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Working Longer Policies: Framing the Issues

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STATEMENT OF INDEPENDENCE

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I. Introduction

The nature of retirement is changing. Traditional private pensions, also known as defined benefit plans, have mostly disappeared in the private sector in favor of 401(k) plans, and this trend has begun to spread to public sector employees. This shift means that workers are now faced with more agency over their retirement: They are required to make their own saving decisions, decide how to invest their retirement savings, decide how long to keep working, and figure out how to manage the decumulation of their assets. The shift toward 401(k) plans has also placed more risk (and potential reward) in the hands of workers: They reap the downsides and gains from changing stock prices and interest rates, and they bear more of the financial responsibility for uncertain life spans and health in older ages.

One underappreciated by-product of the shift to 401(k)s is that older Americans increasingly must decide when and how to retire. For a worker with a pension, this decision is often dictated by programmatic rules. When a worker can retire and receive the full value of a pension, continued workforce participation often makes little sense, given that they are paying into a retirement system but receive no additional benefit. But with a 401(k), there is no implicit tax on working—meaning that workers have an added incentive to work beyond the standard retirement date.

Indeed, people are already working longer. Whereas the overall rate of labor force participation has declined over time, the participation rate of older workers is rising, for both men and women.¹ Some of this increase is surely the result of the shift away from employer pensions and the associated insecurity about having enough money to retire. But some of the increase is driven by more positive factors, such as expanded life spans, employers' perceptions of the value of older workers, and older workers' ability to offer a lifetime of experience and a willingness to train younger colleagues.

Longer working lives and the shift to 401(k)-type plans are only part of the retirement challenge. Government programs, particularly Social Security, continue to serve as the bedrock of American retirement; but benefit levels are not very high for those at or below the median income, and net benefits are reduced sharply by premiums for Medicare coverage and out-of-pocket medical costs. Medicaid provides nursing home care for low-income elderly people, but in facilities that are often quite undesirable. In addition, there is strong political pressure to cut “entitlements.” and the largest entitlements are Social Security and Medicare. Pushback from the electorate will make it difficult to cut these programs, but it is unlikely they will become more generous.

In short, Americans who are looking ahead to a retirement that may last 20 years or longer are facing formidable challenges. Much of the economics literature has focused on ways to encourage more saving, particularly through the design of opt-in provisions in 401(k) plans. This approach has had some success, but it has not solved the retirement policy challenge. This paper—written as part of a joint endeavor on retirement security between the

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1. The overall labor force participation rate has risen in the past few years with the economic recovery, but this is after a prolonged period of decline.

Brookings Institution and the Kellogg School of Management—looks at policies to encourage people to work longer.

In this framing paper, we first look at the retirement decision through the lens of the life-cycle model plus the insights of behavioral economics. We then consider trends in labor force participation and ask what has been driving these trends. The subsequent section examines the range of policies that could either encourage people to work longer or encourage employers to hire and retain older workers. In this section, we summarize policy proposals released concurrently with this report (Clark and Shoven 2019; Munnell and Walters 2019). There is a short conclusion.

II. How Do People Decide When to Retire?

Economists developed the life-cycle model in the 1950s to help explain patterns of work, consumption, saving, and retirement (Modigliani 1966).² It was a natural way to think about how people manage their money over their lifetimes, by saving during their working years and then drawing down their assets once they retire. At the time this model was developed, many middle-class families had pension programs through their employers so that their retirement age was determined, or influenced, by their employer, with age 65 being a common benchmark. Unionized blue-collar workers often retired at an earlier age, which was agreed to through a union contract and reflected the physical stress imposed by factory work. Workers with good pensions did not need to make their main retirement, saving, and investment decisions themselves; they could rely primarily on their employer's pension plus Social Security benefits.

Times have changed. Not all workers had traditional pensions even in the “good old days” in the 1950s and 1960s, and since the introduction of 401(k) plans, traditional pensions have largely disappeared for the next generation of retirees. Further, most people's expected life span has increased, and thus the number of years to be covered by retirement income has increased. The life-cycle model of saving and investment for retirement has actually become much more relevant to today's workforce than it was in the 1950s. Families today need to plan their own retirements.

The Retirement Decision

The life-cycle model assumes that people make rational decisions. At any point in time, a household assesses its current financial status and estimates its future earnings (labor income and investment income) and future life spans, subject to uncertainty. The household's members determine what amount they might choose to leave to their heirs, and they figure out when they will retire and how much to consume now and in future periods. These

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2. Modigliani (1966) is based on earlier research by Franco Modigliani and Richard Brumberg.

decisions maximize the utility of the household over its lifetime, subject to known uncertainty.

One of the central insights to the life-cycle model, which can more accurately be described as a class of models, is that people make intertemporal decisions across their lifetime in ways that make them better off across all periods (for an in-depth discussion of life-cycle models, see Browning and Crossley 2001). In particular, people make decisions about spending and saving so that a given level of spending in each period brings as much satisfaction as possible: If switching \$100 in spending from one period to another makes a person happier, they can be expected to do so.

This gives rise to the notion of “consumption smoothing,” whereby households generally aim to have a similar level of consumption over their lifetimes. Indeed, research often finds that despite steep drops in income at retirement, many households are able to maintain a similar level of consumption (Hurst 2008). And when economists speak about retirement adequacy, they are usually invoking the notion of consumption smoothing; that is, whether households can maintain their same standard of living in retirement as they did during their working years. Being an adequate saver, and by extension smoothing consumption, is relatively easy with an employer pension. But with a 401(k)-type plan, many workers may need to work longer to have a high probability of maintaining a constant level of consumption throughout retirement.³

Within the lifecycle model, what factors explain when people will retire? Many retirement models assume that workers can only choose between full-time work or full retirement; phased retirement and part-time work are not options. In that case, workers will weigh the benefit from additional months or years of income if they keep working against the loss of free time they could spend with family and friends as a retiree. Retirement becomes more attractive as people age, mainly because their retirement assets are rising and life span uncertainty is shortening—reducing the chance they will be older and with a low income. In the life-cycle model, people retire when the benefits of working (higher income and more saving) exactly equal the costs of working more (forgone time in retirement).

The life-cycle model has its limits, such as unexpected bad health, involuntary layoff from a late-career job, discrimination against older workers, and the difficulty at age 30 of knowing how one will feel about working at age 65 or 70. In addition, factors not included in the model—such as policy choices and the state of the economy—often influence labor market decisions. For those in jobs that provide health insurance, this work-related benefit encourages people to keep working until they reach age 65, when they can move onto Medicare—an option that is affected by the creation of the Affordable Care Act and by the underlying uncertainty surrounding the program. The option of collecting Social Security seems to encourage retirement, as well. Munnell and Chen (2015) report that 42 percent of men and 48 percent of women choose to start collecting benefits at age 62, when they are first able to do so, and only 4 percent of men and 2 percent of women wait until age 70.

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3. Gary Burtless commented to us that historically not all workers were covered by defined benefit plans and, moreover, many defined benefit plans had deficiencies, such as inadequate funding or low levels of benefits, so that 401(k) plans could provide a better way to smooth consumption if people save enough.

This is despite the fact that there is a sizable financial incentive to postpone collecting benefits.⁴ Taxes on work income reduce the payoff from staying on the job, but both withdrawals from 401(k) plans and Social Security benefits are subject to taxes. Because tax rates are usually lower in retirement, taxes, on balance, encourage retirement.

The state of the business cycle affects retirement decisions, and we saw many people retire during or following the Great Recession after having lost their jobs and faced difficulty finding alternative employment. Of course, the decline in the housing and stock markets at the same time reduced the assets of many people and encouraged those who kept jobs to keep working longer. The decline in labor market prospects seemed to have had the more important impact (Coile and Levine 2010).⁵

The rate of return that savers receive on their retirement assets also influences the retirement decision, but it can cut two ways. Higher returns mean that people can accumulate money more quickly and be able to retire early (i.e., the “income effect” of higher interest rates encourages early retirement). Conversely, a higher return on saving makes it more attractive to keep working and keep saving (the “substitution effect” delays retirement).

