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Report to the Ranking Minority Member, Subcommittee on Employer-Employee Relations, Committee on Education and the Workforce, House of Representatives

November 2001

OLDER WORKERS

Demographic Trends Pose Challenges for Employers and Workers

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Abbreviations

AARP	American Association of Retired Persons
ADEA	Age Discrimination in Employment Act of 1967
BLS	Bureau of Labor Statistics
CPS	Current Population Survey
DROPS	Deferred Retirement Option Plans
DWS	Displaced Workers Supplement
EBRI	Employee Benefits Research Institute
EEOC	Equal Employment Opportunity Commission
ERISA	Employee Retirement Income Security Act of 1974
HRS	Health and Retirement Study
IRC	Internal Revenue Code
IRS	Internal Revenue Service
SHRM	Society for Human Resource Management

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United States General Accounting Office
Washington, DC 20548

November 16, 2001

The Honorable Robert E. Andrews
Ranking Minority Member
Subcommittee on Employer-Employee Relations
Committee on Education and the Workforce
House of Representatives

Dear Mr. Andrews:

Much public attention has been paid to the impending retirement of the unusually large “baby boom” generation, comprised of those individuals born between 1946 and 1964. According to Census Bureau estimates, in 2019, when the last of the baby boomers have reached age 55, nearly 29 percent of the total U.S. population will be age 55 and older, compared with 21 percent today. Meanwhile, the Bureau of Labor Statistics (BLS) projects that total labor force growth will slow from an average annual rate of 1.1 percent between 1990 and 2000 to an annual rate of 0.7 percent between 2000 and 2025.[1]

These developments pose potential problems for employers and the economy generally, as the possible loss of many key experienced workers could create shortages in skilled worker and managerial occupations, with adverse effects on productivity and economic growth. To the extent that older workers (employees age 55 and older) decide to work longer, this can mitigate the slowing growth of the labor force and its attendant fiscal and economic problems.

In light of the economic and human capital challenges posed by the retirement of baby boomers, you asked us to (1) provide a current and projected economic profile of older workers, (2) discuss the experience of older workers who lose their jobs and seek reemployment, and (3) describe the options that employers are providing to older workers who want flexible employment arrangements and the financial incentives to keep older workers from retiring.

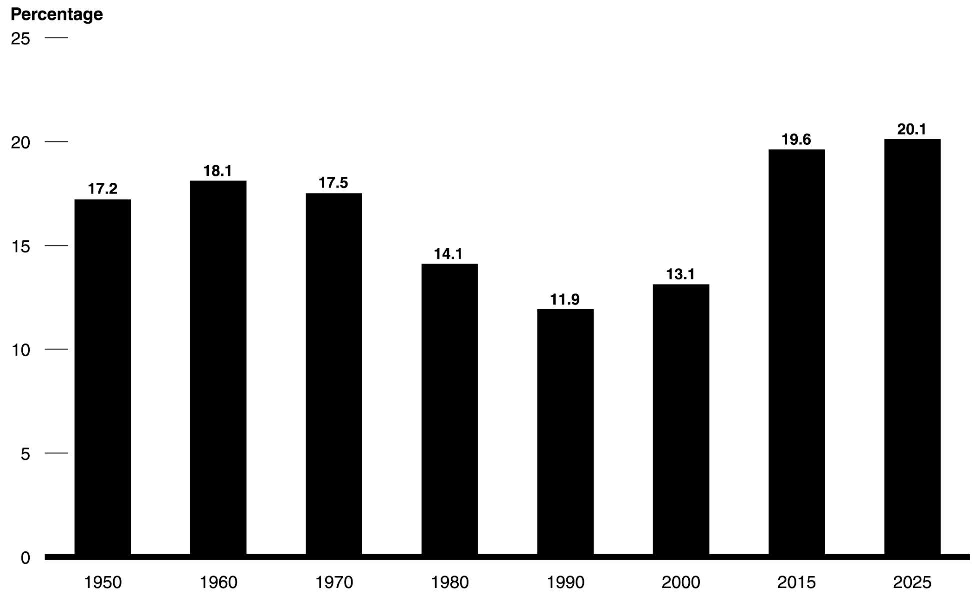
[1] Fullerton, Howard N. “Labor Force Participation: 75 Years of Change, 1950-1998 and 1998-2025,” *Monthly Labor Review* (Dec. 1999), pp. 3-12.

To provide this information, we analyzed data from multiple years of the Current Population Survey (CPS), the Displaced Workers Supplement to the CPS (DWS), and the Health and Retirement Study (HRS). We also developed a projection method, based on BLS methodology, for estimating the age and occupational structure of the labor force and the relative wage structure in 2008. In addition, we interviewed human capital representatives of both private and public sector employers, union officials, and pension and human capital experts from consulting firms and various advocacy groups. We consulted economists and other academics on these issues as well. Through these interviews and from a survey of the literature on phased retirement programs, we identified and interviewed 13 private employers and 10 public employers to discuss the formal or informal job arrangements they made with older workers to keep them on the job. Our work was conducted between November 2000 and September 2001 in accordance with generally accepted government auditing standards.

Results in Brief

The number of older workers will grow substantially over the next two decades, and they will become an increasingly significant proportion of all workers. According to the CPS, there were 18.4 million workers over age 55 in the labor force in 2000, a number that BLS projects to 31.9 million by 2015. This expected increase is a consequence both of the aging of the baby boom generation and a general trend in greater labor force participation among older persons. Thirty percent of all persons over age 55 participated in the labor force in 2000 and, according to BLS projections, this percentage is expected to rise to 37 percent by 2015. If these projections prove accurate, older workers will comprise nearly 20 percent of the total labor force by 2015. (See fig. 1.) Older workers are employed in a diverse group of occupations but are more likely than younger workers to be white-collar managers or professionals. Our projections suggest that older workers will become an increasing proportion of some occupations. For example, from 2000 to 2008 the percent of teachers older than age 55 will increase from 13 percent to 19 percent, and the percent of nurses and related occupations older than age 55 will increase from 12 percent to 18 percent. (See app. I.) Due to an increase in full-time employment and a change in the composition of the older workforce toward white-collar jobs, older workers have experienced substantial real earnings increases from 1989 to 1999 compared with younger workers. Over this period, earnings increased by an aggregate 11 percent for workers age 55 to 74 compared with a 2 percent gain for workers age 40 to 54.

Figure 1: Percentage of the Labor Force That Is 55 Years of Age and Older, 1950 - 2025



Source: BLS.

While older workers are less likely than younger workers to lose a job, when they do they are less likely than younger workers to find other employment. Data from the 2000 Displaced Worker Survey shows that 9 percent of older workers lost their jobs from 1997 to 1999, a rate that is less than the 11 percent of younger workers who lost their jobs over the same period of time. However, 57 percent of older workers who lose their jobs retire, partially or fully, following a job loss.[2] Once older workers fully retire, most do not re-enter the labor force even for part-time work.

To retain older workers and extend their careers, some public and a few private employers are providing a variety of options, including offering flexible hours and financial benefits, reducing workloads through the use

[2] For purposes of this report, we categorized persons as partially retired if they classified themselves as retired but still were doing work for pay. Individuals who classified themselves as retired and were not doing any work for pay were categorized as fully retired. It should be noted, however, that BLS does not define retirement or attempt to estimate the number of retired individuals. Retirement typically means different things to different people. To some, it may be a single event, while to others, it may occur over a number of years as they decrease their hours worked and/or change jobs.

of part-time or part-year schedules, and job-sharing. For example, one large chemical manufacturer allows retirees to work up to a set maximum number of hours per year on an as-needed basis, and a major food processing firm hires older workers during peak months in their canning factories. However, offering such options is not a widespread practice among private employers and does not involve large numbers of workers at individual firms. One survey of middle- and large-sized employers cites several reasons for employers not implementing flexible employment programs, the most prevalent being that they simply had not considered it. Other reasons cited included pension regulations, corporate culture, and employment costs. For example, current tax law governing at what age pension payments can be made and whether employees earning a broad range of incomes are participating in a companies' worker retention program can discourage both employers and older workers from extending work beyond retirement eligibility. Public employers appear to be doing the most experimentation to encourage the retention of older workers. Some states, for example California and Ohio, have made major efforts to retain older teachers in response to current or anticipated teacher shortages. These efforts primarily involve pension incentives that increase the financial attractiveness of continued employment to older workers. However, some of these options might not be legally available to private employers who are subject to restrictions on plan design that may affect older worker retention programs.

Most employers are not yet facing labor shortages or other economic pressures requiring them to consider flexible employment arrangements because the retirement of the baby boom generation will occur gradually over the next several decades. Thus, there is still time available to develop sound policies, programs, and practices to respond to this demographic challenge. The ERISA Advisory Council, which was established to advise the Secretary of Labor on his or her duties under the Employee Retirement Income Security Act of 1974 (ERISA), has already made recommendations to the Secretary that may encourage employers to hire and retain older workers. However, many of them concern issues outside of Labor's jurisdiction, requiring either action by other agencies or legislative changes for their implementation. We are making a recommendation to the Secretary of Labor concerning the formation of a broad interagency task force to develop regulatory and legislative proposals addressing the issues raised by the aging of the labor force, carefully balancing the concerns of older workers, employers, and the general public.

Background

The maturation of the baby boom generation (persons born between 1946 and 1964) has progressed to the point where boomers will soon begin moving from the traditional working ages to the ages when many people start to retire. The first wave of the baby boom generation will start to turn age 65 in 2011 and the last of the boomers will be 65 in 2029. This development will lead to significant changes in the ratio of the working age population (defined as age 20 to 64) to the population age 65 or older. This ratio, called the "aged dependency ratio" because it provides an estimate of how many workers will be available to support each retiree, was 21 percent in 2000, or 5 working-age individuals for every person over age 65. As the baby boom generation ages, the aged dependency ratio will rise. By 2030, it will reach 35 percent, meaning that there will be fewer than three persons of traditional working age for every person age 65 or over.

The increase in the aged dependency ratio is not only occurring because of the growing numbers of older persons. It is also due to the slowing growth of the labor force of younger workers over the last decade, a trend that is expected to continue. From 1950 to 1990, the labor force under 55 grew at an average annual rate of 1.9 percent. From 1990 to 2000, the average annual growth rate for this group was 1.0 percent, and BLS projects that from 2000 to 2025 labor force growth will slow to an annual rate of 0.3 percent.

