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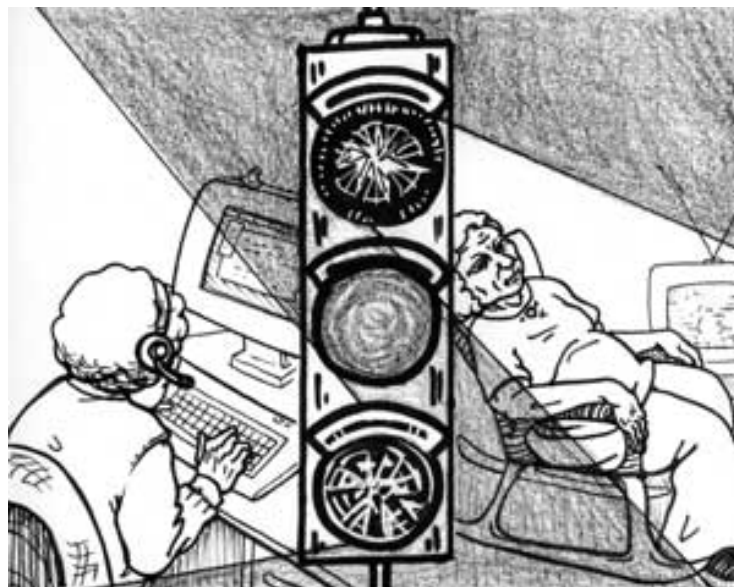
BOOMERS TO REDEFINE WORKPLACE

By PAUL KLEYMAN

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The American workplace is moving toward a devastating loss of human capital, Edward E. Potter told the U.S. Senate Special Committee on Aging. As the large baby boom generation moves toward retirement, a smaller pool of workers will be left to fill their positions, said Potter, president of the Employment Policy Foundation (EPF), an industry research organization in Washington, D.C. EPF research shows that by 2006, the demand for labor in the United States will exceed the supply, and by 2012, the labor shortage may grow in excess of 6 million qualified workers.

Potter, who spoke at a hearing titled Breaking the Silver Ceiling: A Generation of Older Americans Redefining the New Rules of the Workplace on Sept. 20, 2004, said that unless something is done to increase labor participation, by 2030 the U.S. labor shortage could reach 35 million people--a \$2.8 trillion loss to the nation's economy. He added, With the transformation of the workplace to increasingly higher-skill jobs requiring posthigh school education, we estimate



Aging Today's version of Boomers To Redefine Workplace
Drawing: Tyler Cohen

that 80% of the labor shortage will be a skill shortage.

In spite of this growing need by employers to maintain their employee levels and despite the desire of older workers to remain on the job at least part time beyond the usual retirement age, outmoded policy barriers are restraining companies from offering phased retirement options, Potter said.

A recent AARP survey of 1,200 boomers found that more than 80% expect to work at least partly in their retirement years, Douglas C. Holbrook testified at the Senate hearing. Over half of boomers said they expect to work part time, and 15% said they plan to start a business, he said. Holbrook, vice president and secretary-treasurer of the AARP board of directors, said, Our surveys tell us that older workers would value retirement jobs that provide them flexibility, meaningful work, health benefits, the ability to learn new skills, and that also enable them to keep mentally and physically active and to interact with others. The retired chief financial officer of the American Postal Worker Union also noted, Like many younger workers, they seek work-life balance.

Holbrook emphasized that the wider implementation of flexible schedules, part-time work and nontraditional arrangements, such as job sharing, would be especially important for working older women. He observed, Although older workers can be found in every occupation, fully one-third are in professional jobs where experience and institutional knowledge are valuable attributes. In addition, he said, Women, including older women, are about four to five times as likely as older men to have administrative support jobs. (Older men are more apt to be in manufacturing, construction, transportation, communication and public utilities, he said.)

Recently, AARP released its study on the aging workforce, *Staying Ahead of the Curve 2004: Best Employer Practices for Mature Workers*. Conducted by the respected firm Mercer Human Resources Consulting, the study reports, In 2002, 14% of the workforce was aged 55 or older. By 2012, 19% of workers will be at least 55, an increase of more than 10 million. Yet, according to the AARP study, Many employers have not yet identified what the workforce changes may mean to their organizations and what they will have to do to meet their workforce needs.

Continued employment of older workers could be a win-win situation for employers and employees, stated Alicia H. Munnell, director of the Center for Retirement Research at Boston College, in an address last year at the University of Notre Dame. Staying in the labor force will ease the crunch on retirement income faced by older Americans, and the hiring of older workers will ease the labor shortage faced by employers. She went on, Older workers will be better educated and healthier than in the past, they will have a lifetime of experience and they will be well suited to a job market that has become much less physically demanding. Additionally, she said, Today's older workers are generally efficient, versatile, able to display good judgment and capable of adjusting to changes in the workplace. She outlined numerous reasons why both the public and the private sectors need to smooth the way for continued late-career employment.

Current trends will shrink the percentage of preretirement income that Social Security will replace. Were the system not to change, Munnell explained, in 2030 average Americans at age 65 would find that Social Security would replace 41.3% of their earnings in the last years of their career, similar to

today's level. But by then, the normal retirement age--when a person can collect full benefits--will be 67, which effectively would cut the replacement value of the national pension system to 36.3%. Projected rises in Medicare premiums for Part B physician and outpatient care would knock that down further to 32.6%. Taxes on Social Security income will evaporate its worth even more, Munnell said, reducing the replacement value to 29.9%.

