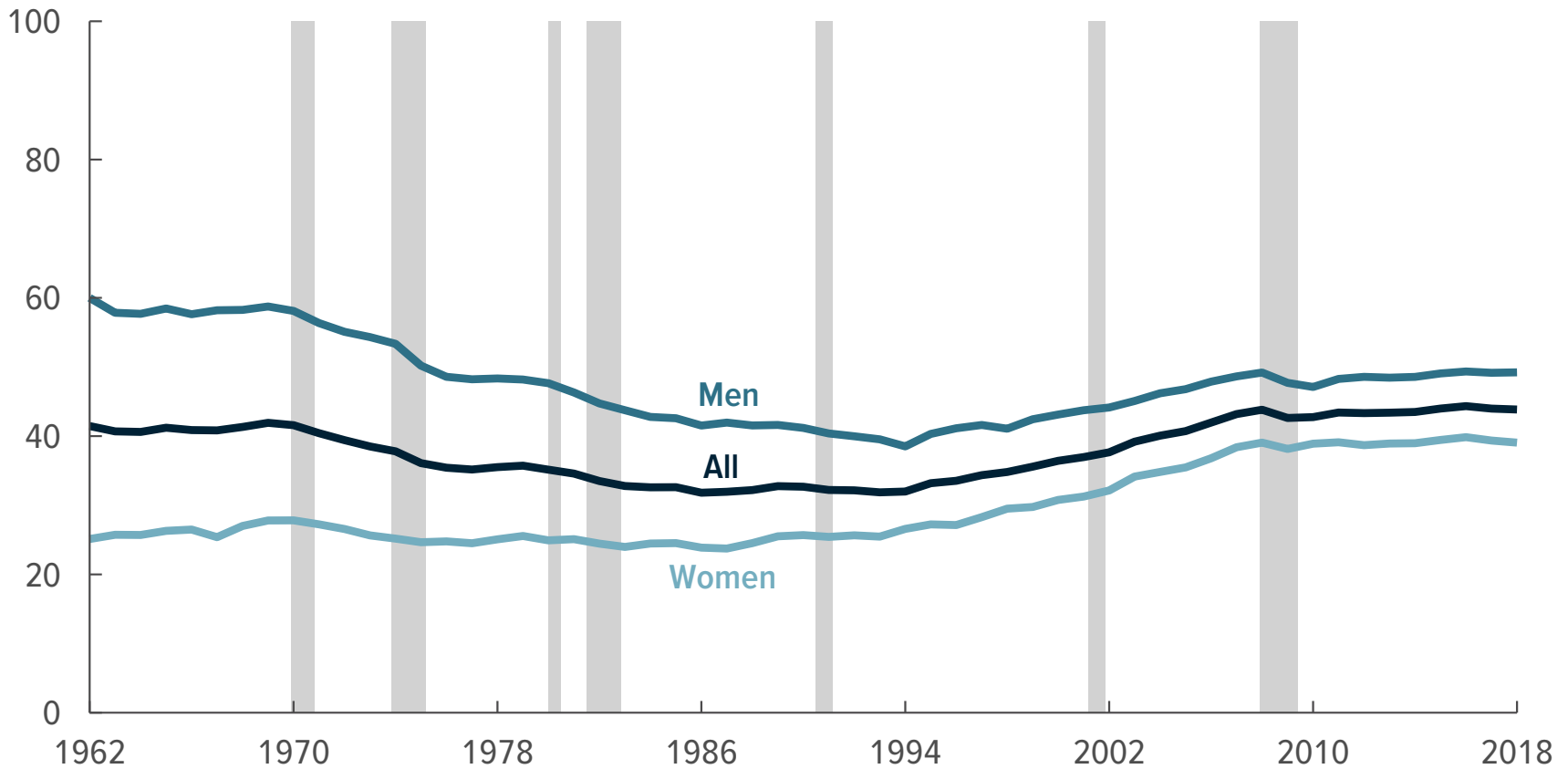


CBO

Employment of People Ages 55 to 79

Percentage Employed



SEPTEMBER 2019

At a Glance

In this report, the Congressional Budget Office examines the employment of older people in the United States and various factors that might have affected it.

- From the mid-1990s to 2018, the share of people ages 55 to 79 who were employed increased by about a third—the result of continued increases in employment for women and a reversal of previously declining employment for men.
- Changes in demographic characteristics of people in that age group—namely, that the group became younger, on average, and that educational attainment increased—contributed significantly to the increase.
- In addition, improvements in health, changes in job characteristics, and changes in Social Security policy have probably induced people to spend more years working.



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Notes

All years referred to in this report are calendar years.

Numbers in the text and exhibits may not add up to totals because of rounding.

Shaded vertical bars indicate periods of recession, which extend from the peak of a business cycle to its trough.

In the exhibits, “older people” and “older workers” are between ages 55 and 79.

For this report, the Congressional Budget Office analyzed data from the following sources: the Current Population Survey (CPS), which is sponsored jointly by the Census Bureau and the Bureau of Labor Statistics (for data on labor force participation, the employment-to-population ratio, job types, full-time and part-time employment, and self-reported health status), and the Health and Retirement Study, which is sponsored jointly by the National Institute on Aging and the Social Security Administration (for data on the prevalence of pension plans and retirees’ health insurance). The CPS covers the civilian noninstitutionalized population, which consists of people living in housing units, as well as members of the armed forces living either in a civilian housing unit on a military base or in a household not on a military base.

The labor force participation rate is the percentage of people in the civilian noninstitutionalized population who are working or actively seeking work.

The employment-to-population ratio is the percentage of people in the civilian noninstitutionalized population who are working.

Because a 1994 redesign of the CPS introduced some inconsistency in the data for the employment-to-population ratio, CBO’s decomposition analyses of changes (presented in Exhibits 4 and 8) begin with 1995. Such analyses rely on the use of a consistent measure more than analyses of long-term trends do.

Data underlying the exhibits are posted along with this report at www.cbo.gov/publication/55454.



Summary

After declining for decades, the share of people in the United States ages 55 to 79 who were employed began to increase in the mid-1990s: In 1995, 33 percent of people in that age range worked, but by 2018, 44 percent did. That increase was the result of continued increases in employment for women and a reversal of previously declining employment for men. The changes in employment of people ages 55 to 79—the period during which many people stop working—were related to changes in their demographic characteristics and the jobs they held, as well as to changes in Social Security.

As members of the relatively large baby-boom generation aged into their mid-50s and beyond, people ages 55 to 79 started making up an increasing share of the population. Whereas people of that age group made up 24 percent of the population in 1990, they constituted 31 percent in 2018. That increase will continue at least through 2027, the Congressional Budget Office expects. Accordingly, the population of that age has had, and is expected to continue to have, a large and increasing impact on the federal budget.

How Do Age, Sex, and Marital Status Relate to Older People's Employment?

Changes in the age distribution of the population between ages 55 to 79 account for about a quarter of the increase in the percentage of them who were employed (that is, in the employment-to-population ratio for that group) between the mid-1990s and 2018. Within that population, people who were younger—those under age 62—made up a bigger share at the end of the period than at the beginning. Because younger people are more likely to work, that change in the age distribution pushed employment up correspondingly.

When people were born also affected employment. The increase in the employment-to-population ratio since the mid-1990s occurred partly because women in later birth cohorts were more likely to be employed than those in earlier cohorts at every age between 55 and 79. For example, at any particular age between 55 and 79, a woman born in 1940 was more likely to be employed than was her counterpart born 20 years earlier. For men, the relationship was more nuanced. At any particular age between 62 and 79, men born later were more likely to be employed than those born earlier, but the reverse was true for those between ages 55 and

61; at those ages, men born later were less likely to be employed.

The employment-to-population ratio for people ages 55 to 79 also varied considerably by sex and marital status. Between 1990 and 2018, men in that age group who were married were more likely to be employed than those who were not. The opposite was true for women. However, because married women's propensity to work grew more than that for unmarried women over the period, the gap between married and unmarried women was mostly eliminated by 2018.

What About Education?

People with more education are more likely to work than those with less. Thus, people with a high school diploma are more likely to be employed than people without one, and people with a college or graduate degree are more likely to be employed than people without a degree. Moreover, the likelihood of being employed for a person with a given level of education has changed over time. For instance, between 1990 and 2018, the employment-to-population ratio increased for both men ages 62 to 79 and women ages 55 to 79 with all levels of education.

Additionally, more men and women of those ages had college degrees in 2018 than in 1990. Those increases in educational attainment help account for the rise in employment among older workers during the period. By CBO's estimates, had the propensity to work for people of a given age and education level remained unchanged since 1995, the employment-to-population ratio would have been expected to increase by 4 percentage points for men and 5 percentage points for women between 1995 and 2018 because of improvements in educational attainment. However, over the period, the ratio increased by 9 percentage points for men and by 12 for women. Together, then, changes in age and education account for at most two-thirds of the increase in the employment-to-population ratio, indicating that other factors also played a role.

Without similarly comprehensive data on factors besides education that are related to employment, CBO did not attempt to quantify their contributions to the increase in employment since the mid-1990s. Moreover, disentangling the effects of various factors is difficult, as changes in those factors have been occurring simultaneously. For example, the fact that educational attainment of older people increased in the period before the mid-1990s, when the share of them employed declined, indicates that changes in educational attainment alone cannot explain the reversal of the trend in employment.

What About Health?

From the mid-1990s to 2018, the health of people ages 55 to 79 improved substantially, reflecting gains in self-reported measures and longevity.

Improvements in health affect employment both because healthier people are physically able to work longer and because increased life expectancy might induce people to spend more years working in order to finance retirement.

Despite the improvements in those measures of health, the share of eligible people from the population age 55 and older who received benefits from the Social Security Disability Insurance program increased during the period. That increase may reflect widening disparities in health at older ages, an increase in the number of women eligible for disability insurance because of increased work experience, increases in the rates at which people apply for and are approved to receive disability insurance during recessions, and changes in other federal income support programs, among other factors.

