Plans and Preferences of Older American Workers

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ABSTRACT

This study compares the retirement plans and preferences of a recent sample of older Americans. The data suggest that a substantial minority of older workers expect to retire earlier than they really want to, and that many would delay retirement under different terms and conditions of employment. We conclude that, although most older Americans cannot or do not want to work, many do, and these represent a significant underutilized labor market resource.

Key Words: Retirement, Job flexibility

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Two of the most dramatic demographic changes in the post-war period have been the trend toward earlier retirement among American men and the increase in the labor force participation of American women. In 1950, nearly half of all men aged 65 and over were in the labor force; fewer than 1 in 6 are today. Among men aged 55 to 64, the participation rate has dropped from 87 to 67% over the same 4 decades (Aging America, 1991, Table 3-4; U.S. Department of Labor, 1992). Over the past 5 years, these rates have stabilized, suggesting that this post-war trend may have come to a halt.

Among women, rising participation in general has offset the long-run retirement trend. Among those 65 and over, the participation rate dropped only about 2 points, from 9.7 to 7.3 between 1950 and 1985, and has risen a point since then. For those 55 to 64, the upward trend has dominated, with the rate increasing steadily from 27% in 1950 to 45% today (ibid.).

When men and women are combined, the early retirement trend is clear among those 65 and over. Over a quarter of these older Americans worked in 1950, whereas only about 12% do today. Among those 55 to 64, the overall rate is almost unchanged at about 56%, with the increase of women offsetting the decrease of men (ibid.).

Demographic projections indicate that the American population will age significantly over the next 40 years. By the year 2030, the number of Americans aged 65 and over will more than double, and those aged 55 to 64 will increase by two-thirds. In sharp contrast, the number under 55 will increase by only 1%, and the number under age 18 will actually decline. (U.S. Bureau of the Census, 1989). Americans aged aged 65 and over will increase from 13 to nearly 22% of the population by 2030. A third of all

Americans will be 55 or older. The median age will rise from 33 to 42. The nation then will look like Florida today.

Because of these changes, retirement decisions will have an increasing impact on the American economy. One possible outcome is a labor shortage, the result of the decreasing number of younger Americans and the limited participation of older ones. As the industrial and occupational structure of the economy continues to change, there will also be shifts in the distribution of the labor market skills required. How will the economy and the labor market respond to these dynamic aggregate and sectoral demands?

There are many possibilities. We can train marginal workers, or retrain those in declining occupations. We can encourage immigration or substitute capital for labor. We can also induce those who have left the labor force to return and encourage those contemplating departure to delay doing so.

In this paper, we argue that this last strategy - influencing the retirement patterns of older workers - is feasible. Evidence discussed below indicates that many older Americans are willing and able to work, and that they respond to the work and retirement incentives they face. Many claim that their retirement experiences (actual or planned) are at odds with their preferences; they say they would like to work longer than they have or will. We hypothesize that the divergence between plans and preferences is due to the financial incentives and the employment rigidities that older workers currently face, and therefore that appropriate policy changes could extend the working life of many older Americans.

Preferences of Current Retirees

The Commonwealth Fund is sponsoring a major project on Americans over 50, focusing, among other things, on this group as a potential source of labor. Are there retirees who have already left the labor force completely who are willing and able to work? Are there older Americans still employed whose current retirement plans would change under alternative employment scenarios? The answer to both of these questions is yes.

In the spring of 1989, under the auspices of the Commonwealth Fund, Louis Harris and Associates conducted telephone interviews with a sample of over 3,500 older Americans. About half were women aged 50 to 59; the others were men aged 55 to 64. About 2,000 were still working and the other 1500 were already out of the labor force. The individuals in the sample were all assigned weights, based on their age, sex, race and working status, so that their responses reflect the civilian non-institutionalized population of over 21 million people in these age groups.

McNaught, Barth and Henderson (1989) have analyzed the responses of the retirees in the sample, who represent over 8 million retirees. They conclude that a significant minority of them are willing and able to work. Nearly a quarter, representing nearly 2 million men and women in these age categories, said that they preferred to be working and that they would be able to work if a suitable job were available.