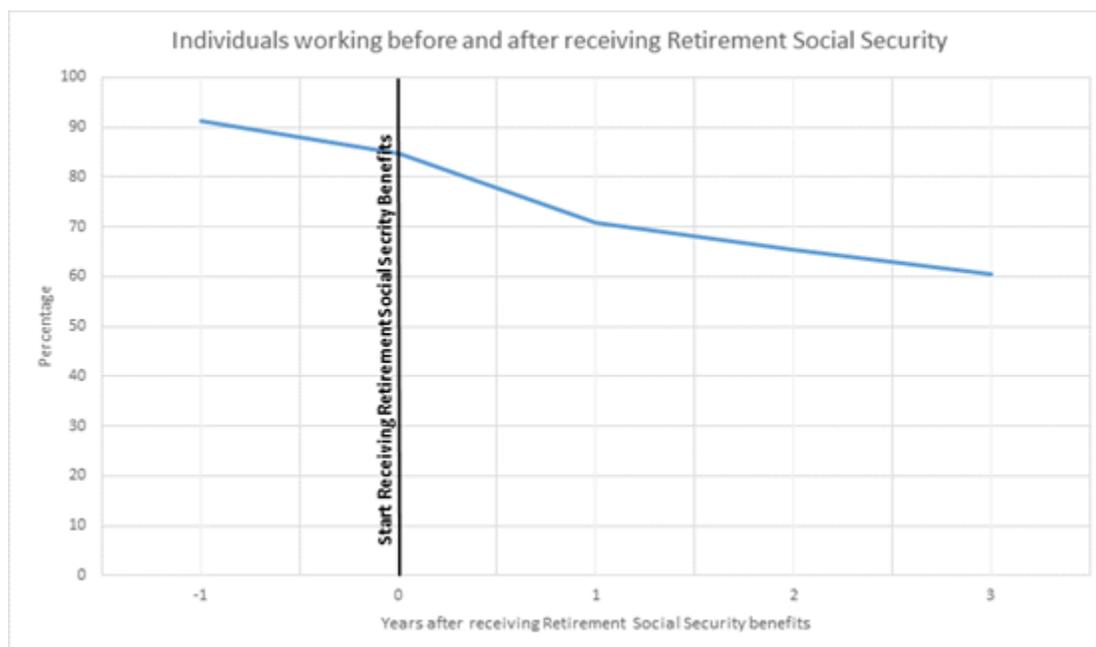
Some workers do go directly from full-time work to full retirement, but many people decide to scale down their work hours gradually. Often this is because people are unwilling or unable to keep working full time but do not have enough money to last if they or their spouse live to a very old age. Perhaps they are concerned about needing part-time or full-time nursing care in the future. Some employers welcome part-time work and value the experience older workers bring to the job, but others may use incentives of various kinds to encourage older workers to leave. Even if a primary employer does not allow part-time work, some older workers find alternative part-time employment after leaving their primary job. Skilled workers—like carpenters, plumbers, and nurses—remain in demand for part-time work. Realistically, however, most workers who retire from their primary employer find it difficult to work part time except at a reduced wage compared with their full-time wage.

A study by Brady and others (2017) provides perspective on the extent to which people keep working after “retirement.” Figure 1, which is taken from data in that study, shows how employment varies around the date at which individuals first claim Social Security retirement benefits. Year –1 in the figure is the year before an individual first claims benefits; year zero is the year they first claim; and years 1, 2, and 3 are the three years after they first claim. As the figure shows, over 90 percent are working in the year before first claiming benefits, while that drops to about 85 percent in the year benefits are claimed. Over subsequent years, employment falls to about 70 percent one year later and to 60 percent three years after first claiming. The date of first claiming Social Security retirement benefits is sometimes considered the date of retirement, but this figure shows that earning some labor income for a while after that date is actually the norm rather than the exception.⁶

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4. Note, however, that the tax panel data used in the paper that is the source for figure 1 below suggest that many of those who claim at age 62 have already retired, or at least have stopped working, before reaching that age.
5. Coile and Levine (2010) found that the net impact of the Great Recession was to increase retirement.
6. The results in this study for the number of people who continue to work after collecting benefits are surprisingly high. It may be hard to separate out individuals within a tax-filing unit.

Figure 1. Many People Keep Working Even After They Start Collecting Social Security



Source: Brady et al. (2017).

Do People Make Rational Decisions About Saving and Retirement?

Economists have yet to settle the questions over whether people behave rationally in retirement and the extent to which Americans are saving adequately. These concepts are related, but not identical. For example, a workers who saves nearly all her income would almost certainly be classified as an adequate saver, but would be violating the spirit of the life cycle model because she was foregoing the consumption that is assumed to make her happy during her working years.

A wide range of papers have addressed these issues and helped further our understanding of retirement behavior. In 2004 Gary Burtless examined retirement decisions and reviewed the evidence on retirement behavior, whether it is rational or whether people use rules of thumb or fail altogether to plan for their retirement. He said the data are not conclusive but there is evidence that supports the relevance of the lifecycle model for actual behavior. He notes, however, that few older workers “make big investments in learning or thinking about the financial tradeoffs that are relevant to retirement (op cit. page i).”

A 2006 paper by J. Karl Scholz, Ananth Seshadri, and Surachai Khitatrakun made a very forceful case that Americans are (or were in the 1990s) saving optimally for retirement and were following the principles laid out in the life-cycle model just described. The study used data from the Health and Retirement Survey on savings accumulated in the 1990s and 40 years of earnings data from the Social Security Administration. Their conclusion is that, on

balance, there is more oversaving than undersaving and that low-income households and households without extensive education were just as likely to be saving optimally as high-income and more educated households. This paper is a tour de force that takes account of many complexities, including the uncertainties that retirement savers face.

The paper by Scholz, Seshadri and Khitatrakun is a reminder that not all Americans are acting shortsightedly or irrationally. Many low-income workers save little or nothing for retirement, but that may be a rational decision because saving during their working years is too hard when they are only just able to make ends meet and support their families. They expect to live on Social Security benefits and, perhaps, part-time work, when they retire. Many upper-income workers do save consistently during their working lives, participating in 401(k) plans, perhaps with contributions from their employers. They accumulate substantial retirement funds that supplement Social Security, and this group may also work part time after their primary job has ended. Recent studies using Flow of Funds, tax, and Social Security Administration data have found that people have more income in the early years of their retirement than had been found in survey data. It seems that people understate their current cash incomes when they respond to surveys. For example, when households receive withdrawals from their IRA accounts, these may not be considered retirement income—after all, it is money they have saved, not new income. These studies have found that many households sustain consumption at close to preretirement levels, at least in the first years of retirement.

Nonetheless, there is reason for concern about whether saving and retirement decisions are allowing Americans to have a secure retirement. First, the retirement landscape has changed so much that even if retirement decisions were optimal in the 1990s when pensions were still common, the same may not be the case in the future.

Second, there is an overreliance on Social Security benefits for retirement income. In July 2018, the Social Security Administration reported that the average monthly benefit paid to retired workers was \$1,415 per recipient, a rate of \$16,980 a year.⁷ This is often insufficient to allow a worker to maintain in retirement the same standard of living enjoyed during their working years. Even if there are two people in a household collecting benefits at this rate, \$2,830 a month amounts to a still-modest \$33,960 a year. Payments for Medicare coverage and out-of-pocket health costs must be paid for out of this total. High-income households can receive much more than this average benefit payment, collecting about \$3,600 a month, or \$43,200 a year, if the beneficiary earned above the Social Security maximum for at least 35 years and waited until age 70 to collect benefits. Of course, the fact that some people get well above the average means that other recipients are receiving less than the average—notably, the 42 percent of people who start collecting benefits at age 62.