What About Job Characteristics?

Job characteristics, including the types of work, the types of retirement plans, and the availability of health insurance, also might have influenced the increase in the employment-to-population ratios for people ages 55 to 79 since the mid-1990s. Full-time employment among older people increased, whereas part-time employment remained unchanged. Thus, the increase in employment was, to a certain degree, driven by people's choosing to remain employed full time for longer. Additionally, over time, fewer people worked in blue-collar jobs. Because blue-collar jobs tend to have greater physical demands than other jobs and workers in those jobs tend to retire earlier, that decrease helps to account for some of the rise in employment of people ages 55 to 79.

Other characteristics of the jobs people held, such as the prevalence of different types of employer-sponsored retirement plans and the availability of health insurance, changed considerably between the mid-1990s and 2018. Both defined benefit plans and employment-based health insurance for retirees became less common. That shift in availability probably induced people to stay employed longer. Unlike defined benefit plans, which often are characterized by financial incentives for retiring by a certain age and are not portable from job to job, the increasingly common defined contribution plans allow workers to more easily switch jobs without losing retirement benefits. Those defined contribution plans, however, place more of the financial risk of saving for retirement on the individual than do defined benefit plans. Many workers, facing the reduced incentive to retire at a particular age and the increased risk of saving for retirement, work longer. And as employment-based health insurance plans that cover retirees became less common later in the period, some people might have stayed employed longer to retain their insurance longer, particularly before becoming eligible for Medicare at age 65.

What About Social Security Policy?

Policies that affect Social Security retirement benefits also changed in a way that encouraged staying in the workforce longer. The full retirement age (FRA)—the age at which people become eligible for full retirement benefits from Social Security—increased. Also, the retirement earnings test, which delays the receipt of benefits for people who have earnings above certain thresholds, became less stringent for workers younger than the FRA and after 2000 did not apply to workers older than

their FRA. In addition, delayed retirement credits—the financial incentive for delaying receiving one’s benefits past the FRA—increased for later cohorts. All of those changes increased the incentive for people to remain employed longer and to delay claiming their Social Security benefits.

How Does Increased Employment Among Older People Affect the Federal Budget?

Although this report investigates reasons for the increased employment among older people, it

stops short of analyzing the effect on the federal budget. Suffice it to say, the effect is complex and uncertain. On the one hand, more employment is associated with higher gross domestic product and higher tax revenues, including more payroll taxes that fund the Social Security trust funds. In that way, the increase in the employment and labor force participation of older people helps to compensate for a decline in those measures for people ages 25 to 54, who make up the bulk of the labor force.¹ Increased employment among older people

may also reduce spending on federal health care programs because people who work are more likely to use private health insurance than Medicare or Medicaid. On the other hand, the increase in employment may push up spending on Social Security benefits over the long term if more people delay claiming benefits past the age at which they are entitled to begin claiming them.

1. See Congressional Budget Office, *Factors Affecting the Labor Force Participation of People Ages 25 to 54* (February 2018), www.cbo.gov/publication/53452.



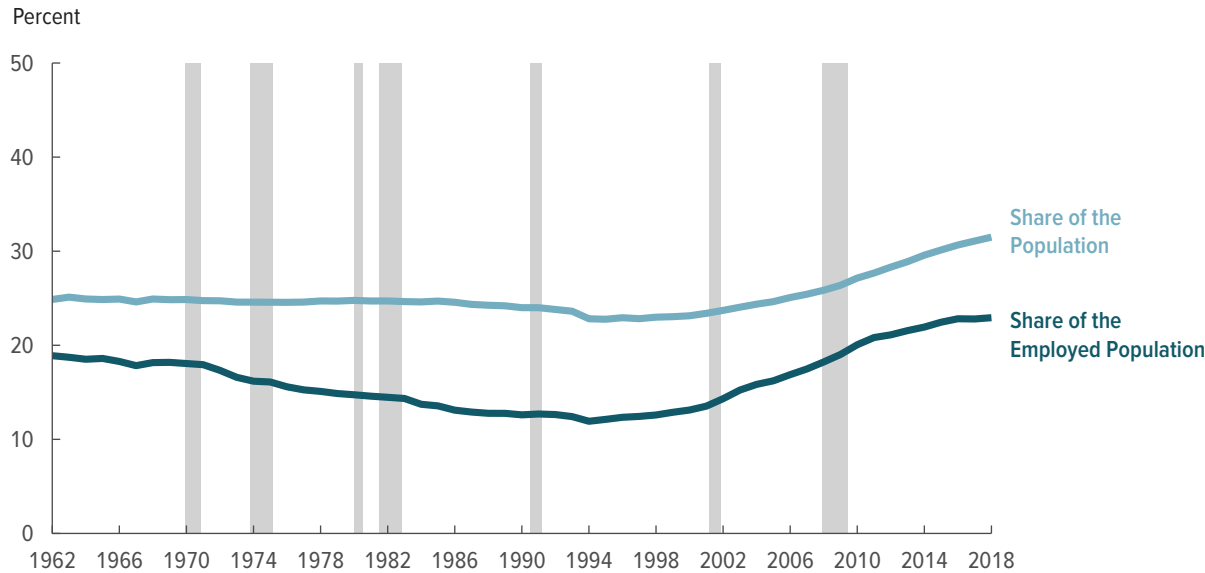
Older People and Their Employment



From the mid-1990s through 2018, the population between ages 55 and 79 grew as a share of the population overall and as a share of the employed population. And within that segment of the population, people became more likely to work.

Exhibit 1.

Older People as a Share of the Population and of the Employed Population



Source: Congressional Budget Office, using data from the Current Population Survey.

In the exhibit, the population considered consists of people age 16 or older within the civilian noninstitutionalized population.

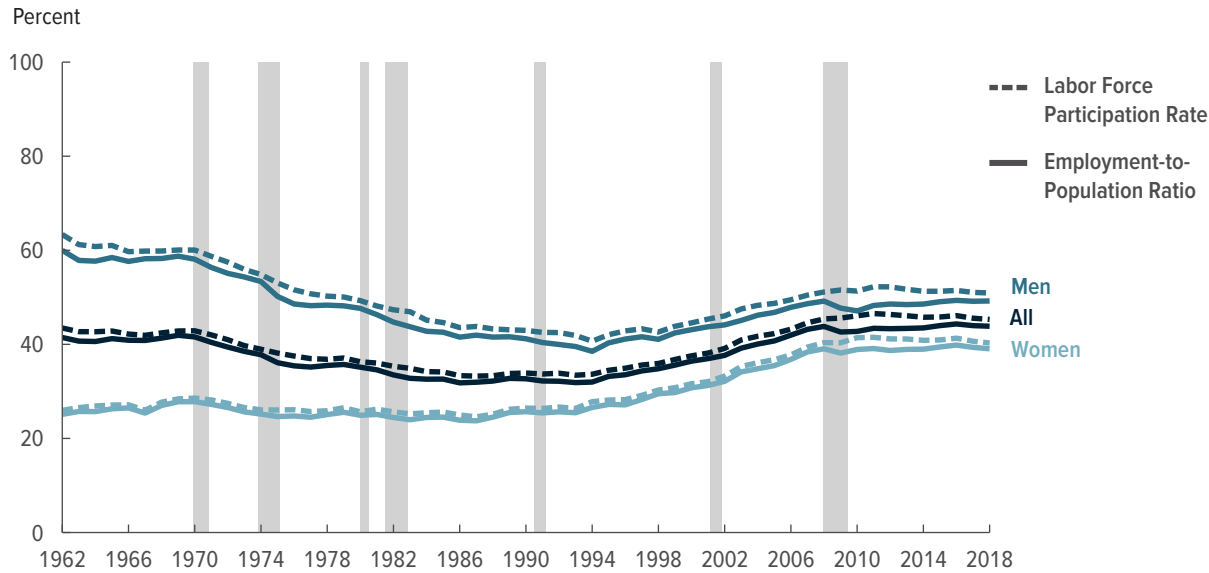
As the baby-boom generation aged, people ages 55 to 79 made up an increasing share of the population. Two decades ago—in the mid-1990s—people those ages constituted nearly a quarter of the population, whereas in 2018, they made up nearly a third. (The oldest baby boomers, born in 1946, turned 55 in 2001, and the youngest, born in 1964, turn that age in 2019.)

When the relatively large baby-boom generation entered the workforce in the 1960s, that influx of younger workers initially contributed to a decline in the share of workers who were 55 to 79 years old. But as the baby boomers reached their 50s and beyond, that share started to increase.

Overall, from the mid-1990s to 2018, the population between ages 55 and 79 grew faster as a share of the employed population than as a share of the population generally, indicating their increased rate of employment. ♦

Exhibit 2.

Older People’s Labor Force Participation and Employment



Source: Congressional Budget Office, using data from the Current Population Survey.

Over the period examined, the share of people ages 55 to 79 who were employed generally tracked their labor force participation rate—that is, the share who were working or actively seeking work. That close relationship indicates that the increase in employment for people in that age group since the mid-1990s was driven by an increase in the share of people who participated in the labor force rather than by a decline in the unemployment rate (the share in the labor force who were without a job).

Between 1970 and the mid-1990s, the share of people ages 55 to 79 who were employed—that is, their employment-to-population ratio—dropped, owing particularly to men’s experiences. In contrast, the increase that began in the mid-1990s and continued until the 2007–2009 recession resulted from increases in the employment of both men and women. During that recession, the employment-to-population ratio for the age group overall fell, and the participation rate stabilized—with the gap indicating increased difficulty in finding work. The ensuing gradual convergence of the two measures reflects the slow recovery from the recession.