The authors then narrowed their "willing and able" sample by requiring that they also pass a series of labor market commitment tests, based on other questionnaire responses. Respondents had to be willing to work in the kinds of jobs that are available for older workers, be seeking work with reasonable wage expectations, be willing to accept work with difficult working conditions, be physically capable and need a job for financial reasons. This reduced their estimate of the "willing and able" retired population in these age groups to 1.1 million - about 14% of these retired men (55-64) and women (50-59).

This range - 14 to 24% - is considerable higher than the Bureau of Labor Statistics estimate of unemployed plus discouraged workers in these demographic groups (7.5%), based on the Current Population Survey (CPS) (McNaught et al., p. 458). The authors attribute the discrepancy to differences in the nature and placement of the questions on which the estimates are based. For example, "the CPS asks whether persons want a 'regular' job, perhaps suggesting the interviewer has in mind full-time work akin to the career job from which the person has already retired." (ibid, p. 459). As we will see below, many older Americans express an interest in part-time employment.

Preferences of Current Older Workers

Sample

Our study focuses on the other part of the Commonwealth/Harris sample, the majority who were still employed at the time of the survey. We find that many of them want to continue working and that they seem willing to change their current retirement plans if given some specific inducements. Survey respondents representing over a million older workers (12% of our sample) expect that they will retire earlier that they would really like to. The data also suggest that over 5 million of these older Americans (over half of our sample) might work longer than they currently plan to if faced with different terms and conditions of employment.

In the tables below, we have focused on the 80% of the employed sample who are wage and salary workers, since the self-employed face fewer institutional constraints on their labor supply and have much greater control over their hours and conditions of work. In addition, we have included only those respondents (90% of the wage and salary workers) who answered the two questions about retirement preferences and plans discussed below. Our findings, therefore, are based on a weighted subsample of 669 men and 738 women.

Retirement plans and preferences

All of the workers were asked the age at which they would like to stop working (their preferences) and the age at which they thought they would stop working (their plans). The vast majority (over 80% of the men and nearly 90% of the women) currently want to stop working at age 65 or earlier (see Table 1). More would like to stop before age 62 than think they will be able to.

---Table 1 about here---

The proportions who said they wanted to continue working past age 65 were about the same as those who planned to do so - about 1 in every 5 men and 1 in every 10 women. These numbers are similar to the current labor force participation rates for men (16%) and women (9%) aged 65 and over (U.S. Department of Labor, 1992, Table 3). Some claimed that they preferred or planned to stop work at age 99, the highest age allowed in the questionnaire. We have interpreted this response as "as long as I am able".

The percentage of women preferring early retirement (prior to age 62) is higher than it is for men partly because the women in this sample are, on average, 5 years younger. Therefore, more of the women planning to retire early are still employed and included in this working sample. In contrast, more of the men planning early retirement have already done so, and so are excluded here. When we compare the preferences and plans of the men and women aged 55 to 59, the ages for which we have both, we see that they are almost identical (see Table 2). About a third would like to stop work before age 62 but fewer than a quarter think they will.

---Table 2 about here---

These aggregate tables can conceal a lot. Even if the overall distributions of preferences and plans were identical, there could be many individuals who would like to retire before they plan to offsetting equal numbers who would like to work longer than they think they will.

In Table 3, we compare the preferences and plans of each of the

---Table 3 about here---

respondents. The majority (60% overall) expect to stop work when they would like to. Sizable minorities (about a quarter of the men and a third of the women) think that they will have to work longer than they would prefer. But a significant minority (10% of the men and 13% of the women - over 1 million people altogether) expect to retire before they would really like to.

By comparing the exact ages of plans and preferences , we can see how many additional years these million people would like to work (see Table 4). Some said 1 or 2 years, but over 40% claimed that they

---Table 4 about here---

would like to stay employed for another 3 to 5 years. A few said 6 to 10 years, and then another large group wanted to work for more than another decade. Nearly all of the latter said that they wanted work forever until age 99 - as long as they could. Even if these claims are viewed with some suspicion, there is evidence that those who want to work longer would like to do so for a significant number of years.

