

## Has the Early Retirement Trend Reversed?

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Introduction. One of the most dramatic demographic trends in the post-war period has been the earlier and earlier labor force withdrawal of older American men. A simple definition of the average (median) age of retirement is the age at which half of the population is in the labor force, and half is out. In 1950, this occurred for men at age 70. In 1950, 72 percent of men aged 65 were still in the labor force, as were 81 percent of those aged 62 (**table 1**). By 1970, the median retirement age had dropped to age 65, and the participation rate for men aged 62 had dropped to 74 percent. By 1985, only half of those aged 62 were still in the labor force. By this time, the participation rate for men aged 65 had dropped to 30 percent, while the rate for men aged 70 was only 16 percent.

Dora Costa (1998: figures 2.1 and 2.2; tables 2A.1 and 2A.2) has argued persuasively that this early retirement trend began long before 1950, and can in fact be documented back to 1880, in the United States and in several other industrialized nations.

The purpose of this background paper is to argue that a century-old trend is over, and has been over for 15 years. The era of earlier and earlier retirement has come to an end. Although part of the change in trend may be cyclical -- the result of the robust American economy -- there have also been fundamental institutional changes that have helped to create a new attitude toward work late in life. Although many older workers do want to retire completely as soon as they can afford to do so, many others prefer to remain attached to the labor force -- some full time, some part time, some self-employed, and many in a new line of work.

This paper has two goals: to document and quantify the changes in trend that occurred for older men and women in the United States during the mid-1980s, and to forward some explanations about why this important demographic trend has come to an end.<sup>1</sup>

**Table 1**  
**Male Labor Force Participation Rates by Age, 1950 to 1997**

<b>Year</b>	<b>Age</b>						
	55	60	62	65	68	70	72
1950	90.6	84.7	81.2	71.7	57.7	49.8	39.3
1960	92.8	85.9	79.8	56.8	42.0	37.2	28.0
1970	91.8	83.9	73.8	49.9	37.7	30.1	24.8
1975	87.6	76.9	64.4	39.4	23.7	23.7	22.6
1980	84.9	74.0	56.8	35.2	24.1	21.3	17.0
1985	83.7	71.0	50.9	30.5	20.5	15.9	14.9
1990	85.3	70.5	52.5	31.9	23.4	17.1	16.4
1995	81.1	68.9	51.3	33.5	22.4	20.6	16.0
1998	82.7	67.8	53.7	33.7	25.8	20.9	14.7

Source: Burkhauser and Quinn (1997: table 1), updated

The early retirement era, 1950-1985. In 1950, as noted above, over 70 percent of all 65-year old men in America were in the labor force; that is, either employed or actively looking for work (table 1). Their participation rate fell by over 20 percentage points over the next two decades, and by nearly another 20 points during the subsequent 15 years. By 1985, fewer than one-third of 65-year old men remained in the labor force -- a decline of nearly 60 percent.

About 80 percent of American men aged 62 were labor force participants in both 1950 and in 1960. In 1961, Congress lowered the age of eligibility for Social Security old-age benefits from 65 to 62 (as it had for women in 1956), and a steady decline in participation rates began. By 1975, the age 62 rate was below two-thirds, and by 1985, it had dropped to one-half -- a decline of nearly 40 percent in only 25 years.

Even larger percentage declines between 1950 and 1985 occurred for older men -- drops of about two-thirds for those aged 68, 70 and 72. Declines are observed even below age 62, but they were much more modest -- about 16 percent at age 60 and 8 percent at 55.

The same strong trends can be seen in the data published annually by the U.S. Bureau of Labor Statistics, by gender and by five-year age cohort. **Figure 1** includes labor force participation rates for four cohorts of men, aged 55 to 59 through 70 and older, for the two decades between 1964 and 1985, along with a simple time trend for that time period extrapolated out to 1998. For the men of traditional early retirement age (60 to 64), for example, the rate dropped from 79 to 56 percent between 1964 and 1985, well over one percentage point per year, and a decline of about one-third overall. For men of traditional retirement age, 65 to 69, the rate dropped by almost one percentage point per year, from 43 to 24 percent, a decline of over 40 percent during these 21 years. For the younger men, aged 55 to 59, the decline was more modest in both absolute (-11.5 points) and percentage terms (down 13 percent). For the older men, aged 70 and older, the absolute decline was modest (-9 points), but the percentage decline was dramatic (a decline of over 50 percent) because of the low base.