Several recent changes in Social Security retirement policy could strengthen incentives to work longer. Social Security provides monthly benefits to qualified retired and disabled workers and their dependents, and to survivors of insured workers. These benefits are the primary source of income (more than 50 percent) for nearly 57 percent of the population age 65 and older. In April 2000, the practice of reducing Social Security benefits when a beneficiary has earnings and has reached the normal retirement age (currently 65 years and 4 months) was eliminated,[3] at least in part to remove the disincentive to work. Also, the delayed retirement credit for persons who first claim benefits after the normal retirement age is steadily being increased until it reaches 8 percent per year in 2008. Prior to these increases, those who chose to work beyond normal retirement age might receive less Social Security over their lifetime because the start of their benefit receipt was delayed. Some members of Congress have also

[3] Prior to its elimination, beneficiaries age 65 to 69 lost $1 of benefits for every $3 they earned above $17,000.

put forward proposals that would raise normal retirement age for benefits beyond the current schedule of increases, as well as proposals that increase the early retirement age of 62.[4]

Other federal laws also attempt to make work and the workplace more hospitable for older individuals. The Age Discrimination in Employment Act of 1967 (ADEA) promotes the employment of older persons based upon their ability rather than age and prohibits age discrimination in employment. The Equal Employment Opportunity Commission (EEOC) enforces ADEA as well other federal statutes prohibiting employment discrimination. ADEA applies only to firms with 20 or more employees, thus excluding a not insignificant segment of the labor force. While some states have their own laws protecting older workers in small businesses, these laws still may exclude some small businesses.[5]

As pension benefits are a key source of retirement income for many workers, they can also influence the work decisions of older individuals. To encourage employers to establish and maintain pension plans for their employees, the federal government provides preferential tax treatment under the Internal Revenue Code (IRC) for plans that meet certain requirements.[6] In exchange for preferential tax treatment, an employer is required to design the pension plan within legal limits that are intended to improve the equitable distribution and security of pension benefits. The Internal Revenue Service (IRS) administers policies on pension distributions that are set by the Congress in the IRC to ensure that the

[4] The normal retirement age—the age at which retirees can receive full Social Security benefits with no actuarial reduction— began increasing by 2 months per year starting in 2000. It will reach 66 in 2006 and then it will begin increasing again by 2 months per year in 2017 until it reaches 67 in 2022.

[5] For example, California and Illinois exempt firms with fewer than five employees from their state laws.

[6] Employee pension plans are customarily classified into two major categories: defined benefit plans and defined contribution plans. A defined benefit plan promises a retirement benefit amount that is usually determined by salary and length of service. A defined contribution plan specifies contributions to be made, but the benefits depend on investment performance. In 1998, according to the Employee Benefits Research Institute (EBRI), 20 percent of households had defined-benefit coverage only; 57 percent had defined-contribution coverage only; and 23 percent had both types of coverage. Our analysis of CPS data found that 53 percent of the employed labor force in 1998 lacked a pension plan. See *Pension Plans: Characteristics of Persons in the Labor Force Without Pension Coverage*, (GAO/HEHS-00-131, Aug. 22, 2000).

benefits of all tax-qualified plans are apportioned in a nondiscriminatory manner.

Many pension plans have features that encourage employees to retire at or before age 65. Pension laws relating to defined benefit plans allow benefits earned after the normal retirement age (generally, age 65) to accrue at a lower rate. Furthermore, many defined benefit plans subsidize early retirement benefits which tends to discourage employment after becoming eligible for these benefits.

ERISA establishes certain minimum standards for private employee pension plans. This law also created the ERISA Advisory Council to advise the Secretary of Labor with respect to carrying out responsibilities under ERISA. The Advisory Council has made recommendations to the Secretary of Labor to consult and work with appropriate government agencies on pension and welfare plan reforms that could help employers establish phased retirement programs.

A Growing Number of Older Workers Are in the Labor Force

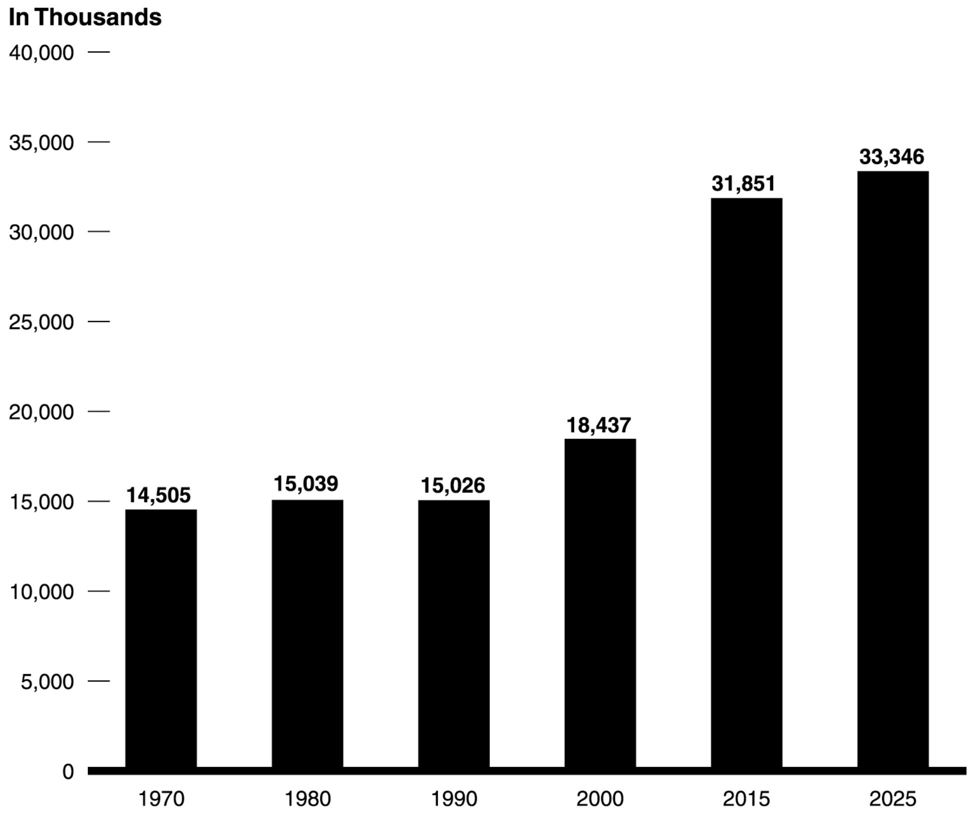
The number of older workers will grow substantially over the next two decades and they will become an increasingly significant proportion of all workers. This expected increase is a result of the aging of the baby boom generation and a general trend in greater labor force participation among older persons. Older workers are employed in a diverse group of occupations but are a growing proportion of the workers in white-collar occupations. In addition, our projections show that older workers may make relatively greater gains in earnings than their younger counterparts between 2000 and 2008.[7]

[7] We projected the occupational distribution and earnings to 2008 since we borrowed from BLS methodology and that is the year of their furthest projections of occupations.

Older Workers Will Be a Growing Proportion of the Labor Force Over the Next Two Decades

The number of older workers will grow rapidly over the next two decades. According to the BLS, in 2000, 18.4 million persons over age 55, or about one-third of the over-55 population, were in the labor force.[8] (See Fig. 2.) BLS estimates that there will be 31.8 million older labor force participants in 2015, an average annual increase of 4.0 percent from 2000. However, this rapid growth is expected to level off by the mid-2020s. BLS estimates that 33.3 million older persons will be in the labor force in 2025, an average annual increase of only 0.5 percent from 2015.

Figure 2: Past and Projected Number of Workers Over Age 55, 1970-2025

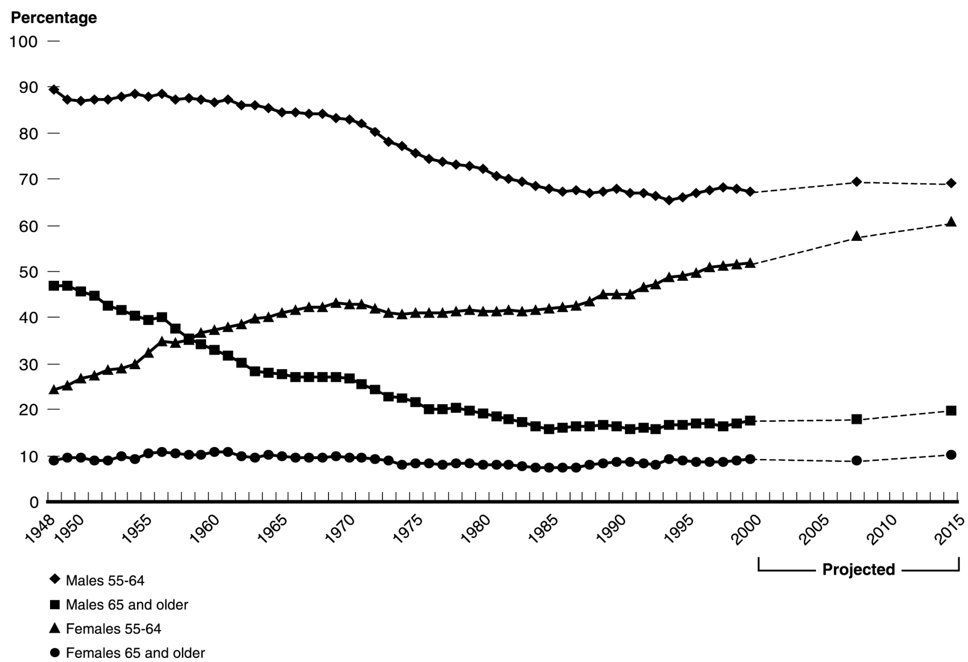


Source: BLS.

[8] The labor force consists of persons who are employed and unemployed persons who are actively seeking work.

This expected increase is a result of the aging of the baby boom generation and a general trend in greater labor force participation among older persons. The oldest baby boomers are currently 55 years old, and the youngest will turn 55 in 2019. The percentage of older persons who participate in the labor force has been growing, especially among females age 55-64, a trend that is expected to continue. (See Fig. 3.) Currently, 30 percent of all persons 55 and older participate in the labor force, a number that is expected to grow to 37 percent by 2015, according to projections by BLS.

Figure 3: Labor Force Participation Rates for Older Workers, by Sex, 1948 -2015



Source: BLS.

This increase in labor force participation among older workers is primarily driven by the growth in the number of older women and their labor force participation rates. Labor force participation rates of women between the ages of 55 and 64 have been steadily increasing from 42 percent in the mid-1980s to 52 percent in 2000. A further increase in the participation rate to 61 percent is expected to occur by 2015, according to BLS. The labor force participation rate of women age 65 and older is currently 9 percent. This is up from the low point of slightly more than 7 percent in the mid-1980s but is lower than the 10 percent levels of the 1950s. BLS projects the growth in the participation rate in this age group to grow to 10 percent by 2015.[9]

The labor force participation rates of males over age 55 have been stable for several years and are projected to increase in the future. Older male labor force participation hit a low point in the mid-1990s that was part of a downward trend that had been occurring for several decades. Since then, the labor force participation rates of males between the ages of 55 and 64 have held steady at approximately 67 percent; BLS projects an increase to 69 percent in 2015. Labor force participation rates of males 65 and older also held steady at about 17 percent during the 1990s and are projected to rise to nearly 20 percent by 2015.[10]

As the number of older workers grows, older workers will also become a larger percentage of all workers. In 1950 and 1960, older workers comprised 17 percent and 18 percent of the labor force, respectively. (See Fig. 1.) As the relatively large baby boom generation entered the workforce between 1960 and 1990, the proportion of older workers fell to 12 percent of the total as the number of workers under age 55 swelled. Older workers now represent 13 percent of the total workforce, and BLS estimates that by 2015 they will be about 20 percent of the total workforce.