Social Security is not on a sound financial basis, and the retirement trust fund will run out of money in 2034 according to the Trustees' report (Social Security and Medicare Boards of Trustees 2018). This shortfall can be made up from general tax revenue, but there is strong political pressure to cut "entitlements," and Social Security and Medicare are the

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7. Data from "Monthly Statistical Snapshot," Social Security Administration, https://www.ssa.gov/policy/docs/quick-facts/stat_snapshot/2018-07.pdf.

two largest entitlement programs. Both authors of the present paper support preserving and strengthening Social Security, but putting too many eggs in the Social Security basket is not wise.

Third, in practice, estimates of people's saving and retirement decisions do not appear to be optimal. In a masterful survey of retirement security, James Poterba (2014) lays out the facts of the retirement status of Americans and concludes: "A significant subset of the population is unlikely to be able to sustain their standard of living in retirement without higher pre-retirement saving."⁸ Poterba also finds that though many households are able to maintain their standard of living in the early years after retirement, they start to run out of money if they live into their 80s or 90s. The Aspen Institute, in a report published in September 2018, finds that "among households led by someone between the ages of 55 and 64—the cusp of retirement—the median retirement account balance is only slightly higher than \$14,500."⁹ This is such a small amount that it would provide almost no financial support during retirement.

This widespread lack of preparedness for retirement has led to a revolt by behavioral economists against the rational expectations of the life-cycle model. One of the crown jewels of behavioral economics is the "nudge" finding, whereby workers who are automatically enrolled in a contributory 401(k) save more for retirement than workers who have to opt into the program. The fact that a rather trivial organizational difference in the structure of retirement plans makes such a big difference in enrollment rates casts doubt on the hypothesis that people are making considered and rational saving and retirement decisions. More broadly, behavioral economists find that people suffer from economic myopia. They will make choices among expenditure options, all of which are in front of them—pork versus beef or Ford versus Toyota—but they do not think ahead to what their lives will be like in the future, many years ahead—intertemporal choices are much harder to make rationally, especially given uncertainty. David Laibson and his coauthors argue that people have preferences that do not fit the rational life-cycle model because immediate rewards are overvalued relative to future rewards, creating preferences that are time-inconsistent. When questioned, people say they plan to save for retirement and they will start saving in the future; but when it comes to action, they save very little.¹⁰

Implications for the Retirement Decision and Working Longer

If households do not save enough, or if they deplete their retirement savings before they retire, they will reach their 60s without enough saved to preserve the standard of living

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8. The sentence quoted is from the abstract in Poterba (2014).
9. The sentence quoted is from the executive summary of Stark (2018). We note that there seems to be some inconsistency among different researchers as to how much wealth people have as they approach retirement. The Aspen Institute figure is on the low end of the spectrum.
10. See the presentation at <https://scholar.harvard.edu/laibson/publications/behavioral-economics-and-aging>. Laibson cites a study by Choi et al. (2002), which finds that 68 out of 100 employees surveyed report saving too little. Twenty-four plan to raise saving in the next two months, and three actually do so (slides 21 and 22).

they have achieved in their working years. One way to deal with this problem is to keep working longer than they had anticipated. The lack of retirement funding becomes a present reality, forcing its attention on today's calculations. The fact that the labor force participation rate of workers over 65 is rising—a trend we explore in detail in the next two sections—is a sign that many people are taking this approach. Those who have saved something for retirement have the chance to keep saving longer and have fewer years over which to spread their savings. Those who have not saved at all can postpone the age at which they first collect Social Security benefits by working more years.

Although the share of older workers in the labor market is rising, it is still low, and the behavioral problem of myopia does not disappear when people hit age 65. Perhaps households have some savings and start to collect Social Security, and they believe they will manage somehow in the future. Health problems can hit unexpectedly and force people to leave the workforce even if they had not planned to do so. Older workers may not be able to handle the stress of their primary job, and getting alternative employment may be difficult. Thus, implementing policies to both help Americans save more and work longer are critical to improving the retirement landscape.

III. Observed and Projected Labor Market Trends

The share of adults engaged in the labor market, and the underlying factors behind various trends, is one of the most important questions in economic policy. The extent to which adults engage in work has wide-ranging implications that affect various aspects of the economy, from economic output to government revenues to household income. In this section, we lay out the facts about the extent to which Americans—especially older Americans—are choosing to engage in the labor market; in the next section, we discuss the primary factors underlying these trends.

To start, it is helpful to define several key terms. Economists rely on various metrics to determine the extent to which Americans are working. One key term is the labor force participation rate (LFPR), which measures the share of Americans who are working or looking for work. The LFPR is defined as the proportion of adults age 16 and above, and who are not in an institution such as a nursing home or in the armed forces, who report either being employed or being actively engaged in a job search.¹¹ Another key indicator is the share of adults who are working, which is known as the ratio of employment to population (EPOP). The difference between the LFPR and EPOP is that the LFPR includes adults who are unemployed but looking for work, while the EPOP measures the share of adults who have a

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11. The Bureau of Labor Statistics notes that “the labor force is defined as the sum of the employed and unemployed. In the Current Population Survey, people are considered employed if they did any work for pay or profit during the survey reference week (that is, the Sunday to Saturday that includes the 12th day of the month). People are classified as unemployed if they do not have a job, actively looked for work in the prior 4 weeks, and are currently available to work. (Workers expecting to be recalled from temporary layoff are counted as unemployed whether or not they have engaged in a specific job-seeking activity.) Actively looking for work may consist of activities such as contacting an employer directly or having a job interview, contacting a public or private employment agency, contacting friends or family about a job, and contacting a school or university employment center. Other active job search methods include submitting resumes or filling out applications, placing or answering job advertisements, and checking union or professional registers.”

job. In this section, we focus on the LFPR because it is less sensitive to changes in the business cycle—that is, recessions and recoveries—that can influence the share of adults who are working.

The LFPR for all Americans has shown a decidedly hump-shaped pattern over the past half century. The rate grew steadily between the early 1960s and the late 1990s, when it peaked at 67 percent. Since the 1990s, the LFPR has steadily declined, reaching about 62 percent in 2014 and staying more or less constant since then. The most recent LFPR measurement in November 2018 was 62.9 percent.

These national trends obscure several underlying trends that are worth noting. First, younger Americans age 16 to 24 experienced a similar, but less pronounced, trend as that for all adults.¹² A second important trend, one that has received a high level of attention from economists, is about the gender-specific trends for prime-age workers—those age 25 to 54. The LFPR for prime-age men has been in steady decline over the past six decades, falling from 97 percent in 1960 to about 88 percent by 2013—and mostly stabilizing since then. By contrast, prime-age women increasingly became active in the labor market between 1960 and 1990, and since then saw stagnation followed by modest declines—but at far more moderate declines than for men—and with a recent pickup over the past several years.¹³

Although the participation rates of prime-age workers have been moving in opposite directions for men and women, older Americans of both genders have been increasingly working more. The LFPR for adults age 55 and above has been rising since the mid-1990s, after falling slowly throughout the 1970s and early 1980s (figure 2). After stabilizing at about 30 percent in the mid-1980s, the LFPR rose to about 40 percent by the eve of the financial crisis, and has remained mostly constant since then. This decline was driven largely by reduced participation by men, who had a drop of roughly 10 percentage points in their participation rate; older women stayed in the labor force at roughly the same rate over the 1970s and early 1980s. But the increase was driven by higher rates of both men and women working, with participation rates for both genders rising in about 1995. Between the mid-1990s and the financial crisis, participation rates rose by about 13 percentage points for women and about 10 percentage points for men. This increase put men's rates roughly in line with the rate in 1975, while the rate for women seemed to be a level shift upward to unprecedented levels.

Within the U.S. population age 55 and above, the LFPR declines monotonically with age—with an especially stark divergence at about age 65. By 2017, nearly 60 percent of Americans in their early 60s were in the labor force, but just over 30 percent of Americans in their late 60s had a job or were looking for one. About one in five adults in their early 70s is still in the labor market, including 16 percent of women and 24 percent of men. But participation becomes extremely uncommon among adults in their late 70s, with just 8 percent of people over 75 holding down a job or looking for one.