The fall in the employment of men before the mid-1990s, research suggests, resulted partly from an increase in the generosity of Social Security benefits and pension plans, the introduction of Medicare, a decline in the opportunities for less-skilled workers, and the growth of the disability insurance system. Although those factors probably also affected women, the influence was not enough to offset the large increase in the employment of women of the baby-boom generation relative to those of the previous generation, most of whom were not employed. For both men and women, gains in education and improvements in health during the period probably boosted their employment some but not enough to offset factors that worked in the opposite direction. ♦



Employment and Age, Cohort, and Marital Status



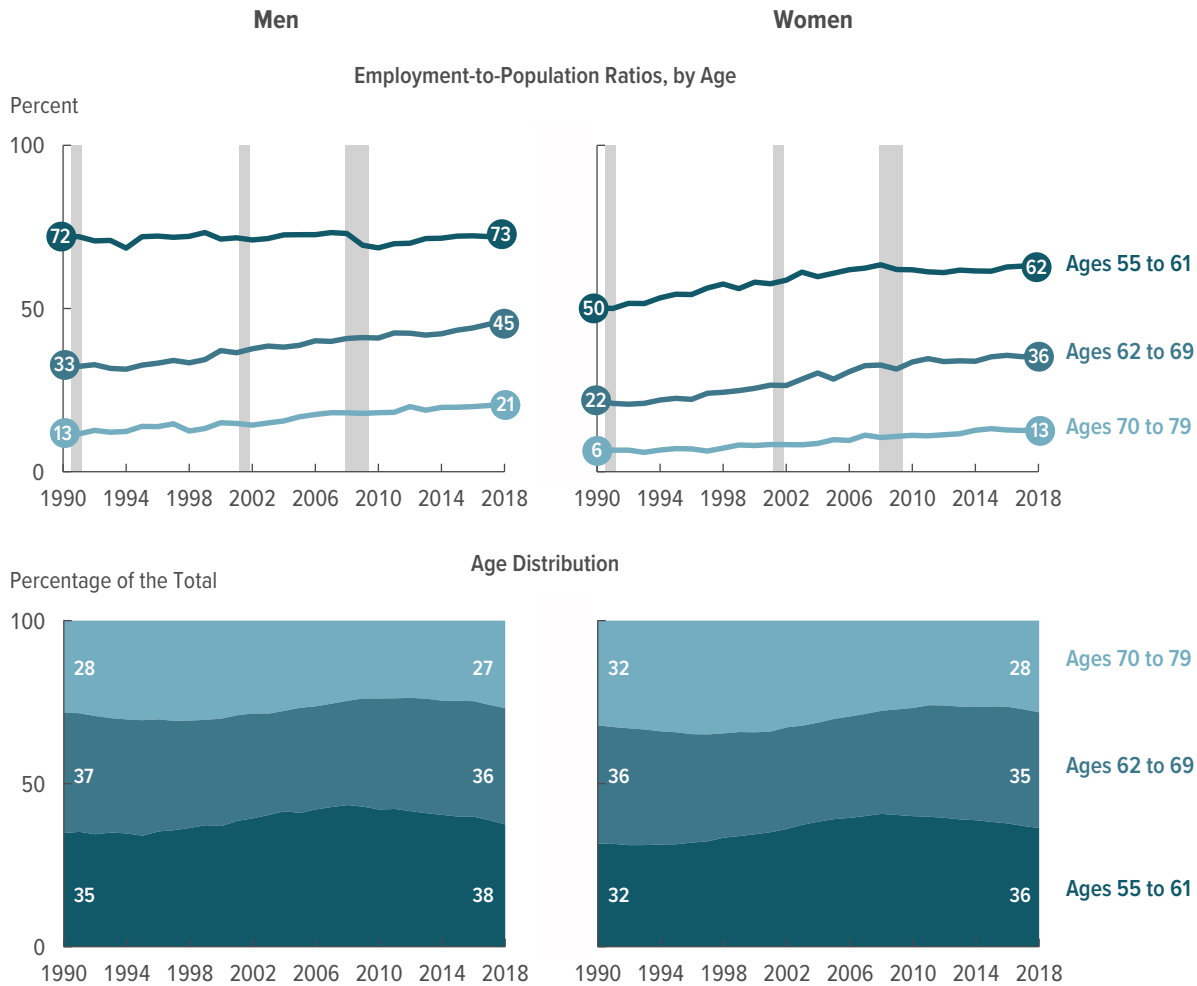
Between 1990 and 2018, the age distribution within the segment of the population between 55 and 79 years old shifted a bit: The share of people within that group who were between 55 and 61 years old increased, exerting upward pressure on the employment-to-population ratio for the entire segment.

When people were born made a difference for their employment. Women born more recently were more likely to work at every age between 55 and 79. For men, the relationship varied. Between ages 55 and 61, men in later cohorts were less likely to be employed than their counterparts who were born earlier (but still more likely than men older than 61). But for men between ages 62 and 79, later cohorts were more likely to work than earlier cohorts had been.

For both men and women, marital status also made a difference. Married men generally were more likely to work than unmarried men, and the opposite was true for women. Over time, the gap in employment between married and unmarried people increased among men but mostly disappeared among women.

Exhibit 3.

Employment and the Age Distribution Among Older People



Source: Congressional Budget Office, using data from the Current Population Survey.

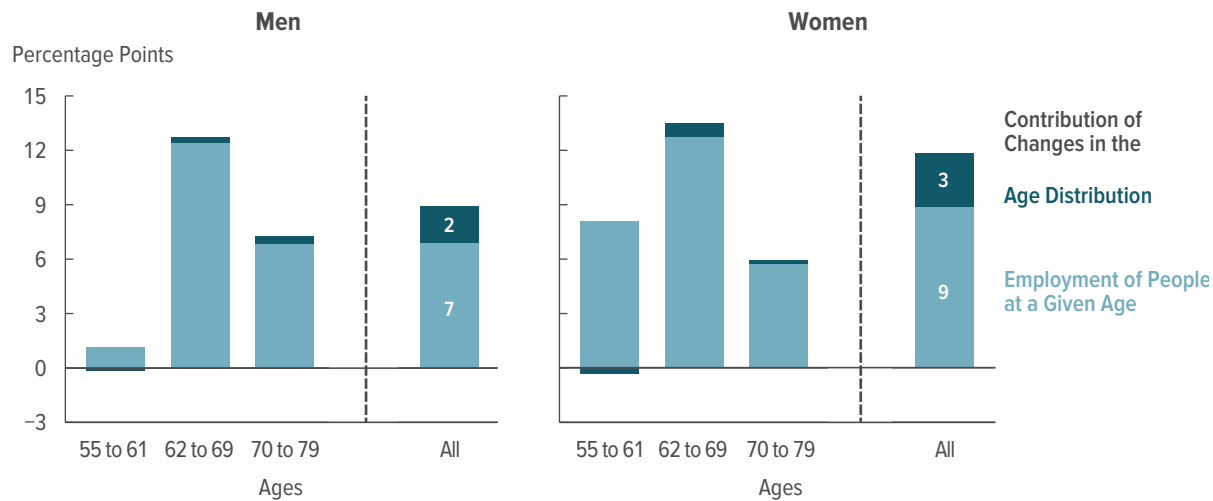
Between 1990 and 2018, within the population between ages 55 and 79, younger people were more likely to be employed than older people. The differences narrowed over time for men but remained stable for women. Over the period, the employment of men ages 55 to 61 did not change much, whereas men age 62 or older became more likely to work. In contrast, women in all of the age categories in the span examined became more likely to work.

In 2018, people who were relatively younger—between 55 and 61 years old—made up a bigger share of the population between ages 55 and 79 than they did in 1990. Because younger people work at higher rates than older people, that shift in the age distribution boosted the employment of the group as a whole but only by a small amount (see Exhibit 4).

The change in the age distribution of people between 55 and 79 years old began as members of the baby-boom generation entered the group. Because that generation was substantially larger than previous ones, the age distribution of the overall group shifted toward relatively younger people and boosted employment. As the baby boomers got older, the age distribution of the overall group continued to shift. Starting in 2009, people who were relatively younger—those under age 62—started making up a decreasing share, and they will continue to do so, putting downward pressure on the overall employment-to-population ratio for older people. ♦

Exhibit 4.

Contribution of Changes in the Age Distribution to Changes in the Employment-to-Population Ratio for Older People Between 1995 and 2018



Source: Congressional Budget Office, using data from the Current Population Survey.

Because the Current Population Survey was redesigned in 1994 in ways that introduced some inconsistency in the data, CBO's analysis for this exhibit begins with 1995.

Between 1995 and 2018, people ages 55 to 79 became much more likely to work. Among the subgroups examined here, only 55- to 61-year-old men did not become substantially more likely to be employed.

The increase can be decomposed into two age-related parts: first, what resulted from changes in the propensity of people at a given age to work, and second, what resulted from changes in the age distribution of the population. For people between 55 and 79 years old, most of the increase in employment of both men and women—9 percentage points and 12 percentage points, respectively—can be attributed to increases in employment for people at a given age.

The shifting age distribution also had a small effect. It boosted the employment of the broader group of people ages 55 to 79 by increasing the share of younger people in the group, who tend to work at higher rates than do older people (see Exhibit 3). Overall, the change in the age distribution accounts for 2 percentage points of the increase in employment among men and for 3 percentage points of the increase in employment among women. Changes in age within each age group had, at most, a minimal effect on employment within that group. ♦

Exhibit 5.

Employment at Particular Ages for People in Two Different Birth Cohorts



As people age, they become less likely to work. However, for people in different birth cohorts, the likelihood of working at a particular age varies. For women at every age between 55 and 79, those born in the early 1940s were more likely to work than those born in the early 1920s. That difference occurred in part because, in more recent cohorts, women younger than 55 participated in the labor force at higher rates than did their counterparts in earlier cohorts, so a larger share of them were employed when they were older.