Older Workers Are Employed in a Broad Range of Occupations and Are a Significant Percentage of Many

Older workers hold jobs in a wide range of occupations that are somewhat reflective of the occupations occupied by younger workers. (see table 1.) Nearly the same percentage of workers in the age categories of 40 to 54, 55 to 64, and 65 to 74 are employed in white collar occupations (approximately 62 percent). The slight difference in the employment distribution among these age groups is found in blue-collar and service occupations. Nearly 15 percent of workers age 65 to 74 are employed in service occupations compared with 11 percent of workers age 40 to 54. Blue-collar work accounts for 26 percent of employment among workers

[9] The increases in the labor force participation rates of older women have been primarily attributable to the aging of women who have been working since earlier ages.

[10] For opposing viewpoints on this trend see Costa, Dora, “Has the Trend Toward Earlier Retirement Reversed?” and Quinn, Joseph, “Has the Early Retirement Trend Reversed?” Costa questions the prediction that workers will work later into life, citing the increasing attractiveness of, and ability to pay for, retirement. Quinn counters with evidence that earlier retirement has come to an end due to a new attitude toward working later in life. Both papers prepared for presentation at the First Annual Joint Conference for Retirement Research Consortium “New Developments in Retirement Research,” May 20-21, 1999.

age 40 to 54 and 23 percent for workers age 65 to 74.[11] The general shift in the economy away from physically demanding jobs is present among workers of all ages, but is far more pronounced among older workers as they age.

Table 1: A Comparison of the Distribution of Occupations Among Selected Age Groups, 2000

	Distribution of Occupations (percent)[a]			
Occupation	**Age 30-39**	**Age 40-54**	**Age 55-64**	**Age 65-74**
Executive, administrator, manager	15.5	18.0	17.2	16.1
Sales	10.6	10.7	11.6	15.5
Administrative support	12.8	13.7	13.9	15.4
Professional	15.7	17.4	16.6	14.5
Technicians	3.9	3.4	2.4	0.9
White Collar[b]	58.5	63.2	61.7	62.4
Production, craft, repair	12.5	11.7	9.9	6.5
Farming, forest, fishing	2.1	2.1	2.8	5.8
Transportation	4.6	4.0	4.7	5.6
Machine operator, assembler	6.2	5.6	5.0	3.1
Laborers, handlers	3.7	2.8	2.7	2.2
Blue Collar[c]	29.1	26.2	25.1	23.2
Services[d]	12.5	10.8	13.2	14.5

[a]Percentages may not sum to 100 due to rounding.

[b]For the purposes of this report we grouped white-collar, blue-collar and service occupations together. White-collar occupations were defined as executive, administrator, manager, sales, administrative support, professional, and technical.

[c]Blue-collar occupations were defined as: production, craft, repair; farming, forestry, fishing, transportation, machine operator and assembler, laborers and handlers.

[d]Services were separated from blue-collar and white-collar occupations since there was a significant amount of overlap between these two categories within the service category. Services occupations were defined as private household, protective services, food preparation, health services, cleaning and building services, and personal services.

Source: March 2000 CPS.

Workers age 55 to 64 constitute a significant proportion of many occupations as they are nearly 13.9 million members (11 percent) of the total workforce. (See table 2.) The highest absolute numbers of older workers age 55 to 64 are in executive/manager occupations (2.4 million or

[11] Both of the aforementioned differences in the occupational differences are statistically significant at the 95 percent level.

12 percent of the total occupation) and professional occupations (2.3 million or 11 percent of the total occupation). Workers age 65 to 74 comprise much smaller percentages of occupations since most persons in this age group have exited the labor force. Workers age 65 to 74 constitute less than 4 percent of the all major occupational categories with the exception of farming, fishing, and forestry.

Table 2: Occupations of Workers Age 55-64 and 65-74, 2000

	Number of workers		Proportion of all workers in the occupation that are[a]	
Occupation	**Age 55-64**	**Age 65-74**	**Age 55-64**	**Age 65-74**
Executive, administrator, manager	2,376,268	553,003	12.0	2.8
Professional	2,296,711	498,714	11.3	2.4
Administrative support	1,927,958	529,227	10.5	2.9
Sales	1,610,556	533,841	10.5	3.5
Technicians	331,563	32,138	7.4	0.7
Production, craft, repair	1,367,729	223,508	9.4	1.5
Machine operator, assembly	695,672	105,748	9.3	1.4
Transportation	653,316	193,120	11.9	3.5
Farm, forest, fishing	391,057	197,984	12.5	6.3
Laborers, handlers	374,737	74,724	7.2	1.4
Services	1,829,659	499,328	10.6	2.9
All occupations	**13,855,226**	**3,441,334**	**10.6**	**2.6**

[a]Figures shown in percent.

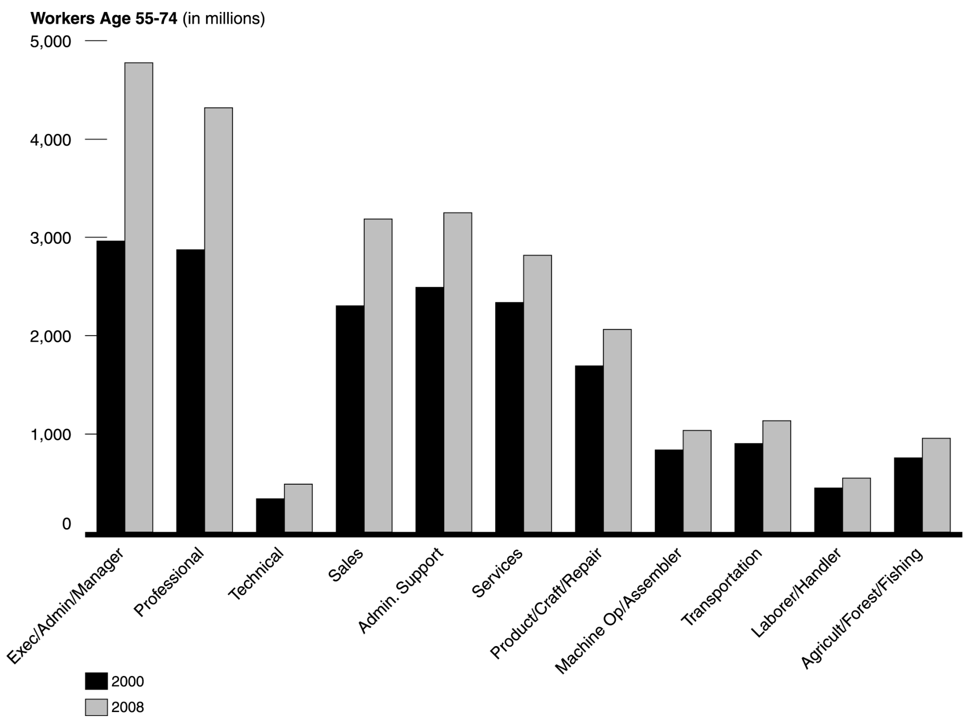
Source: March 2000 CPS.

Between 2000 and 2008, the number and percentage of workers over age 55 will increase in all major occupational categories, according to our projections. (See Figs. 4 and 5.)[12] The largest change should occur in white-collar occupations. Among executives/managers, the percentage of workers in this occupation who are over 55 is projected to grow from 15 percent to 23 percent. The percentage of the workforce that is over age 55 in professional occupations should also grow substantially from 14 percent to 19 percent. The smallest change should occur in employment in service occupations as the percentage of the workforce older than age 55 employed in the service sector grows from 13 percent to 14 percent. In line

[12] We used a methodology developed by BLS to make our projections. We estimate the replacement needs for occupations based upon 5-year age cohorts from 1988-93 and 1994-98 and project forward to 2003 and 2008. Thus, the accuracy of these projections relies on recent historical trends continuing into the future.

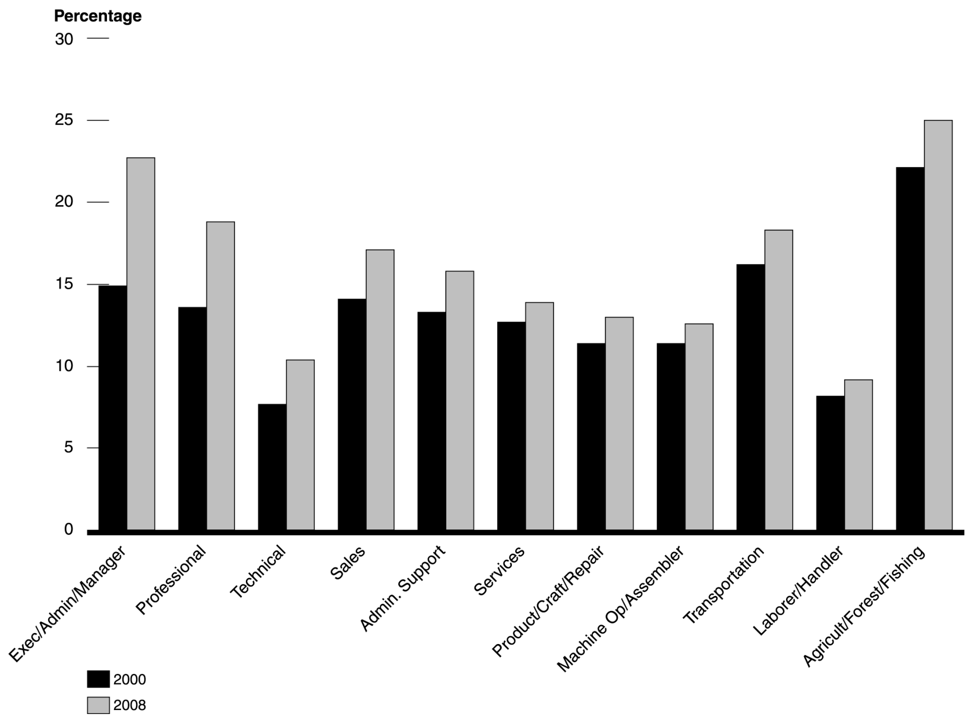
with these major occupational changes, certain specific occupations will increasingly rely on older workers. For example, from 2000 to 2008, the percent of teachers older than age 55 will increase from 13 percent to 19 percent, and the percent of nurses and related occupations older than age 55 will increase from 12 percent to 18 percent. (See app. I.)

Figure 4: Projected Change in the Number of Workers 55 Years of Age and Older by Major Occupation, 2000 and 2008



Source: CPS and GAO projections.

