



# Ageing and Employment Policies

## United States

*Vieillesse et politiques  
de l'emploi*



OECD



OECD PUBLISHING

Ageing and Employment Policies  
(*Viellissement et politiques de l'emploi*)

# United States



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

# ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The OECD is a unique forum where the governments of 30 democracies work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

The OECD member countries are: Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The Commission of the European Communities takes part in the work of the OECD.

OECD Publishing disseminates widely the results of the Organisation's statistics gathering and research on economic, social and environmental issues, as well as the conventions, guidelines and standards agreed by its members.

*This work is published on the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of the Organisation or of the governments of its member countries.*

© OECD 2005

---

No reproduction, copy, transmission or translation of this publication may be made without written permission. Applications should be sent to OECD Publishing: [rights@oecd.org](mailto:rights@oecd.org) or by fax (33 1) 45 24 13 91. Permission to photocopy a portion of this work should be addressed to the Centre français d'exploitation du droit de copie, 20, rue des Grands-Augustins, 75006 Paris, France ([contact@cfcopies.com](mailto:contact@cfcopies.com)).

---

## FOREWORD

Older people offer tremendous potential value to businesses, the economy and society. Unfortunately, they often represent an untapped and discriminated-against resource, as many public policy measures and private workplace practices pose serious barriers to older workers continuing to work. Many of these policies and practices are relics from a bygone era. There is a need to look beyond traditional stereotypes about ageing in order to benefit from the growing numbers of older citizens, many of whom would, in fact, choose to work longer given appropriate incentives, policies and workplace practices.

The OECD has reported extensively on public pension and early retirement systems and the need for reforms of these systems to cope with population ageing. However, these reforms will not be enough to encourage later retirement and to reduce the risk of future labour shortages. Measures are also required to adapt wage-setting practices to greying workforces, to tackle age discrimination and negative attitudes to working at an older age, to improve job skills of older people and their working conditions, and to better “activate” older job seekers. Relatively little is known about what countries have been, or should be doing, in these areas. Therefore, in spring 2001, the OECD Employment, Labour and Social Affairs Committee decided to carry out a thematic review of policies to improve labour market prospects for older workers covering both supply-side and demand-side aspects.

For the purpose of this thematic review, it was decided to define older workers as all workers aged 50 and over. The age of 50 is not meant to be a watershed in and of itself in terms of defining who is old and who is not. Perceptions about being old are inherently subjective and only loosely connected with chronological age. However, in many countries, the age of 50 marks the beginning of a decline in participation rates by age. Moreover, to facilitate international comparisons, it is preferable to refer to the same age group for all countries. Thus, all references to “older workers” in this report should be taken as shorthand for workers aged 50 and over (or in some cases,

because of data constraints, workers aged 50 to 64), and should not be seen as implying that all workers in this group are “old” *per se*.

This report on the United States is one in a series of around 20 OECD country reports that are being published as part of the older worker thematic review, which has been developed by Raymond Torres. It has been prepared by Mark Keese (team leader), Peter Whiteford and Kimiyo Yagi, with a contribution from Professor Robert Hutchens, Cornell University. Technical and statistical assistance was provided by Sylvie Cimper, Clarisse Legendre, Desirée Van Welsum, Alexandra Geroyannis and Judy Zinnemann. A draft of this report was discussed at a seminar on “Policies to Increase Labour Market Participation of Older Workers in the United States” in Washington on 26 March 2004, which was organised by AARP and the U.S. Department of Labor. Discussants at the seminar included representatives of the national authorities, employers, trade unions and non-governmental organisations, as well as academics.

\* \* \*

*This report is based on the proceedings of a seminar and is published in English only. However, a French translation of the Executive Summary and Recommendations has been included in this volume (see p. 23).*

\* \* \*

## TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY AND RECOMMENDATIONS</b> .....	11
The challenge ahead.....	11
Action taken so far.....	15
Directions for policy .....	16
<b>RÉSUMÉ ET PRINCIPALES RECOMMANDATIONS</b> .....	23
<b>INTRODUCTION</b> .....	37
<b>Chapter 1. THE CHALLENGE AHEAD</b> .....	39
1. Demographic trends .....	39
2. The economic challenge .....	42
<b>Chapter 2. A PROFILE OF OLDER WORKERS</b> .....	49
1. Is there scope to raise labour force participation? .....	49
2. Large variation in labour market outcomes.....	54
3. Job security: a mixed picture .....	61
<b>Chapter 3. SUSTAINING SOCIAL SECURITY AND ENHANCING     EMPLOYMENT</b> .....	69
1. Social protection in the United States .....	69
2. The sustainability of the social security system .....	81
3. Social security, retirement and work incentives .....	83
4. Poverty and income adequacy in retirement .....	89
5. Dealing with Disability Insurance.....	91
6. Policy alternatives – towards a balanced approach .....	93
<b>Annex 3.A. Social Security Reform Proposals</b> .....	99
<b>Chapter 4. REMOVING BARRIERS TO RETENTION AND HIRING</b> .....	103
1. Barriers to retention and hiring.....	103
2. Technological change.....	114
3. Measures which have encouraged greater retention .....	119
4. Areas for further action .....	123

<i>Chapter 5. BETTER ACCESS TO BETTER JOBS</i> .....	129
1. From old skills to new skills: the importance of training.....	129
2. Public employment programmes and older job seekers.....	135
3. Working-time arrangements, working conditions and health .....	150
4. Measures to improve employability.....	161
<i>Chapter 6. ENSURING POLICIES ARE COMPREHENSIVE AND COHERENT</i> .....	175
1. Policy coordination and coherency .....	175
2. Getting the economic fundamentals right .....	178
3. Directions for policy.....	181
<b>BIBLIOGRAPHY</b> .....	180

### List of Boxes

Box 3A.1. The President’s Commission to Strengthen Social Security... 101	
Box 4.1. The Age Discrimination in Employment Act (ADEA) .....	121
Box 5.1. Key active labour market programmes for adults in the United States.....	137
Box 5.2. Training methods for older workers .....	164
Box 5.3. Alternative Trade Adjustment Assistance Program for older workers .....	168
Box 5.4. Job Accommodation Network for promoting employment of workers with disabilities.....	173

### List of Figures

Figure 1.1. Total fertility rate and life expectancy at birth in the United States, 1970-2050 .....	40
Figure 1.2. Dependency ratios in OECD countries, 2000-50 .....	41
Figure 1.3. Population projections for the United States by broad age groups, 2000-50 .....	43
Figure 1.4. Actual and projected labour force growth in the United States and other OECD countries, 1950-2050 .....	44
Figure 1.5. Historical and projected trends in the United States labour force, 1950-2050 .....	46
Figure 1.6. Ageing of the United States labour force over the next 50 years.....	47
Figure 2.1. Labour force participation rates by age and gender in OECD countries, 2003 .....	50

Figure 2.2.	Labour force participation rates in the United States by single year of age and gender, 2004.....	51
Figure 2.3.	Labour force participation rates in the United States by age and gender, 1960-2004.....	52
Figure 2.4.	Effective retirement age in the United States, 1960-2004 .....	53
Figure 2.5.	Labour force participation rates in the United States by level of education, age and gender, 2004.....	54
Figure 2.6.	Proportion of prime-age/older persons with a high/low level of education in OECD countries, 2002.....	55
Figure 2.7.	Rising education levels of older workers, 2000-25 .....	57
Figure 2.8.	Participation rates in the United States by race, ethnic background and age, 2004.....	58
Figure 2.9.	Proportion of workers in the United States with job tenure of 10 years or more by age and gender, 1983-2004 .....	62
Figure 2.10.	Average job tenure in selected OECD countries by age and gender, 2002.....	63
Figure 2.11.	Job retention rates over four years in selected OECD countries by age and gender, 1998-2002.....	64
Figure 2.12.	Unemployment rates in the United States by age and gender, 1960-2004.....	66
Figure 2.13.	Displaced workers in the United States by current labour force status and age, January 2004.....	67
Figure 3.1.	Employee participation in private pension plans in the private sector in the United States, 1989-2004.....	77
Figure 3.2.	Public expenditure on old-age pensions in the United States and other OECD countries, 2000-50.....	81
Figure 3.3.	Social security and Medicare expenditure, 1970-2080.....	82
Figure 3.4.	Effective and official age of retirement in selected OECD countries, 2002 .....	84
Figure 3.5.	Net pension replacement rates in OECD countries .....	85
Figure 3.6.	Retirement rate in the United States by gender and single year of age, 2002-04 .....	87
Figure 3.7.	Proportion of older people (50-64) inactive because of illness or disability in OECD countries, 2003.....	92
Figure 3.8.	Effects of retirement age on retirement income in the United States.....	96
Figure 4.1.	Employee qualities sought by employers and evaluation of older employees.....	105
Figure 4.2.	Number of charges filed with the EEOC by type of discrimination, fiscal years 1992-2004 .....	108



Figure 4.3.	Age-earnings profiles of full-time workers in selected OECD countries, 2002 .....	110
Figure 4.4.	Industry expansions in the United States and job growth for younger and older workers, 1995-2000 .....	117
Figure 5.1.	Incidence of job-related training in selected OECD countries for workers by age, 1994-98 .....	130
Figure 5.2.	Participation in job-related training in the United States by age and gender, 2001 .....	132
Figure 5.3.	Participation in job-related training in the United States by age and education, 2001 .....	134
Figure 5.4.	Exiters from all WIA programmes by age, 2003/04 .....	141
Figure 5.5.	Exiters from WIA programmes for adults by age, 2003/04 .....	142
Figure 5.6.	Outcomes of WIA programmes for adults by age .....	145
Figure 5.7.	Public expenditure on active labour market programmes in OECD countries, 2001/02 .....	169

### List of Tables

Table 1.1.	Labour force growth in the United States over the next 50 years under various scenarios .....	46
Table 2.1.	Older workers (aged 50 and over) in the United States by selected job characteristics, 2004 .....	59
Table 2.2.	Older workers (aged 50 and over) in the United States by selected workplace characteristics, 2004 .....	60
Table 2.3.	Distribution of older workers (aged 50 and over) in the United States by job tenure, 2004 .....	62
Table 3.1.	Selected details of social security, 2004 .....	72
Table 3.2.	Participation in selected private-sector employee benefit plans in the United States by worker and firm characteristics, 2004 ..	78
Table 3.3.	Older population in the United States by receipt of earned and unearned income, age and gender, 2002 .....	88
Table 4.1.	Reported experience of age discrimination in the United States, 2002 .....	106
Table 4.2.	Absences from work in the United States by age, gender and type of absence, 2004 .....	114
Table 4.3.	ADEA charges by issue, fiscal years 1997-2002 .....	125
Table 5.1.	Participation in adult education and training in the United States by age and work status, 2001 .....	131
Table 5.2.	Participants in federally-funded employment programmes in the United States, 2003/04 .....	138

---

Table 5.3.	Exiters by age from all TAA and WIA programmes combined, 2003/04 .....	144
Table 5.4.	Employment services received by exiters from WIA programmes for adults by age, 2003/04 .....	144
Table 5.5.	Actual hours worked per week by employees in the United States by age and gender, 2004 .....	152
Table 5.6.	Actual weekly hours of work for older employees aged 50 and over in selected OECD countries, 2003 .....	153



## EXECUTIVE SUMMARY AND RECOMMENDATIONS

### The challenge ahead

As a result of rapid population ageing, the United States faces a risk of slower economic growth, serious labour shortages and rising tax rates over the next few decades. By 2030, almost one-fifth of its population is projected to be aged 65 and over compared with around one-eighth in 2000. The labour force will also age and is likely to grow much more slowly than in the past. As the baby-boom generation begins to move into retirement from 2010, or even earlier, growing expenditures on social security will have to be financed by taxes on a smaller number of workers relative to the number of pensioners or by cuts in the value of social security benefits. On the basis of current rates of labour force participation, the ratio of workers to “retirees” (*i.e.* all persons aged 50 and over who are not in the labour force) is projected to decline from over three to one in 2000 to around two to one in 2030.

The picture is not all gloomy. In some respects, the United States is better placed than many other OECD countries to cope with population ageing. First, its population is projected to age less rapidly over the next half century than in most OECD countries. Second public expenditure on old-age pensions is quite low by OECD standards and is expected to increase only modestly over the next half century relative to GDP. Third, labour market outcomes for older people in the United States are generally better than in many OECD countries. For instance, over two-thirds of all Americans aged 50-64 are working – which places the United States in the top third of OECD countries – and, while only about one-fifth of Americans aged 65-74 are working, this is still well above the OECD average. And, last but not least, life expectancy and health outcomes more generally are expected to continue to improve over the coming decades, opening up greater opportunities for older Americans to both extend their working lives and enjoy more years of retirement.

### *Promoting employment of older people*

However, there is no room for complacency. Improving the long-term sustainability of social security has generated an intense debate since it will require either cuts in benefits or a significant hike in payroll taxes (or contributions from general revenue) or some combination of these two options. Whatever reform is chosen it will be important to ensure that income adequacy in retirement is maintained or improved. While the poverty rate for people aged 65 has fallen over time, it still remains quite high based on international comparisons. An even larger challenge to public finances is posed by rapidly growing expenditures on Medicare.

Encouraging older people to remain longer in the workforce would help to boost economic growth and reduce the burden of future public expenditures on social security and Medicare. While not as endemic as in some European countries, early retirement is nevertheless a fairly frequent occurrence in the United States. Well before the age of 65, participation rates for men and women fall considerably – in both cases, by over 20 percentage points between the ages of 50 and 60. Moreover, the proportion of older Americans who are working varies widely by gender, ethnic background and level of educational attainment. Thus, there is some scope to mobilise more fully the potential labour supply of older people in the United States. It could also help to reduce the risk of poverty among some groups of older people after they retire. But achieving higher employment rates among older people will require a strengthening of work incentives and the removal of a range of barriers that are currently preventing older Americans from either remaining longer in their jobs or finding new jobs.

### *Incentives to retire early need to be tackled*

There are a number of features of the American social security system and employer-provided pensions that create incentives for older workers to opt for early retirement. First, while the earliest age of eligibility for a full social security pension is being raised gradually from 65 to 67, a reduced pension can still be obtained from the age of 62. And, indeed, a spike in exits from the labour force can be observed at the age of 62. Second, defined-benefit pension schemes remain important, especially in the public sector, although they have been increasingly displaced by defined-contribution schemes. Under many of these defined-benefit schemes it is possible and often financially advantageous to retire early. Third, there is some evidence that past changes in the eligibility rules for disability

benefits, and the enforcement of these rules, led to a rise in the number of low-skilled older workers taking up these benefits and retiring early.

*Barriers on the side of employers need to be removed*

In addition to these financial incentives to retire early, there are a number of barriers on the side of firms to employing older workers. These barriers show up in the steep fall in retention rates for older workers after the age of 55 and the difficulties they have finding a new job if displaced and the substantial earnings loss many of them experience once they do find a new job.

One barrier may be negative employer attitudes towards older workers. A number of surveys suggest that employers consider older workers to have strengths in the areas of loyalty, commitment and basic skills, but also important weaknesses in terms of flexibility in doing different tasks, participation in training, having up-to-date skills and coping with new technologies. However, older workers are a very diverse group, and so any characterisation or generalisation concerning their work ability, motivation and receptivity to training and change, is likely to be misleading. Moreover, it could lead to discrimination, and there is a range of evidence suggesting that age discrimination regularly occurs, not only in hiring and firing but also in employment conditions and promotions.

There may also be other more objective reasons for why employers may be reluctant to retain or hire older workers. First, it may be expensive to hold on to older workers if labour costs rise more steeply with age than productivity. In the United States, earnings rise only modestly with age in comparison with some other OECD countries such as France and Japan. However, other non-wage costs such as health insurance and pensions rise more steeply. While somewhat mixed, the available evidence for the United States indicates that, on average, labour costs rise with age while productivity remains level or declines slightly. Absence rates because of illness are also somewhat higher for older workers than for younger workers, effectively raising their cost relative to their productivity. Second, technological change, especially unanticipated technological shocks, can lead to skill obsolescence among older workers which could have a negative impact on their job prospects but further research in this area is required.

*Employability of older workers needs to be strengthened*

While many older Americans are well placed to cope with a much more fluid labour market than exists in other OECD countries, others are not. On average, older workers in United States are well educated by international standards, but behind this average there is a substantial variation in actual literacy skills across workers that is greater than in many OECD countries. Consequently, there are significant pockets of older Americans with poor literacy skills who face a difficult time either keeping a job or finding a new one. Moreover, results from PISA, the international test of student performance for 15-year olds, point to a wide dispersion of scores in the United States around an average score that is lower than in many other OECD countries. Thus, there is a risk that labour market disadvantage due to low literacy will persist among future generations of older workers.

Of course the potential labour market disadvantage of a low level of educational attainment or a lack of basic literacy skills can be compensated for by subsequent training both on-the-job and off-the-job. The available evidence suggests that the incidence of job-related training is relatively high in the United States by international standards. While older workers receive less training than younger workers, this gap is much smaller than in other countries. This may be related to the fact that retention rates for older workers fall less steeply than in other major OECD countries. However, workers in the United States with a low level of education, whether old or young, receive far less training than those with a higher level and should be the target of policies to foster greater access to – and take-up of – training opportunities.

Poor working conditions are another factor pushing some older workers into early retirement. Older workers as well as younger workers in the United States continue to work long hours, and these hours are much longer on average than in many other OECD countries with the notable exception of Japan. Long hours of work can be particularly onerous for older workers.

Moreover, there is evidence that a significant proportion of older workers would be interested in reducing their hours of work prior to retiring. This may be especially important for workers with disabilities or a work-limiting health condition. But there appear to be a number of barriers or rigidities limiting the spread of this type of “phased” retirement or the option of working part-time more generally.

## Action taken so far

### *Actions to improve work incentives*

A number of significant steps have been taken to encourage later retirement within the social security system. Following 1983 legislation, the full retirement age for social security is increasing from 65 to 67. Workers may still elect to receive retirement benefits as early as age 62 but their benefits will be reduced. A worker retiring at 62 will only receive 70% of the scheduled full retirement benefit instead of 80% previously. There is also an increment for each month that a worker delays retirement between the ages of 65 and 69. In 2000, the earnings test was eliminated that had formerly applied to pensioners aged 65-69.

Changes in employer-provided pension schemes over the past few decades have also probably worked in the direction of encouraging later retirement. In 2004 around half of all private-sector employees were participating in a pension plan. While the percentage of the workforce covered by a pension plan has not changed significantly over the past 20 years, there has been a significant shift from defined-benefit to defined-contribution plans. Federal policy played a role in this by encouraging growth of defined-contribution plans through new pension vehicles like the 401(k) and discouraging defined-benefit pension schemes through regulations that made them relatively more costly to operate.

### *Actions to change employer attitudes and employment practices*

One of the main federal interventions that have undoubtedly influenced employer behaviour has been the Age Discrimination in Employment Act (ADEA). The ADEA has been amended several times since its introduction in 1967 – most notably with respect to mandatory retirement which, for most workers, was effectively outlawed before the age of 70 in 1978 and effectively abolished altogether in 1986. There is reasonably good evidence that this legislation increased retention of workers over age 60. It may have also helped to reduce the use of negative age-related stereotypes in employment. The effect of this legislation on hiring of older workers is less certain.

The introduction of the Americans with Disabilities Act (ADA) in 1990 has also extended additional employment protection to older workers given the significant proportion of them who report some form of disability. The ADA prohibits discrimination against the disabled with respect to hiring, firing, promotion and wages. It also requires employers to make “reasonable



accommodation” for their disabled employees. As with ADEA, while there is some evidence of increased retention of disabled employees since the passage of ADA, the evidence is less clear with respect to hiring.

### ***Actions to improve employability***

While there have been few major recent federal measures targeted at older workers, there have been several interventions that may have indirectly improved labour market prospects for some older people. A major overhaul of the public employment service took place in the mid-to-late 1990s with the introduction of “One-stop Career Centers” to integrate employment and training programmes. The Workforce Investment Act was implemented in 2000 to replace the Job Training Partnership Act, which had been seen as providing ineffective employment programmes. More recently, the U.S. Department of Labor has developed “A Guide to Serving Mature Workers in One-Stop Career Centers”, which gives advice to One-Stop managers and staff on effectively meeting the unique requirements and preferences of older workers.

There is also a separate Senior Community Service Employment Program (SCSEP) which has been in operation for many years and is targeted at providing low-income people aged 55 and over with (subsidised) employment in mainly non-profit organisations and public agencies. A goal to place participants into non-subsidised jobs was introduced recently and some prime sponsors have been quite successful in doing so.

Finally, the community-college sector has expanded over time, which has served as an important resource for training younger workers and presumably older workers as well.

### **Directions for policy**

While there are some signs that the long-term trend to ever earlier retirement has halted in the United States, there is still scope for further action to be taken in anticipation of the challenges that lie ahead as a result of an ageing workforce and prospects of slower labour force growth.

### ***Strengthening financial incentives to carry on working***

There has been considerable debate over many years in the United States about possible ways of reforming the social security system to make it sustainable in the face of demographic ageing. These ideas can be grouped into

two main categories: *i)* changes that preserve the basic structure of the current system with minor modifications and; *ii)* more dramatic transformations that either would involve means-testing of benefits or would shift part of the system from today's pay-as-you-go insurance plan to an arrangement more like 401(k) retirement plans and individual retirement accounts. A balanced approach to reform would look at ways that can improve long-term sustainability while maintaining or improving income adequacy in retirement, and which are consistent with maintaining or improving incentives to participate in the labour market.

### *Recommendations*

A programme of reform in the area of income-support arrangements to improve work incentives for older workers could include the following elements:

- *Speed up the transition from 65 to 67 for the full retirement age.* Stepping up the rate of increase in the full retirement age for social security from 65 to 67 could reduce financing problems to some extent. This will only solve part of the future financing problem, however, and additional adjustments to the parameters of social security will have to be considered to guarantee its sustainability. These adjustments should take account of further increases in life expectancy.
- *Raise the minimum age for social security.* Increasing the minimum age for social security from 62 to 64 years would both encourage later retirement and improve retirement incomes.
- *Ensure disability benefits do not become an alternative route to early retirement.* If the reforms suggested above to social security were carried out, a number of complementary reforms would be required to ensure that Disability Insurance does not become used as an alternative pathway to early retirement. This would mean careful monitoring of Disability Insurance claims to ensure that benefits were granted only to people with very limited opportunities in the labour market. It would be desirable more broadly to promote activation policies for Disability Insurance beneficiaries, including greater opportunities for rehabilitation.
- *Limit tax advantages in private pension schemes for taking early retirement.* Another complementary change would be to limit the tax

advantages for those taking early retirement through private or occupational systems, so that there was consistency with the proposed changes in the social security early retirement age. At the same time, the eligibility age for the Earned Income Tax Credit should be extended so that it covers everyone up to the full retirement age for social security.

### *Tackling employment barriers on the side of employers*

Despite the length of time since ADEA has been in operation the jury is still out concerning its effectiveness. There is evidence that age discrimination still continues to operate and that employers continue to have rather stereotypical views that can be quite misleading about the qualities of older workers. In a number of areas, employment costs for older workers can be much higher than for younger workers. Thus, while the social security reforms mentioned above should help improve incentives for older people to remain in work longer, action is also needed to tackle barriers on the side of employers.

### *Recommendations*

While there is no single measure that would dramatically increase job retention or hiring of older workers, the following package of measures should be envisaged:

- *Support further spread of defined-contribution pension schemes.* From the perspective of promoting retention and hiring of older workers, defined-contribution pension plans have a number of advantages over defined-benefit plans, they do not encourage early retirement, and they do not raise the cost of hiring older workers relative to younger workers. Therefore, the continued spread of these plans should be supported, but it will be particularly important to ensure that there is good governance of these schemes and adequate information given to participants to help them plan their retirement.
- *Eliminate the “Medicare-as-secondary-payer” rule.* Currently, employers who offer health insurance to their employees under 65 must offer the same health insurance to employees who are eligible for Medicare. Abolishing this requirement would enhance employment opportunities for workers aged 65 and over. Of course, the budgetary consequences would need to be considered carefully

given that this proposal could involve additional public expenditures of around 3 billion dollars per year.

- *Strengthen measures to combat age discrimination.* Measures should be taken to strengthen the effectiveness of ADEA, especially with respect to hiring. This could include the introduction of explicit guidance in the Act concerning “disparate impact”. Consideration should also be given to extending protection under the Act to people of any age rather than just to those aged 40 and over, as this could help to reduce older people being stigmatised. The exemption of smaller companies should also be reconsidered.
- *Promote business case for employing older workers.* Strengthening legislation to ban age discrimination will be more effective if accompanied by campaigns to change employer attitudes. The outreach and educational activities of the Equal Employment Opportunity Commission should be expanded. Employers may also be more inclined to adopt “age-friendly” employment practices if they are given better information about the impact of labour force ageing on prospective skill shortages. Therefore, in consultation with employer groups, the Government should ensure that information is collected at a national level on current and prospective skill shortages.

### ***Ensuring better access to better jobs***

Improving incentives to remain in work longer and encouraging employers to be more receptive to an age-diverse workforce is only half the battle. If older workers suffer from poor health, lack the necessary skills that employers want or face onerous working conditions, they may still seek to retire as early as possible. Raising the participation in training of disadvantaged groups, especially those with few educational qualifications, is of vital importance but remains a considerable challenge for the United States, as for other OECD countries. A well-functioning employment service will be of equal importance to help increasing numbers of older workers cope with job change and job loss. Currently, older jobseekers are under-represented in virtually all of the main labour market programmes and generally receive less training if participating than younger participants. The role of SCSEP needs to be redefined now that it has become the only source of targeted federal funds for employment assistance to older persons. Improving working conditions and occupational health and safety is the third main avenue for ensuring that older workers are willing and able to continue working for longer. More diversified or

flexible work forms, including part-time work, will be necessary to meet an increasingly wide range of work preferences. In particular, long working hours could be an obstacle to older workers delaying retirement.

### *Recommendations*

There are a number of measures covering training, employment services and working conditions which could serve to improve the employability of the current generation and future generations of older workers. These include:

- *Strengthen and expand training opportunities for low-skilled workers.* Measures to increase lifelong learning should focus on workers of all ages with low levels of education or with limited access to training, e.g. independent contractors. Only by continuously improving their skills can workers adapt to a continuously changing economic environment. A range of measures are required, including: *i)* strengthening self-financed training and career guidance; *ii)* ensuring that training is more tailored to the needs of older workers; and *iii)* improving the evidence base for assessing what works.
- *Evaluate the effectiveness of the current arrangements for providing employment services to older jobseekers.* The quality of employment services and career guidance for older workers should be carefully evaluated now that under WIA there are no longer any earmarked federal funds for older jobseekers. In particular, the impact of the current performance-rating system on the resources devoted to older jobseekers should be assessed. Given that older workers are generally under-represented in active labour market programmes there may need to be some refocusing of these programmes away from youth. The SCSEP programme may also need to be expanded to cope with a projected increase in its target population. Consideration should also be given to whether the special employment subsidy available to older workers under the TAA programme to compensate for earnings losses should be extended to older participants in WIA programmes, possibly as an add-on to the Earned Income Tax Credit.
- *Tackle barriers to phased retirement arising from the regulation of employer-provided pension plans.* It can be particularly difficult for employers with a defined-benefit pension scheme to implement phased retirement. For example, because of provisions in the tax code, employers risk lengthy and costly legal proceedings if they rehire one

of their own retirees as a part-time worker. Therefore, the government should address these obstacles and other features of employer-provided benefits that impede phased retirement.

- *Monitor effect of changes to the Fair Labor Standards Act (FLSA) on hours of work.* Given that American workers already work much longer hours on average than in most other major OECD countries, it is important that government policies do not impede reductions in long hours of work for older workers. In this context, a number of regulatory changes to FLSA in the definition of workers that are exempt from the Act's overtime rules could increase the pressure on those older workers who become newly exempt to increase their hours of work. Therefore, the impact of these regulatory changes on working hours should be closely monitored.
- *Promote better opportunities for self-employment.* Self-employment can play an important role in terms of promoting a more gradual transition to retirement. Therefore, some expansion of public programmes to assist older people to become self-employed should be considered. For example, the Self-Employment Assistance (SEA) programme could be developed further to make it more accessible not only by professionals and managers, but also to low-educated older unemployed with poor job prospects. The Small Business Development Center Program could also provide specific training and assistance to help older workers become self-employed.
- *Encourage and assist employers to adapt working conditions to the needs of older workers.* Possibly in collaboration with the National Institute for Occupational Safety and Health, the U.S. Department of Labor should seek to promote "best practice" among employers in terms of accommodating age diversity in the workplace. One model could be the Department's own Job Accommodation Network (JAN), which provides information on job accommodations, self-employment and small business opportunities to facilitate the employment and retention of workers with disabilities. Employer groups themselves should be encouraged to set up websites with information on best practice and with tools for employers to rank their own performance as an age-friendly employer. This type of website has been set up by Austria's peak employer body, the Austrian Employers Federation.
- *Improve the knowledge base on health, well-being and safety at work.* The impact of different types of work arrangements and long hours of

work, in particular, on the health of older workers and their retirement decisions should be further investigated. Regular national surveys of working conditions and the health status of workers should be carried out similar to the former Quality of Employment Surveys and the European Survey on Working Conditions.

### ***Ensuring policies are comprehensive and coherent***

These measures are likely to be more effective if taken as part of a government-wide strategy to encourage greater labour force participation of older people. Getting the economic fundamentals right will also play a key role in improving employment opportunities for older workers. Finally, what is also required are the creative solutions that employers, workers, their representatives and other non-governmental organisations representing older people can propose to improving opportunities for longer working lives. Therefore, close co-operation should be encouraged between these groups and government.

## *RÉSUMÉ ET PRINCIPALES RECOMMANDATIONS*

### **Le défi de l'avenir**

En raison du vieillissement rapide de leur population, les États-Unis seront confrontés au cours des prochaines décennies au risque d'un ralentissement de la croissance économique, de sérieuses pénuries de main-d'œuvre et d'une hausse des taux d'imposition. Selon les prévisions, près d'un cinquième de leur population sera âgée de 65 ans et plus d'ici 2030 contre environ un huitième en 2000. La population active vieillira elle aussi et augmentera probablement bien moins vite que par le passé. La génération du baby-boom commençant à partir en retraite dès 2010, voire avant, les dépenses croissantes qui vont peser sur la sécurité sociale devront être financées soit par des impôts prélevés sur un plus petit nombre de travailleurs par rapport au nombre des retraités, soit par une réduction de la valeur des prestations de sécurité sociale. Sur la base des taux d'activité actuels, le nombre de travailleurs pour un « retraité » (toute personne âgée de 50 ans et plus non comptabilisée dans la population active) devrait tomber de plus de trois en 2000 aux alentours de deux en 2030.

Pourtant, la situation est bien moins sombre qu'il n'y paraît. À certains égards, les États-Unis sont mieux armés que bien d'autres pays de l'OCDE pour faire face au vieillissement démographique. Tout d'abord, leur population devrait vieillir moins rapidement au cours des cinquante prochaines années que dans la plupart des autres pays de l'OCDE. Ensuite, les dépenses publiques au titre des retraites sont assez faibles par rapport à la moyenne de l'OCDE et leur part dans le PIB ne devrait croître que faiblement au cours des cinquante prochaines années. Par ailleurs, le marché du travail des États-Unis est généralement plus favorable aux travailleurs âgés que ceux de beaucoup de pays de l'OCDE. À titre d'exemple, plus des deux tiers de l'ensemble des Américains âgés de 50 à 64 ans travaillent – ce qui place les États-Unis dans le premier tiers des pays de l'OCDE –, et si seulement un cinquième des



Américains âgés de 65 à 74 ans sont encore en activité, ce pourcentage est encore bien supérieur à la moyenne de l'OCDE. Enfin, et surtout, l'espérance de vie et, plus généralement, l'état de santé de la population devraient continuer de s'améliorer au cours des décennies à venir, ce qui accroît encore les chances des Américains relativement âgés de prolonger leur vie professionnelle, mais aussi de profiter de leurs années de retraite.

### ***Promouvoir l'emploi des plus âgés***

La situation n'en est pas moins préoccupante. Améliorer la viabilité à long terme de la sécurité sociale a suscité un débat intense puisqu'il faudra pour cela, soit réduire les prestations, soit accroître sensiblement les prélèvements sur les salaires (ou le financement par la fiscalité générale), soit encore combiner ces deux possibilités. Mais quelle que soit la réforme choisie, il sera primordial de veiller à ce que le revenu garanti à la retraite soit maintenu ou accru. En effet, si le taux de pauvreté des personnes âgées de 65 ans a chuté au fil des ans, il est encore relativement élevé par rapport aux autres pays. Les dépenses rapidement croissantes liées à *Medicare* posent un défi encore plus pressant pour les finances publiques.

Encourager les travailleurs âgés à rester plus longtemps actifs permettrait de doper la croissance économique et de réduire le poids des dépenses publiques futures. Même si elle n'est pas aussi répandue que dans certains pays européens, la retraite anticipée est cependant assez fréquente aux États-Unis. Bien avant l'âge de 65 ans, les taux d'activité des hommes et des femmes chutent sensiblement – de plus de 20 points de pourcentage dans les deux cas entre 50 ans et 60 ans. En outre, le pourcentage des Américains âgés qui travaillent varie considérablement selon le sexe, l'origine ethnique et le niveau d'instruction. Il est donc possible de mobiliser plus largement le potentiel de main-d'œuvre que représentent les individus âgés aux États-Unis. Des mesures dans ce sens contribueraient en outre à réduire le risque pour certains groupes de personnes âgées d'être confrontés à la pauvreté après leur départ en retraite. Les taux d'emploi des travailleurs âgés ne pourront cependant être relevés que si l'on renforce les incitations au travail et si l'on supprime tout un ensemble d'obstacles qui empêchent actuellement les Américains de 50 ans et plus de conserver plus longtemps leur emploi ou d'en trouver un nouveau.

*S'attaquer aux incitations à la retraite anticipée*

Le système américain de sécurité sociale et les pensions de retraite assurées par les employeurs présentent un certain nombre de caractéristiques qui incitent les travailleurs âgés à opter pour la retraite anticipée. Tout d'abord si, jusqu'à ces derniers temps, on ne pouvait percevoir une pension de retraite à taux plein qu'à partir de 65 ans (cet âge étant progressivement relevé à 67 ans), on pouvait, et on peut encore, percevoir une pension à taux réduit dès 62 ans. On a d'ailleurs pu observer un pic des sorties de la population active à l'âge de 62 ans. Ensuite, les régimes de retraite à prestations définies demeurent fréquents, en particulier dans le secteur public, bien qu'ils soient de plus en plus remplacés par des régimes à cotisations définies. Dans le cadre de la plupart de ces régimes à prestations définies, il est possible et souvent financièrement avantageux de prendre une retraite anticipée. Enfin, il semble bien que les modifications antérieures des règles d'ouverture des droits aux prestations d'invalidité, et la mise en application de ces règles, aient effectivement permis à un plus grand nombre de travailleurs âgés peu qualifiés de bénéficier de ces dispositions et de prendre leur retraite par anticipation.

*Supprimer les barrières du côté des employeurs*

Outre ces diverses incitations financières à la retraite anticipée, plusieurs autres obstacles découragent les entreprises d'employer des travailleurs âgés. En témoignent la chute brutale des taux de maintien en activité des travailleurs âgés de plus de 55 ans, les difficultés que rencontrent ces travailleurs pour retrouver un emploi à la suite d'un licenciement et la perte sensible de revenu que beaucoup d'entre eux connaissent une fois qu'ils ont trouvé un nouvel emploi.

Le comportement négatif des employeurs à l'égard des travailleurs âgés peut constituer un de ces obstacles. D'après plusieurs enquêtes, les employeurs considèrent que les travailleurs âgés possèdent des qualités sur les plans de la loyauté, de la motivation et des compétences de base, mais qu'ils présentent aussi de sérieuses faiblesses lorsqu'il faut faire preuve de flexibilité pour la réalisation de différentes tâches, suivre des formations, maîtriser les connaissances récentes et aborder les nouvelles technologies. Les travailleurs âgés constituent cependant un groupe très hétérogène, et toute schématisation ou généralisation concernant leur aptitude au travail, leur motivation et leur adaptabilité au changement et à l'acquisition de nouvelles compétences serait non seulement trompeuse mais pourrait aussi conduire à une discrimination. Il

semble d'ailleurs que la discrimination liée à l'âge soit relativement fréquente, non seulement lors des processus d'embauche et de licenciement, mais aussi au niveau des conditions d'emploi et de promotion.

Les employeurs pourraient également avoir d'autres raisons plus objectives d'hésiter à garder ou à embaucher des travailleurs âgés. Premièrement, il peut être coûteux de conserver des travailleurs âgés si les coûts du travail augmentent plus vite que la productivité avec l'âge. Aux États-Unis, les gains n'augmentent que modérément avec l'âge comparativement à certains autres pays de l'OCDE, comme la France et le Japon. En revanche, d'autres coûts non salariaux, comme l'assurance maladie et les retraites, progressent plus vite. Quoique assez disparates, les données disponibles pour les États-Unis montrent, qu'en moyenne, les coûts du travail augmentent avec l'âge tandis que la productivité reste stationnaire ou diminue légèrement. Le taux d'absence pour cause de maladie est lui aussi légèrement plus élevé pour les travailleurs âgés que pour les travailleurs jeunes, ce qui augmente effectivement leur coût par rapport à leur productivité. Deuxièmement, le changement technologique, particulièrement sous forme de choc non anticipé, peut conduire à une obsolescence des qualifications des travailleurs âgés avec un impact négatif sur leurs possibilités d'emploi. Il faudrait pourtant faire plus de recherche dans ce domaine.

### *Renforcer l'employabilité des travailleurs âgés*

Si, aux États-Unis, bon nombre de travailleurs âgés sont à même de s'adapter à un marché du travail plus flexible que ceux d'autres pays de l'OCDE, ce n'est pas le cas de tous. Les travailleurs américains âgés sont en moyenne correctement instruits par rapport aux critères internationaux. Cependant cette moyenne dissimule une forte dispersion dans le niveau réel de littératie des travailleurs plus marquée que dans la plupart des pays de l'OCDE. Des groupes importants d'Américains âgés ayant un faible niveau d'instruction connaissent ainsi des difficultés soit pour conserver leur emploi, soit pour en trouver un nouveau. De même, les résultats de PISA, programme international qui évalue les acquis des élèves âgés de 15 ans, font également apparaître une forte disparité aux États-Unis autour d'un score moyen plus bas que dans beaucoup d'autres pays de l'OCDE. Le handicap sur le marché du travail que constituent de faibles connaissances de base risque ainsi de se perpétuer dans les générations futures de travailleurs plus âgés.

Le handicap potentiel que représente, sur le marché du travail, un faible niveau d'instruction ou l'absence de maîtrise des mécanismes de la lecture et de l'écriture peut être naturellement compensé par une formation ultérieure, tant sur le lieu de travail qu'à l'extérieur. Les informations disponibles semblent indiquer que la formation liée à l'emploi est relativement fréquente aux États-Unis par rapport à d'autres pays. Si les travailleurs âgés reçoivent moins de formation que les travailleurs jeunes aux États-Unis, cet écart est bien inférieur à celui constaté dans d'autres pays. La raison en est peut-être que le taux de maintien en activité des travailleurs âgés chute moins brutalement que dans les autres grands pays de l'OCDE. Cependant, les travailleurs américains avec un faible niveau d'instruction (qu'ils soient âgés ou jeunes) bénéficient de bien moins de formations que ceux dont le niveau d'instruction est plus élevé. Des mesures devraient donc être mises en œuvre pour leur permettre d'avoir plus largement accès à des possibilités de formation – et pour veiller à ce qu'ils exploitent efficacement ces possibilités.

Certains travailleurs âgés peuvent être incités à prendre une retraite anticipée en raison de leurs mauvaises conditions de travail. Aux États-Unis, la durée du travail des salariés âgés, comme des plus jeunes, est relativement longue, et, en moyenne, beaucoup plus longue que dans la plupart des pays de l'OCDE, à l'exception notable du Japon, ce qui peut être particulièrement pénible pour des personnes d'un certain âge.

En outre, un fort pourcentage des travailleurs âgés serait semble-t-il favorable à une réduction de leur temps de travail avant leur départ en retraite. Un tel allègement pourrait être particulièrement bienvenu pour les travailleurs ayant un léger handicap ou un état de santé limitant le travail. Or, plusieurs obstacles ou rigidités semblent freiner la généralisation de ce type de retraite « progressive », ou plus généralement la possibilité de travailler à temps partiel.

### **Mesures déjà prises**

#### ***Mesures visant à encourager les incitations au travail***

Un certain nombre de mesures importantes ont été prises dans le cadre du système de sécurité sociale pour encourager le report du départ en retraite. La loi de 1983 a relevé l'âge de la retraite à taux plein prévu par la sécurité sociale pour le porter de 65 à 67 ans. Les travailleurs peuvent toujours choisir de percevoir leur retraite dès 62 ans, mais le montant de leurs prestations sera

réduit. Un travailleur qui prend sa retraite à 62 ans ne recevra que 70 % du montant total prévu des prestations de retraite, contre 80 % auparavant. Cette loi prévoit également qu'entre 65 et 69 ans, un travailleur peut bénéficier d'une augmentation de sa retraite pour chaque mois supplémentaire travaillé. Par ailleurs, le critère de ressources, qui était autrefois appliqué aux retraités âgés de 65 à 69 ans, a été supprimé en 2000.

De même, les modifications des régimes de pension prévus par les employeurs, opérées au cours des dernières décennies, ont probablement encouragé le report du départ à la retraite. En 2004, près de la moitié des salariés du secteur privé participaient à un plan de retraite. Si le pourcentage de la population active couverte par un plan de retraite n'a pas varié de manière significative au cours des vingt dernières années, les régimes à prestations définies ont été largement délaissés au profit des régimes à cotisations définies. La politique mise en œuvre au niveau fédéral a contribué à cette évolution en encourageant le développement des régimes à cotisations définies grâce à de nouveaux instruments, tels que le 401(k), et en réduisant l'attrait des régimes à prestations définies, par l'instauration de règles qui les ont rendu plus coûteux à mettre en œuvre.

### ***Mesures destinées à modifier le comportement des employeurs et leurs pratiques en matière d'emploi***

L'*Age Discrimination in Employment Act* (ADEA) est l'une des principales initiatives prises au niveau fédéral qui a sans aucun doute influencé le comportement des employeurs. L'ADEA a été amendé à plusieurs reprises depuis son adoption en 1967 – essentiellement en ce qui concerne la retraite obligatoire qui a été effectivement déclarée illégale avant l'âge de 70 ans pour la plupart des travailleurs en 1978, puis totalement supprimée en 1986. Cette loi a vraisemblablement permis de maintenir en activité un plus grand nombre de travailleurs de plus de 60 ans. Elle a sans doute aussi contribué à freiner l'utilisation de stéréotypes négatifs liés à l'âge sur le marché du travail. L'effet de cette loi sur l'embauche des travailleurs âgés est en revanche moins certain.

L'adoption de l'*Americans with Disabilities Act* (ADA) en 1990 a également étendu la protection complémentaire de l'emploi aux travailleurs âgés, étant donné la proportion significative des personnes de ce groupe qui font état d'une forme ou d'une autre d'incapacité. L'ADA interdit toute

discrimination à l'encontre des personnes handicapées en matière d'embauche, de licenciement, de promotion et de salaire. Elle exige également des employeurs qu'ils « adaptent de manière raisonnable » le lieu de travail aux besoins de leurs employés handicapés. Si comme pour l'ADEA, on a pu constater une augmentation du nombre de salariés handicapés maintenus en activité depuis l'introduction d'ADA, il est plus difficile de déterminer les effets de l'ADA au niveau des embauches.

### ***Mesures visant à améliorer l'employabilité***

Bien que le gouvernement fédéral n'ait guère pris récemment de mesures importantes visant les travailleurs âgés, plusieurs interventions pourraient avoir indirectement amélioré les perspectives de certains d'entre eux sur le marché du travail. Le service public de l'emploi a ainsi été profondément remanié entre la moitié et la fin des années 90, avec la création de « guichets uniques pour la carrière » afin d'intégrer des programmes d'emploi et de formation. Le *Workforce Investment Act* (WIA) est entré en vigueur en 2000 en remplacement du *Job Training Partnership Act* (JTPA), dont les programmes d'emploi avaient été jugés inefficaces. Plus récemment, le ministère américain du Travail a développé un guide intitulé « *A Guide to Serving Mature Workers in One-Stop Career Centers* », qui donne aux cadres et aux employés des guichets uniques des conseils pour leur permettre de répondre efficacement aux besoins et aux préférences spécifiques des travailleurs âgés.

Le *Senior Community Service Employment Program* (SCSEP), programme indépendant existant depuis plusieurs années, a pour mission d'offrir aux personnes à faible revenu âgées de 55 ans et plus un emploi subventionné, principalement au sein d'organisations à but non lucratif et d'organismes publics. Un nouvel objectif récemment proposé est de permettre aux participants à ce programme de trouver un emploi non subventionné, et certains de ses principaux commanditaires se sont révélés particulièrement efficaces à cet égard.

Enfin, les collèges communautaires, qui se sont multipliés au cours des années, sont un instrument important pour la formation des travailleurs jeunes, et probablement aussi des travailleurs âgés.

## Domaines où il faut agir

Même si certains signes montrent que la tendance à long terme à des départs à la retraite de plus en plus précoces s'est interrompue aux États-Unis, de nouvelles mesures peuvent être prises en prévision des défis à venir du fait du vieillissement de la population active, dont la croissance menace en outre de ralentir.

### *Renforcer les incitations financières pour continuer à travailler*

Un vaste débat s'est engagé aux États-Unis depuis plusieurs années sur les moyens possibles de réformer le système de sécurité sociale, afin d'en assurer la viabilité face au vieillissement démographique. Les idées avancées peuvent être regroupées en deux grandes catégories : *i*) des modifications mineures qui préservent la structure fondamentale du système actuel et ; *ii*) un remaniement majeur qui pourrait soit concerner la soumission des prestations à des critères de ressources, soit modifier une partie du système, pour passer du régime actuel d'assurance financé par répartition à un dispositif qui s'apparenterait davantage aux régimes de retraite 401(k) et aux comptes individuels de retraite. Une approche équilibrée de la réforme consisterait à rechercher les moyens de favoriser la viabilité à long terme du système tout en maintenant les pensions de retraite à un niveau décent, et tout en préservant ou en renforçant les incitations à participer au marché du travail.