Among men, the relationship between birth cohort and employment was more complex. For men between ages 55 and 61, those born in the early 1940s were less likely to work than those born in the early 1920s, but beginning at age 62, the situation reversed: Men in the more recent cohort were more likely to work.

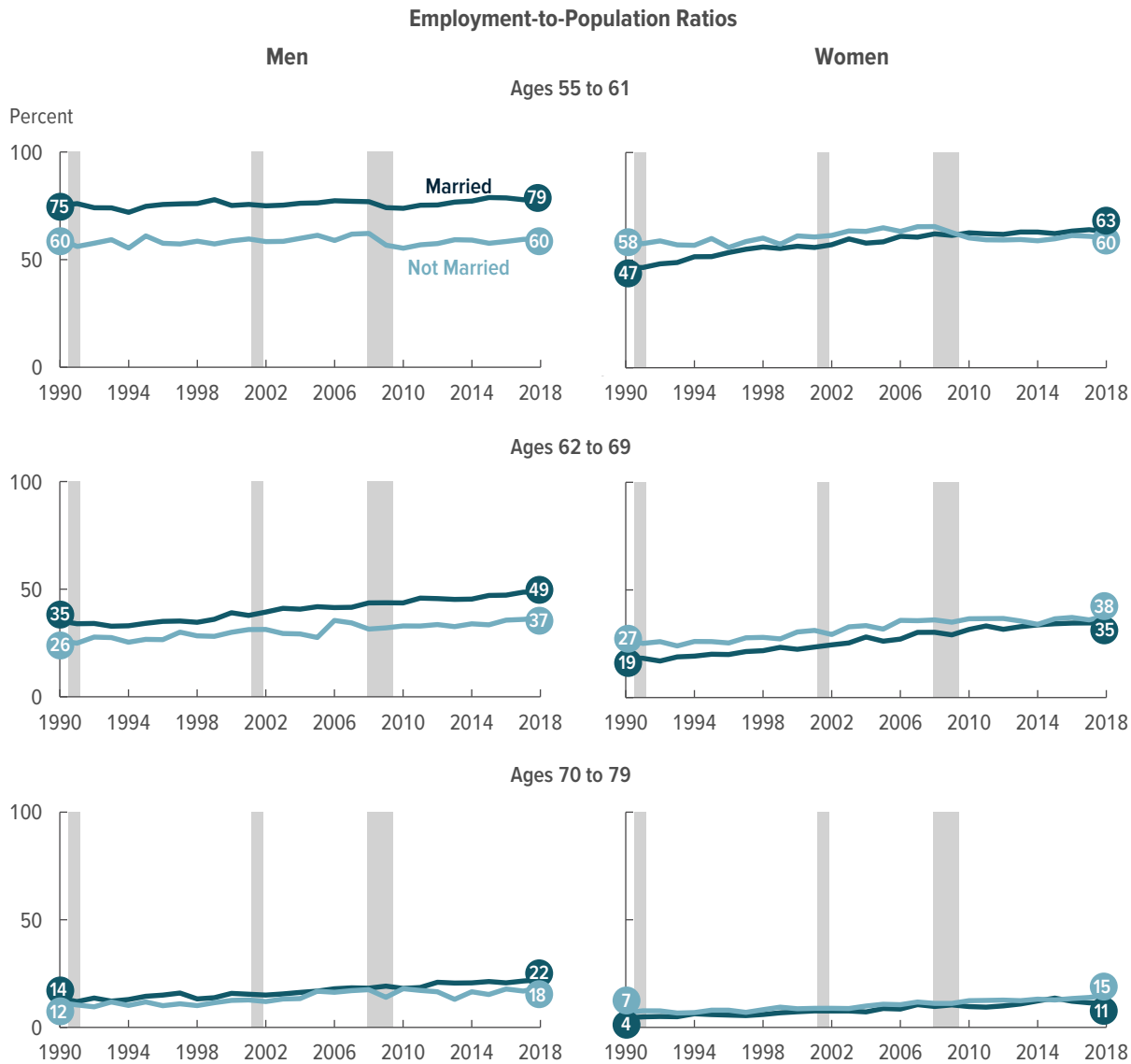
Greater educational attainment by later cohorts partially accounts for the differences in the employment of people in different birth cohorts, as more educated people tend to retire later. ♦

Source: Congressional Budget Office, using data from the Current Population Survey.

Because insufficient time has passed, the top panel cannot show the employment-to-population ratio for people born in the early 1940s at ages older than 74.

Exhibit 6.

Employment and Marital Status Among Older People



Source: Congressional Budget Office, using data from the Current Population Survey.

In the 1990–2018 period, for both men and women, employment-to-population ratios varied by marital status. Married men generally were more likely to work than men who were not married, and the opposite was true for women. Over the span, though, the gap in employment between married and unmarried people increased among men and mostly disappeared among women.

Age was relevant. In each age group examined, although men who were married generally were more likely to be employed than those who were not, the gap was smallest for men ages 70 to 79. For men ages 55 to 61, the gap remained more or less unchanged over the period, whereas for men ages 62 to 69, it increased.

Among women, the share employed increased considerably more among those who were married than it did among women who were not, virtually eliminating the gap between the two groups. For example, in 1990, women between 55 and 61 years old who were not married were 11 percentage points more likely to be employed than women who were married, but by 2018, employment was more common among married women: They were 3 percentage points more likely to be employed than unmarried women.

Research has indicated that the increased employment and delayed retirement of married women over the period might have contributed to the increased employment of married men because many couples retire together. ♦



Employment and Education

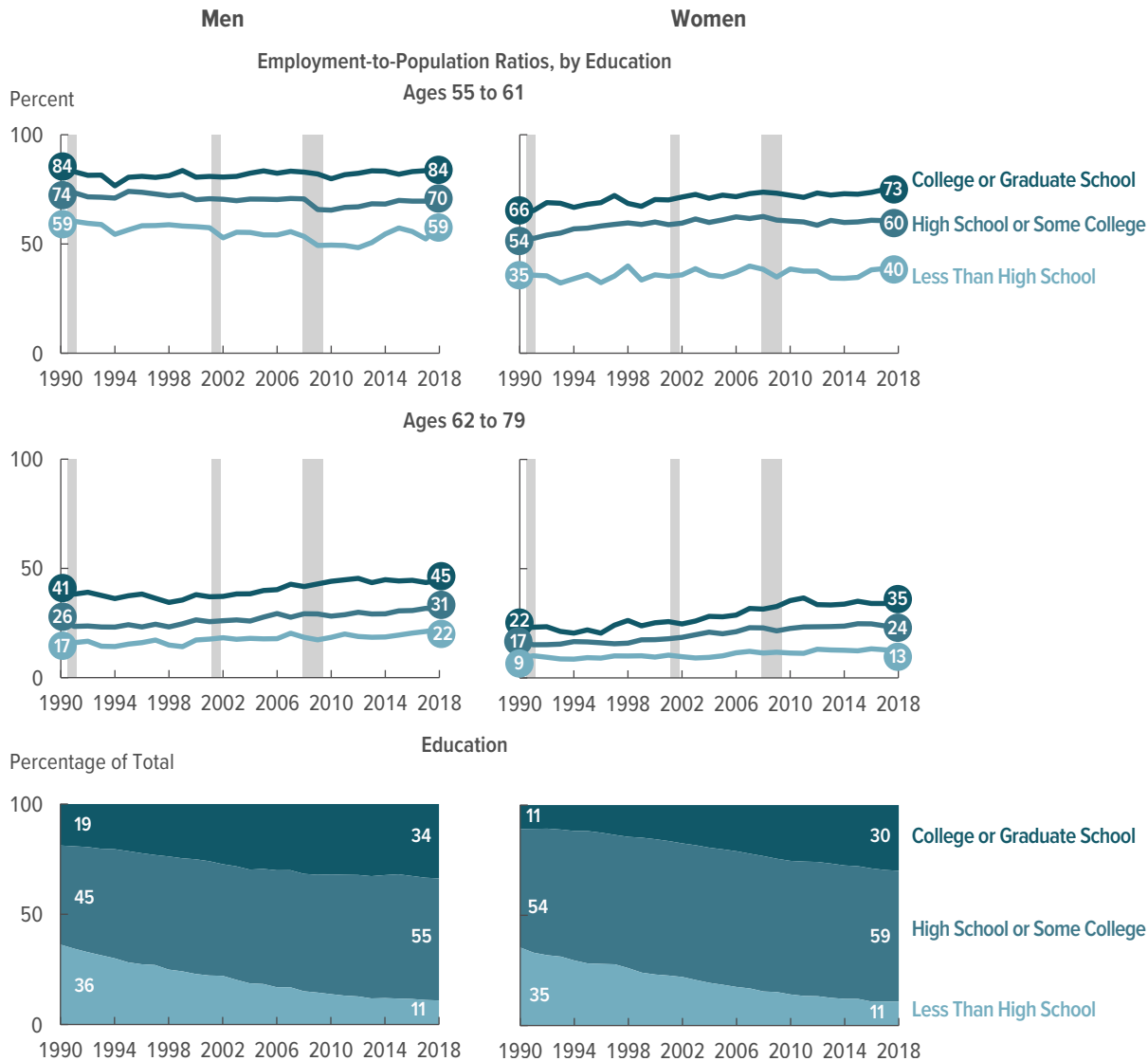


Between 1990 and 2018, increases in educational attainment boosted the overall employment-to-population ratio of people between 55 and 79 years old. In CBO's assessment, the increase in educational attainment can account for almost half of the increase in the average employment-to-population ratio since the mid-1990s for both men and women.

However, because of a lack of data and difficulty in measuring some of the other factors considered in this report, CBO could not similarly quantify their role. Moreover, gains in education had occurred before the mid-1990s, when the employment-to-population ratio declined, suggesting the influence of other factors.