Figure 5: Percentage of Workers That Are Age 55 Years and Older in Major Occupations, 2000 and 2008



Source: CPS and GAO projections.

Older Workers Occupational Composition Moves Toward White-Collar Jobs as They Age

As workers age, their occupational composition moves towards white-collar and service occupations and away from physically demanding occupations. According to our projections, the composition of the older workforce will shift further from blue-collar to white-collar occupations in the near future. Between 2000 and 2008, the proportion of workers age 55 to 74 in managerial/administrative and professional/technical occupations will increase by 2.9 percent and 1.6 percent, respectively, while the proportion in blue collar and service occupations will decrease. (see app. I.)

The change in the occupational composition of older workers into less physically demanding occupations is supported by an analysis of changes in occupations of related age groups, as shown in table 3. Group I consists of individuals age 45 to 54 in 1990 and individuals age 55 to 64 in 2000. Group II consists of individuals of age 55 to 64 in 1990 and 65 to 74 in 2000. In 2000, both groups I and II had fewer individuals in the more physically demanding occupations of production, craft and repair, machine operation, and assembly; they also had a greater number of older workers in the white-collar and service occupations in 2000.[13] Part of this shift likely occurred because as workers age they can experience health problems that make their jobs more difficult to perform and, therefore, they choose to move into less physically demanding jobs. Also, the composition of the labor force changes because of differential retirement rates and those who continue to work to older ages are more likely to be white-collar workers.[14]

Table 3: Changes in the Occupational Distribution of Older Workers, 1990-2000.

	Group I (percent)			Group II (percent)		
Occupation	**Age 45-54 year 1990**	**Age 55-64 Year 2000**	**Percentage Change**	**Age 55-64 year 1990**	**Age 65-74 year 2000**	**Percentage change**
Executive, administrator, manager	15.9	17.2	+8.1	14.4	16.1	+11.8
Professional	14.6	16.6	+13.2	14.0	14.5	+3.6
Administrative support	15.8	13.9	-12.0	15.3	15.4	+1.0
Sales	11.4	11.6	+1.8	12.4	15.5	+25.0
Technicians	2.9	2.4	-17.2	1.8	0.9	-50.0
Production, craft, repair	12.4	9.9	-20.1	11.2	6.5	-42.0
Machine operator, assembly	6.5	5.0	-23.1	6.8	3.1	-51.5
Transportation	4.6	4.7	+2.2	4.5	5.6	+54.4
Farm, forest, fishing	2.4	2.8	+16.7	3.9	5.8	+48.7
Laborers, handlers	2.6	2.7	+3.8	2.7	2.2	-18.5
Services	10.9	13.2	+21.0	13.0	14.5	+11.5
Total[a]	**100.0**	**100.0**		**100.0**	**100.0**	

[a]Numbers may not sum to 100 percent due to rounding.

Source: March 1990 and 2000 CPS.

The shift toward white-collar occupations is also partially explained by differences in educational attainment among the baby boom generation

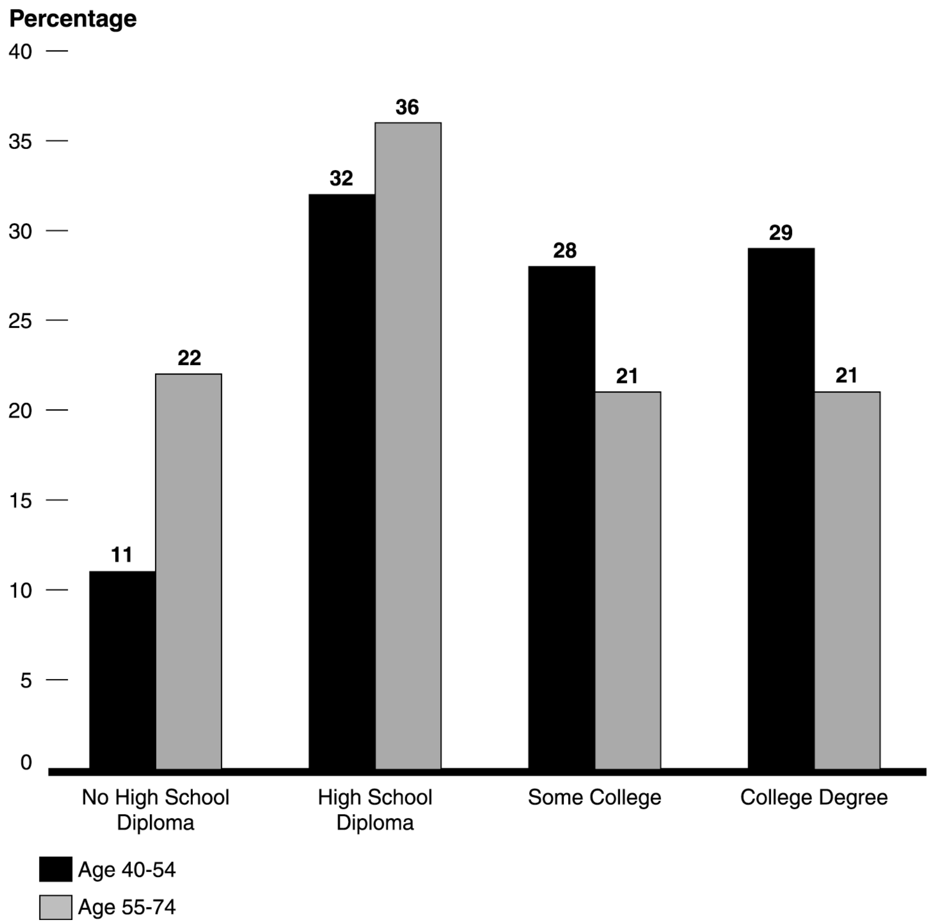
[13] The percent changes in the distribution of occupations for all workers from 1990-2000 was as follows: Managers/Administrators (12.3%-14.6%), Professional (13.0%-15.1%), Technical (3.2%-3.3%), Sales (12.4%-12.2%), Administrative Support (15.7%-13.8%), Services (13.3%-13.9%), Production/Craft/Repair (11.8%-10.7%), Machine Operator/Assembly (6.8%-5.6%), Transportation (4.2%-4.1%), Laborer/Handler (4.5%-4.2%), Agriculture/Forest/Fishing (2.9%-2.5%).

[14] Blue-collar workers are more likely to leave the labor force due to health problems as evidenced by their disproportionate participation in the Disability Insurance program.

and the cohort proceeding them. (See Fig. 6.) Fifty-seven percent of persons who are age 40 to 54[15] have at least some college education (29 percent have a college degree) compared with 42 percent of individuals age 55 to 74 (21 percent have a college degree). Moreover, only 11 percent of individuals age 40 to 54 lack a high school diploma compared with 22 percent of persons age 55 to 74. The greater level of educational attainment among the baby boomers may lead to more employment opportunities as they age. They may have a broader diversification of jobs available to them compared to the current generation of older workers.

[15] The baby boom generation actually encompasses persons age 36 to 54 since we are using year 2000 data. However, the age group was presented as 40 to 54 for consistency with other numbers in the report.

Figure 6: Education Levels of Older Workers in the Baby Boom Generation Compared to the Current Generation, 2000



Source: CPS.

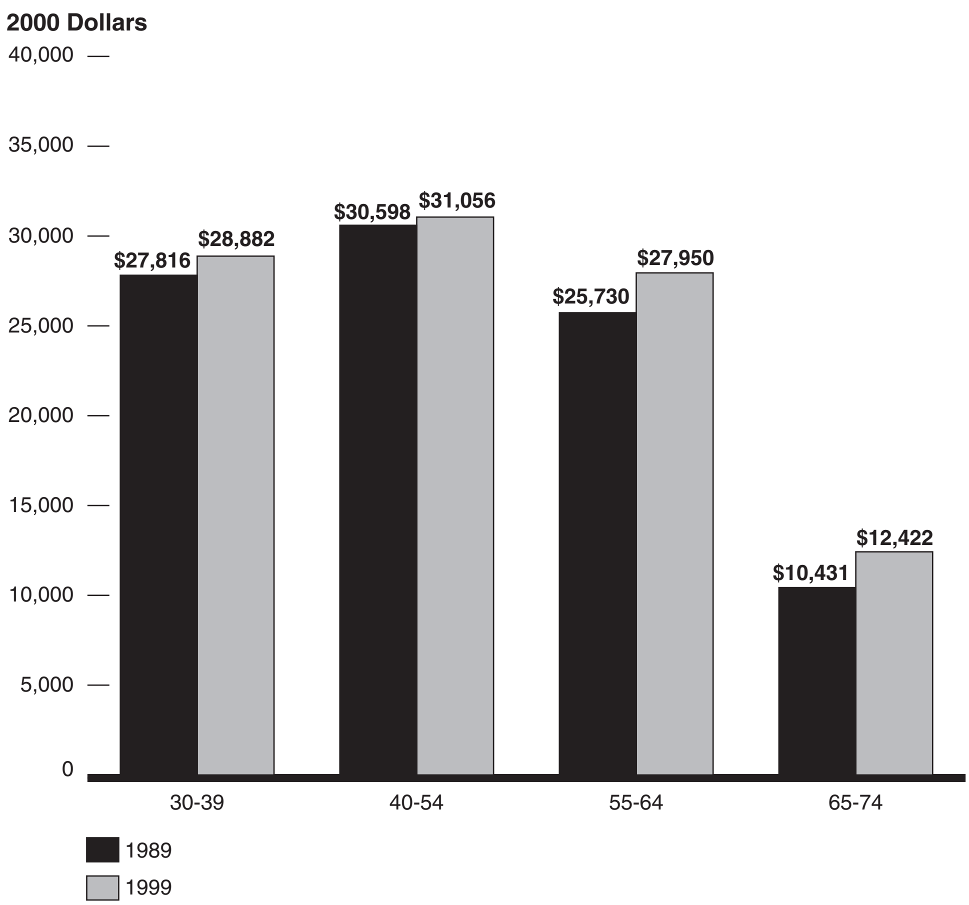
Older Workers' Earnings Have Risen Faster Than Younger Workers' Earnings

Between 1989 and 1999, older workers experienced larger percentage gains in median earnings than younger workers.[16] (See Fig. 7.) Adjusted for inflation, workers between the ages of 55 and 64 and workers between 65 and 74 had median earnings increases of 9 percent and 19 percent, respectively, for the 10-year period—compared with increases of 2 percent and 4 percent for workers age 40 to 54 and 30 to 39, respectively. These

[16] See app.I for a detailed table on earnings and work status by occupation.

earnings increases were primarily driven by a greater number of older workers working full-time instead of part-time (57 percent in 1989 versus 63 percent in 1999) and a movement in the occupational composition toward higher paying white-collar jobs (See tables 3 and app. I). Improvements in the economy during the last 15 years likely offered older workers the opportunity to move into full-time employment as labor shortages increased the demand for their services. During the economic expansion of the mid- to late-1980s, the unemployment rate declined from 7 percent in 1985 to 5 percent in 1989; by comparison, in the mid- to late-1990s the unemployment rate declined from 6 percent to 4 percent.