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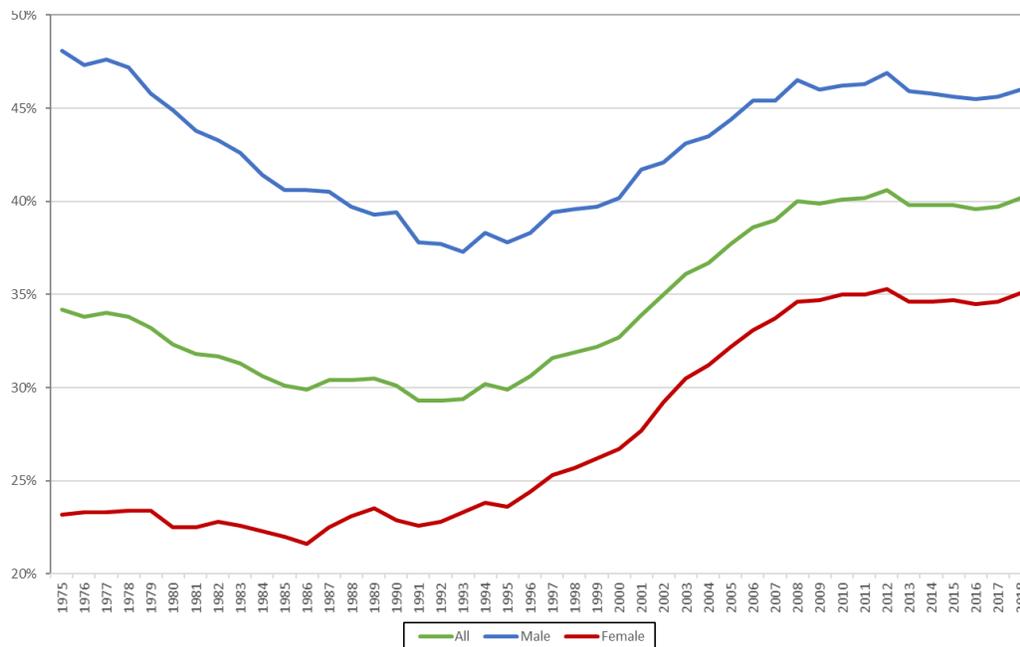
12. Between the mid-1960s and the late 1970s, the share of younger people in the labor force was growing slowly, rising from 55 to 68 percent. Then the LFPR began to slowly decline, falling by about 13 percentage points, to 55 percent in 2009. The rate has remained effectively constant since then.

13. Between 2000 and 2014, the LFPR for prime-age women declined from 77 to 74 percent, rising by about 1 percentage point since then.

Although it is still uncommon for Americans over age 65 to be in the labor force, the rates of participation have been increasing over time. The run-up in the LFPR between the mid-1990s and late 2000s was also seen in older Americans, with participation rates for those age 55 to 74 rising by about 10 percentage points for most five-year age groups (see figure 3). The rise was moderately less for older workers, with the participation rate rising from about 5 percent to about 8 percent over this period.¹⁴

Figure 2. Civilian U.S. Labor Force Participation Rates for Those Ages 55 or Older, by Gender, 1975-2018

(Unadjusted December of Each Year)

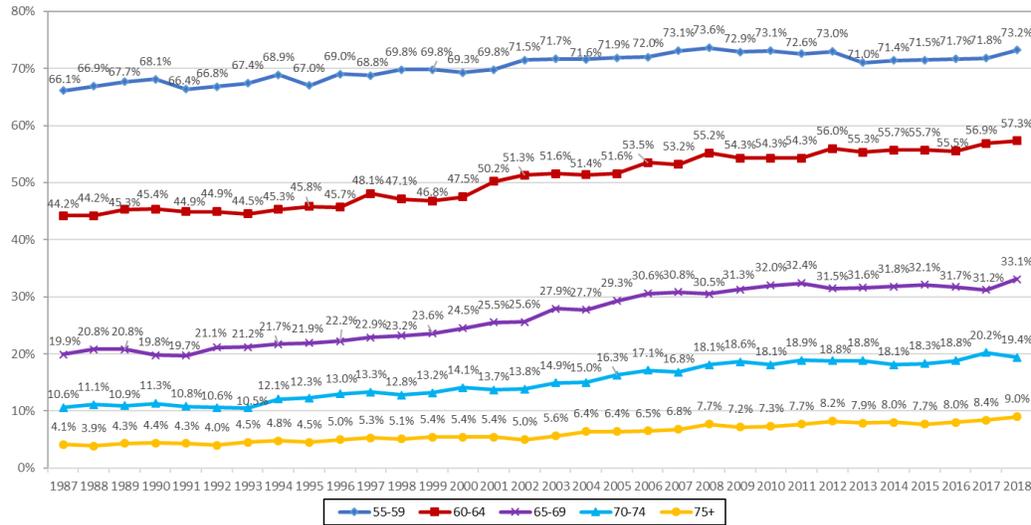


Source: U.S. Department of Labor, Bureau of Labor Statistics, “Labor Force Statistics from the Current Population Survey”, <http://www.bls.gov/data/>

14. All labor force statistics are from the “Current Population Survey: Labor Force Participation Rate,” U.S. Bureau of Labor Statistics, <https://www.bls.gov/cps/>.

Figure 3. Civilian Labor Force Participation, 1987-2018

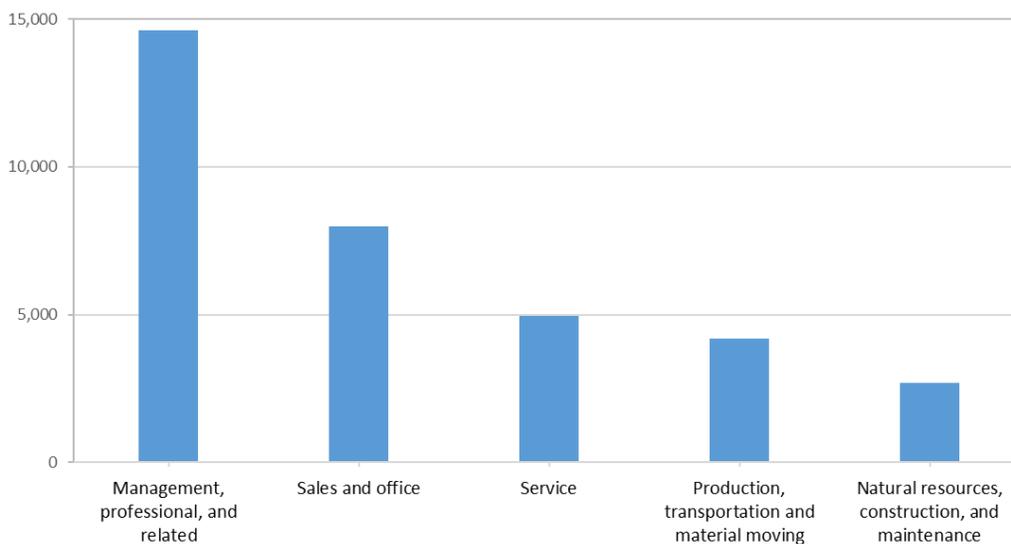
(Unadjusted December of Each Year)



