



BRIDGES TO RETIREMENT



Older Workers in a Changing Labor Market

Peter B. Doeringer, Editor



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THIS VOLUME HAD ITS origins in the work of the Commonwealth of Massachusetts Older Workers Task Force, appointed by the Executive Office of Economic Affairs in 1983 to develop an employment and training policy for older workers under the Job Training Partnership Act. As chair of the task force, I conducted a review of the labor market experiences of older workers in Massachusetts to determine their training needs. Although ample statistical materials were available to describe the employment and unemployment of older workers, most of the analytical studies focused on retirement rather than on jobs. Yet jobs, and access to jobs, were critical to the economic well-being of the aging work force.

With the encouragement of task force member Katherine Villers, a number of foundations were approached with a proposal to examine the changing job prospects for older workers. In 1984 a favorable response was received from the Florence V. Burden Foundation for a grant to study expanding employment opportunities for older workers. Subsequent funds were provided in 1987 by the Commonwealth Fund, under the auspices of the Commonwealth Fund Commission on Elderly People Living Alone, for an in-depth examination of the employment patterns and workplace experiences of older workers. The support from these foundations is greatly appreciated. In all cases, however, the statements made and the views expressed are those of the authors and do not reflect those of the Commonwealth Fund, the commission, or the Florence V. Burden Foundation.

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— INTRODUCTION —

ECONOMIC SECURITY, LABOR MARKET FLEXIBILITY, AND BRIDGES TO RETIREMENT

Peter B. Doeringer

THE PROPORTION OF SENIOR citizens in the population has increased markedly in recent years as the elderly live longer and as birth rates decline. In the last two decades, the population aged 55 and older has grown by about 40 percent, roughly twice the rate of the rest of the population, and another 15 percent growth is anticipated by the year 2000. This population shift is coupled with a startling decrease in labor force participation rates among older workers. In 1967, almost half the population 55 and over spent some time in the labor market. By 1986, this figure had fallen to about one-third, a drop of 25 percent (see chapter 3).

This reduction in labor market activity has affected all groups of older workers, but it has been particularly acute for males and the poorly educated. The decline has also been persistent, even during periods of growth in the demand for labor, and is expected to continue for most segments of the older population to the year 2000 and beyond.

A worrisome consequence of these trends is that the balance between those who work and those who do not is tipping. The earnings base of the older population and the opportunities it provides for the accumulation of resources for retirement are shrinking at the same time that life expectancy is increasing.

Much of the debate over what to do about this decline in employment among older workers has focused on the financial solvency of

the Social Security and Medicare systems in meeting the economic needs of the elderly, but it is also important to explore whether employment and earned income can play a greater role in meeting these needs in the future. A critical issue is the extent to which work incentives can be restructured so as to increase the labor force participation and earnings of the elderly.

What little we know about this issue comes indirectly from studies of the supply side of the labor market. Research on the labor market for older workers has traditionally focused on disincentives to employment—principally on how Social Security and pensions affect the labor supply through their impact on the timing of individual retirement decisions (see chapter 2; Lazear 1986; Fields and Mitchell 1984; Burkhauser 1979; Boskin 1977; Boskin and Hurd 1984; Pellechio 1979; Rosen 1980; Barzel 1973).

This literature underscores the importance of economic incentives in controlling how and when older persons wind down their working lives (see chapter 2). Contrary to widespread perceptions, Social Security has been found to have a relatively minor net effect on labor supply, and its influence is likely to be further diminished by recent legislative reforms. This is not true, however, for private sector pensions with “defined benefit” plans that contain significant disincentives to work. Poor health and mandatory retirement, the other major obstacles to work that have been studied, play a secondary role to economic considerations in the retirement decisions of most workers.

These findings, however, largely reflect the pension and retirement experience of white males. There have been few investigations of the patterns of work and retirement of women and ethnic minorities, whose work, health, and pension experiences are likely to differ substantially from those of white males. This neglect of women and minorities is particularly unfortunate because these are the high-growth groups in the older population that will account for most of the net growth in the labor force in the next decade or so (see chapter 3). They are also the groups that encounter the most serious economic problems with aging (see chapter 4; Commonwealth Fund Commission on Elderly People Living Alone n.d.).

