coverage through the individual market, and 14 percent were uninsured.

Statistical results in this chapter are weighted to make the results representative of all adults aged 50–64 in the continental United States. The data are weighted to the U.S. adult population by age, sex, race or ethnicity, education, and geographic region using the March 2004 Supplement of the Current Population Survey. The resulting weighted sample is representative of the approximately 48 million adults in the United States aged 50–64.

Our study classi.es adults by age, annual household income, and insurance status at the time of the survey. Thirteen percent of adults aged 50–64 did not provide sufficient income data for classification by income or poverty. We asked respondents which of the following types of insurance they had had when surveyed: Medicare, employer-sponsored, individually purchased, Medicaid, or insurance through any other source (including military or veterans' coverage). Respondents who had none of these types of insurance were classified as uninsured. Although respondents were allowed to report multiple sources of insurance, in this analysis only mutually exclusive insurance categories were allowed. Thus, respondents reporting multiple sources of insurance were classified into a particular category by using a hierarchy. For individuals under 65 years, the hierarchy for insurance was employer, Medicare, Medicaid, individual, or other.

The survey has an overall margin of sampling error of +/– 2.29 percentage points at the 95 percent confidence level. For the sample of adults aged 50–64, the margin of error is +/– 2.58 percentage points.

The 71.6 percent survey response rate was calculated in a manner consistent with the standards of the American Association for Public Opinion Research.

Notes

This chapter is based on a presentation by Sara R. Collins at the National Academy of Social Insurance's Eighteenth Annual Conference, "Older and Out of Work: Jobs and Social Insurance for a Changing Economy," Washington, D.C., January 20, 2006. That same month, the Commonwealth Fund published a version of this chapter under the same name as it carries here. Support for this research was provided by the Commonwealth Fund. The views presented here are those of the authors and not necessarily those of the Commonwealth Fund or its directors, of.cers, or staf f.

1. All reported differences are statistically significant at $p \leq 0.05$ or better, unless otherwise noted.
2. Economic theory suggests that employees covered by employer-based health insurance effectively pay for their premiums through lower wages. This means that the difference in premium costs between those with individual coverage and those with employer coverage might be less than these data suggest. However, there is mixed empirical evidence to support this theory, suggesting that employer premium costs are likely only partially offset by lower wages, or at least by reduced wage growth. Moreover, in the case of older workers, their higher premium costs are likely shared with other members of the employer group.
3. Analysis of the March 2007 Supplement of the Current Population Survey by Sherry Glied and Bisundev Mahato of Columbia University.

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8
Improving Health Coverage before Medicare

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Four million people ages 55 to 64—13 percent of this age group—do not have health insurance. As a result, they face increased risk of a decline in their overall health (Baker et al. 2001). This chapter explores what can and should be done to improve the health coverage of older workers in the 10 years before they become eligible for Medicare at age 65.

WHY SHOULD WE CARE?

Why should we be concerned about improving health insurance coverage for older workers? It's not because they are more likely to be uninsured. On the contrary, it is younger workers—not older ones—who are the most likely to lack health insurance (U.S. Census Bureau 2005). Two subgroups of the near-elderly do have particularly low rates of coverage: low-income people and the unemployed. Even so, 55- to 64-year-olds do not stand out from the pack. People who have low incomes or who are out of work are much more likely to be without health insurance, whatever their age (U.S. Census Bureau 2005).

Going without health insurance, however, is a much more serious matter at older ages. Workers in the 55- to 64-year-old bracket are particularly vulnerable when uninsured because they are more likely to have health problems or chronic conditions requiring medical treatment. About one-.fth of people in this age group have only fair or poor health, and a similar proportion have a work disability (NCHS 2005;

U.S. Census Bureau 2005). Even if an older person is healthy, developing an acute or chronic condition is an ever-present possibility and a source of worry.

Because older workers are more likely to be in poor health, they also .nd it more difficult to obtain affordable health insurance in the individual market. Collins and her colleagues (2005) have aptly characterized the situation: older workers pay more and get less. In 2002, the average premium paid for a single policy in the individual market by people aged 55 to 64 was $3,700, compared to $2,770 for those aged 40 to 54 and $1,660 for those under age 40 (Bernard 2005). Many older workers pay much more. For example, 26 percent of individually insured adults over age 50 pay more than $6,000. And those older workers who do obtain coverage typically face higher deductibles, less comprehensive benefits, and greater out-of-pocket costs (Collins et al. 2005).

WHAT ARE THE OPTIONS?

In a paper for the National Academy of Social Insurance's 2000 conference, Nichols (2001) explored the pros and cons of various ways of expanding coverage for the near-elderly. He identified several approaches, including the following:

- Expanding the coverage of Medicare or Medicaid;
- Allowing people to buy into existing risk pools, such as Medicare, the Federal Employees Health Benefits Program, or state employees' programs;
- Providing tax credits for the purchase of public or private insurance;
- Extending the period of time for which COBRA continuation coverage is available;[1] and
- Creating new subsidy programs, risk pools, and purchasing arrangements.

Nichols's paper remains an excellent analysis of the pros and cons of these different approaches, so there is no need to review them here.

WHAT HAS HAPPENED RECENTLY?

In the six years since the publication of Nichols's chapter, most proposals to expand coverage have focused on tax credits.

In its budget for .scal year 2001, the Clinton administration proposed to allow two groups of older workers to buy into Medicare: people aged 62 to 64 who do not have employment-based or public health insurance, and a limited number of displaced workers aged 55 to 61. The benefits would have been fully financed by premium payments, but participants would have been eligible for a tax credit equal to 25 percent of the premium. The Congressional Budget Office estimated that 1.3 million people aged 62 to 64 would participate in the buy-in by the tenth year of the program, as would 90,000 displaced workers. The Joint Committee on Taxation (JCT) estimated that the tax credit would cost $8 billion over 10 years (CBO 2000).

In addition to the tax credit for the Medicare buy-in, the Clinton administration also proposed a 25 percent credit for taxpayers of any age who purchase COBRA continuation coverage. The JCT estimated that the credit for COBRA would cost $13 billion over 10 years.

A similar but much more limited tax credit to help older displaced workers was actually enacted in 2002. The Trade Act of 2002 created the Health Coverage Tax Credit for two groups: 1) certain retirees who are 55 to 64 years old and whose pensions are paid by the Pension Benefit Guaranty Corporation (PBGC), and 2) workers who receive Trade Adjustment Assistance. The refundable credit pays 65 percent of premiums for a qualified health plan, including COBRA continuation coverage and certain state-sponsored programs (IRS 2005). Few people are eligible for the credit, however, and even fewer participate. By one estimate, 25,500 households received the credit in 2004 out of approximately 118,000 households that qualified (Dorn, Varon, and Pervez 2005). The credit also appears to have had the unintended consequence of helping bankrupt employers off-load the cost of retiree health benefits onto the taxpayer at the same time that they shift the cost of pensions to the PBGC.

The Bush administration's 2006 budget proposed a refundable credit for individually purchased health insurance, at a cost of $64 billion over 10 years (CBO 2005). Although the maximum subsidy percentage

would nominally be 90 percent for those with incomes up to $15,000, the credit for an adult would be limited to $1,000. As noted earlier in the chapter, however, this amount is far below the prices actually faced by older people in the individual insurance market.

Not surprisingly, an analysis by Burman and Gruber (2005) .nds that the proposed credit would increase insurance coverage primarily among the youngest and healthiest workers. Older workers would likely lose coverage on balance, as the credit for individual insurance caused employers to drop group coverage. An estimated 1.8 million people would gain coverage on net, but 3.4 million people would lose employer-sponsored insurance, and 1.3 million of those would become uninsured (Burman and Gruber 2005). As modified in the 2007 budget, the proposed credit would be available only for the purchase of a high-deductible health plan.

ADvANTAGES OF UNIv ERSAL PROGRAMS

Although tax credits have been getting most of the recent attention, expanding health insurance coverage through a universal program, such as Medicare, has several advantages over means-tested approaches.

First, participation rates for means-tested programs tend to be low. Only 20 percent of eligible people receive the Health Coverage Tax Credit. Participation rates in the Medicare Savings Programs are also very low, and a National Academy of Social Insurance study panel has recently recommended ways to increase participation (Ebeler, Van de Water, and Demchak 2006).

Second, means-tested programs are much more costly and complicated to administer than universal programs. A simpler alternative is to provide benefits without regard to income or assets but to finance them through a proportional or progressive revenue source. Of course, programs should also be designed with ease of administration in mind, as seems not to have been the case for the Medicare drug benefit.

Third, means testing creates disincentives for work and saving, especially for people who are eligible for many different subsidies or credits, each with its own benefit reduction or phase-out rate. For that very reason, the UK Pensions Commission has recently recommended

moving away from reliance on means testing and toward more generous .at-rate, universal benefits. The issue will become increasingly important here in the United States as retirees come to rely more heavily on defined contribution pensions, which are counted as resources in means-tested programs such as Supplemental Security Income (SSI) and Medicaid (Parent 2006).