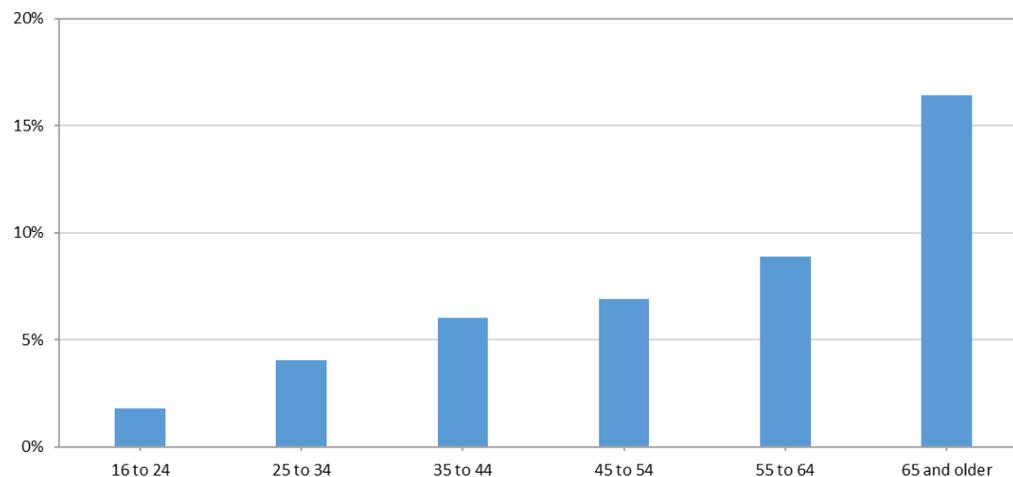
The occupations held by older workers tend to be in management or professional services. According to the Bureau of Labor Statistics, more than 40 percent of older workers—roughly 15 million people—are employed in management, professional, or related services. Another 8 million are employed in sales jobs, while under 5 million are employed in the remaining occupational categories, including service; production and transportation; and natural resources, construction, and maintenance (see figure 4). In addition, older workers exhibit higher rates of self-employment, with about 16 percent of workers over age 65 being self-employed—over twice the rate of prime-age workers (see figure 5).

Figure 4. Employment of workers ages 55 and older, by occupation group, 2016

(Thousands)



Source: U.S. Bureau of Labor Statistics

Figure 5. Self-employment (unincorporated) by age, 2016 (percent)

Source: U.S. Bureau of Labor Statistics

Older workers' LFPRs are expected to rise over the next decade. According to projections from the Bureau of Labor Statistics, the LFPR for workers 65 and older is expected to rise from 19.3 to 21.8 percent between 2016 and 2026. This includes roughly equal percentage point increases for workers age 65 to 74 and those older than 75. The increase in the LFPR is expected to be slightly higher for women than men. The LFPR for men age 65 to 74 is projected to rise by 3.2 percentage points (from 31.5 to 34.7 percent), while the rate for those age 75 and older is projected to rise by 1.9 percentage points (from 11.7 to 13.6 percent). The gains for women are projected to be slightly larger, rising by 3.7 percentage points for women age 65 to 74 (from 22.7 to 26.4 percent) and by 2.5 percentage points for those age 75 and older (from 6.1 to 8.6 percent).

In sum, the observed and projected changes in the LFPR tell a complex story. Although the bulk of attention by economists has been devoted to the steady decline in the LFPR for prime-age workers, other trends are worth noting. In particular, older Americans are increasingly staying in the workforce, with marked gains among those in their 60s. And though labor market participation by those in their 70s remains relatively rare, it is becoming increasingly common, with roughly 1 in 10 Americans older than 75 projected to be in the labor force by 2026.

IV. What Explains the Trends in Labor Force Participation?

Economists generally agree on the observed trends in labor force participation, but have yet to reach a consensus as to the underlying drivers of these trends. From the outset, we note that explanations can be split along several dimensions—including “demand”-side explanations, which account for increased hiring by employers, and “supply”-side factors, which relate to the share of adults willing to be in the workforce. Economists also typically

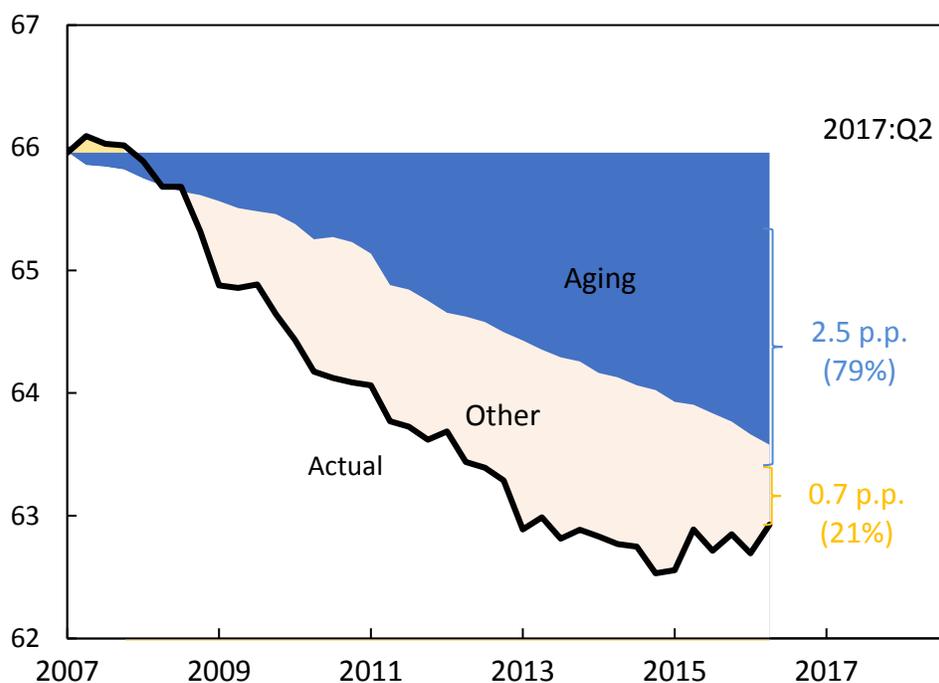
distinguish between LFPR trends by gender, given the changing intrahousehold gender roles over time and the dramatically different trends experienced by women as compared with men.

To start, we note that a major part of the LFPR story is simply the aging of the U.S. population. Because people are less likely to work as they age past 65, a larger share of the adult population in retirement age translates into a lower LFPR, all else being equal. As shown in figure 6, Eppsteiner and others (2017) estimate that of the decline of 3.2 percentage points in the U.S. LFPR between 2007 and 2017, a full 2.5 percentage points (or 78 percent of the decline) was due strictly to population aging. Similarly, a study by researchers at the International Monetary Fund found that about half the declining LFPR between 2007 and 2013 was due to population shifts, although the precise share varied substantially by time periods and gender. For example, the researchers find that of the decline of 0.7 percentage point in women's LFPR between 2010 and 2013, a full 0.5 percentage point was due to population shifts—compared with just 0.6 percentage point out of the drop of 2.0 percentage points for men over the same period (Balakrishnan et al. 2015).

Population shifts aside, there are myriad reasons why LFPRs have been changing for men and women. For men, potential drivers of the long-run decline in the LFPR include reliance on spousal income, increased receipt of disability benefits, higher incarceration rates (which can be a stubborn barrier to future employment), and increased competition due to automation and trade liberalization (for a discussion, see Council of Economic Advisers 2016 and Krause and Sawhill 2017). Women's LFPR has not experienced the same precipitous drop as men's, and has thus received less attention; but the trend is likely influenced by the same drivers as for men—especially the role of increased competition. Women's LFPR is also likely depressed by the limited number of family-friendly workplace policies in the United States, but is bolstered by policies that provide support for working parents—namely, the continued expansion of the Earned Income Tax Credit (both nationally and at the state level). In addition, some researchers have found that lower fertility rates and increased rates of nonmarriage among prime-age women have had an important impact on women's LFPR (Aaronson et al. 2014).

Figure 6. Decomposition of the decline of the U.S. labor force participation rate since 2007: Q4

(Percent)



Source: Eppsteiner, Furman, and Powell III 2017

The business cycle will also influence the LFPR, with participation rates expected to be higher when the economy is growing more rapidly, wages are pushing upward, and jobs are more plentiful. In this situation, adults in general, and prime-age workers in particular, are more likely to choose to join the workforce than to engage in other activities—such as raising children or attending college. Also, job seekers are more likely to find suitable jobs, leading fewer workers to drop out of the labor market altogether. That being said, empirical research has often found a weak relationship between the business cycle and the LFPR. For example, Aaronson and others (2014) find that a sustained increase of 1 percentage point in the unemployment rate will only depress the LFPR by 0.2 percentage points.