### *Recommandations*

Un programme de réforme mené dans le cadre des dispositifs de garantie des ressources afin d'améliorer les incitations au travail pour les travailleurs âgés pourrait comporter les éléments suivants :

- *Accélérer le relèvement de 65 à 67 ans de l'âge de la retraite à taux plein.* En portant plus rapidement de 65 à 67 ans l'âge de la retraite à taux plein de la sécurité sociale, on pourrait résoudre en partie les problèmes de financement. Toutefois, cette mesure ne ferait que résoudre partiellement le problème futur de financement. C'est pourquoi d'autres ajustements des paramètres de la sécurité sociale devront être envisagés pour garantir sa viabilité, et ils devront notamment prendre en considération les futurs allongements de l'espérance de vie.

- *Relever l'âge minimum requis par la sécurité sociale.* En portant de 62 à 64 ans l'âge minimum fixé par la sécurité sociale, on encouragerait des départs à la retraite plus tardifs, et on améliorerait les revenus de retraite.
- *S'assurer que les prestations d'invalidité ne deviennent pas un moyen détourné de prendre sa retraite anticipée.* Si les réformes de la sécurité sociale suggérées ci-dessus étaient mises en œuvre, un certain nombre de mesures complémentaires seraient nécessaires pour faire en sorte que l'assurance invalidité ne soit pas utilisée aux fins d'une retraite anticipée. Un contrôle sérieux des demandes d'assurance invalidité serait donc nécessaire pour veiller à ce que les prestations en question ne soient allouées qu'aux personnes n'ayant que des perspectives très limitées sur le marché du travail. De manière plus générale, il serait souhaitable de promouvoir des mesures d'activation pour les bénéficiaires de l'assurance invalidité, notamment à travers plus de possibilités de réhabilitation.
- *Limiter les avantages fiscaux prévus par les systèmes de pension privés en cas de départ à la retraite anticipé.* Compte tenu des modifications proposées de l'âge de la retraite par anticipation fixé par le système de sécurité sociale, on pourrait aussi limiter les avantages fiscaux dont bénéficient ceux qui prennent une retraite anticipée dans le cadre de régimes privés ou professionnels. En même temps, il faudrait étendre l'âge d'ouverture des droits au crédit d'impôt au titre des revenus du travail pour que ce dispositif puisse couvrir toute personne jusqu'à l'âge normal de la retraite prévu par la sécurité sociale.

### ***S'attaquer aux barrières à l'emploi du côté des employeurs***

En dépit du temps écoulé depuis son adoption, l'ADEA n'a pas encore fait la preuve de son efficacité : la discrimination liée à l'âge persiste, et les employeurs conservent des idées préconçues et bien souvent erronées sur la qualité des employés plus âgés. Dans plusieurs domaines, les coûts de l'emploi peuvent être bien plus élevés pour les travailleurs âgés que pour les plus jeunes. En conséquence, si les réformes de la sécurité sociale mentionnées ci-dessus devraient permettre d'encourager davantage les personnes âgées à rester plus longtemps en activité, il faut également agir du côté des employeurs.



### *Recommandations*

S'il n'existe pas de mesure unique susceptible d'accroître de manière spectaculaire le maintien en emploi ou l'embauche des travailleurs âgés, les diverses mesures suivantes pourraient être envisagées :

- *Promouvoir une diffusion plus large des régimes de pension à contributions définies.* Les régimes de pension à contributions définies ont un certain nombre d'avantages par rapport aux régimes à prestations définies pour encourager le maintien dans l'emploi et l'embauche des travailleurs âgés. Ils n'encouragent pas la retraite anticipée et ils n'augmentent pas le coût de recrutement des travailleurs âgés par rapport aux jeunes. C'est pourquoi il faudrait promouvoir la poursuite de la diffusion de ces régimes mais il sera particulièrement important d'assurer une gestion adéquate de ces régimes et de fournir une information satisfaisante aux participants pour les aider à planifier leur départ à la retraite.
- *Abolir la règle du « Medicare, payeur de dernier recours ».* Actuellement, les employeurs qui offrent une assurance maladie à leurs employés de moins de 65 ans sont tenus d'offrir cette même assurance aux employés pouvant bénéficier de Medicare. Abolir cette règle renforcerait les possibilités d'emploi des travailleurs de 65 ans et plus. Il faudra bien entendu examiner attentivement les conséquences budgétaires de cette proposition, étant donné qu'elle pourrait entraîner des dépenses publiques supplémentaires d'environ 3 milliards de dollars américains par an.
- *Renforcer les mesures pour lutter contre la discrimination liée à l'âge.* Des mesures devraient être prises pour renforcer l'efficacité de l'ADEA, notamment en matière d'embauche. On pourrait par exemple envisager d'introduire dans la loi des conseils explicites sur « l'incidence des disparités ». Il faudrait également s'attacher à étendre la protection de l'ADEA à tous les individus quel que soit leur âge plutôt qu'uniquement à ceux de 40 ans et plus de manière à ce que les plus âgés soient moins stigmatisés. Il faudrait aussi reconsidérer le fait que les petites entreprises ne sont pas concernées par l'ADEA.

- *Promouvoir les pratiques d'entreprise concernant l'emploi des travailleurs âgés.* Un renforcement de la loi pour interdire la discrimination liée à l'âge se révélera d'autant plus efficace si des campagnes sont menées parallèlement pour modifier le comportement des employeurs. Les activités de sensibilisation et d'éducation de l'*Equal Employment Opportunity Commission* pourraient être étendues. Les employeurs seraient également plus enclins à adopter des pratiques d'emploi respectueuses de l'âge s'ils étaient mieux informés de l'impact du vieillissement de la population active sur les futures pénuries de qualification. C'est pourquoi, en consultation avec les groupes d'employeurs, le gouvernement devrait s'assurer que des informations sont recueillies au niveau national sur les pénuries de qualification actuelles et futures.

### ***Permettre un meilleur accès à des emplois de qualité***

Inciter davantage les travailleurs à conserver plus longtemps leur emploi, et par ailleurs encourager les employeurs à prendre conscience de la diversité des âges de la population active ne sont que l'une des batailles à mener dans ce domaine. Si les travailleurs âgés sont en mauvaise santé, ne possèdent pas les compétences nécessaires que recherchent les employeurs ou sont confrontés à des conditions de travail pénibles, ils peuvent être encore tentés de prendre leur retraite le plus tôt possible. Il est indispensable d'accroître la participation aux activités de formation des travailleurs appartenant à des groupes défavorisés, et en particulier, les plus faiblement instruits. C'est là un défi majeur pour les États-Unis, comme pour les autres pays de l'OCDE. Le bon fonctionnement du service de l'emploi sera tout aussi important pour aider un nombre croissant de travailleurs âgés à faire face au changement et à la perte d'emploi. Les demandeurs d'emploi âgés sont actuellement sous-représentés dans la quasi-totalité des principaux programmes du marché du travail. Et quand ils y participent, ils bénéficient généralement de moins de formation que les participants plus jeunes. Le rôle du SCSEP doit être redéfini maintenant qu'il est devenu la seule source de fonds fédéraux ciblés sur l'aide à l'emploi de travailleurs âgés. L'amélioration des conditions de travail ainsi que la santé et la sécurité sur le lieu de travail constituent le troisième grand axe de réflexion pour faire en sorte que les travailleurs âgés aient la volonté et la capacité de continuer à travailler plus longtemps. Pour répondre à la diversité croissante des préférences en termes d'emploi, d'autres formes de travail plus diversifiées ou flexibles, telles que le travail à temps partiel, seront nécessaires. La longueur de

la durée du travail pourrait notamment constituer un obstacle pour les travailleurs âgés désirant retarder leur retraite.

### *Recommandations*

Pour améliorer l'employabilité des générations actuelles et futures de travailleurs âgés, il faudrait mettre en place un ensemble de mesures portant sur la formation, les services de l'emploi et les conditions d'emploi, parmi lesquelles :

- *Accroître et élargir les possibilités de formation pour les travailleurs peu qualifiés.* Les mesures destinées à encourager l'apprentissage tout au long de la vie devraient concerner en premier lieu les travailleurs de tous âges dont le niveau d'instruction est faible ou dont l'accès à la formation est limité, notamment les entrepreneurs indépendants. C'est seulement en améliorant continuellement les compétences des travailleurs que ces derniers pourront s'adapter à un environnement économique en perpétuelle évolution. Un ensemble de mesures sont nécessaires, notamment *i)* renforcer la formation financée par les individus et l'orientation professionnelle ; *ii)* s'assurer que la formation est mieux adaptée aux besoins des travailleurs âgés ; et *iii)* améliorer les connaissances pour savoir ce qui marche.
- *Évaluer l'efficacité des dispositifs en vigueur pour offrir des services d'aide à l'emploi aux demandeurs d'emploi âgés.* Depuis la suppression des fonds fédéraux affectés aux demandeurs d'emploi âgés du fait de l'application du WIA, la qualité des services publics de l'emploi et d'orientation professionnelle des travailleurs âgés devrait être soigneusement évaluée. Il faudrait notamment étudier l'incidence du système actuel d'évaluation des performances sur les ressources consacrées aux demandeurs d'emploi âgés. Étant donné que les travailleurs âgés sont généralement sous-représentés dans les programmes actifs du marché du travail, il peut être nécessaire de les réorienter et d'en offrir moins aux jeunes. Peut-être faudrait-il aussi étendre le programme SCSEP pour faire face à la croissance attendue de sa population cible. Il faudrait également examiner si la subvention spéciale à l'emploi disponible pour les travailleurs âgés sous le programme TAA pour compenser les pertes de salaire ne devrait pas être étendue aux participants plus âgés des programmes WIA, éventuellement comme un complément au *Earned Income Tax Credit*.

- *Remédier aux obstacles au départ progressif en retraite qui résultent de la réglementation des régimes de retraite d'entreprise.* Il peut être particulièrement difficile pour les employeurs de mettre en place des départs progressifs à la retraite dans le cadre des régimes de retraite à prestations définies. En raison des dispositions du code fiscal, un employeur risque par exemple des procédures judiciaires longues et coûteuses s'il réembauche l'un de ses propres retraités comme travailleur à temps partiel. C'est pourquoi les pouvoirs publics devraient se pencher sur ces obstacles, ainsi que sur d'autres caractéristiques des régimes d'entreprise qui freinent les départs progressifs à la retraite.
- *Suivre les effets des changements du Fair Labor Standards Act (FLSA) sur les heures de travail.* Étant donné que les travailleurs américains travaillent déjà beaucoup plus longtemps que la moyenne de la plupart des autres grands pays de l'OCDE, il est important que les politiques du gouvernement n'empêchent pas des réductions dans les longs horaires des travailleurs âgés. Dans ce contexte, un certain nombre de changements réglementaires au FLSA dans la définition des travailleurs dispensés des règles sur les heures supplémentaires pourraient augmenter la pression sur ces travailleurs âgés qui sont devenus récemment exempts d'augmenter leurs horaires de travail. C'est pourquoi, l'impact de ces changements réglementaires sur les heures de travail devrait faire l'objet d'un suivi étroit.
- *Promouvoir de meilleures perspectives au travail indépendant.* Le travail indépendant pourrait jouer un rôle important pour permettre une transition plus graduelle vers la retraite. Des programmes publics pourraient de ce fait être élargis pour aider les plus âgés à s'installer comme indépendants. Par exemple, le programme *Self Employment Assistance* (SEA) pourrait être développé pour le rendre plus accessible non seulement aux cadres et professionnels mais aussi aux chômeurs âgés peu diplômés avec peu de perspectives de carrière. Le réseau SBDC pourrait également fournir une formation et une aide spécifique pour aider les travailleurs âgés à s'installer comme indépendants.
- *Encourager et aider les employeurs à adapter les conditions de travail aux besoins des travailleurs âgés.* Le ministère du Travail pourrait chercher, éventuellement en collaboration avec le *National Institute*

*for Occupational Safety and Health*, à promouvoir des « pratiques exemplaires » chez les employeurs pour qu'ils adaptent les conditions de travail en tenant compte de la diversité des âges. Comme modèle, le ministère pourrait s'inspirer de son propre réseau (*Job Accommodation Network*) qui fournit des informations sur les aménagements du poste de travail et sur les opportunités dans le cadre du travail indépendant et des petites entreprises pour faciliter l'emploi et le maintien au travail des personnes avec un handicap. On devrait encourager les associations patronales à créer elles-mêmes des sites Internet pour la diffusion d'informations sur les pratiques exemplaires à adopter. Ces sites Internet pourraient également proposer des outils aux employeurs pour évaluer leurs propres performances comme employeurs respectueux de l'âge. Un tel dispositif a, par exemple, été mis en place par le principal organisme d'employeurs en Autriche, *l'Austrian Employers Federation*.

- *Améliorer les connaissances de base sur la santé, le bien-être et la sécurité au travail.* L'incidence des différents types d'organisation du travail et de la durée du travail, notamment sur la santé des travailleurs âgés, ainsi que sur leur décision de partir en retraite, devrait être examinée plus en détail. Des études nationales menées régulièrement sur les conditions de travail et l'état de santé des travailleurs devraient être réalisées, à l'instar des anciens *Quality of Employment Surveys* et de l'Enquête européenne sur les conditions de travail.

### ***S'assurer que les mesures forment une stratégie d'ensemble et cohérente***

Les mesures sont susceptibles d'être plus efficaces si elles forment une stratégie pour l'ensemble du gouvernement de manière à encourager une participation plus forte des individus âgés au marché du travail. Se trouver dans une situation économique saine pourra également jouer un rôle essentiel pour améliorer les perspectives d'emploi des travailleurs âgés. Finalement, ce qui est également crucial c'est de mettre en place des solutions créatives que les employeurs, les travailleurs, les syndicats et les autres associations représentant les individus âgés puissent proposer pour multiplier les options afin de prolonger la vie active. C'est pourquoi, une coopération étroite devrait être encouragée entre ces groupes et le gouvernement.

## INTRODUCTION

As a result of rapid population ageing, the United States faces a risk of slower economic growth, serious labour shortages and rising tax rates over the next few decades. By 2030, almost one-fifth of its population is projected to be aged 65 and over compared with around one-eighth in 2000. The labour force will also age and is likely to grow much more slowly than in the past. As the baby-boom generation begins to move into retirement from 2010, or even earlier, growing expenditures on social security will have to be financed by taxes on a smaller number of workers relative to the number of pensioners or by cuts in the value of social security benefits.

A rise in the proportion of older people that are working would help to reduce the burden of future social security expenditures and boost economic growth. While not as endemic as in some European countries, early retirement is nevertheless a fairly frequent occurrence in the United States. Moreover, employment rates among older Americans vary widely by gender, ethnic background and level of educational attainment. Thus, there is some scope to mobilise more fully the potential labour supply of older people in the United States. This could be done in a way that gives more opportunities for older workers to apply and enrich their experience and skills, thereby contributing to better outcomes both for American society as a whole and also in terms of personal esteem and social inclusion. Therefore, the main purpose of this report is to identify those work disincentives and barriers that are preventing older Americans from either remaining longer in their jobs or finding new and better jobs, and to propose some possible avenues for reform for tackling these disincentives and barriers.

In *Chapter 1*, the demographic challenges facing the United States are laid out and the importance of improving employment prospects of older workers as the key to meeting these challenges is highlighted. The current labour market situation of older workers in the United States is examined in more detail in *Chapter 2* and some of the key problems that they are facing are identified. Potential supply-side disincentives to working longer are discussed in *Chapter 3*, including the impact of social security and other social security

arrangements on the work and retirement decisions of older people. A number of possible reforms to strengthen work incentives are outlined. But removing work disincentives will not be enough, action on the demand side will also be needed. Thus, in *Chapter 4*, an assessment is made of the main factors influencing employer attitudes towards older workers and the different options for improving the retention and hiring of older workers. This is complemented in *Chapter 5* by an analysis of the different ways to improve the “employability” of older workers through providing more training opportunities, strengthening the role and effectiveness of other labour market programmes and improving working conditions. Finally, in *Chapter 6*, issues of policy coherence and co-ordination are discussed together with a summary of the main issues for policy.

## *Chapter 1*

### **THE CHALLENGE AHEAD**

The United States, like most other OECD countries, faces a range of economic and social challenges over the next few decades as a result of population ageing. In particular, its large cohort of baby boomers will begin retiring as early as 2008 while at the same time its population of working age will be growing more slowly than in the past. This will put considerable pressure on the sustainability of age-related public expenditures such as social security and Medicare. These demographic trends are the result of a long-term decline in fertility rates and rising life expectancy. However, increased life expectancy also raises opportunities for longer and healthier lives both in work and in retirement. Thus, one of the key challenges for the United States will be to ensure that population ageing becomes synonymous with active ageing.

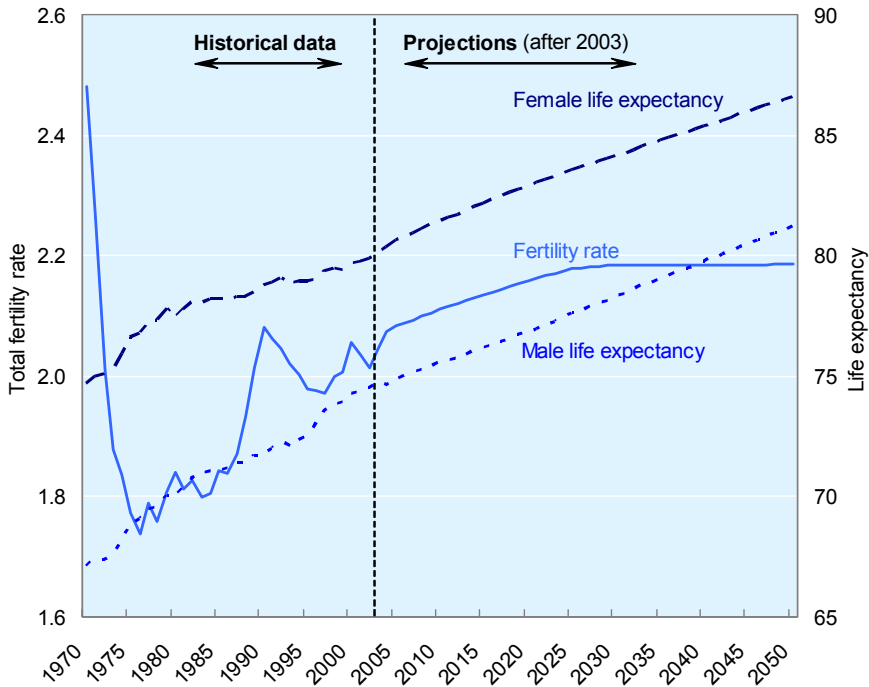
The purpose of this chapter is to map out some of the main demographic trends over the next few decades and show how mobilising the potential labour supply of older people can play a key role in attenuating some of the negative impact of population ageing on economic growth. Therefore, in Section 1, the main demographic trends over the next 50 years are traced out. The potential implications of these trends for labour force and economic growth are discussed in Section 2.

#### **1. Demographic trends**

The key factors driving population ageing are changes over time in the total fertility rate and life expectancy. Over the next 50 years, life expectancy at birth is projected to continue to increase for both men and women (Figure 1.1). This will reflect improvements in health status not only at younger ages but at older ages as well. Consequently, there is likely to be a steep rise in the number of the very old which will put strain on long-term care arrangements in particular.



Figure 1.1. **Total fertility rate and life expectancy at birth in the United States, 1970-2050**

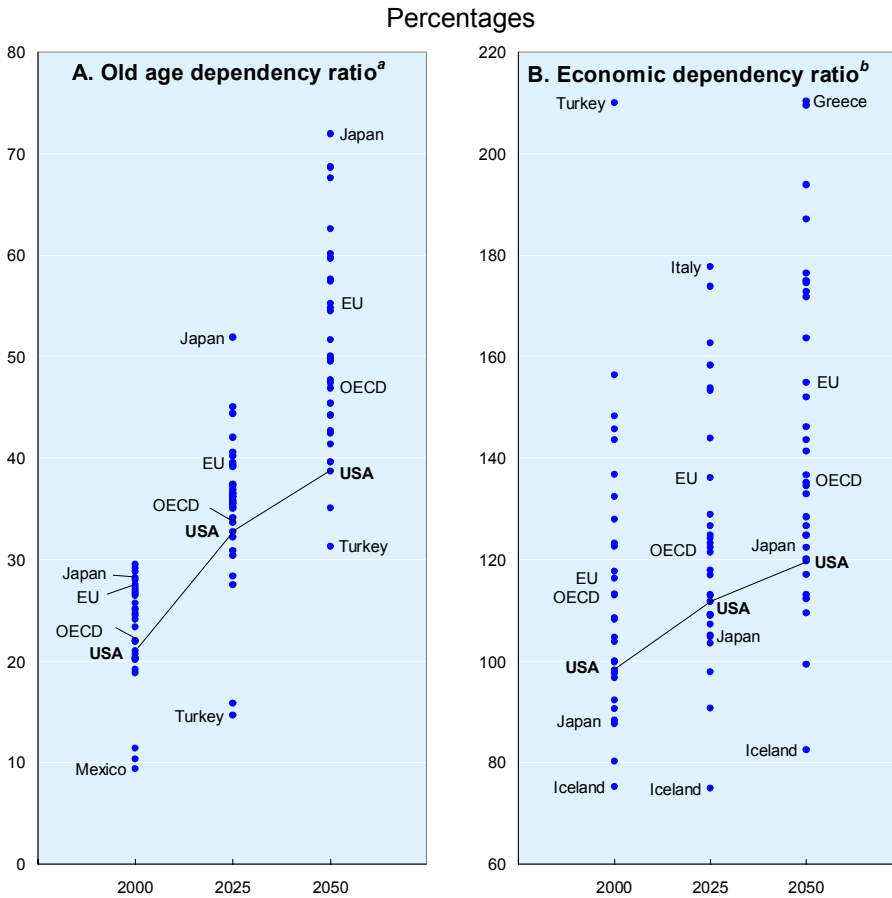


Source: U.S. Bureau of the Census, International Data Base.

Partly offsetting the impact on population ageing of the rise in life expectancy is the projected rise in the total fertility rate. The United States already has a relatively high fertility rate in comparison with Japan and most European countries and consequently population ageing will be less rapid in the United States than in many other OECD countries.

Nevertheless, the old-age dependency ratio, defined as the ratio of the population aged 65 and over to the population aged 20 to 64, is expected to rise sharply over the next 30 years in the United States as a result of the ageing of its baby-boom generation (Figure 1.2). From 21% in 2000, it is projected to rise to 36% in 2030 but then rise only gradually to just under 40% in 2050. In contrast, much steeper rises will be experienced in many other OECD countries. In Japan, for example, the ratio is projected to rise from 28% in 2000 to 72% in 2050. Thus, whereas the old-age dependency ratio in the United States is currently close to the OECD average it will be well below the average in 2050.

Figure 1.2. Dependency ratios in OECD countries, 2000-50



a) Ratio of the population aged 65 and over to the population aged 20-64.

b) Ratio of persons not in the labour force to those in the labour force (assuming constant labour force participation rates by age and gender at their 2000 levels).

Source: National population projections (central variant) except for Ireland, Greece, Hungary, Luxembourg, Mexico and Turkey from UN, *World Population Prospects 1950-2050* (2002 Revision).

The old-age dependency ratio is sometimes criticised as not providing a very good indicator of the potential economic burden associated with population ageing. First, it does not take account of the fact that an increase in public expenditures associated with growing cohorts of older people will be partially offset by decreased expenditures on the relatively smaller cohorts of younger

people.<sup>1</sup> Second, it ignores changes in the age composition of the working-age population and the impact this may have on the size of the labour force. The economic dependency ratio, defined as the ratio of the inactive population to the active population, takes into account both these factors. It shows for the United States that whereas in 2000 roughly one person was not working for every person not working, this will rise to a ratio of around 1.2 in 2050, *i.e.* an increase of 20%.<sup>2</sup>

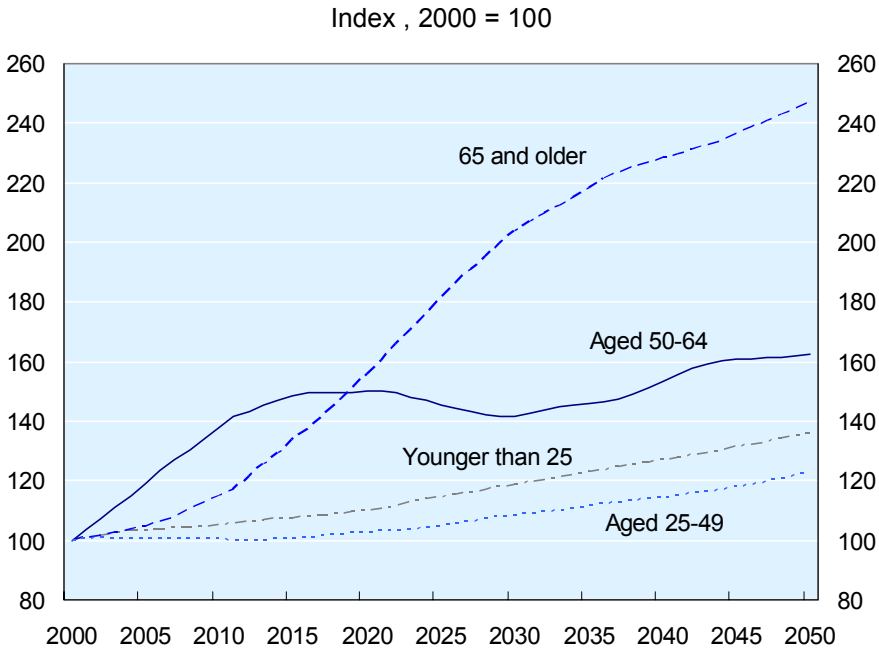
The projected growth of the U.S. population by broad age groups is shown in Figure 1.3. Population ageing is reflected in the projected strong growth of the population aged 65 and over. The population aged 50-64 is projected to grow strongly initially, reflecting the passage of the baby-boom generation, but then peaks around 2020. The population aged 25-49, with the highest rates of labour force participation, is projected to stagnate in size over the next two decades but rise thereafter – as will the population below 25 years of age – thus alleviating some of the pressures resulting from an ageing population.

## 2. The economic challenge

As in other OECD countries, population ageing in the United States is likely to lead to a sharp slowdown in labour force growth and hence to slower economic growth. Assuming unchanged participation rates by age and gender, labour force growth could slow from around 1.7% per annum over the past 50 years to 0.6% per annum over the next 50 years. A simple calculation suggests that as a result, all else equal, real GDP growth could be about 0.7 percentage points lower per annum over the next half century relative to the growth experienced over the previous half century.<sup>3</sup>

- 
1. Although in the case of the United States because of its higher total fertility rates, the decline in the relative size of the younger population will be much less pronounced than in most other OECD countries.
  2. These projections assume unchanged participation rates by age and gender.
  3. In accounting for output growth, the contribution from labour growth is often given a weight of around 0.65. The slowdown in labour growth of 1.08 percentage points – the difference in the average annual growth rate over the period 1950-2000 (1.67%) and the projected growth rate over the period 2000-50 (0.59%) – means that annual average potential growth would decline by around 0.7 percentage points ( $0.65 \times 1.08$ ).

Figure 1.3. **Population projections for the United States by broad age groups, 2000-50**

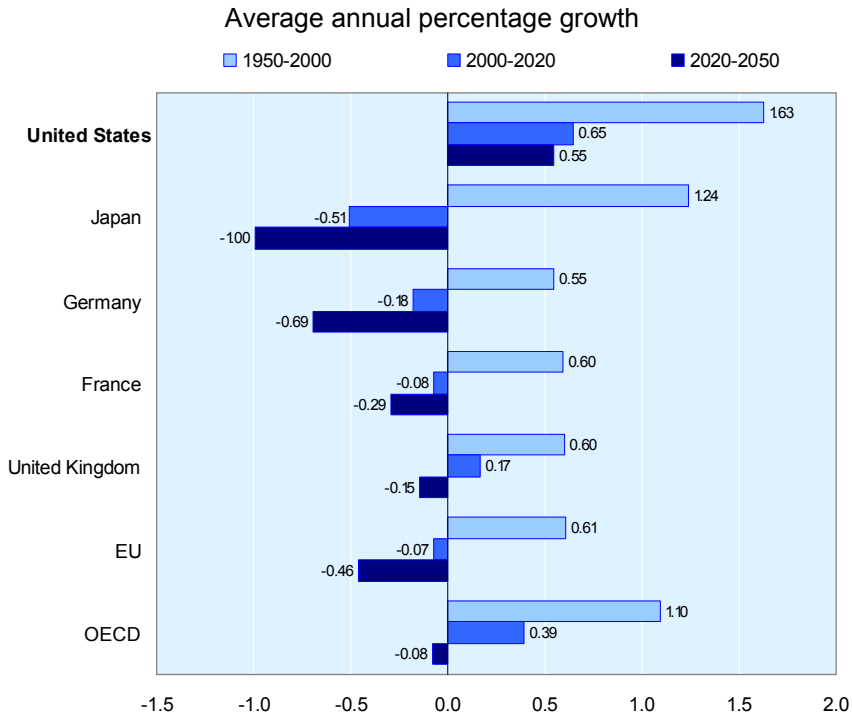


Source: U.S. Bureau of the Census, International Data Base.

The situation in the United States is less dramatic than in Japan and Europe where the labour force may actually contract over the next few decades (Figure 1.4). Nevertheless, the slowdown in labour force growth of about one percentage point per annum in the United States is one of the largest, apart from Japan, among the OECD countries shown in Figure 1.4. Moreover, a slowdown in labour force growth could lead to severe labour shortages in certain occupations, especially in those areas such as nursing and long-term care where labour demand will expand as a consequence of rapid growth in the elderly population.

Slower economic growth will also coincide with rising public expenditures on health care, long-term care and pensions. Thus, OECD estimates project that total age-related spending in the United States could increase by around 5.5% of GDP by 2050 (OECD, 2001). The largest increase will be in health care and long-term care where public expenditure is projected to rise by 4.4% of GDP matched by a considerable rise in private expenditure in these areas (OECD, 2002).

Figure 1.4. **Actual and projected labour force growth in the United States and other OECD countries, 1950-2050<sup>a</sup>**



a) The labour force projections assume that participation rates by five-year age groups and gender remain constant at their 2000 level.

Source: OECD Labour Force Statistics database; and OECD estimates.

On the basis of current participation rates, the ratio of workers to “retirees” (*i.e.* the population aged 50 and over not in the labour force) is projected to decline from over three to one in 2000 to around two to one in 2030. This might exacerbate intergenerational tensions if the younger working generation is required to finance a large and growing cohort of retirees through higher savings, increased taxes or higher contributions. These tensions will be intensified if workers continue to retire early.

A key factor in meeting these economic and social challenges will be to remove barriers to labour force participation, especially with respect to older people. If older workers could be encouraged to remain in work longer, this would boost labour force growth and help offset the negative impact of population ageing on economic growth and help stem rising public expenditures.

The potential contribution of higher or lower participation rates among older people to labour force growth over the next 50 years can be illustrated using three different scenarios. In the “constant” scenario, participation rates by age and gender remain constant at their 2000 levels. They are also held constant for the younger age groups in the “declining” and “rising” scenarios, but for the older age groups (50 and over) they converge by 2030 to a lower and higher value, respectively, and remain constant thereafter. The lower value corresponds to the OECD average of participation rates in each age and gender group in 2000 while the higher value corresponds to the maximum rate in each group across OECD countries in 2000 (excluding Iceland and Mexico).

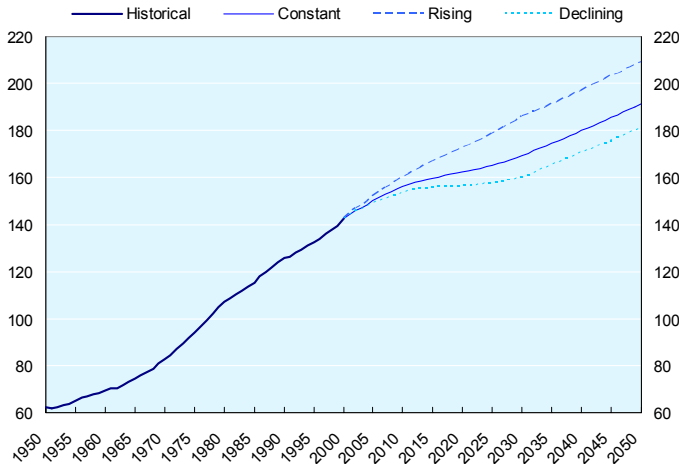
The results of these scenarios show that different assumptions about the future path of labour force participation rates for older people can lead to large differences in the overall size of the labour force over the next 50 years and in the growth of the labour force. Under the declining scenario the labour force would be around 11 million smaller by 2050 than under the “constant” scenario, while under the “rising” scenario it would be around 18 million higher (Figure 1.5).<sup>4</sup> The annual average rate of growth over the period 2000-50 varies from 0.48% under the “declining” scenario to 0.77% under the “rising” scenario (Table 1.1). But even under optimistic assumptions about future participation rates for older people, labour force growth will be sharply slower over the next half century than it was over the previous half century.

Population ageing will also be reflected in an older workforce (Figure 1.6). In 2000, older workers (*i.e.* aged 50 and over) accounted for around 23% of the United States labour force. Assuming participation rates by gender and age groups do not change, the share of older workers is projected to peak at 30% around 2020. Given their low participation rates, the proportion of much older workers (aged 65 and over) is likely to rise from 3% of the total labour force in 2000 to just over 5% in 2030. Under the “rising” scenario, where participation rates for older people are projected rise over the next 30 years, the proportion of the labour force accounted for by older workers would peak at almost 35%.

---

4. The latest labour force projections of the Bureau of Labor Statistics (BLS) lie between those corresponding to the “constant” scenario and those corresponding to the “rising” scenario but are closer to those of the “constant” scenario (see Toosi, 2002 and 2004, for further details concerning the BLS projections).

**Figure 1.5. Historical and projected trends in the United States labour force, 1950-2050<sup>a</sup>**  
Millions, projections after 2000



- a) Under the “constant” scenario, participation rates by age and gender remain constant at their 2000 levels. They are also held constant for the younger age groups in the other two scenarios. Under the “declining” scenario, participation rates for the older age groups (50 and over) are projected to gradually decline over the period 2000-2030 whereas they are projected to increase under the “rising” scenario. See text for further details.

*Source:* OECD estimates based on the Current Population Survey and population projections from the U.S. Bureau of the Census, International Data Base.

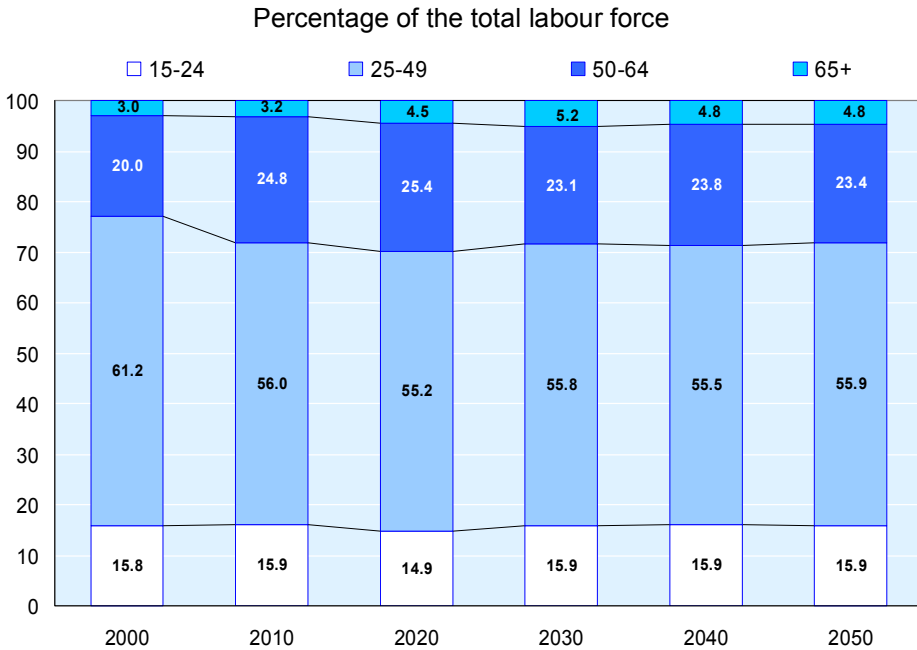
**Table 1.1. Labour force growth in the United States over the next 50 years under various scenarios<sup>a</sup>**  
Average annual percentage change

		Historical 1950-2000	Projections		
			2000-2050	2000-2020	2020-2050
OECD scenarios	Constant	1.67	0.59	0.65	0.55
	Rising	1.67	0.77	0.96	0.64
	Declining	1.67	0.48	0.46	0.49
BLS projections		1.67	0.62	0.78	0.51

- a) Under the “constant” scenario, participation rates by age and gender remain constant at their 2000 levels. They are also held constant for the younger age groups in the other two scenarios. Under the “declining” scenario, participation rates for the older age groups (50 and over) are projected to gradually decline over the period 2000-2030 whereas they are projected to increase under the “rising” scenario. See text for further details.

*Source:* OECD estimates based on the Current Population Survey and the population projections from the U.S. Bureau of the Census, International Data Base; U.S. Bureau of Labor Statistics for the BLS projections.

Figure 1.6. **Ageing of the United States labour force over the next 50 years**



*Source:* OECD estimates based on the Current Population Survey and population projections from the U.S. Bureau of the Census, International Data Base, and assuming constant participation rates by gender and five-year age groups at their 2000 levels.





## *Chapter 2*

### **A PROFILE OF OLDER WORKERS**

As pointed out in the previous chapter, removing barriers to older people participating in the labour force would help the United States meet the future challenges of population ageing. However, older workers are a very diverse group and specific measures may be required to address the needs of different groups among them. The purpose of this chapter, therefore, is to provide a profile of older workers and identify those groups that may be facing particular problems in the labour market.

The first section looks at whether there is much scope to increase labour force participation rates, given that they are already high by international standards. The second section describes the employment situation of older American workers in more detail in terms of where they work and in what type of jobs. The final section of the chapter examines unemployment among older workers and the difficulties they face in finding new jobs.

#### **1. Is there scope to raise labour force participation?**

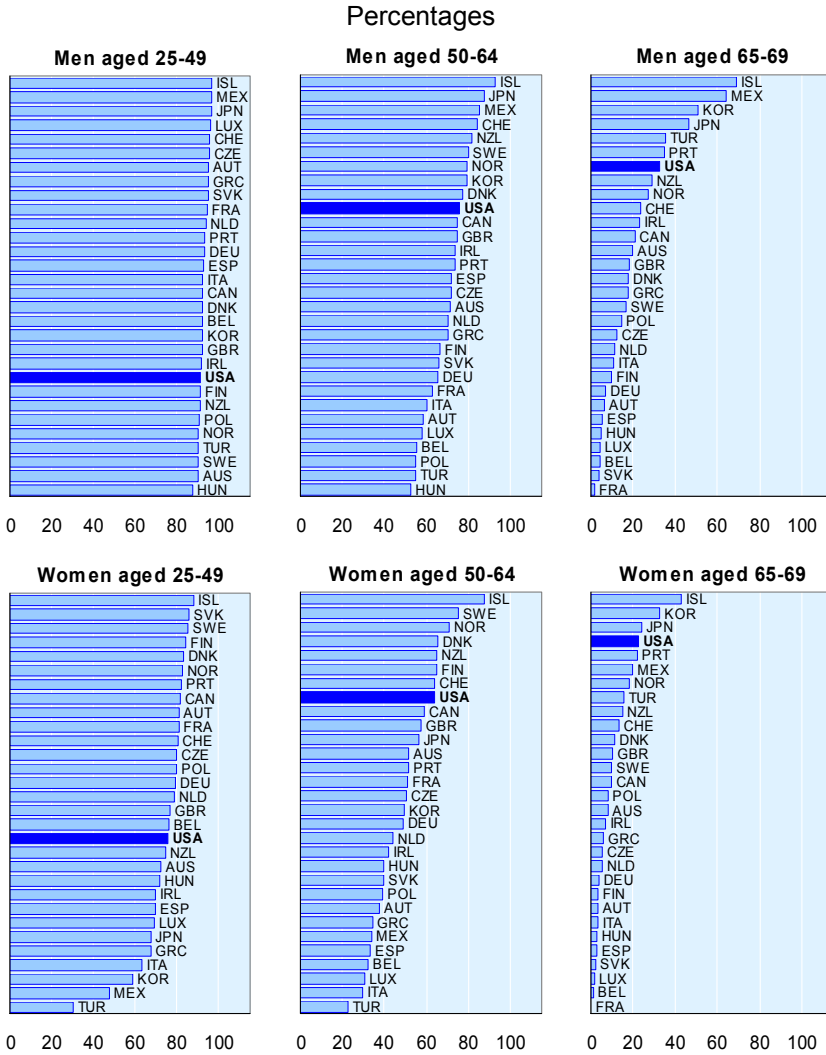
There is no absolute benchmark which current labour force participation rates of older Americans can be judged against. Instead, the scope for policy to encourage higher participation rates among older Americans can be inferred from a range of evidence, including: international comparisons; more detailed data on participation rates by single year of age and by other characteristics; and trends over time in participation rates by age and gender.

##### ***A. Participation rates are higher than most but not all OECD countries***

Participation rates for older people are already quite high in the United States in comparison with other OECD countries (Figure 2.1). In 2003, more than three-quarters of American men aged 50-64 were in the labour force compared with just over two-thirds in the European Union. The gap is even larger for women in the same age group. For the older age group 65-69, while

only less than a third of American men and around one-fifth of American women were still in the labour force, these figures are far higher than on average in Europe.

Figure 2.1. Labour force participation rates by age and gender in OECD countries, 2003<sup>a</sup>



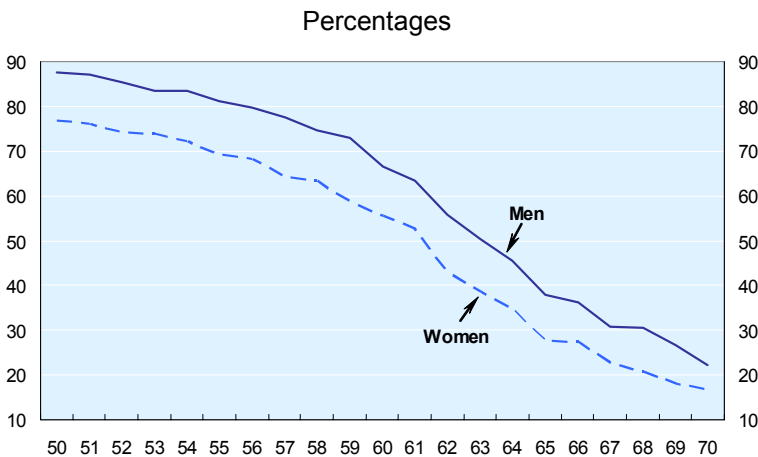
a) 2002 data for Iceland and Luxembourg.  
Source: OECD Labour Force Statistics database.

While participation rates for older people in the United States are higher than on average across OECD countries and in Europe, they are not the highest. A range of countries such as Denmark, Japan, Korea, New Zealand, Norway, Sweden and Switzerland have higher rates for one or several of the sub-groups of older workers shown in Figure 2.1. Iceland has consistently higher rates across all groups. Moreover, participation rates for prime-age men and women in the United States are much further down the OECD rankings than those for the older age groups. Thus, there would appear to be some scope in the United States to increase participation rates both for the prime-age group (25-49) younger and older age groups. In fact, using the benchmarking exercise reported in OECD (2003a), one estimate of the additional labour resources that could be mobilised in the United States is 6.6% of its working-age population. Those aged 50-64 account for more than a third of this.

### **B. *Early retirement is a frequent occurrence***

The pattern of changes in labour force participation by single year of age also suggests there is some scope to raise participation rates (Figure 2.2). While not as endemic as in some European countries, early retirement is nevertheless a fairly frequent occurrence in the United States. Well before either the traditional age of 65 for receiving a full social security pension or the age of 62 for receiving a reduced pension, participation rates for men and women fall considerably – in both cases, by over 20 percentage points between the ages of 50 and 60.

**Figure 2.2. Labour force participation rates in the United States by single year of age and gender, 2004**

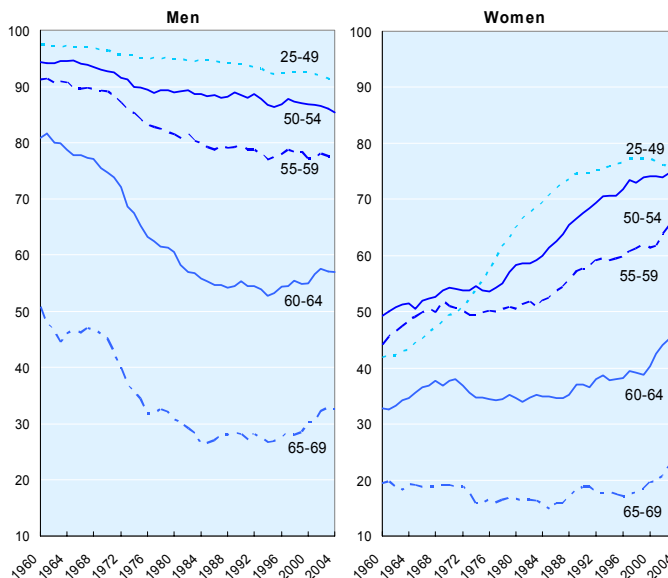


Source: Current Population Survey.

### C. *Downward trend in average retirement age has ended*

Long-term trends in labour force participation have differed significantly between men and women (Figure 2.3). For adult men, the participation of all age groups fell substantially between 1960 and 1990, with the most pronounced drop occurring for men in their early 60s. Since 1990, participation rates have continued to decline for prime-age men and for men in their early 50s, but have stabilised for men in their late 50s and even increased since the mid-1990s for men in their 60s. In contrast, the rise in participation rates of women of all ages has been impressive. There are clear signs of cohort effects with the rise in participation of prime-age women subsequently feeding through into rising participation rates at the older ages. However, the long-term upward trend for prime-age women has slowed down over the 1990s, and falls in participation have been recorded for the early 2000s. The result of the general rise in participation rates for women has been a narrowing of the gender gap in participation at all ages. In 2004, the gap amounted to between 9 and 13 percentage points for the older age groups but, because of the drop in women's participation associated with childbirth and childcare responsibilities, it was somewhat higher at 16 percentage points in the prime-age group 25-49.