Figure 1

Labor Force Participation Rates  
Actual and Fitted Values, 1964-1998

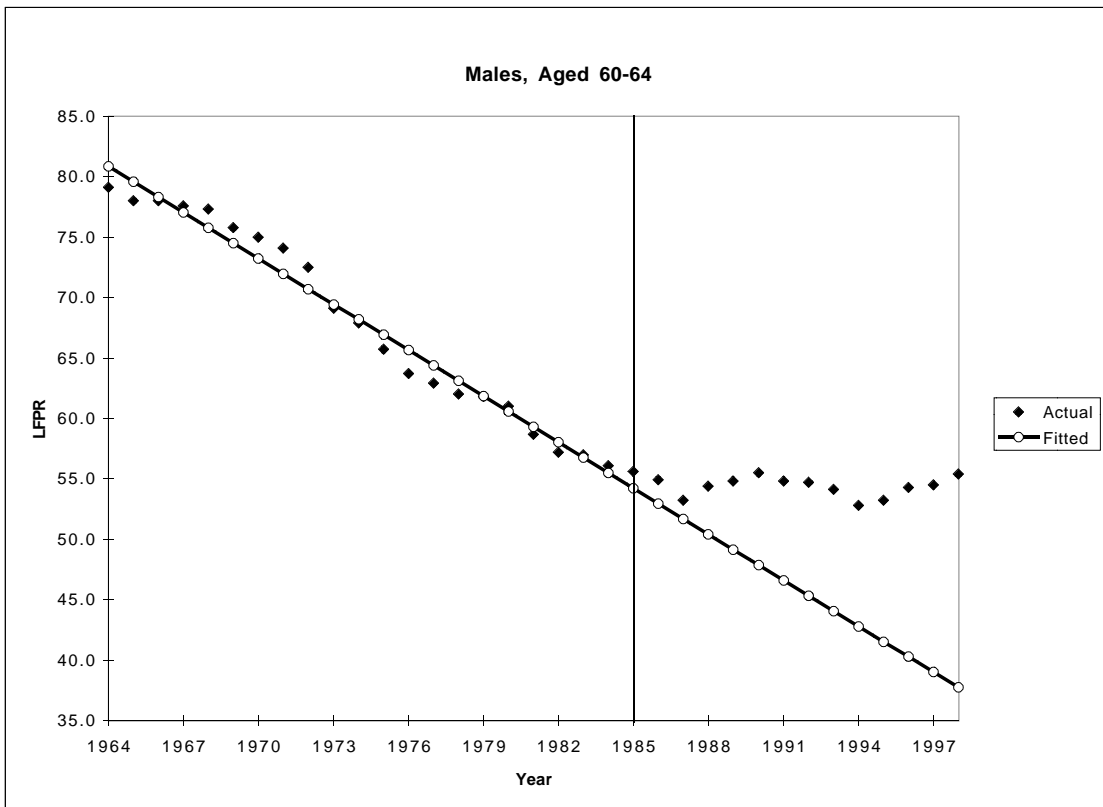
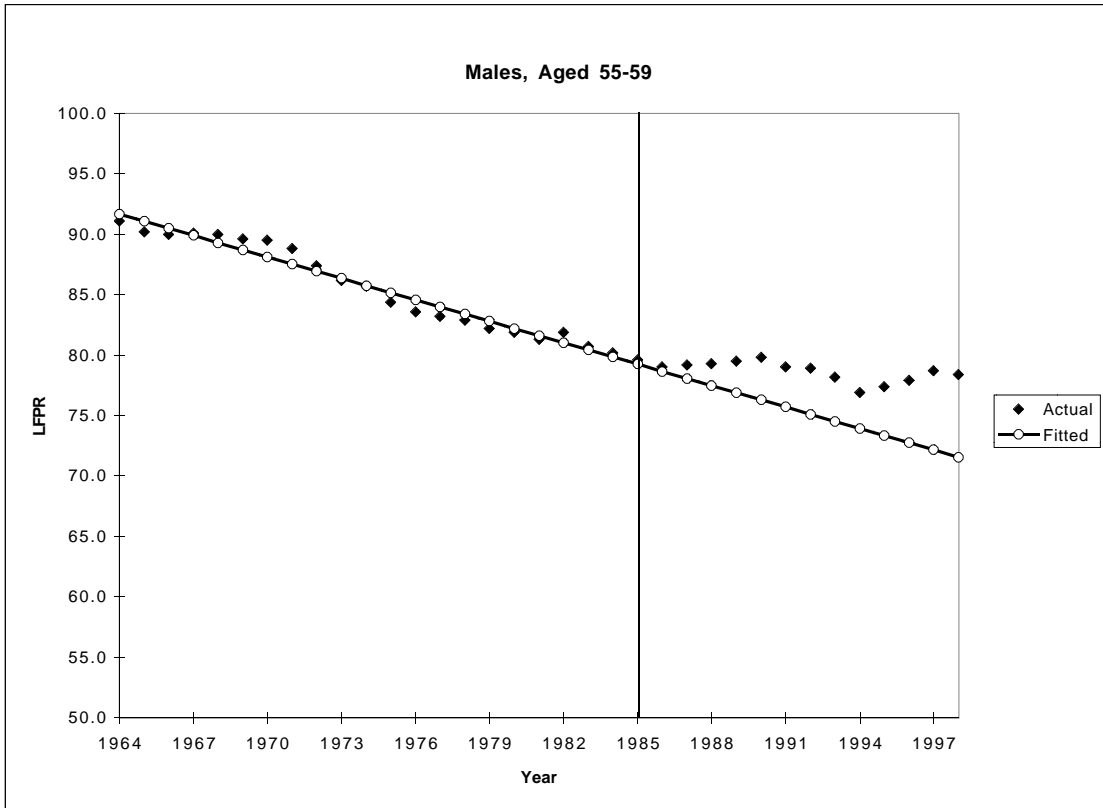
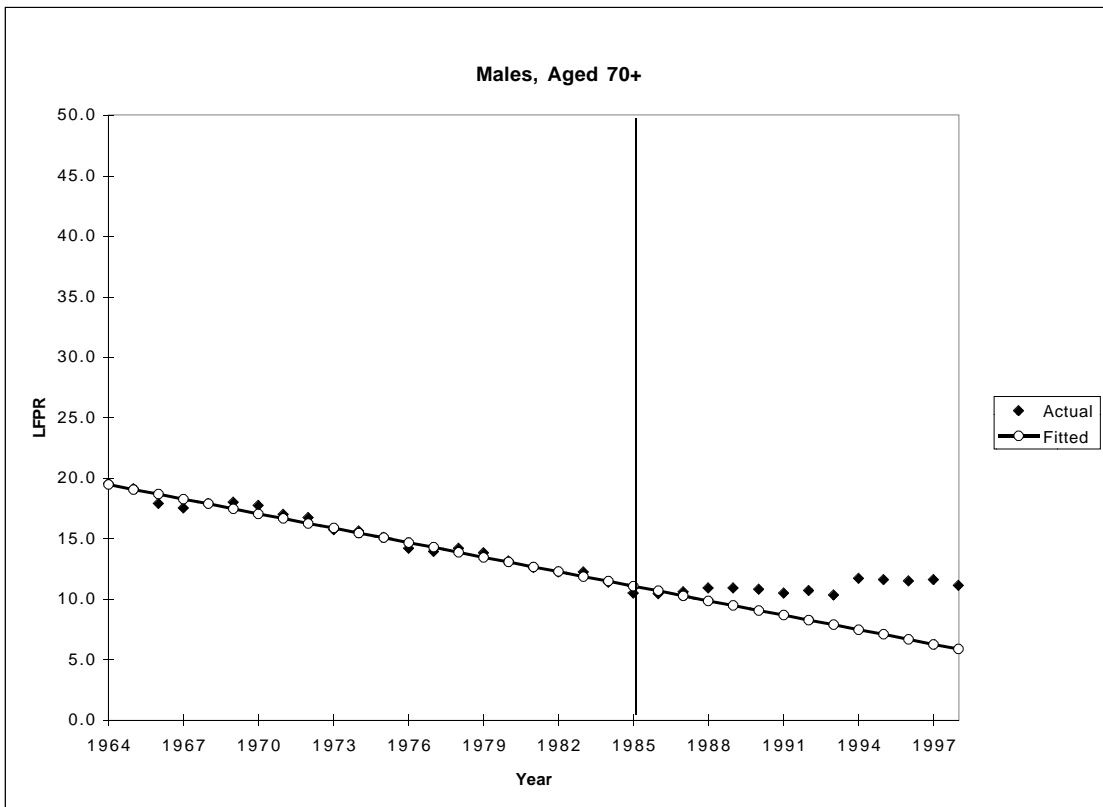
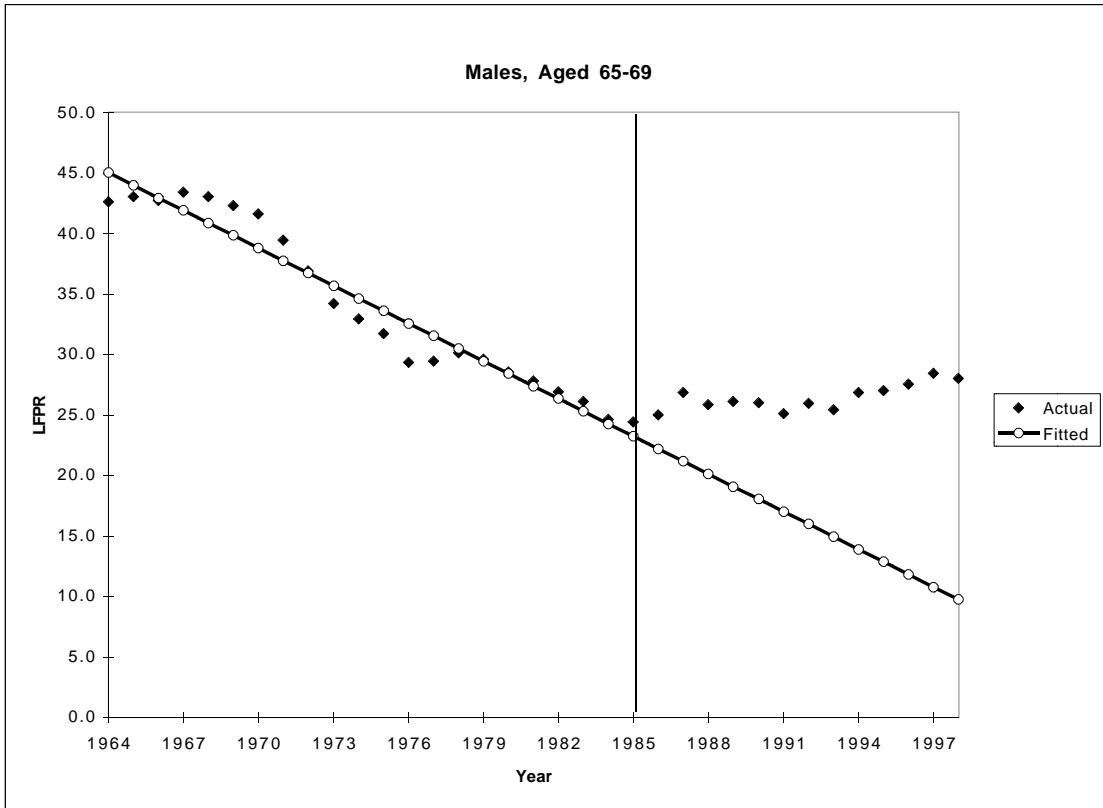


Figure 1 (cont.)