Labor force participation among older adults is complicated by a set of other factors. Foremost is the role of public programs, namely Social Security, which can either encourage or discourage longer working lives. The gradual increase in the Social Security normal retirement age from 65 to 67 years has been an important factor in pushing up the LFPR for workers at those ages. For example, Mastrobuoni (2009) finds that every increase of two months per year in the Social Security normal retirement age raises the average retirement age of affected workers by about one month for that year. At the same time, the onset of Medicare benefits at age 65 remains a sharp disincentive for older workers to stay in the labor market past the standard retirement age of 65, since the benefit of employer-provided

health care diminishes with Medicare eligibility. In the opposite direction, a long-term trend away from employer-provided health care for retirees has been an important factor in pushing workers in their late 50s and early 60s in the labor market.¹⁵

Public and private pensions can discourage longer working lives by imposing penalties, or implicit taxes, that are not paid by their younger counterparts. Whereas workers of all ages face a payroll tax on their wages, and many pay income taxes, older workers are also penalized in the form of lower Social Security benefits and declining private pension income.

Because benefits are based on a worker's earnings history, an extra year of labor can potentially boost Social Security benefits later in life if it pushes up the monthly benefit amount.¹⁶ But an extra year of work does not necessarily boost benefits, and always results in an extra year of payroll taxes. Also, some workers are subject to an earnings test—a complicated set of restrictions that effectively force some working seniors to defer a portion of their benefits. Because those subject to the earnings test eventually get their benefits, this is more a forced saving plan than a tax—but the delay in benefits is often perceived as a high tax on work. Combined, these penalties—both real and perceived—can dissuade older Americans from working an extra year.

These penalties have been declining over time. In 1983, an imminent shortfall in Social Security prompted Congress to make three important reforms. First, the benefit to delayed claiming went up, providing an extra boost to older Americans who—whether working or not—opted to wait before receiving benefits. (The legislation gradually raised the benefit from each additional year of delay to 8 percent from 3 percent.) Second, the legislation raised the “full” retirement age, meaning that workers had to wait a bit longer before receiving their entire benefit amount. And third, in the 1983 legislation and subsequent bills, the earnings test was gradually scaled back, providing relief for workers who perceived the test to be a tax on their earnings.

Research confirms the steep drop in work penalties for older workers. A new working paper by Courtney Coile (2018) finds that the implicit tax on workers age 65 to 69 has plummeted by more than half since 1980. For example, the implicit tax for a 67-year-old worker fell from 32 percent in 1980 to 10 percent today. Coile found similar declines for other workers in their late 60s, driven mainly by gradual changes in Social Security rules. Meanwhile, a worker with a 401(k)-type plan is not penalized for an extra year of work because contributions continue to accrue. By contrast, an older worker with a traditional pension often gets no additional benefit from working longer—they receive one less year of benefits, but the annual amount received does not change. However, the long-term shift away from traditional pensions means that fewer workers are subject to this pension-based penalty for working.

Another factor in the LFPRs of older workers is increased longevity. In line with the life-cycle model discussed above, workers seeking to smooth consumption (and utility) across

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15. Bosworth, Burtless, and Zhang (2016) find that there has been a substantial decline in the availability of employer-provided retiree health insurance, and that health insurance coverage as an employee or retiree has a strong influence on labor force participation.
16. Social Security benefits are based on the highest 35 years of a worker's earnings. An extra year of labor for an older worker would boost their Social Security benefits if it qualified as one of the worker's 35 highest years of earnings and it did not replace a year of earnings that was above the taxable maximum.

their lifetime must respond to increased life spans by either working longer or by consuming less. Our reading of the literature is that the link between increased longevity and older workers' LFPR remains unresolved. Indeed, though studies have demonstrated the link between increased years of life and increased capacity to work (Coile, Milligan, and Wise 2016), research has not yet answered with any certainty the extent to which workers choose to do so.¹⁷ One theoretical paper that resolves some disagreement in the literature found that as long as the productivity gains from higher longevity outweigh worker dissatisfaction from delayed retirement, workers will respond to increased longevity with longer working lives (Aísa, Pueyo, and Sanso 2012).

These factors all relate to the supply of older workers. Although there are several plausible explanations for the changing level of demand for older workers, recent research in general has shed little light on these forces. As outlined by Maestas and Zissimopoulos (2010), these demand-side factors could include the shift away from manual labor and toward service-oriented jobs requiring little physical ability, the shift away from company pensions, and the 1968 passage and subsequent strengthening of the Age Discrimination in Employment Act—which has had an indeterminate impact on the demand for older workers.¹⁸

In sum, the explanations behind the observed increase in older workers' labor force participation have not yet been resolved by the economics literature. It seems likely that supply-side factors dominate, including changing rules for claiming Social Security. Increased longevity theoretically can extend working lives, although this has yet to be established empirically. And aside from published estimates by the Bureau of Labor Statistics, we are unaware of recent research providing robust estimates of future LFPRs.

V. Strategies to Encourage Working Longer

According to the Social Security Administration, Americans who reach age 65 can expect to live about 20 years, and a fraction will live longer, into their 90s. For those that have accumulated a good retirement portfolio, or for those that have a secure pension, retiring at 60 or 65 may be a good option. For those without adequate resources to cover a comfortable retirement, it may make sense to postpone retirement and to work longer. Working longer provides three advantages. First, it allows people to postpone the time when they start collecting Social Security benefits, which substantially increases the monthly benefit received. Second, it gives more time to save money for retirement. Third, it means that retirement saving can be spread over fewer years.

Yet there is an important caveat about this. The income distribution in the United States has widened, and many of those earning low and moderate wages are working in jobs that require hard physical labor, such as carrying packages, moving furniture, and waiting ta-

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17. While it is clear that workers are living longer lives, trends in disability and mortality introduce the question about whether workers are healthy enough to work at older ages. For example, Crimmins and Beltrán-Sánchez (2011) document widespread increases in morbidity experience by older Americans between 1998 and 2006.

18. Maestas and Zissimopoulos (2010) explain that while the act may have, perversely, dissuaded employers from hiring older workers, it also may have changed social norms about the standard retirement age.

bles. Lower-income Americans also have a lower life expectancy than higher-income Americans (Burtless 2016). Some people have serious health problems that make working difficult or impossible and that may imply they will live fewer years than the expected average of 20 years. For these reasons, working longer may not be a viable or desirable option for a significant segment of the population. For this group, it is vital that Social Security be secured and strengthened, so that no older American lives in poverty.

As we discussed earlier in this paper, people have the right to choose their own age of retirement, and we should not introduce policies that distort this choice in ways that make people substantially worse off. However, there also should not be policies or practices that discourage working longer. In addition, people may not always make rational and informed decisions about retirement. While avoiding any coercion, policies that help people clearly see the consequences of their retirement choices for their future living standards may help them make better decisions.

Social Norms Are Important but Can Be Changed

In the 1950s and 1960s, only white men worked in senior and well-paid employment, with few exceptions. Photographs of senior corporate employees, or the faculties of universities, or the boards of public companies from that time show that almost everyone is a white male. Discrimination against nonwhites and women in the workforce has not been eliminated since that time—white males still earn more than other groups—but there has been a big change in social attitudes and in the opportunities available to the groups discriminated against in the past. In the 1950s and 1960s, it was assumed that women and African Americans were not suitable to be chief executives or board members; but that is no longer the case. The economy is better off for having outstanding women and minority chief executives, scientists, and skilled workers. The social norm that undervalued the capabilities of women and minorities has not completely disappeared, but it has definitely changed and is still changing.