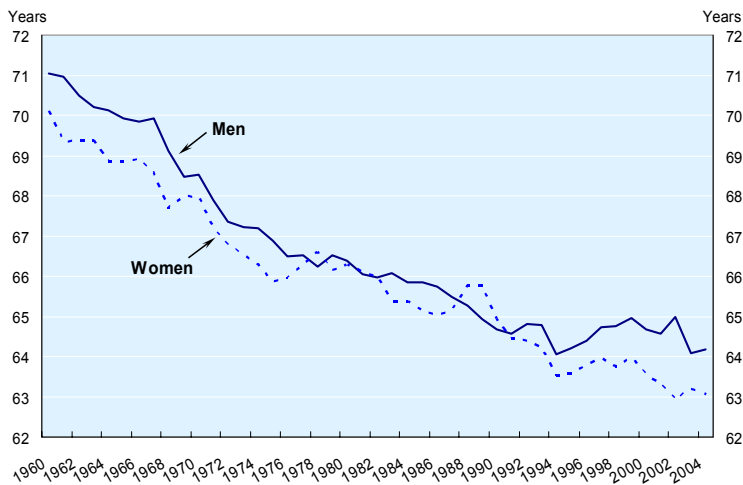
Figure 2.3. **Labour force participation rates in the United States by age and gender, 1960-2004**  
Percentages



Source: Current Population Survey.

Trends in participation rates provide a useful picture of changes in labour supply but they reflect a range of factors influencing both the decision to participate in the labour market in the first place as well as the decision to retire. This is especially true for older women, where rising participation rates over time reflect principally cohort effects and not necessarily any general trend towards later retirement. Therefore, it is also useful to examine trends over time in the average effective age of retirement (*i.e.* the average age at which older workers leave the labour force altogether).<sup>5</sup> Since the average age of retirement reflects changes in participation with age, it abstracts from the initial level of the participation rate of older people which may reflect a range of factors that are independent of the factors influencing their retirement decisions.

Figure 2.4. **Effective retirement age in the United States, 1960-2004<sup>a</sup>**



- a) For each five-year period ending in the year shown in the figure, the effective age of retirement corresponds to the average age of exit for all labour force participants initially aged 40 and over who were no longer in the labour force five years later.

Source: OECD estimates derived from the Current Population Survey.

The average effective age of retirement has declined steeply over time for both men and women from over 70 in the late 1950s to early 1960s to under 65 in the 1990s (Figure 2.4). Apart from a recent dip, there appears to be some sign that the decline in the average retirement age for men came to a halt in the

5. For each five-year period, the average effective age of retirement is estimated by weighting the average age of each cohort by five-year age groups (above the age of 40) by its share of the total decline in participation rates for all cohorts between the beginning and end of the period.

1990s and even rose slightly from the historic low recorded for the period 1989-94. For women, recent patterns are less clear and a gender gap in the retirement age has opened up. Currently women retire on average around one year earlier than men.

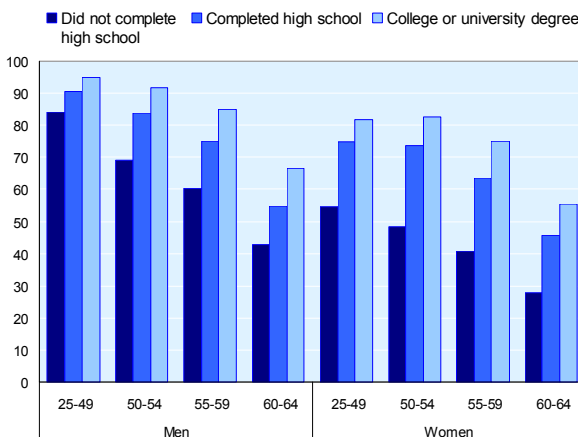
## 2. Large variation in labour market outcomes

Beneath the aggregate picture of labour force participation of older Americans, there is considerable variation when other characteristics of older people are examined. The more notable of these characteristics concern gender, as already discussed, as well as education level, race and ethnic background. There are also large differences among older workers in terms of the jobs in which they are working.

### A. Education

As in most other OECD countries, labour force participation rates in the United States are clearly linked with education levels, and especially so for older people (Figure 2.5). While participation rates are higher for more highly-educated people at all ages, and for both men and women, the gap is more pronounced for older people and for women in general. At older ages, participation rates decrease with age for all education levels but the drop is particular large for women who did not finish high school.

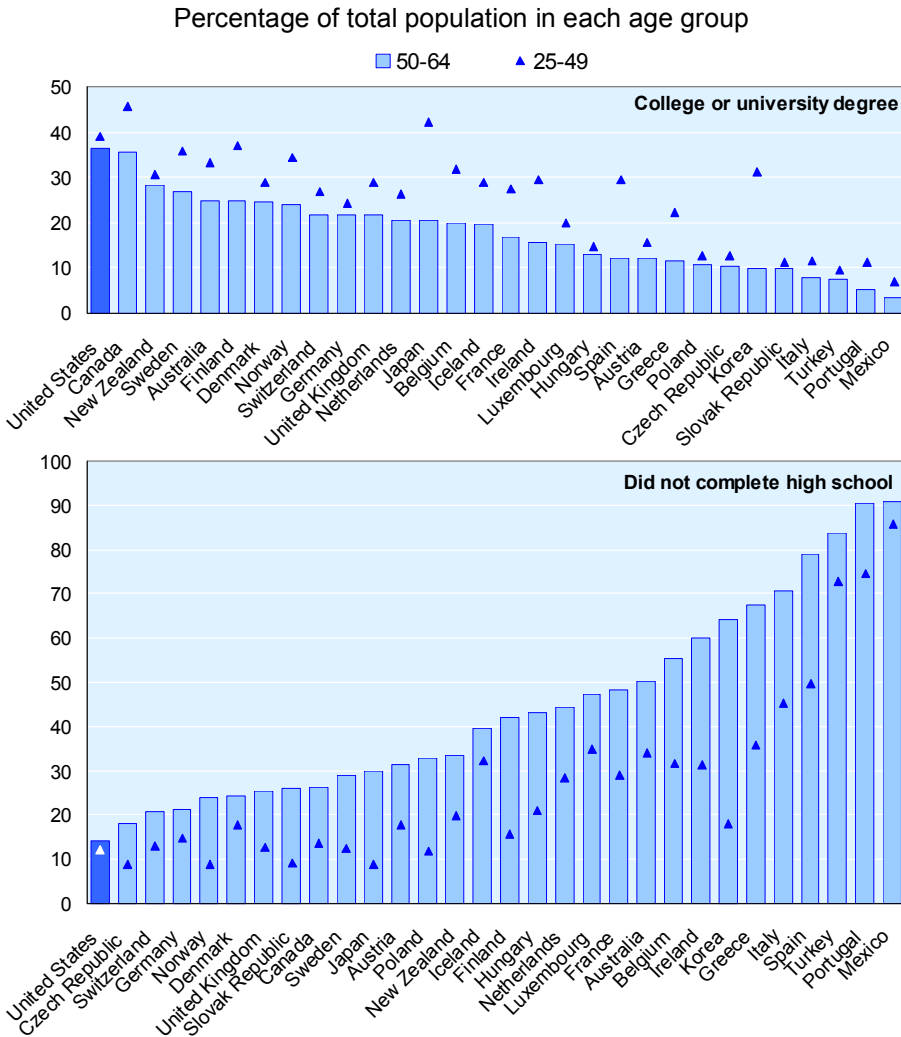
Figure 2.5. **Labour force participation rates in the United States by level of education, age and gender, 2004**  
Percentages



Source: OECD estimates derived from the Current Population Survey.

In terms of educational attainment, the United States appears to be one of the top OECD countries, especially for older persons (Figure 2.6). In 2002, more than one-third of older persons aged 50-64 had a college or university degree and less than 15% did not complete high school, leaving around 50% with a high school diploma.

Figure 2.6. **Proportion of prime-age/older persons with a high/low level of education in OECD countries, 2002**



Source: OECD (2002), *Education at a Glance – OECD Indicators*, Paris.



The gap in educational attainment between older and prime-age people is almost negligible in the United States, whereas it is much more substantial in most other OECD countries. The high level of educational attainment of older people in the United States, together with the tendency for participation rates to rise by education level, may partly explain why participation rates for older people overall are higher in the United States than in many other OECD countries.

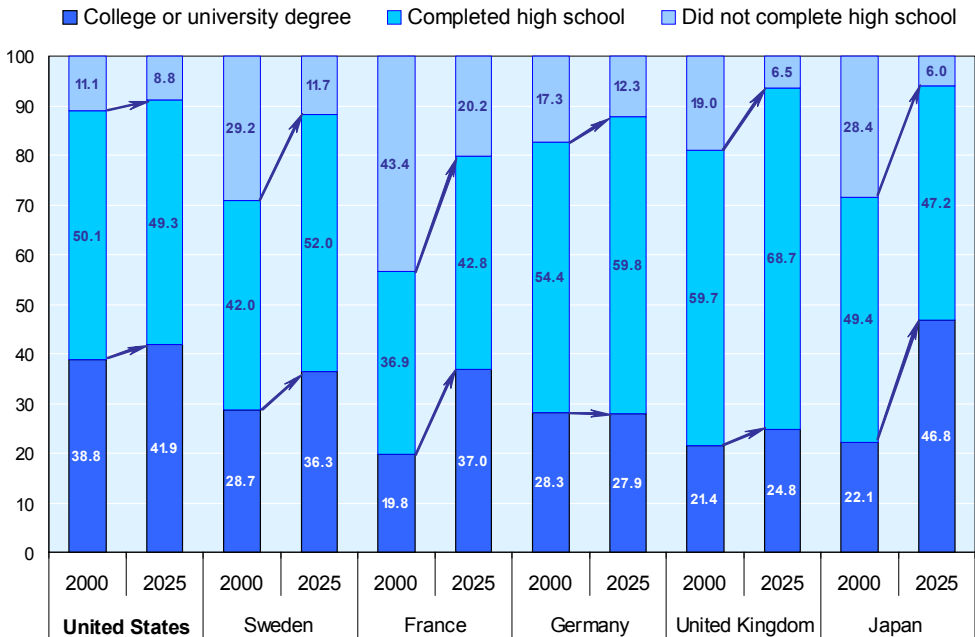
The level of educational attainment of older workers in the United States is likely to rise slightly further during the coming decades. By 2025, the results of simple extrapolations suggest that only around 9% of all older workers in the United States will not have completed high school and 42% will have a college or university degree (Figure 2.7).<sup>6</sup> However, a number of other OECD countries will experience a much more dramatic improvement in the average education level of their older workers in the future because they currently have an inter-generational gap in educational attainment that is much larger than in the United States. Nevertheless, the United States is likely to remain among the top OECD countries in terms of older workers with a tertiary education, but with a much smaller lead than currently.

However, while older American workers are well educated on average by international standards, there is considerable variation in their actual literacy skills that is greater than in many OECD countries (OECD, 2000). Moreover, results for 2003 from PISA (the international test of student performance for 15-year olds) also point to a wide dispersion of student scores in the United States around an average score that is lower than in many other OECD countries (OECD, 2004a).<sup>7</sup> Thus, there is a risk that labour market disadvantage due to low literacy will persist as a significant problem among future generations of older workers.

- 
6. The extrapolations for 2025 are obtained by applying participation rates for 2000 by education, gender and five-year age groups between the ages 50-64 to the corresponding groups of the population aged 25-39 in 2000. They take no account of further participation in education of the current cohort aged 25-39, differences in mortality and migration by level of education, and future changes in participation among older people by level of education.
  7. In 2003, U.S. students scored approximately in the middle of the 30 OECD countries for reading, but were in the bottom fifth of these countries for mathematics and in the bottom two-fifths for science.

Figure 2.7. Rising education levels of older workers, 2000-25

Percentage share of labour force aged 50-64 by educational attainment

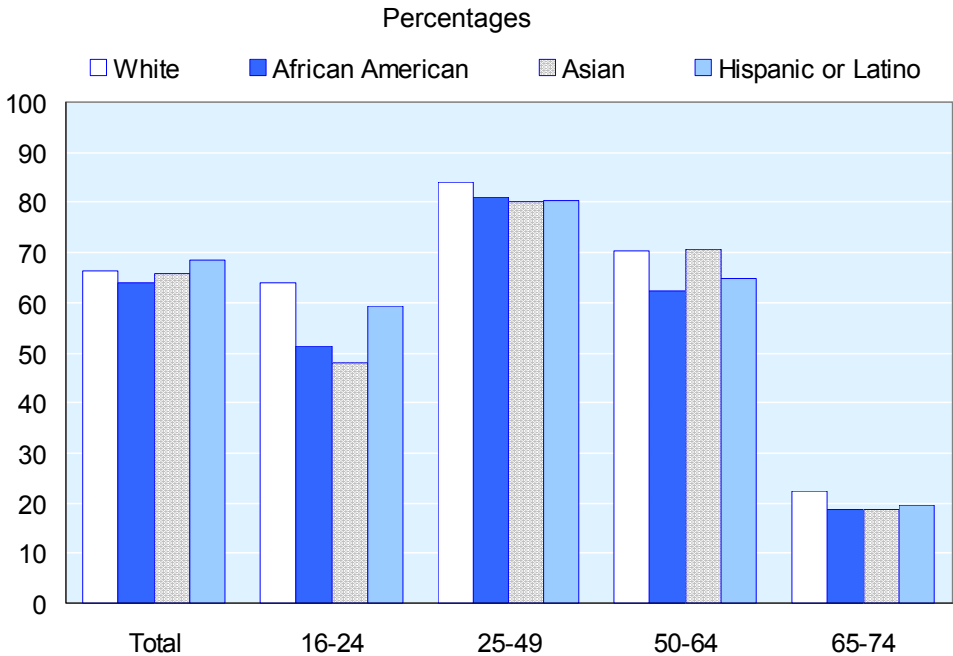


Source: For 2000, OECD (2002), *Education at a Glance – OECD Indicators*, Paris; for 2025, OECD extrapolations.

### B. Race, ethnic background and participation

There are also differences in participation rates among older people according to race and ethnic background, although much smaller than the differences by level of education (Figure 2.8). These differences are relatively small for the prime-age group 25-49 but are more substantial in the age group 50-64 where participation rates are highest for Whites and Asians and smallest for Black and African Americans and Hispanics/Latinos. After 65, the participation of all groups declines significantly.

Figure 2.8. **Participation rates in the United States by race, ethnic background and age, 2004**



Source: Current Population Survey.

### C. *Job and workplace characteristics of older workers*

Future employment prospects for older persons will be influenced by the type of jobs they can attain and their workplace environment. In terms of their job characteristics in 2004, older workers in the United States represent only 27% of all employed persons, but they represent over 40% of those self-employed (Table 2.1). Nevertheless, 82% of all older workers are working as employees (excluding the incorporated self-employed) and therefore any changes in firm policies and practices are likely to have a substantial impact on their job prospects. In addition, more than four-fifths of all older workers are working full-time, and among older men, only around 12% have part-time jobs.

Table 2.1. **Older workers (aged 50 and over) in the United States by selected job characteristics, 2004**

Percentages

	Older workers in each category					
	Share of all employed persons in each category			Share of all older workers		
	Total	Men	Women	Total	Men	Women
<b>All employed</b>	<b>26.7</b>	<b>26.4</b>	<b>27.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Employment status</b>						
Employee	25.4	24.8	26.1	88.2	85.6	91.0
Wage and salary worker	24.7	23.8	25.8	82.3	77.5	87.7
Incorporated self-employed	42.3	42.4	42.0	5.9	8.2	3.3
Self-employed	41.8	42.9	40.1	11.8	14.3	8.9
Family worker	22.7	17.5	25.6	0.1	0.0	0.1
<b>Usual working time</b>						
Full time	26.4	26.0	27.0	81.5	87.8	74.5
Part time	27.6	29.6	26.7	18.5	12.2	25.5
<b>Occupation</b>						
Non-manual occupations	29.0	30.2	28.1	65.7	56.8	75.8
Management, business and financial	33.8	36.0	30.9	18.4	21.4	15.0
Professional and related	28.6	29.4	27.9	21.8	18.6	25.4
Sales and related	25.5	27.2	23.8	11.0	11.2	10.8
Office and administrative support	27.6	23.2	29.0	14.5	5.5	24.6
Manual occupations	24.0	23.5	27.0	21.0	33.1	7.4
Farming, fishing, and forestry	21.8	21.1	24.3	0.6	0.8	0.3
Construction and extraction	19.8	19.8	17.7	4.5	8.4	0.2
Installation, maintenance, and repair	25.0	25.1	23.1	3.4	6.2	0.3
Production	25.9	24.7	28.6	6.6	8.3	4.7
Transportation and material moving	25.8	25.7	26.0	5.9	9.5	1.9
Service occupations	21.7	20.2	22.8	13.3	10.1	16.8

Source: Current Population Survey.

Table 2.2. **Older workers (aged 50 and over) in the United States by selected workplace characteristics, 2004**  
Percentages

	Older workers in each category					
	Share of all employed persons in each category			Share of all older workers		
	Total	Men	Women	Total	Men	Women
<b>All employed</b>	<b>26.7</b>	<b>26.4</b>	<b>27.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Sector</b>						
Private	25.4	25.3	25.5	81.5	84.6	77.9
Public	34.3	35.0	33.8	18.5	15.4	22.1
<b>Industry</b>						
Agriculture, forestry, fishing and hunting	40.1	38.6	44.8	2.4	3.3	1.4
Mining	27.7	26.9	35.2	0.4	0.7	0.1
Construction	21.5	21.0	26.1	6.2	10.4	1.6
Manufacturing	27.0	27.2	26.7	12.0	15.9	7.6
Wholesale and retail trade	24.1	23.8	24.5	13.6	14.0	13.1
Transportation and utilities	31.5	32.0	30.0	6.0	8.7	2.9
Information	22.6	21.8	23.6	2.1	2.2	2.0
Financial activities	28.5	30.5	27.0	7.7	6.8	8.6
Professional and business services	25.7	26.3	24.9	9.8	10.8	8.6
Educational and health services	30.9	33.7	30.0	23.9	12.4	37.0
Leisure and hospitality	15.4	14.9	15.9	4.9	4.4	5.5
Other services	29.7	28.8	30.4	5.5	4.9	6.2
Public administration	32.3	32.1	32.5	5.5	5.6	5.4

Source: Current Population Survey.

With respect to occupation, older workers are somewhat over-represented in non-manual occupations and under-represented in manual occupations, except for farming, forestry and fishing occupations. Not surprisingly, older workers are significantly over-represented in management, business and financial professions and significantly under-represented in construction and extraction occupations. Altogether some 33% of older male workers and 7% of older female workers are employed in manual occupations. These shares for both men and women are not high by international standards, but nevertheless suggest that there are still a substantial proportion of older workers in the United States that are working in manual jobs, which are usually more physically demanding and with a higher risk of occupational disease and injury than non-manual jobs. A significant share of older workers are also working in service occupations, which also tend to have relatively poor working conditions in comparison with non-manual occupations.

In terms of their workplace characteristics, older workers are greatly over-represented in agriculture, forestry, fishing and hunting sector, yet only 2.5% of all older workers are employed in this sector (Table 2.2). Other sectors where older workers are significantly over-represented include: public administration; transportation and utilities; educational and health services; and other services. Older workers are also over-represented in the public sector more generally, although more than four-fifths of older workers are employed in the private sector. The top three industries in terms of numbers of older workers are: educational and health services; wholesale and retail trade; and manufacturing. Indeed, almost one-quarter of all older workers are employed in educational and health services and this proportion rises to 37% for older women. Sectors where older workers are significantly under-represented include: leisure and hospitality; construction; and information.

### **3. Job security: a mixed picture**

The United States labour market is often described as being quite flexible and fluid in contrast to many other OECD countries. It has been well-documented that younger United States workers, in particular, experience considerable churning at the start of their careers in terms of jobs held (OECD, 1998; U.S. Bureau of Labor Statistics, 2004). But do older workers in the United States also face considerable job change and, if so, how well do they cope with such change? The answer that emerges from the following sections is that while the majority of older workers probably experience reasonable job security, a significant minority risk job loss and, subsequently, experience considerable difficulties in finding a new job and substantial earnings losses once they are re-employed.

#### **A. Job tenure and job retention**

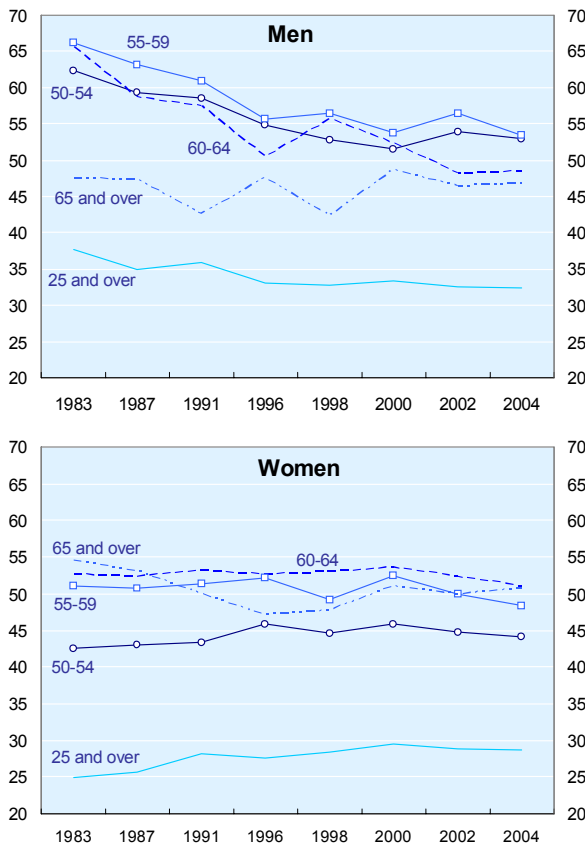
Data on job tenure suggests that the proportion of older workers in the United States who have experienced stable careers with mainly one employer is quite low. The proportion of older workers who had been with their employer for 20 or more years was just over a quarter in 2004 (Table 2.3). A higher proportion – almost one third – had been in the same job for less than five years. It would also appear that for older male workers aged between 50-64 there has been a significant decline in job stability over the past 20 years as measured by the proportion of workers with 10 years or more of job tenure (Figure 2.9). For older female workers, job stability has been broadly stable over the same period against the backdrop of a small increase more generally in the proportion of female workers aged 25 and over with job tenure of 10 years or more.

Table 2.3. **Distribution of older workers (aged 50 and over) in the United States by job tenure, 2004**  
Percentage of all older workers by gender

	Total	Men	Women
<b>All workers</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<i>With job tenure of</i>			
Less than 1 year	8.5	8.6	8.5
Less than 5 years	31.3	30.5	32.1
10 years or more	49.5	51.7	47.3
20 years or more	25.6	29.3	21.8

Source: Job Tenure Supplement from the Current Population Survey.

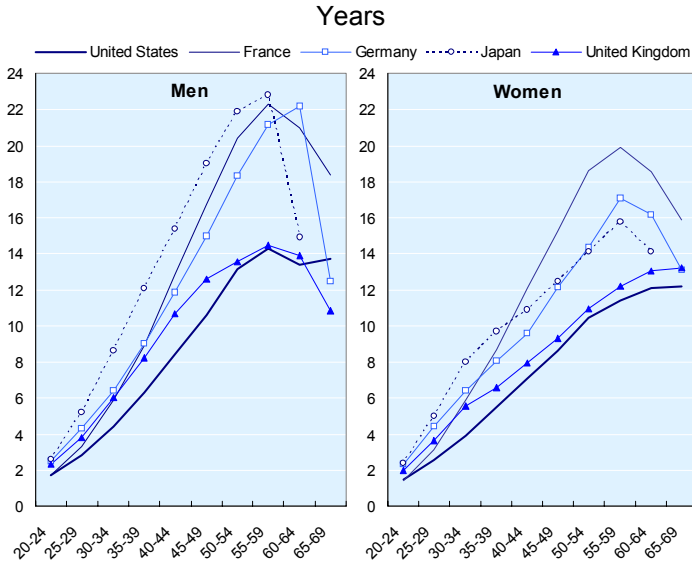
Figure 2.9. **Proportion of workers in the United States with job tenure of 10 years or more by age and gender, 1983-2004**  
Percentages



Source: Job Tenure Supplement from the Current Population Survey.

In terms of international comparisons, before the age of 60, average job tenure at all ages is much lower in the United States (and the United Kingdom) than in the other major OECD economies (Figure 2.10). For example, in 2002, average job tenure for male workers in their late 50s was over 21 years in Japan, France and Germany but only around 14 years in the United States. It was lower still for older working women in their 50s. Of course, this could partly be because younger workers in the United States experience more churning at the start of their careers in terms of job change and job loss than in other countries (OECD, 1998). However, even after the age of 30 when most young people would have presumably settled into their career job, average job tenure in the United States rises by a smaller amount up until the age of 60 than in Japan and the major European economies.<sup>8</sup>

Figure 2.10. **Average job tenure in selected OECD countries by age and gender, 2002<sup>a</sup>**



a) Data refer to employees only. For Japan, the data are derived from an establishment survey and are not strictly comparable with the data for the other countries which are derived from labour force surveys.

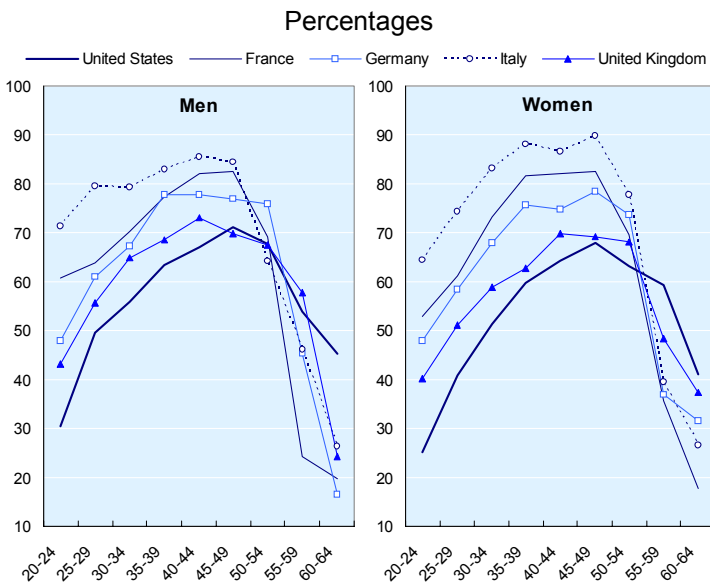
Source: United States: Job Tenure Supplement from the Current Population Survey; European countries: European Union Labour Force Survey; Japan: Basic Survey on Wage Structure.

8. In Japan, the sharp drop in average job tenure for male workers around the age of 60 is the result of the widespread practice of mandatory retirement. Most employees are obliged to retire at 60 from their company, although they are often re-hired in a subsidiary company or with a sub-contractor (OECD, 2004b).



Thus, life-time employment with one employer is far from being a common practice in the United States as appears to be the case in countries like France, Germany and Japan. However, this does not necessarily mean that older workers in the United States experience less job security or job stability than in some other OECD countries. In fact, retention rates of older workers appear to be higher in the United States (at least for workers from their late 50s onwards) than in the other major OECD economies (Figure 2.11).<sup>9</sup>

Figure 2.11. **Job retention rates over four years in selected OECD countries by age and gender, 1998-2002<sup>a</sup>**



a) Estimated proportion of all employees in 1998 who were still in the same job in 2002. The age groups refer to the age of workers in the initial year.

Source: United States: Job Tenure Supplement from the Current Population Survey; European countries: European Union Labour Force Survey.

For example, based on data for the period 1998-2002, the probability that a male worker aged 55-59 will still be working for the same employer four years later is 54% in the United States, 58% in the United Kingdom, 45% in Germany and Italy, and only 24% in France. Even for the age group 60-64, retention rates

9. These retention rates are estimated using cross-sectional data on job tenure at 4-year intervals for pseudo-cohorts of workers rather than from directly observing job retention using longitudinal data.

are still around 45% for United States workers and well above the corresponding rates in other countries. A similar picture holds for country differences in retention rates for older female workers.

Thus, while the United States is generally noted for having highly flexible labour markets, job retention of its older workers appears to be quite high in comparison with other countries. This reflects in part a higher rate of “voluntary” exits from the labour market in the continental European countries, as a result of greater possibilities for early retirement.<sup>10</sup>

**B. *Unemployment is relatively low for older people***

Even though retention rates decline with age in the United States – albeit more modestly than in other countries – this does not show up in higher unemployment rates for older workers relative to younger ones. Over the past 30 years, the unemployment rate of older workers (whether men or women) has consistently been lower than the corresponding rate for prime-age workers (Figure 2.12). They are also below the corresponding rates recorded in most OECD countries.

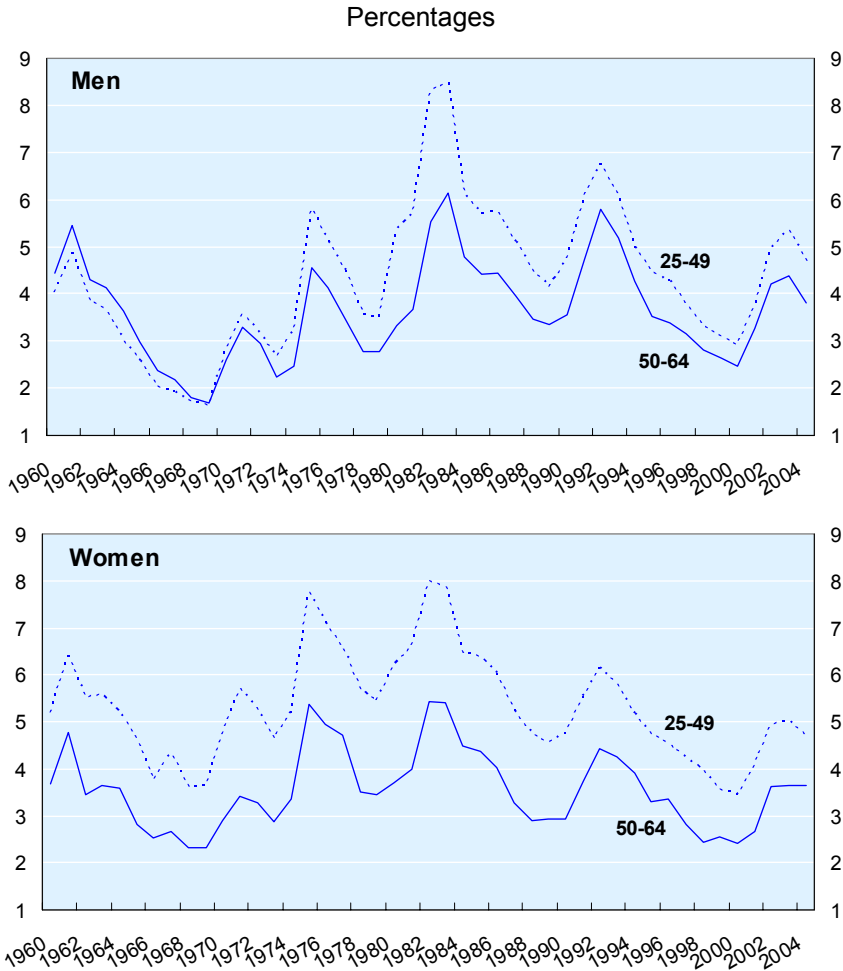
**C. *The consequences of job loss for older workers can be severe***

These relatively low unemployment rates for older people fail to tell the full story about the difficulties older workers in the United States are facing in the labour market, especially following job loss. While older workers are only somewhat less likely than younger workers to be displaced from their jobs, they are much more likely to remain jobless following displacement (Figure 2.13). Of all displaced workers during the three-year period 2001-03, only 58% of workers aged 50-64 were employed in January 2004 compared with 70% for workers aged 25-49.

---

10. For example, retention rates for French workers fall considerably after they enter their 50s as a result of early retirement schemes and a low official state pension age of 60. However, there is no corresponding decline in average job tenure because those workers who retire are not included in the calculation and the few remaining workers that have not retired have relatively high average job tenure.

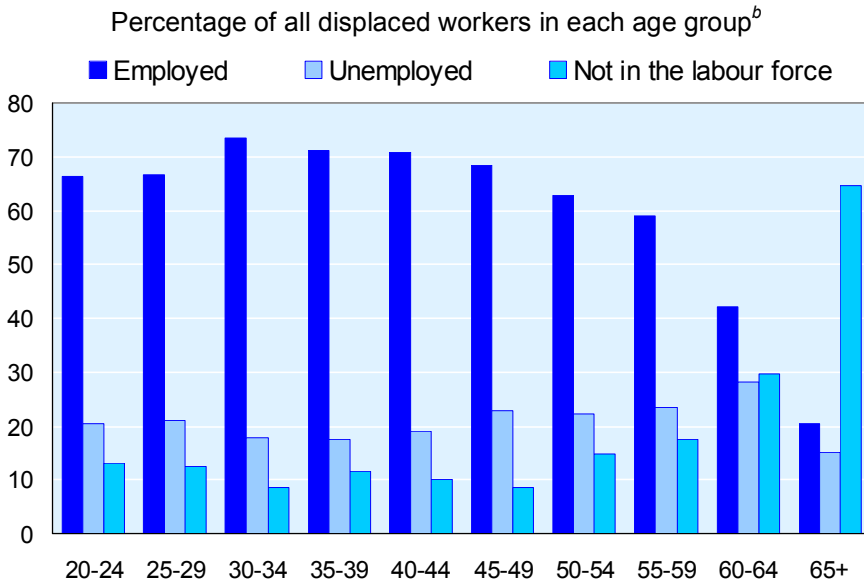
Figure 2.12. **Unemployment rates in the United States by age and gender, 1960-2004**



Source: Current Population Survey.

This difference in re-employment probabilities is partly reflected in a somewhat higher proportion of older displaced workers than younger displaced workers who are unemployed and in the average duration of unemployment which increase with age. But it mainly shows up in a sharp increase by age in the proportion of displaced workers that have left the labour force altogether, even well before the full-retirement age for social security.

Figure 2.13. **Displaced workers in the United States by current labour force status and age, January 2004<sup>a</sup>**



- a) Displaced workers refer to all wage and salary earners who lost or left their job during the previous three-year period because of the closing or transfer of their workplace, insufficient work, or the abolishment of their positions or shifts.
- b) The age groups refer to the age of workers at the time they were displaced.
- Source: OECD estimates based on the Displaced Workers Supplement from the Current Population Survey.

Not only do re-employment rates decline with age, older displaced workers are more likely than younger displaced workers to experience a decline in the quality of the new jobs they manage to find relative to their former jobs. Thus, while older workers are less likely to become unemployed than younger workers, “[they] have the lowest reemployment probabilities, the longest time to reemployment, high probabilities of part-time employment, and the largest wage losses” (Hirsch, MacPherson and Hardy, 2000, p. 402). There is also some evidence of a trend rise in the risk of job loss for older workers. In a study that compared the five years before 1991 with the five years before 1981, Polsky (1999) reports that rates of job loss for workers aged 45-54 rose dramatically relative to workers aged 25-34. Along similar lines, Farber (2003) concludes that there was a trend increase in the rate of job loss for older and more educated workers despite no trend increase in overall rates of job loss.

The difficulty older workers experience in finding a new job following job loss, and the subsequent earnings losses they suffer, may be the result of restricted job opportunities facing older jobseekers relative to younger ones. In a comparison of newly-hired white-collar workers, Hu (2003) finds that firms with more than 1 000 employees are more likely to hire young workers and less likely to hire old workers than firms with fewer than 100 employees. Moreover, “large firms offer young workers higher starting salaries (relative to the old) than small firms do”.

More generally, in comparison to newly-hired younger workers, newly-hired older workers are employed in a smaller set of industries and occupations. Alternatively stated, segregation by industry and occupation is greater among newly-hired older workers than among newly-hired younger workers. In fact, because some firms employ older workers who were hired when they were relatively young, but do not hire many older workers, measures of job segregation indicate that newly-hired older workers are more segregated than all older workers (Hutchens, 1988; Hirsch, MacPherson and Hardy, 2000). Moreover, Hirsch *et al.* (2000) suggest that there has been little change in age segregation of new hires between 1983 and 1998. Such constraints on job opportunities may, of course, not only contribute to longer spells of unemployment but also cause workers to become discouraged about their future job prospects.

Such constraints on job opportunities can also lead to retirement. Chan and Stevens (2001) find that “four years after job losses at age 55, the employment rate of displaced workers remains 20 percentage points below the employment rate of similar non-displaced workers” (p. 484). Even after controlling for a list of factors that influence labour supply (*e.g.* marital status, pensions, wealth holdings), Chan and Stevens (2001) still find lower employment rates for older displaced workers. Thus, once workers in their fifties or sixties lose their job, it is harder to find a similar job. The next best alternative may be retirement.

### *Chapter 3*

## **SUSTAINING SOCIAL SECURITY AND ENHANCING EMPLOYMENT**

Finding a balance between guaranteeing an adequate income for older people and maintaining incentives to work and participate in the labour market is a challenge facing all OECD countries. The relative generosity of social security and welfare systems can be important influences on the retirement decisions of older people. Individual decisions to work can be significantly influenced by benefit levels and eligibility criteria in the public pension system and in other social security and social protection schemes. But pensions and other forms of social protection are also means of supporting vulnerable groups in order to cover both temporary and permanent losses of labour income. This chapter assesses the likely impact that the social protection system may have on the retirement decisions of older workers in the United States. The chapter also discusses the financial and social sustainability of the current social security system and proposals for reform, and their implications for work and retirement.<sup>11</sup>

### **1. Social protection in the United States**

Relative to most other OECD countries, public social expenditures are quite low in the United States, but the United States comes closer to the OECD average in terms of total net expenditure on social protection when private expenditure is included. In 2001, total public social expenditure in the United States amounted to 14.8% of GDP, the fifth lowest among OECD countries, compared to an

---

11. This discussion does not cover all aspects of social protection in the United States, but only those programmes potentially relevant to older workers and the retired. For a detailed outline of the United States system, see Committee on Ways and Means (2000).

OECD average of 20.9% of GDP (OECD, 2005a).<sup>12</sup> Public spending on income support for the aged was also below the OECD average in 2001 – 6.1% of GDP compared to an OECD average of 8.0%. However, because of extensive private-sector provision of social benefits, relatively small tax clawbacks and relatively large tax concessions, total net public and private social expenditure in the United States was estimated at 25.6% of GDP in 2001 – somewhat above the average of 22.2% for the 18 OECD countries for which this figure is available.<sup>13</sup>

Several elements of the United States social protection system are of particular importance for older workers. The first of these is Old-Age, Survivor's and Disability Insurance. This is the main public social security insurance scheme that provides retirement and disability benefits to employees. The second element is Unemployment Insurance covering workers who lose their jobs. The third element is the state-based system of workers' compensation which pays partial wage replacement and medical benefits to workers who become disabled by work-related injuries and diseases. The fourth element consists of other welfare programmes such as: Supplemental Security Income (SSI) programme which provides means-tested cash payments to low-income people who are age 65 or older, or disabled; Food Stamps for needy families; and the Earned Income Tax Credit, which is a tax credit payable to low-income workers. The final main element consists of employer-provided benefits, including pension benefits in particular. Each of these elements is described in more detail below.

#### **A. *Old Age, Survivor's and Disability Insurance***

The most important social protection programme in the United States is the Old-Age, Survivors and Disability Insurance (OASDI) programme, commonly known as social security.<sup>14</sup> Selected details of the social security system are

- 
12. Public social expenditure comprises income support (including pensions), health and other social services.
  13. Net public and private social expenditure takes account of tax clawbacks on public social expenditure through direct and indirect taxation, as well as government support through the taxation system, plus private social benefits (for example, employer-provided pensions and health care). See Adema (2001) for details.
  14. The Social Security system was originally introduced in 1935. Benefits were extended to spouses of retired workers and survivors of deceased workers in 1939, and Disability Insurance was introduced in 1956. Automatic cost-of-

shown in Table 3.1. Social security now covers around 154 million workers, or more than 95% of the workforce.<sup>15</sup> At the end of 2004 around 47.7 million people were receiving benefits. Benefits are financed by the social security payroll tax of 12.4%, half paid by employers and half by employees, up to an annual (indexed) earnings limit (USD 90 000 in 2005). In addition, there is a further 2.9% payroll tax (equally split between employers and employees) to pay for the Medicare programme, although this has no ceiling on covered earnings. Benefits are partially taxable for some recipients.<sup>16</sup>

### *Old-age and survivors benefits*

Individuals are entitled to retired worker benefits once they have worked 40 quarters in covered employment between the ages of 21 and 62. Benefits are calculated in steps. Annual earnings are indexed by an average wage index and the 35 highest years of earnings are used to calculate the average indexed monthly earnings (AIME). A progressive benefit formula is applied to the AIME to produce the primary insurance amount (PIA) which is the amount payable to a worker who retires at the full retirement age (65 and five months in 2005).

---

living (COLA) adjustments were introduced in 1972. Amendments to control costs were introduced in 1977, 1980 and 1981. Further significant changes came in 1983, with a delay in COLA adjustments for six months, and the announcement of a gradual increase in the age at which workers could receive full benefits (from 65 to 67).

15. The main groups excluded from the system are some state and local government employees and some older federal employees.
16. Social security beneficiaries pay income taxes on half of their social security pensions only if the sum of their gross income, non-taxable interest income and half of their social security benefits exceeds a fixed threshold (USD 25 000 for a taxpayer filing individually or USD 32 000 for taxpayers filing jointly). The thresholds are not indexed. In addition, premiums of 6% for Medicare Part B (supplementary medical insurance) are automatically deducted from social security benefits.



Table 3.1. Selected details of social security, 2004

<b>A. Taxation and earnings limits, 2005</b>				
<b>Tax rates for employers and employees, each (%)</b>		<b>Annual earnings limits (\$)</b>		
		<i>Maximum taxable earnings</i>		
		Social Security	90 000	
Old-Age and Survivors Insurance	5.30	Medicare	No limit	
Disability Insurance	0.90	<i>Minimum earnings required for coverage</i>		
<b>Subtotal, Social Security</b>	<b>6.20</b>	For one quarter	920	
		For four quarters	3 680	
Medicare	1.45	<i>Exempt amount for earnings test<sup>a</sup></i>		
		Below FRA	12 000	
Total	7.65	In year reaches FRA	31 800	
<b>B. Social Security beneficiaries, December 2004</b>				
	Beneficiaries		Average monthly benefit	
	Number	% of total	\$	% of earnings <sup>b</sup>
All beneficiaries	47 688	100.0	871.8	30.5
Retirement benefits <sup>c</sup>	33 005	69.2	910.6	31.9
<i>Of which: workers</i>	29 953	62.8	954.9	33.4
Survivors <sup>d</sup>	6 734	14.1	819.8	28.7
<i>Of which: widow(ers)s</i>	4 645	9.7	904.7	31.7
Disability benefits <sup>e</sup>	7 949	16.7	754.8	26.4
<i>Of which: workers</i>	6 198	13.0	894.1	31.3

a) FRA refers to the Full Retirement Age (65 years and six months in 2005), and the exemption amount depends on whether the recipient attains or not the FRA during the year.

b) Averaged over the fourth quarter 2004, and where earnings refer to median full-time earnings.

c) Including: retired workers; their spouses; and their children.

d) Including: non-disabled widow(er)s aged 60 or older, disabled widow(er)s aged 50 or older, and dependent parents of deceased workers aged 62 or older; widow(er)s or surviving divorced parents caring for the entitled child of a deceased worker who is under age 16 or is disabled; and dependent children of deceased worker.

e) Including: disabled workers; their spouses; and their children.

Source: Social security data from Social Security Administration, *OASDI Monthly Statistics*, January 2005, and *Update 2005*, January 2005; earnings data from the Current Population Survey.

Workers claiming benefits before the full retirement age have their benefits reduced by 5/9ths of one percent per month. For example, a person claiming at age 62 when the full retirement age was 65 would have received 80% of their PIA. Those delaying receipt beyond the full retirement age receive a Delayed Retirement Credit; for workers reaching age 65 in 2000 an additional 6% is paid for each year of delay up to the age of 70, with this rising to 8% by 2008. While individuals may retire at age 62, there is an earnings test until the person reaches the full retirement age, with social security benefits being reduced by USD 1 for every USD 2 of earnings above USD 12 000 (in 2005).

All of the revenues of the social security payroll tax and some of the income tax revenues from taxing social security are credited to the Trust Funds for the Old Age and Survivors Insurance Programme and the Disability Insurance Programme, respectively. Income has consistently exceeded expenditures by between 0.9% and 2.2% of total payroll over the 1990s, and is likely to continue to do so for at least the next 10 years. Trust Fund assets are invested in interest-bearing securities of the U.S. Government or in other securities guaranteed for both principal and interest by the government. Despite the existence of the Trust Funds, the social security system is effectively financed on a Pay-As-You-Go (PAYG) basis.

### *Disability Insurance*

Disability Insurance (DI) provides benefits to disabled workers (and their spouses and children). Benefit payments are calculated in essentially the same way as retirement benefits, as are contribution requirements, except that recipients must have 20 quarters of contributions in the 10-year period before disability began. More liberal conditions apply to the young and the blind. To receive payments workers must be incapable of gainful employment due to impairment expected to last at least one year or result in death (taking into account age, education and employment experience). An initial five-month waiting period is required before disability insurance benefits are paid. Disabled workers who reach the full retirement age are automatically transferred to full retirement benefits. The contribution rate for Disability Insurance is 0.9% for employers and employees each.

At the end of 2004 there were around 6.2 million disabled workers receiving benefits, of which over 60% were aged 50 years and over.<sup>17</sup> Much of

---

17. The data in this paragraph are taken from U.S. Social Security Administration (2004, 2005a).

the substantial growth in disability among older workers has been in mental disorders (including a small number of cases of mental retardation) and musculo-skeletal system and connective tissue disorders. Together, these disorders accounted for 46% of all new recipients of disability benefits in 2003, up from just 22% in 1981. And they accounted for 72% of the overall growth in inflows to disability benefits over the same period.

### ***B. Unemployment compensation***

Unemployment compensation is a joint federal and state programme. The scheme is financed by employers, with a federal tax of 0.8% of taxable payroll (6.2% basic rate less up to 5.4% of state contributions); in most states employers pay 5.4%, but actual rates vary from 0-10% according to individual employer's experience. The federal government pays for administration of state programmes from the above federal tax, with the balance used for loans to the states or to finance the extended benefit programme.

The unemployment compensation scheme covers about 97% of all wage and salary workers. However, in 2004 only around 36% of the unemployed received unemployment compensation. Older workers are over-represented among the insured unemployed; in 2004, 17.5% of the unemployed were aged 50 years and over, but this age group accounted for around 26% of the insured unemployed.<sup>18</sup> There is also evidence that the share of older age groups among UI recipients has increased over time – with 29.4% of recipients being 45 or over in 1988 and 38.7% in 2004.