Labor Force Participation Rates  
Actual and Fitted Values, 1964-1998



Since 1985 -- the end of an era? Since the mid-1980s, however, the male retirement trends have looked very different. Figure 1 extends both the linear trends (1964-1985) and the actual labor force participation rates from 1986 through 1998. It is clear that the rates have flattened out and have actually increased in recent years, and that they are certainly much higher than the pre-1986 trend would have predicted. In 1998, the differential is about 18 percentage points for men aged 60 to 64 and for men aged 65 to 69. The same qualitative phenomenon is observed among men at older and younger ages.

A straight-line projection is obviously a rather unsophisticated long-run extrapolation tool, especially for a variable like a labor force participation rate that is logically bounded by zero and one. Nonetheless, the graphs in figure 1 do strongly suggest that something is very different now than it was a mere 15 years ago.

The story for older American women is both different and the same. Older women's participation rates in the post-war period have reflected two partially offsetting phenomena -- the early retirement trend of older Americans and the increasing labor force participation of married women. As a result of the latter, the participation rates of older women did not exhibit the dramatic post-war declines that men's rates did. In contrast, as seen in **figure 2**, we observe very gentle increases (for the youngest cohort, women aged 55 to 59) or declines (for the three older cohorts, ages 60 and older) in labor force participation between 1964 and 1985, on the order of a point or two per decade.

What is similar to the male phenomenon is the post-1985 experience. As with the men, there are substantial breaks from trend for all four age cohorts in the mid-1980s, and in all cases, the participation rates since 1985 are higher than the pre-1986 trends would have predicted. For the three cohorts between ages 55 and 70, the differentials by 1998 are between 6 and 11 percentage points, with a smaller absolute differential (2.2 points) for those aged 70 and older. The similarity of the break points in the male and female time series is striking.

Figure 2

Labor Force Participation Rates  
Actual and Fitted Values, 1964-1998

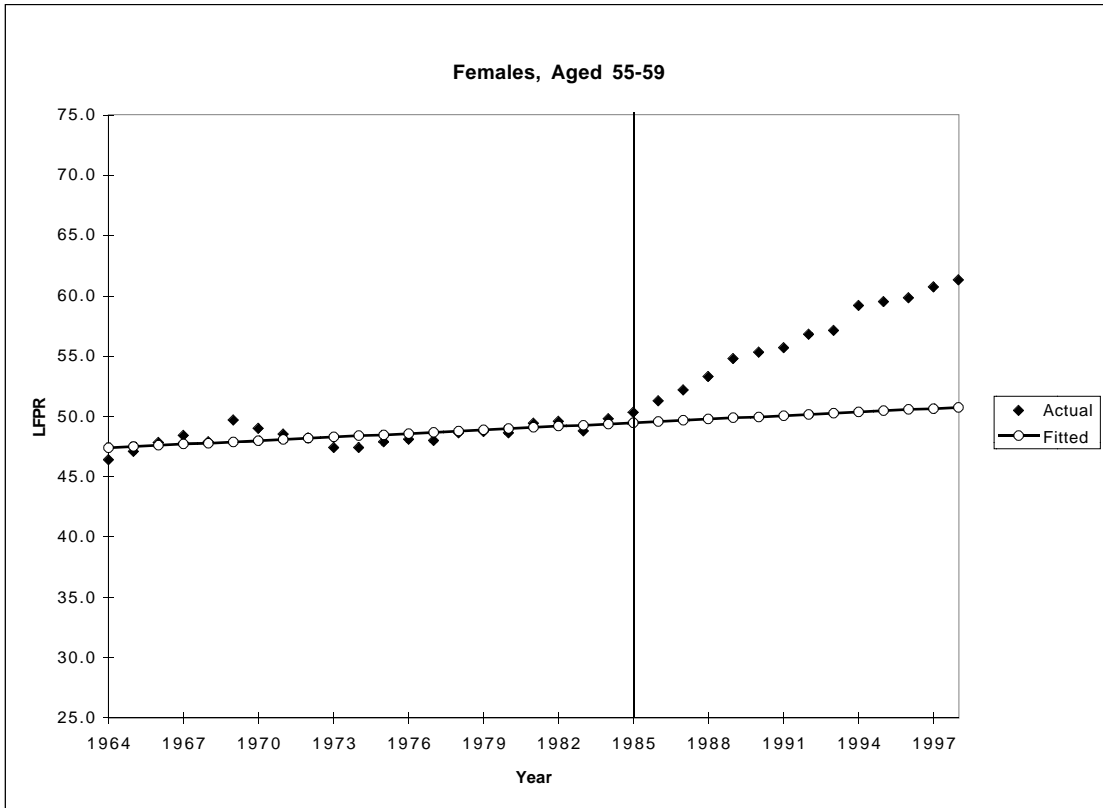
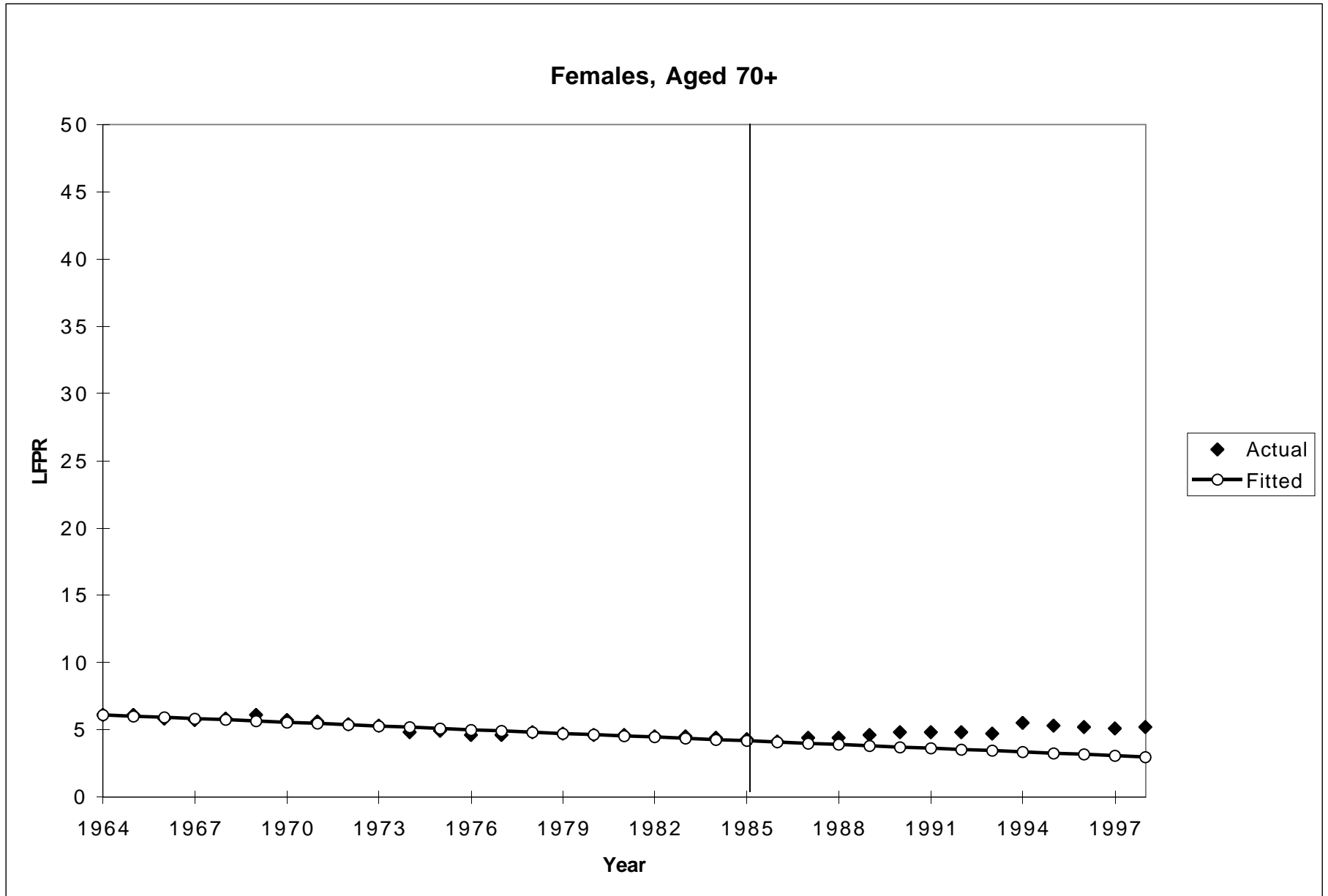




Figure 2 (cont.)