Ex PANDING ELIGIBILITY FOR MEDICARE

In light of the advantages of universal programs, lowering the age of Medicare eligibility to 62 deserves another look. At a budgetary cost of only about 0.1–0.2 percent of payroll, this option would result in near-universal health care coverage among 62- to 64-year-olds (Johnson 2003). At the same time, it would reduce employer costs for retiree health benefits, lower both retiree and employer costs for COBRA continuation coverage, and help older workers who would otherwise have to seek nongroup insurance in the individual market.

A frequent objection to reducing the age of eligibility for Medicare is that it would entice more people to retire early on reduced Social Security benefits when we should instead be promoting longer work lives. Although this contention is doubtless correct as an empirical matter, it raises a serious ethical issue: is denying people health insurance an appropriate way of encouraging them to work longer?

When thinking about incentives, I can't keep out of my mind a phrase that the French philosopher Voltaire penned over 250 years ago. Candide, the hero of Voltaire's satirical novella of the same name, quickly recognizes that all incentives are not created equal when he is told that the British navy kills an admiral from time to time simply to encourage the others—or, as Voltaire wrote it, "pour encourager les autres."

Reducing the age of eligibility for Medicare could well be combined with other steps that would encourage longer work lives, such as increasing the age of initial eligibility for Social Security. (In that context, Joseph White's proposal to give a break to long-service workers deserves serious consideration.)[2] The incentives for employers to retain or hire older workers could also be improved by restoring Medicare to its position as primary payer for workers with employer-

sponsored health insurance, as was the case before the Tax Equity and Fiscal Responsibility Act of 1982. Changes such as these would offer much better ways of ensuring that people who live longer don't regret their decision to retire early on reduced cash bene.ts.

Another objection to lowering the age of eligibility for Medicare is that it would reduce the incentive for employers to provide retiree health benefits. But since retiree health benefits seem to be disappearing anyway, this argument has lost much of its force. Moreover, the new prescription drug benefit has filled one of the major gaps in Medicare—and one of the major reasons that retirees needed supplemental coverage.

In fact, it is equally plausible to argue that employers would be more likely to retain retiree health benefits for those who need them most—namely, workers who have retired early from extremely arduous or stressful jobs—if they were relieved of the pressure to provide benefits to those over age 62. Reducing the age of eligibility for Medicare would be consistent with other recent changes designed to reduce the cost of retiree health insurance to employers, such as the Health Coverage Tax Credit and the subsidies to sponsors of qualified retiree prescription drug plans.

Another way of expanding Medicare would be to eliminate the two-year Medicare waiting period required for those who become entitled to receive Social Security Disability Insurance. Since 40 percent of new benefit awards to disabled workers are made to people aged 55 or over, this change would help a significant number of the most needy and vulnerable older workers.

vALUES MATTER

The American public believes that good health care should be available to everybody, not just to those who can afford it. In one recent poll, 84 percent of Americans said that health care should be provided equally to everyone, just like public education (NewsHour with Jim Lehrer and Kaiser Family Foundation 2000). Most faith groups—including denominations from Roman Catholic to Southern Baptist—agree that health care should not be rationed solely on the basis of eco-

nomics (U.S. Conference of Catholic Bishops 1993; Southern Baptist Convention 1994). If our society acted on this belief, it would in.uence our answers to a wide variety of health policy questions.

For example, how can we encourage efficient utilization of health care services? Many observers suggest that consumers should face financial incentives to limit their use of care. But copayments and deductibles—especially *high* deductibles—place a much greater burden on people with lower incomes. Is that fair?

What about access to care? Medicaid gives its low-income beneficiaries a limited choice of providers and often makes them face long waits for appointments. Private plans provide financial incentives to use generic drugs rather than brand names. Some analysts propose going a step further: they suggest that insurance plans offer differential access to technology. One tier of benefits would provide access to current medical technology; another (and cheaper) tier would provide access only to technology that is 10 or 20 years old. Would that be morally acceptable?

What about paying for quality? Paying for quality is all the rage, and it sounds sensible. But if high-quality providers are paid more, will consumers be charged more to use them? If so, as Vladeck (2003) has said, people would "have the 'choice' of how much more they are prepared to pay to reduce the likelihood that they will be maimed or killed during the course of [a] hospitalization." Would it be equitable to allow or even encourage differences in the quality of care based on an individual's purchasing power? Furthermore, how do all of these issues relate to efforts to eliminate racial and ethnic differences in health access and outcomes, as promised in the federal government's *Healthy People 2010* initiative (HHS 2000)?

Most important, in light of the strong public consensus for expanding health coverage, we need to focus on finding solutions, not pointing fingers. Reischauer (1998) wrote the following about President Clinton's proposed Medicare buy-in: "While the . . . initiative raises complex issues, it responds to a significant problem. Rather than trashing the plan, as the opposition has done, policymakers should work to mitigate undesirable secondary effects that inevitably accompany efforts to expand access to affordable care." That message still rings true today.

Notes

1. The Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) provides certain former employees and their dependents access to temporary continuation of health insurance coverage at group rates.
2. White's remarks came at the 2006 NASI Conference. See Chapter 9 of this volume, pp. 183–204.

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9
Time to Retire the Normal Retirement Age?

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PERCEPTIONS AND POLICIES

This book considers policies to respond to three basic perceptions.

First is the common forecast that the proportion of Americans above retirement age will increase signi.cantly , and so funding for retirement would require a much larger share of national income in the future. This raises questions about the adequacy or affordability of both public and private retirement arrangements.

Second is the belief that, on average, Americans of any given age beyond, say, age 60 will be more able to work in the future than they were in the past. They will be more able to work both because they will likely be healthier and because the physical demands of work in the future, on average, should be less demanding than were the physical demands of work in the past.

If it was only these first two perceptions that were common, at least one kind of policy response would be obvious: policies should give people strong incentives to work to a later age. The most obvious incentive to work until later in life—or sanction against earlier retirement—is to raise the age of eligibility for retirement benefits. Public policies of this type could include raising the normal retirement age for Social Security, the age of eligibility for Medicare, or the age at which IRA withdrawals may be made without penalty. In addition to such blunt measures, policymakers may adopt other methods, such as extensive exhortation, to try to get workers to *want* to work to a later age.

A third perception, however, would seem to require either additions to or modifications of such policy proposals. In spite of a general trend

toward people living longer and healthier lives, a signi.cant portion of the population may well not be able to work to a later age than current norms, for two reasons. Some people will not be so healthy as to do that, even if their condition does not approach any common definition of "disability." In addition, even if people want to work, they may find few purchasers for their services—either because of prejudice on the part of employers or because it is objectively difficult for people of their age to do the kind of work they have done throughout their careers.

Additional policies could include measures to make it easier for workers to find jobs at later ages. Hence if employers discriminate against older workers, this might be addressed with policies against age discrimination. If some older workers have had careers that leave them physically unable to continue in their previous line of work, a policy response might involve job retraining. If employers avoid older workers because of disproportionately high health care costs, most national health insurance proposals would eliminate that problem. Modifications of existing policies could include redefining "disability" to make older workers eligible even if they are healthier than the current definition, or measures that create exceptions to any increase in the age of eligibility for retirement benefits.

This chapter examines which set of policies would be appropriate given these three perceptions. The merits of policy alternatives depend both on judgments about fact, such as whether the three core perceptions are true, and on judgments about values, such as the political preferences of the analyst or the decision maker.

POLITICS AND POLICIES

The key values involved in this discussion are redistribution and the role of government.

If the third perception is true for a significant portion of workers, then government policies to encourage retirement at later ages could directly contradict one of the basic purposes of current social insurance. Social Security and Medicare (as well as other programs) are designed to redistribute resources so as to protect low- and moderate-income workers against economic risks.[1] If low- and moderate-income workers

on average are less able to work to a given age than high-income workers, then policies that seek to force Americans to work later, or punish them for retiring earlier, would be inherently regressive, contradicting one basic purpose of the programs.

At the same time, much of the concern about the costs of our aging society may be seen largely as an objection to government spending per se. The retirement of the baby boomers will increase Social Security obligations by about 2 percent of GDP. This is less than the effects of President Bush's tax cuts on the federal budget, and less than the cost incurred to pay for public education for the baby boomers themselves. It's a signi.cant amount of money but, if you believe Social Security is a good program, the fact that more people will need it does not make it less valuable. Hence objection to the expected spending increase for Social Security is essentially a value choice, and the value involved is size of government, or attitude toward social insurance per se.

The projections of increased government health care spending are much larger. Yet that increased government spending because of an aging society would be largely a cost shift from private programs to Medicare. In the United States, most individuals move from private to public health insurance budgets when they reach age 65; hence government spending will increase dramatically if a larger share of the population is age 65 and over. No other advanced industrial country has this distinction between age groups in its health care financing, and therefore aging does not appear as though it will have a comparable effect on public (or semipublic) health spending anywhere else. Moreover, by any reasonable measure, the underlying dynamic of health care cost increases per capita for all Americans is a far larger challenge than the effects of an aging society. The Medicare program, overall, has done better than private insurers at controlling costs (not that either has done wonderfully). Hence to focus on the costs of Medicare alone reflects a greater interest in the federal budget than in the national burden from health care costs, and to suggest privatization of Medicare, given the historical cost experience, suggests a distinct bias against government programs rather than a pure interest in reducing total health care costs.[2]

Therefore both support for and opposition to policies such as raising the normal retirement age may be based on ideology. So may support for such policies as making it easier for employers to hire older workers by expanding federal health insurance programs, or support

for strict anti-age-discrimination measures. Naturally the material presented in a collected volume will do little to change anyone's values. Yet the arguments here also involve some empirical concerns that could shape policy choices for policymakers whose value preferences are less ideologically determinate.