### ***C. Workers' compensation***

Workers' compensation, which is state-run and has no federal guidelines, is available to most private-sector employees, as well as federal, state and local government employees. Workers' compensation pays partial wage replacement and medical benefits to workers who become disabled by work-related injuries and diseases. It is second in size only to the social security Disability Insurance programme. Workers' compensation does not fully replace lost wages, even when the worker is totally and permanently disabled. Workers' compensation

---

18. The age breakdown for the insured unemployed is based on data from [www.workforcsecurity.doleta.gov/unemploy](http://www.workforcsecurity.doleta.gov/unemploy) (the U.S. Department of Labor's website, accessed 7 March 2004), together with some interpolation for the 45-54 age group to separate out the age group 50-54. See also O'Leary and Wadner (2000).

most often addresses short-term, acute conditions arising from injuries on the job. Rising costs in the 1980s and 1990s led many states to begin making fundamental changes to control costs. Consequently, workers' compensation has become a less important source of wage replacement, shifting more of the financial burden to the social security disability and/or SSI programmes for disabled persons.

#### **D. Welfare and other social protection programmes**

##### *Supplemental Security Income*

Under the Supplemental Security Income (SSI) programme, the federal government provides means-tested monthly cash payments to low-income people who are age 65 or older, or disabled. Most states supplement SSI benefits. The first USD 65 a month of earned income is disregarded from the means-test, plus one-half of the remaining earnings. People who receive social security benefits and who have assets below the specified level (USD 2 000 for an individual or USD 3 000 for a couple) can also receive SSI benefits.<sup>19</sup> In effect, SSI serves as a safety net to social security to ensure that elderly and disabled people have a minimum level of income if their social security benefits are very low or they do not qualify for social security. SSI benefits are indexed to the Consumer Price Index.

At the end of 2004, 7 million persons were receiving SSI benefits that averaged USD 428 per month.<sup>20</sup> Around 28% of recipients were aged 65 years and over (11% aged and disabled, 17% aged only). At the end of 2003, 3.1% of the population aged 50-64 and 5.5% of the population aged 65 and over were receiving SSI. The majority (58%) of recipients were female.

##### *Food stamps*

The federal Food Stamps programme is the most significant food plan for needy individuals in the United States. Food stamps can be exchanged like

- 
19. Any unearned income of more than USD 20 a month (including Social Security) reduces SSI benefits by an equal amount (*i.e.* a 100% withdrawal rate on unearned income).
  20. The estimates in this paragraph are based on data taken from the U.S. Social Security Administration website, [www.ssa.gov/OACT/STATS](http://www.ssa.gov/OACT/STATS), and U.S. Social Security Administration (2005b, 2005c).

money at authorized stores. The federal government pays for the amount of the benefit received, while states pay the costs of determining eligibility and distributing the stamps. State public assistance agencies run the programme. Individuals who work for low wages, are unemployed or work part-time, receive public assistance, are elderly or disabled and have a small income, or are homeless may be eligible for food stamps.<sup>21</sup> In an average month in 2004, the Food Stamps programme provided benefits to around 23.9 million people. In 2002, around 9% of recipients were aged 60 or over.

### *Earned Income Tax Credit*

The Earned Income Tax Credit is a tax credit payable to low wage workers. Since 1994, taxpayers with no qualifying children may claim a credit if they are over age 24 and below 65.<sup>22</sup> While the EITC is best known as a programme assisting families with children, in 2002 there were around 3.5 million recipients without qualifying children out of a total of 21.7 million recipients. A number of states (around 13) have additional refundable tax credits.

### ***E. Employer-provided and private pensions***

The United States has an extensive second-tier of pension provision provided by occupational and private pensions. In 2004, around 60% of all private-sector employees were with an employer who sponsored a pension plan. However, sponsorship of a plan by an employer does not mean that workers actually participate, and only around half of all private-sector employees were actually participating in a plan. Participation declined over the 1990s but has increased more recently and by 2004 was only slightly below its level of the late 1980s (Figure 3.1).

Participation has fallen for men and risen for women over this period, but still remains higher for men. In general, substantially lower participation is associated with service occupations, part-time work, non-union status and lower

---

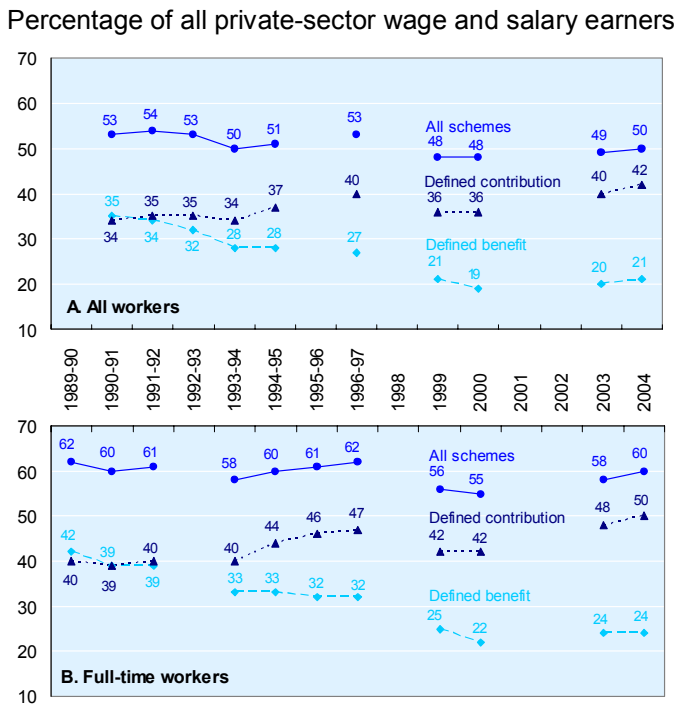
21 . The data in this paragraph are taken from the U.S. Department of Agriculture, Food and Nutrition Service website, [www.fns.usda.gov](http://www.fns.usda.gov).

22. In 2003, the maximum credit was: USD 382 for workers with no children and income between USD 4 950 and USD 6 250 (USD 7 250 if married and filing jointly); USD 2 547 for workers with one child and income between USD 7 450 and USD 13 750 (USD 14 750); and USD 4 204 for workers with two or more children and income between USD 10 500 and USD 13 750 (USD 14 750). See Hotz and Scholz (2003) for further details.

earnings (Table 3.2).<sup>23</sup> Participation is also lower in service-producing industries relative to the goods-producing sector and in smaller establishments relative to larger ones.

Around three-quarters of those without a pension plan work for employers who do not offer a plan. For the remaining one-quarter working for employers offering pension coverage, around half do not participate because they do not meet age or service requirements or do not work enough to qualify, but around one quarter have chosen not to participate.

Figure 3.1. **Employee participation in private pension plans in the private sector in the United States, 1989-2004**



Source: U.S. Bureau of Labor Statistics, Employee Benefit Survey, as reported in Wiatrowski (2004); and National Compensation Survey, March 2004 (as reported on the U.S. Bureau of Labor Statistics web site: [www.bls.gov/ncs/ebs](http://www.bls.gov/ncs/ebs)).

23. Munnell, Sundén and Lidstone (2002) examine differences in participation in more detail by earnings quintile, and show that around 70% of high-earning men and women participate in a pension plan, compared to less than 20% of low-earning men and just over 10% of low earning women.

**Table 3.2. Participation in selected private-sector employee benefit plans in the United States by worker and firm characteristics, 2004**

Percentage of all private-sector wage and salary earners

	Retirement plans			Medical care
	All plans <sup>a</sup>	Defined benefit	Defined contribution	
<b>All workers</b>	<b>50</b>	<b>21</b>	<b>42</b>	<b>53</b>
Occupation				
White-collar occupations	61	24	53	59
Blue-collar occupations	50	25	38	60
Service occupations	22	6	18	24
Full-time status				
Full time	60	24	50	66
Part time	20	9	14	11
Union status				
Union	81	69	42	81
Non-union	47	15	42	50
Hourly wage level				
Less than \$15	36	11	30	40
\$15 or higher	71	35	59	71
Industry				
Goods-producing industries	63	31	49	69
Service-producing industries	47	18	40	48
Establishment size				
Fewer than 100 workers	37	9	32	43
100 or more workers	67	34	53	64

a) The total is less than the sum of participation in each separate type of plan because some employees participate in both types of plans.

Source: National Compensation Survey, March 2004 (as reported on the U.S. Bureau of Labor Statistics web site: [www.bls.gov/ncs/ebs](http://www.bls.gov/ncs/ebs)).

Over the past 20 years, there has been a significant shift from defined-benefit to defined-contribution plans (Figure 3.1).<sup>24</sup> In 1989-90, around 35% of all private-sector workers participated in defined-benefit plans but by 2004 this

24. Defined-benefit schemes usually pay pensions based on a fraction of the individual's "final salary" (the salary at or near retirement) for each year of scheme membership. In defined-contribution schemes benefits are determined by the contributions paid into the scheme and the investment return on those contributions.

proportion had fallen to just 21%. Over the same period, participation in defined-contribution schemes has risen from 34% to 42%.<sup>25</sup>

The most rapidly growing type of defined-contribution scheme is the 401(k) plan. Participation in these plans is voluntary and both employees and employers can make contributions. Employees decide how much they wish to contribute and how to invest the assets. These plans are portable and fully-funded. Between 1984 and 1997, 401(k) plans grew from around one-quarter to one-third of all defined-contribution schemes to around 70% (in terms of assets, benefits, participants and contributions). Another type of scheme is an employee stock ownership plan (ESOP), which is a type of tax-qualified defined-contribution benefit plan that buys and holds company stock. ESOPs are often used in closely held companies to buy part or all of the shares of existing owners, but they also are used in public companies. ESOPs are related to Section 401(k) plans, which may be used alone or in conjunction with ESOPs to hold company stock.<sup>26</sup>

In relation to defined-benefit schemes, there has also been a shift to hybrid plans, the most popular of which are called cash-balance schemes. Employers pre-fund contributions, own the assets and select investments, but the contributions for employees are recorded in notional accounts for each worker, even though the contributions are invested centrally by the employer. On leaving the employer, the worker can withdraw the balance in the scheme.

A variety of pension arrangements exist for public-sector employees. In the state and local government sector, these arrangements have overwhelmingly consisted of defined-contribution schemes. At the federal government level, two pension systems are in place – the Civil Service Retirement System (CSRS),

- 
25. Administrative data (derived from the so-called 5500 form) show this trend has been occurring since at least the past 30 years. In 1975 around 30% of all active participants in pension plans were in defined-contribution schemes, but by the late 1990s this had increased to nearly 70%.
  26. In contrast, a stock option plan grants employees the right to buy company stock at a specified price during a specified period once the option has vested. An employee stock purchase plan (ESPP) is a little like a stock option plan. It gives employees the chance to buy stock, usually through payroll deductions over a 3- to 27-month “offering period”. The price is usually discounted from the market price. The failure of Enron and other major corporations such as Polaroid are now pushing Congress to tighten regulations regarding many of these sorts of plans.



which covers employees hired before 1 January 1984, and the more recent Federal Employees Retirement System (FERS).

### *ERISA and IRAs*

The Employee Retirement Income Security Act of 1974 (ERISA) is a comprehensive codification of federal law set out in the Labor and Tax Codes pertaining to employee pension and welfare benefit plans in the private sector. Its main role is to protect retirement assets by implementing rules that qualified plans must follow to ensure that plan fiduciaries do not misuse plan assets. Among other things, ERISA sets minimum standards for participation, vesting, benefit accrual and funding; establishes detailed funding rules that require plan sponsors to provide adequate funding for the plan; requires accountability of plan fiduciaries; gives participants the right to sue for benefits and breaches of fiduciary duty; guarantees payment of certain benefits if a defined plan is terminated, through a federally chartered corporation, known as the Pension Benefit Guaranty Corporation; and, protects plans from mismanagement and misuse of assets through its fiduciary provisions.

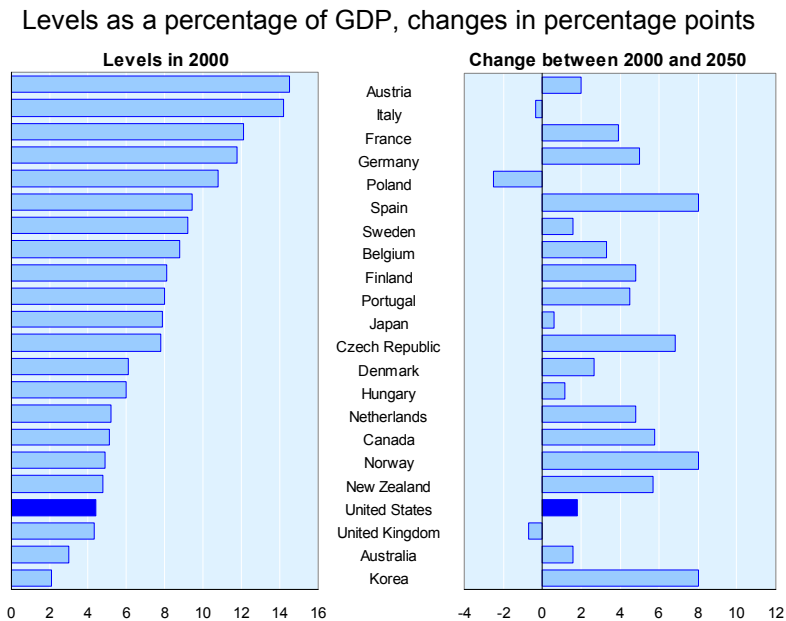
ERISA also introduced Individual Retirement Accounts (IRAs). These were intended to assist people without employer-sponsored coverage save in a tax-deferred fashion, with the government not taxing original contributions or returns on contributions until funds are withdrawn. The scheme was expanded in 1981 to allow workers covered by employer-sponsored plans to also establish accounts. After it became evident that these were a vehicle used primarily by high income individuals, from 1986 the full tax deferrals only applied to persons not active participants in employer-sponsored schemes or below certain income thresholds. Withdrawals from conventional IRAs before age 59½ are subject to a 10% tax penalty, but funds must be withdrawn by the age of 70½ years. A new form of IRA (Roth IRAs) was introduced from 1997 under which initial contributions are not tax deductible, but earnings are tax free when the money is withdrawn. Individuals are not required to withdraw these funds during their lifetimes. In 2002, 42 million households (42% of all households) owned an IRA, with about three-quarters of these owning conventional IRAs. Total assets held in IRAs in 2001 were USD 2.5 trillion, compared with USD 1.8 trillion in defined-benefit plans and USD 2.4 trillion in defined-contribution plans. However, most of the accumulations in IRAs are not new savings, but involve rollovers from either defined-benefit or defined-contribution plans. Virtually all the increase in IRA holdings comes from

rollovers (22%) or from investment returns on rollovers (76%), and only 2% from new tax-deductible contributions (Munnell, 2003).

## 2. The sustainability of the social security system

Is the current system financially sustainable? Figure 3.2 shows public expenditure on old-age pensions in the United States compared to other OECD countries in 2000 and projected changes between 2000 and 2050. In 2000 spending on old-age pensions was the fourth lowest among these 22 countries, and by 2050, while spending is forecast to increase by around 50%, it would exceed only the United Kingdom and Australia. From a comparative perspective, therefore, future financing challenges appear relatively modest, at least compared to other OECD countries. Nevertheless, the debate about social security reform in the United States is one of the most wide-ranging among all OECD countries, as there are significant challenges facing the current system.

Figure 3.2. **Public expenditure on old-age pensions in the United States and other OECD countries, 2000-50<sup>a</sup>**

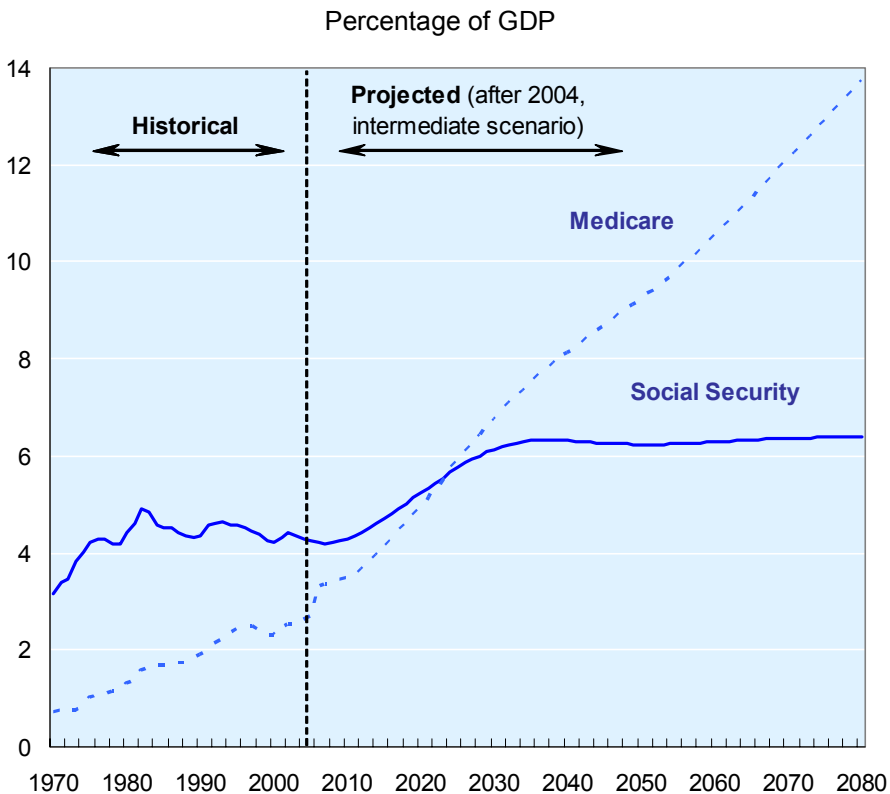


a) For France, the estimates refer to the period 2000-2040.

Source: National data for Austria; OECD (2001), *Economic Outlook*, No. 69, Paris, for all other countries.

More recent projections of age-related expenditures on social security, as well as on Medicare, are provided in the annual reports of the social security and Medicare Boards of Trustees.<sup>27</sup> According to their summary report for 2005, expenditure on social security is projected to rise from 4.3% of GDP in 2004 to around 6.2% in 2050, with a negligible rise thereafter to 6.4% in 2080 (Figure 3.3). However, a much steeper increase in Medicare expenditures is projected to occur, rising from 2.6% in 2004 to 9.2% in 2050 (with a further steep rise to 13.7% in 2080).

Figure 3.3. **Social security and Medicare expenditure, 1970-2080<sup>a</sup>**



a) Medicare expenditure includes expenditure on pharmaceutical benefits.

Source: Social security and Medicare Boards of Trustees, "Status of the Social Security and Medicare Programs: A Summary of the 2004 Annual Reports", [www.ssa.gov/OACT/TRSUM/trsummary.html](http://www.ssa.gov/OACT/TRSUM/trsummary.html).

27. The results of these projections vary from year to year reflecting changes in economic variables, but the broad results do not shift significantly.

In the case of the social security programme, outlays are projected to exceed revenues from 2018 and revenues will be sufficient to finance only 73% of benefit payments after 2042, when the trust funds will be exhausted. By definition, funding shortfalls can be met either by cutting benefits (including raising the retirement age), increasing contributions – either from payroll taxes or general revenue – or some combination of these approaches. For instance, it has been estimated that social security could be brought into actuarial balance over the next 75 years by either an immediate increase in payroll taxes of 15% or an immediate reduction in benefits of 13% (social security and Medicare Boards of Trustees, 2004).

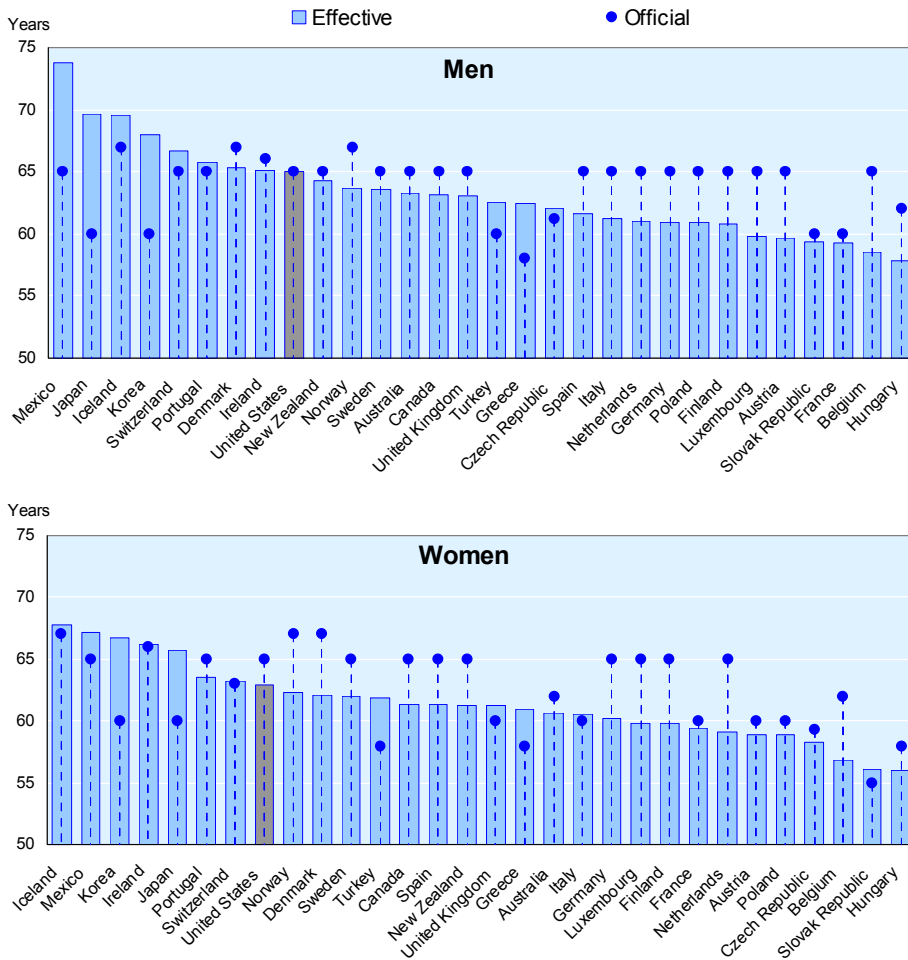
Reform of social security is a matter of some urgency. The longer reform is delayed the greater will be the required adjustments, either in terms of reduced benefits or increased contributions or other policy changes. Moreover, while the scope of adjustment is not large relative to other nations, the challenge is made more significant if it is desired to maintain the current structure of the system, with most financing of benefits through the payroll tax paid into the Trust Fund. Even larger adjustments will be required to finance a much steeper rise in Medicare expenditures.

### **3. Social security, retirement and work incentives**

In many OECD countries people retire earlier than the statutory retirement age. Statutory retirement ages differ substantially between countries and between men and women (Figure 3.4). In general, women appear to retire earlier than do men, except in France and Spain. In the United States, the effective and statutory ages of retirement for men are remarkably close, although women do appear to retire under their statutory pension age.

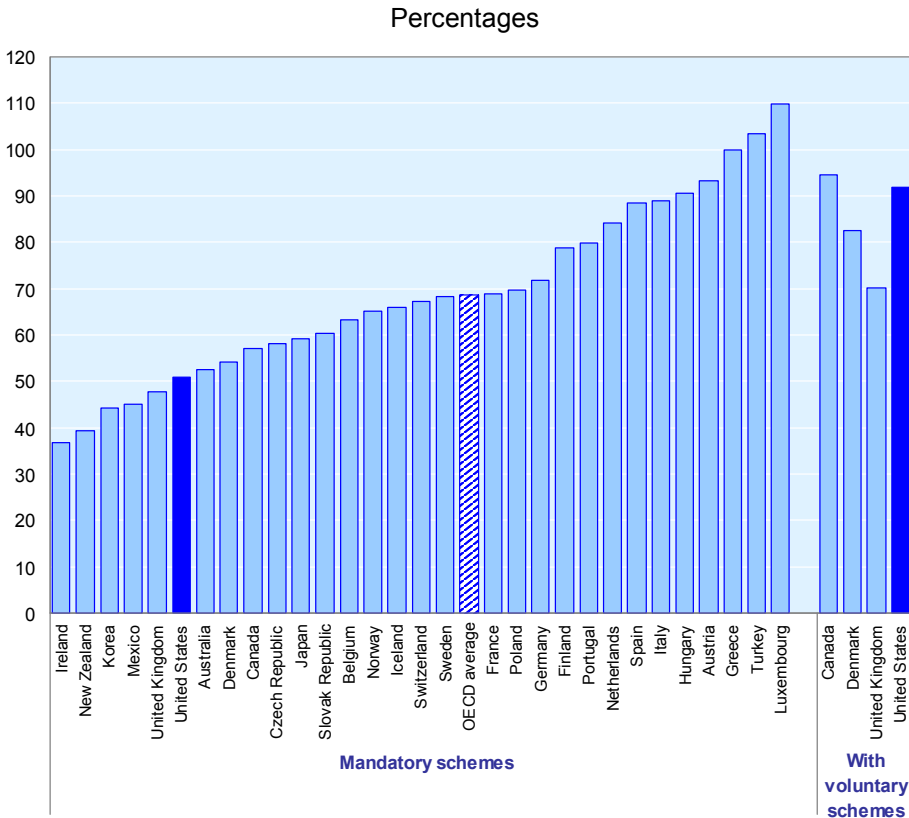
Individual choices about retirement are influenced by a wide range of factors, including attitudes towards work and retirement, physical and mental health, job characteristics and non-pecuniary benefits of employment, living arrangements and the preferences of family members, as well as by the financial incentives present in social protection programmes (Quinn, 1998). In particular, the generosity of the social security system and the way that benefits are structured can affect retirement behaviour. If the replacement rate is high enough, a worker might withdraw from the labour force and collect his or her pension. However, if the replacement rate is too low, it can lead to poverty for some groups of pensioners.

Figure 3.4. **Effective and official age of retirement in selected OECD countries, 2002<sup>a</sup>**



a) The effective age of retirement refers to the average age at which persons aged 40 and over left the labour force during the period 1995-2002. The official age of retirement refers to the earliest age at which workers are entitled to a full old-age public pension.

Source: OECD estimates.

Figure 3.5. Net pension replacement rates in OECD countries<sup>a</sup>

- a) Pension benefits as a percentage of former earnings (all net of tax) for workers formerly earning 100% of Average Production Worker (APW) earnings in each country. “Mandatory schemes” refer to benefits from the main public pension scheme (combined with, where they exist and where mandatory, benefits from employer-provided pension schemes). “With voluntary schemes” include benefits from a representative voluntary employer-provided pension scheme.

Source: OECD (2005), *Pensions at a Glance – Public Policies across OECD Countries*, Paris.

As seen in Figure 3.5, net replacement rates at the “normal” retirement age vary greatly according to countries – from between 35% to over 100% for workers earning the equivalent of the average production worker’s wage (APW).<sup>28</sup> Among the G7 countries, net replacement rates are considerably higher than in the United States (51%) in France (69%), Germany (72%) and Italy (89%). They are somewhat higher too in Canada (57%) and Japan (59%). Only the United Kingdom (48%) has a lower net replacement rate. Thus, in comparison with many other OECD countries, social security benefits in the United States do not appear to be overly generous, especially if they are the main source of retirement income. Of course, as Figure 3.5 also makes clear, the net replacement rate in the United States is considerably higher for workers who are fortunate enough to be covered by employer-provided pension schemes for most of their working careers.

There is a very extensive literature on the retirement effects of the United States social security system.<sup>29</sup> There are pronounced “spikes” in retirement at ages 62 and 65 (Figure 3.6), corresponding to the early and full retirement ages for social security, suggesting that the structure of the system has a significant role in influencing retirement decisions. The broad consensus of the literature, however, is that the level of social security benefits has a significant but modest effect on retirement dates. One of the more recent studies of this topic (Coile and Gruber, 2000b) finds that retirement appears to respond much more to the entire future stream of retirement incentives, rather than incentives in an additional year.

Patterns of labour market and program participation by age are shown in Table 3.3, which suggest that the single most important path from work to retirement is associated with receipt of social security income, most commonly between the ages of 62 and 65 years. Private pensions play some role, but are quantitatively less significant. Of the different sources of social security income, retirement benefits are by far the single most important source, while disability

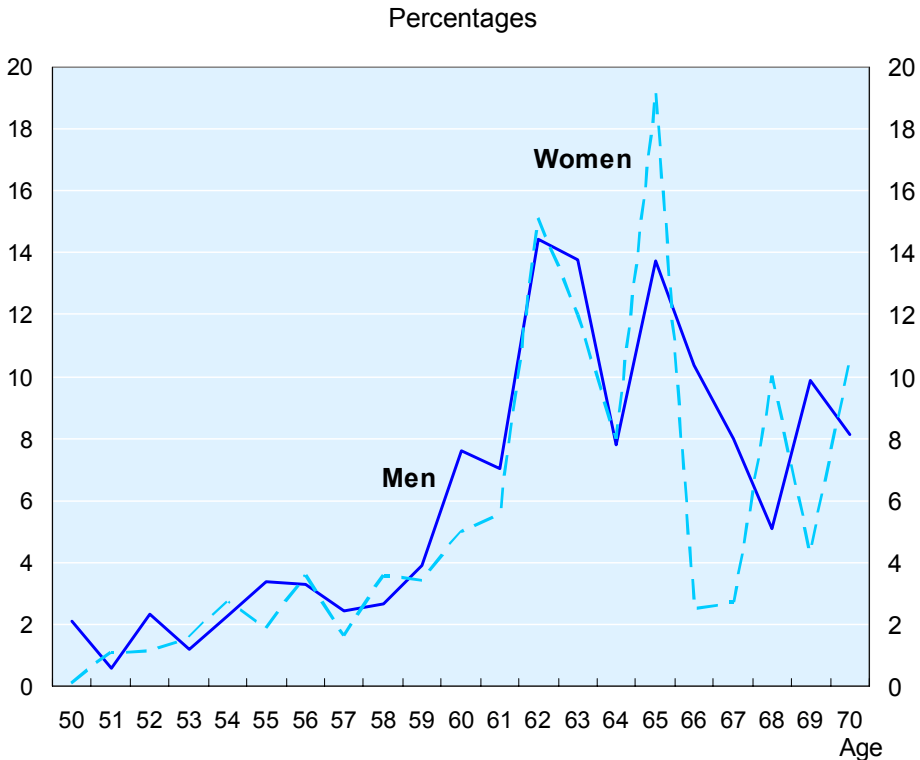
---

28. This are hypothetical replacement rates based on the pension rules of each country as of 2002 and various assumptions about the length of a worker’s career and about price and earnings progression over time (see OECD, 2005b, for further details). In particular, they assume a worker has been working continuously between the age of 20 and retirement.

29. For example, see Diamond and Gruber, 1997; Samwick, 1998; Burtless and Quinn, 2000; Coile and Gruber, 2000a and 2000b; and Gustman and Steinmeier, 2005.

benefits are much less important (Coile and Gruber, 2000b). Quinn (1998) also concludes that while disability programmes appear to have some influence on retirement patterns their significance appears much less than in a number of other OECD countries. Nevertheless, reforms to social security will also have implications for Disability Insurance and other programmes (discussed below).

Figure 3.6. **Retirement rate in the United States by gender and single year of age, 2002-04<sup>a</sup>**



a) Percentage decline in the participation rate between successive years and successive years of age (and averaged over the period).

Source: OECD estimates based on data from the Current Population Survey.



Table 3.3. **Older population in the United States by receipt of earned and unearned income, age and gender, 2002**

		Percentage of population in each group								
Source of income:	Age	Total			Men			Women		
		55-61	62-64	65+	55-61	62-64	65+	55-61	62-64	65+
<b>Earnings</b>		72	51	17	79	57	22	66	44	13
<b>Retirement benefits</b>		19	54	91	21	54	92	17	55	91
Social Security <sup>a</sup>		8	47	89	8	44	89	9	49	89
Public-sector pensions		5	8	11	6	10	13	4	7	10
Private pensions		7	16	23	9	20	31	5	12	18
<b>Income from assets</b>		59	56	56	61	56	59	57	56	54
<b>Veterans' benefits</b>		2	2	3	4	3	6	0	0	2
<b>Public assistance</b>		4	4	4	3	2	3	4	5	4

a) Includes retired-worker benefits, dependents' or survivors' benefits, disability benefits, transitionally insured benefits, or special age-72 benefits.

Source: U.S. Social Security Administration (2005), *Income of the Population 55 or Older, 2002*, Washington, D.C.

As a result of the recognition of the retirement effects of social security, a number of significant steps have already been taken to encourage later retirement. Following 1983 legislation the full retirement age for social security is increasing from 65 for those who reached 62 in 2000 by two months a year, until it reaches 66 years in 2009 for those born in 1943 or later. For those born in 1955 or later (*i.e.* who will reach 66 in 2021), it will again increase, until it reaches 67 for those born in 1960 or later. Workers may still elect to receive retirement benefits as early as age 62 but their benefits will be reduced by a correspondingly greater amount as the full-retirement age rises. There is also an increment for each month that worker delay retirement after the full retirement age but before reaching the age of 70. The increment is also being increased progressively (in steps of 0.5 percentage points per year) – to reflect the increase in the full retirement age – from 5.5% per year for those born in 1933-34 to 8% for those born in 1943 or later. In 2000, the earnings test was eliminated beginning with the month beneficiaries attain the full retirement age (FRA) – their benefits will not be affected regardless of the amount of their earnings. For individuals who are younger than the FRA, benefits are reduced by USD 1 for each USD 2 of annual earnings above a given level (USD 12 000 in 2005).

#### 4. Poverty and income adequacy in retirement

Over the past 25 years or so, the economic status of older Americans has improved. The real median incomes of the population aged 65 and over increased by around one-third between 1976 and 2000, rising from around 50% of that of the working-age population to just over 60% in 1984. It has subsequently fluctuated around that level, and in 2000 was below 60%.

In 2002, almost 90% of the population aged 65 and over received income from social security, and on average it provided almost 40% of aggregate income for older people.<sup>30</sup> Around 60% of older people received 50% or more of their income from social security, with roughly 20% receiving all of their income from this source. After social security income, income from assets has traditionally made up the second largest income component for older people, although the importance of this has fluctuated over time. In 2002, 56% of the older population had asset income, providing around 14% of aggregate income (down from 18% in 2000). Roughly 34% of the older population received private or employer-provided pensions, which provided around 19% of total income.<sup>31</sup> Around 17% of the older population had earnings, while a very small share of the population received public assistance benefits – down from 11% in 1976 to 4% in 2002. While only 3% of the white population received public assistance, this rises to 9% of blacks and 12% of Hispanics.

The official poverty rate for persons aged 65 and over fell from around 15% in 1976 to 10.4% in 2002. Using the official United States poverty line, older households in general do not face a higher risk of poverty than younger households. In 2002, about 10.6% of working-age persons were in poverty. It is estimated that without social security, nearly half of older social security beneficiaries would be currently living in poverty instead of 8.7%. Social security is a particularly important programme for women, who account for

---

30. The data reported in this paragraph and the next one are taken from U.S. Social Security Administration's publication, *Income of the Population 55 or Older, 2002*, as well as from Hungerford *et al.* (2002). The reported shares of the elderly population receiving different forms of income refer to all individuals aged 65 and over. The reported shares of total income accounted for by each component of income refer to all aged units, *i.e.* couples with one or both members aged 65 and over plus all single individuals aged 65 and over.

31. Excluding public-sector pensions, these percentages fall to 23% and 10%, respectively.

57% of all beneficiaries and 63% of beneficiaries age 80 and older. Non-married elderly women rely most heavily on the programme, with social security benefits being the only source of income for 29% of these women, and more than half of their income for 77% of them. While the social security programme has substantially reduced poverty among older Americans, 17.7% of non-married elderly women are estimated as currently living in poverty.

Because initial social security benefits are based on career earnings indexed according to wages, initial benefits have risen in real terms over time, and are projected to increase further in the future. For example, it is projected that for an average earner retiring at age 65 in 2035 real benefits will be about 25% greater than currently (CBO, 2003a). However, replacement rates are projected to fall, as a result of reforms introduced in 1977. Projections of future poverty rates suggest that poverty among older people could fall to 7.2% in 2020 and 4.1% by 2047, assuming no social security reductions (Wentworth and Pattison, 2002).

The official poverty measure has been subject to a number of criticisms, however, and an alternative suggested by the National Academy of Sciences, which would include benefits and expenses not included in the current poverty concept and make regular adjustments to the minimum needs level, would raise the estimated poverty rate for older people in 1997 from 10.5 to 17.4% (Wentworth and Pattison, 2002). Similarly, Short and Garner (2002) estimate that in 2000 if out of pocket medical expenses were deducted from income the poverty rate for the entire population would rise from 11.3 to 12.9%, but that for people over the age of 65 years would rise from 10.2 to 16.6%.

International comparisons of relative poverty among the older population show the United States in a relatively unfavourable position. Using a poverty line set at 50% of median adjusted disposable income, Smeeding (2002) found the elderly poverty rate to be 18.9% in the United States compared to a 14-country average of 11.1%, and exceeded only by Australia and the United Kingdom. Poverty rates, measured on this basis, were particularly high for single older women. Somewhat similar results were found in a recent OECD study (Yamada, 2002), comparing resources in retirement in nine OECD countries. While the proportion of older people below a relative poverty line was found to have fallen between the 1970s and the 1990s, low income rates for the elderly were higher in the United States than in any other country apart from Japan. In contrast, in the mid-1990s quasi-replacement rates

for 65-74-year olds were equal highest in the United States and Canada, but dropped significantly for those aged 75 and over.<sup>32</sup>

## 5. Dealing with Disability Insurance

In many OECD countries, receipt of disability benefits provides an important route into early retirement. While this is less likely to be the case in the United States, there are still grounds for policy concern. At the end of 2003, for the age group 55-59, around 9% of men and 7% of women were receiving disability benefits, with rates rising to nearly 13% of men and 9% of women aged 60 to 64 years.<sup>33</sup> Disability Insurance rolls grew consistently between the mid-1980s and 2004, as did SSI rolls, albeit with some flattening out for SSI since the 1990s. Employment rates among people with disabilities also declined between 1990 and 2000, from nearly 45% to 35% for men, and have fluctuated around 35% for women (Daly and Burkhauser, 2002).

Rates of inactivity because of illness or disability for older people in the United States are close to the OECD average for both men and women (Figure 3.7).<sup>34</sup> At the same time, the United States spends less than most other OECD countries on disability-related benefits, broadly defined, and average per capita benefits are the second lowest among 20 OECD countries (OECD, 2003c). While the United States tends to have significantly higher employment rates among all persons of working age than the OECD average, employment among people with disabilities is closer to the OECD average (OECD, 2003b). Annual inflow rates onto benefits are almost the same as the OECD average at about 6 and 6.3 persons per 1 000 persons of working age, respectively, and

---

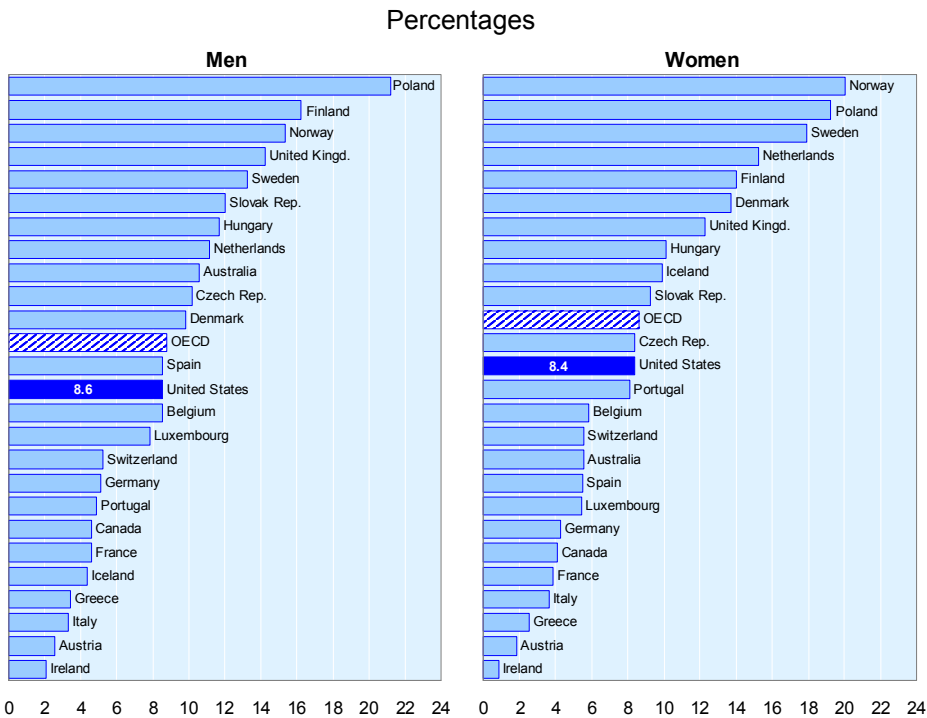
32. Quasi-replacement rates are calculated as the disposable income of older people by age group as a percentage of the disposable income of the total population. The countries included were Canada, Finland, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom and the United States.

33. OECD estimates based on beneficiary data by age and gender from U.S. Social Security Administration, *Annual Statistical Report on the Social Security Disability Insurance Program, 2003*, and population data by age and gender from [www.ssa.gov/OACT/STATS](http://www.ssa.gov/OACT/STATS) (accessed 14 March 2005).

34. These comparisons need to be treated with some caution because they are based on respondents own declaration about their main activity status or reason for not wanting or not seeking work. Some respondents who are disabled may declare that they are inactive because of retirement or household duties rather than because of their disability.

outflow rates at around 1% of the stock annually are similar to those in countries like Germany, Austria and Portugal, and significantly lower than in the United Kingdom or the Netherlands.

Figure 3.7. **Proportion of older people (50-64) inactive because of illness or disability in OECD countries, 2003**



Source: European Union Labour Force Survey for European countries; national labour force surveys for other countries.

In particular, compared with a number of other OECD countries, the United States Disability Insurance benefit system appears to be based on the approach that disability benefits are directed to people who have permanently left the labour force and will never return.<sup>35</sup> Even though the proportion of the working-age population receiving disability payments is not significantly below the OECD average, eligibility in terms of levels of incapacity is more restrictive

35. While there are special allowances for SSI recipients who receive earnings the proportion of disabled recipients with earnings in 2001 was only 6.3% (Daly and Burkhauser, 2002).

than in many other countries. As a result, activation measures appear to be given less emphasis. Vocational rehabilitation is essentially voluntary and available only after a relatively long period of sickness. Spending on employment programmes for people with a disability is among the lowest of OECD countries, not much more than 20% of the average of 17 OECD countries (OECD, 2003b).

## 6. Policy alternatives – towards a balanced approach

There has been much debate over many years in the United States about ways of reforming the social security system to make it more sustainable in the face of demographic ageing. Given the scope of this literature it is not possible to summarise it in full. Annex 3.A contains further details of a number of reform proposals. These ideas can be grouped into two categories: *i*) changes that preserve the basic structure of the current system with minor modifications; and *ii*) more dramatic changes that either would involve means-testing of benefits or would shift part of the system from the pay-as-you-go insurance plan to an arrangement more like 401(k) retirement plans and individual retirement accounts. In this section, however, the discussion concentrates on reforms that can improve long-term financial sustainability while maintaining or improving income adequacy in retirement, and are consistent with maintaining or improving incentives to participate in the labour market. The proposals discussed are not intended to solve all of the financing problems facing social security, but simply to contribute as part of a possible solution.

A balanced approach suggests that a combination of reforms is likely to be more effective than one relying entirely on either benefit cuts or tax increases. In general, most contribution increases are likely to be incompatible with improving incentives to participate in the labour market, both because of the direct distortions they produce, and also because higher contributions raise net replacement rates and thus may affect early retirement incentives. Having said this, among proposals put forward in the past and more recently, one option was to extend social security to include federal government employees hired before 1984 and currently in the CSRS, and this would not have the disadvantages associated with more general increases in the payroll tax.

Benefit cuts could potentially take many forms. Changing the initial adjustment of benefits at retirement from wage uprating to price uprating, as recommended by the President's Commission to Strengthen Social Security (2001) is estimated to have a very significant impact on the funding shortfall, in fact, meeting it entirely. It is also estimated by Gustman and

Steinmeier (2003) to raise participation at older ages quite significantly, but this is entirely due to the fact that this approach cuts benefits sharply.<sup>36</sup> The main issue with this approach is that it is questionable whether such a large cut in benefits is politically sustainable over the longer term. It also impacts adversely on the ability of the system to alleviate poverty, unless there are improvements in benefits for low income earners and groups disadvantaged in the labour force. An alternative that may be more attractive is to index initial benefits by the growth in earnings minus the growth in life expectancy which would imply that social security benefits continue to grow in real terms at around 0.5% per year.

The introduction of individual accounts to replace part of social security would have uncertain impacts on incentives to work longer. In general terms, defined-contribution systems could be expected to have better workforce incentives than defined-benefit pension schemes or most PAYGO public pension systems. However, the United States social security system is already well-designed in relation to incentives to continue working, with actuarial adjustments for retiring early and for working past the normal pension age. Thus, the gains that would accrue from a move to a defined-contribution system are likely to be less significant than they would be in some other OECD countries. Moreover, individual account system can also facilitate early retirement. Gustman and Steinmeier (2002) estimate that the stock market boom of 1995 to 2000 increased retirement by over 3 percentage points per year, and decreased the average retirement age by 0.25 years, primarily due to the effects of the extremely large and unanticipated increases in retirement wealth, although the slump since 2000 has cancelled out this effect. Gustman and Steinmeier (2004) argue that in the long run a complete replacement of the current benefit formula by a system of individual accounts could have major effects on retirement. This is primarily because estimated benefits in retirement would be likely to be significantly higher than is currently the case. Allowing workers to access part of their individual accounts as lump sums would also increase rates of early retirement. Of course, if such rates of return are realizable in the long run this would allow for reductions in payroll tax rates. This,

---

36. For example, under the current system average benefits are projected to grow by roughly 1% a year in real terms. Changing the initial indexing formula to be based on prices rather than earnings would mean that after 75 years, social security benefits relative to wages would be less than half their current level. While taking a longer time than is the case in the United Kingdom, this approach would therefore produce results rather like the long term forecasts for the UK Basic State Pension (OECD, 2004c), where benefits have fallen significantly compared to wages, and are forecast to continue to do so.

however, raises the risk of poverty for those with below average returns to their individual accounts, unless the benefit formula is made more progressive.