A comparison of two time periods. Using unpublished Bureau of Labor Statistics data, we can compare the average annual change in participation rates, by gender and by individual age (55 through 70), for two time periods, 1970 to 1985, and 1985 to 1998. As seen in **figure 3**, the differences are dramatic for men of all these ages. In every single case, the change is in the positive direction, from negative to less negative, for men aged 55 to 61, or from negative to positive, for those aged 62 through 70.<sup>2</sup> For men aged 62, for example, the rate was declining by an average of over 1.5 points per year during the first period; since 1985, it has increased by 0.22 points per year. At age 65, an average decline of 1.3 points per year has turned into an average increase of 0.25 point per year.

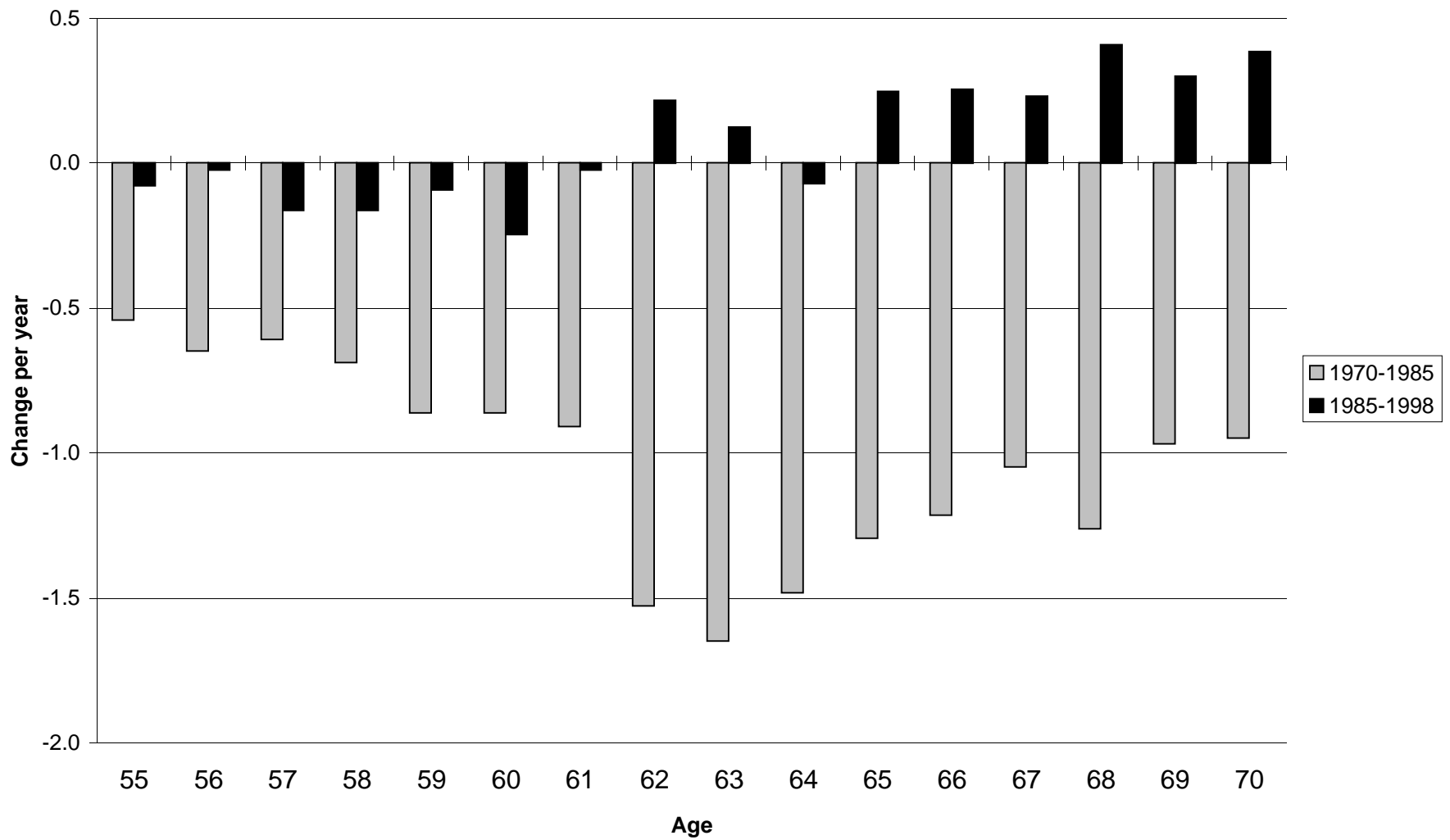
For men younger than 62, the declines have continued since 1985, but at a much slower pace. Prior to 1985, for example, the rates of men aged 60 were declining by 0.86 per year; since then, by only 0.25 per year. For men aged 65 and older, participation rates have all risen since 1985 at 0.25 points per year or more, despite falling at almost a point or more during the 15 prior years.

For women, there are also increases in the average annual change for every age group. With the exception of ages 55 and 56, where labor force participation rates were increasing during the 1970-1985 period, and ages 57 and 58, where there was essentially no change during these 15 years, the annual averages for all the other ages (59 through 70) moved from negative to positive (**figure 3 (cont.)**). At age 62, for example, instead of declining by 0.31 points per year, the rates have been increasing by 0.60 points annually since 1985. At age 65, the change is from -0.39 to +0.58 points annually, a net increase of about 1 point per year.

A permanent or a temporary change? There are two types of hypotheses about the nature of the change -- trend and cycle. The former argues that the early retirement trend has changed, and that we have entered a new era. The cyclical view, on the other hand, argues that the business cycle -- the strength of the economy -- has been key, and that the old trends are likely to resume when the economy falters.