Logical questions include the following:

- What would be the .scal and economic effects of policies that sought to encourage individuals to work to a greater age?
- To what extent is the aging society a *healthy* aging society, so that in the future it will be appropriate to expect people to work beyond current retirement-age norms?
- What is the degree of inequality in people's ability to work past current retirement-age norms?
- To what extent are current norms of retirement a matter of individual choice, and to what extent are individuals retiring earlier than they have to, so that individuals are choosing to collect from government programs when they do not have to do so, and in that sense either government is wasting money, or these individuals are in some sense exploiting the government?
- The previous two questions merge into the issue of what explains which people currently retire earlier than the norm. For example, to what extent is relatively early (pre-normal-retirement-age) retirement now determined by the labor market, so not obviously a "choice"?
- What would be the consequences if policies did not acknowledge inequalities?
- Admitting that the proper balance between an individual's expectations of society and society's expectations of the individual is a matter of personal values; nevertheless we might ask if any policies would be likely to create the best balance because they would in some way increase the resources available to both individuals and society.

At the conference that gave rise to this volume (detailed in the next paragraph), I participated in a panel discussion titled "Boomers' Work and Retirement Plans." In the balance of this chapter I will suggest some ways in which the analyses presented by the participants on that

panel address the questions outlined above; then I will make the case for a particular policy modi.cation. I will propose replacing the normal retirement age with a different standard for entitlement to full benefits: a combination of age and years in the workforce.

BOOMERS' WORk AND RETIREMENT PLANS

At the National Academy of Social Insurance (NASI) conference "Older and Out of Work: Jobs and Social Insurance for a Changing Economy," held January 19–20, 2006, in Washington, D.C., the majority of topics related to the question of to what extent job opportunities would exist for older workers, and to strategies to help workers find jobs in the face of difficulties. Eugene Steuerle, codirector of the Urban-Brookings Tax Policy Center, presented a paper titled *When to Retire: Your Most Important Retirement Decision*, based on work he did with Urban Institute colleagues Barbara Butrica and Karen Smith. Steuerle's presentation was in the minority; it emphasized the premise that the primary policy need is to convince workers to stay in the workforce later in life, and so the policy challenge is to find ways to encourage that conviction.

Their data show that, for most households, the projected value of Social Security and Medicare benefits far exceeds the value of the rest of their retirement portfolios. Steuerle demonstrates large benefits to individuals, in terms of larger annual incomes while in retirement, and to the economy as a whole, in terms of a larger economy from which to fund benefits, from people working later. Delaying retirement makes it more affordable, however it is funded, for two reasons: 1) a shorter period that must be covered by the funds, and 2) a greater accumulation of funds. The implication of these points is that Social Security and Medicare policies should be changed to encourage people to work to later ages (Butrica, Smith, and Steuerle 2006).

In published papers and talks, Steuerle has frequently suggested raising the normal retirement age. He has also proposed more modest steps, such as changing the Social Security benefit formula to include every year worked. Such a reform would raise individual benefits according to years in the workforce beyond 35, and so would eliminate

the current situation, in which for some workers a year of extra work at a lower-than-trend salary (for example, part-time) would not increase future monthly payments. As Steuerle has argued, there are plausible equity reasons why current law, which only counts the .rst 35 years of contributions, may seem unfair in addition to creating a disincentive for further work (Steuerle and Spiro 1999).

Butrica, Smith, and Steuerle (2006) are clearly correct in arguing that the aggregate affordability of retirement is fundamentally a labor market question. Retirement is a choice about whether to be in the labor market. Whether retirees claim income through the government, through family ties, or through contracts involving capital investment, in all cases they must be supported by the product of workers. The most fundamental way to make it easier for workers (as a group) to support retirees (as a group) is to turn some of those retirees into workers. While this point may seem a conservative one in the U.S. debate—because it seems to call for raising retirement ages—it is just basic math. The March 2000 Special European Council in Lisbon concluded that finding ways to keep older workers in the workforce is a superior alternative to cutting benefit rates, both because it seems less painful and because it would in theory be better for the economy as a whole.[3]

However, it is not realistic to assume that if people are convinced to seek work, jobs will be there for them. The EU's stated commitment to the Lisbon vision of expanded labor force participation does not create the necessary jobs (Economic Policy Committee 2000, pp. 41–45). In fact there have been many cases throughout the past century in which national policymakers have encouraged retirement precisely because they did not think there were enough jobs to go around, and they believed it more important to employ younger workers. While some of those policies may have been mistaken, it may be as reasonable to assume a fixed labor demand as a conveniently expanding one. If there are suddenly more workers, perhaps that will drive down the income of younger workers rather than increase national product. This is a subject I will not explore in this chapter, but it is highly unlikely that the job supply in any country will simply expand to fit new levels of desire to work, without reducing average wages. Lower wages from increased competition for work, in turn, would reduce younger workers' take-home pay just as clearly (though with different incidence) as higher taxes would.

In addition to the practical questions about labor markets, Steuerle's position begs the equity questions. One can dismiss the concern, as he did in a conference call in January 2006 just before the NASI conference, by arguing that in 1950 the average retirement age was 68, jobs were on average more physically demanding, and people were on average not as healthy. Yet it is less than clear that our goal for 2050 should be that peoples' lives resemble those a century before. After all, we do not consider the standard of living in 1907 an appropriate standard for today. Moreover, if socioeconomic disparities are on average increasing (and there is reason to think they have since at least 1973), then even if a later retirement age is on average justi.ed, it may seem even more inequitable to require later retirement, or reduce benefits for earlier retirement, for the people who are least able to delay their retirement.

Joanna Lahey's work addresses one of the factual issues: the extent of discrimination against older workers. She reports on research in which she sent out resumes for fictional job applicants of varying ages in response to newspaper want ads in Boston and in St. Petersburg, Florida. She found a clear difference in the rates at which employers invited these fictional older and younger employees to come in for job interviews: "A younger worker in either state is more than 40 percent more likely to be called back for an interview than an older worker, where older is defined as age 50 or older," notes Lahey (2005, p. 3). This means an older worker must reply to many more ads in order to get an interview, which surely must mean it is harder to find a job when older.

Lahey thus provides strong evidence of hiring discrimination. Her data does not support any particular explanation of the discrimination. She suggests reasons why antidiscrimination statutes may backfire and adds that fear of health care costs may be a factor but cannot easily be proved. Lahey's work also does not directly address the equity question of whether some kinds of older workers will face greater discrimination than others. Her work does suggest that it is easier to get hired with scarcer skills, and one might infer that scarcity of skills has a class differential, but her evidence does not address that question.[4]

Marc Freedman and his colleagues at Civic Ventures argue for a positive view of baby boomers as a resource that can address a wide range of social problems. Freedman cites examples of bureaucrats who become teachers, physicians who volunteer for free clinics, and academ-

ics who become lobbyists (Freedman 2004; Freedman and Moen 2005). In an ideal world, workers would not only stay in the labor market but, if there were impediments to continuing in their previous careers, accept positions that might be of lower prestige but be of great social use (e.g., in day care or aftercare).[5] Freedman (2006) also reports on a survey done from March to April of 2005 (Freedman 2005). The study concludes that preboomers and leading-edge boomers want to work, and to a substantial extent seek meaningful work in which they could do good, e.g., in education and social services. In this and other works, Freedman consistently argues that what many seniors will want is a new career, with the traditional retirement years morphing into a new stage of work. Most importantly for policy purposes, Freedman and his colleagues argue that many baby boomers want to work in this way, but that the problem is to .nd public policies that enable such work, rather than policies that force people to continue working. Hence his advocacy is very different from Steuerle's campaign to lower benefits for people who do not work later than the current retirement age.

All of this is an attractive vision, because it suggests a virtuous fit between personal interests and social needs. The argument that many people will want to find a kind of postretirement career—keeping busy for fewer hours with much lower incomes but still doing personally rewarding work with much less stress—is surely correct. Yet Freedman (2005, p. 3) notes that "if the old norm for retirement was the golden years focused on leisure, the new default position seems to be a part-time job in the retail sector." However, the MetLife Foundation/Civic Ventures New Face of Work Survey, conducted in 2005, finds that, instead of working in retail or fast food, many Americans in their 60s and 70s "want to focus their accumulated time, talent, and experience on work that directly contributes to social renewal" (Freedman 2005, p. 3). The survey data suggest that "despite strong interest in pursuing new work for the greater good, few of those surveyed thought it would be very easy to find this type of engagement" (Freedman 2005, p. 4). Freedman also notes that many of the people who might want to do some form of social service work aren't trained for it. Thus his analysis calls for government support of retraining, while noting that nonprofit organizations need to somehow be convinced to seek out the senior workforce.