Exhibit 7.

Employment and Education Among Older People



Source: Congressional Budget Office, using data from the Current Population Survey.

Over the 1990–2018 period, older men and women with more education were more likely to be employed than their less educated counterparts, and the difference generally grew over time. For men, the increasing difference was driven by those who were relatively young: Among 55- to 61-year-olds, the employment-to-population ratio remained roughly unchanged for those with a college degree but declined for those without one; whereas among 62- to 79-year-olds, the share employed increased among men at all levels of education.

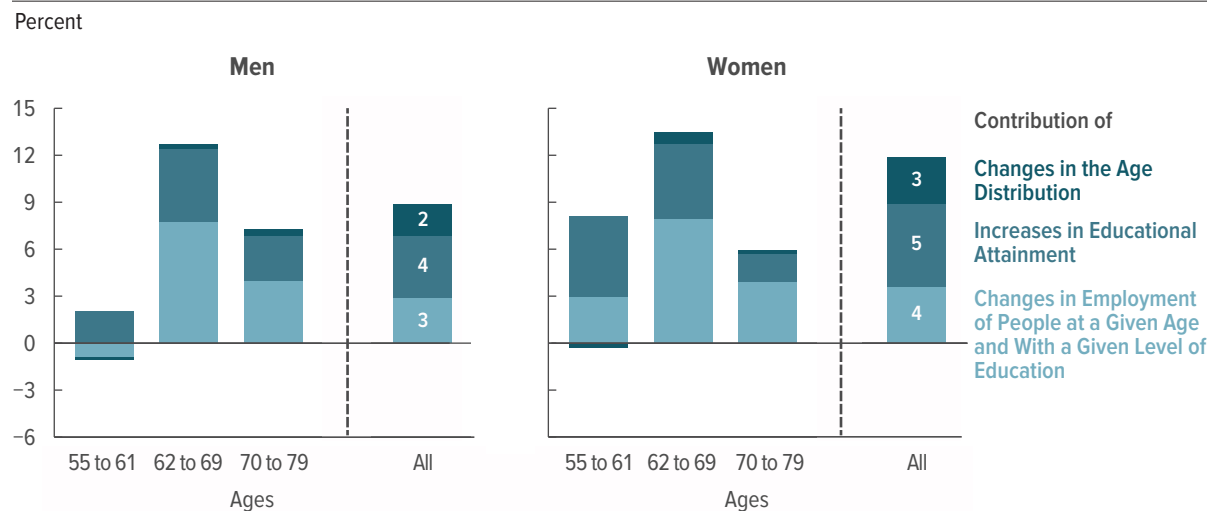
For women, the employment-to-population ratio increased for those with all levels of education and in both age groups, but the increase was more pronounced for women with higher levels of education.

During the 2007–2009 recession, the biggest contributor to the drop in the overall employment-to-population ratio for people ages 55 to 79 was a sharp, temporary decline in the employment of 55- to 61-year-old men with less than a college education.

Because people with more education are more likely to work, substantial increases in the educational attainment of both men and women between 55 and 79 years old contributed to the increase in their employment from the mid-1990s to 2018 (see Exhibit 8). Over that span, the share of women with a college degree almost tripled, and the share of men with a college degree nearly doubled. ♦

Exhibit 8.

Contributions of Changes in Education and the Age Distribution to Changes in the Employment-to-Population Ratio for Older People Between 1995 and 2018



Source: Congressional Budget Office, using data from the Current Population Survey.

Because the Current Population Survey was redesigned in 1994 in ways that introduced some inconsistency in the data, CBO’s analysis for this exhibit begins with 1995.

The overall increase in the employment-to-population ratio for people between ages 55 and 79 can be decomposed into three contributions: changes in the age distribution, increases in educational attainment, and changes in employment for people at a given age and with a given level of education. Those first two factors capture changes in the composition of that segment of the population; the third captures changes in people’s likelihood of employment—at a particular age and with a particular level of education—that may have occurred for any number of reasons (including those considered but not quantified in this report).

Between the mid-1990s and 2018, the 55- to 79-year-old segment of the population got younger, which boosted employment somewhat (see Exhibit 3). Increases in educational attainment during that time also boosted employment, because more educated people tend to be employed more (see Exhibit 7). By CBO’s estimate, for both men and women, the advances in education account for almost half of the increase in employment. Those advances, along with changes in the age distribution, account for at most two-thirds of the increase in employment.

In addition, for both men and women, increases in employment for those at a given age and with a given level of education played a significant role in boosting their overall employment-to-population ratio. However, the effects varied by age group, particularly among men. Those effects were most significant for people between 62 and 69 years old. But for men between 55 and 61 years old, changes in employment at a given age and education level tended to reduce the ratio—the result of declines in employment among those without a college degree; still, that downward pressure was offset by increases in educational attainment by the age group overall. ♦



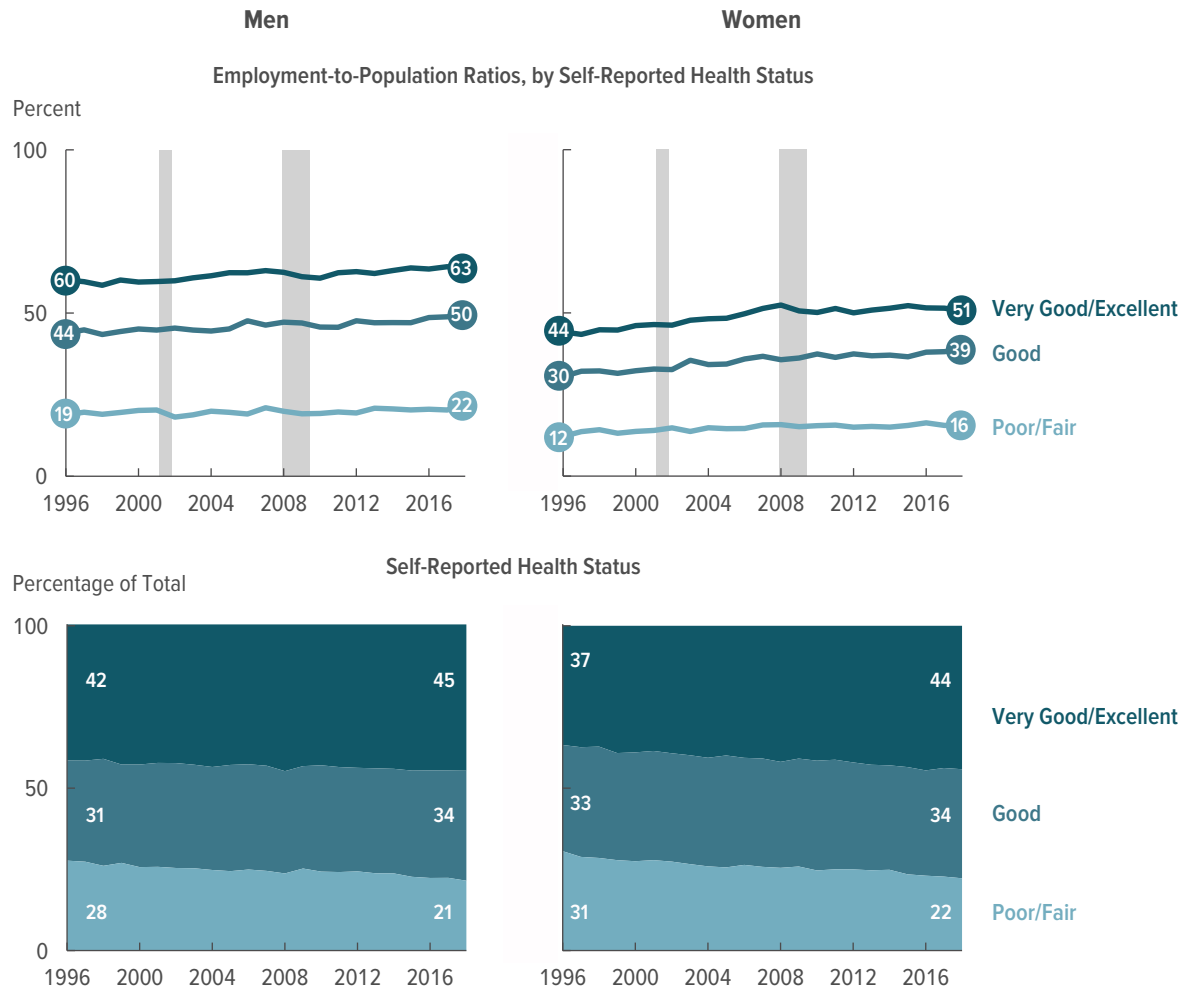
Employment and Health



The likelihood of being employed is related to people's health. Generally, the employment-to-population ratio increases with health. Improvements in health as measured by self-reported health status and longevity over time seem to have pushed the ratio up.

Exhibit 9.