Many older Americans want to work part-time. Most of these employees were working their preferred number of hours. Four-fifths of the full-time men wanted full-time work, as did two-thirds of the full-time women (see Table 5). Similarly, most of the part-timers preferred

---Table 5 about here---

part-time employment. But since the full-time population is the vast majority, there were many more full-timers wanting part-time work than the reverse. Over a fifth of these men preferred part-time work, but only 6% had it. Over 40% of the women wanted to work part time, but fewer than 20% were doing so.

For the men, part-time preferences increased with age (see Table 6). While only 18% of the men aged 55 to 59 preferred part-time work, the

---Table 6 about here---

figure rose to 27% among those aged 60 to 64. The proportions actually working part-time also rose with age, but were always lower than the preferences. There was no age pattern among the younger women, and in each category, fewer than half of those preferring part-time work actually had it.

Work Extension Possibilities

These data suggest that a sizeable minority of older employees would like to continue working longer than they currently plan to. But what exactly does this mean? If they want to keep working, why don't they do so? Mandatory retirement might have once explained a discrepancy like this, but it is no longer a factor for the vast majority of American workers. The most likely explanation is that firms have other ways - subtle pressures, job rigidities or financial inducements - to induce older workers to leave the job. Perhaps what these respondents are saying is that they do not want to work under the terms and conditions of employment they actually face, and therefore plan to retire, but that they would like to continue working under different circumstances.

Fortunately, the Commonwealth/Harris survey probed this, and asked several questions about worker preferences under alternative employment scenarios. In particular, age and salary workers were asked

-whether they would work longer than they currently plan to if employer contributions to retirement benefits continued at the same level after age 65,

-whether they would work longer if offered employment at somewhat lower pay, but with reduced hours and responsibilities, and

-whether they would accept a job that required re-training, had different responsibilities and tasks, but the same hours and salary.

Many workers answered "yes" to one or more of these questions (see Table 7). About a quarter of the men and women (representing about 2.4

---Table 7 about here---

million workers) said that they would work longer if employer pension contributions continued unchanged past age 65. Nearly a third (2.9 million) said they would work longer if offered fewer hours and responsibilities and somewhat lower pay. And well over a third (3.5 million) said they would accept training for a job with different responsibilities but with the same hours and pay.

There was considerable overlap in these responses. Overall, slightly over half of these wage and salary workers answered 'yes' to one or more of these three questions. This implies over 5 million men aged 55 to 64 and women aged 50 to 59 who claim they would be willing to extend their work careers under one or more of the circumstances mentioned above. About a quarter were already planning to work beyond age 65. The majority are workers planning to stop at or before age 65.

When we concentrate on just the million workers who said they plan to stop working before they would really like to (see Table 3), an even higher percentage express a willingness to work longer under these three scenarios. Overall, three-quarters of the men and nearly two-thirds of the women, representing over 700,000 older Americans in total, said that they would respond favorably to at least one of the three scenarios presented above.

Correlates of Retirement Plans and Preferences

Reasons for Working

The Commonwealth/Harris poll asked several other questions that might shed some light on why individuals' plans and preferences might differ. Respondents were presented a series of reasons for working, and asked which was the most important to them. On the basis of the responses, we have aggregated the sample into two categories - those whose answer suggests that they <u>need</u> a job and those who appear to <u>want</u> a job. The first group includes all who said they needed the salary or the health insurance, or had large medical bills to pay. The other category includes those whose primary motivation was the enjoyment of work, its challenge or its impact on their self-image, who mentioned the usefulness of what they do, or who feared that they would be bored without work. Obviously, motivations are not as clear and dichotomous as this. People work for a complex variety of reasons, and this simple categorization is based only on what they described as their single most important reason.

The majority (about 60%) of these workers implied that they needed a job, nearly always because they needed the money (see table 8). But

---Table 8 about here---

those who said they were working because they wanted to are sizeable minority. They enjoy their work, find it challenging and useful, or feel younger because of it.