Hence, the desire to work in service capacities such as teaching, nursing, health services, and child care does not in itself suggest that an aging population will be more affordable for society. The jobs have to exist; in many cases that means the public sector would have to pay for them, and opponents of government spending for pensions tend to be not much more supportive of public spending for education, health, and child care. Moreover, the arguments and examples made by Freedman and his colleagues have a clear upper-middle-class focus, involving retirement by skilled professionals. We can agree that .nding ways for these people to continue to contribute is highly desirable but still worry about the rest of the population.

One of the purposes of Freedman and the Civic Venture group's work is to counter the idea that the future burden of an aging society is in some way due to the selfishness of baby boomers. Objective measures of boomer selfishness appear to be lacking: from an economic standpoint, they seem not to have exploited other demographic groups because of their large cohort size. There is evidence, however, that the large size of the boomer cohorts has caused individual baby boomers, on average, to face unfavorable conditions in the labor market and potentially negative long-term effects in the housing market and other financial asset markets. From this perspective, those cohorts—or at least the last two-thirds of the boomer group—may deserve more sympathy than blame (White 2003, pp. 119–125).[6] Triest, Sapozhnikov, and Sass (2006) address one aspect of the pattern.

If future seniors are expected to work more, one basic question that presents itself is, "What will be the level of demand for those workers?" One way to look at demand for older workers is to look at relative wages for younger and older workers. The past four decades showed the emergence of an "experience premium," which could be interpreted as evidence of demand for older workers. Triest shows, however, that this was largely a result of the baby boom cohort: when that cohort was young, its numbers depressed wages for young workers, making it look as if experience were gaining value; as the baby boomers have grown older, however, the premium has eroded.[7] There are also questions of how any age patterns might be related to education and occupation.

What, then, are the implications of this work? If the real lesson is the fact that cohort size matters, then we might expect older boomers to have trouble finding jobs simply because they will still be competing

with one another for the limited set of jobs appropriate for older workers. Hence, for theories that the retirement of the boomers in particular may be made affordable by expecting them to work later, a further complication is that there may be too many of them for this solution to work very well. In the meantime, industrial and occupational shifts could also reduce the employment prospects of at least some older potential workers.

None of the papers presented at the NASI conference, in spite of their many virtues, suggest policies to cope with issues such as the differences in physical ability to continue work, or the equity of expecting an equal retirement age for all workers. Therefore, in the second half of this chapter, I will present some sketchy data relevant to those issues and outline the case for reforming the terms of entitlement to full Social Security bene.ts.

SOME MODEST Ev IDENCE ABOUT Eq UITY

Would raising the normal retirement age have particularly negative consequences for workers with lower incomes and education, and so raise serious equity concerns? Consider these indicators.

First, there is clear evidence that life expectancy around retirement age is positively correlated with income and strongly positively correlated with education. Panis and Lilliard (1999), for example, estimate life expectancies at age 60 and find a complex pattern in which how these variables matter varies between men and women. Nevertheless, education and income on average are strongly associated with life expectancy. For example, life expectancy at age 60 is 5.4 years greater for white male college graduates at the seventy-fifth income percentile than for white male high school dropouts at the twenty-fifth percentile of income.[8]

Second, there is equally clear evidence that, at least until now, "the earlier men retire, the more likely they are to be in poorer health and have higher mortality risk than those retiring at age 65" (Waldron 2004, p. 2). Men who retire before the normal retirement age of 65 have had lower odds of surviving to age 80 than have those who wait until age 65; this effect has been independent of education or other factors, and a

stronger predictor than education, race, or marital status. The low earnings group that has taken earliest retirement has been particularly likely to be in poorer health (Waldron 2002, 2004). This suggests that early retirement is not simply a matter of sel.shness or poor public policies that create inappropriate incentives: to some extent it reflects real differences in life situations, such as the state of one's health.

Third, older workers appear to be especially at risk from injuries at the workplace, and this is particularly true of workers in more physical occupations. In 2003, "the fatality rate for older workers (11.3 fatalities for 100,000 workers) was nearly 3 times that of younger workers" (Rogers and Wiatrowski 2005, p. 25). This appears to be less a matter of incidence of accidents and more a matter of their consequences. For example, "twenty percent of older truck driver injuries result in fractures, compared with 9.3 percent for all truck drivers" (Rogers and Wiatrowski 2005, p. 28). Older workers are particularly prone to falls, even in jobs such as retail sales.

All of these indicators support common-sense fears about the distributional impacts of raising the retirement age. As Barry Bosworth, a senior fellow at the Brookings Institution, once commented, "That's easy for white-collar workers like us to suggest. But talk to laborers." In the words of the wife of a printing press operator, it "might be okay for somebody who sits on their butt all the time." Or, as President Clinton put it, "It might be fine for somebody like me, who's always had a desk job. But what about the people who have laboring jobs? What about people who really work with their hands and their backs?" (Calmes 1997, p. A20).

Yet there is another, subtler, inequity. Alert readers may have noticed that I have tried always to express the equity issue in terms of ability to "work later" rather than ability to "work longer." There is a reason.

The Other Inequity

One point that seems to get lost in the standard discussion of raising retirement ages is that the people who can work to the latest ages seem likely to, on average, start their period of full-time work at later ages. Jobs that require less physical labor generally require more educational attainment. So, for example, college professors (the example

of individuals who want to have second, socially useful careers in one of Freedman's articles)[9] are likely to have waited until at least age 27 before entering the workforce full-time (assuming graduation from college at age 22 and .ve years to PhD). Attorneys will have begun their careers around age 25; physicians will have begun residency around age 26; MBAs will start around age 24. Yet construction workers likely begin upon graduation from high school, at age 18. Operators of heavy machinery may be prevented from taking such jobs until age 25, but we would expect them to have worked in other jobs after high school graduation.

What this means is, if a construction worker with a terminal high school diploma works steadily to age 60, he will have worked as many full-time years as the attorney who works until age 67 (42 years in each case). As a rough hypothesis, the people who can work latest will have also been educated longer. As a result, expecting the same normal retirement age for all workers is doubly unfair: the workers who are least able to work *later* will have to work *longer* in order to earn full benefits.

Unfortunately, I am aware of no studies that relate work prospects and ability to work at later ages directly to years in the workforce.[10] Yet we do have some evidence about behavior that seems to fit the hypothesis.

First, we know that people who wait to retire at age 65 are distinctly more likely to have a college education than most retirees, and that people who retire at age 62 are distinctly less likely to have graduated from college (Waldron 2004).

Second, we know that "physical job demands fall significantly with educational attainment. For example, in 2002, 28 percent of older workers who did not attend college reported that their jobs require lots of physical effort all or almost all of the time, compared with only 8 percent of college graduates" (Johnson 2004, p. 53). Such a finding may understate the degree of the problem, because some of the people whose jobs required greater physical effort would have already left the workforce, so would not get counted. Hence, while it is clear that transformations in the nature of work mean that a larger percentage of jobs can be done by older workers, there remains a significant proportion of jobs that do not fit many older workers.

Third, we know that older workers in fact are somewhat less likely than the norm to work in jobs like construction, and somewhat more

likely to work in some sort of management or professional capacity. Having a management or professional occupation is, of course, much more strongly related to education.[11] While these data are weak and partial—occupational categories are huge and many factors influence them—it does fit the sense that workers who enter the workforce at an earlier age are more likely to have jobs that encourage earlier retirement.

Fourth, expectations that social changes will greatly increase the number of seniors who are highly educated and so able to work later would not appear to be based on data. The boomer cohorts do include a far larger share of college graduates than did their predecessors: 30 percent of those who turn age 62 in 2008–2012, compared to 17 percent for the group that turned age 62 in 1993–1997. But at that point (2012), levels of educational attainment will level off, remaining "roughly constant for future birth cohorts through those that turn 62 in 2028–2032" (Smith and Toder 2005, p. 1). In fact, the proportion of the population born in 1970–1975 that had a college diploma in 2000 was no greater than the proportion born in 1946–1950 that had a diploma that year.[12] The future economy may give more of its rewards to people who are more highly educated, and may in fact have less of a place for physical labor. Yet the rates of education do not seem to be improving, which would just cause more people to be left behind.

Papers at the NASI conference and other evidence also suggest that the market demand for lower-educated older workers in particular could be weak. The worry remains that there could be "a sorry mismatch of supply and demand. Those with the most skill and education will be the most needed, but also the most able to retire; those with the least education will have a greater need for, but slimmer prospects of, continued work" (Kosterlitz 1997, p. 1885).

In short, while more appropriate research is surely desirable, there is good reason to fear that the following five points are true:

1) There will be a cadre of Americans into the foreseeable future who will have difficulty finding jobs at later ages, either because of market conditions or because of their own physical inability to do the jobs.
2) This group on average will have started full-time work at an earlier age.

3) This group on average will have lower working incomes and fewer nongovernmental resources to support retirement.
4) This group will have shorter life expectancies as they near retirement age, so raising the age of eligibility for government bene.ts will have a regressive effect on them, cutting their total benefits by a larger share than the total benefits for other retirees.
5) This group already contributes for a relatively large number of years compared to the number of years for which they collect benefits. Any measures that raise the retirement age will not only make this group's benefit less adequate, but will increase the preexisting inequity.[13]

Given these conclusions, there is good reason to worry that raising the retirement age would contradict the purposes of Social Security.

