Executive Summary

America is getting older – a simple observation with far-reaching implications. By now, the first wave of baby boomers has received invitations to join AARP.\(^*\) While the boomers themselves may choose to ignore those invitations for a few more years, the challenges posed by an aging society cannot wait that long. As today’s workers evaluate their own retirement security, and as policymakers and business leaders assess the viability of the nation’s aging-related programs and policies, they must recognize the need for significant changes in attitudes and practices.

Work will be central to this process of change. During this century, retirement has become increasingly important in the lives of most Americans, as reflected in their declining average age of withdrawal from the work force. Today, retiring with many years of life remaining is regarded as a just reward for a working life. In contrast, life after work was something to look forward to in earlier eras. It was associated with severe economic insecurity, and often seen as a precursor to death. But the past half-century has seen sustained growth in the U.S. economy, the growth of public and private retirement systems, improvements in the health of older individuals, and increases in life expectancy. As a result, Americans now measure retirement in decades rather than years.

However, as the baby boom generation grows older, it is doubtful that ever-longer retirement will continue to be beneficial and affordable for individuals or the nation. CED strongly believes that additional years of work in some form — not necessarily full-time, career employment — will be increasingly desirable for a growing number of older Americans and for our society.

**THE ECONOMIC IMPERATIVE**

The aging of the American work force will have major effects on our economy. Labor force growth will slow dramatically as the baby boom generation retires. Fewer workers relative to non-workers imply lower national saving and investment. As a result, the growth of productivity and our standard of living will suffer. One prominent observer highlights the economic implications of what he calls the “gray dawn,” arguing that aging populations will become “the transcendent political and economic issue of the twenty-first century.”\(^1\)

However, the work “solution” must be kept in perspective. An aging America will present considerable economic and social challenges. Longer work lives will not solve all of these problems — but they will help to alleviate many of them. And unlike the reform of Social Secu-

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* The baby boom generation is defined as those born between 1946 and 1964.
rity and Medicare, which will necessarily produce winners and losers, an effective pro-work agenda for older Americans can be a win-win for all parties involved — older workers, businesses, and government.

REMOVING BARRIERS TO WORK FOR OLDER AMERICANS

Our goal should be increased work opportunities and incentives for older Americans that meet the needs of these workers and their employers. Older Americans who want to work currently face numerous obstacles: pension plans that strongly discourage them from working, workplace attitudes and practices that hinder their employment, federal regulations that inhibit flexible work arrangements, and sometimes unrealistic expectations on the part of workers themselves.

Employer attitudes and policies must change if older workers are to remain in the workforce longer. Businesses have heretofore demonstrated a preference for early retirement to make room for younger workers. But this preference is a relic from an era of labor surpluses; it will not be sustainable when labor becomes scarce. A stagnant labor supply will force many employers to rethink their attitudes toward older workers and reverse policies that inhibit their employment. It is in the nation’s economic interest that businesses make these changes sooner rather than later. This report is, in part, a wake-up call to business (and others), urging them to avoid a future game of “catch up” and the considerable economic losses that will come with it.

This policy statement defines the challenges ahead of us — why encouraging work is important (Chapter 1), what stands in the way (Chapter 2), and how to overcome these barriers (Chapter 3). Reforms must encompass public and private sector policies. Our recommendations do not rely merely on goodwill or employer sacrifice. Rather, we strongly believe that changes in employer practices are as much a matter of self-interest as national interest. Older workers are a neglected but valuable resource in today’s economy and will be even more valuable in the future. It is time for employers, policymakers, and older workers themselves to recognize this fact and act on it.

MAJOR FINDINGS

1. Americans are retiring earlier and living longer, healthier lives. As a result, they spend more time in retirement than ever before. In 1965, a typical male worker could expect to spend 13 years in retirement; today, he will spend 18 years. For working women the retirement span has increased from 16 years to more than 20.

2. The work force is aging. The disproportion between the retired baby boomers and workers supporting them will be unprecedented. In 1950, there were seven working-age persons for every person age 65 and older in the United States; by 2030, there will be fewer than three.

3. These two trends have tremendous economic implications. In coming decades, employers will face tight labor markets as fewer new workers enter the labor force. Economic growth will be reduced by lower national saving, due in particular to the exploding costs of our old-age entitlement programs.