Employment and Self-Reported Health Status Among Older People



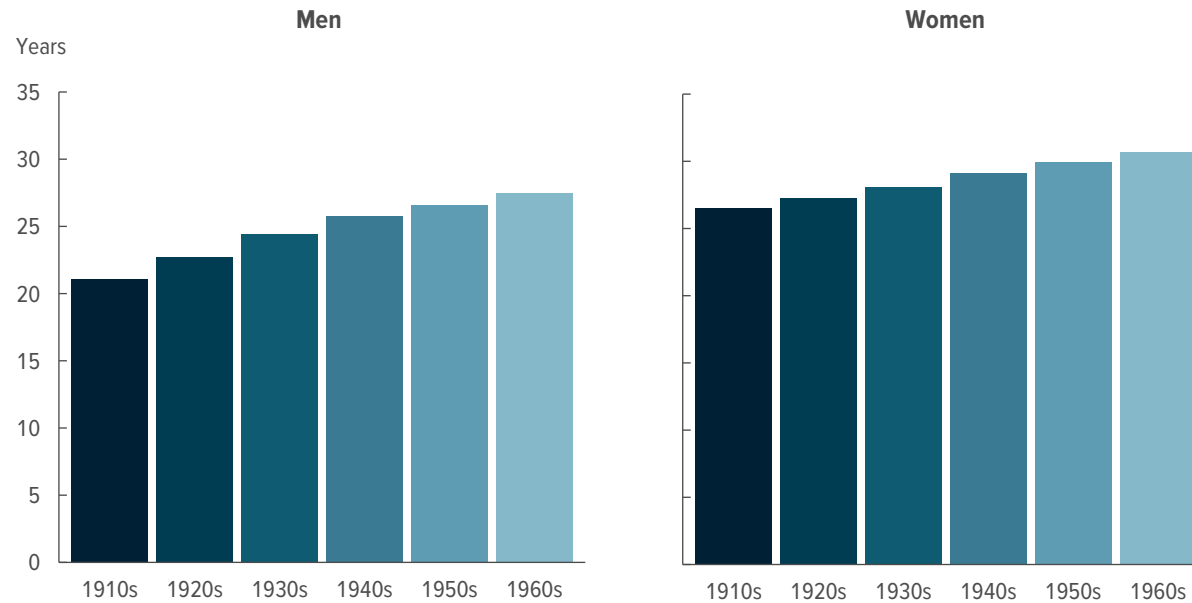
Over the period examined, healthier people were more likely to work. In every year between 1996 (the earliest year for which such data from the Current Population Survey are available) and 2018, people between 55 and 79 years old who reported that they were in good health or very good or excellent health were more likely to be employed than people who reported that they were in poor or fair health. In addition, over the course of the period, people at each level of self-reported health were more likely to work than were their counterparts in previous years. That gain in employment was greatest for women in good health or very good or excellent health.

Not only are healthier people more likely to work, but over time an increasing share of the population between ages 55 and 79 reported being in good or excellent health. Those improvements in self-reported health probably contributed to the overall increase in employment over the period, as research has indicated that poor health is associated with earlier retirement. ♦

Source: Congressional Budget Office, using data from the Current Population Survey.

The data in the exhibit have been reweighted for each year to account for changes in the age distribution. That adjustment keeps the estimated employment-to-population ratios and the distribution of self-reported health status from being influenced by the increasing share of relatively younger people—those between 55 and 61 years old—over the period.

Exhibit 10.

Life Expectancy at Age 55, by Birth Cohort

Source: Congressional Budget Office.

Consistent with improvements in self-reported health, people's life expectancy has increased substantially over time. For instance, at age 55 a man born in the 1960s could expect to live seven years longer than could a man of the same age who was born 50 years earlier. For women, who have longer life expectancies than men, that increase was four years.

Increased life expectancy can be associated with retiring at a later age. One reason is that, insofar as longer life expectancy reflects health improvements, people who are generally healthier are more able to work. A second reason is that a longer life expectancy implies greater expenses and therefore either a delayed retirement or a need for more savings.

However, for people in more recent birth cohorts, life expectancy at age 55 has increased more slowly. In fact, in recent years mortality rates at some ages increased slightly, which might result in declines in life expectancy for cohorts born in the 1970s or later.

The overall improvements in life expectancy over the past several decades were not equally shared by all segments of the population. For example, on average, people with higher lifetime earnings or more education have longer life expectancies than do those with lower lifetime earnings or less education, and the differences have grown over time. That growing gap in life expectancy by socioeconomic status might have contributed to the differing trends in employment among older people over time. ♦



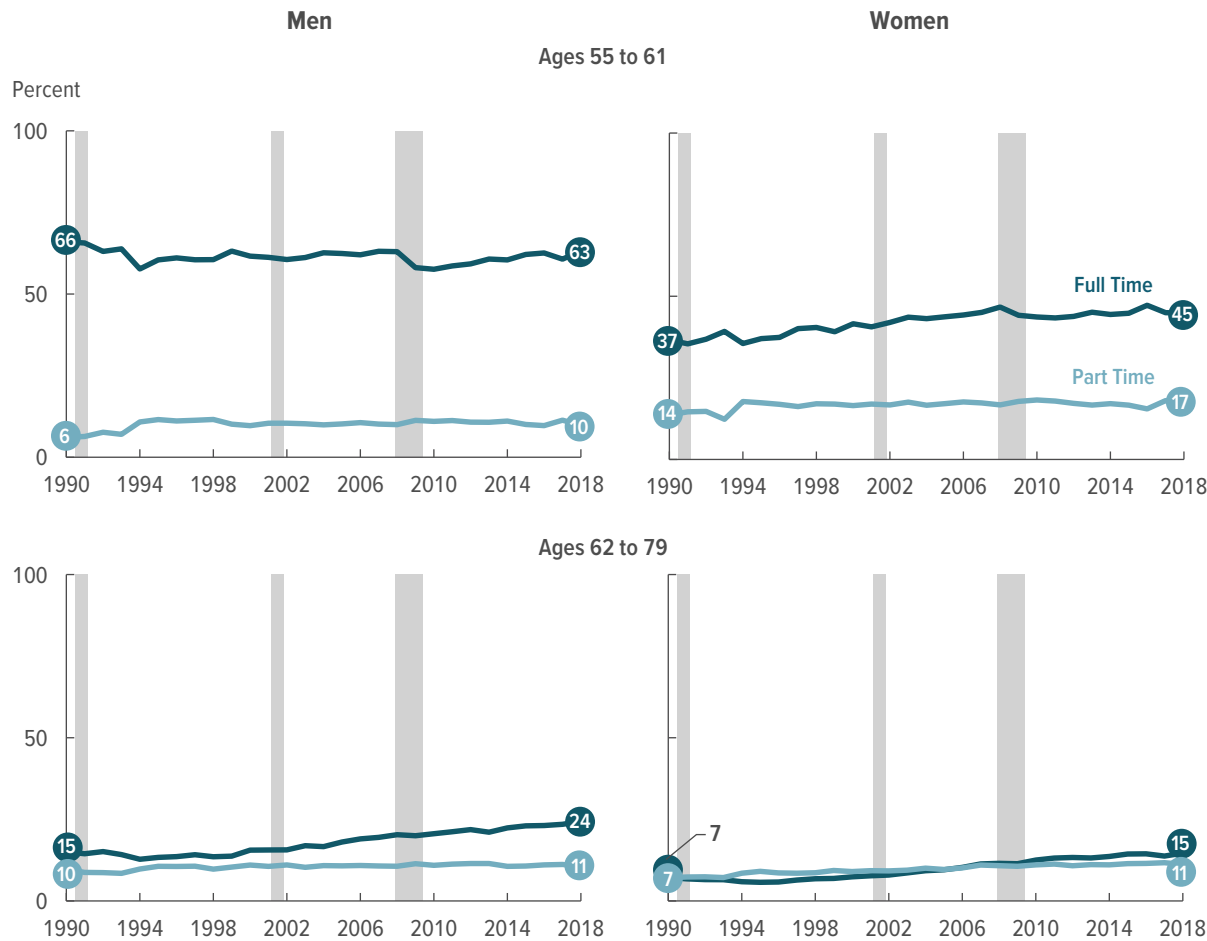
Employment and Job Characteristics



Job characteristics help to account for the increase in the employment-to-population ratio for people between 55 and 79 years old. Between 1990 and 2018, the increase was probably partly the result of their staying in full-time employment longer. In addition, over time, older people were less likely to be employed in blue-collar occupations, which tend to have greater physical demands than other occupations. That shift probably also enabled more workers to remain in their job longer than previously. Finally, over the period studied, the prevalence of both defined benefit retirement plans and health insurance for retirees decreased. Those changes, too, are associated with workers' staying in their job longer.

Exhibit 11.

Full-Time and Part-Time Employment Among Older People



Source: Congressional Budget Office, using data from the Current Population Survey.

For each year, the sum of the share employed full time and the share employed part time equals the employment-to-population ratio.

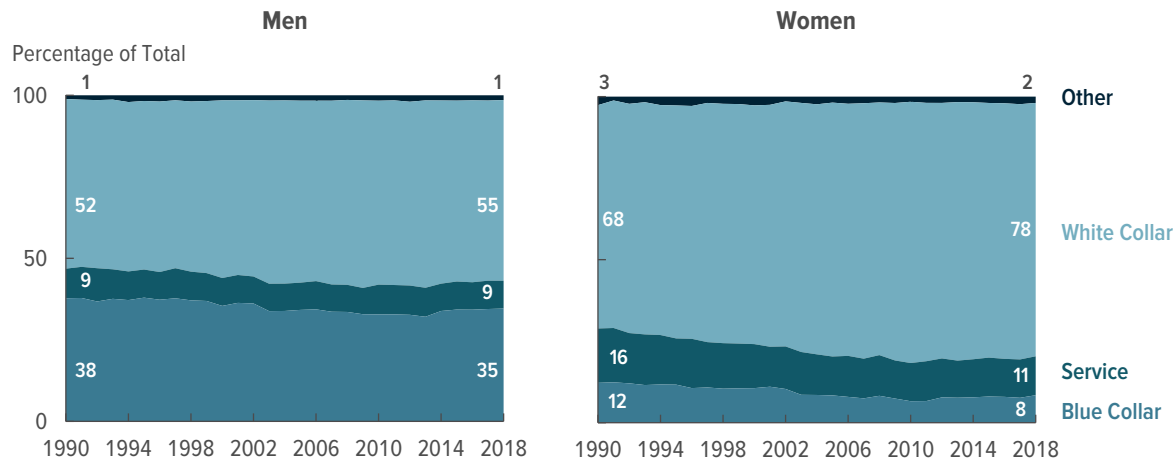
Between 1990 and 2018, the share of people between ages 55 and 79 who worked full time increased, and the share who worked part time remained roughly unchanged. (Shifts in 1994 were probably attributable to a change that year in the way the Current Population Survey classified full-time and part-time employment.)