HOW TO REDEFINE ELIGIBILITY

The basic problem is that a fixed age of normal retirement fails to recognize both inequities: that some people cannot work as late, and that to a substantial extent the same people began work earlier.

To the extent that these two factors are correlated, the appropriate response would be to base eligibility for full benefits not on age, but on years in the workforce.

If entitlement to full benefits required 45 years in the workforce, then, barring periods of joblessness, the usual age of full eligibility for a person whose education ended with high school graduation would be 63; for an individual whose formal education ended with college graduation at age 22 it would be 67; and for an attorney, with law degree completed at age 25, it would be age 70.

Basing eligibility on years of service is hardly unprecedented in the pension world. There are some pension schemes in which entitlement is based solely on years of service, particularly pensions for the military and some teachers. More common, it appears, is a compromise in which age and years of service both determine eligibility. Thus, in the old Civil Service Retirement System, workers earned credits to pensions for each

year of work. They could take the full pension to which the credits entitled them at various combinations of age and service (e.g., 65 with 20 years, or 55 with 30 years). But they could earn larger pensions by working longer. The Italian social security system includes a "seniority pension" available at age 57 with 35 years of contributions or regardless of age with 38 years of contributions. Some other countries have systems in which the amount of pension depends directly on the number of years of contributions; for instance, in Switzerland, receiving full bene.ts requires that contributions be made in all years from age 21 to 65.[14] Social Security's own requirement that benefits be based on the highest 35 years of contributions means that for someone to work fewer than 35 years will cause a reduction to the base benefit formula.

Eligibility based on age has some significant advantages. Most simply, it is easy to measure. It also represents a social notion of the age at which people should be able to retire because of the effects of age, and so is both simpler than and should have more support than will any calculation of years worked. Nevertheless, eligibility based on years working also has a fairly simple rationale: retirement is earned by contributions to the society. My personal belief is that both basic standards are appropriate and so they should be combined.

Current law will raise the normal retirement age to 67 by 2022. If policymakers were worried about the equity consequences of that standard, changing the basis to age 67 or 45 years of full-time-equivalent employment would have the effect of raising it for the group that is most likely both to be able to work later and to live longer, while lowering it for the group that most needs to retire earlier and has shorter life expectancies. If policymakers were to consider, as Steuerle would prefer, further raising the normal retirement age, it would be more fair if they did so in a way that did not change the situation of the most vulnerable workers (Steuerle and Bakija 1994). For instance, raising the normal retirement age to 70 could be accompanied by a provision that allowed full benefits for 48 years in the workforce. This would make the standard really age 70 for college graduates, but 73 for attorneys and 66 for construction workers (if we assume continuous employment, which may be doubted).

Such a system, while more fair than the alternative, would raise some nontrivial practical issues:

• *Wouldn't a years-in-the-workforce standard discriminate against people who leave the workforce to care for children?* Yes, it would. Then again, current law, because bene.ts are based on the top 35 years of earnings, also lowers benefits for those who spend many years rearing children; while the spousal and survivor benefits, in contrast, favor nonworking parents. On the whole, this is a separate issue; if desired, it would be easy enough to give work credits for child-rearing, but that involves its own set of policy values. For instance, if work credits were given for child-rearing, perhaps the spousal benefit should be modified.

• *How would being "in the workforce" be measured?* This is not so easy. Employers could be required to report whether each employee is full-time or part-time, and to either report hours worked or classify the employee according to some limited set of categories. While this would be burdensome, it at a minimum would be much easier than maintaining any system of contributions into private accounts.[15] Such data could also be checked against records of school enrollment. It appears likely that, for national security reasons, institutions of higher education are going to be required to track students' enrollment status anyway; the same record-keeping could be applied to all students, not just international ones.

• *What about the self-employed?* That could be a problem. Under current law, individuals contribute to Social Security as part of income tax filing, and it is not necessary to distinguish whether that is from full-time or some other time of employment. If a person were self-employed for his or her entire career, the top 35 years of contributions would be counted; if some of those years are quite low, that affects the benefit calculation but not when a person is entitled to full benefits. If people could simply define self-employment on their own terms, an unusually strategic and foresighted pre-law undergraduate might start a very small business, pay nominal Social Security self-employment tax, do so through law school, and thus entitle herself to full Social Security benefits seven years earlier than her classmate who was not so clever. One approach that might reduce such problems would be to assume that full-time students were not working, and then set some standards as to what levels of income (if self-employed) or reported hours worked (if partially employed by others) would count as equivalent to years or fractions of years in the workforce.

These dif.culties are significant enough that I see changing to a system in which full entitlement depends on both age and years in the workforce as a proposal that definitely needs more study. Nevertheless, changing the basis of eligibility would have the merit of recognizing both sides of this volume's topic. Much of the analysis in this book recognizes that the ability of future older workers to find and work in jobs will be very unequally distributed. From this perspective, the common call to raise the retirement age would seem perverse. Yet that proposal has been an important theme in the discourse on social insurance policy for many years, and the case for encouraging people to remain in the labor market, particularly as opposed to other methods to make Social Security more affordable, is plausible. Changing the basis of full eligibility from age alone to a mix of age and years in the workforce offers a way to approximately match the terms of the program to the conditions of peoples' working lives. It could accommodate the legitimate arguments for raising the retirement age without creating severe inequities.

CONCLUSION

The conundrum that this chapter addresses could be addressed with many policies instead of or in addition to a change in our national pension guarantee. For example, anything resembling the national health insurance systems that exist in all other rich democracies would greatly decrease employers' incentive to avoid hiring older workers. If policymakers want to encourage upper-income workers to keep working, they could raise the age at which IRA funds may be withdrawn without penalty.

At the same time, to a certain extent the supposed problem may be one that the market will ameliorate without much policy action. If the problem is a lack of demand for older workers, then if there are fewer younger workers, employers will be faced with a choice: bid up the salaries of younger workers, or find ways to come to terms with an older workforce. They may prefer the latter option. If the problem is that older people don't want to work, then many indications suggest that a shortfall in other sources of income will leave them little choice.

Finally, some of the attendant issues in today's work world could imply that a focus on income for older citizens misses the main economic concern. The debate on outsourcing addresses a much more signi.cant question: whether workers of any sort will have decent jobs and wages. Even pensions are not as important as jobs.

Nevertheless, from the perspective of the National Academy on Social Insurance, which hosted the "Older and Out of Work" conference, the key question is whether our national social insurance programs can or should be changed. The case for increasing the age of eligibility for Medicare is exceedingly weak. Our health care problems are that too many younger people do not have insurance, and that it is too costly for everyone, not that too many older people are insured. There is more of a case for recognizing the ability of some workers to work later by raising the normal retirement age. Yet the inequities of that approach make it highly suspect. Instead of simply raising the normal retirement age, it is time to consider replacing it, as the basis for full eligibility for Social Security, with a combination of age and years in the workforce.

Notes

This chapter is an adapted version of a commentary delivered at the eighteenth annual Policy Research Conference of the National Academy of Social Insurance, "Older and Out of Work: Jobs and Social Insurance for a Changing Economy," held in Washington, D.C., January 19–20, 2006.

1. The redistributive purpose of Social Security is explicit in the benefit formula. It is generally agreed that the redistributive benefits outweigh the regressive contribution scheme. By standard definition—i.e., the tax is proportional to income and the benefit is seemingly the same for everyone—Medicare may not seem redistributive. Yet with higher-income people paying more, lower-income less, and everyone receiving the same entitlement, it clearly redistributes ability to consume health care down the income scale, compared to what the market would provide.
2. For discussion of Medicare costs see White (2003); for a broader discussion of aging and health care costs see White (2004). Analyses that claim an aging population will greatly increase costs confuse the effect of age with the effect of time until death; for confirmation of this point see Chernichovsky and Markowitz (2003), Stearns and Norton (2003), and Gray (2005).
3. For a good example see OECD (2004); for earlier citations see White (2004).
4. For a good summary of other reasons employers might avoid older workers, or discriminate against them in other ways, see Economic Policy Institute (2005).
5. See Adler (2002); an admirable example is the gentleman who has supervised the after-care program at my daughter's elementary school.