For the men, the proportion working because they want to rises significantly with age, from 38% among those aged 55 to 59, to 42% of those 60 or 61 and the majority (52%) of those aged 62 to 64 (see table 9). This is not surprising, given the importance of age 62 - the earliest age

---Table 9 about here---

of Social Security eligibility. Those who do not want to work retire when they can afford to, and age 62 brings an alternative source of income. None of the women here is yet 62, and their age pattern is different. The proportion wanting a job is slightly lower than it is for the men (holding age constant - see those aged 55 to 59), and falls as these women age through their 50s.

The reason for working differs depending on whether or not the respondents think they will stop working when they want to (see table 10). Those who think that they will stop work <u>earlier</u> than they would like

---Table 10 about here---

to (the 1 million identified in table 3) are the most likely to want, rather than need, a job, and 55% of the men and 62% of the women do so. For those who plan to stop work when they would like to, the percentage wanting a job drop to 45%. And of those who expect to continue working later than they prefer, only 28% (men) and 19% (women) want a job - the vast majority are working (and evidently will continue to do so) because they have to.

These findings are consistent with those above about extending the work life. Given the options they expect to face, they plan to retire, because most of them do not need a job. But under alternative scenarios, many would be willing and able to stay on.

Pensions

Over three-quarters of the men and two-thirds of the women in this wage and salary sample have pension coverage on their current jobs. (This section refers only to respondents under age 60, since 60 is a very popular age of eligibility for employer pensions. Therefore many of those aged 60 and over who were covered by pensions have already retired, and hence are excluded from this working sample. This bias would make the pension effect seem smaller than it really is, since this sample of employed eligible people includes only those who chose not to claim their benefits. The same bias remains for those eligible before age 60, but since this is much rarer, the problem is much less severe.) Not surprisingly, pension coverage is correlated with the age at which individuals intend to stop working. Workers who are covered on their current jobs are more likely than others to plan to retire early (see Table 11). Of the men, 24% of those covered plan to stop working before age 62, compared to only 14% of those without coverage. Among the women, 35% of those covered and

---Table 11 about here---

27% of those uncovered plan to leave before age 62. Similarly, those covered by a pension plan are much less likely to plan to work past 65. Only 11% of the men and 9% of the women do, compared to 28% and 15% of the men and women without current pension coverage.

Among women 55 to 59 only, 25% of those with pension coverage planned to retire before age 62, compared to 15% of those without coverage. These percentages are almost identical to those for men aged 55 to 59 (24 and 14%), indicating again that much of the difference in retirement plans and preferences between the men and women in this sample is due to the 5 year difference in age.

Pensions have several effects on people's options. They provide an alternative source of income, and can also alter the worker's compensation, depending on whether the present discounted value of the pension promise increases or decreases with continued work for the firm. If pension wealth declines with additional years on the job, then the pension incentives discourage work and encourage one to leave that job. Both of these aspects - providing income and changing net compensation - can and do induce retirement.

Health and health coverage

Health is an important factor in the retirement decision. Unfortunately, there is little to be learned about the impact of health from this sample of employed older Americans, because nearly all of those with health conditions of any severity have stopped working, and hence are not included here. Only about 10% of this employed sample describe their health as either "poor" or "fair" (and nearly all of these are "fair"). The rest are evenly split between "good" and "excellent". Because of the lack of variety in the health conditions here, there is very little correlation between health and the variables of interest.

About half of these workers (57% of the men and 42% of the women) say that they will continue to have retiree health benefits from their current or a previous employer after they stop working. Those with continued health coverage are more likely to plan to retire before age 65 (see table 12). Fifty-seven percent of the men and 66% of the women with

---Table 12 about here---

coverage do, compared to only 44% and 55% of those without. Similarly, those without coverage are the most likely to plan to work beyond age 66. Again, people's behavior depends on the financial conditions they face.

Conclusions

The results of this study are consistent with those McNaught et. al. (1989), who suggest that a significant minority of American retirees are willing and able to work. Their estimates of the size of this untapped pool range from 1 to 2 million - between one-eighth and one-quarter of the relevant population. Most retired Americans cannot or do not want to work, but the minority who are willing and able to work is a significant underutilized labor market resource.