4. Encouraging older Americans to work longer and facilitating longer work lives will alleviate this economic burden. Just as important, it will expand options for the growing number of workers who are not ready to retire at today’s average retirement age of 62.

5. Older Americans currently face barriers to work on several fronts, including financial disincentives to work, workplace discrimination, and inadequate training. Ever-
SUMMARY OF RECOMMENDATIONS

Our “pro-work” agenda for employers, policymakers, and older workers includes detailed recommendations in six areas (see Chapter 3):

1. Getting the Financial Incentives Right
   - As a means of retaining valued older employees, CED encourages employers to reassess their pension offerings and consider changes that would make them neutral between work and retirement.
   - Major changes in public policies necessary to encourage longer work lives include:
     - eliminating the Social Security earnings test,
     - increasing Social Security’s normal and early retirement eligibility ages, and
     - eliminating the employer first-payer provision in Medicare.
   - We call on employers, employer associations, government, unions, and seniors’ groups to educate workers about financial planning for retirement. Many workers lack a clear understanding of the financial resources required for a 20- or 30-year retirement. With a better understanding of their retirement needs, these workers would likely avoid the early retirement trap.

6. Financial considerations often strongly discourage work. Many private pensions penalize work after some age, frequently as low as 55. Work after this age creates an implicit “tax” (often exceeding 50 percent) due to the decline in value of lifetime pension benefits. Similarly, some Social Security provisions — such as earnings limits for beneficiaries — create disincentives to work.

7. Employers’ willingness to hire and retain older workers depends, in part, on the availability of labor. As growth in the labor supply slows, employers will look to non-traditional sources, including older persons, to alleviate shortages.

8. Employers’ willingness to employ older workers also depends on the workers’ productivity and cost. There are, in fact, no discernible differences between the intrinsic abilities (measured as physical and mental ability and capacity to learn) of most older workers and those of their younger counterparts for most jobs today. Many older workers offer distinct advantages in terms of experience, company loyalty, and job flexibility.

9. However, productivity also depends on skill levels, and older workers often fail to maintain and upgrade their skills. Older employees can also cost more as a result of practices related to earnings, health insurance, and pensions. Government regulation of employee benefits also imposes costs and may discourage the employment of older workers.

10. Some older workers face discrimination in the workplace and job market. Older workers who believe they are likely to face discrimination are less inclined to remain in the work force.
2. Replacing Stereotypes about Older Workers

- CED urges employers to address age discrimination in the workplace and hiring practices through training sessions and workshops, following the model of race and gender-oriented initiatives. As a matter of self-interest, employers should abandon stereotypes about older workers in favor of honest assessments of value.

3. The Training Imperative

- Older workers themselves have the primary responsibility to acquire and maintain their own skills. However, employers who offer training should recognize the value of training their older workers and ensure equal access to training for them.

- We urge higher education and other training institutions to recognize the need for work-oriented learning among older Americans and expand their offerings to this largely untapped customer market.

4. Rethinking the Organization of Work

- CED calls on companies to explore innovative ways to reorganize work for long-tenure employees in order to avoid career plateaus.

- We believe that phased retirement is a promising, but vastly underutilized means of extending work lives. Successful implementation of phased retirement may require a change in company pension and benefit rules and changes to federal regulations governing employee benefits.

5. Getting Older Workers into New Jobs

- Better opportunities for older job seekers are required. To identify and encourage older applicants, CED believes that employers should revise their recruiting practices with older candidates in mind by identifying promising recruiting markets, orienting recruiting material toward older candidates, and partnering with seniors’ groups to advertise positions.

- Older workers looking for new employment should update their job search skills and recognize the increasing importance of computer-based job searches.

- Federal law governing employee benefits should be amended to allow greater flexibility in hiring older workers for contingent and part-time work. Older workers who want to work in flexible arrangements should be permitted to opt out of traditional benefit packages.

- CED calls on employers to consider greater use of “cafeteria”-type flexible benefit packages to facilitate the hiring of older workers in flexible work arrangements.

6. A Strong and Flexible Safety Net

- Social Security Disability Insurance (DI) should be reformed to promote work by DI recipients, many of whom are older Americans, while maintaining an adequate safety net of benefits. Our recommended reforms to DI illustrate how public safety net programs can serve their intended populations while also promoting work.
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