Figure 7: Changes in Annual Earnings by Age of Worker, 1989 and 1999



Source: CPS.

According to our projections, workers between the ages of 55 and 74 will continue to make gains in their earnings that exceed those of their counterparts who fall between the ages of 40 and 54. Currently, workers age 55 to 64 and workers age 65 to 74 earn 93 percent and 46 percent, respectively, of what workers age 40 to 54 earn. We project these numbers to rise to 111 percent and 67 percent, respectively, by 2008. These relative gains are tied to the change in the composition of the older workforce to higher paid white-collar occupations, while younger workers' occupational composition is projected to change to more blue-collar and service occupations.

Older Workers Are Less Likely to Lose Jobs Than Younger Workers, But More Likely to Exit the Labor Force if Job Loss Occurs

While older workers are less likely than younger workers to lose a job, older workers who do lose a job are somewhat less likely than younger workers to return to work. Older workers and younger workers tend to lose their jobs for similar reasons. However, many older workers who lose their jobs choose to retire following the job loss. Some older workers who have not yet fully retired do seek transitional or "bridge" employment. But once fully retired, relatively few are interested in returning to work. The desire to return to work among fully retired older persons who have lost a job varies according to education and race. Although small in percentage terms (1.3 percent), it is fairly large numerically. In 2000, there were more than three-quarters of a million persons age 55 to 74 who were either unemployed and looking for work or fully retired and wanting a job.

Older Workers Lose Their Jobs Less Frequently But Are Less Likely to be Re-Employed Than Younger Workers

According to data from the Displaced Workers Supplement (DWS) to the CPS, older workers were somewhat less likely than younger workers to lose their jobs between 1997 and 1999.[17] (See table 4.) However, older workers who did lose their jobs were significantly less likely than younger workers to be re-employed. Thirty-nine percent of persons age 55 to 74 who lost their jobs were not re-employed as of February 2000,[18] compared with 19 percent of persons between age 40 and 54. Those who did seek re-employment and found jobs reported job search times that were

[17] By contrast, BLS examined job loss from 1981-1996 among workers with 3 or more years of tenure and found that job loss rates were fairly similar among workers 25-54 and 55 years and older. Moreover, job loss rates did not vary substantially among the age groups during the economic downturns of the early 1980s and early 1990s. For more information see Hipple, Steve, "Worker Displacement in the Mid-1990s," *Monthly Labor Review*, (July 1999), pp.15-32.

[18] February 2000 was the date of DWS data collection.

somewhat comparable to their younger counterparts. The median job search times for workers age 40 to 54 and 55 to 74 was four weeks. However, the average 12 weeks time workers age 55 to 74 needed to search for new employment was 3.6 weeks longer than for workers age 19 to 39 and 1.3 weeks longer than for workers age 40 to 54. This indicates that there is a segment of the older workforce that incurs more prolonged job searches relative to younger persons.

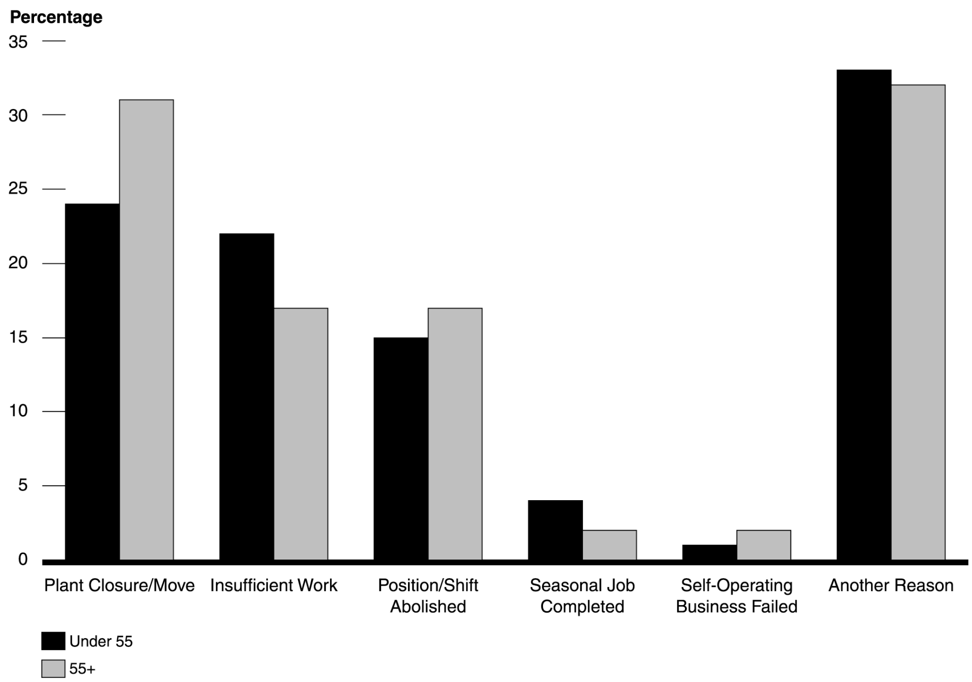
Table 4: Job Loss and Re-employment Rates by Age, 2000

	Age 19-39	Age 40-54	Age 55-74
Percent of workers in each age category losing job in past 3 years (1997-1999)	11.7	9.4	8.8
Percent of workers in each age category not re-employed by 2/2000	15.7	19.0	38.7
Percent of workers in each age category losing job and not re-employed by 2/2000 as a percent of the total labor force	1.8	1.8	3.4
Of those workers re-employed by 2/2000:			
Median number of weeks between jobs	3.0	4.0	4.0
Average number of weeks between jobs	8.4	10.7	12.0
Of those workers not re-employed:			
Percent unemployed	50	57	27
Percent not in labor force—retired	0	3	57
Percent not in labor force—disabled	2	4	4
Percent not in labor force—other	47	37	12

Source: DWS.

Older workers and younger workers tend to lose their jobs for similar reasons. According to data from the DWS, older workers are somewhat more likely than younger workers to lose their jobs due to plant closures or plant relocation (31 percent compared with 24 percent, respectively) and somewhat less likely to lose their jobs due to insufficient work (17 percent compared with 22 percent). (See Fig. 8.) The DWS asks respondents whether they lost their jobs due to their position or shift being abolished, completion of a seasonal job, failure of a self-operating business, or another reason. The responses of older and younger workers were not significantly different.

Figure 8: Reasons for Job Loss by Age of Worker, 2000



Source: DWS.

Though older workers are not more likely to lose a job, a job loss potentially has more severe consequences for older workers. Older workers tend to have greater tenures in their jobs and may experience a larger loss in earnings upon re-employment, compared with younger workers.[19] Moreover, the potential loss of health care benefits following a job loss could be more problematic for older workers because of the positive correlation between greater health problems and aging.[20]

[19] The discussion of the effects of job loss on older workers was paraphrased from Couch, Kenneth A. "Late Life Job Displacement," *The Gerontologist*, Vol. 38, No.1 (1998), pp. 7-17.

[20] Older workers appear to place a high value on health insurance. Older male workers who had retiree health insurance were 68 percent more likely to retire compared with their counterparts without this benefit. See Rogowski, Jeanette and Lynn Karoly, "Health Insurance and Retirement Behavior: Evidence from the Health and Retirement Survey," *Journal of Health Economics*, (2000), pp. 529-539. For information on the current status of retiree health benefits see *Retiree Health Benefits: Employer-Sponsored Benefits May Be Vulnerable to Further Erosion*, (GAO-01-374).

For older workers, the likelihood of being hired by a new employer varies according to several factors—the compensation level, mix of wages and benefits, skill requirements, working conditions, and hours of work—associated with the new employer and job. For example, a firm whose wages are highly correlated with firm-specific experience will hire fewer older workers. Firms with these types of compensation structures usually require that skills be developed internally on the job. Moreover, these types of firms tend to encourage earlier exits of older workers through their payments of pension benefits. Occupations that require extensive computer use also tend to hire fewer older workers possibly due to perceptions that older persons have difficulty adapting to new technologies. Finally, jobs that require night and evening shifts hire fewer older workers.[21]

More Than Three-Quarters of Million Persons Age 55 to 74 Who Do Not Have Jobs Want to Work

According to the March 2000 CPS, 768,000 persons age 55 to 74 were either unemployed and seeking a job (520,000 persons), or fully retired and said they wanted a job (248,000 persons). Unemployment rates for most groups of older workers are low and vary somewhat by educational level and by race.[22] In 2000, the unemployment rate for all workers over age 55 was 2.8 percent. However, non-high school graduates had an unemployment rate of 5 percent, which was more than three times as high as college graduates.[23] (See table 5.) The unemployment rate for blacks was 4.1 percent and for Hispanics and other ethnic groups 5.3 percent, compared with an unemployment rate of 2.5 percent among whites. Furthermore, once older Americans fully retire, most do not want to return to work. About 45 percent (or 18.4 million persons) of all persons between age 55 to 74 were fully retired. These individuals are not doing any work for pay and have categorized themselves as "retired." When questioned about

[21] Hirsch, Barry T., David A. Macpherson, and Melissa A. Hardy. "Occupational Age Structure and Access for Older Workers," *Industrial and Labor Relations Review*, Vol. 53, No.3 (April 2000), pp. 401-418.

[22] Even with the recent economic slowdown, unemployment rates remain at low levels especially for older workers. In August 2001, the overall unemployment rate was 4.9 percent and the unemployment rate for persons over 55 was 3.0 percent.

[23] In terms of the total number of unemployed persons, more high school graduates (207,419) are unemployed than non-high school graduates (116,396) because the former group is larger and has a higher labor force participation rate.

whether they wanted a full-time or part-time job, only 1.3 percent responded "yes." [24]

Table 5: Percentage of Persons Age 55-74 Who Are Unemployed or Fully Retired and Want a Job, 2000

	Total age group, 55-74	Percent in labor force	Percent of labor force unemployed	Percent fully retired	Percent of fully retired who want a job
Males	19,130,000	50	3.2	41	1.5
Females	21,940,000	36	2.7	48	1.3
No high school diploma	8,770,000	27	5.0	50	1.0
High school diploma	15,000,000	40	3.4	48	1.0
Some college	8,660,000	48	2.7	43	2.4
College degree	8,650,000	58	1.6	36	1.5
White (non-Hispanic)	32,850,000	43	2.5	46	1.2
Black	3,960,000	37	4.1	43	3.1
Hispanic and other	4,270,000	43	5.3	37	0.8
Totals (percent)		**43**	**3.0**	**45**	**1.3**
Total[a] (number)	**41,080,000**	**17,579,000**	**520,000**	**18,441,000**	**248,000**

[a]In addition to the labor force and the retired, others in the age group are disabled or have exited the labor force for other reasons. Data are not available on the percentage of these groups that would like a job. Totals may not match due to rounding.