The trade-off between adequacy of incomes in retirement and incentives to participate in the labour market can be addressed through proposals to raise the effective age of retirement. Delaying retirement can have very significant impacts on the adequacy of social security entitlements (Figures 3.8, Panel A). For example, for a couple previously earning USD 62 000 a year, entitlements rise from just under USD 18 000 a year if retiring at age 62 to nearly USD 29 000 at age 68 and USD 32 000 at age 70. For a single person previously earning USD 24 000, entitlements rise from under USD 8 000 if retiring at age 62, to USD 12 000 at age 68 and USD 13 600 at age 70. Correspondingly, the assets required to fund an 80% replacement rate fall significantly if retirement is delayed (Figure 3.8, Panel B). For a couple earning USD 62 000 required assets fall from around USD 330 000 at age 62 to USD 126 000 at age 68, while for a single earner at USD 24 000, the required assets fall from USD 122 000 at age 62 to roughly USD 40 000 at age 68.

As discussed earlier, the effective age of retirement in the United States is higher than in most other OECD countries; spending on public pensions is lower than in most other developed countries, and the projected increase in spending over the next 40-50 years is also lower than in most other OECD countries. Nevertheless, further reforms are required to reinforce these relative advantages. In addition, these reforms are fairly urgent, if the current form of the social security system is to be maintained.<sup>37</sup>

Given that reforms are necessary to maintain the sustainability of the system, it is important that these be consistent with improving incentives for continuing workforce participation. A balanced programme of reform could include the following elements. Under current law, the rate of increase in the full retirement age for social security 65 to 67 is very gradual and ceases for a period of 11 years. Maintaining and increasing the rate of increase could significantly reduce financing problems. One approach would be to raise the rate of increase to three months a year as soon as possible, and make the

---

37. For example, an increase of roughly 2 percentage points in the payroll tax rate would have been sufficient to resolve the deficit if introduced from 2002, but if the increase were phased-in in 2020 and 2050, the increase would have to be 4.8 percentage points (Social Security Advisory Board, 2001). Correspondingly, the size of benefit reductions required to meet the deficit become significantly larger if introduced later.



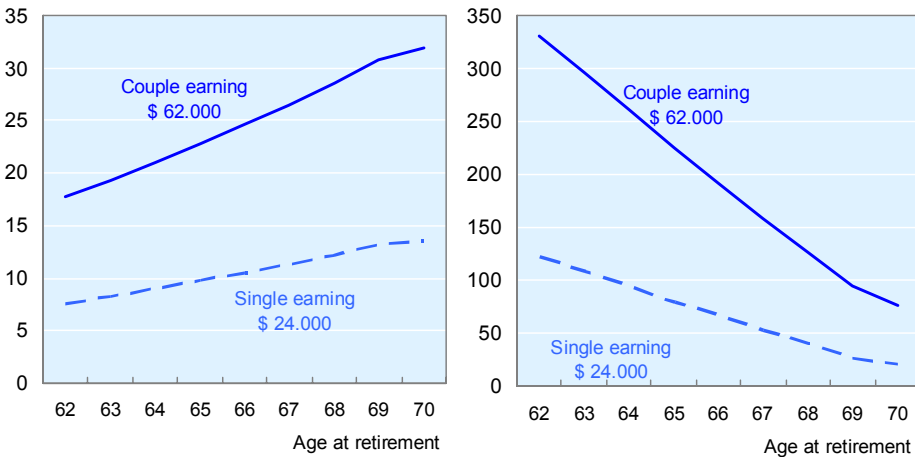
increase continuous. If it were possible to introduce a faster rate by 2006, for example, the higher retirement age of 67 could be reached in 2012 rather than 2027 (that is, the full retirement age of 67 would apply to all those born in 1955 and later).

Figure 3.8 **Effects of retirement age on retirement income in the United States**

In 2003 US dollars (thousands)

**A. Social Security annual entitlements**

**B. Assets needed in retirement to achieve 80% of pre-retirement income**



Source: CBO (2003), *Baby Boomers' Retirement Prospects: An Overview*.

Under current law, early retirement at age 62 is still an option. The scheduled increase in the full retirement age means that those taking early retirement will have a further reduction in benefits. For example, a person born in 1937 or earlier who took early retirement at age 62 received a benefit of 80% of the scheduled full retirement benefit. Someone born in 1960 or later who retires at age 62 under current law will receive 70% of the full retirement benefit. Apart from the desirability of increasing employment at older ages, this is quite a substantial cut in annual income. The evidence suggests that the existence of the early retirement option makes this the effective retirement age for many people (Gustman and Steinmeier, 2005). It would therefore appear sensible to raise the early retirement age in line with the increase in the full retirement age (*i.e.* to around 64 years).

A concise but comprehensive review of the arguments for and against raising the Earliest Eligibility Age (EEA) is provided by Munnell *et al.* (2004). They note that unless the EEA is raised it will be difficult to further increase the full retirement age, because this further reduces benefit levels for those taking early retirement and thus increases the risks of poverty for this group. Correspondingly, raising the EEA improves the adequacy of retirement incomes for those who retire later and then live to older ages. It is important to note that increasing the early retirement age will not directly improve long-term financing because of the actuarial reductions in benefits, but raising the early retirement age could be useful in the short-term to smooth the time pattern of the increase in costs. This approach also signals that increasing the effective age of retirement is important for broader economic and social objectives, and also increases income tax revenues.

It is sometimes argued that abolishing early retirement or raising the early retirement age might pose particular difficulties for those who have health problems, but which are not sufficiently serious to result in eligibility for Disability Insurance. Taking early retirement might also be preferred by some people with disabilities, because of the five-month waiting period for Disability Insurance. Evidence suggests, however, that in the early 1990s only around 10% of male early social security beneficiaries and 13% of female early beneficiaries had a work-limiting disability and had non-social security income below the poverty threshold (CBO, 1999). Munnell *et al.* (2004) estimate that around 10% of early claimers or 4% of all individuals aged 62 would be vulnerable because they were in poor health and do not have other sources of income. It would be possible to offset adverse effects for low income persons in these circumstances by expanding the DI and SSI programmes, although care would need to be taken not to simply substitute one benefit for another. It would also be consistent with improving incentives for continued participation for low-income older persons to liberalise eligibility for the Earned Income Tax Credit, particularly by increasing the age of eligibility to match the increase in the full retirement age. It will also be necessary to consider reforms in relation to access to private and occupational pensions. Currently, these can be accessed from 59.5 years without tax penalty. Consistency of treatment suggests that this should be raised, to reinforce the message that increased labour force participation is required to deal with population ageing.

While some features of social protection for people with disabilities may need to be adjusted to compensate for unintended consequences of raising the early retirement age, there is a case for re-assessing features of current disability

programmes. As noted above, the United States approach tends to be based on the notion that people with disabilities are permanently unable to work. The General Accounting Office has suggested that more attention should be given to stronger activation measures, designed to help people with disabilities back into the workforce (GAO, 1997).<sup>38</sup>

In the longer run, continuing improvements in life expectancy suggest that consideration will need to be given to further increases in the retirement age. One proposal that has been put forward is to index the full retirement age to changes in life expectancy, analogous to an approach taken with the reformed notional defined-contribution system in Sweden.

Most importantly, these reforms, to be successful, need to operate in a broader perspective that is designed to increase employment opportunities for older workers. Appropriate training, removal of barriers to work and fostering of appropriate work opportunities become crucial considerations. Hence, the identification of barriers to employment and their removal are discussed in Chapter 4 and Chapter 5.

---

38. See also OECD (2003c) and Sim (1999).

### Annex 3.A

## SOCIAL SECURITY REFORM PROPOSALS

The National Commission on Social Security Reform (known as the Greenspan Commission after its Chairman) was appointed in 1981 to study and make recommendations regarding the short-term financing crisis that social security faced at that time. Estimates were that the Trust Fund would run out of money possibly as early as August 1983. The Commission's report in January 1983 became the basis for the 1983 social security amendments which resolved the short-term financing problem and made other significant changes, including the phased increase in the pension entitlement age.

Further reform measures were proposed by the 1994-96 Advisory Council on social security (the Gramlich Commission). A majority of the Advisory Council supported incremental reforms that would reduce (but not eliminate) the projected deficit. The proposed reforms included:

- Increasing the working period over which a retiree's benefits are computed from 35 years to 38 years.
- Changing the way in which benefits are taxed, so that any benefits retirees receive above what they contributed would be taxed as ordinary income. Other retirement plans, such as some individual retirement accounts (IRAs), already are taxed in this manner.
- Extending social security coverage and participation to state and local government employees, are currently excluded from the program.
- Accelerating the scheduled increase in the retirement age so that it becomes sixty-seven by 2011; the retirement age would be indexed to longevity thereafter.
- Adjusting the Consumer Price Index (CPI). The U.S. Bureau of Labor Statistics, which is studying possible adjustments to the CPI, announced in 1996 that it is putting in place measures that are

expected to decrease the CPI by 0.21% per year; this change will take care of an estimated 14% of the gap. There is substantial controversy among economists about whether the index, even after the change, would continue to overstate inflation.

These incremental changes would eliminate more than 70% of the projected long-term shortfall. A variety of reforms were suggested to deal with the remainder: investing the Social Security Trust Fund in the stock market, means-testing social security benefits, and “privatizing” social security. The Advisory Council report agreed that means-testing should not be implemented, but members split into three groups over which reform to recommend.

Under the Clinton Administration it was proposed that 62% of the forecast Budget surpluses would be directed to the social security system; 15% to Medicare; 12% to the creation of retirement savings accounts for American workers; and the remaining 11% to other high-priority investments. Of the roughly USD 2.8 trillion in surpluses then estimated that would have gone to social security, four-fifths would have been used to purchase Treasury securities. The remaining one-fifth would have been invested in an index of private sector equities, which should yield a higher rate of return for the program's investments. Together, the transfer of new money into the social security trust fund and the investment in equities were estimated to bridge more than half of the long-term funding gap that social security then faced and extend its solvency to 2055. Closing the remainder of this gap and putting social security on sound financial footing for at least 75 years would have required additional reforms that were not specified.<sup>39</sup> In any event, the opportunity to pursue this reform approach is no longer currently relevant. Concerns were also expressed about the desirability of investing part of the Trust Fund in the stock market, with the perceived danger that the funds invested would be directed to achieve social objectives and not to maximise returns for social security contributors.

Many social security reform plans were also proposed to Congress during this period, and in the 2000 Election Campaign then Governor Bush proposed social security reforms that would include a partial “carving-out” of social security contributions into individual investment accounts. Subsequently, the President’s Commission to Strengthen Social Security was appointed and reported in 2001. Box 3A.1 contains details of the principles guiding the Commission and the three options put forward.

---

39. The transfers to Medicare would have extended the life of that trust fund to 2020, with further structural reforms also required.

**Box 3A.1. The President's Commission to Strengthen Social Security**

The Commission was asked to make recommendations to modernise and restore fiscal soundness to social security, using six guiding principles:

- Modernisation must not change social security benefits for retirees or near-retirees.
- The entire social security surplus must be dedicated only to social security.
- Social security payroll taxes must not be increased.
- The government must not invest social security funds in the stock market.
- Modernisation must preserve social security's disability and survivor's insurance programmes.
- Modernisation must include individually controlled, voluntary personal retirement accounts, which will augment social security.

The Commission put forward three reform models:

- Voluntary personal accounts with no other changes in social security – workers can invest 2% of taxable wages in a personal account, and their social security benefits are offset by these contributions, compounded at an interest rate of 3.5% above inflation.
- Workers can redirect 4% of their payroll taxes up to USD 1 000 annually to a personal account (maximum contribution indexed to wage growth). Social security benefits offset by these contributions compounded at 2% above inflation. More progressive social security benefit structure, with minimum benefit to 30 year minimum wage worker of 120% of the poverty line. Benefits under traditional component of social security price-indexed from 2009. Improved benefits to survivors. Temporary transfers from general revenue to keep Trust fund solvent between 2025 and 2054.
- Personal accounts created by match of part of payroll tax – 2.5% up to USD 1 000 (indexed annually) – for workers contributing an additional 1% of wages subject to social security taxes. Add-on partially subsidised through refundable tax credit. Traditional social security benefits offset by worker's contribution, compounded at 2.5% above inflation. More progressive benefit structure through minimum benefit of 100% of poverty line for 30-year minimum wage worker (111% for 40-year worker). Additional protection for survivors. Traditional benefits adjusted through adjusting growth rate for future changes in life expectancy, decreasing benefits for early retirement, and increasing benefits for later retirement, and flattening of benefit formula by reducing replacement rates after 3<sup>rd</sup> bend point from 15% to 10%. Additional temporary transfers from general revenues needed between 2034 and 2063. New sources of dedicated revenue equivalent to 0.6% of payroll over 75-year period and continuing thereafter.

*Source:* President's Commission to Strengthen Social Security (2001).

A detailed assessment of these proposals is provided by Diamond and Orszag (2002). They point out that Option 1 does not restore actuarial balance in the trust fund. Options 2 and 3 restore balance primarily by significant cuts in benefits. For example while a worker aged 55 in 2002 would not receive a benefit cut, for a worker aged 50 the cut would be 4.5%, relative to the benefits under current law, increasing to 46.4% for a worker born in 2012. Under Option 3, as a result of the benefit reduction from increased life expectancy, a worker aged 50 in 2002 would experience a benefit cut of 2.5% and a worker born in 2012 would have a 27.8% cut in benefits. The introduction of individual accounts would actually worsen the long-term balance because of subsidies to workers opting out into individual accounts, and would also produce cash-flow problems, since contributions would be reduced well before future benefits are cut as a result of the accounts.

## Chapter 4

### REMOVING BARRIERS TO RETENTION AND HIRING

While people may exercise choice over whether or not to retire, their opportunities for remaining in the labour force are largely determined by employers. Of particular importance are opportunities for continued employment. Employers also determine whether an older worker is hired into a particular job. Barriers to hiring may force older workers to choose new jobs from a small subset of the available jobs. Given the importance of employers in the labour market for older workers, this chapter begins in Section 1 with a discussion of the key barriers on the side of employers which may affect their employment decisions with respect to older workers. The impact of technological change and whether this may also pose a barrier to older workers finding and keeping jobs is examined in Section 2. In Sections 3 and 4, the impact of government policies and possible avenues for further action are discussed.

#### 1. Barriers to retention and hiring

The evidence in Chapter 2 on retention, hiring and the consequences of job loss, suggests that there may be a number of barriers on the side of employers which restrict employment opportunities for older workers. One important barrier may be negative employer perceptions of older workers. Of course to the extent that these perceptions do not correspond to reality, they may reflect age discrimination. However, employer perceptions may also be driven by more objective considerations in terms of the cost and productivity of older workers *versus* younger workers. These issues are examined in turn.

##### A. *Employer perceptions of older workers*

Employer decisions about retaining or hiring older workers, as well as job assignments and promotions, will be strongly influenced by their perceptions about the value and performance of older workers. Evidence of employer perceptions can be gleaned from surveys of their attitudes towards older



workers. Indeed, over the past 20 years, a number of these surveys has been carried out.

One of the more recent examples is the 1998 survey of human resource executives in 400 organisations with 50 or more employees that was commissioned by the AARP.<sup>40</sup> As indicated in Figure 4.1, the responding executives viewed older employees as having both strengths and weaknesses. Important strengths included:

- Loyalty and dedication to the company.
- Commitment to quality work.
- Dependable in a crisis.
- Solid performance record.
- Basic skills.
- Getting along with co-workers.

Older workers were also recognised as having solid experience and leadership ability, but these qualities were ranked quite low down the list of employee qualities that were most sought after by employers. In terms of other employee qualities that were valued highly by employers, older workers were ranked poorly in a number of areas, including:

- Flexibility in doing different tasks or trying new approaches.
- Participation in training.
- Up-to-date skills.
- Comfort with, and willingness to learn, new technologies.

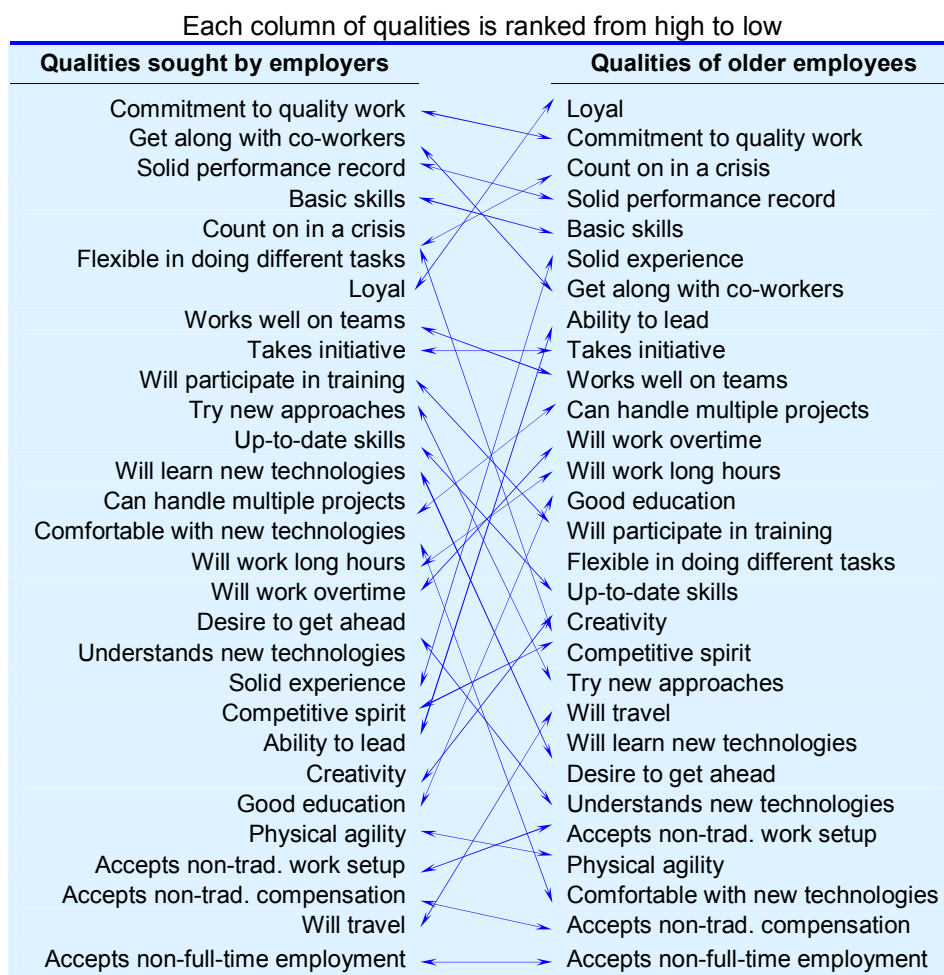
In a more recent survey of human resource managers in around 400 organisations, respondents were asked what they view as the advantages and disadvantages of hiring older workers aged 65 and over (Collison, 2003). The most frequently reported advantages cited by 72% of respondents were that: older workers were more willing to work part-time or seasonally to fulfil labour-on-demand needs; they could serve as mentors to workers with less experience; and they had invaluable experiences in their careers. The most

---

40. See AARP (2000).

frequently indicated disadvantages were that: older workers do not keep up with technology (53%); they cause expenses such as health care costs to rise (36%); and they are less flexible compared to younger workers (28%).

Figure 4.1. **Employee qualities sought by employers and evaluation of older employees**



Source: AARP Older Employees and American Business Survey, 1998.

It is difficult to know what to make of such findings. As discussed in Chapter 2, older workers represent a very diverse group and so any characterisation or generalisation concerning their work ability, motivation and receptivity to training and change, is likely to be misleading. What is clear,

however, is that to the extent that these views of older workers are stereotypes with little basis in reality, they could give rise to age discrimination both in the hiring, firing, compensation, training and promotion of older workers.

### **B. Age Discrimination**

It is clear that there has been and continues to be age discrimination in the United States. A 1965 Department of Labor study of hiring practices in states with no prohibitions against age discrimination found that three out of five employers imposed upper age limits (usually between 45 and 55) on new hires.<sup>41</sup> While less blatant, there is considerable evidence that age discrimination is still an issue today.

Table 4.1. **Reported experience of age discrimination in the United States, 2002<sup>a</sup>**

	Percentage of workers who reported having experienced age discrimination in the following situations:			
	Hiring	Promotion	Lay-off/ firing	Pay rise
<b>Total</b>	<b>15</b>	<b>9</b>	<b>6</b>	<b>5</b>
Men	17	12	7	7
Women	13	6	5	3
Full-time workers	11	8	5	4
Part-time workers	20	13	8	8
Unemployed	41	18	27	11

a) Respondents in a national survey of workers aged 45 to 74 were asked whether because of age they had ever experienced the following: "Not getting hired"; "Passed up for promotion"; "Laid-off/fired"; and "Passed up for a (pay) raise".

Source: AARP, *Staying Ahead of the Curve: The AARP Work and Career Study*, Washington, D.C., 2002.

For example, according to a 2002 survey of workers aged 45 to 74 by the Roper organisation for the AARP, around two thirds of respondents reported having witnessed or experienced age discrimination in the workplace (AARP, 2002). However, this number is much smaller when workers report whether they have personally experienced age discrimination. For instance, 15%

41. U.S. Department of Labor, 1965. Indeed, this is still a common practice in some OECD countries such as Japan (OECD, 2004b).

reported not being hired for a job and 9% reported they had been passed over for promotion because of their age (Table 4.1). With respect to complaints of age discrimination in employer decisions relating to lay-offs/firings and pay rises, the corresponding proportions fall to 6% and 5%, respectively.

Older working men and part-time workers are more likely to report experiencing age discrimination than older working women (who may also face gender discrimination) and full-time workers. Perceptions of age discrimination appear to be particularly high among older unemployed workers.

In isolation, it is difficult to judge whether these figures indicate that age discrimination is a pervasive phenomenon in the United States. From an international perspective, these figures appear quite high. For instance, in the 2000 European Survey on Working Conditions, only around 2.7% of EU workers aged 45 and over reported having been subject to age discrimination at work over the past 12 months and only 3.9% reported either having personally experienced age discrimination during the previous 12 months or being aware of the existence of age discrimination in their current workplace.<sup>42</sup> Clearly, differences in the questions asked and questionnaire design preclude drawing firm conclusions about whether perceptions of age discrimination are more widespread in the United States than Europe. In addition, due to age discrimination legislation, older workers in the United States may be more sensitive to age discrimination and hence more likely to recognise and report it.

Other evidence of age discrimination comes from the number of charges received by the Equal Employment Opportunity Commission (EEOC), the agency charged with enforcing federal discrimination statutes. In the fiscal year 2004, around 17.8 thousand discrimination charges were filed based on age – more than were filed based on disability but behind the number of charges that were filed on the grounds of gender and race (Figure 4.2).<sup>43</sup> At least

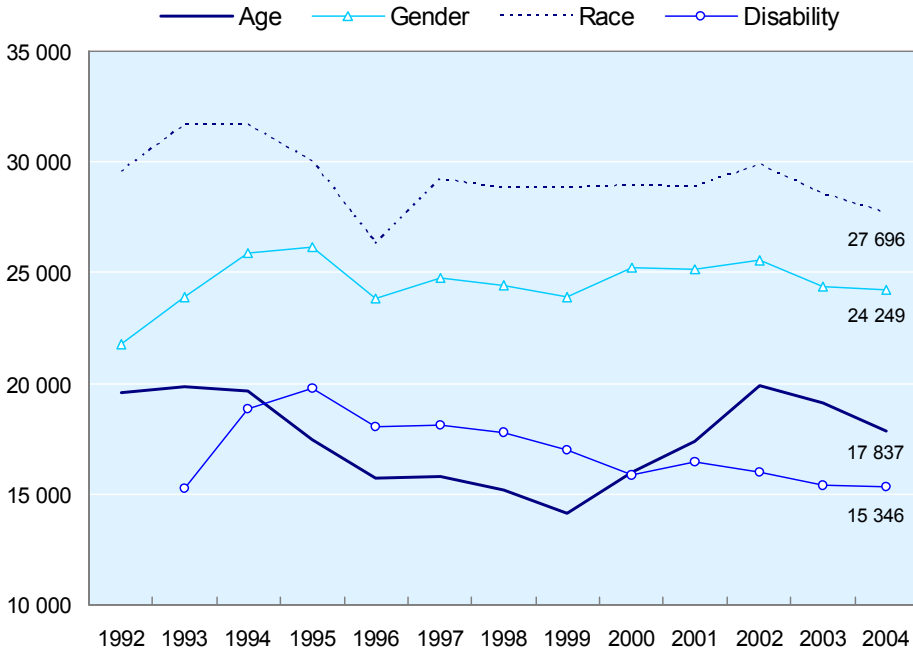
---

42. These are OECD Secretariat estimates. More information on the European Survey on Working Conditions can be found in Paoli and Merli  (2001).

43. Of the total number of charges filed of age discrimination, typically, only a small minority of cases result in successful outcomes for the charging party. For example, in the fiscal year 2004, 17.0% of cases were successful, 60.6% were deemed to have no “reasonable cause” and 22.5% lapsed for various reasons. On average over the period 1992-2004, the “success” rate for age discrimination charges was below that for gender and disability-based charges but slightly better than for race-based charges.

over the period 1992-2004, there does not appear to have been either any significant upwards or downwards trend in the number of charges filed of age discrimination, although some counter-cyclical pattern is discernible.

Figure 4.2. **Number of charges filed with the EEOC by type of discrimination, fiscal years 1992-2004**



Source: The United States Equal Employment Opportunity Commission (<http://www.eeoc.gov/stats/charges.html>, accessed 15 March 2005).

One final piece of evidence suggesting that age discrimination is still an issue to be tackled comes out of experimental research. Experiments that send matched young and old job candidates to the same employer report that older workers have greater difficulty obtaining interviews and job offers.<sup>44</sup>

### C. *Labour costs and productivity*

While the evidence clearly indicates that some employers do engage in age discrimination, it is unlikely that it reflects “animus” (*i.e.* an inherent dislike of

44. Bendick, Brown and Wall (1999) and Bendick, Jackson and Romero (1996).

older workers) since, after all, these employers are either older workers themselves now or soon will be. However, there may be “statistical” discrimination taking place based on employers making judgments, either rightly or wrongly, about the difference *on average* between younger and older workers in terms of cost and performance. For example, if costs of older workers rise faster than their productivity, employers may be reluctant to either retain workers beyond a certain age or hire older workers.<sup>45</sup>

Regarding cost, it is difficult to claim that employer costs do *not* rise with age. Workers who stay with the same employer obtain higher wages through seniority and promotion. For example, over the period 1975-87, employees who stayed with the same employer for 10 years experienced an increase in their real wages of 50% over and above any real wage growth in the economy (Altonji and Williams, 1998, Table 6).

Cross-sectional data on earnings typically show a hump-shaped profile of earnings by age. For example, the earnings of full-time male workers in the United States rise quite steeply with age until around the age of 40-44 and then flatten off and even decline after the age of 55-59 (Figure 4.3). For women, the age-earnings profile is much less steep. In comparison with other OECD countries, earnings for men appear to rise less steeply with age in the United States than in Japan but more steeply than in Germany and the United Kingdom. For women, earnings rise more steeply in the United States than in the other countries apart from France and Germany.

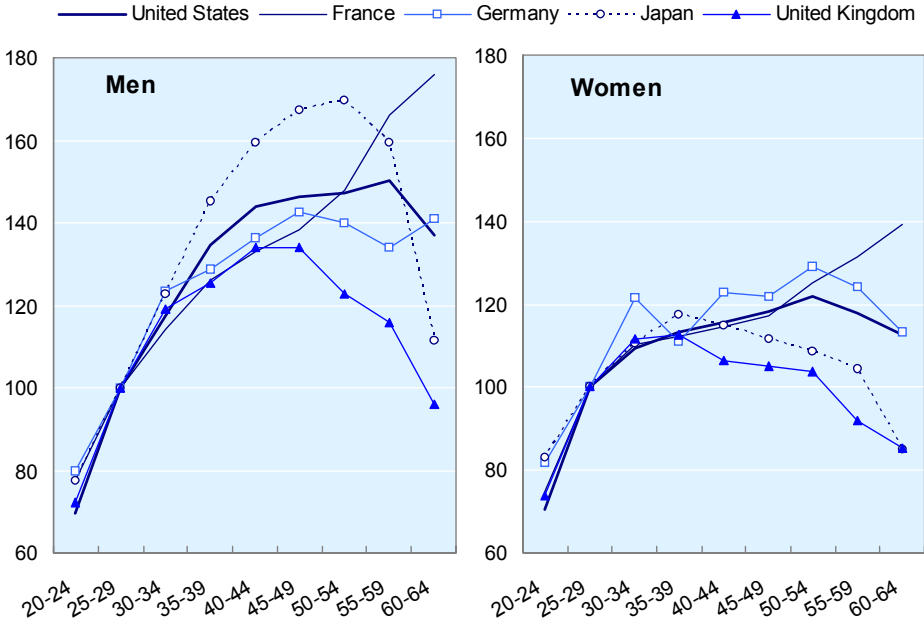
However, these cross-sectional data mix age and cohort effect and may not reflect actual wage profiles of workers as they age. Indeed, in the case of the United States, results from longitudinal data sets indicates that, at least for men, declines in real wages only occur for workers in their 60s rather than in their 50s (Johnson and Neumark, 1996; and Hurd, 1996). This is true for both workers who change jobs and workers who remain on their career job.

---

45. Lazear (1979, 1981 and 1986) argues that in order to encourage work effort and enhance efficiency, employers and workers enter into implicit contracts whereby wages rise more rapidly than productivity. However, beyond a given age it will no longer be profitable for an employer to continue to employ an older worker. Therefore, employers will seek to terminate employment at that age through either mandatory retirement or pension arrangements in defined-benefit pension plans which penalise continued employment.

Figure 4.3. **Age-earnings profiles of full-time workers in selected OECD countries, 2002<sup>a</sup>**

Index, earnings of 25-29 year olds = 100



a) The data for Germany refer to 1998 and for the United States to the average of the years 2001-03.

Source: French Labour Force Survey; German Socio-Economic Panel; United Kingdom Labour Force Survey; Japanese Basic Survey on Wage Structure; United States Current Population Survey.

Moreover, earnings make up only part of total labour costs, albeit the most important part. Once non-wage benefits are included, the age profile of total labour costs is likely to be somewhat steeper than the age profile of earnings. One important non-wage cost is the cost of health insurance. Since national (publicly-financed) health insurance in the United States is only available after age 65, employers pay most of the cost of health insurance where this is provided. At least for men, this cost rises with age. One estimate is that the employer health care costs for men rise from 6.1% of earnings for 25-34-year olds to 14.5% for 55-64-year olds (Barth, McNaught and Rizzi, 1996, p. 330). Interestingly, similar estimates of cost shares for women are not clearly related to age. At younger ages women tend to have higher costs than men, while at older ages the opposite is true.

The costs of several other fringe benefits also tend to rise with age. For example, United States employers often grant more paid vacation time to more senior workers. Similarly, the cost of employer-provided life insurance tends to rise with age, with employers paying premiums that depend on the gender and age composition of their workforce. Pension costs can also be a function of a worker's age. This is less true for defined-contribution plans, where the employer's contribution is often a fixed percentage of an employee's salary. In contrast, under defined-benefit pension plans the accrual rate tends to rise rapidly with age.

Thus, although there are components of cost that are roughly constant across age groups,<sup>46</sup> for the major elements of employee compensation in the United States – wages, health insurance, and pensions – the evidence strongly suggests that on average costs increase with age. It is, however, once again important to emphasise that this is “on average.” There is almost certainly substantial variation around the mean.<sup>47</sup>

Perhaps the more salient question concerns not cost but the age profile of productivity. After all, it is not just a worker's age that affects cost. Increased education has a similar relationship to cost; more educated workers cost employers more than less educated workers. Employers presumably pay this higher cost because of productivity differences. Is age like education in that the higher cost of older workers is accompanied by higher productivity?

It is difficult to answer this question. This is in part because young and old workers tend to work in different jobs, and in part because there are large

---

46. The cost of employer provided disability insurance, for example, is roughly the same for young and old. While older workers are more likely to become disabled, on average younger workers receive benefits for a longer period of time (Barth, McNaught and Rizzi, 1993).

47. There are almost certainly employers for whom compensation costs tend to remain constant with age. In less skilled occupations, real wages tend to reach a plateau at fairly young age. If the organisations that employ these workers also have defined-contribution pension plans where employer contributions are a fixed percentage of salary, their pension costs will similarly not rise with age. There are also employers for whom health insurance costs are the same for workers of all ages. These are usually small organizations with “community-rated coverage,” whereby costs are determined by pooling across age and gender groups. In this case health insurance premiums are the same regardless of the age composition of a specific employer's workforce.



productivity differences *within* age groups. Cautious evaluations of the evidence tend to conclude, however, that workers in their 50s and early 60s are on average no more productive than workers in their 40s. A review of international evidence in the OECD's 1998 *Employment Outlook* concludes, "the productive potential of the older age groups does not appear to be substantially impaired by ageing *per se*" (OECD, 1998, p. 98). Evidence for the United States is largely consistent with the international literature (Committee for Economic Development, 1999, p. 28). For example, according to Hurd (1996), "the general finding is that on average productivity falls, but only marginally as workers age through their 50s and early 60s" (p. 20).

Two forms of evidence form the basis for such conclusions. First, there are studies of the physical output of workers in particular occupations. For example, Jablonski, Kunze, and Rosenblum (1990) summarise U.S. Bureau of Labor Statistics studies from the 1950s and 1960s of output by clerical workers, mail sorters, and operatives in footwear and household furniture manufacturing. In each case, productivity is either flat or declines slightly after age 40. A similar conclusion is drawn by Levin and Stephan (1991) who use panel data to examine publishing productivity of academic scientists over the life-course. Closely linked to these studies of physical output is a broad literature on how job related skills (physical, sensory, and cognitive) change with age.<sup>48</sup> That literature emphasises a key point: declines in job related skills are individualistic. While some people experience age-related declines in, for example, cognitive skills, others never do. The same point almost certainly applies to productivity. While on average in some occupations there may be little productivity growth after age 40, this does *not* mean that in these occupations productivity remains constant for all, or that all 60-year olds are less productive than all 35-year olds.

The second form of evidence is based on studies of specific firms. Kotlikoff and Gokhale (1992) use data on the earnings history of workers hired at different ages to derive the age-productivity profile of workers in a single firm. After controlling for occupation and sex, they conclude that productivity falls with age. Using a different method, and a large matched employer-employee dataset for manufacturing, Hellerstein and Neumark (2004) estimate that workers aged 55 and over are less productive than younger workers, whether in the 35-54 age group age or the younger

---

48. Sterns, Sterns and Hollis (1996).

age group (less than 35). At the same time they, find that the lower productivity of older workers is not matched by lower earnings.<sup>49</sup>

Work absence is another area which may directly affect a worker's productivity. Data from the Current Population Survey for 2004 suggests that in any given week a higher proportion of older workers than younger workers are likely to be absent from work for the full week (Table 4.2). This is mainly because of a higher incidence of absence both for reasons of illness and vacation. For older women, this is partly offset by a lower incidence of absence for family and personal reasons, presumably because of fewer childcare responsibilities. However, differences by age are somewhat smaller than differences by gender. For instance, whereas the absence rate is 4.6% for women versus 2.9% for men, the gap between prime-age workers (25-49) and older workers (50 and over) is only 1.2 percentage points.

In summary, the available evidence for the United States indicates that, on average, costs rise with age while productivity remains level or declines. Although there is undoubtedly large variation around this average, it is likely that some older workers are in workplaces where costs increase more rapidly than productivity, *e.g.* the firm described by Kotlikoff and Gokhale (1992). In such situations, employers have clear incentives to shed – or not hire – older workers, and private mechanisms are likely to arise that facilitate this. As argued by Lazear (1986), defined-benefit pensions that encourage retirement and mandatory retirement policies are examples of such private mechanisms. These mechanisms arose at a time when both employers and governments thought it appropriate to encourage retirement. Since that time has passed, a good question is whether other mechanisms will arise that can deal with situations where costs rise with age more rapidly than productivity.

---

49 . These findings contrast strongly with the results of an earlier paper based on smaller sample sizes where the productivity of workers aged 55 and over was not found to be significantly different from that of younger workers (Hellerstein, Neumark and Troske, 1999).

Table 4.2. **Absences from work in the United States by age, gender and type of absence, 2004<sup>a</sup>**

Percentages of all employees

	Total	Illness	Vacation	Family/ personal	Other
<b>Persons</b>	<b>3.7</b>	<b>0.8</b>	<b>2.1</b>	<b>0.4</b>	<b>0.5</b>
16-24	3.0	0.4	1.3	0.4	0.8
25-49	3.5	0.7	2.0	0.4	0.4
50+	4.7	1.1	2.8	0.2	0.5
50-54	4.2	0.9	2.8	0.1	0.4
55-59	4.8	1.1	3.0	0.2	0.5
60-64	5.1	1.4	2.9	0.2	0.6
65+	5.6	1.5	2.7	0.3	1.1
<b>Men</b>	<b>2.9</b>	<b>0.7</b>	<b>1.7</b>	<b>0.1</b>	<b>0.4</b>
16-24	2.4	0.4	1.1	0.1	0.8
25-49	2.6	0.6	1.6	0.1	0.3
50+	4.0	1.0	2.4	0.1	0.5
50-54	3.6	0.8	2.3	0.1	0.3
55-59	3.9	1.0	2.4	0.1	0.4
60-64	4.6	1.4	2.7	0.1	0.5
65+	5.1	1.2	2.6	0.2	1.1
<b>Women</b>	<b>4.6</b>	<b>0.9</b>	<b>2.5</b>	<b>0.7</b>	<b>0.6</b>
16-24	3.6	0.5	1.5	0.7	0.8
25-49	4.6	0.9	2.4	0.8	0.4
50+	5.3	1.2	3.2	0.2	0.6
50-54	4.9	1.0	3.2	0.2	0.5
55-59	5.6	1.2	3.5	0.2	0.6
60-64	5.5	1.4	3.1	0.3	0.8
65+	6.0	1.7	2.8	0.4	1.1

a) The data refer to full-week absences by employees (excluding self-employed in incorporated businesses).

Source: OECD estimates derived from the Current Population Survey.

## 2. Technological change

Another economic force that influences retention and hiring of older workers is technological change. Technological change can have many effects in the workplace, one of which is to cause employees to acquire new skills. For example, the advent of desktop computers spawned employer sponsored computer classes, adult education courses, and self help manuals. This section examines how older workers are affected by technological change.

### A. *The impact on retention*

When employers introduce new technologies, employees often obtain new skills through on-the-job training.<sup>50</sup> As argued by Bartel and Sicherman (1993), technological change can be associated with either later or earlier retirement. In the case of an industry experiencing high rates of technological change, workers will need to continuously upgrade their skills. If workers bear much of the cost of on-the-job training, older workers would only pay that price if they expected to remain working long enough to recoup the cost of the training. The result is *later* retirement. Workers who anticipate early retirement will have little interest in working in such an industry. With regard to *earlier* retirement, unanticipated waves of technological change that cause an older worker's skills to suddenly depreciate in value would be expected to lead to earlier retirement. Rather than invest in new skills or suffer lower wages, older workers move to new jobs or out of the labour force.

Evidence on how technological change affects older workers supports both hypotheses. Using data from the 1970s, Bartel and Sicherman (1993) find that industries with continuing high levels of productivity growth had later retirement ages, while unanticipated shocks in productivity growth (proxied by deviations from trend) were associated with decreased retirement ages. Also supportive of these findings is recent research on computer use. Friedberg (2003) finds that recent cohorts of older workers have generally kept pace with computer use by younger workers, and that computer users were slower to retire than non-users. Of course, that may simply indicate that people who do not anticipate an early exit from the labour force are more likely to invest in skills that are compatible with computers.<sup>51</sup>

### B. *The impact on hiring*

While evidence on retirement ages suggests that technological change could either increase or decrease retention of older workers, evidence on the hiring effects of technological change is less ambiguous. The best evidence pertains to computer use and indicates that employers rarely hire men or women

---

50. See, for example, Lillard and Tan (1986), Mincer and Higuchi (1987) and Bartel and Sicherman (1993).

51. Friedberg (2003) interprets her evidence as indicating that causation runs more from computer skills to retirement age than *vice versa*.

over age 50 into occupations with high computer use.<sup>52</sup> Indeed, at least for men, in occupations with high use of computers, the ratio of newly hired workers aged 50 and over to all workers aged 50 and over is particularly low. This suggests that workers over the age of 50 in these occupations tend to be people who were hired into the occupation when young and then stayed with their employer as they aged.

A slightly different way to look at these issues is in terms of expanding and contracting sectors of the economy. Sectors undergoing rapid technological change are often the same as those that are expanding.<sup>53</sup> To what extent is the employment of older workers affected by expanding and contracting sectors of the economy?

A recent study by Hirsch, MacPherson and Hardy (2000) using detailed occupational data on employment by age provides an answer to this question.<sup>54</sup> They find that rapidly growing occupations tend to have a smaller employment share of older workers (aged 50 and over) and somewhat lower hiring of older workers. These effects are, however, quite small; other factors like increasing computer use have much larger (negative) effects.

While Hirsch, MacPherson and Hardy (2000) looked at occupations, another way to look at this issue is in terms of expanding and contracting industries. When industries expand their workforce, do they primarily draw their new workers from the ranks of the young? And when they contract, is the main burden of adjustment borne by older workers?

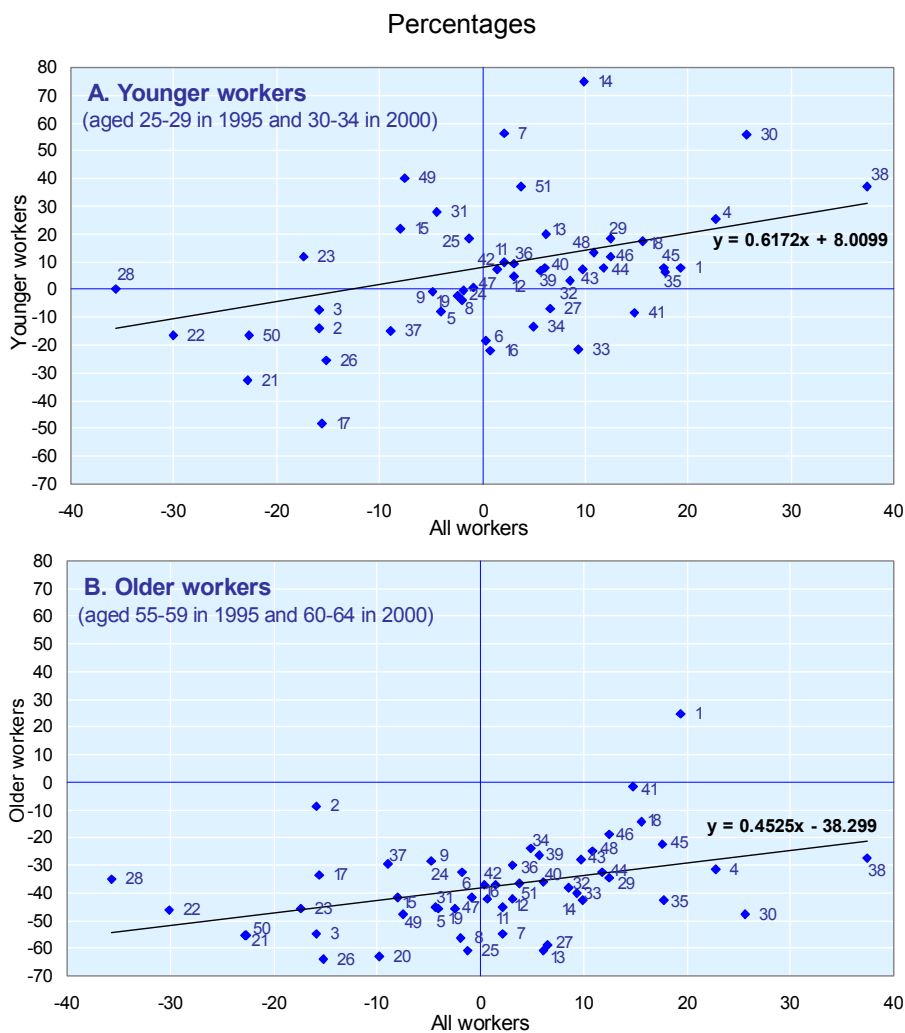
---

52. Hirsch, MacPherson and Hardy (2000).

53. Of course, that is not always true. Entertainment and recreation services have expanded rapidly over the last decade without being on the cutting edge of technological change. Similarly, tobacco manufacturing has declined for reasons that have little to do with changing technology.

54. These authors pooled together Current Population Survey data on 494 detailed occupations for the period 1983-98, and formed dependent variables indicating: *a*) the employment share of older workers (aged 50 and over) in each occupation; and *b*) the share who were older workers and newly hired (less than five years of tenure with an employer). They then estimated regression equations using various occupational characteristics (*e.g.* skill requirements or compensation level) as explanatory variables. One of their explanatory variables was employment growth in the occupation between 1983 and 1995.

Figure 4.4. Industry expansions in the United States and job growth for younger and older workers, 1995-2000<sup>a</sup>



- a) Each panel plots the total growth in employment in each industry between 1995 and 2000 (X-axis) against the percentage difference in each industry between the number of workers aged 30-34 (60-64) in 2000 and those aged 25-29 (55-59) in 1995 (Y-axis). The point labels refer to the 51 detailed industry groups available in the CPS. In Panel A, the outlier (-10,142), corresponding to industry 20, is not shown.

Source: OECD estimates derived from the Current Population Survey.

In order to answer these questions, Figure 4.4 shows the relationship between the overall growth in employment in each (2-digit) industry between 1995 and 2000 and the corresponding growth in employment within each industry for younger workers (Panel A) and older workers (Panel B).<sup>55</sup> The lines in the graphs represent simple regressions.

The main difference between the graphs is their intercepts. When there is no change in total employment, there is little change in the number of employed 25-29-year olds, but a large drop in the number of 55-59-year olds. That is not surprising. Between 1995 and 2000, regardless of whether an industry expanded or contracted, due to retirement many of the 55-59-year olds who were employed in that industry in 1995 were no longer there in 2000. In contrast, those workers aged 25-29 in 1995 either remained in the industry or were replaced by others from the same age group. If, however, intercepts are ignored, the graphs are surprisingly similar. From the regression lines for the two graphs, a 10 percentage point change in total employment is associated with roughly a six percentage point change for the younger cohort and a four-and-a-half percentage point change for the older cohort. The difference is not statistically significant.