Moreover, unless Congress enacts changes, income taxes will take an ever larger bite out of Social Security checks, Munnell said. Current law subjects 85% of Social Security income to taxation for individuals earning more than \$25,000 a year, and for married couples with a combined benefit of \$32,000. Today, Munnell explained, Social Security recipients draw median earnings of about \$14,000, but the nominal Social Security benefit for retirees with medium earnings in 2030 will almost triple, to a more taxable \$38,000.

Munnell speculated that Congress might well reduce benefits to help Social Security make up its long-term financing shortfall. For example, if Congress prunes Social Security benefits by 10% (and generates tax or other sources of revenue to cover the other 10% or what the Social Security Administration believes will be needed to rebalance the system), the average retiree could find that Social Security replaces only 26.3% of preretirement earnings--a full 15% drop from the medium income-replacement level of today. Add to this the continuing escalation of health and long-term care expenses and the reductions in pension and retirement health benefits, and the importance of earned income appears even greater.

COMING UP SHORT

Furthermore, as 401(k) plans and other forms of



Cartoon: Jack Corbett

defined-contribution pensions replace traditional defined-benefit pensions, they will provide less reliable retirement income, said Munnell, the coauthor of *Coming Up Short: The Challenge of 401(k) Plans* (Washington, D.C.: Brookings Institution Press, 2004). She said that because these pension programs are voluntary, a quarter of those eligible to participate in them fail to do so. Among

those enrolled in these plans, the average household approaching retirement in 2001 had accumulated only \$55,000--not much to support a couple for two decades. The reason for such low balances, she said, appears to be that the entire burden is on employees, and many make mistakes at every step along the way. For example, she said more than half of those with 401(k)s do not diversify their investments, many overinvest in the stock of the companies they work for, and almost none rebalance their portfolios in response to age or market returns. Most important, many cash out when they change jobs. Very few new retirees use their 401(k) sums to purchase annuities that would provide steady income through their retirement years, she said.

In his Senate testimony, EPF's Potter cited a 1999 study by the Committee for Economic Development that determined there is no significant difference in the productivity levels of older and younger workers. Also testifying, on behalf of the American Geriatrics Society, was geriatrics professor Sharon A. Brangman of the State University of New York's suny Upstate Medical University. She reported that among older Americans who are not working, only 16% say they are unable to do so because of health problems or disabling conditions. However, she went on, for the majority of older Americans, age does not pose a major barrier to working. While health problems do arise more frequently with age, these are gradual processes. Many of the severe conditions and limitations stereotypically associated with old age are more common among much older Americans, those age 75 or older.

One key roadblock to continued employment, Munnell said, is that the current structure of employment compensation makes retaining older workers more expensive for employers. The longstanding, implicit compact in the workforce is that younger workers are usually underpaid and older ones tend to be overpaid in compensation for experience, loyalty and other factors. This pattern may vary with globalization and other changes affecting the U.S. business climate, she said.

Also more expensive are fringe benefits, not only the escalating cost of health coverage, but also pensions.

Customary defined-benefit pensions, which

cover 38% of present workers according to EPF, are structured to accrue the major cost to employers for workers who remain with a firm toward retirement age. Accrual levels then drop off sharply for those who stay on the job past age 60. The aim in recent decades has been to hold workers' loyalty during their prime working decades and then encourage early retirement to make way for younger workers.

*As 401(k)s replace traditional plans,
they will provide less reliable
retirement income.*

As older workers become increasingly critical to American business, though, federal regulations and tax rules originally enacted to protect older employees from being exploited now block them from taking partial pensions so they can ease into retirement with part-time schedules. Some companies avoid legal entanglements by rehiring former employees after

they have been retired for six months or a year to meet somewhat vague regulations-not desirable by many employees would prefer to continue working and earning. Also, older employees sometimes get hired part time by a competing business in the same field, a practice that makes many firms nervous: No company wants to see its business game plans go to the competition.

Because of these challenges, pension experts are examining how to revise the rules in ways that would safeguard aging employees while also serving their desire to work part time. Munnell noted that a 1996 analysis of data from the Health and Retirement Study, which is done every two years by the University of Michigan with grant support from the National Institute on Aging, showed that 56% of workers ages 55-65 said they hope to reduce their work hours gradually as they age. The defined compensation plans, such as 401(k)s and newer cash balance pensions, have fewer regulatory restrictions than traditional defined-benefit pensions.

AGE DISCRIMINATION

Munnell noted other speed bumps to extended retirement. For example, she said, Age discrimination will become an increasingly important barrier as the population ages. Unlike race or sex discrimination, the aging process itself affects productivity-both positively and negatively. The difficulty in measuring the impact on cost and productivity has led some courts to grant employers more leeway than they would for superficial differences of color or gender. Despite evidence demonstrating the value of older workers, she said, studies have shown that negative perceptions of older workers appear to be reflected in hiring and training decisions, with fewer workers age 50 or older being tapped to receive formal training to upgrade their job skills.



Alicia H. Munnell

Increased employment of older workers is clearly in the interest of both workers and employers, Munnell concluded. But mutual interest is not enough. It will require massive social change, legal and regulatory reform, and increased flexibility on the part of both employers and employees for these employment options to materialize.

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