6. The evidence is that the .rst five years or so of the boomers did okay, because that five-year cohort (1946–1950) was basically competing with the smaller cohorts that preceded it. But by about 1952, newborn boomers were headed for much tougher financial times.
7. See Triest, Sapozhnikov, and Sass (2006); my statements here are based on a draft of that paper. It should be understood that many other effects must be relevant to these data.
8. There is roughly a seven-year difference by gender holding income and education gradients constant, and about a one-year difference by race, compared to a five- or six-year difference on the income/education combination cited here. Most of the difference for males occurs between an individual with median income and a high school diploma and the lower income and education group. Yet for females, in the estimates, the median income and high school education group is about halfway between the higher and lower groups. Why the income and education patterns differ by gender could be a subject for much speculation. For the data, see Panis and Lillard (1999), Table 2.4.
9. This example comes from Freedman and Moen (2005).
10. I mean the statement literally: there may be some; I just haven't found them.
11. See the Census Bureau's Current Population Survey Data for 2004, Tables 10 and 15. For instance, 6.2 percent of workers over age 65 worked in "natural resources, construction, and maintenance," compared to 10.5 percent of all workers. For the 38.2 percent of workers with "management/professional" jobs, the education gradient was striking: only 16.3 percent of those with only a high school diploma had such jobs, while over 90 percent of those with professional or doctoral degrees did (author's calculations).
12. Bauman and Graf (2003). This result may be partially due to immigration; in other words, rates of education for native-born Americans may have risen moderately, but an influx of younger immigrants have offset that effect on the proportion of younger residents with college degrees.
13. Inequity here involves the number of years in retirement relative to the number of years working. If the years of retirement are reduced and years working increased by the same number of years, this will have a larger proportional effect on those with fewer years of retirement to begin with. That's algebraically simple if each group has the same number of years working, because all that matters is the ratio of years in retirement. Reducing 15 years of benefits by three is a 20 percent cut, while reducing 12 years of benefits by 3 is a 25 percent reduction. If the shorter-lived group actually worked longer than the longer-lived group, the effect still favors the longer-lived group so long as more time is spent in work than in retirement.
14. Short descriptions of national systems may be found at http://www.ssa/gov/policy/docs/progdesc/ssptw/ (accessed January 23, 2007).
15. Reports on full-time status would not require the same kind of computerization, real-time reporting, and immediate accuracy that would be required for private accounts. For example, records could be corrected annually without any worries that workers had been deprived of earnings on investments in the interim.

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10
Public and Private Strategies for Assisting Older Workers

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In 2006, the .rst wave of the baby boom generation turned 60. In 2011, the oldest baby boomers will turn 65, the traditional retirement age. Older workers are now one of the fastest-growing segments of the American workforce. According to the U.S. Census Bureau, the Bureau of Labor Statistics (BLS), and the General Accounting Office (GAO; now renamed the Government Accountability Office)[1], the number of older workers is predicted to grow substantially over the next two decades, and older workers will become an increasingly significant proportion of all workers (BLS 2004a, 2005; Carroll and Taeuber 2004a,b,c,d,e,f,g,h,i,j, 2005; GAO 2001). The BLS (2004a, 2005) estimates that between 2002 and 2012, the number of workers aged 55 and older will grow by nearly 50 percent, outpacing any increases in the number of younger workers. By 2012, the BLS predicts, 42 percent of workers in the United States will be 45 and older, up from 37 percent in 2002. During this 10-year period, the number of workers aged 45 and older will grow by nearly 27 percent, while the number of workers aged 16 to 44 grows by only 3 percent.[2]

The aging workforce is likely to have important consequences for the American labor market. First, upon reaching retirement age, workers are not likely to drop out of the workforce entirely in the future. As recent surveys indicate, they are more likely to seek voluntary transitions—from full-time work to part-time work, from one field to another, or from work to education or volunteer activities. Many American work-

ers are realizing that work will likely continue to be part of their lives well into their 60s and 70s. In a national *Work Trends* survey conducted by the John J. Heldrich Center for Workforce Development at Rutgers University, researchers found that nearly 7 in 10 American workers plan to continue to work full or part time for pay following retirement from their main job (Reynolds, Ridley, and Van Horn 2005).

Second, as the proportion of older workers in the workforce continues to rise, more older workers are likely to encounter involuntary job loss. Today, American workers are experiencing layoffs as a reality of the job market, and as the number of older Americans in the labor market increases, the number of older Americans who .nd themselves out of work or left with reduced work hours and incomes will likely increase as well. While some workers will opt to leave the labor market voluntarily through buyouts or retirement, others are likely to be laid off or to have their wages and hours reduced as a result of business mergers, acquisitions, divestitures, and cost-cutting.

And third, as baby boomers reach retirement age, the pending wave of retirements may lead to industry-specific labor or talent shortages as well as human resource problems in such areas as succession planning, recruitment, and retention (of both knowledge and workers). For example, the electric utilities industry has already identified workforce aging and turnover as a significant business issue, citing that the size of its workforce has declined by 25 percent in the past 15 years and now stands at pre-1975 levels. According to the Utility Business Education Coalition, one of the biggest problems facing the industry is a projected gap for skilled technical or craft labor, and being able to find skilled and well-educated workers to fill that gap. Industry leaders note that the average utility worker is four years older than the national average, and that half of their workforce is eligible for retirement over the next decade. The greatest impact reportedly will fall on small and mid-sized utility companies (Kussman 2005). Other industries that have identified concerns with the aging workforce and talent shortages include aerospace, petroleum, and the federal government. In addition, the U.S. Census Bureau, through employment development departments in various states, has identified industries where more than one in five workers is 55 years or older and, thus, where shortages are most likely to occur. These include transportation and transit services, real estate, mining and

quarrying, educational services, the garment industry, and membership organizations (Carroll and Taeuber 2004a,b,c,d,e,f,g,h,i,j, 2005).

According to recent studies by the Conference Board, the American Association for Retired Persons (AARP), and the Society for Human Resource Management (SHRM), businesses that are starting to see large waves of retirements are exploring ways to remedy the possible impact of lost knowledge, as well as ways to best retain retired employees in some capacity and to recruit new workers (both younger and older) into the workplace. Other businesses, however, currently see no need to take any action or are slow to prepare for the challenge (AARP 2000; Collison 2003; Conference Board 2002; Morton, Foster, and Sedlar 2005).

The aging of Americans, combined with the realities of today's economic environment, presents signi.cant challenges for American society and communities, as well as for U.S. public policy and programs. Given that observers anticipate more Americans will be working (or looking for work), the nation's public workforce system will likely face enormous pressure to meet the anticipated demand from older workers for more attention, better service, and more access to local, state, and federal resources to help them retain or find employment. While the public system will be faced with policy and operational issues, the prospect of serving an older population can offer an opportunity for policymakers to begin to better assess the needs of older workers, with a goal of improving the information, access, and quality of employment-related assistance and service.

TRENDS IN DISPLACEMENT AS A WHOLE AND IN DISPLACEMENT OF OLDER WORk ERS

As noted earlier, at the same time that the American population is aging, rapid changes have taken place in the economy, which have resulted in tremendous labor-market job churning. Key industries have eliminated jobs (such as in manufacturing), while other industries have made employment gains (such as in retail, education, and health care). According to the Bureau of Labor Statistics (2004b), 11.4 million people were displaced between 2001 and 2003, and 5.3 million of them

were displaced from jobs they had held for at least three years. Nearly one-third (1.7 million) of these displaced long-term workers lost jobs in manufacturing. The reality is that technological changes and globalization have had a tremendous impact on the job market, generating job dislocations and making layoffs a reality for many American workers.

Job dislocation has considerable costs. In addition to those costs workers bear by having their careers disrupted and their lives upended, they incur other costs equally as burdensome, including wage losses, isolation, depression, intense stress and despair, and loss of job seniority. They also incur the costs of searching for new jobs (Rodriguez and Zavodny 2000; Van Horn et al. 2005).

Older workers are particularly vulnerable to job dislocations. A recent study suggests that since 1980, the rate of job displacement among workers over the age of 50 has risen faster than that of younger workers (Elder 2004). Older workers also tend to have lower reemployment rates and larger earnings losses than their younger colleagues. In data collected by the BLS on worker displacement, workers over the age of 55 have a harder time becoming reemployed than younger workers. The average duration of unemployment in 2004 for older workers looking for work was 25.8 weeks, compared to 18.9 weeks for younger job seekers.

In addition to displacement, older workers are also more likely to drop out of the labor market than their younger colleagues. While few older Americans who are not currently working say they wish they were employed (in 2004, slightly more than 2 percent of the 40.5 million people aged 55 and older who were not in the labor force reported that they wanted a job), as many as 84,000 people aged 55 and older classify themselves as discouraged. Essentially, they have given up looking for work because they do not believe work is available or, for whatever reason, they have simply stopped looking for employment. While only a small number of these 84,000 discouraged workers reported wanting a job (8.7 percent), this 84,000 .gure represents an increase of 12 percent in the number of older discouraged workers from 2003 to 2004. Older workers had a higher probability of dropping out of the labor force following displacement than any younger age group (Rix 2005).

PUBLIC AND PRIvATE PROGRAMS FOR DISPLACED WORk ERS—BOTH YOUNG AND OLD

The Heldrich Center recently undertook a study of laid-off American workers that focused on the experience of involuntary job loss among workers (Van Horn et al. 2005). The research examined three areas: 1) the consequences of job loss among laid-off blue-collar and white-collar workers, 2) the types of workers that are affected by displacement, and 3) the policies and practices of both employers and the government in response to worker layoffs.

The Heldrich Center's research shows that employer support to laid-off workers is uneven, uncoordinated, and unavailable to many. Overall, the availability of severance pay and transition services by companies depends on the size of the company and its culture and values. In addition, trends indicate that these supports and commitments are diminishing as companies face greater .nancial pressure to reduce costs. The same study finds that government support and assistance for displaced workers, too, has been uneven, cash-strapped, and out-of-sync with today's labor market realities. The Heldrich Center study reveals that while workers view unemployment insurance, job placement assistance, job training, and extended health care as important programs and services, these safety nets and the policies that guide them have suffered from diminished funding, outdated eligibility criteria, and a lack of connection to the realities of today's business needs and workforce demographics.