Social norms have developed for older workers that affect the willingness of employers to hire or retain them.¹⁹ Many employers view older workers as a liability that blocks the hiring of younger, more productive, and more adaptable workers. Older workers may have higher pay than entry-level workers, and health care benefits are more expensive for older workers (Burtless 2017). Age discrimination is illegal, so employers will not admit to a preference for younger workers, making it hard to measure employers' actual attitudes. However, it seems that there is social norm among some employers whereby older workers are considered less productive or less able to master new skills or technologies. A 2017 brief

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19. We are not making a direct comparison between the discrimination that faced, and still faces, African American workers and the situation of older workers. Similarly, the problems faced by women in the workforce have been very difficult and hard to overcome. We are simply arguing that social norms can be changed, albeit often very slowly and painfully. Still, there is evidence that employers push older workers out of their jobs. A study by the Urban Institute and ProPublica (Johnson and Gosselin 2018) found evidence that about half of full-time, full-year workers age 51 to 54 experience involuntary job separation after age 50.

before the Supreme Court makes the case that discrimination against older workers is pervasive, at least for hiring.²⁰

The Productivity of Older Workers

An important issue is whether workers' abilities actually decline with age, so that they become less capable of doing the work employers need. Are employers discriminating against older workers, or are they simply reflecting a reality that older workers are less productive? There is evidence of a decline in cognitive ability as people age (Agarwal et al. 2010). Another concern about older workers is whether they are able to master advances in digital technologies.

Even if some capabilities decline with age for some workers, this does not make all or even most older workers less productive in all positions. The decline in cognitive ability is offset by the benefit of greater experience (Agarwal et al. 2010), and there are other important factors that affect the value of an employee. First, workers can do different things as they age. Within the same organization, younger workers can focus on the tasks that require maximum cognitive ability, while older workers can focus on other tasks, such as team management or meetings with clients, where experience is very important. Workers can change jobs altogether as they get older, moving from high-pressure positions requiring intense work effort and long hours to jobs that are less pressured. Second, there is considerable variation across people. One aspect of discrimination involves judging individuals on the characteristics of the group to which they belong rather than assessing their capabilities individually. Workers who make use of their cognitive abilities on a regular basis can remain sharp and creative as they age, and workers who remain fit can continue to use their physical abilities. Cognitive decline sets in gradually for many people, often when they are well past usual retirement age (Glisky 2007; Miklos and Sterns 1995).²¹ Third, with advances in medical science and nutrition a large fraction of older workers are healthy and have more years when they are able to work. A 2010 survey by the U.S. Centers for Disease Control and Prevention found that two in five Americans over 65 self-reported that they are in good or excellent health.²²

AARP has made a vigorous case for employees over 50 in a 2015 study commissioned from Aon Hewitt using data from large employers. The report cites several advantages that older workers provide. First, they are more “engaged” with their employers, a factor that means they speak positively about the organization, have a desire to be part of the organization, and are willing to exert extra effort as needed. Second, they are more motivated than

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20. The brief was filed February 6, 2017, with the Supreme Court, “Brief number 16-971 in the case of Richard M. Villarreal versus R. J. Reynolds Tobacco Co. et al.” The brief provides an extensive bibliography, and the text says: “Yet research shows that age discrimination in hiring remains pervasive. Managers often hold negative age-related stereotypes—for example, that older workers are slow or resistant to new technology—which too easily infect hiring decisions” (p. 1 of the brief).

21. These citations in this footnote are highlighted in the work of the Sloan Center on Aging and Work at Boston College.

22. See the early release of selected estimates based on data from the January to June 2010 National Health Interview Survey; http://www.cdc.gov/nchs/data/nhis/earlyrelease/201012_11.pdf.

younger workers. Third, they are less likely to quit for another job. (They are, unsurprisingly, more likely to retire; but the report argues that retirement is a planned departure, and hence is less costly.) Fourth, the report argues that older workers are much better with technology than is usually assumed. It cites a study showing that programming ability is positively related to age (among a group of programmers). Fifth, workers' productivity can increase with age; the report cites a study of production errors on an assembly line. The report also cites a study by the University of Michigan that found that an aging workforce results in a net gain in efficiency for the total labor force. (See the report for details of the studies.) Sixth, the report also finds (shown in exhibit III-3) that cash compensation among the large firms in its sample tends to decline when people reach their late 50s, making workers less expensive as they get older, which offsets the modest increase in health insurance costs.

The AARP study stresses the positive side of the story, but it makes a good case for the value of older workers and the need for employers to assess employees and job applicants based on their individual skills and capabilities rather than the date on their birth certificates. In their paper for this forum, Alicia Munnell and Abigail Walters highlight a presentation prepared by their retirement research group at Boston College for the Commonwealth of Massachusetts that also makes the case for older workers. In their 2010 book, *Managing the Older Worker: How to Prepare for the New Organizational Order*, Peter Cappelli and Bill Novelli argue that there are many myths about the productivity of older workers and they look at strategies companies can use to get the most out of older workers.²³

The Retirement Norm, or Mind-set, among Workers

Despite a decline in overall labor force participation, the LFPR for older workers has been increasing. The LFPR for workers over 55 was 30.3 percent in 1996 and rose to 40.0 percent by 2016. For those over 65, the rate has risen from 12.1 to 19.3 percent, an increase of nearly 60 percent. More Americans are choosing to work longer, probably reflecting the economic necessity older workers face if they have not saved enough to last during a lengthy retirement.

Perceptions of the normal age for retirement are changing, but probably not by enough. Participation rates are rising for older Americans, but the rates are still low. Nearly 30 percent of men and close to 42 percent of women were not in the workforce from age 55 to 64 in 2016. From age 65 to 69, the percentages of nonparticipants rise to 63 percent for men and 72 percent for women. Only a small fraction of Americans currently remains in the workforce through age 70. The retirement norm is that people stop working at about age 65.

As we have said, early retirement is a perfectly valid choice for some; but the concern is that many Americans have not made a rational calculation of their financial position and

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23. The book is published by Harvard Business Press. Cappelli is a professor at the Wharton School, and Novelli is the former chief executive of AARP.

have not factored in the increases in out-of-pocket health costs they may face as they age, including nursing home or end-of-life care.

We have used the term “norm” to indicate the existence of common or widespread beliefs about the productivity of older Americans or about the right age to retire. An alternate term is used in the psychology literature, where researchers look at people’s “mind-sets.” For example, many disadvantaged schoolchildren carry the mind-set that they will not succeed in academic pursuits, so they drop out of school or perform poorly on tests. There have been efforts to change student mind-sets with targeted interventions, which have yielded positive results. Another application of this concept is the mind-set about aging, where it has been found that those people who do not think aging will result in significant health problems have better outcomes in subsequent years than those who expect problems.²⁴ This work suggests that people’s mind-set about an issue can influence both behavior and outcomes, and there have been efforts to change mind-sets through targeted interventions that have had some success.

Possible Ways to Change the Norm About the Age of Retirement

There are six main ways to change the norm about the age of retirement. *The first way is to change the legal or regulatory environment.* In principle, the law has already changed, making age discrimination illegal. The Age Discrimination in Employment Act of 1967 prohibited age discrimination for workers between the ages of 40 and 65. The Age Discrimination Act of 1975 applies to all ages, and it covers programs and activities receiving federal assistance. Section 188 of the Workforce Investment Act of 1998 prohibits discrimination against applicants to, employees of, and participants in financially assisted programs and activities funded under the act.²⁵ With certain exceptions (e.g., airline pilots), compulsory retirement provisions have been outlawed. These changes in the law have had powerful effects in some cases. University professors with tenure can stay in their jobs for a very long time and expect to be paid to give up their secure positions. In other cases, the effects of changes in the law are less dramatic. Over time, judges have often been unsympathetic to older workers bringing cases against employers, and employers have found ways to “encourage” older workers to retire (*Pacific Standard* 2017).