Figure 3

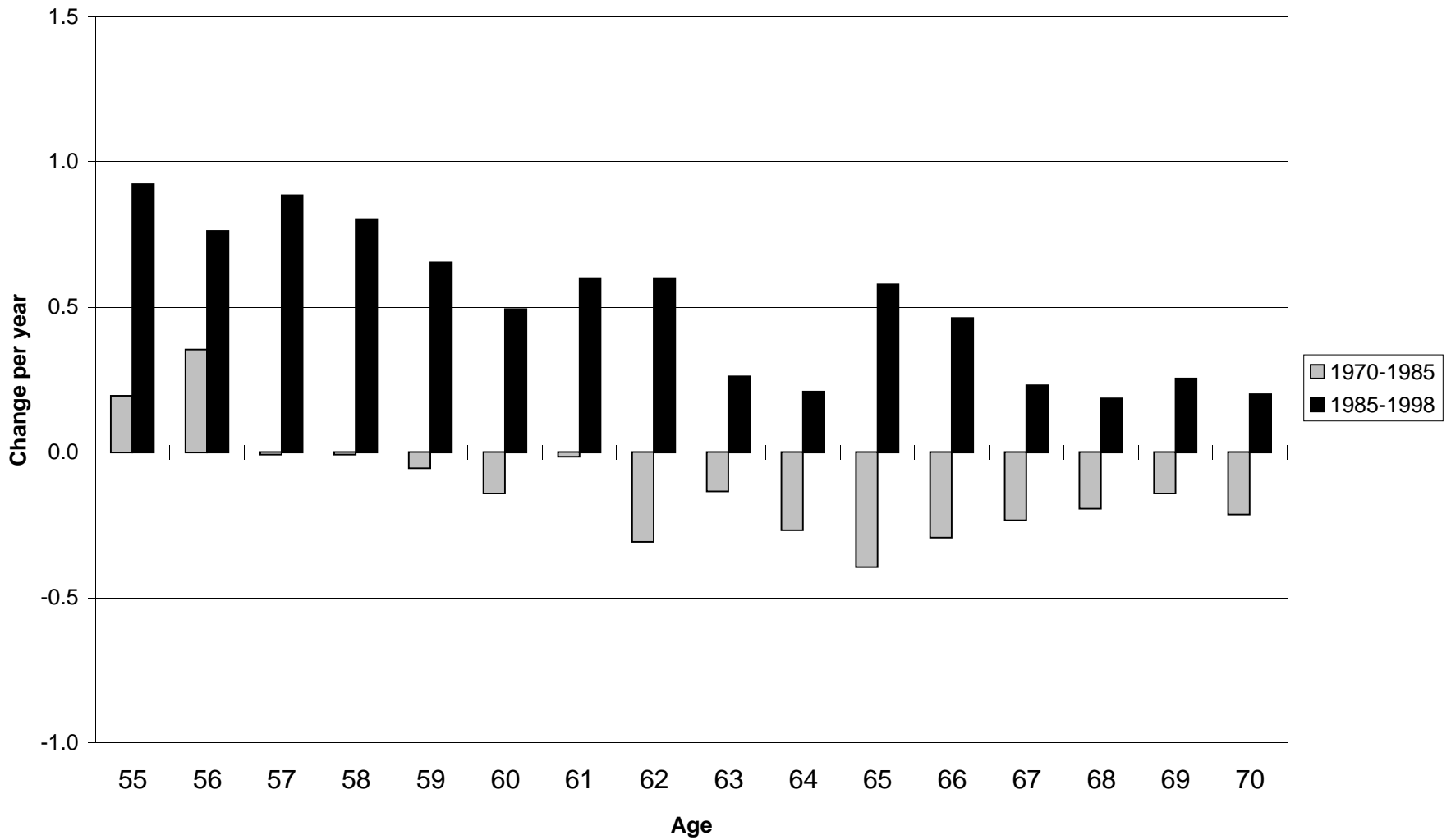
Average Annual Change in Labor Force Participation Rate  
1970-1985 and 1985-1998  
Men, by Individual Age



Source: Unpublished data from the U.S. Bureau of Labor Statistics.

Figure 3 (cont.)

Average Annual Change in Labor Force Participation Rate  
1970-1985 and 1985-1998  
Women, by Individual Age



Source: Unpublished data from the U.S. Bureau of Labor Statistics.

The permanent view. There are many important changes in public policy and the economy that are consistent with increased labor supply late in life. For example, the earliest age of mandatory retirement was first delayed from age 65 to age 70 in 1978, and then the concept was virtually outlawed in 1986. Mandatory retirement is unlikely to be reinstated. This policy change increased the options facing those who were constrained by the policy and who wanted to keep working on their jobs past age 65, and it also sent an important message to society that the appropriate age to retire was not necessarily 65.

In addition, Social Security rules are changing in ways that make work late in life more attractive. The amount of income a recipient can earn before losing any Social Security benefits has been indexed to wage growth since 1975, and in 1978, higher exempt amounts were introduced for beneficiaries over the normal retirement age. In 1983, the age at which the earnings test no longer applied, and recipients could earn any amount without loss of benefits, was reduced from 72 to 70, and in 1990, the benefit loss for each dollar earned over the exempt amount was reduced from 50 to 33 cents for recipients aged 65 or older. Congress recently legislated large increases in the exempt amount for recipients aged 65 to 69, and by 2002 they will be able to earn up to \$30,000 per year without any loss of benefits (Social Security Administration 1996: table 2.A29).

Social Security is also increasing the delayed retirement credit (DRC), the reward for delaying initial benefit receipt past the normal retirement age, which is currently 65. This credit was increased from one to three percent per year of benefit delay in 1977, but 3 percent was still far below what was needed to compensate the average recipient for the benefits foregone. Between 1987 and 2005, the DRC is slowly being increased to eight percent per year of delay, which will be close to actuarially fair for the average worker (Social Security Administration 1996: table 2.A20). Instead of penalizing work beyond age 65, which it used to do, Social Security is becoming more age-neutral.

Important changes are also underway in the private sector. There has been a shift in the relative importance of defined-contribution (DC) and defined-benefit (DB) pension plans.

The proportion of employer pension participants whose primary coverage is DC increased from 13 to 42 percent between 1975 and 1997. Including secondary plans, which are nearly all defined-contribution, the proportion of participants in DC plans more than doubled from 26 to 53 percent over this same time period (EBRI 1997: table 10.2; Olsen and VanDerhei 1997: table 2). Most DC plans are age-neutral by design and do not contain the work disincentives that DB plans often have. As DB plans decline in relative importance, so does their ability to discourage work and to encourage workers to leave a job at a particular age.

Finally, the nature of jobs in America is in transition, with manufacturing on the decline, and service employment on the rise. Although there is considerable variation in the job characteristics in each of these broad, general categories, it is probably easier, on average, for older employees to remain working in service occupations.

These environmental changes suggest that the future will not look like the past. The relative attractiveness of work and retirement late in life has been altered in favor of work, and older Americans seem to be responding accordingly.

The cyclical view. The alternative hypothesis is that the strong American economy has temporarily delayed the inevitable decline in elderly labor force participation rates. The civilian unemployment rate declined from nearly ten percent in 1983 to about five percent in 1989, and, by the end of 1998, fell to 4.3 percent -- the lowest unemployment rate since the late-1960s (Council of Economic Advisors 1999: table B-42). Strong labor demand creates employment options for older Americans who want to keep working.

To test this hypothesis, we ran some simple regressions on these labor force participation rates by five-year age cohorts, for men and women separately, using the same time period as before, 1964 through 1985. We included a time trend, as before, and the overall civilian unemployment rate as a proxy for the business cycle.

The regression results, suggest that the cyclical explanation does have some merit. In seven of the eight age-gender equations, the coefficient of the unemployment rate has the expected negative sign. Tighter labor markets, evidenced by lower unemployment rates, are

associated with higher labor force participation among older workers. The coefficients are significantly different from zero for three of the groups most likely to be contemplating retirement -- men aged 60 to 64 and 65 to 69, and women aged 55 to 59.

In **figure 4**, we show actual and predicted participation rates, using the expanded equation with the unemployment rate variable, for two cohorts of men and two cohorts of women. The results are similar for the other four gender-age groups as well. As expected, the differences between actual and predicted participation rates are moderated by the business cycle effects, but large differentials still exist after 1985. For men aged 60 to 64, for example, the differential between predicted and actual participation rates in 1998 is now 14 percentage points compared to 18 points in figure 1; for men aged 65 to 69, the 1998 differential declines from 18 to 13.5 points.

For women aged 55 to 59, the 1998 differential declines from 10.5 to less than nine points, and for women aged 60 to 64, from seven to five points. The same was true for the other gender-age groups as well -- smaller differentials, but the same qualitative results. The conclusion remains unaltered -- factors other than the business cycle have changed since the mid-1980s.