Notwithstanding indications that older workers will be important to the American labor market and will be needed to fill predicted labor and talent shortages, other signs suggest that older workers' employment and reemployment prospects will continue to be poor. A recent GAO study, as well as surveys of employers conducted by the Conference Board, AARP, and SHRM, shows that employers continue to have a lack of interest in hiring older workers and to have negative perceptions regarding the value of older versus younger workers. Although many employers publicly state a willingness to recruit or retain older workers, most employers are not currently engaged in human resource practices that are in favor of older workers. Fundamentally, a majority of employers today fail to recognize the proposition that an older worker has

value, and these employers are not making an effort to hire or retain older workers. The exceptions are in some speci.c industries where a high average age exists (such as utilities, transportation, aerospace, and the public workforce) or where there is a clear business case for employing older workers and, thus, a labor market need to hire them, such as in the retail industry (AARP 2000; Collison 2003; Conference Board 2002; Morton, Foster, and Sedlar 2005).

As these studies imply, a major barrier for many older workers reentering the workforce is ageism: negative attitudes toward the job abilities and job prospects of older workers. As the Heldrich Center *Work Trends* study reports, surveyed workers believe that younger workers are in a much better position to find a new job at the same salary following a layoff. Those surveyed also suspect that employers favor younger workers over older workers in the workplace. These views are supported by recent research from the GAO reporting that, in its study, retired workers most often cited three things as barriers to continued employment: 1) their own limited skills, 2) limited employment options (that is, that most jobs available are lower-skilled and lower-paying jobs), and 3) age discrimination by employers. This is supported by U.S. Department of Labor data showing that, among workers who are able to find reemployment, 56 percent of workers over the age of 55 take a new job at a lower wage than the one they left, the highest rate of any age group (Helwig 2004). And, according to data from the U.S. Equal Employment Opportunity Commission, while age bias lawsuits tend to rise and fall with the economy, the number of workers filing age discrimination complaints has been escalating. In 2001, age-related complaints from firings and layoffs reached their highest level since 1996 (Spolter 2002).

A less obvious obstacle to older workers getting back to work may be the competition they are likely to face when desiring employment services from the public workforce system, which provides services to anyone seeking assistance. While federal public awareness campaigns on the value to older workers of working and the value to employers of hiring older workers have begun, most One-Stop Career Centers and the programs designed to help older workers are overwhelmed with applicants, underresourced, and overburdened with work from serving many other dislocated workers (who may be better candidates for quicker job placement) or other disadvantaged adults. The public workforce system

has historically underserved older workers according to their proportion in the labor market, and, despite the efforts of senior advocates, older workers are but another subgroup competing for attention with other subgroups in the system (USDOL 2002).

Currently, the federal government has only two programs designed to serve older workers looking for employment: the Senior Community Service Employment Program (SCSEP) and the Alternative Trade Adjustment Assistance Program (ATAA).[3] Both are small programs with narrowly de.ned eligibility criteria (Table 10.1). The U.S. Department of Labor advises older workers who do not qualify for services under the ATAA or SCSEP that they may be eligible for services under the Workforce Investment Act's (WIA) Dislocated Worker or Disadvantaged Adult programs or other programs that may be available through a local One-Stop Career Center. At present, state and local workforce development systems (i.e., One-Stop Career Centers and Workforce Investment Boards) are being encouraged to be more responsive to the needs of older workers in general and to the needs of older dislocated workers specifically (Kramer and Nightingale 2001). However, there are few, if any, federal initiatives aimed at expanding workforce programs for older workers or at improving the ability of existing programs to serve older workers.

At the same time, a growing number of nonprofits, faith-based organizations, new private-sector institutions, and some state and local government agencies have begun to offer innovative programs targeted at unemployed older workers, using one or more of a combination of public and private funding sources patched together, including but not limited to WIA Dislocated Worker funds, private foundation support, United Way grants, other private individual or business donations, or fees for service. Preliminary research currently being conducted by the Heldrich Center shows that grassroots programs in distinct local areas are being established to serve an identified local need (helping unemployed workers aged 40 and older, of all income levels) to reconnect to employment. Examples of such programs that have emerged include the following:

MaturityWorks in East Orange and Whippany, New Jersey. Funded through a grant from the HealthCare Foundation and other small grants, MaturityWorks serves unemployed residents of the Jewish

Table 10.1 Federal Programs That Target Older Workers Seeking Employment

Program	Eligibility requirements	Key services	Origin and reach
Senior Community Service Employment Program (SCSEP)	Based on age, income, and place of residence. Applicants must: • Be 55 years or older • Reside in an SCSEP-funded area • Have income that is not more than 125 percent of the federal poverty level • Be unemployed	• Orientation • Part-time job training with a nonpro.t agency , with salary paid by SCSEP • Possible job placement	• Established under Title V of the Older Americans Act, as amended • Administered by the U.S. Department of Labor, Employment and Training Administration • Available in all 50 states and through 10 national sponsor programs
Alternative Trade Adjustment Assistance (ATAA)	• Similar to the Trade Adjustment Assistance (TAA) criteria, whereby workers must demonstrate that foreign trade has adversely affected them, except that it is specifically designed for workers aged 50 and older. Workers who are certified as eligible may apply for both TAA and ATAA but may only be enrolled in one or the other.	• Rapid Response Services. Government personnel provide on-site reemployment services to newly laid-off employees. • Reemployment Services. These offer workers assistance in finding new jobs. Workers who wish to qualify for benefits under the program may be able to quickly return to work through a combination of services provided through a One-Stop Career Center.	• Established through the Trade Assistance Reform Act of 2002 and administered by the U.S. Department of Labor, Employment and Training Administration. States serve as agents of the U.S. Department of Labor in administering the program.

- Wage Subsidy. Eligible workers aged 50 or older who obtain new, full-time employment at wages of less than $50,000 within 26 weeks of their separation may receive a wage subsidy of 50 percent of the difference between the old and new wages, up to $10,000 over a period of up to two years.
- Health Coverage Tax Credit: Workers who are receiving the wage subsidy under ATAA may be eligible to receive tax credits for 65 percent of the monthly health insurance premiums they pay.

SOURCE: USDOL (n.d.).

Vocational Service of MetroWest area who are aged 45 and older. Services provided include career counseling, résumé writing, skills training, group workshops, and job placement.

The Tacoma Experienced Workers Program in Tacoma, Washington. Funded through state WIA Rapid Response funds, the Tacoma Experienced Workers Program serves dislocated workers aged 50 and older who have been displaced in the state of Washington's King, Pierce, and Thurston counties. Services include job search and résumé assistance, workshops, job clubs, and some short-term training. Program services are provided through the Tacoma One-Stop Career Center.

Seniors Job Bank in West Hartford, Connecticut. Funded through several corporations, foundations, and individual and business gifts, Seniors Job Bank provides free employment services to job seekers aged 55 and older in the Greater Hartford area, as well as assistance to employers who wish to hire such workers. Services include employment referral and staff-assisted, Internet-based job search.

Senior Employment Source in Dallas, Texas. Funded through private grants and the local United Way, Senior Employment Source assists adults aged 50 and older in conducting an effective job search and .nding employment in the city of Dallas, in Dallas County, and in adjacent suburban areas. Services include group support meetings on job search and other topics, one-on-one coaching and résumé preparation, off-site job search seminars, and marketing of older workers to local employers.

In addition, a wide array of private businesses and institutions provide more immediate help to unemployed and underemployed older workers. Such businesses run the gamut from small entrepreneurs (such as individuals who advertise that they will—for a fee—provide help with career coaching, résumé preparation, personality testing, image makeovers, job search, and job leads) to large outplacement firms that are specifically marketing their services to workers aged 40 and older. Also emerging are numerous local job search and networking clubs, offered free or for a fee by individuals, churches, and faith-based organizations; by local civic organizations (such as the chamber of com-

merce); or by college and university alumni and career-service of.ces. This growing private industry in career transitions has been explored recently by Barbara Ehrenreich (2005) in *Bait and Switch: The (Futile) Pursuit of the American Dream*. The book, about white-collar employment and job hunting, has brought the plight and vulnerability of older displaced workers to the attention not only of the public, but also of those who want to help reconnect older workers to the labor market.

TRENDS IN THE AvAILABILITY OF EMPLOYMENT SERv ICES FOR OLDER DISPLACED WORk ERS

There is a clear recognition among policymakers and employment professionals alike that the American workforce is aging. These professionals also recognize that this demographic factor of aging, along with other economic and financial issues, has affected and will continue to affect the ability of older dislocated workers in America to quickly regain employment after a job loss or to take on employment in retirement. Overall, there are several trends that affect an older worker's ability to get access to affordable and high-quality employment services, that affect the public workforce system's ability to deliver these same services, and that demonstrate the current complexity of the career and work transitions landscape that is faced by older and out-of-work adults. These include the following four developments.