In this study, we focused on older Americans who are still employed. We compared when they would like to stop working with when they thought they would. About 60% plan to do exactly as they wished, and another 29% fear that they will have to work longer than they would like. But a substantial minority - about 12% of the employed men aged 55 to 64 and women aged 50 to 59, another million people - expect to stop work before they really would like to. Most of these individuals want to work a significant number of additional years.

The workers in this survey seem quite flexible about extending their work careers. Over half - representing about 5 million people - said that they would work longer under different circumstances - with improved retirement benefits, reduced hours or responsibilities, or after job re-training.

More older Americans prefer part time work than have it. Over a fifth of the men in the sample wanted to work fewer than 35 hours per week, but only 6% did. Over 40% of the women wanted part-time work, but fewer than 20% had it.

The Commonwealth/Harris data suggest that many older Americans do not want to keep working under the terms they face - terms that can change dramatically with age. Many prefer more hours flexibility than is available. This suggests two ways in which firms who do want to attract or retain older workers can do so. The first is to eliminate the financial incentives that currently exist in many defined benefit pensions, that penalize workers who remain on the job. They do this by increasing the future benefits of pension-eligible workers who stay on the jobs by amounts insufficient to compensate for the loss of benefits during the additional years worked. Those who do choose to stay lose pension wealth (the present discounted value of the benefit stream they will get declines), and, in essence, suffer a pay cut. Similar Social Security work disincentives (at age 65) are currently being phased out under amendments enacted in 1983. Were employers to follow a similar route, and eliminate their work disincentives as well, more workers would remain longer on their career jobs.

The second policy area is job flexibility. Very few older Americans can remain on their career jobs part-time. Faced with the options of continued full-time work or retirement, many choose the latter, or find part-time work in a new (and almost always lower paying) line of work. These patterns could be altered by firm-level decisions to offer more flexible work opportunities, and pension plans that do not penalize those who choose them.

Considerable econometric research has established that workers do respond to the incentives they face. In the past, these incentives have usually been used to induce workers out of the labor force. These survey results suggest that they can be used as well to keep workers in the labor force, and to capitalize on the underutilized labor supply of experienced American workers who are willing and able to work.

Table 1

Retirement Preferences and Plans
(vertical percentage)

Age	Percent Who Would Like to Stop Working		Percent Who Will Probably Stop Working	
Men Aged 55–64				
50–55	2	24	1	15
56–59	9		4	
60–61	13		10	
62–64	35	58	37	65
65	23		29	
66–69	2	18[a]	3	20
70+	15		17	
Women Aged 50–59				
50–55	20	48[a]	8	33
56–59	9		8	
60–61	18		17	
62–64	23	42	27	57
65	19		29	
66–69	1	11	1	11
70–98	10		10	

a: does not equal the sum of the components due to rounding.

Source: Commonwealth/Harris poll, 1989.

Table 2

Retirement Preferences and Plans
Wage and Salary Men and Women
Aged 55–59 only
(vertical percentage)

	Age	Would Like to Stop Working	Will Probably Stop Working
Men	50–61	34	22
	62–65	54	63
	66+	12	15
Women			
	50–61	35	22
	62–65	53	67
	66+	11	11

Source: Commonwealth/Harris poll, 1989.

Table 3

Expected Retirement Age Relative
to Desired Retirement Age

	Men		Women		Total	
	Number (000)	Percent	Number (000)	Percent	Number (000)	Percent
Earlier than desired	442	10	649	13	1,091	12
Same age	2,852	65	2,826	55	5,678	60
Later than desired	1,083	25	1,643	32	2,726	29
Total	4,377	100	5,118	100	9,495	100

Source: Commonwealth/Harris poll, 1989.

Table 4

Number of Extra Years
Those Who Expect to Retire Earlier Than Desired
Would Like to Work
(vertical percentage)

Years	Men	Women
1–2	11	20
3–5	43	41
6–10	3	6
11+	42[a]	33[a]

[a] nearly all of these are people who said they would work as long as they could (i.e., until age 99).

Source: Commonwealth/Harris poll, 1989.