This conclusion is reinforced by one last regression specification, which included data from 1964 through 1998, and permitted the trend line to alter slope after 1985. As seen in **table 2**, even after including the impact of the business cycle, the change in trend after 1985 is positive and significantly different from zero for all eight gender-age cohorts. For men aged 60 to 64, for example, the trend increases by over one percentage point per year after 1985, from -1.19 (a decline of well over a percentage point per year) to -0.10 (almost zero). For men aged 65 to 69, the slope also increases by over a point after 1985, and reverses sign, increasing from - 0.86 points to +0.16 per year. For the three youngest cohorts of women, the increases in trend after 1985 are in the 0.4 to 0.7 point per year range, and the results show net increases in participation rates (upward trends) since 1986 for all four groups of older women.

Figure 4

Labor Force Participation Rates  
Actual and Fitted Values, 1964-1998

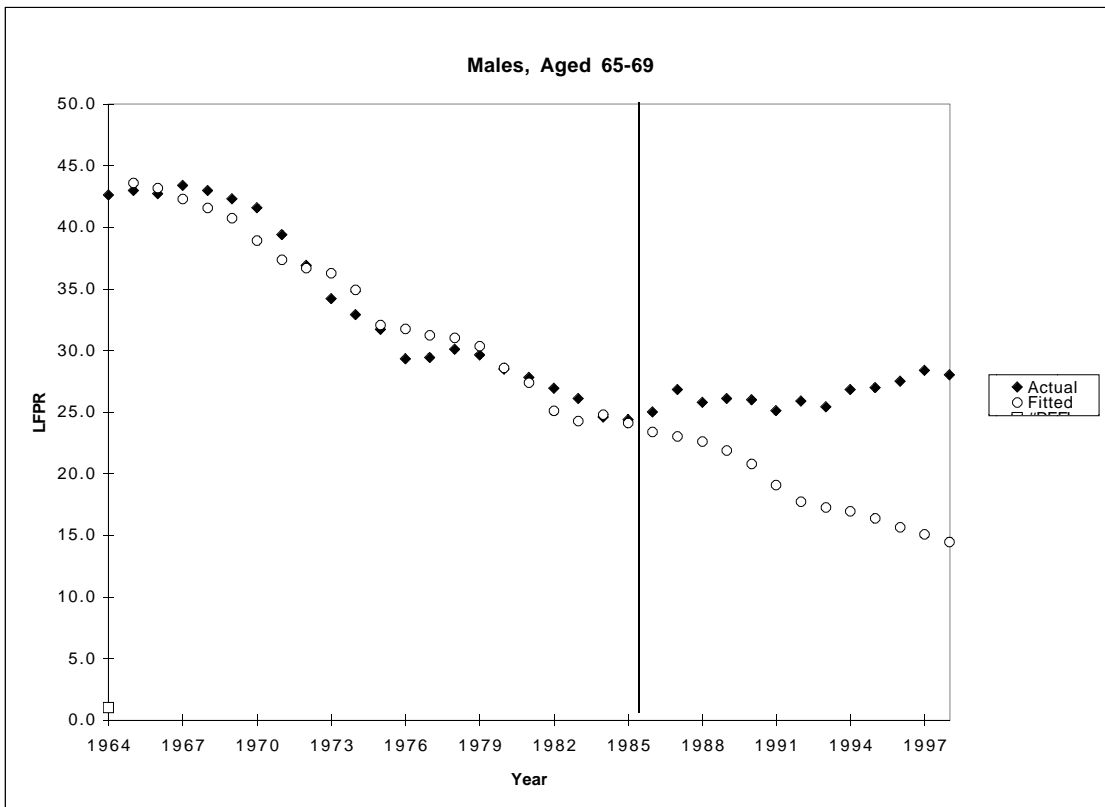
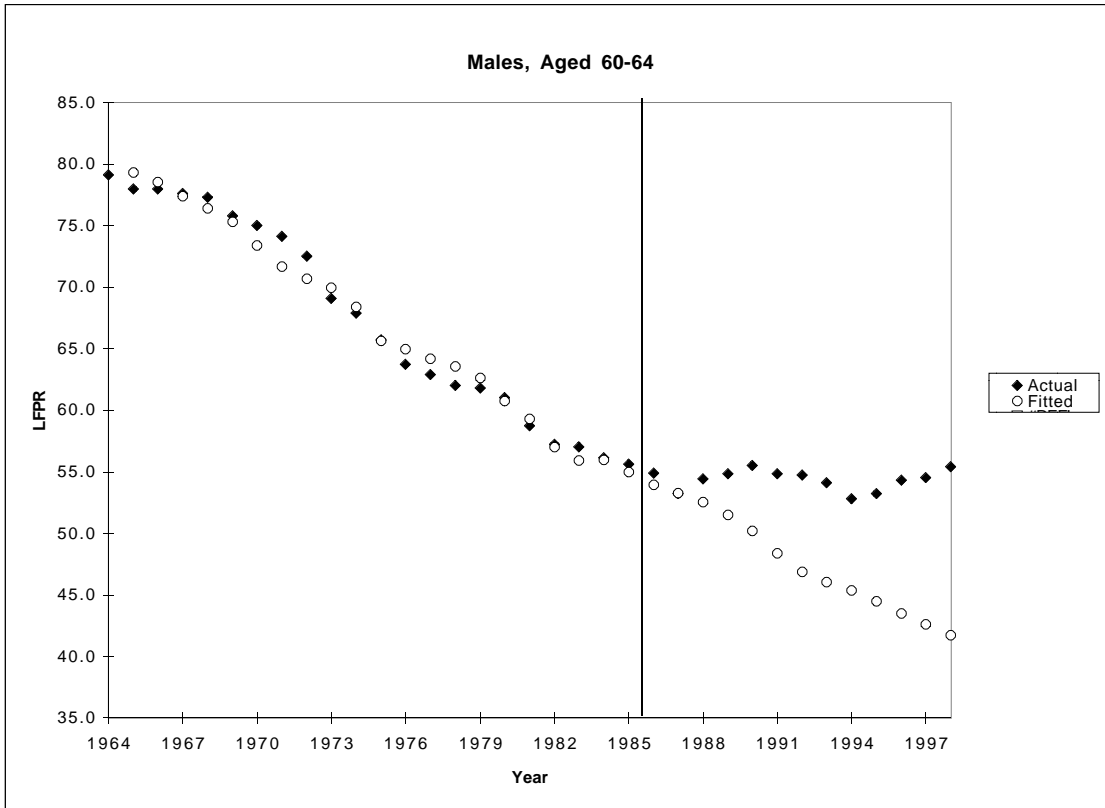
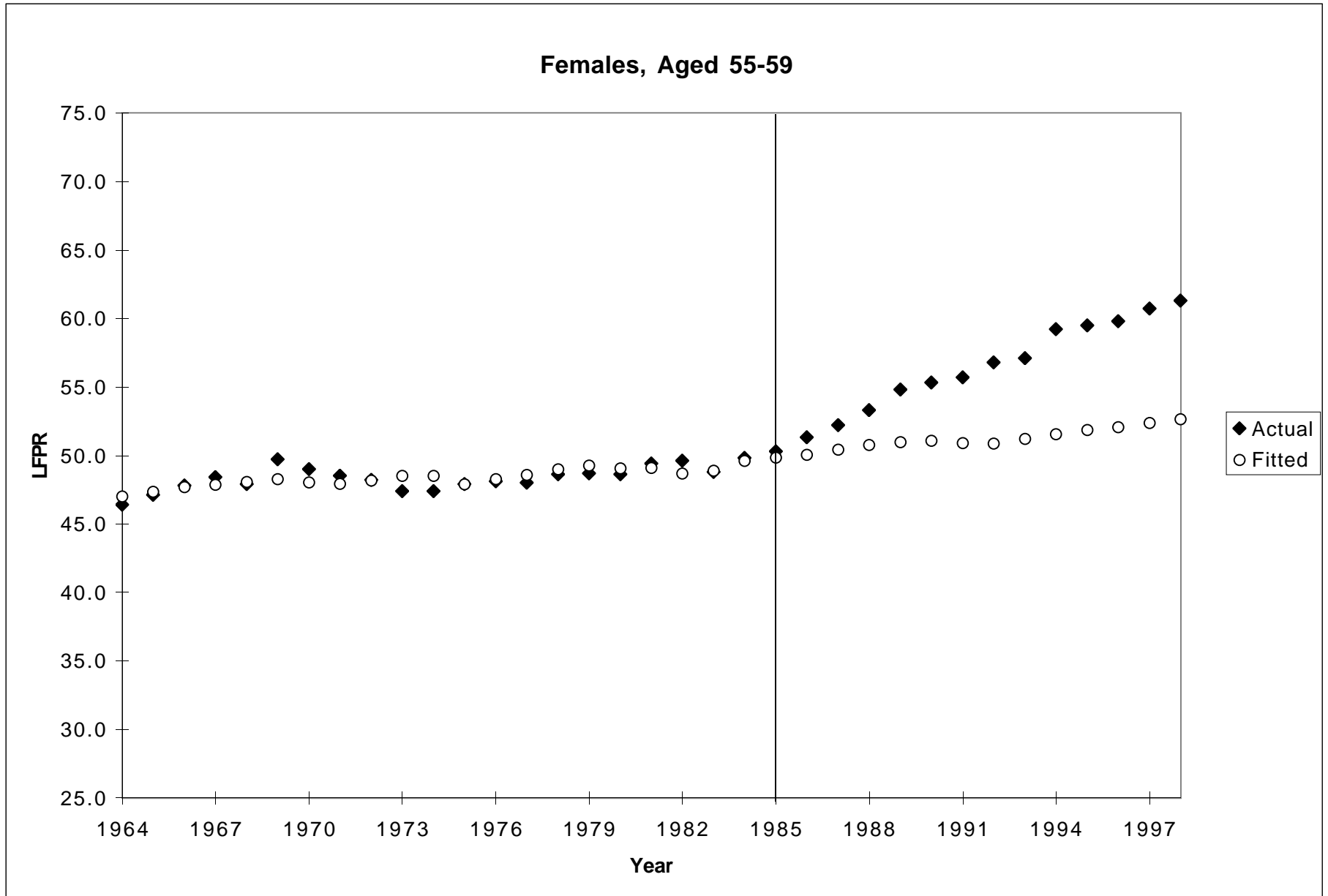