Whatever the limitations of research on pensions and labor supply, however, the truly critical gap in the literature on older workers is in the demand side of the labor market. Pension incentives are only half of the labor supply equation. Equally important are the quality and availability of jobs.

*Bridges to Retirement:
Finding the Right Model*

Almost nothing is known about the structure of job opportunities that older workers face in choosing whether to work or retire. The typical image held by most economists in discussing older workers and the retirement decision is that of the worker (usually a white male) who is employed in a career job until he becomes eligible for pension or Social Security income. The structure of pay and job opportunities available to the older worker is taken as given, and access to pension income is seen as the variable that triggers the decision to retire.

There is mounting evidence, however, that this model does not adequately characterize the labor market situation for increasing numbers of older workers. For example, there are substantial shifts in the composition of employment by industrial sector as older cohorts age in the labor market (see chapter 3). This evidence suggests that many older workers take some sort of postcareer employment before they retire. Whether this job changing is voluntary or forced and its effects on the retirement decision have been largely unexplored. Equally little is known about the work incentives provided by career jobs, postcareer jobs, or the part-time or casual jobs that are often a source of income for partially retired workers.

Traditionally it has been assumed that workers can adjust their working time to suit their preferences for earned income, pension income, and retirement. Survey research, however, suggests that older workers may want more work or a different mix of hours than are available to them in the labor market (see chapter 3; Louis Harris and Associates 1981).

Some industries seem to accommodate a larger number of part-time older workers than others (Kahne 1985), but we understand little about what controls the mix of part-time and full-time work or the access older workers have to such jobs. How do employers' practices on the demand side of the labor market—job design, recruitment, retention, and compensation—affect the employment opportunities and work incentives of older workers? Do employers and unions encourage the retention or the retirement of older workers? Is the labor market becoming more or less hospitable to the job preferences of older workers?

Without answers to these questions it is difficult to determine the prospects for older workers in the labor market or to evaluate the potential effectiveness of various policies directed at the older worker labor market. To date, public policy has concentrated almost exclu-

sively on the supply side of the labor market through reforms in the Social Security and pension systems designed to reduce work disincentives. Such policy intervention as has occurred has also been mainly on the supply side, through training programs to increase the employability of older workers. Very few programs have been directed at restructuring labor demand and improving employment opportunities for older workers.

This volume seeks to redress this imbalance in research and policy by focusing broadly on the preretirement labor market experience of older workers, rather than emphasizing their retirement behavior per se. It assesses the impact on the economic well-being of older workers of two important developments in the economy—changes in the employment structure of older workers, including women and minorities, and the dramatic increase in flexible employment practices at the workplace. It looks both at overall trends and patterns in the market for older workers, including women and minorities, and at developments in the workplace that directly affect the employment prospects of older workers.

In particular, the book explores the significance of “bridge jobs”—the jobs that follow career employment and precede permanent retirement. As Christopher J. Ruhm discusses in chapter 4, bridges to retirement are more varied than had previously been thought. Some workers move directly from career jobs to permanent retirement. For a majority of older workers, however, career jobs end early and are exchanged for other types of work.

The postcareer period of bridge employment before retirement can be lengthy. For example, about one-third of all career jobs end by age 55 and almost half by age 60. Yet less than one in nine workers has retired by the latter age (see chapter 5).

For some, bridge employment involves a period of partial retirement with part-time work or a return to part-time employment after a spell of retirement. For many, however, full-time employment remains an important part of the bridging process. Although the majority of these full-time workers hold one postcareer job, some hold a succession of full-time bridge jobs, most of which involve a change in work setting. There is no evidence of pervasive opportunities for flexible retirement within the same firm or even the same industry.

Few systematic data are available about bridge jobs or how they are evolving. Nevertheless, there is considerable evidence that the labor market seriously penalizes older workers who change jobs and that many bridge jobs are a step down in pay and status.