The increase in full-time work since the mid-1990s was driven by women ages 55 to 61 and by both men and women ages 62 to 79. For women, the share employed full time increased by one-fifth for those between 55 and 61 years old, and it more than doubled for those between 62 and 79 years old. Those changes probably reflect the increase during the 1970s and 1980s in the share of 25- to 54-year-old women who were employed. For men, the share who worked full time almost doubled for those between 62 and 79 years old but remained roughly unchanged for those in the younger group—between ages 55 and 61.

During the 2007–2009 recession, the biggest contributor to the drop in the overall employment-to-population ratio for people ages 55 to 79 was the sharp, temporary decline in the share of 55- to 61-year-old men and women working full time. ♦

Exhibit 12.

Share of Older Workers in Various Occupations



Source: Congressional Budget Office, using data from the Current Population Survey.

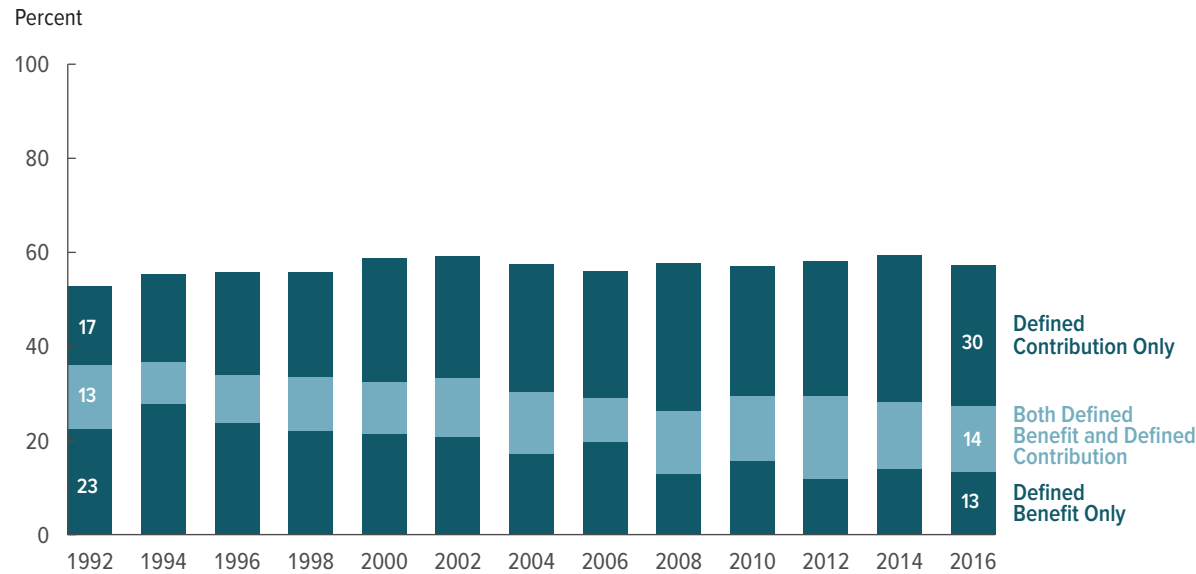
CBO classified jobs according to the Integrated Public Use Microdata Series version of the Census Bureau’s 1990 occupation classification scheme. Blue-collar jobs are in these occupational groups: precision production, craft, and repair; machine operation, assemblage, and inspection; transportation and material moving; and handling and cleaning of equipment, material, supplies, or tools. Service jobs are in these occupational groups: private household services, protective services, food preparation and service, cleaning and building service, and personal services. White-collar jobs are in these occupational groups: managerial and professional specialty; technical, sales, and administrative support; and health services. CBO classified workers with jobs in the military or whose jobs were unknown in the “Other” category.

Between 1990 and 2018, blue-collar jobs became somewhat less prevalent for both men and women ages 55 to 79. Over the period, the share of older men working in blue-collar jobs declined by 3 percentage points, and the share working in white-collar jobs rose by an equivalent amount. For women, there was a decline in both blue-collar and service jobs and a 10 percentage-point increase in white-collar work. Throughout the period, women remained considerably less likely to be in blue-collar occupations and considerably more likely to be in white-collar or service occupations than men were.

Blue-collar jobs tend to be more physically demanding than white-collar or service jobs. Because working in jobs that are physically demanding is typically associated with early retirement, the shift in the nature of employment may have allowed some older people to work longer. However, given the relatively small change in the distribution of occupations over the period, the impact of that factor on the employment-to-population ratio was probably small. ♦

Exhibit 13.

Share of Workers Between 55 and 61 Years Old Who Have Employer-Sponsored Retirement Plans



Source: Congressional Budget Office, using data from the Health and Retirement Study.

CBO restricted the sample to people younger than 62 because the incentive to stop working increases at that age, as most workers qualify for Social Security retirement benefits then.

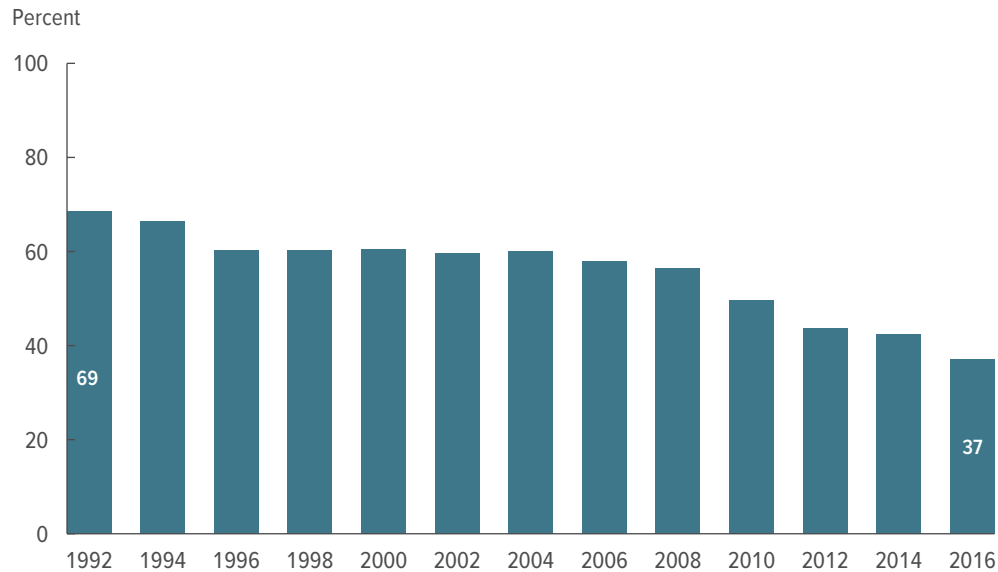
The data in the exhibit have been reweighted for each year to keep the estimated share of workers with pension plans from being influenced by the changes in the age distribution of the Health and Retirement Study's sample.

The category "Both Defined Benefit and Defined Contribution" includes workers who have both types of plans in addition to workers who have plans that have features typical of both types of plans.

The years spanned reflect the availability of information from the Health and Retirement Study.

Available retirement plans—and the incentives they provide—may account for some of the increase in the employment-to-population ratio for 55- to 79-year-olds. From 1992 to 2016 (the years for which data from the Health and Retirement Study are available), a declining share of people between 55 and 61 years old (and therefore nearing retirement) had defined benefit plans, and an increasing share had defined contribution plans. That change might have boosted the employment of older people because, relative to defined benefit plans, defined contribution plans increase workers' likelihood of staying on the job longer.

The two types of pension plans differ in their characteristics and retirement incentives. Defined benefit plans—which guarantee a certain stream of income in retirement, usually based on a final salary or the highest salary over several years and accumulated years of service—typically provide a financial incentive for employees to retire by a certain age. (A risk associated with such plans is that the pension sponsors might be unable to make promised payments.) Under defined contribution plans, retirement income is determined by contributions to an account while the person is working and by investment returns, and there is no incentive to retire by a particular age. Accordingly, under defined contribution plans, workers bear the responsibility for saving for their retirement and their assets vary with investment returns; workers can also more easily switch jobs without losing retirement benefits. Consequently, workers participating in defined contribution plans may choose to stay employed longer so that they can save more for retirement. ♦

Exhibit 14.**Share of Workers Between 55 and 64 Years Old Whose Employment-Based Health Insurance Covers Retirees**

Source: Congressional Budget Office, using data from the Health and Retirement Study.

For this exhibit, CBO restricted the sample to people younger than 65 because the incentive to remain with their employer in order to keep their health insurance decreases at that age, as most workers qualify for Medicare then.

The data in the exhibit have been reweighted for each year to keep the estimated share of workers with pension plans from being influenced by the changes in the age distribution of the Health and Retirement Study's sample.

The years spanned reflect the availability of information from the Health and Retirement Study.

Some employers who provide health insurance extend coverage to retirees, whereas others terminate it when an employee leaves, thereby creating an incentive for some workers to remain with their employer—and perhaps in the workforce generally—longer than they otherwise would. (At age 65, people generally become eligible for Medicare, and the importance of employment-based health insurance in retirement is much reduced.) Indeed, research has shown that access to health insurance in retirement increases workers' likelihood of retiring.

Over the 1992–2016 period, fewer workers under the age of 65 had employment-based health insurance that covered retirees. That decline in coverage may have contributed to the increase in the employment-to-population ratio for older people that occurred before 2014. However, because the Affordable Care Act began providing subsidies for health insurance that year, employment-based health insurance covering retirees may have had less of an influence in inducing workers to stay on the job longer. ♦



Employment and Social Security Policy



Between 1990 and 2018, several policy changes affected retirement benefits from the Social Security program and, accordingly, the timing of people's retirement. Over that period, the age at which people become eligible for full retirement benefits increased, thereby increasing people's incentive to delay claiming their benefits and stay employed longer. Also, the parameters of the retirement earnings test, which specifies how benefits are temporarily withheld for Social Security claimants of certain ages whose earnings are above certain thresholds, were relaxed. That policy change probably also gave some people an incentive to continue working longer.