Figure 4 (cont.)



## Table 2

### Labor Force Participation Rate Regressions by Gender and Age (standard errors in parentheses)

	<u>Trend (1964-1985)</u>	<u>Δ Trend after 1985</u>	<u>(Trend + Δ Trend)</u>
<b>Men</b>			
<b>55-59</b>	-0.553 (0.029)	0.399 (0.069)	-0.154
<b>60-64</b>	-1.187 (0.044)	1.089 (0.107)	-0.098
<b>65-69</b>	-0.862 (0.053)	1.025 (0.127)	0.162
<b>70+</b>	-0.420 (0.018)	0.459 (0.043)	0.039
<b>Women</b>			
<b>55-59</b>	0.188 (0.027)	0.672 (0.064)	0.861
<b>60-64</b>	-0.092 * (0.036)	0.568 (0.086)	0.476
<b>65-69</b>	-0.139 (0.028)	0.436 (0.067)	0.297
<b>70+</b>	-0.085 (0.008)	0.170 (0.020)	0.085

NOTE: All coefficients are significantly different from zero at the 0.01 level, except \* which is significant at the 0.05 level.

**Figure 5** compares actual and predicted participation rates for the same four cohorts of men and women who appear in figure 4, but here we include the change in trend after 1985, along with the unemployment rate. The difference from the earlier figures is clear. With the addition of the "change in trend" term, the predicted rates track the actual almost perfectly, and the differences between the two only rarely exceed one point. The same is true for the other four age-gender cohorts as well.

Conclusions. A dramatic change in the labor force participation trends of older Americans occurred in the mid-1980s. The strong U.S. economy is part of the story, but only part. Older Americans may also be developing a new attitude toward work late in life, encouraged by the public policy initiatives mentioned above, the decline in the relative importance of defined-benefit employer pension plans, the shift from manufacturing to less arduous service occupations, and the realization that many American of early retirement age today can look forward to healthy decades ahead.

Survey data suggest that this change in attitude is shared by younger workers. In a recent AARP survey of workers aged 34 to 52, 80 percent said that they expected to keep working after age 65 (Roper Starch Worldwide, Inc., 1998). In an Employee Benefit Research Institute survey, 61 percent of current workers think that they will work for pay after retirement, many for financial reasons, and many others to improve their quality of life. Since the labor force participation rate of workers aged 65 to 69 today is only 22 percent (28 percent for men, and 18 percent for women), one might remain skeptical of the 80 and 61 percent figures, while still concluding that work late in life will remain an important part of the labor market exit process. Although many older Americans do not want to continue working full time on their career jobs, many do prefer to remain active in the labor market, often part time, sometimes self-employed, and often in a completely new line of work.