Working aggressively to use regulatory or legal approaches to improve the labor market options for older workers has potential pitfalls. In Europe, for example, laws and regulations that provided strong protections to workers with jobs had the effect in some countries of making it difficult for young people to find employment. Governments have responded by giving exemptions for “temporary” or “contract” workers, thereby creating a two-tier labor market rather than a level playing field for all workers. A similar process has happened with some unionized workers in the United States. Unintended consequences can

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24. The results of interventions seem modest in terms of the increases in graduation rates or grade point averages, but they compare favorably to other efforts to improve student outcomes. See, e.g., Dweck (2006).

25. See the exposition by the Department of Labor at <https://www.dol.gov/general/topic/discrimination/agedisc>.

happen for older workers. If employers find it impossible to lay off older workers who are not performing well on the job, it may make it more difficult for workers at, say, 60 to be hired or to change jobs.

The second way is to reinstate compulsory retirement, but at age 70. A solution to this dilemma has been proposed by Alicia Munnell and Abigail Walters in their paper for this conference, where they suggest reinstating a mandatory retirement age but setting it at 70 instead of the earlier ages of 60 or 65. Their proposal validates the finding that people remain healthy longer and may need to work more years, but allows employers to terminate workers at 70 without having to find reasons in their job performance.

Admittedly, this proposal is controversial, and faces legitimate concerns from skeptics who classify this approach as legalized age discrimination. Still, there is a potential upside: if enacted, this proposal could remove the shame of being pushed out of employment and may encourage worker to plan ahead for the years after age 70. This strength of their proposal is also a concern, however, because it treats everyone the same, whereas in practice people's capabilities vary widely. Some productive and motivated workers would be forced to leave at age 70. As Munnell and Walters point out, it could be possible to work out exceptions to the rule. For example, Boeing's production workers are unionized and have a normal retirement age with a union pension plan. Because it has very strong demand for its new 737 aircraft, Boeing is rehiring retired workers to expand production and shorten the waiting list for 737s.²⁶ Finding younger workers with the skills and experience to increase production quickly would have been difficult.

The third way is to reframe the message from Social Security. When a worker first signs on at the Social Security Administration and discusses their choices for collecting benefits, the framing they are given is about their "full retirement" age. This is 66, rising to 67. Many people take away from this conversation the fact that they should start collecting benefits at the full retirement age, even though they may be much better off to wait until age 70. Waiting increases the level of benefits by about 8 percent for each year until age 70. The message given to older people should be that their maximum benefit comes at age 70 and, though they can collect earlier, this comes at a price in lower benefits for life, and perhaps lower benefits for their spouse.

The fourth way is a high-pressure economy. Before World War II, it was very unusual for women to work on the production line in well-paid factory jobs. When men were drafted into the armed forces, this created a tremendous labor shortage, and women and minorities were brought into jobs they had not done before. The demands of the war economy also affected retirement decisions. Older men and women were encouraged to stay in their jobs and postpone retirement to contribute to war production (Bernstein 2018).

Arthur Okun, William Fellner, and Alan Greenspan wrote in 1973 about the benefits of a high-pressure economy, which generates upward mobility when workers with limited skills are hired into upper-tier jobs. An economy with a slack labor market means that skilled and experienced workers decide to accept lower-tier jobs that do not make use of their skills. By doing this, they make it harder for less-skilled workers to get their foot on the

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26. Boeing had to negotiate with its union before it could rehire the retired workers (*AARP Bulletin* 2018).

bottom rungs of the job ladder. Similarly, in a high-pressure economy, companies may decide to retain older workers or even to hire older workers to fill vacancies, and this can break down the barriers older workers face and allow them to prove that they remain capable.

Although a high-pressure economy breaks down barriers and helps shift social norms, it is possible that a shift in the business cycle will reverse the process. After World War II, there was concern that the economy might return to the depressed labor market conditions of the 1930s. The priority was to find civilian jobs for returning soldiers, so women and older workers were encouraged or forced to leave their jobs. Later, the high-pressure economy of the 1960s gave way to a decade of stagflation with persistent labor market slack. Arguably, therefore, the high-pressure economy of the war and of the 1960s caused only a temporary shift in the labor market. A counterargument is that some years later, the civil rights movement and the women's movement transformed the labor market. The goal, therefore, is to use periods of strong labor demand to shift the perceptions not only of employers but also of older workers themselves.

In his 1957 book *The Economics of Discrimination*, Gary Becker argued that the forces of the market undercut discrimination. A company that can hire qualified minority workers more cheaply than majority workers will have a cost advantage and will be able to expand and outcompete companies that discriminate. In the same way, companies that recognize the value of older workers are able to outcompete companies that discriminate against such workers. As Becker realized, the ability of market forces to mitigate discrimination will be reduced if minorities are denied the experience and access to training needed to add to their skills, and the same is true for older workers. This is one reason that a high-pressure economy is valuable in breaking down traditional barriers and opening up opportunities. Becker's argument is important because it suggests that market forces can reinforce policy efforts to overcome discrimination against older workers.

The fifth way is retraining options for older workers. Munnell and Walters are skeptical of the potential value of training for older workers, and they are not alone in their skepticism. They point out that the United States spends almost nothing on worker training and that evaluations of worker training programs are often negative. In what may be a triumph of hope over experience, we respectfully disagree, and we think it is worth trying to provide greater training opportunities for older workers using new teaching technologies.²⁷ One of the reasons companies give for choosing younger workers is that older workers lack proficiency with digital technologies. This is an area where online instruction can make a difference. With guidance from instructors, older workers can improve their capabilities with the programs necessary for both white- and blue-collar jobs. Given what is at stake, it would be worthwhile to establish pilot programs to test whether older workers are willing to take courses and to see whether their employment outcomes are improved as a result. Some

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27. The evidence of the impact on training programs in general, and on older workers in particular, is decidedly mixed and dependent on the program and population served. Several papers have provided reasons for optimism, though, including a recent paper by Berg et al. (2016) finding that on-the-job training programs in Germany significantly raise employer retention of low-wage, older female workers.

employers have made a commitment to older workers, and they can contribute their experience in training and retraining of their older employees (Hannon 2018).²⁸

And the sixth way is lowering the cost of older workers and increasing their take-home pay. This last item is one of the most important, but because it is covered extensively in the papers by Clark and Shoven (2019) and by Munnell and Walters (2019), there is no need for us to cover the same ground here. Clark and Shoven argue that workers and employers who have completed a certain number of years in the workforce should be exempt from paying additional Social Security taxes. They also argue that every eligible worker should be moved to Medicare at age 65 (at present, employers that provide health insurance to their employees must continue to provide it to those over 65). These measures, taken together, would substantially lower the cost of older workers and provide an incentive to retain them or hire them. Munnell and Walters argue that additional help is needed for low-wage workers and their idea is to expand the Earned Income Tax Credit to provide more generous coverage for low income older workers. At present, this credit offers only about \$500 a year to such workers, not enough to make much difference.

A justification for lowering the tax rate on older workers can be found in the optimal tax literature of Ramsey and Mirrlees (1971). Lower tax rates should be levied where the elasticity of supply is larger. It is reasonable to argue that older workers will adjust their labor supply more than prime-age workers in response to taxes.

A 2018 working paper by Coile finds that financial incentives for working longer have improved substantially since 1980, even without further policy changes. She says that “the implicit tax on work after age 65 has dropped by about 15 percentage points for a typical worker as a result of Social Security reforms; incorporating the change in private pensions, the decline is larger.” She also argues that there is evidence that this cut in implicit taxes has changed retirement behavior.²⁹

If the policies suggested by Shoven, Clark, Munnell, and Walters were all adopted, combined with the cut in implicit taxes already enacted, this would provide a large incentive for workers to work longer and for employers to retain older workers.

VI. Conclusion

Americans are responding to the changes in the retirement landscape by working longer. Policymakers should aim to remove obstacles to those who want to work longer and reduce work disincentives. Employers are responding to today’s tight labor market by retaining older workers. The policies being proposed in this forum would help ratchet up the labor force participation of older men and women who want to work longer.

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28. Hannon (2018) outlines ways in which older workers can learn new skills and highlights several online resources that they can access.

29. The quotation is from the abstract of Coile’s 2018 paper.

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