Exhibit 15.**Changes in the Schedule of Social Security Benefits**

Birth Year	FRA	Benefits at Age 62 as a Percentage of Benefits at the FRA	Annualized Increase in Benefits If Claimed After the FRA and Before Age 70
1917–1924	65 years	80.0	3.0
1925–1926	65 years	80.0	3.5
1927–1928	65 years	80.0	4.0
1929–1930	65 years	80.0	4.5
1931–1932	65 years	80.0	5.0
1933–1934	65 years	80.0	5.5
1935–1936	65 years	80.0	6.0
1937	65 years	80.0	6.5
1938	65 years and 2 months	79.2	6.5
1939	65 years and 4 months	78.3	7.0
1940	65 years and 6 months	77.5	7.0
1941	65 years and 8 months	76.7	7.5
1942	65 years and 10 months	75.8	7.5
1943–1954	66 years	75.0	8.0
1955	66 years and 2 months	74.2	8.0
1956	66 years and 4 months	73.3	8.0
1957	66 years and 6 months	72.5	8.0
1958	66 years and 8 months	71.7	8.0
1959	66 years and 10 months	70.8	8.0
1960 and later	67 years	70.0	8.0

Source: Congressional Budget Office, using information from the Social Security Administration.

FRA = full retirement age.

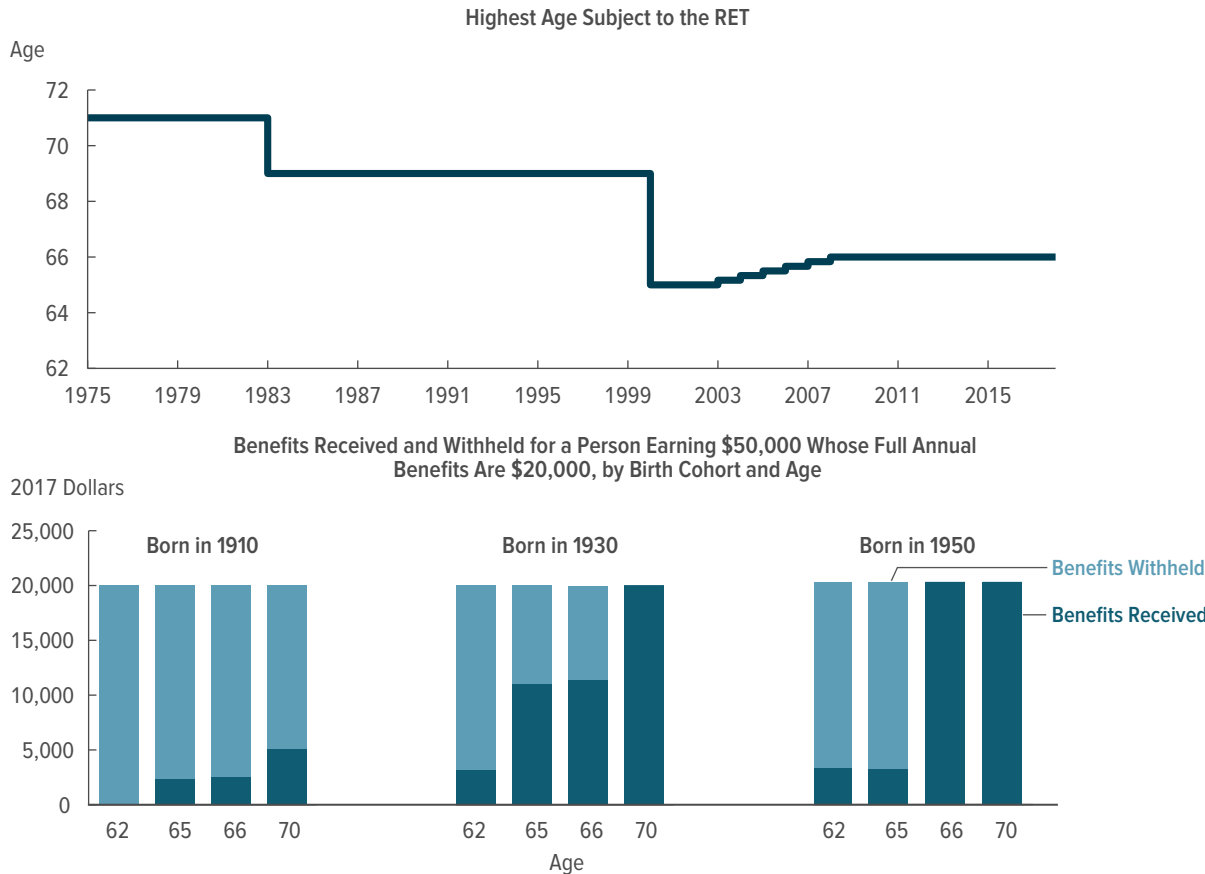
Changes in Social Security policy have increased the incentives to stay employed longer—namely, an increase in the full retirement age (or FRA, the age at which a person becomes eligible for what are termed full retirement benefits) and an increase in delayed retirement credits (which increase benefits for people who delay claiming them until after their FRA). Because of the increase in the FRA, claiming Social Security retirement benefits at younger ages has become less attractive over time. And because of the increase in delayed retirement credits, claiming benefits after the FRA has become more attractive.

People may choose to receive Social Security retirement benefits as early as age 62, but their benefits are reduced from what they would have received had they waited until their FRA, and the reduction is bigger the earlier the benefits start. In contrast, people who choose to delay claiming their benefits until after they reach their FRA receive benefits that are larger than what they would have received at the FRA because of delayed retirement credits. As a share of the benefits received if claimed at the FRA, the early benefit amounts have decreased, whereas the delayed benefit amounts have increased. Both of those changes have increased the incentives for workers to claim their benefits later and to stay employed longer.

The adjustments in benefits based on the age at which someone begins receiving them are intended to be actuarially fair, so that, on average, a person's total lifetime benefits will be about the same regardless of when he or she begins collecting them. However, the outcome for a given person depends on a number of factors, including life expectancy, marital status, and real (inflation-adjusted) interest rates. Research has shown that delaying benefits can be actuarially advantageous for many households and that the gains from delaying have increased considerably over time. ♦

Exhibit 16.

The Social Security Retirement Earnings Test



Source: Congressional Budget Office, using information from the Social Security Administration.

Between 1954 and 1975, the highest age subject to the RET was 71.

The RET operates by temporarily reducing the benefits of workers whose earnings exceed certain thresholds. That reduction in benefits is at least partially offset in the future through delayed retirement credits and a recalculation of benefits. Historically, the RET has specified an age, an earnings threshold, and a withholding rate. For example, in 2019, \$1 of benefits is withheld for every \$2 of earnings in excess of \$17,640 for workers who are younger than their FRA. For workers who reach their FRA during 2019, a higher earnings threshold of \$46,920 and a lower withholding rate of \$1 of benefits withheld for every \$3 of earnings apply in the preceding months of the year. Since 2000, the test has not applied to workers who are older than their FRA.

Amounts in the second panel were adjusted to 2017 dollars using the average wage index.

FRA = full retirement age; RET = retirement earnings test.

Changes in Social Security policy that relate to the retirement earnings test (RET) have made working in one's 60s more attractive. The RET specifies an age, an earnings threshold, and a withholding rate: If a Social Security claimant is younger than that age and has earnings higher than the specified threshold, some or all of his or her retirement benefits are temporarily withheld. Those withheld benefits are at least partially credited back in later years. Over time, the government has gradually made the RET less stringent by raising earnings thresholds, lowering withholding rates, and exempting certain age groups. For instance, in the early 1980s, the oldest age at which earnings were subject to the RET was reduced from 71 to 69, and in 2000, that age was further lowered to the FRA. (In 2000, the FRA was 65, and it rose to 66 by 2018.) Lowering the oldest age at which earnings are subject to the RET allowed more people to claim their full Social Security benefits while they continued working.

For example, people in their 60s with annual earnings of \$50,000 and annual Social Security benefits of \$20,000 who were born in 1910 would have had most of their benefits temporarily withheld if they claimed them between ages 62 and 70 because of the lower RET earnings thresholds in effect at the time. Because the thresholds were raised, people with the same characteristics but born in 1930 had less of their benefits withheld when claiming benefits before age 70 and received their full benefits at age 70. People with the same characteristics but born in 1950 received their full benefits as early as age 66 because they were not subject to the RET starting at that age. ♦



About This Document

This report was prepared at the request of the Ranking Member of the Subcommittee on Social Security of the House Committee on Ways and Means. In keeping with the Congressional Budget Office's mandate to provide objective, impartial analysis, the report makes no recommendations.

Jordan Berne (formerly of CBO), David Burk, and Nadia Karamcheva prepared the report with guidance from Molly Dahl and Joseph Kile. Nabeel Alsalam, David Austin, Elizabeth Bass, William Carrington, Justin Falk, Heidi Golding, Noah Meyerson, Brooks Pierce, Ricci Reber, Michael Simpson (formerly of CBO), Emily Stern, Natalie Tawil, Julie Topoleski, and Jeff Werling provided useful comments.

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Wendy Edelberg, Mark Hadley, Jeffrey Kling, and Robert Sunshine reviewed the report. John Skeen edited it, Julia Heinzl fact-checked it, and Jorge Salazar prepared it for publication. An electronic version of the report is available on CBO's website (www.cbo.gov/publication/55454).

CBO continually seeks feedback to make its work as useful as possible. Please send any comments to communications@cbo.gov.

Phillip L. Swagel
Director
September 2019