Table 5

Actual and Preferred
Work Schedules
Wage and Salary Men and Women
(horizontal percentage)

	Prefer Full Time	Prefer Part Time	Don't Know	Vertical Percentage
Men				
Working FT	80	18	2	(93)
Working PT	33	67	0	(6)
Don't Know				(1)
Total	77%	21%	2%	100%
Women				
Working FT	66	33	1	(80)
Working PT	17	82	1	(19)
Don't Know				(1)
Total	56%	43%	1%	100%

Source: Commonwealth/Harris poll, 1989.

Table 6

Actual and Preferred
Work Schedules
by Age of Worker

Age	Percent Who Work Part Time	Percent Who Would Like to Work Part Time
Men		
55–57	5	17
58–59	4	19
60–61	8	26
62–64	13	28
Women		
50–52	17	44
53–54	20	43
55–57	19	40
58–59	20	45

Source: Commonwealth/Harris poll, 1989.

Table 7

Number of Wage and Salary Workers Aged 50 to 64
Who Would Extend Their Working Careers
by Program Option

	Men		Women		Total
	Number	Percent	Number	Percent	
Work longer than now planned if employer pension contributions continued past age 65	1.15 million	26%	1.23 million	24%	2.38 million
Work longer than now planned if offered fewer hours and responsibilities and somewhat lower pay?	1.37 million	31%	1.56 million	30%	2.93 million
Accept training for job with different responsibilities but same hours and pay?	1.41 million	32%	2.13 million	42%	3.54 million
Answer yes to at least one of the three questions above	2.33 million	53%	2.94 million	57%	5.27 million

Source: Commonwealth/Harris poll, 1989.

Table 8

Most Important Reason for Working
Wage and Salary Workers
(vertical percentage)

	Men		Women	
Need a Job	59		62	
I need the money		54		54
I need health insurance		5		6
I have medical bills to pay		a		1
Want a Job	41		38	
I enjoy my work		11		13
I would be bored otherwise		10		10
I want to do something useful		8		7
My work is challenging		6		6
Working makes me feel younger		3		2
Other		2		1

a: fewer than 0.5%

Source: Commonwealth/Harris poll, 1989.

Table 9

Most Important Reason for Working
Wage and Salary Workers
by Age and Sex
(horizontal percentage)

	Age	Need a Job[a]	Want a Job[a]
Men	55–57	62	38
	58–59	62	38
	60–61	58	42
	62–64	48	52
Women			
	50–52	57	43
	53–54	58	42
	55–57	64	36
	58–59	67	33

[a] see Table 11 for categories

Source: Commonwealth/Harris poll, 1989.

Table 10

Most Important Reason for Working,
Wage and Salary Workers
by Retirement Preferences and Plans
(horizontal percentage)

	Need a Job[a]	Want a Job[a]
Men		
Will probably stop work earlier than desired	45	55
Will probably stop work when desired	56	44
Will probably stop work later than desired	72	28
Total	59	41
Women		
Will probably stop work earlier than desired	38	62
Will probably stop work when desired	54	46
Will probably stop work later than desired	81	19
Total	62	38

[a] see Table 8 for catagories

Source: Commonwealth/Harris poll, 1989.

Table 11

Age at Which Workers Aged 55 to 59
Expect to Stop Working
by Pension Coverage on Current Job
(vertical percentage)

Age	Covered by Pension Plan		Not Covered by Pension Plan	
Men				
55–59	7	24	6	14
60–61	17		8	
62–64	41	65	33	57
65	24		24	
66–69	1	11	1	28
70+	10		27	
Horizontal %	(78%)		(22%)	
Women				
50–55	9	35	6	27
56–59	10		3	
60–61	16		18	
62–64	28	56[a]	27	58
65	29		31	
66–69	1	9	1	15
70+	8		14	
Horizontal %	(68%)		(32%)	

Source: Commonwealth/Harris poll, 1989.

Table 12

Age at Which Wage and Salary Workers Aged 50 to 64 are Planning to Stop Work, by Health Coverage After Retirement (vertical percentage)

	Age Planning to Stop Working	Health Coverage after Retirement: Yes	No
Men	50–59	6	2
	60–64	51	42
	65	27	31
	66+	16	25
Women	50–59	22	12
	60–64	44	43
	65	27	32
	66+	6	13

Source: Commonwealth/Harris poll, 1989.