1. Since the number of older workers is increasing, it can be expected that the number of older laid-off workers will increase as well. The more dislocated older workers, the more likely the need for services tailored to help them .nd compatible work. According to Kramer and Nightingale (2001, p. 33) "The aging of the baby boom generation as a whole will naturally increase the number of older workers in the labor market . . . and also likely increase the need for employment-related services to those older workers who are relatively less advantaged." If there is a need for more employment services, then more public attention must be paid—and more resources devoted—to addressing the growing gap between the need for help and the supply of affordable, high-quality assistance.

2. The fewer public resources that there are available for employment-related services, the more likely it is that older workers will seek help either from the overwhelmed and underresourced WIA system, from free local programs and community services, or by paying for help from private entrepreneurs and organizations. This is especially true of those workers with limited .nancial resources and those lacking information about the labor market and how to navigate it. In many areas, the WIA system is not prepared to serve older workers. And SCSEP and ATAA, while important, are relatively small, targeted programs with limited eligibility, limited resources, and narrow program models. In describing the current dilemma with respect to public workforce development services for older workers, the USDOL (2002) concluded that currently "WIA programs can be described as being too broad to focus attention on the special needs of the rapidly increasing population of older workers, and SCSEP programs can be described as being too narrow to effectively meet those needs."

While it is widely believed that the WIA-financed workforce development systems will need to (or be forced to) change to respond to the aging worker population, it is unlikely that One-Stop Career Centers and Workforce Investment Boards will be financially able to rise to this challenge without an increase in funding and more flexible eligibility criteria that would allow them to serve a broader older worker population (aged 45 and over, regardless of income). In the absence of these services, older workers are left with limited choices and limited opportunities.

3. Although there are few federal initiatives, community-based agencies are developing and nurturing active programs and approaches for serving displaced older workers in their communities, funded mostly by private interests and with private dollars. These programs are emerging outside the SCSEP, ATAA, and WIA program frameworks, while other programs are working in collaboration or in partnership with WIA and SCSEP. Many are being patched together with private and some public funding and are serving an older worker population that is more broadly defined but perhaps just as much in need of services.

4. The private market has caught on to the enormous business potential of a large and growing market of older displaced workers who are desperate for help in getting back to work. This sector, unde.ned as an industry but emerging nonetheless, fills both a market need and a void, but it also operates with few to no regulations or protections for those older workers who may be vulnerable to scams and shams.

Currently, there is a growing constituency of public policymakers, senior advocates and retirement associations, private employers, human resource executives, unions, and workforce practitioners. These groups are looking for ways to strengthen work and reemployment opportunities for all older workers, and to provide better services and tools to help them reconnect to the labor market, either after a job loss or in retirement. As mentioned earlier, the demographic trends of the labor market strongly suggest that the demand for workforce services and supports for older workers will only increase. Drawing on national research by the Heldrich Center, including Van Horn et al. (2005), on dislocated workers and older workers, we advance five recommendations that could be put in place to enhance employment and reemployment services so that they better serve older workers after a job loss.

RECOMMENDATIONS FOR NEW PUBLIC/PRIvATE STRATEGIES FOR DISLOCATED OLDER WORk ERS

The four trends discussed above lead to the following five recommendations for policymakers.

1. Better integrate both One-Stop and community-based reemployment services with the administration of unemployment insurance, and better integrate government bene.ts with employer-funded benefits. As the Heldrich Center's study on dislocated workers notes, many laid-off workers find new jobs with little to no assistance from the government. However, a large number are lost when it comes to looking for a new job. Research has shown that many older dislocated workers—especially those in the younger half of the category (aged 40 to 60)—experience stress, depression, anxiety, and despera-

tion, psychological problems that leave them vulnerable to being taken advantage of and that hinder their ability to look for work. Many older workers need hands-on attention and personal help with navigating the labor market and the complex array of government bene.ts. Reemployment services can hasten the transition of laid-off workers to new jobs, but they must be available, accessible, and effectively developed to do so. Policymakers can help with this transition by taking successful community-based reemployment programs and services that are currently helping older workers and better integrating them with unemployment insurance benefits and privately funded transition services (USDOL 2003; Van Horn et al. 2005).

2. In the absence of federal funding, encourage the growth of innovative, community-based service models, particularly program models that offer a wide array of services and interventions, including partnerships with the business community. When public funding is lacking, state and local officials can act as catalysts in generating local support for older-worker reemployment programs, such as by providing data documenting the dimensions of the aging workforce on the state and local labor markets, by helping community-based organizations leverage private-sector funding, and by fostering partnerships between older-worker reemployment programs and local employers or business associations, such as the chamber of commerce. State and local policymakers can also work to build better and more effective coordination among existing community-based programs for older workers and seniors, the WIA-funded system, local offices on aging, and SCSEP operators.

3. Develop .exible service strategies attuned to the needs of older workers. Policymakers need to recognize that in order to effectively serve the older worker population, they must understand both the different age ranges of older workers and the different service models and interventions necessary to assist these groups. Older workers are a diverse group. Older displaced workers in the younger range (those aged 40 to 60), regardless of past or present earnings, are more likely than not looking to get back into the full-time workforce, replace their lost wages, and enhance their job market skills. Thus they need significant career transition assistance. This “too old to hire, too young to re-

tire" cohort is currently the population that is not being served through SCSEP. Older displaced workers in the upper range (aged 60 and above) may not be interested in full-time employment, but they may be looking for more .exible work arrangements that they can supplement with other retirement income. SCSEP focuses on this population but currently lacks the resources to meet the potential demand for services (U.S. Department of Labor 2003).

In addition, policymakers should explore alternative service strategies that go beyond provision of retraining or reemployment services. Research suggests that older workers are less inclined to enroll in long-term community college or other retraining programs (Jacobson, LaLonde, and Sullivan 2003). They may instead benefit from accelerated or flexibly designed education options. Alternatively, they may benefit from earnings supplements, such as those offered through ATAA, which encourage reemployment while mitigating the potential earnings losses of displacement. Additional research and demonstration projects are needed to assess the effectiveness of earnings supplements and the likely interest in them among older workers.

4. Provide research and disseminate information on promising local practices and effective older worker reemployment strategies. Advocates for older workers have raised concerns about whether older workers can be successfully served in One-Stop Career Centers under the current WIA model (USDOL 2002). Overall, there is little information available to community-based organizations and public agencies about the types of publicly and privately funded older worker programs currently operating in the nation, about what is possible in terms of the financing and structure of such programs, and about what types work best to assist this population.

5. Provide public information and guidance on how to navigate the career-transitions industry marketplace and how to protect consumers from deceptive practices and unprofessional conduct. At present, the career-transitions industry is still relatively new, and there is a general lack of information available to consumers about what qualities make up a reputable organization or professional in the field. Federal and local officials can help consumers by providing fact guides that advise consumers on a variety of topics, such as what credentials

to look for when needing help with résumé development, job search assistance, or other reemployment services; what services to reasonably expect from outplacement .rms, image consultants, or other such transition professionals; how to spot scams; and how to file a complaint about disreputable firms or individuals.

Today, both workers and employers recognize that the economy has changed the nature of work, the workplace, and workplace life in many ways. In this new environment, workers consider themselves responsible for managing their careers and handling job transitions. But more often than not, older workers encounter more reemployment difficulties than their younger colleagues and are more vulnerable in a labor market that is different from when they first began their careers. While all displaced workers bear the costs of job loss, older workers are more susceptible to longer periods of unemployment, greater wage loss, and more mental health issues. In the face of existing economic trends and an undisputedly aging workforce, it is important that public policies toward laid-off workers—and especially toward older ones—be reexamined so as to develop effective strategies that provide better support for this population.

Notes

1. The General Accounting Office was created in 1921 and was known by that name until 2004, when, as part of the GAO Human Capital Reform Act, the name was changed to the Government Accountability Office. The information cited here is from GAO (2001), when it was still known as the General Accounting Office.
2. Unless otherwise noted, statistics on employment and unemployment are from the Bureau of Labor Statistics (2004a, 2005) and the General Accounting Office (2001). Displaced worker data are from the Bureau of Labor Statistics (2006).
3. The Senior Community Service Employment Program was reauthorized in the fall of 2006.

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The W.E. Upjohn Institute for Employment Research is a nonpro.t research organization devoted to finding and promoting solutions to employment-related problems at the national, state, and local levels. It is an activity of the W.E. Upjohn Unemployment Trustee Corporation, which was established in 1932 to administer a fund set aside by Dr. W.E. Upjohn, founder of The Upjohn Company, to seek ways to counteract the loss of employment income during economic downturns.

The Institute is funded largely by income from the W.E. Upjohn Unemployment Trust, supplemented by outside grants, contracts, and sales of publications. Activities of the Institute comprise the following elements: 1) a research program conducted by a resident staff of professional social scientists; 2) a competitive grant program, which expands and complements the internal research program by providing financial support to researchers outside the Institute; 3) a publications program, which provides the major vehicle for disseminating the research of staff and grantees, as well as other selected works in the field; and 4) an Employment Management Services division, which manages most of the publicly funded employment and training programs in the local area.

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Current areas of concentration for these programs include causes, consequences, and measures to alleviate unemployment; social insurance and income maintenance programs; compensation; workforce quality; work arrangements; family labor issues; labor-management relations; and regional economic development and local labor markets.