Similarly, regressions can be carried out for all other five-year age groups of working age (15-64). Moreover, the 1995-2000 change can be pooled with the 1990-1995 change. Three key results emerge from this analysis.<sup>56</sup> First, with no change in employment, the percentage change in employment of a cohort is negative for workers over age 30. By implication, with no change in employment, departing older workers are – on average – replaced by newly recruited younger workers. Second, older cohorts participate in both expansions and contractions. For example, a 10 percentage point increase in total employment is associated with fewer 55-59-year olds leaving the industry (the percentage decline in the 55-59-year old cohort goes from -56% to -46%). Third, young and old age groups expand and contract in roughly the same proportions: a 10 percentage point increase in total employment is associated

---

55. More precisely, the total growth in employment in each industry between 1995 and 2000 is plotted against the percentage difference in each industry between the number of workers aged 30-34 (60-64) in 2000 and those aged 25-29 (55-59) in 1995.

56. These regressions were run using log differences in employment levels. The weights used were the square root of the number of workers in each age group in each industry.

with about a 10 percentage point increase in employment at all ages. Thus, while there may be barriers to hiring and retention of older workers, it does not appear to be the case in the United States that when industries contract, employment of older workers falls relative to employment of younger workers. Similarly, when industries expand, older workers get a share of the increase.

The above evidence does *not* mean that older workers are as likely as young workers to be in expanding industries. In fact, older workers tend to be concentrated in declining industries. Around 24% of employees over the age of 50 in 1990 were in two-digit industries where employment declined between 1990 and 2002. The same statistic for employees under the age of 50 was 21%. Moreover, there is a fairly large negative correlation (-0.366) between the 1990 share of workers who were over the age of 50 and the employment growth rate among two-digit industries. This should not be taken as evidence for the existence of barriers to hiring or retention. Rather, while young and old workers share in expansions and contractions, older workers are more likely to have spent their career in an industry which at one time expanded but is now contracting.

### 3. Measures which have encouraged greater retention

Over the past several decades, government policy on the demand side of the labour market for older workers has been anything but *laissez-faire*. Federal and state governments in the United States have often intervened in ways that change the regulatory environment confronting employers. A number of these interventions have helped to make the labour market more compatible with continued labour force participation of older people.

#### A. *Defined-contribution pension plans*

Perhaps the most important change has been the growth of defined-contribution pensions. As discussed in Chapter 3, over the past 30 years, the fraction of workers covered by defined-contribution plans has increased, while the fraction covered by defined-benefit plans has declined. From the perspective of promoting retention and hiring of older workers, defined-contribution pensions have a number of advantages over defined-benefit plans, they can more easily supplement the salary of phased retirees,<sup>57</sup> they do not encourage

---

57. The potential barriers to phased retirement posed by the way employer-provided pension plans are regulated are discussed in Chapter 5.



early retirement, and they do not raise the cost of hiring old workers relative to young workers. Of course, that does not mean that defined-contribution pensions are an unalloyed good. In comparison to defined-benefit pensions, these pensions not only shift investment risk to workers but are arguably less effective in tying workers to the firm. The point is only that a positive aspect of defined-contribution plans is that they help reduce barriers to retention and hiring of older workers.

### ***B. Age discrimination legislation***

Another important intervention has been the introduction and expansion of age discrimination legislation. Although a few states passed age discrimination statutes as early as the 1930s, the federal government did not get involved until the 1950s and 60s. However, in response to evidence of widespread age restrictions in hiring (Department of Labor, 1965) and because of successful efforts at passing legislation restricting race and gender discrimination, the federal government enacted the Age Discrimination in Employment Act (ADEA) in 1967 (see Box 4.1). That statute sought to encourage employment “based on ability rather than age” and to prohibit “arbitrary age discrimination” against employees aged 40-65. Its principal target was negative stereotypes.

The ADEA has been amended several times. Of particular importance are the 1978 and 1986 amendments. The first increased the upper limit on the protected class of employees to age 70, and thereby eliminated mandatory retirement for most workers below that age. The second effectively prohibited mandatory retirement in most occupations by eliminating the upper age limit altogether.

Evidence on the employment effects of the ADEA is slowly accumulating. Although the effects appear to be small for workers under age 60, research indicates that both state and federal legislation had substantial effects on employment of workers over the age of 60.<sup>58</sup> For example, in their careful study of the elimination of mandatory retirement at colleges and universities, Ashenfelter and Card (2002) report that retirements rates fell by two-thirds for faculty who had reached the former age of mandatory retirement.

---

58. See Neumark and Stock (1999), Ashenfelter and Card (2002), and Von Wachter (2002).

#### Box 4.1. The Age Discrimination in Employment Act (ADEA)

The Age Discrimination in Employment Act of 1967 protects individuals who are 40 years of age or older from employment discrimination based on age. Under the Act, it is unlawful to discriminate against a person because of his/her age with respect to any term, condition, or privilege of employment, including hiring, firing, promotion, layoff, compensation, benefits, job assignments, and training. The Act applies to employers with 20 or more employees, including state and local governments. It also applies to employment agencies and labour organisations, as well as to the federal government. The Act's protections include:

*Apprenticeship programs.* It is generally unlawful for apprenticeship programs, including joint labour-management apprenticeship programs, to discriminate on the basis of an individual's age. Age limitations in apprenticeship programmes are valid only if they fall within certain specific exceptions under the Act or if the EEOC grants a specific exemption.

*Job notices and advertisements.* The Act generally makes it unlawful to include age preferences, limitations, or specifications in job notices or advertisements. A job notice or advertisement may specify an age limit only in the rare circumstances where age is shown to be a "bona fide occupational qualification" (BFOQ) reasonably necessary to the normal operation of the business.

*Pre-employment inquiries.* The Act does not specifically prohibit an employer from asking an applicant's age or date of birth. However, because such inquiries may deter older workers from applying for employment or may otherwise indicate possible intent to discriminate based on age, requests for age information will be closely scrutinised to make sure that the inquiry was made for a lawful purpose, rather than for a purpose prohibited by the Act.

*Benefits.* The Older Workers Benefit Protection Act of 1990 (OWBPA) amended the Act to specifically prohibit employers from denying benefits to older employees. Congress recognised that the cost of providing certain benefits to older workers is greater than the cost of providing those same benefits to younger workers, and that those greater costs would create a disincentive to hire older workers. Therefore, in limited circumstances, an employer may be permitted to reduce benefits based on age, as long as the cost of providing the reduced benefits to older workers is the same as the cost of providing benefits to younger workers.

*Waivers of ADEA rights.* An employer may ask an employee to waive his/her rights or claims under the Act either in the settlement of an ADEA administrative or court claim or in connection with an exit incentive programme or other employment termination program. However, the Act, as amended by OWBPA, sets out specific minimum standards that must be met in order for a waiver to be considered knowing and voluntary and, therefore, valid.

*Source:* The United States Equal Employment Opportunity Commission.

Note that this evidence primarily applies to retirement. While an important goal of age discrimination legislation was to encourage *hiring* of older workers, there is very little research on the topic.<sup>59</sup> Indeed, according to Richard Posner, a federal judge and prominent critic of age discrimination legislation, most litigation over age discrimination deals with discharge; discrimination in hiring is rarely alleged and victory for the plaintiff rarely obtained.<sup>60</sup> Posner argues that the legislation may have actually had the effect of discouraging hiring of older workers. However, Adams (2004) investigates this issue and finds no strong evidence that age discrimination laws either increase or decrease hiring of older workers. Thus, the most compelling evidence available simply indicates that the legislation caused later retirement and thereby increased employment of older workers.

Although a major goal of age discrimination legislation was to prohibit use of negative age-related stereotypes in employment, we know little about its effect in that area. Based on the results of the survey of employer attitudes as shown in Figure 4.1, it seems likely that negative stereotypes persist. Some are probably accurate for some workers in some situations and inaccurate for others in other situations; and regardless of their accuracy they probably influence the behaviour of a fraction of employers. As noted above, there are several pieces of evidence that indicate that age discrimination continues to occur. Still, it is not clear what would have happened in the absence of the legislation. It is quite possible that in part due to legislation, over the past 40 years age discrimination declined in the United States. Certainly, some of the more overt manifestation of age discrimination – explicit age-bars in hiring, advertising for jobs in which “workers over 45 need not apply,” and forced retirement of all employees of a certain age – are no longer part of the United States labour market.

To conclude, a major goal of legislation against age discrimination is to compel employers to focus on actual cost and productivity and ignore prejudice and stereotypes when making decisions about an older worker’s wages or employment. In this regard the legislation complements other institutions in society – such as advocacy groups and competitive labour markets – that serve to drive out misperceptions about the value of older workers. What little is known about the effectiveness of age discrimination legislation suggests that it

---

59. See Neumark (2001). Von Wachter (2002) finds no evidence that mandatory retirement legislation led to shorter job tenures for older workers.

60. Posner (1995), pp. 329-333.

influences retention. There is also some indication that the legislation strengthens Lazear-style long-term implicit contracts.<sup>61</sup> Almost nothing is known about the important issue of whether the legislation affects hiring, an area where negative stereotypes may play an especially large role. More generally, little is known about the societal forces that shape perceptions of the value of older workers, or how those forces and perceptions have changed through time.

### **C. Disability legislation**

Yet another potentially important demand side intervention is the 1990 Americans with Disabilities Act (ADA). Although the Act is not targeted on older workers *per se*, it classifies as disabilities many infirmities associated with old age (*e.g.* heart attack and stroke). Moreover, the incidence of disability increases with age. The ADA prohibits discrimination against the disabled with respect to hiring, firing, promotion and wages. It also requires employers to make “reasonable accommodation” for their disabled employees. The impact of ADA on employment rates for disabled people is not clear cut and depends on how this group is identified (Kruse and Schur, 2003).

## **4. Areas for further action**

In order to give older people opportunities for continued work, government policy should aim at both retention and hiring. Retention is the primary goal. If the highest and best use of a worker’s labour was with a specific firm before age 50, then that is likely to be the highest and best use after age 50. As such, reducing barriers to continued work on the current job could be an efficient policy that enhances the well-being of workers and of the larger society. Reducing barriers to hiring is, however, also important. As discussed in Chapter 2, older job losers on average face greater difficulties than younger job losers in finding new jobs and larger potential losses in earnings.

### **A. Support expansion of defined-contribution pension schemes**

With regard to the future, there are several ways in which the United States can continue to enhance opportunities for work by older Americans. First and foremost, the federal government should continue to facilitate the growth of defined-contribution pensions. It will be particularly important to ensure that

---

61. See Neumark and Stock (1999).

there is good governance of these schemes and that adequate information is given to participants to help them plan their retirement. That is not to say that defined-benefit plans do not have their place. Employers and employee representatives may wish to choose the incentives inherent in properly funded and regulated defined-benefit plans. The federal government should not, however, introduce policy changes that in some way prevent the parties from bearing the full cost of their pension choice.<sup>62</sup>

### ***B. Eliminate the Medicare as a second payer rule***

At least for workers over the age of 65, another way to enhance employment opportunities would be to eliminate the Medicare as secondary payer rule. Under current law, employers who offer health insurance to their employees under 65 must offer the same health insurance to employees who are eligible for Medicare. This coverage then becomes “primary” to Medicare. While the rule undoubtedly reduces Medicare costs, from an economic perspective it has the effect of providing a government benefit to people over the age of 65 who are not employed while withholding that benefit from otherwise identical employed people. At a minimum, such policies are likely to encourage employers to shift employment of older workers toward jobs where the rule is not applicable (*e.g.* consulting contracts). It is also conceivable that, much like imperfectly experience-rated unemployment insurance, such policies encourage greater non-employment (see Hutchens, 1999).<sup>63</sup> However, elimination of this rule would have to be financed. One estimate is that it could raise the cost of Medicare by about USD 3 billion per year (Committee for Economic Development, 1999, p. 38).

### ***C. Strengthen age discrimination legislation***

With regard to age discrimination legislation, it is interesting that an important goal of the original legislation was to encourage hiring of older workers. As noted above, most litigation over age discrimination deals with discharge; successful litigation over hiring is rare. Given that a major goal of age discrimination legislation was to prohibit use of negative age-related

---

62. For example, when employers and employee representatives choose defined-benefit plans, they should bear the full cost of actuarially appropriate premium payments to the Pension Benefit Guarantee Corporation.

63. However, a study of this issue by Glied and Stabile (1997) could find no conclusive evidence of employment effects.

stereotypes in hiring, that is unfortunate. There has, however, been an increase over recent years in the proportion of age discrimination charges brought before the EEOC concerning discrimination in hiring and employment conditions (Table 4.3). Nevertheless, charges of discrimination in firing and layoffs continue to account for the majority of the EEOC's caseload with respect to age discrimination.

Table 4.3. **ADEA charges by issue, fiscal years 1997-2002**

Percentage shares of all charges in each fiscal year<sup>a</sup>

	1997	1998	1999	2000	2001	2002
Discharge/layoff	56.3	53.3	55.7	49.8	48.7	53.0
Hiring	13.1	12.9	11.6	12.4	17.9	24.5
Terms of employment	15.6	16.5	16.7	16.3	19.8	16.0
Promotion	10.2	10.2	11.2	10.4	9.3	7.3
Harassment	12.6	12.3	12.4	12.3	12.3	11.6

a) The totals will add up to more than 100% since the same charges can refer to multiple issues.

Source: EEOC.

Due to the size of the baby boom cohorts as well as recent trends in job loss among older workers, it is likely that there will be many more older job seekers in the future. Thus, given there continues to be evidence of age discrimination in hiring, it would be wise to begin a discussion of how existing law can be altered so as to better address age discrimination in hiring. One possibility concerns “disparate impact.” In the case of race and gender, litigators can prove discrimination in hiring by presenting statistical evidence showing that despite an appearance of neutrality, an employer’s personnel policies has a disparate impact on hiring of women and minorities.

It is also of interest to note that the concept of “disparate impact” will or has already become an integral part of age discrimination legislation in Europe. By 2006, all EU countries are obliged to have put in place age discrimination legislation in conformity with the EU directive of 2000 on equal treatment in employment and occupation.<sup>64</sup> The directive seeks to prohibit both direct and indirect discrimination, and not only covers discrimination on the grounds of age but also on the grounds of religion or belief, disability and sexual orientation. It states that “indirect discrimination shall be taken to occur where an apparently neutral provision, criterion or practice would put persons having a

64. Council Directive 2000/78/EC.

particular religion or belief, a particular disability, a particular age, or a particular sexual orientation at a particular disadvantage compared with other persons”.

In contrast, when age discrimination is alleged in the United States, the courts have sometimes accepted evidence of disparate impact and sometimes not (Neumark, 2001). Some argue that recent court decisions discourage the use of disparate impact in age discrimination litigation. This is probably an area where the courts could benefit from legislative guidance. In discussing such guidance, it would be useful to examine the question: if disparate impact were a standard for proving age discrimination in hiring, would age discrimination in hiring decline?

Another issue for consideration is whether protection under ADEA should be extended to people of any age rather than to just those aged 40 and over. This could help remove any artificial distinctions between younger and older people and reduce the risk that all people aged 40 and over are viewed as being old and disadvantaged and therefore in need of protection. In the EU directive concerning age discrimination, protection is extended to people of all ages.

While all the evidence is not entirely unambiguous concerning the impact of ADEA on employment outcomes for older workers, it may also be worth considering whether ADEA should be extended to smaller companies. It appears somewhat anomalous that ADEA only applies to companies with 20 or more employees, whereas ADA and the Title VII of the Civil Rights Act (which prohibits employment discrimination based on race, colour, religion, sex and national origin) apply to companies with 15 or more employees. Moreover, the Equal Pay Act which prohibits gender-based wage discrimination applies to virtually all employers.

#### ***D. Promote business case for employing older workers***

Strengthening legislation to ban age discrimination will be more effective if accompanied by campaigns to change employer attitudes. In particular, there may be scope to increase the outreach and educational activities of the EEOC in collaboration with the Department of Labor, trade unions, employer bodies and relevant non-governmental organisations representing older people such as AARP. And, indeed, the EEOC is currently developing its “Freedom to Compete Initiative” to guide its work in this area. It may wish to consider as a

possible model the UK's *Age Positive* campaign as well as its guideline for employers, the *Code of Practice on Age Diversity in Employment*.<sup>65</sup>

Finally, employers may become more receptive to taking action to retain and hire older workers if they are provided with more information on the impact of labour force ageing on prospective skill shortages. A 1998 survey of human resource executives commissioned by AARP suggested that ageing of the workforce is still not seen as a very important employment issues by most employers.<sup>66</sup> Therefore, in consultation with employer groups, the Government should ensure that more information is collected at a national level and disseminated on current and prospective skill shortages. Currently, while the U.S. Bureau Labor Statistics regularly produces detailed projections about future employment growth by industry and occupation, it produces no national measure of current or future skill shortages.

---

65. The UK campaign and guidelines are discussed in OECD (2004c) and more details can be found on the Age Positive website [www.agepositive.gov.uk](http://www.agepositive.gov.uk).

66. Human resource executives in 400 organisations with 50 or more employees were surveyed (AARP, 2000).





## *Chapter 5*

### **BETTER ACCESS TO BETTER JOBS**

Improving financial incentives to remain in work longer and encouraging employers to be more receptive to an age diverse workforce is only half the battle. If older workers suffer from poor health, lack the necessary skills required by employers or face onerous working conditions, they may still be pushed into early retirement. A lack of access to good employment services and career advice will also reduce their options in terms of continuing to work longer. These are all aspects which affect an older worker's "employability".

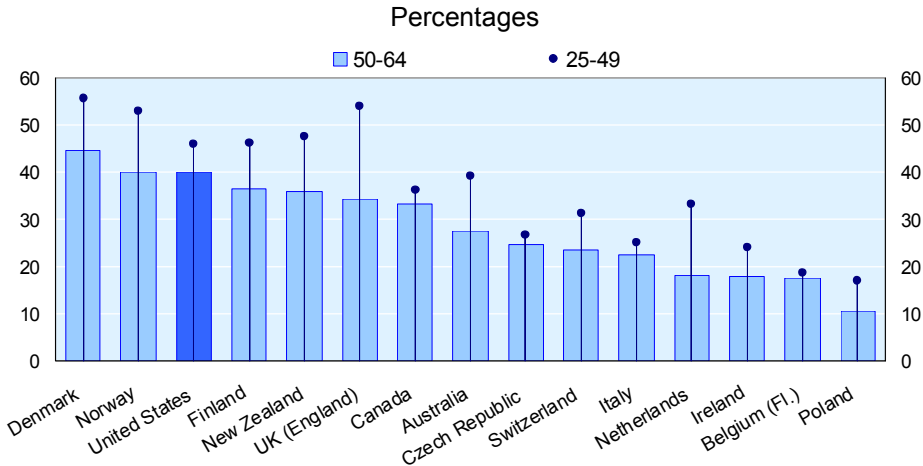
Therefore, the purpose of this chapter is to examine the employability of older people in the United States and to suggest ways in which it could be enhanced. First, the skills of older workers and their participation in training are examined in Section 1. The performance of public employment programmes in dealing with the needs of older jobseekers is then assessed in Section 2. The impact of working conditions on work and retirement decisions is discussed in Section 3. Some conclusions for policy are drawn in the final section.

#### **1. From old skills to new skills: the importance of training**

As shown in Chapter 2, the labour force participation of older people is strongly linked to their level of education. Higher levels of education are associated with higher participation rates. However, as a result of technological and organisational change, and the ongoing shift out of manufacturing and into services, job requirements are continually changing. This means that individuals are increasingly being required to acquire new skills and upgrade their existing ones. Hence, it is vital that workers of all ages have good opportunities for vocational training and lifelong learning activities. Adult learning and training can play a fundamental role too in addressing the lack of formal education or acquisition of basic skills that may be a source of persistent labour market disadvantage for workers as they age. In sum, good opportunities for adult

learning can enhance significantly an older worker's employability, not to mention wages and firm profits.<sup>67</sup>

Figure 5.1. **Incidence of job-related training in selected OECD countries for workers by age, 1994-98<sup>a</sup>**



a) Refers to training received at some stage during the 12-month period prior to the survey.

Source: OECD estimates derived from the International Adult Literacy Survey (IALS).

### A. *The facts on training*

In order to guide policy measures that seek to improve opportunities for training it is useful to establish the basic facts concerning how much training is actually taking place and who gets it and who does not.

#### *The incidence of training declines with age*

The participation of both older and younger employees in job-related training in the United States appears to be quite high by OECD standards. Of those countries for which comparable data are available, only Denmark and Norway record higher rates of participation for both groups (Figure 5.1). Of course, this comparison says nothing about the amount or quality of the training that workers are receiving in each country.

67. Continuous education and training is also associated with various non-pecuniary benefits such as better health and personal satisfaction.

The data in Figure 5.1 also suggest that older workers are disadvantaged with respect to job-related training. In all countries, the incidence of training is lower for older workers than for prime-aged workers. However, the gap between the two age groups is relatively modest in the United States in comparison with other OECD countries.

**Table 5.1. Participation in adult education and training in the United States by age and work status, 2001<sup>a</sup>**

	Percentages							
	Job-related training <sup>b</sup>				Adult education <sup>c</sup>			
	Total	Employed		Did not work	Total	Employed		Did not work
	Full year	Other			Full year	Other		
<b>Total</b>	<b>27.3</b>	<b>40.3</b>	<b>24.7</b>	<b>0.8</b>	<b>49.2</b>	<b>57.8</b>	<b>56.2</b>	<b>26.8</b>
16-24	24.2	31.7	20.3	6.3	69.5	66.7	75.1	66.0
25-49	36.8	44.2	29.7	1.3	55.4	59.5	53.3	33.7
50-64	25.1	36.9	23.6	0.3	43.7	52.9	43.5	24.0
50-54	34.8	43.2	28.7	1.4	51.8	57.8	47.2	28.2
55-59	23.5	34.4	17.3	0.0	44.2	52.3	45.2	24.1
60-64	12.3	23.1	23.6	0.0	31.1	40.0	37.9	21.8
65+	2.0	12.3	7.7	0.0	21.4	30.2	27.9	19.6

a) Participation in adult education and training refers to the 12-month period prior to the survey interview in early 2001. Work status refers to the employment status of respondents during the previous 12 months.

b) Job-related training refers to participation in any course (except personal interest/development courses) that was sponsored or required by an employer, including apprenticeships.

c) Adult education includes Adult Basic Education (ABE), Adult Secondary Education (ASE), English as a Second Language (ESL), apprenticeship programs, courses for credentials, courses taken for job-related reasons and all other structured courses.

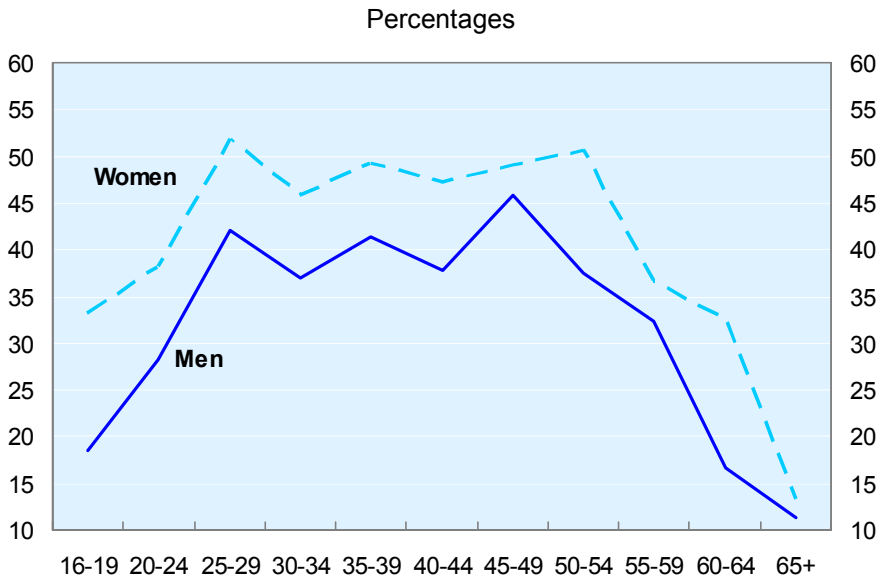
Source: OECD estimates derived from the NHES Adult Education Survey.

More recent evidence for the United States on the “age-gap” in training can be obtained from the Adult Education Survey (AES), which is part of the National Household Education Survey (NHES). The results for 2001 are consistent with the data in Figure 5.1, and suggest that while older (full-year) workers (50-64) participate less in job-related training than prime-age workers (25-49), the gap is quite small at around 7 percentage points (Table 5.1).<sup>68</sup> However, the data in Table 5.1 and Figure 5.2 also suggest that

68. Job-related training is defined to include participation in any course (except personal interest/development courses) that was sponsored or required by an employer. It also includes all apprenticeships.

the decline in training participation begins for workers in their late 50s and drops off even more steeply for workers in their early 60s (especially for men).

Figure 5.2. **Participation in job-related training in the United States by age and gender, 2001<sup>a</sup>**



- a) The data refer to full-year workers only. Job-related training refers to participation during the 12 months prior to the survey interview in early 2001 in any course (except personal interest/development courses) that was sponsored or required by an employer, including apprenticeships.

Source: OECD estimates derived from the NHES Adult Education Survey.

The decline in training participation with age is somewhat bigger though when all forms of participation in adult education and training are considered and when all people are included in the comparisons, irrespective of their employment status. Not surprisingly, having a job has a strong positive impact on the likelihood of having participated in job-related training. This, together with the fact that employment rates are lower for the older age groups, explains why the “age-gap” in job-related training is larger for all persons, whether in a job or not, than when reported just for workers.

Of course, these results do not take account of other characteristics of older workers, such as occupation and educational background, which may account for these differences by age. In fact, after using regression analysis to control

for these characteristics, Creighton and Hudson (2002) still find that participation in work related courses is still lower for workers aged 55-64 than for workers aged 25-54, but the difference is not statistically significant.<sup>69</sup>

### *Trends in training participation*

The AES was also held in 1991, 1995 and 1999, and so it is possible to examine trends over the decade to 2001. The evidence indicates that virtually every age group steadily increased its participation in adult education between 1991 and 2001, including the oldest group. Moreover, the gap in participation between the older age group 50-64 and the prime-age group 25-49 narrowed significantly from around 19 percentage points in 1991 to around 12 percentage points in 2001. The incidence of job-related training among workers can only be compared between 1995 and 1999 because of changes in the questionnaire concerning labour force status. Over this period, it increased for all age groups. The gap between older and younger workers also narrowed substantially and, while the 2001 results cannot be directly compared with the earlier results, they do not suggest that there has been any reversal of this trend. Thus, while in the past there may have been a substantial “age-gap” in job-related training, this appears to have narrowed substantially over the decade to 2001. The reasons for this are not clear.

### *Large disparities in training participation by gender and education*

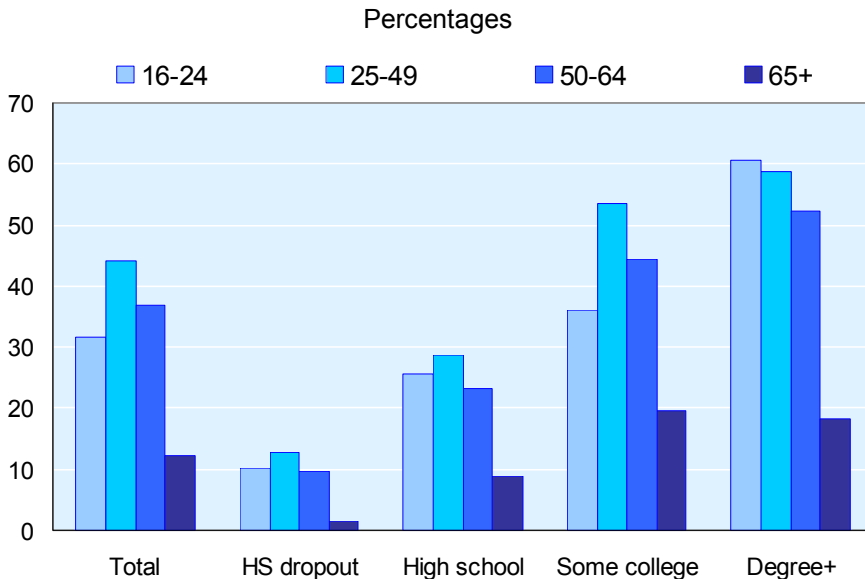
There are, however, some notable differences by gender and education. According to the AES results for 2001, participation in job-related training among full-year workers is higher for women than men across all age groups (Figure 5.2). Consequently, the participation of full-year female workers in their 50s is higher or only slightly lower than for full-year male workers aged 25-49. There are even bigger differences by level of education that appear to be more important than by age. Workers with only high school education or less are much less likely to have participated in job-related

---

69. The concept of work-related courses used by Creighton and Hudson based on the AES for 1999 differs from the definition of job-related training underlying the data in Table 5.1, principally because they exclude participation in English-as-a-Second-Language (ESL) course, basic skills (ABE) courses, credential courses and apprenticeship programmes, whether employer sponsored or not. Job-related training refers to participation in any course (except personal interest/development courses) that was sponsored or required by an employer. It also includes all apprenticeships.

training than those with higher levels of education (Figure 5.3). Thus, even though a decline in participation for older workers relative to prime-age workers can be observed across all levels of education, older workers (aged 50-64) with at least some education at the college level record significantly higher rates of participation on average than prime-age workers with only high school education or less.

Figure 5.3. **Participation in job-related training in the United States by age and education, 2001<sup>a</sup>**



a) Data refer to full-year workers only. Job-related training refers to participation during the 12 months prior to the survey interview in early 2001 in any course (except personal interest/development courses) that was sponsored or required by an employer, including apprenticeships.

Source: OECD estimates derived from the NHES Adult Education Survey.

### **B. Barriers to training**

Despite the potential economic benefits to training, there may be barriers to training both on the side of employers and on the side of workers themselves. These barriers may lie behind the large disparities in the incidence of training by age, gender and education. For instance, it is sometimes argued that firms are reluctant to train older workers because it is more efficient to concentrate training on younger workers since the

economic returns are likely to be larger because of the potentially longer payback time (OECD, 1999a). As discussed in Chapter 4, there is also evidence of negative perceptions by employers about the ability of older workers to adapt to new technology and their receptiveness to training. At the same time, there is some evidence that older workers themselves do not always take up available training opportunities, possibly because they see the returns to training as not being sufficiently large OECD (2003d).

The lack of a more significant “age-gap” in the incidence of job-related training among workers in the United States, relative to the gap in other OECD countries, may be linked to the age profile of employment retention rates (see Figure 2.11). Between 1998 and 2002, the four-year retention rate for workers in their early 50s was similar to (or higher than) those for workers in their 30s and 40s and, for workers in their late 50s, it was almost as high as for workers in their early 30s (and even higher in the case of women). Relatively high employment retention rates for older workers, at least over a four-year horizon, may thus encourage employers to invest in training them. Of course, the causality may also run in the other direction, since if employers invest in training older workers they will seek to retain those workers.

### **C. *A special focus on low-skilled workers is required***

To sum up, participation in job-related training appears to be relatively high in the United States by international standards, including for older workers. However, while older workers participate less in training than younger workers, there are even larger disparities at all ages in the incidence of training by level of education, which would appear to reinforce rather than alleviate the labour market disadvantages that low-skilled workers often face. Improving access to training for low-skilled worker and incentives for this group to participate in training is, therefore, a key challenge for policy.

## **2. Public employment programmes and older job seekers**

For many job seekers, both young and old, finding a job may be relatively straightforward through the use of informal networks, the internet, direct contact with employers or job-matching services offered by private and public employment services. However, for some groups of job seekers it is much harder to find a new job, and age appears to be one factor that may contribute to this, possibly, as suggested in Chapter 4, because of reluctance by employers to hire older workers. Therefore, this section focuses mainly on federally-funded employment programmes that are designed to give more intensive employment



assistance than just basic job-matching services to those job seekers most in need, and it examines the adequacy and efficiency of these programmes in helping older job seekers in particular.

#### *A. Federal employment programmes in a nutshell*

There are three main federal employment and training programmes that are potentially available to older workers: *i*) the Workforce Investment Act (WIA) programmes to provide training and job search assistance to adults and “dislocated” workers (*i.e.* laid-off workers); *ii*) the Trade Adjustment Assistance (TAA) programmes to provide employment and training assistance for persons who lost their jobs because of trade-related reasons; and *iii*) the Senior Community Service Employment Program (SCSEP) to primarily provide low-income older workers with subsidised part-time employment in community services (see Box 5.1 for more details).<sup>70</sup> Older workers also benefit from Unemployment Insurance and can have access to general public employment services that provide basic job search assistance. There are also a range of other active labour market programmes targeted at youth as well as smaller programmes for special groups of the population.

A major overhaul of the delivery of employment services in the United States took place with the passage of the Workforce Investment Act (WIA) in 1998. It replaced the Job Training Partnership Act (JTPA) and laid the foundation for integrating workforce development services, including public employment services, through local One-Stop Career Centers. It also eliminated the JTPA requirement that states set aside funds specifically for older workers. The intention of WIA is that it should meet the needs of all workers.<sup>71</sup>

---

70. There are also other more targeted programmes in which older workers participate such as Migrant and Seasonal Farmworkers, Native Americans and Veterans. These programmes are not discussed separately in this report since they are subject to very specific eligibility requirements and, apart from the Veterans programme, are relatively small in size in terms of the number of older workers that participate in them.

71. Further information on the introduction of the One-Stop delivery system in the United States can be found in OECD (1999b), as part of its review of the UI system, the Employment Service and JTPA employment programmes.

**Box 5.1. Key active labour market programmes for adults  
in the United States**

***Employment Service***

As part of the One-Stop delivery system, the Employment Service provides public employment services, including registering and matching vacancies with job seekers, employability assessment, re-employment services and job search workshops.

***Workforce Investment (WIA) programmes (Adult and Dislocated Worker)***

Under all WIA programmes, there are three tiers of services that are provided: core, intensive and training. Core services include basic job search and placement activities and are available to the general public without any eligibility requirements. Intensive assistance is available to customers who face employment barriers and they may subsequently receive more intensive job search assistance. Finally, training services are available to enable workers to retain new positions or become qualified for higher-skill, better-paid positions. The Adult programme provides employment and training services for adults aged 18 or older. The Dislocated Workers programme targets laid-off workers and displaced “homemakers” aged 18 and over.

***Trade Adjustment Assistance (TAA)***

TAA provides assistance to workers who have lost their jobs as a result of increased imports from, or shift in production to, foreign countries. Apart from general employment services it provides for Income Support (trade readjustment allowances) and various allowances for seeking work in another area or relocating to a new area for employment.

***Senior Community Service Employment Program (SCSEP)***

SCSEP is funded and operates under the Older Americans Act (OAA) but is run by the U.S. Department of Labor. It is now the only major federal employment programme specifically targeted at older workers. It serves low income persons who are 55 years of age and older and who have poor employment prospects by placing them in subsidised part-time community service positions and by assisting them to obtain to unsubsidised employment. Eligible persons are those aged 55 or over and with incomes not more than 125% of the official poverty level. The programme is required to give priority to persons aged 60 or over.

Table 5.2. **Participants in federally-funded employment programmes in the United States, 2003/04**

	All participants		Participants aged 55 and over <sup>a</sup>	
	Number (000s)	Percentage of labour force	Percentage of all participants	Percentage of labour force aged 55+
<b>UI and general employment services<sup>b</sup></b>	<b>18 499.8</b>	<b>12.6</b>	..	..
Unemployment Insurance	9 124.8	6.2	14.3	5.8
Employment Service	14 977.6	10.2	8.6	5.7
<b>Other active labour market programmes<sup>c</sup></b>	<b>2 929.5</b>	<b>2.0</b>	..	..
<b>Adult programmes<sup>c, d</sup></b>	<b>2 008.4</b>	<b>1.4</b>	..	..
Workforce Investment Act	819.3	0.6	8.0	0.3
Adult	445.6	0.3	5.6	0.1
Dislocated Worker	373.7	0.3	11.3	0.2
SCSEP <sup>e</sup>	105.8	0.1	100.0	0.5
Trade Adjustment Assistance	99.0	0.1	17.8	0.1
Other programmes <sup>f</sup>	165.0	0.1	..	..
<b>Youth programmes<sup>c</sup></b>	<b>921.2</b>	<b>0.6</b>	–	–
Registered Apprenticeship <sup>g</sup>	401.3	0.3	–	–
Workforce Investment Act	393.1	0.3	–	–
Younger Youth	312.2	0.2	–	–
Older Youth	80.9	0.1	–	–
Other programmes <sup>h</sup>	126.7	0.1	–	–

.. Data not available.

– Nil.

a) OECD estimates based on the age-profile of participants or "exiters" for the programme years 2002 or 2003.

b) Excluding double-counting of UI recipients registered with the Employment Service.

c) Including a small amount of double-counting because of co-enrolment.

d) Programmes which are not restricted to, or targeted on, youth.

e) Senior Community Service Employment Program.

f) Indian and Native American Adult; National Farmworker Jobs Program; H-1B Skills Training Grants; National Emergency Grants.

g) Registered Apprenticeship programmes are funded by employers and only relatively small outlays of federal funds are involved for technical assistance.

h) Job Corps; Youth Opportunity Grants; Youth Offender Demonstration (Round 3); Indian and Native American Youth.

Source: OECD estimates based on participant data supplied by the U.S. Department of Labor and from its quarterly publication, *Workforce System Results* (as of 30 June 2004), and labour force data from the Current Population Survey.

Table 5.2 provides an overview of the number of persons who participated in all federally-funded employment programmes over the year to 30 June 2004.<sup>72</sup> In terms of sheer numbers, the Employment Service is the most important programme having provided general job search assistance to almost 15 million jobseekers (or 10.2% of the labour force). Next is the Unemployment Insurance (UI) system with over 9 million unemployed workers (or 6.2% of the labour force) having received a first payment during the year to 30 June 2004. Altogether the number of participants in active labour market programmes (ALMPs), excluding the Employment Service, is relatively small, amounting to just under 3 million or 2% of the labour force. In the majority of OECD countries for which data are available, the total number of ALMP participants amounted to more than 5% of the labour force.

Not only is the overall number of ALMP participants in the United States rather small relative to the size of its labour force, but there is some evidence that older jobseekers are underrepresented among these participants. Adult programmes<sup>73</sup> accounted for only around 69% of the total number of ALMP participants and youth programmes accounted for 31%, even though youth (aged less than 25) comprise only around 15% of the total labour force. Moreover, of the adult programmes, the share of participants aged 55 and over was typically smaller than the corresponding share of the labour force aged 55 and over (with the notable exception of the SCSEP programme which is restricted to participants aged 55 and over).<sup>74</sup>

### **B. Participation in WIA and TAA programmes**

Of course, employment programmes are mainly targeted at the unemployed and, given that unemployment rates tend to decline with age, these programmes may be less skewed towards younger people when compared to the age profile of the unemployed. This possibility is explored for the WIA and

---

72. The data for the Trade Adjustment Assistance programme refer to 1 October 2003 to 30 June 2004. For the relatively small Indian and Native American programmes, the data also correspond to a slightly different time period.

73. Adult programmes refer to all programmes which are not restricted to, or targeted on, youth. They may include participants younger than 25 years of age as well as older participants.

74. In Table 5.2, only data for older participants aged 55 and over was available for all employment programmes, unlike in the rest of the report where the age group 50 and over is generally used to cover all older workers.

TAA programmes using a range of different unemployment measures, partly to take account of the different groups that are targeted by these programmes. These measures include the unemployed, newly unemployed, job losers, displaced workers and mass layoffs.<sup>75</sup> In the detailed comparisons below, the data refer to “exiters” (*i.e.* participants who exited a programme) rather than to participants because data by age and gender was only available for exiters and not for all participants.<sup>76</sup>

### *Participation in WIA programmes*

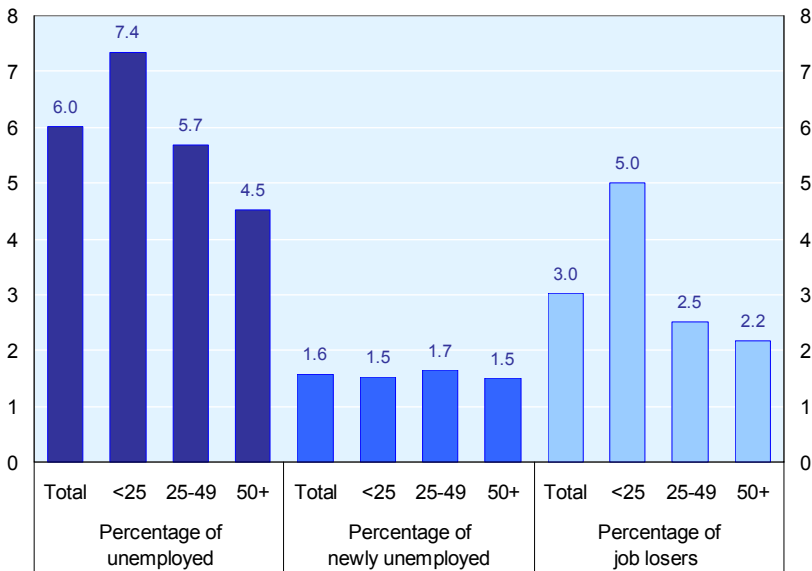
The results in Figure 5.4 suggest that, when compared to the age profile of the unemployed, older people (*i.e.* aged 50 and over) are significantly under-represented among all WIA exiters (adult and youth programmes combined). This holds both with respect to youth (*i.e.* aged less than 25) and prime-age persons (*i.e.* aged 25-49). Thus, in PY2003,<sup>77</sup> older exiters represented only 4.5% of the unemployed in the same age group, whereas the comparable figures for younger and prime-age exiters are 7.4% and 5.7%, respectively. A more uniform picture emerges when the age-profile of exiters is compared with that of the “newly unemployed”, reflecting the fact that unemployment spells are on average much shorter for the younger unemployed than the older unemployed and hence the older unemployed account for a greater share of the stock of unemployed persons than of all inflows into unemployment. However, if the comparison is restricted to “job losers” (*i.e.* excluding new entrants or re-entrants to the labour market such as school leavers and homemakers), older people again appear to be under-represented in WIA programmes, especially as compared to younger exiters.

---

75. The unemployed refer to the average of all unemployed persons during 2003-04. The newly unemployed refer to the sum of the unemployed in each month during 2003-04 who had been unemployed for less than five weeks. Job losers refer to the newly unemployed who had lost their job or whose temporary job had ended. Displaced workers refer to all wage and salary earners aged 21 years and over in January 2004 who lost or left their job during 2001-03 because of the closing or transfer of their workplace, insufficient work, or the abolishment of their positions or shifts. Mass layoffs refer to all new UI claimants during 2003 who had been laid-off for 31 days or more from establishments where fifty or more initial UI claims had been filed during a five-week period.

76. In general, the number of exiters account for between a third to a half of all participants.

77. PY2003 refers to the programme year ending 30 June 2004.

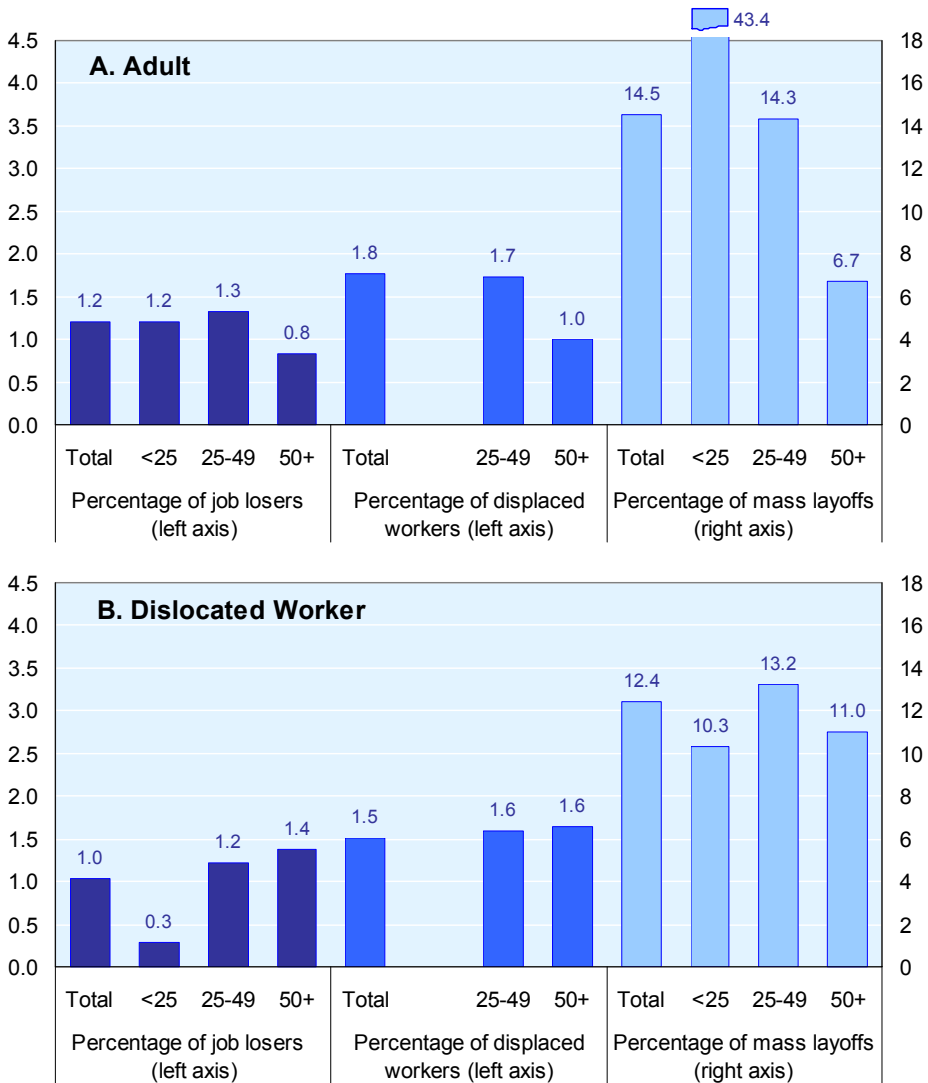
Figure 5.4. Exitters from all WIA programmes by age, 2003/04<sup>a</sup>

a) Programme exitters are shown as a proportion of the unemployed, newly unemployed and job losers. The definition of these groups is given in the text.

Source: OECD estimates based on data from the U.S. Department of Labor (WIA exitters) and the Current Population Survey (unemployment).