Figure 5

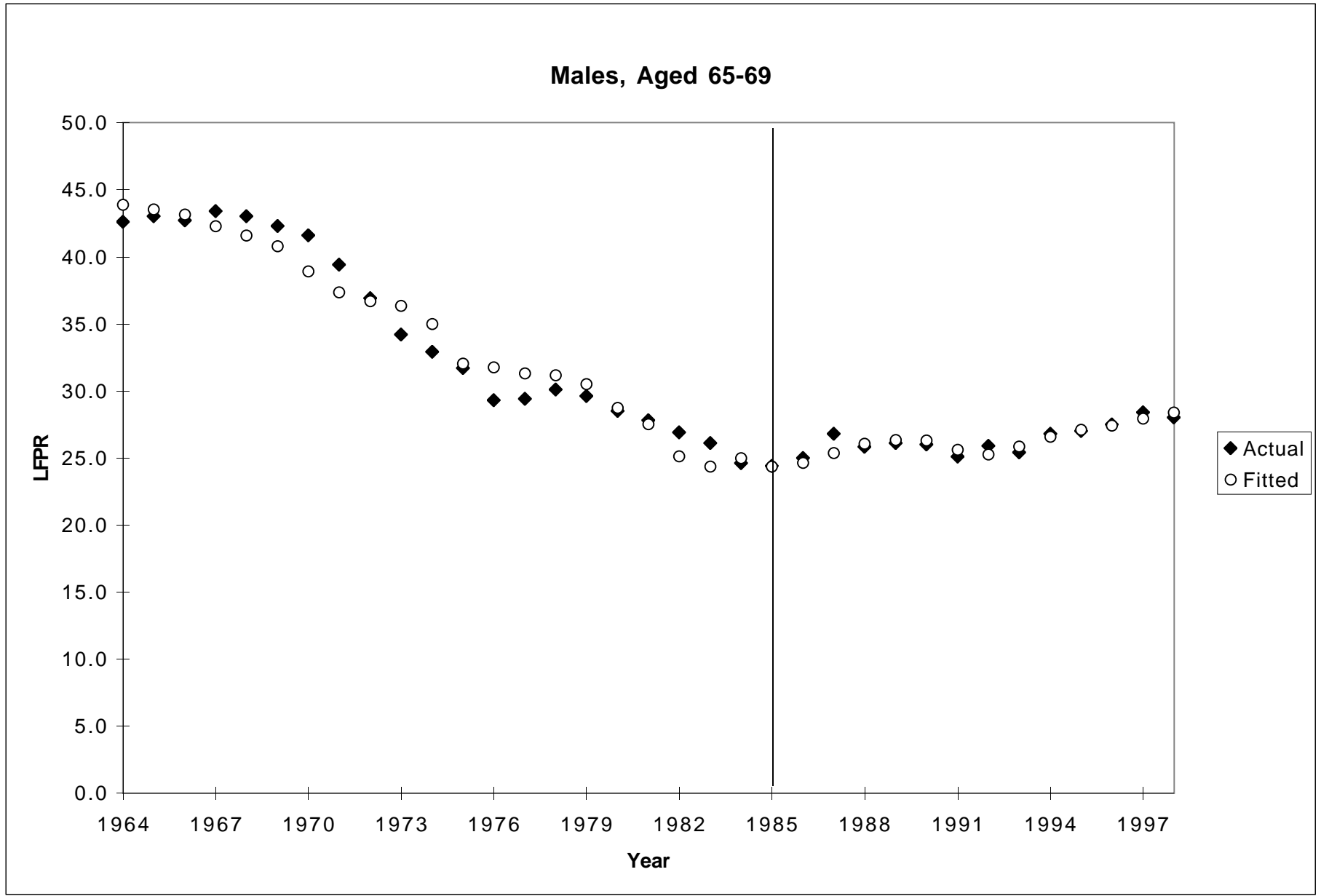
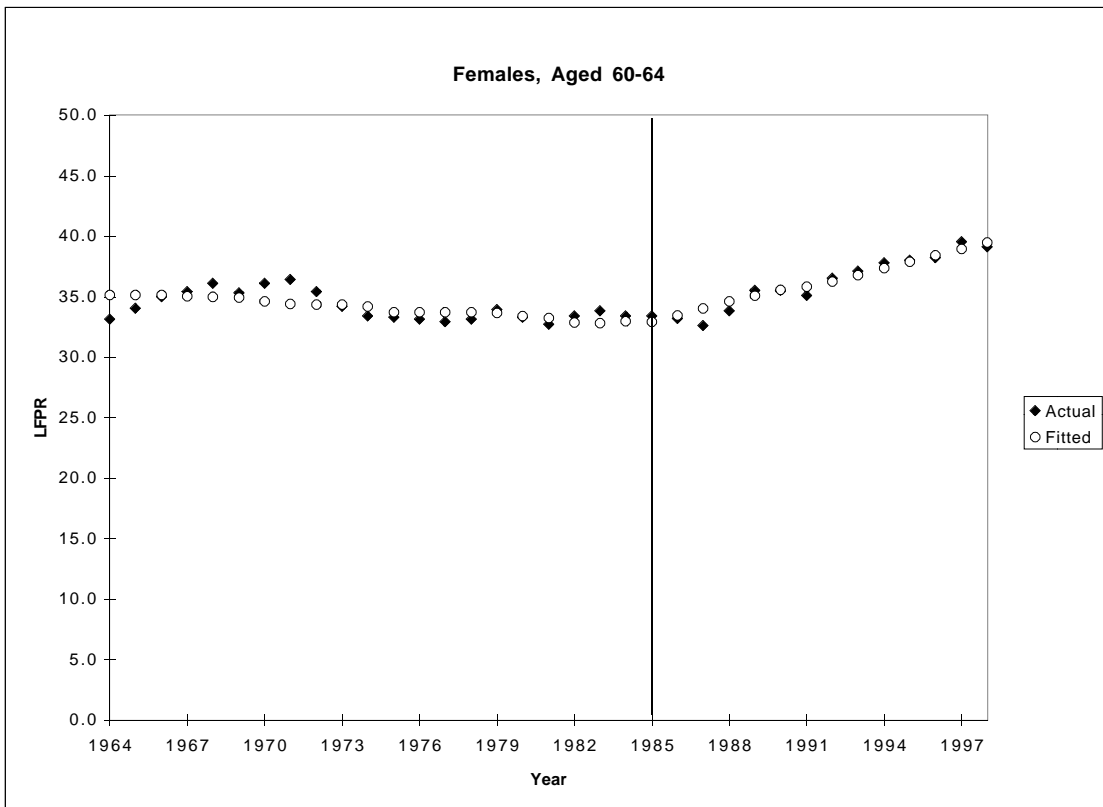
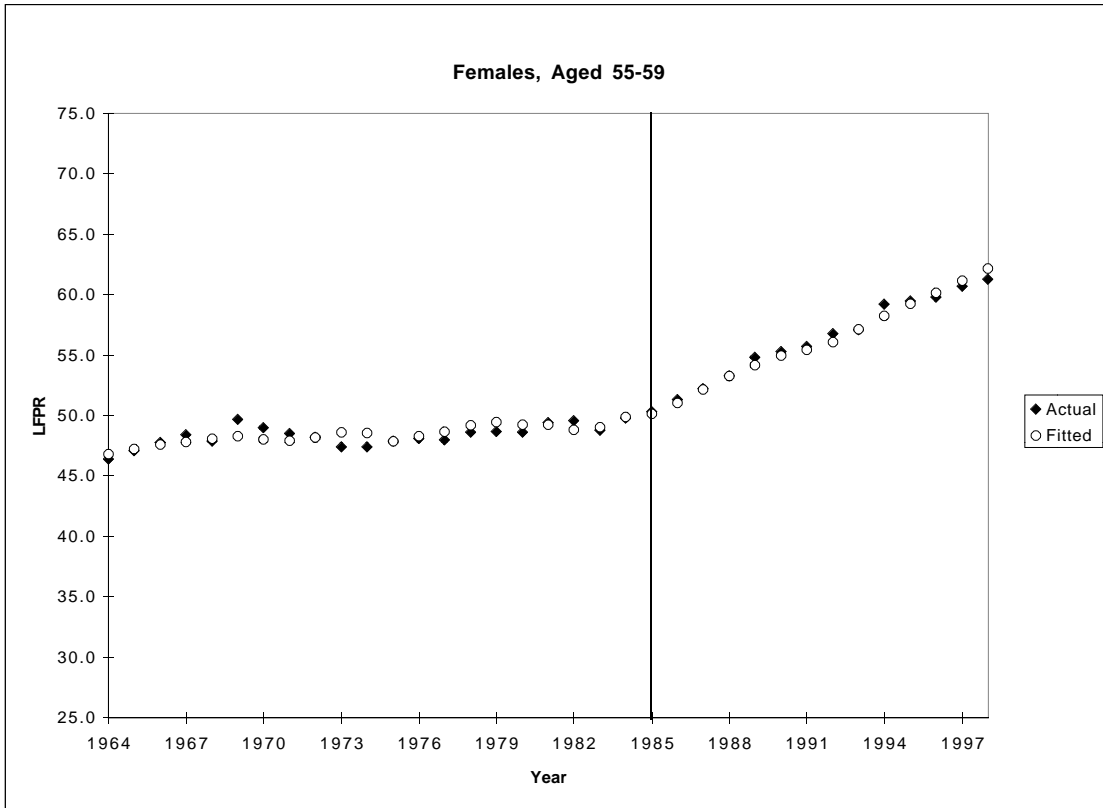


Figure 5 (cont.)

Labor Force Participation Rates  
Actual and Fitted Values, 1964-1998



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<sup>1</sup> Much of this material already appears in two publications: "New Paths to Retirement," in Forecasting Retirement Needs and Retirement Wealth, (Brett Hammond, Olivia Mitchell and Anna Rappaport, editors). Philadelphia, PA: University of Pennsylvania Press, 1999; and Retirement Patterns and Bridge Jobs in the 1990s, Employee Benefit Research Institute Policy Brief No. 206. Washington DC: EBRI, February 1999.

<sup>2</sup> The apparent exception to the pattern at age 64 is due to an anomalous labor force participation rate in 1985. The rate for this age had dropped from 48.8 to 41.7 between 1980 and 1984, and continued to drop from 39.4 to 38.2 between 1986 and 1988. The 1985 rate jumped to 42.2, which is probably a statistical blip. Between 1986 and 1998, the participation rate for men aged 64 increased at 0.16 points per year, which falls right between the age 63 and age 65 numbers.