Source: March 2000 CPS.

Some Employers Provide Flexible Employment Arrangements for Older Workers But Programs Are Not Widespread

Public and private employers are using an array of arrangements—including rehiring retirees, reduced work schedules, and allowing job-sharing—to retain and extend the careers of older workers. However, survey data and interviews with employers suggest that few of these arrangements are widespread among private employers or involve large numbers of workers at individual firms even though the majority of older workers are interested in them. Employers cite several reasons for not implementing programs, but the most prevalent is that they simply have not considered doing so. While acknowledging the importance of the issue, union officials we spoke with said that they have not addressed these issues broadly in collective bargaining agreements due to a lack of interest on the part of employers generally and difficulties in establishing flexible schedules in many manufacturing settings. Public employers

[24] This suggests that once workers retire, it may be difficult to entice them back into the labor force. Thus policies geared toward extending the careers of older workers might be effective if they are targeted towards those employees still in the labor force, rather than those older workers who have already fully retired.

appear to be experimenting more with these programs than private employers. For example, large efforts to retain older workers are being made in some states in response to teacher shortages. These efforts primarily involve pension incentives that make work financially attractive for older employees.

Private Employers Are Using Some Arrangements to Retain Older Workers and Rehire Retirees, But Use Is Not Widespread

Some employers and employees are experimenting with flexible employment arrangements that would allow older workers to continue to work. We found that flexible employment arrangements come in many different forms, including part-time work, seasonal or part-year work, consulting or contracting for limited periods of time, or a reduction of job responsibilities. [25] (See table 6.) For example, a large retail drug store chain accommodates older workers by offering them part-time or part-year schedules and allows them to work in multiple locations throughout the country. Under this approach, an older worker can work in New York during the spring and summer and in Florida during the fall and winter. A large chemical manufacturer has established an in-house Retiree Resource Corps that serves as a clearinghouse for matching retirees' skills and the company's employment needs for retirees who wish to work on a temporary basis. Retirees must separate from the company for 6 months prior to entry into the program and are limited to less than 1,000 hours of work per year.[26] Employees who work more than the maximum have their pension benefits ceased and must terminate from the program to have their benefits reinstated. A large fruit canning employer hires older workers on a part-year basis to work in their canning factory that operates from July to mid-September. The employer says that older workers are more likely to be available for the part-year work than younger workers who are more interested in full-time jobs. A needle manufacturer has been successful in recruiting older workers by allowing them to choose the days they want to work.

[25] Flexible work arrangements are often termed "phased retirement" or "bridge jobs." Both of these terms refer to the transition period from full-time work to full-time retirement through a change in employment status or job responsibilities.

[26] Under ERISA, an employer who sponsors a pension plan may not exclude workers from pension coverage for failure to perform a minimum period of service, if they have worked 1,000 hours in a year.

Table 6: Examples of Flexible Employment Programs That Employers Are Offering Older Workers

Employer description	Type of program(s)	Number of participants
Designs and tests space systems	Work part-time Leave of absence prior to retirement Rehire retirees part-time or as contractors	Not available
Retail drug stores	Work part-time or part-year Work in multiple locations throughout the year	15 percent of company employees are 50 or older
Fruit canning plant	Work part-year	28 percent of employees are age 55 or older
Food products	Rehires retirees	200 (mainly drivers)
Information services	Rehires retirees	An estimated 50 percent of retirees have worked in the program since its inception.
Communication services	Retirees are used to establish new company ventures overseas	Company survey found 725 retirees who would like to participate[a]
Insurance	Informally rehire retirees, typically on a part-time basis	50-60
Aerospace	Rehire retirees for up to 999 hours per year	20-40
Temporary services	Increased efforts to recruit older workers	25 percent of workforce consists of older workers
Chemical manufacturer	Rehire retirees for up to 999 hours per year	300
Investments	Informally rehire retirees to fill specific company needs	Not available
Medical equipment	Reduction of work schedule over a 3-year period prior to retirement	Less than 10
Needle manufacturer for various industries.	Allows workers to choose the days they want to work	Average age of their 35 employees is 73 years.

[a]Actual number of participants in the program is not available.

Though they exist, flexible employment arrangements are not yet widespread in the private sector. According to our interviews with experts, consultants, and employers, in many instances these arrangements or programs are provided on only an ad hoc basis and to limited groups of employees. The employees involved in these arrangements tend to be skilled workers with an expertise for which an employer has a special need. While these programs can be expensive, some firms have shown they are willing to pay to retain the more highly skilled employees who are hardest to replace.

Survey data on the extent and nature of flexible employment arrangements -- at least in large private sector firms -- also supports our finding that such programs are often limited in scope and not widespread. According to a study by Watson Wyatt, a large human capital consulting services firm, 16 percent of employers participating in their survey offer some type of flexible employment arrangement. However, they defined such an arrangement as any type of accommodation that was being made to an older worker either on a programmatic or individual basis. The American Association of Retired Persons (AARP) and the Society for Human Resource Management (SHRM) also conducted a study of flexible employment programs and estimated that about 2 percent of employers offer such arrangements to older workers. Neither of these studies is nationally representative.[27]

While acknowledging the importance of the issue, unions we spoke with have not yet addressed flexible employment programs broadly in collective bargaining agreements due to a lack of interest on the part of employers generally and difficulties in establishing flexible schedules in many manufacturing settings. We spoke with officials from unions representing workers in the telecommunications industry and manufacturing industries like automobiles and aerospace, who said that flexible employment programs for older workers are not yet a major issue for many unions. A union official in the manufacturing industry said flexible employment programs may be difficult to establish because for many production processes, the work environment tends to require team production from employees on full-time schedules. A union official in the telecommunications industry said that unions have proposed some flexible employment arrangements in bargaining, but they say employers have not shown an interest because they do not yet see worker retention as an important issue.

Evidence suggests that at least some middle- and large-sized employers currently do not see a need for flexible employment programs, although this could change in the future. According to the Watson Wyatt survey, 70 percent of companies do not offer phased retirement programs to older workers because they simply have not considered it.[28] Other reasons given for not offering programs were the programs' incompatibility with corporate culture (16 percent), restrictions on in-service distributions (14 percent), employment costs (13 percent), and productivity concerns (9

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[27] The Watson Wyatt study was conducted on their clients who tend to be middle- to large-sized employers who would be more likely to offer programs. The AARP study was focused on a small sample of employers that were identified by *Working Woman* magazine to be employee-friendly places to work.

[28] A survey by William M. Mercer consulting firm yielded similar responses. Sixty-five percent of employers said they were not offering phased retirement because it was not a priority for them. Other reasons were that the company preferred to make individual arrangements (53%), lack of employee interest (11%), legal/administrative issues too complex (4%), and too costly (2%).

percent). However, 28 percent of the employers who do not offer phased retirement indicated that they have a moderate to high interest in doing so over the next 2 to 3 years. Moreover, 70 percent of the employers surveyed said that phased retirement programs may be a solution to labor shortages brought on by demographic and economic change.

The hesitancy on the part of employers to offer flexible employment programs appears to be at odds with the desire of older employees to have the option of participating in such programs, and thus possibly extending their work lives. According to 1996 data from the Health and Retirement Survey, 56 percent of persons age 55 to 65 would prefer to gradually reduce their hours of work as they age, but only 16 percent of full-time workers in this age group said their employers would be willing to allow them to reduce their hours. Another survey of workers age 54 to 74 who were employed in their career occupations found that 48 percent of workers wanted to work significantly fewer hours—citing workload and job demands (41 percent) and financial factors (28 percent) as their reasons for working more hours than they would prefer.[29] A reduction in work hours seems to be a fairly common desire: 71 percent of retirees who have returned to work said the reason they initially retired was due to a lack of a more flexible work schedule. Furthermore, this option seems to be less available to rank and file workers, with managers and professionals more likely to believe a reduction in hours was possible (64 percent) than were workers in service and production occupations (31 percent).

Some Public Sector Employers Have Undertaken Large Efforts to Retain Older Employees

Some public sector employers have been very active in initiating broad programs that provide incentives for older workers to stay on the job. Driven in large part by teacher shortages in many public school districts, state and local government employers have implemented programs that provide incentives for older employees to remain on the job. In many instances, these incentives were created by redesigning their state-defined benefit pension plans to include Deferred Retirement Option Plan (DROP) features that allow a pension participant at an eligible retirement age to

[29] Moen, Phyllis, et. al. "The Cornell Retirement and Well-Being Study," Cornell University, (2000).

have pension benefits start even though he or she continues to work.[30] These programs also include other pension plan revisions as well. At the state level, Arkansas, California, Louisiana, and Ohio have all adopted incentives for older teachers to stay on the job rather than retire.

A growing number of state and local public employers have implemented, or are considering implementing, DROP pension features as incentives to encourage older employees to remain on the job.[31] Although employers have used these for other public employees like firefighters or law enforcement personnel, many have focused on the retention of elementary and secondary public school teachers. For example, Arkansas has a DROP program in which all teachers who meet length-of-service requirements can have 70 percent of their monthly pension payments deposited into an account that is payable as a lump sum along with other options for payment.[32] Teachers can stay in the DROP program for up to 10 years. The state also allows teachers who are eligible for retirement to draw their full pension and a full salary if they work in one of four subject areas deemed to have a critical shortage of teachers (math, science, foreign language, and special education) and if they separate from employment for 30 days.[33]

Louisiana has a variety of programs to encourage older teachers to stay on the job, and 4,300 teachers participated in them last year. The DROP

[30] Under a DROP, instead of paying a pension benefit directly to the participant, it is placed in a separate account in the individual's name. This individual account is also invested so that when the participant ceases employment and accepts retirement, he or she receives the accumulated account balance in addition to the ongoing pension benefit. DROPs allow a pension participant, generally for a fixed maximum period, to have his or her pension benefits start on a particular date even though he or she continues to work with the employer providing the pension. After that period, either the participant is expected to retire or the pension payments stop until the participant actually retires. By allowing a pension participant to gain access to or be credited with pension benefits while still working, DROPs remove a key incentive for older workers to retire.

[31] One organization of public employers identified over 20 public entities using DROPs. DROP programs are not always established with the intention of extending workers careers. In some cases, DROP programs are used specifically to get people to retire at a certain age. This type of DROP program has been used for police and firefighters in Florida.

[32] The Arkansas program was not started with the intention of encouraging older teachers to stay on the job even though it has served that purpose.

[33] States can set their own length of time for what constitutes a break in service before someone returns to work and draws salary and pension payments before the pension plan's normal retirement age. The length of time for a break in service is supposed to constitute a clear separation of employment. States have chosen different time periods to meet this requirement.

program has been popular among the teachers because they can earn a lump sum in the range of $70,000 to $80,000 in 3 years. Two-thirds of eligible teachers participate in the DROP program and may participate for up to 3 years, after which they can continue working and will resume earning pension credits in their defined benefit system. The myriad of other Louisiana programs established to retain or attract retired teachers are being phased out and replaced with one program that allows retired teachers to earn their full pension while continuing to teach after a 12-month break in service.