A number of WIA programmes are targeted specifically at youth (*i.e.* the Younger Youth and Older Youth programmes), involving relatively large numbers of participants. This partly explains why WIA programmes as a whole appear to be skewed towards younger participants. However, even within the other WIA programmes that are open to participants of all ages, older unemployed still appear to be under-represented. As shown in Figure 5.5, older exitters from the Adult WIA programme represent a disproportionately small share of job losers, displaced workers or mass layoffs. Only in the case of the WIA programme for dislocated workers, does it appear that older participants are more equally represented and, if anything, younger participants are under-represented.

Figure 5.5. **Exiters from WIA programmes for adults by age, 2003/04<sup>a</sup>**



a) Programme exiters are shown as a proportion of job losers, displaced workers and mass layoffs. The definition of these groups is given in the text. No data are shown for younger exiters as a proportion of displaced workers since the data for displaced workers is not collected for persons younger than 21.

Source: OECD estimates based on data from the U.S. Department of Labor (WIA exiters); the Current Population Survey (new job losers and displaced workers); and the U.S. Bureau of Labor Statistics web site ([www.bls.gov/mls/home.htm](http://www.bls.gov/mls/home.htm)) (mass layoffs).

By gender, women generally participate to a greater extent than men in employment programmes relative to their shares of the labour force or to various alternative measures of the potential target groups for these programmes. However, the overall finding that older unemployed persons are under-represented in WIA programmes equally holds for men and women separately.

#### *Participation in the TAA programme*

Of the other major active labour programmes open to adults of all ages (apart from the Employment Service), the TAA programme resembles the WIA programme for dislocated workers in that older exiters appear to be over-represented. For example, older TAA exiters in FY2004<sup>78</sup> represented 0.33% of job losers in the same age group, whereas the comparable figures for younger and prime-age exiters are 0.02% and 0.20%, respectively. A similar result also holds for displaced workers and mass layoffs as the comparison groups.

#### *Participation in the TAA and WIA programmes combined*

Taking both the TAA and WIA programmes together, older exiters represented 20% of mass layoffs and only 3% of displaced workers in the same age group in 2003-04 (Table 5.3). These shares were smaller than the corresponding shares of 29% and 3.5%, respectively, for prime-age people (25-49). The gap was less substantial in relation to all job losers. The participation of youth (aged 25 or less) in all TAA and WIA programmes combined also still appears to be disproportionately large in relation to their share of either the labour force, the unemployed, job losers, displaced workers or mass lay-offs.<sup>79</sup>

### **C. *Services received and outcomes under WIA programmes***

#### *Services received*

Not only are the older unemployed under-represented in their participation in WIA programmes, but they also appear to get less intensive assistance in the form of training. For example, in PY2003, the share of exiters who had received occupational-skills training under the Adult WIA programme was 41% for the age group 25-49 but only 33% for the age group 50 and over (Table 5.4). This decline with age is not just confined to older participants in their 60s but also occurs for

78. FY2004 refers to the fiscal year ending 30 September 2004.

79. In the case of displaced workers this result holds even if allowance is made for the fact that the displaced worker data is only collected for persons aged 21 and over.



participants in their early and late 50s. A similar decline with age in the proportion of exiters who received training can also be observed for the Dislocated Worker WIA programme, although the incidence of training was significantly higher across all age groups in this programme than in the Adult WIA programme.

Table 5.3. **Exiters by age from all TAA and WIA programmes combined, 2003/04**

Percentages of	Broad age groups				Within 50-and-over age group			
	Total	<25	25-49	50+	50-54	55-59	60-64	65+
Labour force	0.4	0.9	0.3	0.2	0.3	0.2	0.1	0.1
Unemployed	6.5	7.5	6.3	5.3	6.8	5.7	3.7	1.8
Newly unemployed <sup>a</sup>	1.7	1.5	1.8	1.7	2.2	1.9	1.3	0.5
Job losers <sup>a</sup>	3.2	5.0	2.7	2.5	3.1	2.7	1.8	0.9
Mass layoffs <sup>a</sup>	38.5	179.9	29.2	20.0	24.2	20.4	14.0	9.8
Displaced workers <sup>b</sup>	4.7	..	3.5	3.0	3.5	3.2	2.2	1.5

.. Data not available.

a) The definition of these groups is given in the text.

b) No data are shown for the age group less than 25 since the data for displaced workers is not collected for persons younger than 21.

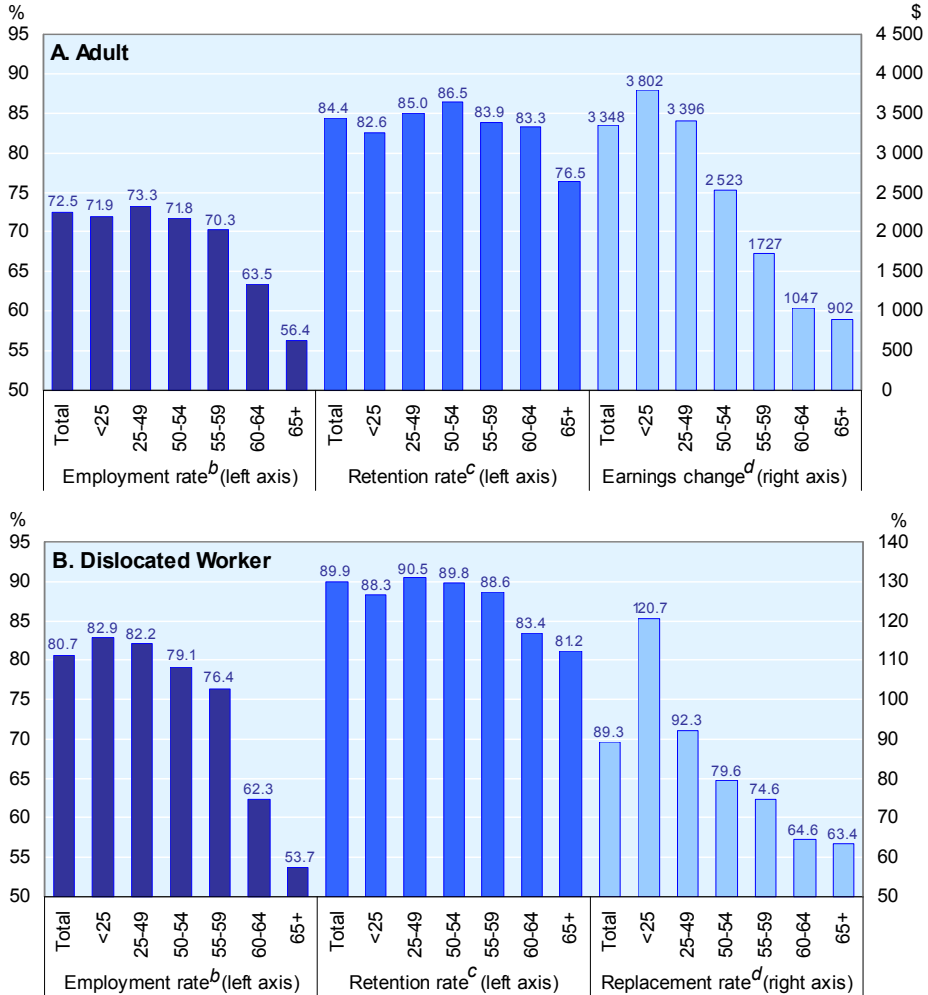
Source: OECD estimates based on data from the U.S. Department of Labor (TAA and WIA exiters); the Current Population Survey (labour force, unemployed, newly unemployed, job losers and displaced workers); and the U.S. Bureau of Labor Statistics web site ([www.bls.gov/mls/home.htm](http://www.bls.gov/mls/home.htm)) (mass layoffs).

Table 5.4. **Employment services received by exiters from WIA programmes for adults by age, 2003/04<sup>a</sup>**  
Percentages

	Broad age groups				Within 50-and-over age group			
	Total	<25	25-49	50+	50-54	55-59	60-64	65+
<b>Adult</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Core services only	20.9	23.3	20.1	20.4	20.8	20.4	20.1	18.5
Core and intensive services only	31.3	26.2	31.7	38.9	36.8	40.1	42.7	43.4
Training								
Basic skills	2.8	2.9	2.9	2.0	2.2	1.8	1.6	1.7
On-the-job training	5.2	6.2	5.0	4.1	4.4	4.0	3.1	3.9
Occupational skills	40.3	42.3	40.9	33.4	35.3	32.2	30.8	28.9
<b>Dislocated Worker</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Core services only	13.3	19.8	12.6	13.7	12.7	14.1	15.1	20.3
Core and intensive services only	32.3	26.2	31.1	37.5	36.0	38.3	40.7	43.8
Training								
Basic skills	2.2	2.1	2.1	2.6	2.5	2.5	3.4	2.4
On-the-job training	3.6	5.2	3.6	3.2	3.5	3.1	2.1	2.4
Occupational skills	48.6	46.2	50.7	43.2	45.7	42.1	38.7	30.6

a) The sub-categories may not add up to 100% because of either missing data by age or, in a few cases, receipt of more than one type of training.

Source: OECD estimates derived from data supplied by U.S. Department of Labor.

Figure 5.6. Outcomes of WIA programmes for adults by age<sup>a</sup>

- a) Outcomes for participants who exited each programme during the period from October 2002 to September 2003.
- b) Employed in the quarter after exit (excluding participants who were employed at registration).
- c) Employed in the third quarter after exit among those employed in the quarter after exit.
- d) Earnings in the second and third quarters after exit minus (divided by) earnings in the second and third quarters before registration among those employed in the quarter after exit.

Source: Data supplied by the U.S. Department of Labor.

### *Outcomes*

In the case of the Adult and Dislocated Worker programmes the following measures are used to monitor the performance of these programmes at the state and local levels: entered employment rate; retained employment rate; and earnings change or replacement rate.<sup>80</sup>

As shown in Figure 5.6, older exiters, especially those in their late 50s or older, are less likely than younger exiters to have found employment in the quarter after exit. Among all exiters during the period October 2002 to September 2003, 73% of exiters from the Adult programme aged 25-49 had found employment but this declines to just under 70% in the age group 50 and over, and drops to under 64% for exiters in the age group 60-64. The corresponding proportions for the Dislocated Worker programme were 82% 76% and 62%, respectively. Relative to exiters in their late 50s, exiters from the Dislocated Worker programme who were in their 60s experienced a much larger drop in the likelihood of finding a job than was the case in the Adult programme. The difference by age in employment retention rates is generally less marked.

A much more pronounced difference between younger and older exiters is found in earnings outcomes. Older exiters in both programmes experience substantially smaller absolute increases in earnings (Adult programme) or a much larger percentage fall in earnings (Dislocated Worker programme) than do prime-age exiters. This occurs even for exiters in their early 50s.

#### ***D. Senior Community Service Employment Program***

The Senior Community Service Employment Program (SCSEP) has historically emphasised providing poorer older persons with employment opportunities in community service and with income support. It is now the only major federal employment programme specifically targeted at older people. The age profile of SCSEP participants contrasts strongly with that of WIA or TAA

---

80. The entered employment rate is defined as the proportion of exiters who were employed in the quarter after exit (excluding participants who were employed at registration). The employment retention rate is defined as the proportion of exiters who were employed in the 3<sup>rd</sup> quarter after exit among those employed in the quarter after exit. The earnings change (retention rate) is defined as earnings in the 2<sup>nd</sup> and 3<sup>rd</sup> quarters after exit minus (divided by) earnings in the 2<sup>nd</sup> and 3<sup>rd</sup> quarters before registration among those employed in the quarter after exit.

participants even within the comparable age group of participants aged 55 and over. In the case of the SCSEP programme, around 41% of new entrants in PY2002 (59% of current enrollees) were aged 65 and over, compared with only between 8-12% in the case of exiters from the WIA and TAA programmes.

In contrast to the WIA and TAA programmes, which have a strong emphasis on employment outcomes, the SCSEP programme also has a focus on providing community services and help to older people in greatest economic need through subsidised employment. However, the amendments to the Older Americans Act (OAA) in 2000 put greater emphasis on unsubsidised employment and training, with a requirement of placing 20% of established enrolments in unsubsidised jobs.<sup>81</sup> The Department of Labor has since administratively established a goal of unsubsidised job placements of 35% which was just achieved on average in PY2002. All-in-all, SCSEP operators have a wide range of responsibilities to serve as expert agencies for older workers, covering: support of community services; helping the most disadvantaged among older people through subsidised community jobs; and promoting employment in unsubsidised jobs.

### ***E. Monitoring performance***

Performance levels or targets for each main WIA programme are negotiated by the Department of Labor for each state. States that fail to meet their performance levels for two consecutive years may be, and have been, sanctioned by up to a five-percent reduction in their annual WIA grant. While these targets vary across states and by broad programmes, there is no variation across different sub-groups of participants within each programme (*e.g.* there is no specific target for older participants in any of the programmes).

Although there are no longer any special set-aside funds for older workers under WIA, some states are actually using WIA funds to support special programmes for older workers. However, some local programme operators have expressed concern that the current method for allocating WIA funds reduces the ability of the states to serve those groups most in need, and have sought more flexibility to structure their delivery system in a manner best suited to their needs (Barnow and King, 2003). Although WIA is characterised by its universal

---

81. Established enrolments correspond to the effective number of full-year equivalent places that each grantee can finance given its grants and average national costs per full-year enrollee.

nature, more flexibility to better serve targeted groups such as older persons might be necessary.

In particular, the generally poorer performance recorded for older exiters in employment outcomes, especially earnings outcomes, have raised concerns that the performance measures used to monitor WIA programmes for adults may discourage programme operators from enrolling older persons in their programmes. “The most favorable results to these measures occur when individuals seek full-time work and had low or no prior earnings” (GAO, 2003, p. 24). However, as discussed in Chapter 2, older jobseekers generally have more difficulties than younger jobseekers in finding jobs, and suffer greater earnings losses when they do find a new job or tend to take up part-time jobs with lower income. Thus, some older workers who previously had full-time jobs with a good salary may not be very attractive customers to serve or may have difficulty gaining access to more intensive employment services. The General Accounting Office has recommended that the WIA performance measure should be re-assessed and adjusted to eliminate disincentives to enrolling older workers (GAO, 2003). More specifically, it has been suggested that state and local targets should be more closely tied to underlying differences in economic conditions and the populations that are being served by these programmes (Barnow and Smith, 2004; Heinrich, 2004; and GAO, 2004).

In the case of SCSEP, the OAA Amendments of 2000 introduced an accountability system for all SCSEP projects including performance measures for the placement and retention of participants in unsubsidised employment and earnings change. In fact, a common set of performance measures is being implemented by the U.S. Department of Labor for virtually all of the employment programmes it is responsible for, including SCSEP. If a SCSEP operator fails to meet performance expectations, they can be subject to a reduction in funding. However, this could lead to the same kind of problem of “creaming” as with the WIA performance measures.

A number of other issues have been raised concerning the way the performance of WIA programmes is currently measured and monitored. Mainly based on previous experience under the former JTPA regime, Barnow and Smith (2004) express concern about the possibility that local operators may be “gaming” the system in order to improve their recorded performance. For example, local operators could either be strategically registering participants once a training place with an employer has been identified or strategically delaying the exit of participants if no successful outcome has been achieved.

Indirect evidence of “gaming” or at least the possibility of “gaming” is suggested by the findings of the Department of Labor’s Office of Inspector General (OIG) in its report on the WIA programme for dislocated workers (OIG, 2003). The OIG found that the average programme duration for the participants it sampled was 514 days for non-exiters and 236 days for exiters. It also found that only around two-thirds of all sampled participants had found employment over the period of 12-18 months after registration compared with the official performance measure for exiters only of nearly 80% that entered employment in the quarter after exit. To some extent, possibilities for “gaming” the system could be reduced or more easily monitored by following the recommendations in OIG (2003) that: *i*) the Department of Labor should clarify the definition of programme exit; and *ii*) labour market outcomes should be measured for all participants after a fixed time following their enrolment in a programme and not just following exit.<sup>82</sup>

The General Accounting Office also suggests that states should be given greater guidance in the use of interim performance measures given that the official performance measures involve considerable time lags before the data are available GAO (2004). It points out that outcomes for some participants are not recorded because of the use of Unemployment Insurance wage data which, for example, exclude the self-employed. Finally, it suggests that information on all job seekers served through WIA, including those using self-directed services or requiring minimal staff assistance, should be systematically recorded in order to assess better the full reach of WIA services. However, carrying this out could impose a significant additional reporting burden on One-Stop staff.

#### ***F. Key challenges: better access and better evaluation***

Overall, the results of this section suggest that older people are under-represented in WIA programmes as a whole (and even when their participation in the TAA programme is included) and are gaining access to fewer intensive employment services than younger participants. Given the potential financial sanctions involved for states not meeting their agreed performance levels, this could discourage operators from serving harder-to-help groups such as the older

---

82. In December 2003, the U.S. Department of Labor issued guidelines to states and grantees for employment programmes administered by the Department concerning common performance measures and the definition of programme participation and exit. It is important that the Department closely monitor whether these guidelines are being followed and are sufficient to eliminate “gaming” in the way enrolments and exits are recorded.

unemployed. Similar, the way performance targets are defined and set in the SCSEP programme – the only federally-funded employment programme that is currently targeted at older people – may also lead to some “creaming” of participants (*i.e.* exclusion of the most disadvantaged groups with poor employment prospects). As it turns out, employment and, especially, earnings outcomes do appear to be worse for older participants in WIA programmes than for younger ones. Whether this is because older workers are obtaining less intensive assistance or because they are intrinsically harder to serve on average is a moot point and can only be determined through further evaluation using “randomised” or “experimental” data in order to determine the net impact of programmes on the outcomes of participants.

### **3. Working-time arrangements, working conditions and health**

For many older workers, their working conditions will be a key factor driving their retirement decisions. There is currently no national “omnibus” survey in the United States that gives a snapshot of working conditions, including aspects such as work environment, pace of work, work organisation and working-time arrangements. Nevertheless, a range of evidence can be assembled to paint a (partial) picture of working conditions and, in particular, the working-time arrangements of older workers. A special focus in this section is given to the factors that may be encouraging or discouraging phased retirement, *i.e.* a more gradual transition from being in full-time work to being fully retired.

#### **A. Limited flexibility in adjusting working hours**

As older workers approach retirement, long hours of work may become particularly arduous and the alternative of working part-time may become increasingly attractive. Indeed, greater opportunities for phased retirement via part-time employment could lead to later retirement among older workers.

##### *Long working hours may be a problem*

The data on actual hours of workers in Table 5.5 suggests that opportunities for part-time work do increase with age (at least for workers in their 60s), but they also suggest that a substantial proportion of older workers continue to face long working hours. In terms of shorter working hours, the proportion of employees who worked less than 35 hours per week in 2004 was around 17-19% for workers in their 50s – close to the figure for workers aged 25-49 – but this rises to 26% in the age group 60-64 and to 48% in the age

group 65 and over. The prevalence of short-time work was higher for women than for men across all age groups. Overall, average weekly hours of work are somewhat shorter for employees in their early and late 60s relative to workers aged 25-49, but this decline is much less marked for workers in their early or late 50s.<sup>83</sup>

In terms of long hours of work, the proportion of employees who worked more than 50 hours per week in 2004 was close to a quarter for older men aged 50 and over – only slightly lower than the corresponding proportion for younger men aged 25-49. Even in the age group 60-64, almost 10% of male employees worked 60 hours per week or more in 2004, and again this proportion was not very different for younger men. For women, both average hours worked and the incidence of very long hours of work is lower than for men, irrespective of age. Nevertheless, as for men, there is not a pronounced difference between prime-age women and older women (except in the more advanced age groups) in the prevalence of long hours of work.

From an international perspective, it would also appear that older workers in the United States face relatively long hours of work. Of the countries shown in Table 5.6, the average number of hours worked in 2003 for all older employees (aged 50 and over) was 39.1 hours per week in the United States – the second highest after Japan at 40 hours. In contrast, the corresponding figure for Sweden was only 33.7 hours. In terms of very long hours of work, the United States was again second only to Japan in the proportion of older workers working more than 50 hours per week but the highest country for the proportion working 60 hours or more per week. Undoubtedly, differences in regulation of working-time, union strength and labour taxation explain some of these cross-country differences. Nevertheless, even in the United Kingdom, which more closely resembles the United States in terms of having a fairly flexible labour market, both the overall average number of weekly hours of work and the incidence of long working hours are lower than in the United States.

---

83. Of course, a rise after the age of 50 in the prevalence of part-time work based on cross-sectional data does not necessarily imply that older workers are switching from full-time to part-time work. This could also occur if workers in full-time jobs retire earlier on average than those in part-time jobs. However, longitudinal data from the Health and Retirement Survey show that an increasing proportion of workers initially aged 50 and over switch from full-time to part-time work as they grow older (Even and Macpherson, 2004).



Table 5.5. **Actual hours worked per week by employees in the United States by age and gender, 2004**

	Distribution of workers by number of hours worked per week (%)						Average weekly hours <sup>a</sup>
	Total	0	1-34	35-49	50-59	60+	
<b>Persons</b>							
All ages	100.0	3.7	22.6	57.3	9.7	6.7	39.0
16-24	100.0	3.0	44.9	44.9	4.4	2.8	32.0
25-49	100.0	3.5	17.0	61.0	10.9	7.5	40.8
50+	100.0	4.7	22.5	55.8	10.0	7.0	39.1
50-54	100.0	4.2	16.5	60.0	11.5	7.8	41.0
55-59	100.0	4.8	19.2	58.2	10.6	7.3	40.1
60-64	100.0	5.1	25.6	53.9	8.8	6.6	38.1
65+	100.0	5.7	47.6	37.6	5.0	4.1	31.0
<b>Men</b>							
All ages	100.0	2.9	16.1	58.5	13.0	9.6	41.7
16-24	100.0	2.4	39.2	48.7	5.7	3.9	33.9
25-49	100.0	2.6	10.5	61.6	14.5	10.8	43.5
50+	100.0	4.0	16.1	56.5	13.4	9.9	41.7
50-54	100.0	3.5	10.3	59.9	15.1	11.1	43.7
55-59	100.0	3.9	12.2	59.4	14.2	10.2	42.8
60-64	100.0	4.6	18.9	54.4	12.5	9.6	40.9
65+	100.0	5.4	41.5	40.4	6.9	5.8	33.4
<b>Women</b>							
All ages	100.0	4.7	29.9	55.9	6.1	3.4	36.1
16-24	100.0	3.6	51.1	40.7	3.1	1.6	30.0
25-49	100.0	4.6	24.7	60.3	6.8	3.7	37.6
50+	100.0	5.4	29.3	55.0	6.3	3.9	36.2
50-54	100.0	4.9	23.0	60.1	7.6	4.4	38.2
55-59	100.0	5.6	26.6	56.9	6.7	4.2	37.2
60-64	100.0	5.6	32.7	53.5	4.8	3.4	35.1
65+	100.0	6.1	54.4	34.5	2.9	2.2	28.3

a) For people at work.

Source: OECD estimates derived from the Current Population Survey.

Prime-age employees in the United States also have long hours of work by international standards. Thus, it could be the case – particularly for workers in arduous jobs – that long hours of work over workers' entire working careers, and not just when they are older workers, could be a contributory factor pushing them into early retirement.

Table 5.6. **Actual weekly hours of work for older employees aged 50 and over in selected OECD countries, 2003<sup>a</sup>**

	Distribution of workers by number of hours worked per week (%)						Average weekly hours <sup>b</sup>
	Total	0	1-34	35-49	50-59	60+	
<b>Total</b>							
<b>United States</b>	<b>100.0</b>	<b>4.8</b>	<b>22.5</b>	<b>55.9</b>	<b>9.8</b>	<b>7.0</b>	<b>39.1</b>
France	100.0	13.8	26.4	50.4	6.2	3.2	35.2
Germany	100.0	6.0	27.1	57.6	5.8	3.6	35.1
Japan	100.0	1.3	24.7	55.0	12.1	6.9	40.0
Sweden	100.0	14.2	43.3	36.8	4.0	1.7	33.7
United Kingdom	100.0	10.4	36.7	42.1	7.0	3.9	34.5
<b>Men</b>							
<b>United States</b>	<b>100.0</b>	<b>4.0</b>	<b>16.3</b>	<b>56.4</b>	<b>13.3</b>	<b>10.1</b>	<b>41.6</b>
France	100.0	13.8	17.1	56.4	8.2	4.5	37.9
Germany	100.0	6.3	8.8	70.7	8.6	5.5	39.9
Japan	100.0	1.4	12.6	60.6	15.7	9.6	43.9
Sweden	100.0	11.8	37.2	42.7	5.6	2.7	35.9
United Kingdom	100.0	9.5	21.2	52.6	10.6	6.1	39.7
<b>Women</b>							
<b>United States</b>	<b>100.0</b>	<b>5.6</b>	<b>29.0</b>	<b>55.4</b>	<b>6.2</b>	<b>3.8</b>	<b>36.2</b>
France	100.0	13.9	36.2	44.1	4.0	1.8	32.4
Germany	100.0	5.6	49.3	41.5	2.3	1.3	29.3
Japan	100.0	1.2	42.9	46.5	6.7	2.8	34.2
Sweden	100.0	16.4	49.0	31.3	2.5	0.8	31.4
United Kingdom	100.0	11.4	53.4	30.7	3.1	1.4	28.7

a) For Japan, the data refer to 2000.

b) For people at work.

Source: Japanese Census; European Union Labour Force Survey; United States Current Population Survey.

These international comparisons of hours of work also suggest that the incidence of part-time work for older workers as a whole is somewhat lower in the United States than in the other OECD countries shown in Table 5.6. Whereas just over 22% of older employees in the United States worked between 1-34 hours per week on average in 2003, this proportion was much higher at 37% and 43% in, respectively, Sweden and the United Kingdom. However, this result is mainly driven by the fact that the proportion of older female employees working part-time is considerably lower in the United States than in the other countries shown in Table 5.6. For older male employees, the fraction working part-time in the United States was higher than in Germany and Japan, but still well below the corresponding figures for Sweden and the United Kingdom.

*Older workers face a range of barriers to reducing hours of work*

While the cross-sectional data in Table 5.5 suggests that the incidence of part-time work increases as workers approach retirement, longitudinal data suggests that in fact most older workers in the United States retire by going from full-time work to “full-time” retirement. For example, using data from the 1970s and 1980s, Quinn, Burkhauser, and Myers (1990) found that when men leave their full-time career jobs, 73% leave the labour force completely, while another 12% go on to further full-time employment. Only 5% reduce their hours while remaining with their current employer. Most of the men who reduce their hours do so while moving to a new job.<sup>84</sup> A more recent study by Even and Macpherson (2004), using results from the Health and Retirement Survey for the 1990s, also suggests that transitions from full-time to part-time employment are not very common and substantially outweighed by transitions from full-time employment to “full-time” retirement.

Do these results reflect preferences of older workers themselves or barriers that limit opportunities for working-time reductions – *i.e.* phased retirement – as older workers approach retirement? Among all older workers who left their jobs between 1992 and 2000, Penner *et al.* (2002) find that around 13% would have stayed on in the job if their employer would have permitted them to reduce their hours of work. They also report that only 26% of full-time employees in 1998 aged 51-65 worked for employees who would allow a reduction in working time. This would suggest that some older workers are facing barriers that are preventing them from reducing their hours of work and which may be pushing them into retirement.

What are these barriers? A number of potential barriers can be found in the regulations governing employer-provided pension arrangements in the United States.<sup>85</sup> These barriers are likely to be greater under defined-benefit (DB) pension plans than under defined-contribution (DC) plans. First, under DB plans, phased retirement could result in a large fall in a worker’s potential pension benefits, if these benefits are closely tied to a worker’s final salary. Second, workers who remain with their current employer are not permitted to receive any part of their benefits from their current employer’s

---

84. Hurd (1996) reports similar results.

85. For a more detailed discussion of these regulatory obstacles to phased retirement, see Penner *et al.* (2002), Purcell (2004) and Even and Macpherson (2004).

DB pension plan before the normal retirement age specified in the plan.<sup>86</sup> Thus, older workers wishing to switch to part-time work may be required to switch employers in order to supplement their earnings with payments from a DB plan. This could entail a substantial cut in hourly earnings if some of their human capital built up with their former employer is not easily transferable. Third, while these restrictions on phased retirement under DB are less of an issue under DC plans, access to DC benefits are restricted or penalised before age 59½.<sup>87</sup> Finally, as discussed extensively by (Penner *et al.*, 2002), there are a number of other regulations and provisions concerning discrimination that are embedded in the tax code, ERISA and ADEA, that make it difficult for employers to offer phased retirement to selected employees.

The importance of these regulatory barriers to phased retirement is highlighted by Even and Macpherson (2004), based on a panel of older workers from the Health and Retirement Survey over the period 1992-98. They find that pension coverage is associated with lower transition rates from full-time to part-time work and with higher transition rates from full-time employment to complete retirement. They also find that pension coverage is associated with a greater probability that a switch to part-time work also involves a switch of employer and that this results in a greater wage cut for pension-covered workers than for workers who are not covered. In general, these results tend to be more pronounced for workers with DB plans than for those with only DC plans. In particular, the transition rate from full-time work to complete retirement is much higher for workers with DB plans than for those with only DC plans. Finally, they suggest that if employers were more flexible in allowing reductions in work hours, this would encourage more workers to delay retirement through better opportunities for part-time work.

Apart from regulatory difficulties associated with pension plans, employers may also be reluctant to make special arrangements for phased retirement for other reasons. For example, there may be fixed costs associated with

---

86. In some cases, depending on the plan, they may not even be able to access their benefits even after the normal retirement age if they continue to work for the same employer.

87. For example, under profit-sharing plans such as 401(k) plans, employees cannot access their entitlements based on their own contributions (but can access those based on their employer contributions) before age 59½. Under other DC plans, a 10% penalty tax applies to any distributions before age 59½ unless taken out in the form of an annuity.

employment that make it more expensive to employ two part-time workers relative to one full-time worker. The impact of these factors on employer attitudes to phased retirement was examined in a recent survey which asked employers in 950 establishments about opportunities for reduced hours for older white collar workers (Hutchens, 2003; Hutchens and Grace-Martin, 2004; and Hutchens and Papps, 2004). A surprising 73% of the establishments indicated that if such a worker requested reduced hours, then something could be “worked out”. What is usually meant by this is that some form of informal arrangement is possible; formal policies are rare. Employers want to maintain control over the how, when, and who of phased retirement. As such, opportunities for hours reductions by older white collar workers tend to be greatest in establishments that are not part of large organisations, that have part-time jobs, and that do not have unions.

On the side of older workers, a switch to part-time work, with or without a change of employer, may also entail some loss of benefits given that employers are not required to provide pension coverage to employees working less than 1 000 hours annually (or to consultants and contractors who may be former employees) and there is no requirement to extend other forms of benefits such as disability and health insurance to part-time workers. This could also be a disincentive for older workers to take up any opportunities for phased retirement unless some minimum access to employer-provided benefits is guaranteed.

*Have opportunities for hours reductions been expanding?*

To the extent that defined-benefit pensions contribute to hours rigidities, it is possible that the decline in the coverage of workers with these types of pensions is leading to more flexibility. Trends in the incidence of part-time work among older men would appear to be consistent with this. Between 1980 and 2003, the incidence of part-time work rose from 4.4% to 7.6% for men in their late 50s and from 10.3% to 15.3% for men in their early 60s.<sup>88</sup> However, the fraction of employed women in the same age groups working part-time changed little over the period or even declined somewhat. For both men and women aged 65 and over, the incidence of part-time work has fallen

---

88. The data in this paragraph are OECD estimates based on the Current Population Survey and refer to all employed persons, including the self-employed. Part-time work is defined as usual hours of work of less than 35 hours per week.

significantly over recent years, possibly as a result of the abolition in 2000 of the earnings test for social security recipients aged 65-69.

### **B. *Self-employment as an option for older workers***

Another way phased retirement can occur, apart from through working time reductions, is by reducing work responsibilities either with or without a switch of employers. Switching from working as a wage and salary worker to self-employment may be another option. The self-employed may be less constrained in their choice of hours than employees, and thus may be better able to accommodate any work-limiting conditions. As shown in Chapter 2, the incidence of self-employment among older workers is considerably higher than among all workers generally (Table 2.1).

In comparison to wage and salary workers, the self-employed are much more likely to shift from full-time to part-time in their career job. And this is especially true after age 65. The self-employed are also much more likely than wage and salary workers to continue working after the age of 65 (Quinn, Burkhauser and Myers, 1990; Hurd, 1996).

Karoly and Zissimopoulos (2004a; 2004b) identify both “push” and “pull” factors behind shifts into self-employed among older people. For example, a work-limiting health condition or poor employment prospects appear to be push factors, while higher household wealth and higher education, especially for men, appear to be pull factors. Thus, any policy measures to promote self-employment should take into account the diversity of situations that are driving the decisions of older workers to become self-employed. Particular attention should be paid to the factors driving shifts to self-employment among female older workers, given that on average they were less likely to be financially well off than their male counterparts and more likely to have been “pushed” rather than “pulled” into self-employment.

### **C. *Working conditions and health***

In addition to opportunities for reducing working-time and for phased retirement, other aspects of working conditions play a role in the retirement decisions of older workers. For instance, to the extent that jobs are becoming

physically less demanding, this could help extend working lives.<sup>89</sup> Safe and healthy working conditions will also play a role.

*Is work becoming less arduous?*

There is some indirect evidence to suggest that the proportion of older workers engaged in physically demanding jobs may have declined over the past few decades in the United States. First, there has been a substantial decline in the share of all jobs in the goods-producing sector (agriculture, mining, manufacturing and construction) in favour of the services sector. Second, within each industry there has been a decline in the employment share of manual occupations in favour of non-manual occupations (although service workers, such as security guards and hairdressers, have also increased their employment shares in some areas).

More direct evidence on changes in working conditions is reported in the study by Johnson (2004) based on the Health and Retirement Survey. The results of this study suggest that there was a small improvement in working conditions between 1992 and 2002 in terms of whether the jobs of older workers (aged 55-60) required lots of physical effort or the lifting of heavy loads. However, a substantial minority of older workers in 2002 still reported that their jobs required – all or almost all of the time – lots of physical effort (28.3%), lifting heavy loads (9%) or stooping, kneeling and crouching (15.7%). There also appears to have been an increase over the period in non-physical job requirements such as intense concentration, skill in dealing with people and good eyesight. This may partly explain the increase over the period 1992-2002 in the proportion of older workers reporting that their current job was more difficult now than in the past or involves a lot of stress.

Shift work may be another particularly arduous form of working arrangement for older workers. In 2001, 13% of full-time wage and salary workers in the United States aged 55 or over were shift workers.<sup>90</sup> However, only around 5% were working night shift. These proportions are similar to those

---

89. A brief survey of the literature concerning the link between job demands and early retirement is provided in Johnson (2004).

90. The estimates reported in this paragraph are taken from the Bureau of Labor Statistics Economic News Release, “Workers on Flexible and Shift Schedules in 2001”, September, 2002. The underlying data are from a supplement to the Current Population Survey.

for workers aged 25-54 and well below the incidence of shift work recorded for younger people aged 16-24. Thus, shift work does not seem to involve older workers disproportionately in the United States. Moreover, the incidence of shift work for full-time wage and salary workers of all ages has declined slightly over time from around 16% in 1985 to 14.5% in 2001.

### *Occupational health and safety*

Ensuring high standards of occupational health and safety may facilitate longer working lives both in the short-term and over the longer run. First, it can reduce the incidence of injuries and illness among older workers that may be pushing them into early retirement. Second, exposure to health and safety risks at work earlier on in a worker's career may affect a worker's ability to remain in the workforce at an older age. While it is difficult to observe directly whether workplaces in the United States are safe and healthy, and whether working conditions are suitably adapted to the needs of older workers, some indirect evidence can be gleaned from statistics on the incidence of occupational injuries, illnesses and fatalities.

In 2002, three quarters of workers with nonfatal occupational injuries and illnesses involving days away from work were aged 25-54 and only 11.8% were aged 55 and over (BLS Survey of Occupational Injuries and Illnesses, 2002). If these shares are compared with the older workers' share of 12.5% of all hours worked, it would appear that older workers have a lower incidence rate than younger ones. However, they also appear to be absent for longer. In 2002, the median number of days lost because of occupational injury or illness was 12 days for employees aged 55 and over and only between six to eight days for workers aged 25-54. Moreover, the incidence of fatal job accidents rises sharply with age.

It is not clear whether longer periods of work absence and a higher incidence of job-related fatalities for older workers relative to younger workers reflect working conditions that are not well-adapted to the needs of older workers. They could also reflect age differences in employment shares by occupation and sector. A longer average time away from work for older workers might also indicate that older workers simply require more recuperation time in general than younger workers. Disentangling these factors requires further investigation.

Over time, the incidence of occupational injury and illness (involving lost workdays) among all private-sector employees has decreased substantially from



four cases per 100 full-time equivalent workers in 1980 to just 2.8 cases in 2001.<sup>91</sup> This has not just been because of a compositional shift in employment away from the goods-producing sector, where the rate of injury and illness is relatively high, but reflects a broad-based decline across most sectors. Similarly, there has also been a decline in the rate of occupational fatalities among private-sector workers from 5.5 per 100 000 workers in 1992 to 4.0 in 2002.<sup>92</sup>

It is difficult to compare the United States with other countries in terms of how successful it has been in reducing the incidence of occupational injury, illness and fatality. Any such comparison would need to take into account country differences in the way the underlying statistics are collected and reported, as well as compositional differences in employment shares by occupation and sector. However, some of these issues can be avoided by comparing fatalities in the manufacturing sector across countries. On this basis, the results reported in OECD (2004d, Figure 5.6) suggests that the United States fares moderately well; over the 1990s, the incidence of fatalities in the United States was well below the levels recorded for Korea, close to the levels for Japan and just below the levels for France, but more than double the UK incidence. Thus, on the basis of this comparison and taking the United Kingdom as the benchmark OECD country, there would appear to be some scope for further improvement in occupational health and safety standards in the United States.

#### *Trends in the health status of older people*

Has the downward trend in the incidence of occupational injury, illness and fatality over the 1990s in the United States been accompanied by a more general improvement in the health status of older people, which could facilitate longer working lives? Life expectancy at age 65 has increased by around four years for men and women between 1950 and 2002. However, this simply indicates that people are living longer than previously, and does not indicate how much of those additional years of life are being spent in good health. Thus, even if older workers can expect to live longer on average than in the past, poor health could still pose an obstacle to continuing to work.

Data from the 2002 National Health Interview Survey (NHIS) shows that the proportion of people reporting excellent or very good health declines with

---

91. National Center for Health Statistics (2004), Table 50, p. 206.

92. National Center for Health Statistics (2004), Table 49, p. 204.

age, especially after the age of 50. However, a comparison of the results of the 2002 survey with those for earlier surveys, suggests that there has been a significant improvement in health status amongst older people over the past two decades. Between 1982 and 2002, the proportion of the population aged 50-64 reporting excellent or very good health rose from 46% to 54% while the proportion reporting fair or poor health declined from 24% to 16%.<sup>93</sup>

#### **D. *Making the link: working conditions, health and retirement***

The available evidence suggests that while some forms of arduous work have declined for older workers over time, a significant minority of older workers are still involved in physically demanding jobs and are regularly carrying out shift work or have very long hours of work. Moreover, a growing proportion of older workers are reporting that their jobs are stressful. At the same time, other evidence points to an improvement in the health of older people. One conclusion to draw from this fragmentary evidence is that a more comprehensive survey instrument is required to help assess the impact of hours and working conditions on the health and retirement decisions of older workers, and to track developments over time.

### **4. *Measures to improve employability***

Helping older people to gain better access to better jobs requires a range of measures targeted at specific groups of older workers but also more general interventions that from a lifecycle perspective will permit workers to extend their working lives. More specific measures include: improving access to effective employment services for older disadvantaged job seekers; and ensuring that working conditions are better adapted to the needs of older workers. More general measures that concern both younger and older workers include: strengthening training opportunities for the low skilled; and improving occupational health and safety.

#### **A. *Measures to strengthen training opportunities***

Most public measures concerning adult training and education are directed at the unemployed and access to these measures is discussed in the next section on public employment programmes. However, there are a number of ways

---

93. National Center for Health Statistics, *Data Warehouse on Trends in Health and Aging*, <http://www.cdc.gov/nchs/agingact.htm>, accessed 1 February 2005.

training opportunities and take-up could be strengthened for older workers more generally. But a special focus should be on improving training opportunities for low-skilled workers whether young or old.

*Improve training opportunities for low-skilled workers*

The very low participation of low-skilled workers in the United States in job-related training suggests that they should be a priority group for policy action. In particular, given the persistence of low-levels of training by age for low-skilled workers, measures to increase training participation should be targeted at younger workers as well as older workers in this group. From a lifecycle perspective, improving the skills of younger low-skilled workers would not only help them to improve their labour market outcomes in terms of more stable employment and higher earnings but also to prolong their working careers.

There are already a range of programmes and initiatives for improving workplace literacy and basic skills and for promoting vocational education and training, which cut across federal departments and federal/state jurisdictions (see OECD, 2004e, for more details). However, there needs to be greater co-ordination of these programmes in terms of their access, their objectives and in monitoring their performance.

*Strengthen self-financed training for older workers and career guidance*

Access to self-financed training outside the workplace may also be especially important for older workers. When older workers improve their skills, they become attractive to a broader range of employers. Moreover, given the variation in trainability among workers, when older workers show that they are both willing and able to enhance their skills, they provide a signal to employers. That signal is probably strengthened if older workers finance training out of their own pockets, thereby establishing that they do not intend to retire anytime soon. Thus access to self-financed training outside the workplace with reasonable cost may be fundamental to reducing barriers that impede retention and hiring of older workers. This could include increasing expenditures on Pell grants and various student loan schemes for post-secondary education and expanding the role of Individual Training Accounts under WIA.

Community colleges have expanded enormously in importance as institutions of adult education over the past few decades and should continue to play a leading role in provide self-financed training opportunities. Some

community colleges have developed job-oriented training programmes specifically for older people, but they are still a minority. A major problem in this regard is the lack of data on the number of older people taking job-related courses in community colleges. As argued above, older workers may signal their interest in training and intent to continue working when they finance training out of their pockets. Community colleges are central to this. Yet, little is known about how many older people are taking courses in community colleges, whether educational opportunities for older workers vary across communities, and recent trends.

More attention should also be paid to career counselling services for older people. Older people are a large market barely tapped and extending career guidance and counselling to older workers could encourage more of them to enrol in community colleges, thus boosting the financial situation of these colleges. A number of general recommendations for strengthening adult counselling and guidance have emerged from a recent OECD review of this issue (OECD, 2004f).

*Ensure that training is more tailored to the needs of older workers*

Older workers may be reluctant to engage in training because existing training programmes are not well adapted to their needs. As summarised in Box 5.2, a number of guidelines for good practice in terms of training older workers have been suggested by Chappel *et al.* (2003). These are similar to the four basic guidelines put forward by the Committee for Economic Development (1999): *i*) slower pace; *ii*) a work context and relevance with former job or future job; *iii*) right focus without rehashing skills already obtained in former jobs; and *iv*) self-directed learning rather than classroom-type training.

For older workers, it is also important that well-designed modular courses of vocational training are available. This could serve to reduce the potentially negative returns from participating in a lengthy training course and could facilitate upskilling based on existing skills and competences. However, procedures for recognising existing skills and qualifications as well as for crediting participation in shorter, modular courses towards a recognised qualification would also need to be in place. In Australia, for example, enrolments among older people have increased substantially over the past decade in Technical and Further Education (TAFE) institutions, which offer modular vocational courses for adults that can be credited towards a diploma (OECD, 2005c). Whereas older students (aged 50 and

over) accounted for around 13% of all students in TAFEs in Australia in 2003, they accounted for only about 6% of all students in community colleges in the United States in 2001.<sup>94</sup>

#### Box 5.2. Training methods for older workers

Organisation of training materials	The use of clearly written instructions. Organising learning materials to facilitate recall. Ordering of educational materials into small units.
Timing and pace	Varying the amount of time to complete tasks so as to accommodate individual needs. The use of self-paced training methods such as computer assisted instruction. Longer training sessions and study periods.
Learner involvement	The use of active learning methods that allow people to learn how things work for themselves. Providing opportunities to practice skills as they are taught. Training which older employees were involved in designing.
Relevance to work	Using work-relevant tasks with prompt feedback on performance. Ensuring that training is directly applicable to work. Incorporation of on-the-job coaching. Building new skills on existing knowledge.
Support	Linking successful completion of training programmes to valued rewards and incentives. Provision of clear support for training by management Provision of expert support. Avoidance of competition as a component of training.

*Source:* Chappel *et al.* (2003) based on: Rosen and Jerdee (1989); Cremer (1994); Sullivan and Duplaga (1997); and Greller and Simpson (1999).

Given the growing importance of community colleges, it would be of interest to investigate whether there have been any innovative ways of delivering training courses that are of particular benefit to older persons. The importance of basic literacy programmes in improving employment outcomes for both older and younger workers needs to be more clearly documented and

94. The data for Australia are from NCVET (2004, Table 1, p. 13) and refer to all (non-school) institutions of vocational education, but these are largely comprised of TAFEs. For the United States, the data are from NCES (2004, Table 178, p. 226) and refer to all two-year colleges.

evaluated. The U.S. Department of Labor could also play a role in disseminating best practice with respect to what works for older job seekers in terms of training services received under TAA and WIA programmes.

Older workers in poverty may need more specific approaches. “Older workers who are also at or near the poverty level have the additional baggage of damaged self-confidence from many years of not achieving the financial success. These dual barriers of age and low income cannot be ignored when planning training for low-income, older workers (Gross, 1998)”. Coping carefully with the fear of failure and building confidence in learning new skills and in adjusting to new jobs will be necessary. Subsidised work experiences through SCSEP programs can serve well in this regard. Again, the U.S. Department of Labor has a role to play in disseminating best practice in this area.

### *Improve evidence-base for assessing what works in training*

The United States has historically been one of the leading OECD countries for developing rigorous systematic programmes of policy evaluation. However, in certain areas, the United States lacks adequate statistics, which are needed to inform policy and to evaluate policy outcomes. For example, good and up-to-date data appear to be lacking on who is being trained, in which areas and by which providers. The most recent national survey of employers was conducted by the U.S. Bureau of Labor Statistics in 1995. More recent and more regular data on training participation is provided by the NHES Adult Education Survey – a household survey – but it lacks information about important individual characteristics such as job tenure, earnings and worker status (self-employed, wage and salary worker, etc.). It also lacks information on the establishment characteristics of where each worker is employed, *e.g.* establishment size, type of work organisation, etc. It is also not a longitudinal survey and so cannot provide much information on the returns to training. Finally, for community colleges, there is very little recent data available on the demographic profile of enrollees, the types of courses they are taking and subsequent labour market outcomes.