Some public employers are using other pension incentives to retain teachers. For example, facing a projected shortfall of 300,000 teachers over the next decade, the California legislature enacted several measures modifying the state teacher pension plan to encourage older teachers to continue to work. Starting in 2001, teachers who retire and then separate from employment for 1 year can return to teaching and earn a full salary while continuing to receive full pension payments. In addition, pension benefits have been enhanced in 3 ways: a longevity bonus of up to $400 per month has been added for 30 to 32 years of service; a 0.2 percent addition to the pension benefit has been granted for each year beyond 30 years of service; and 2 percent of salary is paid into a supplemental retirement account which is then payable as a lump sum.[34]

Nearly 10 percent (17,000 teachers) of Ohio's teaching workforce consists of rehired retirees. Ohio teachers can draw a full salary and full pension benefits after a 2-month break in service. This provision also applies to other Ohio public employees in the event of a future shortage of employees.

Federal Regulations May Inhibit Private Employer Use of DROP Plans

Internal Revenue Code requirements regarding pensions may discourage private employers from adopting DROP plans and other programs that could encourage workers to extend their employment after retirement eligibility. In 2000, the ERISA Advisory Council identified current ERISA and IRC regulations that could constrain private employers in implementing flexible employment arrangements, including regulations

[34] This supplement does not reduce the benefit paid by the defined benefit pension plan. All participants that are covered by the pension plan are receiving this supplement, not only older teachers.

prohibiting in-service distributions of defined benefit pension benefits and rules governing nondiscrimination.[35]

Pension regulations prohibiting in-service pension benefit distributions can discourage the employer's formation of DROP programs. Defined benefit pension plans sponsored by private employers are not allowed to pay pension benefits to older workers who become eligible for retirement income before the plan's normal retirement age. Therefore, it would be difficult, if not impossible, for a private sector employer to provide a defined benefit DROP plan to workers who are younger than the pension plan's normal retirement age.[36] To address this issue, the Council recommended relaxing the IRS rules on in-service distributions to facilitate the formation of phased retirement plans, although concern was expressed by some witnesses that workers might outlive their retirement savings by beginning benefits at an earlier but lower rate.[37]

The ERISA Advisory Council also found that federal regulations governing nondiscrimination in pension benefits or contributions can restrict employers from offering phased retirement programs. For example, some employers reported to the Council that they did not establish flexible employment programs because of concerns with violating federal pension regulations governing nondiscrimination in benefits or contributions. The concerns are based on the likelihood that a higher percentage of highly compensated employees would be participating in the programs because their skills are more desirable. To the extent that older workers are more likely to be owners or highly compensated employees than younger workers, a DROP plan could disproportionately include the employer's highest paid employees. In such a case, the employer's pension plan could be deemed as discriminatory and potentially lose its tax-qualified status. To alleviate these concerns, the Council recommended that the IRS relax

[35] Advisory Council Working Group Report on Phased Retirement, November 14, 2000.

[36] The issue with in-service distributions would extend to employers who sponsored defined benefit plans and wished to set up other phased retirement programs. In this case, workers eligible for early retirement benefits would have to choose between continuing to work for the same employer or collecting their benefits. The extent of compensation depends on the structure of pension benefits, but often the increase in benefits that a worker earns for continuing to work past the full eligibility age is not sufficient to compensate them for the foregone benefits. Some older workers, of course, can avoid these restrictions by taking early retirement and working for a new employer while collecting pension benefits from their previous employer's plan.

[37] Advisory Council Working Group Report on Phased Retirement, November 14, 2000.

its rules on nondiscrimination if the intent of the plan amendment was clearly not to be discriminatory.[38] Recognizing the complexity of this issue, the ERISA Advisory Council also suggested that the Secretary of Labor organize a task force to focus on the obstacles within ERISA and other relevant federal laws that inhibit private employers from instituting DROPs.

Many Other Factors Inhibit the Employment of Older Workers

A variety of factors contribute to discouraging the continued labor force participation of workers after a certain age. These factors include the following:

- **Some employers may have negative perceptions of older workers and discriminate**. Past surveys have found that some managers possess negative perceptions about the productivity of older workers. For example, managers have expressed a perception that age reduces workers' physical stamina and ability to learn new skills.[39] Under the ADEA, it is illegal to discriminate in employment on the basis of age, but evidence suggests that such discrimination does still occur. In 2000, the EEOC received 16,000 complaints of age discrimination, with nearly 3,000 merit resolutions and cumulative monetary damages of $45 million. Because some employers might seek to avoid hiring older workers because of potential litigation, the ERISA Advisory Council proposed that an interagency task force be convened to determine if any of the laws dealing with older workers' pension benefits, including the ADEA, the IRC, and ERISA, need to be amended in order to encourage the continued development of flexible retirement alternatives for older workers.[40]

- **Employers perceive higher costs associated with hiring older workers**. Employers may feel that it is more difficult to recoup the costs of hiring and training older workers. The shorter potential length of time an older worker may remain with an employer, compared with a younger

[38] Advisory Council Working Group Report on Phased Retirement, November 14, 2000.

[39] However, a recent survey of human resource managers found that older workers were compared favorably with younger workers in most areas except technological expertise. See Taylor, Humphrey J. "Older Workers: A Valuable Resource for the Workplace," in *Working Through Demographic Change: How Older Americans Can Sustain the Nation's Prosperity*, William Zinke and Susan Tattershall eds. Human Resource Services, Inc.: Boulder, CO. 2000, pp. 5-14.

[40] Advisory Council Working Group Report on Phased Retirement, November 14, 2000.

worker, implies that these up-front fixed costs are greater for older workers because of the shorter time period for employers to recoup their investment.[41] Moreover, all other things being equal, older workers can raise an employer's cost of providing health coverage.[42] To address these issues, the ERISA Advisory Council recommended that legislation be developed that would extend Medicare to workers between the ages of 55 and 64.[43]

- **Older workers have more health problems that inhibit work**. According to CPS data on self-reported health status, 17 percent of persons age 55-64 have a work-limiting health problem compared with 9 percent of persons age 40-54 and 5 percent of persons age 30-39.[44]

Conclusions

Older workers play a key role in the labor market and their importance will only grow in the years to come. By 2008, 1 out of every 6 workers in the American labor force will be over age 55, and this ratio is estimated to reach over 1 out of 5 by 2025. Older workers will comprise a progressively larger number of our nation's managers, supervisors, and executives. Employers will have to rely more heavily on this segment of the labor force, as their experience and "institutional knowledge" become an increasingly valuable resource. Thus, older workers will become a critical labor force component in maintaining future productivity and economic growth, particularly if, as projected, labor force growth continues to slow.

Yet, employers have taken little action so far to prepare for this demographic transition. We identified few employers with well

[41] R.M. Hutchens, "Do Job Opportunities Decline with Age?" *Industrial and Labor Relations Review*, Vol. 42, No.1 (1988), p. 89-99.

[42] However, it is uncertain whether employers actually pay this higher cost or whether older workers pay it. In response to a survey conducted by the Society of Human Resource Management and the American Association of Retired Persons, 33 percent of the respondents agreed that older workers increase the health care costs of their organization, 36 percent disagreed, and 31 percent were undecided. Furthermore, section 4(f)(2)(B)(i) of the ADEA, 29 U.S.C. 623(f)(2)(B)(i) permits an employer to offer lower levels of benefits to older workers than to younger workers when the cost of benefits increases with age. Thus, in some instances, older workers may not be significantly more expensive than younger workers with the same rate of pay.

[43] Advisory Council Working Group Report on Phased Retirement, November 14, 2000.

[44] For more information on the implications of declining health at older ages, the ability to continue working and the effects of extending employment on the solvency of the Social Security trust funds, see *Social Security Reform: Implications of Raising the Retirement Age*, (GAO/HEHS-99-112).

established, formalized programs to encourage older employees to work longer. Some private employers have indicated an awareness of the need to retain older workers and are experimenting with different options to extend the work lives of their older employees. However, these programs remain small and are often administered on an ad hoc basis. Flexible employment programs also remain to be addressed by employers and workers in the collective bargaining context. Public employer efforts to retain or rehire older workers have been broader and somewhat more common, largely in response to localized labor shortages in skilled occupations like teaching.

Part of this inaction may be because these demographic changes, while inevitable, remain largely on the horizon. Most employers are not yet facing labor shortages or other economic pressures requiring them to consider phased retirement or related programs. For this reason, time is available to develop sound policies, programs, and practices to respond to this demographic challenge. Some public discussion on this matter is already taking place. For example, Labor's ERISA Advisory Council has received testimony from employers and other interested parties as to how federal policy and laws should be changed to address phased retirement, and the older worker issue generally. From this testimony, the Advisory Council has made recommendations to the Secretary of Labor, particularly with regard to current pension law and policy.

The ERISA Advisory Council has already urged that the Secretary of Labor convene a task force that would focus on issues concerning the extension of DROP plans to private employers. However, many of the recommendations suggested by the Advisory Council are beyond the purview of the Labor Department and would require action by other agencies or the Congress for implementation, as well as raising cost implications. Additional expert assessment and input from those agencies charged with administering the affected laws and regulations would help ensure that these recommendations are both carefully crafted and represent sound policy, particularly those calling for far reaching legislative changes. Expertise and input from outside agencies could also help to identify any unintended consequences of the actions that could be taken. For example, amending the ADEA to facilitate the expansion of phased retirement programs might result in some older workers losing legal protection against age discrimination in ways not previously recognized or understood. It also raises the risk that workers might outlive their retirement savings by beginning benefits too early.

Finally, greater input from other agencies could help to identify other aspects of the issues already explored and additional recommendations not addressed by the Advisory Council. This is particularly important given that the diversity among firms and industries suggests a need for a range of solutions. For example, what may work for public employers—creating incentives to extend employment through alterations in the design of their defined benefit pension plans—may not be helpful for private employers who do not have such plans or could not afford such redesign.

The challenge of how to extend the work lives of older employees in a manner that balances the competitive imperative of business with the life realities of older workers presents many opportunities. By focusing on the development of the policies, programs, and employment arrangements necessary to extend the work life of the growing numbers of older employees, the nation can ensure future supplies of skilled workers, bolster economic growth, and help secure retirement income adequacy for many working Americans.

Recommendations

To address the potentially serious implications of the aging of the U.S. labor force and avoid possibly acute occupational labor shortages in the future, the relevant government agencies should work together to identify sound policies to extend the worklife of older Americans, including those legal changes that would foster creative solutions to extending workers' careers. Specifically, we recommend that the Secretary of Labor convene an interagency task force to develop legislative and regulatory proposals addressing the issues raised by the aging of the labor force. This task force would include representatives from Labor, and other agencies that have either regulatory jurisdiction or a clear policy interest, bringing together the expertise necessary to consider fully the implications of each proposal. It would solicit input from employers, unions, and other interested parties and carefully balance the concerns of older workers, employers, and the general public. The task force would also serve as a clearinghouse of information about employer or collectively bargained programs to extend the work life of older workers.

Agency Comments and Our Evaluation

We provided the EEOC, Labor, Treasury, and the Social Security Administration the opportunity to comment on the draft report. EEOC provided us with written comments, which appear in their entirety in appendix II. EEOC agreed with our findings, strongly supporting the goal of encouraging older workers to remain in the labor force and endorsing our recommendation for the convention of an interagency task force. The agency also provided us with several technical comments, which we incorporated as appropriate. Labor, Treasury and the Social Security Administration provided us with technical comments, which we incorporated as appropriate.

We are providing copies of this report to the Secretary of Labor, the Secretary of the Treasury, the Commissioner of Social Security, and the Commissioners of the Equal Employment Opportunity Commission. Copies will be made available to others upon request. Please contact me at (202) 512-7215, Charlie Jeszeck at (202) 512-7036, or Jeff Petersen at (415) 904-2175, if you have any questions about this report. Other major contributors to this report are listed in appendix IV.

Sincerely yours,

Barbara D. Bovbjerg
Director, Education, Workforce
and Income Security Issues

Appendix I: Data on Employment of Older Workers

Table 7: Earnings and Work Status of Workers Age 55-64 and 65-74, 1999

	Median annual earnings for workers		Percent working full time	
Occupation	**Age 55-64**	**Age 65-74**	**Age 55-64**	**Age 65-74**
Executive, administrator, manager	$ 46,000	$ 25,300	83	54
Professional	$ 45,760	$ 35,000	71	53
Administrative support	$ 23,000	$ 12,300	72	41
Services	$ 15,000	$ 8,000	62	30
Sales	$ 25,000	$ 13,000	72	41
Production, craft, repair	$ 32,000	$ 18,000	83	54
Machine operator, assembly	$ 22,880	$ 13,800	85	52
Transportation	$ 30,000	$ 9,672	69	30
Farm, forest, fishing	$ 14,500	$ 5,000	65	43
Laborers, handlers	$ 20,800	$ 14,000	71	45
Technicians	$ 36,400	$ 18,000	81	43
All occupations	**$ 28,900**	**$ 14,329**	**74**	**44**

Source: March 2000 CPS.

Table 8: Selected Percentages of Workers in an Occupation That Are Age 55 or Older, 2000-08

Occupational group	2000 (percent)	2008 (Projected percent)
Executive, administration, and managerial occupations		
Executive/admin/managers	14.6	22.3
Property/real estate managers	28.1	36.2
Professional specialty occupations		
Scientists/ engineers	12.6	15.5
Computer professionals	5.4	10.9
Doctors/ other health diagnosis	19.3	26.3
Nurses/ other health treatment	12.0	18.0
Post-secondary teachers	23.3	27.0
Teachers (through secondary)	12.8	18.5
Lawyers and judges	16.9	26.0
Clergy/ religious workers	27.4	35.5
Other professionals	14.2	18.4
Technicians	7.7	10.4
Sales occupations		
Real estate sales	30.3	41.2
Other sales occupations	13.2	16.1
Administrative support occupations		
Administrative support	13.3	15.8
Service occupations		
Personal Services		
Household services	20.6	20.2

Occupational group	2000 (percent)	2008 (Projected percent)
Security and crossing guards	23.5	26.6
Other protective services	6.9	8.8
Food service occupations	8.1	8.1
Health service occupations	13.7	15.6
Cleaning/ building services	18.8	20.6
Personal services	13.5	15.5
Precision production, craft, and repair occupations		
Mechanics/ repair	11.7	13.3
Construction/ extraction	9.3	10.9
Production	14.4	15.8
Operators, fabricators, laborers		
Machine Operators/ assemblers	11.4	12.6
Transportation	16.2	18.3
Laborers/ handlers	8.2	9.2
Farming, forestry, and fishing occupations		
Farmers	42.0	48.3
Other agriculture/ forestry/ fish	12.2	12.3
All occupations	**13.2**	**16.6**
Total employed – all ages	**135,500,000**	**148,319,000**
Total employed – 55+	**17,930,000**	**24,568,000**

Source: GAO projections. See Appendix III.

Appendix II: Comments From the Equal Employment Opportunity Commission

U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION
Washington, D.C. 20507

November 9, 2001

Barbara D. Bovbjerg, Director
Education, Workforce and Income
Security Issues
U.S. General Accounting Office
Washington, D.C. 20548

Dear Ms. Bovbjerg:

This is in response to your November 1, 2001 request for comments from the Equal Employment Opportunity Commission (EEOC) on the General Accounting Office (GAO)draft report, GAO-02-85 Older Workers. The report examines the aging of the United States work force and the use of "phased retirement" and "DROP" pension plans to provide older workers with alternatives to more traditional forms of retirement.

EEOC strongly supports the goal of encouraging older workers to stay in the work force, a goal that is consistent with the purposes of the Age Discrimination in Employment Act of 1967 (ADEA). We also concur with the findings of your report that phased retirement plans, including DROP plans, may offer a valuable alternative for older employees.

Accordingly, EEOC endorses the recommendation to convene an interagency task force to consider issues arising under phased retirement and DROP plans. We suggest that the task force include, in addition to EEOC and the Department of Labor, the Department of the Treasury, the Internal Revenue Service, and the Pension Benefit Guaranty Corporation.

While EEOC concurs with the findings and supports the recommendations of the report, we recommend revising the language on pp. 31-32 of the draft, which suggests that the ERISA Advisory Council has already concluded that the ADEA needs to be amended. The Council actually recommended interagency consultation to determine whether legislation is needed. *Working Group Report on Phased Retirement* (11/14/00) at pp. 5-6. Until the consultation is complete, legislation would be premature. Thus, we urge that this portion of the report be revised as follows:

> Because some employers might seek to avoid hiring older workers because of potential litigation, the ERISA Advisory Council proposed that an interagency task force be convened to determine whether any of the laws dealing with older workers' pension benefits, including the ADEA, the IRC, and ERISA, need to be amended in order to encourage the continued development of flexible retirement alternatives for older workers.

Page Two

Additionally, we suggest the following minor revisions to page 32:

1. On the second line of page 32, the word "may" should be removed. The fact that nearly 2,000 cases [not 3,000 as stated in the report] were settled last year with damages of $45 million demonstrates that age discrimination still exists in the work force.

2. In the first full paragraph on page 32, a footnote should be added to indicate that section 4(f)(2)(B)(i) of the ADEA, 29 U.S.C. § 623(f)(2)(B)(i), permits an employer to offer lower levels of benefits to older workers than to younger workers when the cost of benefits increases with age. Thus, older workers in fact may not be significantly more expensive than younger workers with the same rate of pay.

EEOC is committed to helping employers and workers find ways of meeting problems arising from the impact of age on employment. We believe that the recommended interagency task force is an important step and we would look forward to participation on the task force.

We appreciate the chance to review and comment on the report. If you have any questions, please contact my office at (202) 663-4900.

Sincerely,

Ann Colgrove

Ann Colgrove
Director of Communications
and Legislative Affairs

Appendix III: Scope and Methodology

Survey Data

Most of the survey data used in this report are from the March Current Population Surveys (CPS). The annual March CPS is a source of income estimates for the United States and also includes employment and demographic data. We used the CPS because of its large sample size, its inclusion of detailed information on the economic and demographic characteristics of labor force participants, the timeliness of its data, and its collection frequency and consistency, which allows the opportunity to show trends over time and construct projections. We used CPS Basic Monthly Survey data from 1983 through 2000, March supplement data from 1989 through 2000, and February supplement data on displaced workers and job tenure and occupational mobility from 1996, 1998, and 2000. The Health and Retirement Survey (HRS) is composed of persons born between 1931 and 1941, and the respondents are questioned every 2 years. The first wave of questions was conducted in 1992. We used HRS data from Wave III that was conducted in 1996.

The sampling errors for the estimated percentages used in this report from CPS data are less than plus or minus 1 percentage point at the 95 percent confidence level. This sampling error does not apply to our projections of occupational distributions or wages. Although widely used and a rich source of detailed data, CPS and other surveys that are based on self-reported data are subject to several sources of nonsampling error, including the following: inability to get information about all sample cases; difficulties of definition; differences in the interpretation of questions; respondents' inability or unwillingness to provide correct information; and errors made in collecting, recording, coding, and processing data. These nonsampling errors can influence the accuracy of information presented in the report, although the magnitude of their effect is not known.

Data were grouped into the age categories of 30-39, 40-54, 55-64, and 65-74 when the sample size was large enough to make calculations based upon these age groups. When the sample size was too small to support these age categories, we chose to group the data by over 55 and under 55.

Projection Methods

We based our occupational projections to the year 2008 on methods developed by the U.S. Department of Labor, Bureau of Labor Statistics.[1] In order to do occupational projections by age group, we used 5-year age

[1] See, U.S. Department of Labor, Bureau of Labor Statistics, *Occupational Projections and Training Data*, Bulletin 2521, May 2000, pp. 74-77.

cohorts from 1988-93 and 1994-98 CPS Basic Monthly Survey data, calculating net replacement needs for 5-year intervals to 2003 and 2008. We made adjustments for the irregular size of bottom and top age groups. To compensate for missing historical data to project the younger age cohorts to 2008, we used BLS projections of the civilian labor force in 2008 for the 16-24 and 25-34 age groups and then we subtracted the percent unemployed as of 2000 for these age groups. We then distributed the projected employed by the percentage of those age groups in each occupational group in 2000. The accuracy of our model was checked by running projections from earlier data to the year 2000 and comparing the 2000 projections with actual 2000 data. We also adjusted our projected labor force numbers for 2008 by BLS' labor force projections for 2008. To project earnings to 2008 for age groups over 40, we calculated mean earnings by occupation, age group, and year from 1989 to 1999. We then inserted a variable to control for the business cycle, projected the earnings by occupation and age group to 2008, and merged the projected earnings with our age group specific 2008 occupational projections. A potential shortcoming of our projections is that the cohort effects (e.g., the baby boomers are different from older generations) cannot be separated from age effects (e.g., the baby boomers labor force behavior will change as they pass from middle to old age) using cross-sectional data.

Private and Public Employer Information

We identified companies with flexible employment programs for older workers through interviews with experts and reviewing literature on the subject. We then interviewed officials from 13 companies who were knowledgeable about the programs. Public employers were identified and interviewed on the same basis.

Appendix IV: GAO Contacts and Staff Acknowledgments

GAO Contacts

Barbara Bovbjerg, (202) 512-5491
Charles Jeszeck, (202) 512-7036
Jeff Petersen, (415)904-2175

Acknowledgments

Other contributors to this report include Don Porteous, Roger Thomas, and Howard Wial.

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