### **B. *Helping older job seekers to find jobs***

Helping older job seekers to find jobs is an essential component of any strategy to encourage older workers to continue working longer. As suggested in Chapter 2, if older workers who lose their job find it difficult to find a new job or face a large drop in earnings when they do so, the next best alternative

may be retirement. Another challenge in view of growing cohorts of older workers will be to facilitate greater job mobility among incumbent older workers who are unwilling or unable to remain in their current job but who would continue to work and delay retirement if they could shift to another job.

*Improve access to WIA programmes and the quality of services received*

It is not clear how successfully the federally-funded employment programmes in the United States are meeting the challenge of helping growing cohorts of older jobseekers to find jobs. The available data presented above suggests that there is scope to improve both access to employment services for older jobseekers and the quality of those services. Given that older workers are generally under-represented in active labour market programmes there may need to be some refocusing of WIA programmes away from youth.

The impact of the current performance-rating system on the resources devoted to older jobseekers should also be assessed. Possibly, performance targets could be adjusted to take account of the client profile of each Workforce Invest Board. Some additional incentives could be built in such that achieving positive employment outcomes for selected groups of disadvantaged jobseekers would be given a higher weight in overall performance outcomes. These target groups could, for example, include older jobseekers who have exhausted their Unemployment Insurance benefits or who are at greatest risk of exhausting these benefits.

More generally, there is an urgent need for a careful evaluation of the impact of WIA programmes on employment outcomes for older job seekers, especially now that under WIA there are no longer any earmarked federal funds for older workers. This evaluation should identify the extent to which older jobseekers are getting effective help as well as identify what works and what does not in terms of the employment services they are receiving.

*Further guidance concerning best practice is required*

The Department of Labor has already made efforts to improve services for older persons within the One-Stop delivery system. It introduced “A Guide to Serving Mature Workers in One-Stop Career Centers”, which gives advice to One-Stop managers and staff on effectively meeting the unique requirements and preferences of older workers. This guidebook suggests that there should be well-trained older worker specialists in each One-Stop Center. In this regard, the “One-Stop Training Curriculum for Older Worker Specialists”, a specialised

training programme for dealing with older job seekers, has been developed and used by some One-Stop locations. The coverage of this training programme could be extended to all One-Stop Career Centers.

*Ensure SCSEP continues to serve effectively the most disadvantaged groups*

In terms of other employment programmes available to older workers, SCSEP plays a useful role in targeting employment help at older and elderly people with low incomes. It also plays a useful role in supporting community services. However, SCSEP operators face a number of potentially conflicting objectives, and there is a risk that some of the targets that have been set in terms of employment outcomes may lead to “creaming”, with the most disadvantaged groups losing out. Again, adjusting targets for the profile of participants that are served by each SCSEP operator, as well as for local conditions, could diminish this risk.

Another important issue concerns the adequacy of the services. The number of older poor is projected to rise sharply. According to Kramer and Nightingale (2001), by 2008 there will be 6.7 million persons aged 55 or over below poverty, a 22% increase from 5.5 million in 2000. Thus, it may be necessary to expand SCSEP funds in line with the increase in the number of older poor.

*Coherency between programmes*

In contrast to the WIA programmes where there is no specifically targeted measure for older job seekers, a programme to assist older workers was introduced under the TAA programme in 2003 (see Box 5.3). This provides an employment subsidy to older workers who have experienced a loss in earnings following job loss. At the time this report was being prepared it was not possible to determine how important this programme has become or how effective it has been.

However, it does raise the issue of why such a specific programme is confined to older workers who are displaced from jobs for trade-related reasons (*i.e.* and hence eligible for TAA assistance) and is not available to other older workers who have been displaced from their jobs for other reasons and who may also face considerable difficulties in finding a new job and large earnings losses. Thus, if the net impact of this programme proves to be positive and sufficiently substantial, there may be a case for extending this measure to the Adult and Dislocated Worker WIA programmes, although some targeting



would be necessary to limit the amount of deadweight loss. For example, it could be offered to older workers who have exhausted their Unemployment Insurance benefits or who are at significant risk of exhausting these benefits. An alternative approach would be to follow the UK example where an employment subsidy is available in the form of an add-on to the Working Tax Credit (the UK's equivalent of the Earned Income Tax Credit).<sup>95</sup> This could be simpler to administer.

**Box 5.3. Alternative Trade Adjustment Assistance Program for older workers**

Since August 2003, workers eligible for Trade Adjustment Assistance (TAA) may choose the Alternative TAA Program instead. Under this program, workers receive a payment (*i.e.* an employment subsidy) of 50% of the difference between their new salary and their old salary up to a maximum of USD 10 000 for two years.

In addition to the eligibility conditions for TAA, the following criteria apply:

- A worker must be at least 50 years of age;
- The worker must obtain different, full-time re-employment within 26 weeks of separation from adversely affected employment;
- Re-employment wages on an average annual basis must be less than wages earned in the adversely affected employment; and
- The worker may not earn more than USD 50 000 per year in new employment.

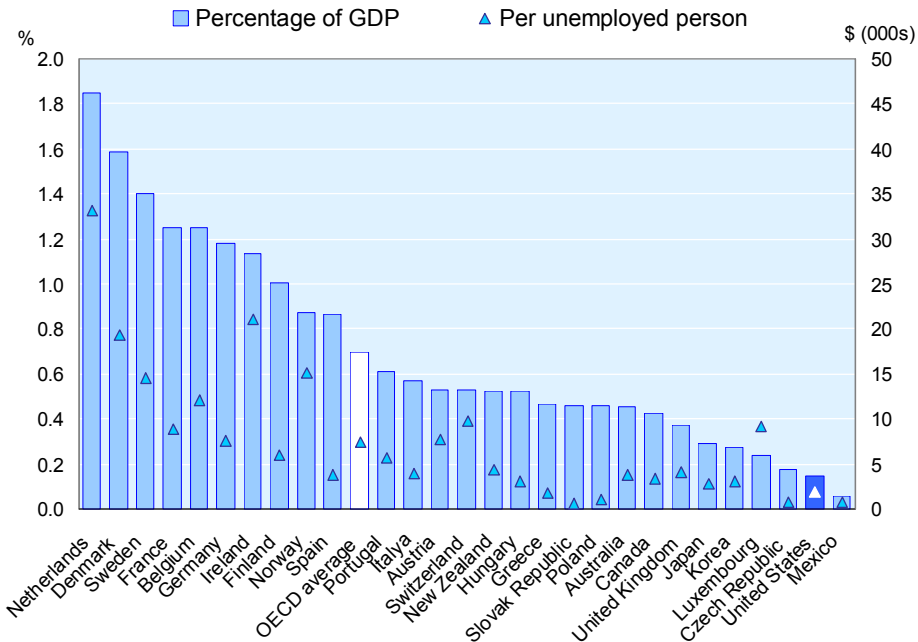
There is also the issue of how to make the best use of both WIA and SCSEP to help older job seekers. In 1998, WIA already included SCSEP as a “mandatory” partner in the One-Stop delivery system and many SCSEP local projects provide for the stationing of staff or programme participants at the One-Stop location. The OAA Amendments in 2000 aimed to achieve further integration between WIA and SCSEP. SCSEP participants are eligible for WIA-funded intensive and training services without going through core services. Clearly, further integration of SCSEP within the One-Stop delivery system and with WIA programmes should be pursued.

95. As described in more detail in OECD (2004c), this scheme is part of the UK's New Deal 50 plus programme for helping older job seekers find jobs.

*Adequacy of overall spending on employment programmes should be reviewed*

More generally, it should be noted that currently expenditure on active labour market programmes in the United States is quite modest by OECD standards – in FY2002, it amounted to 0.15% of GDP or just over USD 2 200 per unemployed person compared with the OECD average of 0.7% of GDP and almost USD 7 200 per unemployed person (Figure 5.7). Consequently, the total number of participants of all ages in employment programmes at any point in time is relatively small in relation to the total number of job seekers. Thus, in the absence of any substantial injection of expenditures on public employment programmes in the United States, only a very modest impact can be expected from any reforms to improve the access of older job seekers to – and the services they obtain from – existing programmes.

Figure 5.7. **Public expenditure on active labour market programmes in OECD countries, 2001/02<sup>a</sup>**



a) In general, data refer to 2001 or 2002, except for Denmark (2000), Greece (1998), Luxembourg (1997), Poland (1996) and Portugal (2000). Public expenditure per unemployed person is expressed in USD using PPPs for GDP.

Source: OECD estimates derived from the OECD Active Labour Market Programmes database.

### C. *Improving working conditions*

A number of measures are required to facilitate phased retirement and to ensure that older workers have greater opportunities to reduce long hours of work or to switch to alternative forms of employment such as self-employment. Better work accommodation to cope with the needs of older workers also needs to be promoted. Finally, it is important to improve the evidence-base for carrying out further research on the impact of working conditions, as well as lifestyle factors more generally, on the health of workers at all ages and on their subsequent retirement decisions as they grow older.

#### *Improve opportunities for phased retirement*

Given the evidence that various tax rules governing employer pension plans create substantial obstacles to phased retirement, these rules should be revised with the aim of improving opportunities for phased retirement. In November 2004, the Internal Revenue Service released a proposal for changing the Income Tax Regulations under section 401(a) of the Internal Revenue Code (IRS, 2004). These changes would permit distributions to be made from a pension plan under a phased retirement programme and would set forth the requirements for establishing a *bona fide* phased retirement programme. Under a *bona fide* phased retirement programme, a plan would be permitted to pay a *pro rata* portion of the employee's benefits before attainment of normal retirement age. Payment of phased retirement benefits would be permitted only if the programme meets certain conditions, including that employee participation is voluntary and that a reduction of 20% or more occurs in hours worked during the phased retirement period.

Once adopted, the changes proposed by the IRS would remove some but not all barriers to phased retirement under defined-benefit pension plans. Other countries are also grappling with similar issues. For example, the United Kingdom government announced in 2004 that as part of its pension reforms it would seek to change the regulations governing occupational pensions (*i.e.* employer-provided pensions) which prevent workers from accessing their pension benefits while continuing to work (part-time) for the same employer (OECD, 2004c).

While the IRS proposals are a step in the right direction, a more wide-ranging review is required that goes beyond changes to the tax code. It should address all of the major obstacles to phased retirement that are embedded within the tax code, ERISA and ADEA, as well as the potential loss of benefits more

generally for older workers who switch to part-time work. At the same time, a number of undesirable outcomes should be avoided, including:

- Excessive consumption of pension assets prior to actual retirement as this could increase the risk of poverty once a person is fully retired.
- Incentives for reductions in effective labour supply at relatively young ages (for example, the law could be written so that defined-benefit pensions are more conducive to phased retirement after the social security early retirement age).
- Raising the cost of hiring older workers.

#### *Monitor effect of changes in Fair Labor Standards Act on hours of work*

Given that American workers already work much longer hours on average than in most other major OECD countries, it is important that government policies do not impede reductions in long hours of work for older workers. In this context, the Department of Labor issued on April 23, 2004, a number of regulatory changes to the Fair Labor Standards Act (FLSA) in the definition of workers that are exempt from the Act's overtime rules, which require employers to pay "time-an-a-half" for every hour of overtime. Estimates by the Economic Policy Institute suggest that, if implemented, these changes could lead to at least 6 million employees becoming exempt while only resulting in a much smaller increase in the number becoming non-exempt (Eisenbrey, 2004). This could increase the pressure on some of those older workers who become exempt to increase their hours of work since the effective cost to their employers of working overtime would be lowered. The EPI estimates that, prior to the changes, whereas only 20% of non-exempt employees worked more than 40 hours a week, the corresponding proportion was 44% for exempt employees who were also three times more likely than non-exempt employees to have worked at least 50 hours a week (Eisenbrey, 2003). Therefore, the impact of these regulatory changes on working hours should be closely monitored, especially among older workers for whom long hours of work may be particularly onerous.

#### *Promoting better opportunities for self-employment*

Self-employment can play an important role in terms of promoting a more gradual transition to retirement. It can also provide an alternative form of employment for older people with poor job prospects as wage and salary

workers. Currently, the United States has a number of schemes to support self-employment, although none are targeted specifically at older people. First, in more than ten states, Unemployment Insurance beneficiaries can start their own business rather than searching for wage and salary jobs and receive Self-Employment Assistance (SEA) payments instead of UI benefits. SEA participants are more likely to be older, non-minority and from professional, managerial and technical occupations (Vroman, 1999). Second, the Department of Labor initiated a demonstration project, “Project GATE (Growing America through Entrepreneurship)” in three states. This project provides training and assistance, focusing on immigrants, rural population, and low-income urban population. Third, the Small Business Administration is responsible for a network of Small Business Development Centers (SBDC), which is a nationwide management and technical assistance programme for small business, with more than 20 years of history and almost one thousand service centres.

However, some expansion of public programmes to assist older people to become self-employed should be considered, especially for those who are “pushed” into self-employment. For example, the SEA program is currently a small programme and only available in several states, but could be developed further to make it more accessible not only to professionals and managers, but also to low-educated older unemployed with poor job prospects. The SBDC network could also provide specific training and assistance to help older workers become self-employed.

*Help employers to adapt working conditions to the needs of older workers*

It will become increasingly important that employers are encouraged to adapt working conditions to the needs of older workers. One initiative in this area has been taken by AARP. In 2001, it introduced annual awards for “AARP Best Employers for Workers over 50”. Initially the objective of these awards was awareness raising rather than for disseminating practical information but the AARP has since released a report which seeks to identify good practice among the employers that have won its “Best Employer” awards (AARP, 2004). The Department of Labor also oversees the “National Employ Older Workers Week”, which is held annually to promote the work of SCSEP and the importance of older people’s participation in the labour force. A series of events around the country are organised by local agencies, usually SCSEP grantees, which include giving awards to remarkable older workers who continue to work and to exemplary employers that hire older workers.

However, more could be done. Possibly in collaboration with the National Institute for Occupational Safety and Health, the Department of Labor could seek to promote “best practice” among employers in creating a better working environment for older workers, including greater opportunities for reduced hours of work. One model could be the Department’s own Job Accommodation Network (JAN), which provides information on job accommodations, self-employment and small business opportunities to facilitate the employment and retention of workers with disabilities (see Box 5.4). If a similar initiative was developed for older workers, a particular focus, as well as for JAN, could be to promote employment of older disabled workers.

**Box 5.4 Job Accommodation Network for promoting employment of workers with disabilities**

The Job Accommodation Network (JAN) is a free service of the Office of Disability Employment Policy, U.S. Department of Labor, which provides information on job accommodations, self-employment and small business opportunities to facilitate the employment and retention of workers with disabilities.

JAN’s services can be consulted by telephone and through the internet, and are open to employers, employment providers, people with disabilities, their family members and other interested parties. More specifically, JAN provides the following services:

- Individualised worksite accommodations solutions;
- Technical assistance regarding the ADA and other disability related legislation; and
- Providing callers with information about self-employment options.

Source: JAN website (<http://janweb.icdi.wvu.edu>).

Employer groups themselves should be encouraged to set up dedicated websites with information on best practice for accommodating age diversity in the workplace and with tools for employers to rank their own performance in terms of “age-friendly” employment practices. Especially, for small and medium-sized enterprises, this kind of practical information could be of great value. Small firms often lack knowledge and resources for meeting their recruitment needs and can be a difficult target group to reach in terms of changing their attitudes towards older workers. The website set up by Austria’s peak employer body, the Austrian Employers Federation, with this type of information could serve as a possible model.

*Improve the evidence-base on health, well-being and safety at work*

Finally, it is important to improve the evidence-base on health, well-being and safety at work. The impact of different types of work arrangements and long hours of work, in particular, on the health of older workers and their retirement decisions should be further investigated. There is the longitudinal Health and Retirement Survey which contains some information on working conditions (as well as on a host of other subjects covering retirement decisions and health status), but it only covers older Americans aged over 50. This survey could be usefully complimented by a regular larger (cross-sectional) national survey of the working conditions and health status of workers of all ages along the lines of either the former Quality of Employment Surveys or the European Survey on Working Conditions. A similar recommendation was also made in a report on the health and safety needs of older workers by the National Research Council (2004). The report concluded that not enough was known about the risk factors affecting the health and safety of older workers or about the effectiveness of measures to reduce these risk factors and therefore urged that more research be carried out. The role of preventative medicine in inducing changes in lifestyle that may improve health of older workers is another area that warrants further research.

## *Chapter 6*

### **ENSURING POLICIES ARE COMPREHENSIVE AND COHERENT**

As discussed in the previous chapters, action is required on a number of fronts to encourage greater labour force participation of older Americans. Therefore, the purpose of this chapter is to underline the need for a comprehensive and coherent set of employment policies to cope with population ageing. The chapter begins with a call for greater policy co-ordination. The importance of overall economic conditions is emphasised in Section 2. A final section summarises the key directions for policy to improve labour market outcomes for older Americans.

#### **1. Policy coordination and coherency**

The reasons why workers may decide to retire at a relatively early age are complex and, as discussed in the previous chapters, involve a range of issues including: income-support arrangements; employer attitudes and practices; access to employment services and training; health status; and working conditions. This means that policy action is required on many fronts and that a co-ordinated approach is necessary if these actions are to be mutually reinforcing. For example, any increase in the minimum age at which social security benefits can be first accessed should be co-ordinated with a strengthening of measures for workers who face the greatest difficulty in remaining in work. Otherwise, the potentially positive impact of this change on labour force participation of older workers may be offset by an increase in the proportion of older workers moving onto disability benefits. Difficult choices will also have to be made between competing objectives. For example, measures to promote phased retirement could encourage some workers to postpone retirement but, if they also encourage other full-time workers to switch to part-time work at an earlier age than previously, the end result could possibly be a reduction in effective labour supply in terms of hours worked.

Another aspect that needs to be considered is that older workers are a very diverse group, and the disadvantages that some of them face are not just



associated with age but with other factors in common with younger workers. Therefore, employment policies that may not be specifically targeted at older workers as such may nevertheless benefit them as well. This would suggest that the net should be cast widely in any assessment of ways to improve employment outcomes for older people. For example, greater possibilities for taking leave for caring responsibilities might not only be beneficial for younger workers with small children but would also be of potential benefit to older workers. This could allow them to temporarily rather than permanently leave their employment to look after elderly and frail relatives. The diversity of situations among older workers also suggests that policies should generally avoid being targeted on age alone but should include other factors that together may account for labour market disadvantage.

It is also important to take a lifecycle perspective when assessing ways to encourage later retirement. For example, improvements both in occupational health and safety for workers of all ages and in access to training for all low-educated workers should be considered as long-term investments that will have a pay-off in helping older workers in the future to stay in work longer. In both these areas there is scope to improve the co-ordination between government agencies in the delivery of services. For example, the responsibility for adult education and training is currently split between the U.S. Department of Education and the U.S. Department of Labor. Between them, they oversee a myriad of education and training programmes, including basic literacy programmes and occupational training programmes. However, while in theory access to these programmes is co-ordinated through the One-Stop delivery system, they often involve different objectives, performance measures and reporting systems. Thus, there is a danger of scarce resources being wasted on unnecessary duplication of administrative reporting procedures and controls and on programmes that may have poor labour market outcomes. Similarly, the responsibility for occupational health and safety is shared between the National Institute for Occupational Safety and Health (NIOSH), under the U.S. Department for Health and Human Services, and the Occupational Safety and Health Administration (OSHA), under the U.S. Department of Labor. Achieving improvements in occupational health and safety for all workers and in promoting better workplace accommodation to suit the needs of an age-diverse workforce will require close co-ordination of these two agencies.

Currently, there is no single federal government agency or body which has the on-going responsibility for either developing a government-wide strategy for coping with population ageing or, more specifically, overseeing policies

designed to strengthen the labour force participation of older people. There is the Administration on Aging (AoA), an agency of the U.S. Department of Health and Human Service, but it is mainly focused on the elderly (*i.e.* people aged 65 and over) and issues of health and long-term care. There is also the White House Conference on Aging, which looks at broader issues related to population ageing. However, this conference occurs only every 10 years or so and, in the past, it has not been associated with any on-going follow-up activity to ensure effective implementation of its recommendations or to monitor the impact of any reforms.<sup>96</sup>

In a number of OECD countries (*e.g.* Australia, Korea and New Zealand), the issue of an ageing workforce has been encompassed within a broader national strategy to cope with the challenges raised by population ageing. In other countries (*e.g.* Finland, Japan and the United Kingdom), a strategy or framework for policy action has been set out more specifically to cope with an ageing workforce or to encourage later retirement. Whether a broader strategy to cope with population ageing should be developed for the United States goes beyond the scope of this report, but, at a minimum, it may be useful to set up an inter-governmental task force to formulate, co-ordinate and monitor policy with the objective of encouraging greater labour force participation among older people.

The General Accounting Office has also recommended that an inter-agency task force should be convened “to develop legislative and regulatory proposals addressing the issues raised by the aging of the labor force” (GAO, 2001, p. 34). The U.S. Department of Labor has set up an internal older worker task force; perhaps this task force could form the nucleus of a broader inter-governmental task force and contribute to defining its terms of reference. It would be important for any new task force to establish clear objectives as well as an evaluation strategy to monitor progress in achieving these objectives. For example, as part of the European Union’s Employment Strategy, a target has been set for raising the average EU employment rate for older people aged 55 to 64 to 50% by 2010 – a similar but more ambitious target could be set for the United States.<sup>97</sup>

---

96. The conference is being held in 2005 and was previously held in 1995, when it “made a commitment to a future national policy focused on aging, not just the aged” ([www.whcoa.gov/about/history.asp](http://www.whcoa.gov/about/history.asp)).

97. A few individual EU countries are already above this target and, in the United States, the employment rate for this age group was 60% in 2004.

## 2. Getting the economic fundamentals right

One final element that is crucial to improving employment opportunities for older workers is the overall state of the economy. A stable macroeconomic framework, including sound public finances, is an essential prerequisite for encouraging growth, sustaining overall improvements in labour market performance and providing an environment where the full benefits of a broad range of coherent policy actions can be achieved. In this context, the performance of the United States economy over the past two decades has been impressive; productivity and output has been strong and the economy has been resilient to a number of adverse shocks. Nevertheless, as pointed out in the OECD's 2004 Economic Survey of the United States (OECD, 2004g), there are a number of challenges that need to be addressed to sustain this performance.

First, the factors behind the current and projected federal budget deficits need to be tackled and these deficits will need to be whittled back in order to cope with the impending demographic pressures on government finances and to avoid a slowdown in the potential growth of the economy. This will also assist the unwinding of the large current account deficit. Second, there is a need for further corporate-governance and accounting reforms. Third, less reliance on import restrictions and maintaining a leadership role in trade liberalisation would favour structural adjustment at home. Finally, it is suggested that there are still a number of areas where microeconomic reform could help improve economic performance.

## 3. Directions for policy

The United States is in several respects better placed than most other OECD countries to cope with population ageing, but it would be in an even stronger position if it could encourage greater labour force participation among its older population and reverse the long-term trend to earlier retirement. This will require action on both the supply-side and demand-side.

On the supply-side, incentives to encourage later retirement could be improved by changes to the social security system, such as increasing the minimum retirement age from 62 to 64 years and speeding up the transition from 65 to 67 in the full retirement age, and by reducing tax advantages in private pensions for taking early retirement. This could increase the strain on the Disability Insurance system as an alternative pathway to early retirement and so, at the same time, greater activation measures should be promoted for

people receiving disability benefits and more opportunities for rehabilitation should be provided.

But these supply-side measures will need to be supported by changes in employer attitudes and practices that will foster greater retention and hiring of older workers. This will require a strengthening of measures to combat age discrimination, accompanied by guidelines and information campaigns to promote best practice with respect to age diversity. Better information on current and prospective skill shortages could also help to establish the business case for why employers and their workplaces should be more “age-friendly”. Eliminating the “Medicare-as-secondary-payer” rule could also help lower the effective cost of employing older workers.

Last, but not least, older workers need to be given better access to better jobs. From a lifecycle perspective, this will require interventions targeted at both younger and older workers to strengthen training opportunities, especially for low-skilled workers, and to improve occupational health and safety. It will also require changes in working conditions that take account of the specific needs of older workers, including a reduction in overly long hours of work. A number of impediments to phased retirement need to be addressed. It is equally important to improve access to employment programs and career advice for disadvantaged older job seekers and to facilitate job-to-job transitions more generally for older workers.

The range and cross-cutting nature of these measures suggests that they are likely to be more effective if taken as part of a government-wide strategy to tackle the various financial disincentives and barriers to employment facing older people. Getting the economic fundamentals right will also play a key role in improving employment opportunities for older workers.

Finally, it is important to recognise that older workers form a very diverse group. Thus, it is unlikely that government policies on their own will be able to tackle fully the range of barriers to finding and keeping a job that each older person faces. What is also required are the creative solutions that employers, workers, their representatives and other non-governmental organisations representing older people can propose for improving opportunities for longer working lives. Therefore, close co-operation should be encouraged between these groups and government.



## BIBLIOGRAPHY

- AARP (2000), “American Business and Older Employees”, AARP, Washington, D.C.
- AARP (2002), “Staying Ahead of the Curve: The AARP Work and Career Study”, Washington, D.C.
- AARP (2004), “Staying Ahead of the Curve 2004: Employer Best Practices for Mature Workers”, AARP, Washington, D.C.
- Adams, S. (2004), “Age Discrimination Legislation and the Employment of Older Workers”, *Labour Economics*, Vol. 11, No. 2, pp. 219–241.
- Adema, W. (2001), “Net Social Expenditure, 2<sup>nd</sup> Edition”, Labour Market and Social Policy Occasional Paper, No. 52, OECD, Paris.
- Altonji, J.G. and N. Williams (1998), “The Effects of Labor Market Experience, Job Seniority, and Mobility on Wage Growth”, in S.W. Polachek (ed.), *Research in Labor Economics*, JAI Press, Stamford and London.
- Ashenfelter, O. and D. Card (2002), “Did the Elimination of Mandatory Retirement Affect Faculty Retirement?”, *The American Economic Review*, Vol. 92, No. 4, pp. 957-980.
- Barnow, B.S. and C.T. King (2003), “The Workforce Investment Act in Eight States: Overview of Findings from a Field Network Study”, ETA Occasional Paper 2003-03, U.S. Department of Labor, Employment and Training Administration, Washington, D.C., July.
- Barnow, B.S. and J.A. Smith (2004), “Performance Management of U.S. Job Training Programs: Lessons from the Job Training Partnership Act”, *Public Finance and Management*, Vol. 4, No. 3, pp. 247-287.

- Bartel, A.P. and N. Sicherman (1993), “Technological Change and Retirement Decisions of Older Workers”, *Journal of Labour Economics*, Vol. 11, No. 1, pp. 162-183.
- Barth, M.C., W. McNaught and P. Rizzi (1993), “Corporations and the Aging Workforce”, in P.H. Mirvis (ed.), *Building the Competitive Workforce: Investing in Human Capital for Corporate Success*, John Wiley & Sons, New York, Chichester, Brisbane, Toronto and Singapore.
- Barth, M.C., W. McNaught and P. Rizzi (1996), “The Costs and Benefits of Older Workers”, in William H. Crown (ed.), *Handbook on Employment and the Elderly*, Greenwood Press, Westport and London.
- Bendick, M., L. Brown and K. Wall (1999), “No Foot in the Door: An Experimental Study of Employment Discrimination Against Older Workers”, *Journal of Aging and Social Policy*, Vol. 10, No. 4, pp. 5-23.
- Bendick, M., C. Jackson and J.H. Romero (1996), “Employment Discrimination Against Older Workers: An Experimental Study of Hiring Practices”, *Journal of Aging and Social Policy*, Vol. 8, No. 4, pp. 25-46.
- Burtless, G. and J.F. Quinn (2000), “Retirement Trends and Policies to Encourage Work among Older Americans”, *Brookings Economic Papers*, Brookings Institution, Washington, D.C., January.
- CBO (Congressional Budget Office) (1999), *Raising the Earliest Eligibility Age for Social Security Benefits*, Washington, D.C., January.
- CBO (2003a), “Measuring Changes to Social Security Benefits”, *Long-Range Fiscal Policy Brief*, No. 11, Washington, D.C., December.
- CBO (2003b), *Baby Boomers’ Retirement Prospects: An Overview*, Washington, D.C., November.
- Chan, S. and A.H. Stevens (2001), “Job Loss and Employment Patterns of Older Workers”, *Journal of Labour Economics*, Vol. 19, No. 2, pp. 484-521.
- Chappel, C., G. Hawke, C. Rhodes and N. Solomon (2003), “Major Research Program for Older Workers: Stage 1 – The Conceptual Framework”, Oval Research, University of Technology, Sydney.

- Coile, C. and J. Gruber (2000a), “Social Security Incentives for Retirement”, NBER Working Paper No. 7651, National Bureau of Economic Research, Cambridge, MA, April.
- Coile, C. and J. Gruber (2000b), “Social Security and Retirement”, NBER Working Paper No. 7830, National Bureau of Economic Research, Cambridge, MA, August.
- Collison, J. (2003), *SHRM/NOWCC/CED Older Workers Survey*, SHRM Research, June.
- Committee for Economic Development (1999), *New Opportunities for Older Workers*, Committee for Economic Development, New York.
- Committee on Ways and Means, U.S. House of Representatives (2000), *The 2000 Green Book Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means*, Washington, D.C.
- Creighton, S. and L. Hudson (2002), “Participation Trends and Patterns in Adult Education: 1991 to 1999”, NCES 2002-119, U.S. Department of Education, Office of Education Research and Improvement, Washington, D.C.
- Cremer, R. (1994), “Matching Vocational Training Programmes to Age-related Mental Change – A Social Policy Objective”, *Work and Aging*, Taylor and Francis, London, pp. 273-382.
- Daly, M. and R. Burkhauser (2002), “The Supplemental Security Income Program”, Federal Reserve Bank of San Francisco Working Paper 2002-20, Federal Reserve Bank of San Francisco, San Francisco, July.
- Diamond, P. and J. Gruber (1997), “Social Security and Retirement in the U.S.”, NBER Working Paper No. 6097, National Bureau of Economic Research, Cambridge, MA, July.
- Diamond, P. and P. Orszag (2002), “An Assessment of the Proposals of the President’s Commission to Strengthen Social Security”, NBER Working Paper No. 9097, National Bureau of Economic Research, Cambridge, MA, August.



- Eisenbrey, R. (2003), “Overtime Protection in Jeopardy”, *EPI Journal*, Vol. 13, No. 2, Economic Policy Institute, Washington, D.C., Fall.
- Eisenbrey, R. (2004), “Longer Hours, Less Pay”, *EPI Briefing Paper*, Economic Policy Institute, Washington, D.C., July.
- Even, W.E and D.A. Macpherson (2004), “Do Pensions Impede Phased Retirement?”, IZA Discussion Paper No. 1353, Institute for the Study of Labor (IZA), Bonn, October.
- Farber, H.S. (2003), “Job Loss in the United States, 1981-2001”, Working Paper No. 471, Industrial Relations Section, Princeton University, Princeton, January.
- Friedberg, L. (2003), “The Impact of Technological Change on Older Workers: Evidence from Data on Computer Use”, *Industrial and Labour Relations Review*, Vol. 56, No. 3, pp. 511-529.
- GAO (United States General Accounting Office) (1997), *Retirement Income: Implications of Demographic Trends for Social Security and Pension Reform*, GAO/HEHS-97-81, Washington, D.C., July.
- GAO (2001), *Older Workers: Demographic Trends Pose Challenges for Employers and Workers*, GAO-02-85, Washington, D.C., November.
- GAO (2003), *Older Workers: Employment Assistance Focuses on Subsidized Jobs and Job Search, but Revised Performance Measures Could Improve Access to Other Services*, GAO-03-350, Washington, D.C., January.
- GAO (2004), *Workforce Investment Act: States and Local Areas Have Developed Strategies to Assess Performance, but Labor Could Do More to Help*, GAO-04-657, Washington, D.C., June.
- Glied, S. and M. Stabile (1997), “Avoiding Health Insurance Crowd-Out: Evidence from the Medicare as Secondary Payer Legislation”, NBER Working Paper No. 6277, National Bureau of Economic Research, Cambridge, MA, November.

- Greller, M.M. and P. Simpson (1999), “In Search of a Late Career: A Review of Contemporary Social Science Research Applicable to the Understanding of Late Career”, *Human Resource Management Review*, Vol. 9, No. 3, pp. 309-347.
- Gross, D. (1998), “Different Needs, Different Strategies: A Manual for Training Low-Income, Older Workers”, prepared for the U. S. Department of Labor, Employment and Training Administration, the National Senior Citizens Education and Research Center, Silver Spring, MD.
- Gustman, A.L. and T.L. Steinmeier (2002), “Retirement and the Stock Market Bubble”, NBER Working Paper No. 9404, National Bureau of Economic Research, Cambridge, MA, December.
- Gustman, A.L. and T.L. Steinmeier (2003), “Retirement Effects of Proposals by the President’s Commission to Strengthen Social Security”, NBER Working Paper No. 10030, National Bureau of Economic Research, Cambridge, MA, October.
- Gustman, A.L. and T.L. Steinmeier (2004), “Personal Accounts and Family Retirement”, NBER Working Paper No. 10305, National Bureau of Economic Research, Cambridge, MA, February.
- Gustman, A.L. and T.L. Steinmeier (2005), “The Social Security Early Entitlement Age in a Structural Model of Retirement and Wealth”, *Journal of Public Economics*, Vol. 89, Nos. 2-3, pp. 441-463.
- Heinrich, C.J. (2004), “Improving Public Sector Performance Management: One Step Forward, Two Steps Back?”, *Public Finance and Management*, Vol. 4, No. 3, pp. 317-351.
- Hellerstein, J.K., D. Neumark (2004), “Production Function and Wage Equation Estimation with Heterogeneous Labor: Evidence from a New Matched Employer-Employee Data Set”, NBER Working Paper No. 10325, National Bureau of Economic Research, Cambridge, MA, February.
- Hellerstein, J.K., D. Neumark and K.R. Troske (1999), “Wages, Productivity, and Worker Characteristics: Evidence from Plant-Level Production Functions and Wage Equations”, *Journal of Labour Economics*, Vol. 17, No. 3, pp. 409-446.

- Hirsch, B.T., D.A. MacPherson and M.A. Hardy (2000), "Occupational Age Structure and Access for Older Workers", *Industrial and Labour Relations Review*, Vol. 53, No. 3, pp. 401-418.
- Hotz, V.J. and J.K. Scholz (2003), "The Earned Income Tax Credit", in R. Moffitt (ed.), *Means-Tested Transfer Programs in the United States*, University of Chicago Press, Chicago.
- Hungerford, T., M. Rasette, H. Iams and M. Koenig (2002), "Trends in the Economic Status of the Elderly, 1976-2000", *Social Security Bulletin*, Vol. 64, No. 3, pp. 12-22.
- Hurd, M.D. (1996), "The Effect of Labour Market Rigidities on the Labour Force Behavior of Older Workers", in D.A. Wise (ed.), *Advances in the Economics of Aging*, The University of Chicago Press, Chicago and London.
- Hutchens, R.M. (1988), "Do Job Opportunities Decline With Age?", *Industrial and Labour Relations Review*, Vol. 42, No. 1, pp. 89-99.
- Hutchens, R.M. (1999), "Social Security Benefits and Employer Behavior: Evaluating Social Security Early Retirement Benefits as a Form of Unemployment Insurance", *International Economic Review*, Vol. 40, No. 3, August, pp. 659-678.
- Hutchens, R.M. (2003), *The Cornell Study of Employer Phased Retirement Policies: A Report on Key Findings*, School of Industrial and Labour Relations, Cornell University, Ithaca, N.Y., October.
- Hutchens, R.M. and K. Grace-Martin (2004), "Who Among White Collar Workers Has an Opportunity for Phased Retirement?", IZA Discussion Paper No. 1155, Institute for the Study of Labor (IZA), Bonn, May.
- Hutchens, R.M. and K.L. Papps (2004), "Developments in Phased Retirement", Pension Research Council Working Paper No. 2004-14, Pension Research Council, The Wharton School, University of Pennsylvania, Philadelphia.
- IRS (Internal Revenue Service) (2004), "Notice of Proposed Rulemaking Distributions from a Pension Plan under a Phased Retirement Program", REG-114726-04, *Internal Revenue Bulletin*, No. 47, November.

- Jablonski, M., K. Kunze and L. Rosenblum (1990), “Productivity, Age, and Labour Composition Changes in the U.S. Work Force”, in I. Bluestone, R. Montgomery and J.D. Owen (eds.), *The Aging of the American Work Force*, Wayne State University Press, Detroit, Michigan.
- Johnson, R.W. (2004), “Trends in Job Demands among Older Workers, 1992-2002”, *Monthly Labor Review*, Vol. 127, No. 7, July, pp. 48-55.
- Johnson, R.W. and D. Neumark (1996), “Wage Declines among Older Men”, *Review of Economics and Statistics*, Vol. 78, No. 4, pp. 740-747.
- Karoly, L.A. and J. Zissimopoulos (2004a), “Self-Employment and the 50+ Population”, Public Policy Institute, ARRP, Washington, D.C., March.
- Karoly, L.A. and J. Zissimopoulos (2004b), “Self-Employment among Older U.S. Workers”, *Monthly Labor Review*, Vol. 127, No. 7, July, pp. 24-47.
- Kotlikoff, L.J. and J. Gokhale (1992), “Estimating a Firm's Age-Productivity Profile Using the Present Value of Workers' Earnings”, *Quarterly Journal of Economics*, Vol. 107, No. 4, pp. 1215-1242.
- Kramer, F.D. and D.S. Nightingale (2001), “Ageing Baby Boomers in a New Workforce Development System”, prepared for the U.S. Department of Labor, Employment and Training Administration, Urban Institute, Washington, D.C.
- Kruse, D. and L. Schur (2003), “Employment of People with Disabilities following the ADA”, *Industrial Relations*, Vol. 42, No. 1, January, pp. 31-66.
- Lazear, E.P. (1979), “Why Is There Mandatory Retirement?”, *Journal of Political Economy*, Vol. 87, No. 6, pp. 1261-1284.
- Lazear, E.P. (1981), “Agency, Earnings Profiles, Productivity, and Hours Restrictions”, *American Economic Review*, Vol. 71, No. 4, pp. 606-620.
- Lazear, E.P. (1986), “Retirement From the Labour Force”, in O. Ashenfelter and R. Layard (eds.), *Handbook of Labour Economics*, North Holland, Amsterdam, pp. 305-355.

- Levin, S.G., and P.E. Stephan (1991), “Research Productivity over the Life Cycle: Evidence from Academic Scientists”, *American Economic Review*, Vol. 81, No. 1, pp. 114-132.
- Lillard, L.A., and H.W. Tan (1986), *Private Sector Training: Who Gets It and What Are Its Effects?*, Rand, Santa Monica, CA.
- Mincer, J. and Y. Higuchi (1987), “Wage Structures and Labour Turnover in the United States and in Japan”, NBER Working Paper No. 2306, National Bureau of Economic Research, Cambridge, MA, February.
- Munnell, A. (2003), “The Declining Role of Social Security”, *Just the Facts*, No. 6, Center for Retirement Research, Boston College, Boston, February.
- Munnell, A., A. Sundén and E. Lidstone (2002), “How Important are Private Pensions”, *Issues in Brief*, No. 8, Center for Retirement Research, Boston College, Boston, February.
- Munnell, A.H., K.B. Meme, N.A. Jivan, and K.E. Cahill (2004), “Should We Raise Social Security’s Earliest Eligibility Age?”, *Issues in Brief*, No. 18, Center for Retirement Research, Boston College, Boston, June.
- National Research Council (2004), *Health and Safety Needs of Older Workers*, D.H. Wegman and J.P. McGee (eds.), The National Academies Press, Washington, D.C.
- NCES (National Center for Education Statistics) (2004), *Digest of Education Statistics 2003*, NCES 2005–025, Government Printing Office, Washington DC.
- NCHS (National Center for Health Statistics) (2004), *Health, United States, 2004 with Chartbook on Trends in the Health of Americans*, Hyattsville, Maryland.
- NCVER (National Centre for Vocational Education Research) (2004), *Australian Vocational Education and Training Statistics: Students and Courses 2003*, NCVER, Adelaide.

- Needels, K., W. Corson and W. Nicholson (2001), “Is the Unemployment Insurance Claimant Population Changing? Implications for Reemployment Policies”, paper prepared for the Association for Public Policy, Analysis and Management’s 23<sup>rd</sup> Annual Research Conference, Washington, D.C., November.
- Neumark, D. (2001), “Age Discrimination Legislation in the United States.” NBER Working Paper No. 8152, National Bureau of Economic Research, Cambridge, MA, March.
- Neumark, D. and W.A. Stock (1999), “Age Discrimination Laws and Labour Market Efficiency”, *Journal of Political Economy*, Vol. 107, No. 5, pp. 1081-1125.
- OECD (1998), *Employment Outlook*, Paris.
- OECD (1999a), *Employment Outlook*, Paris.
- OECD (1999b), *The Public Employment Service in the United States*, Paris.
- OECD (2000), *Literacy in the Information Age: Final Report of the International Adult Literacy Survey*, Paris.
- OECD (2001), *Economic Outlook*, No. 69, Paris.
- OECD (2002), *Economic Survey of the United States, Policy Brief*, Paris.
- OECD (2003a), *Employment Outlook*, Paris.
- OECD (2003b), *Transforming Disability into Ability: Policies to Promote Work and Income Security for Disabled People*, Paris.
- OECD (2004a), *Learning for Tomorrow's World: First results from PISA 2003*, Paris.
- OECD (2004b), *Ageing and Employment Policies: Japan*, Paris.
- OECD (2004c), *Ageing and Employment Policies: United Kingdom*, Paris.
- OECD (2004d), *Ageing and Employment Policies: Korea*, Paris.

- OECD (2004e), *Thematic Review on Adult Learning: United States Country Note*, Paris.
- OECD (2004f), *Career Guidance and Public Policy: Bridging the Gap*, Paris.
- OECD (2004g), *Economic Survey of the United States*, Paris.
- OECD (2005a), *Society at a Glance: OECD Social Indicators*, Paris.
- OECD (2005b), *Pensions at a Glance – Public Policies across OECD Countries*, Paris.
- OECD (2005c), *Ageing and Employment Policies: Australia*, Paris.
- OIG (Office of Inspector General, U.S. Department of Labor ) (2003), “Audit of Services Provided and Outcomes Obtained for Participants Enrolled in the WIA Dislocated Workers Program during the PY 2000”, Report No. 06-03-006-03-390, U.S. Department of Labor, Washington, D.C., September.
- O’Leary, C.J. and S.A. Wandner (2000), “Unemployment Compensation and Older Workers”, prepared for the National Academy of Social Insurance Conference, “Health and Income Security for and Aging Workforce”, National Press Club, Washington, D.C., January.
- Paoli, P. and D. Merllié (2001), *Third European Survey on Working Conditions 2000*, European Foundation for the Improvement of Living and Working Conditions, Dublin.
- Penner, R.G., P. Perun and C.E. Steuerle (2002), *Legal and Institutional Impediments to Partial Retirement and Part-time Work by Older Workers*, Urban Institute Research Report, Urban Institute, Washington, D.C.
- Polsky, D. (1999), “Changing Consequences of Job Separation in the United States”, *Industrial and Labour Relations Review*, Vol. 52, No. 4, pp. 565-580.
- Posner, R.A. (1995), *Ageing and Old Age*, University of Chicago Press, Chicago.

- President's Commission to Strengthen Social Security (2001), *Strengthening Social Security and Creating Personal Wealth for All Americans*, Report of the President's Commission, Washington, D.C., December.
- Purcell, P. (2004), "Older Workers: Employment and Retirement Trends", Pension Research Council Working Paper No. 2004-14, Pension Research Council, The Wharton School, University of Pennsylvania, Philadelphia.
- Quinn, J.F. (1998), "New Paths to Retirement", Pension Research Council Working Paper No. 406, Wharton School Pension Research Council, The Wharton School, University of Pennsylvania, Philadelphia.
- Quinn, J.F., R.V. Burkhauser and D.A. Myers (1990), *Passing the Torch: The Influence of Economic Incentives on Work and Retirement*, W. E. Upjohn Institute for Employment Research, Kalamazoo, Michigan.
- Rosen, B. and T.H. Jerdee (1989), "Investing in the Older Worker", *Personnel Administrator*, Vol. 34, No. 4, pp. 70-74.
- Samwick (1998), "New Evidence on Pensions, Social Security, and the Timing of Retirement", *Journal of Public Economics*, Vol. 70, No. 2, November, pp. 207-236.
- Short, K. and T.I. Garner (2002), "Experimental Poverty Measures: Accounting for Medical Expenditures", *Monthly Labor Review*, Vol. 125, No. 8, August, pp. 3-13.
- Sim, J. (1999), "Improving Return-to-Work Strategies in the United States Disability Programs, with Analysis of Program Practices in Germany and Sweden", *Social Security Bulletin*, Vol. 62, No. 3, pp. 41-50.
- Smeeding, T. (2002), "Income Maintenance in Old Age: Current Status and Future Prospects for Rich Countries", Center for Retirement Research Working Paper No. 2002-11, Center for Retirement Research, Boston College, Boston.
- Social Security Advisory Board (2001), *Social Security: Why Action Should Be Taken Soon*, Revised edition, Social Security Advisory Board, Washington, D.C., July.



- Social Security and Medicare Boards of Trustees (2004), “Status of the Social Security and Medicare Programs: A Summary of the 2004 Annual Reports”, [www.ssa.gov/OACT/TRSUM/trsummary.html](http://www.ssa.gov/OACT/TRSUM/trsummary.html).
- Sterns, A., H.L. Sterns and L.A. Hollis (1996), “The Productivity and Functional Limitations of Older Adult Workers”, in W.H. Crown (ed.), *Handbook on Employment and the Elderly*, Greenwood Press, Westport and London.
- Sullivan, S.E. and E.A. Duplage (1997), “Recruiting and Retaining Older Workers for the new Millenium”, *Business Horizons*, November/December, pp. 65-69.
- Toossi, M. (2002), “A Century of Change: The U.S. Labour Force, 1950-2050”, *Monthly Labor Review*, Vol. 125, No. 5, May, pp. 15-28.
- Toossi, M. (2004), “Labour Force Projections to 2012: The Graying of the U.S. Workforce”, *Monthly Labor Review*, Vol. 127, No. 2, February, pp. 37-57.
- U.S. Bureau of Labor Statistics (2004), “Number of Jobs Held, Labor Market Activity, and Earnings Growth among Younger Baby Boomers: Recent Results from a Longitudinal Survey”, BLS News Release, 25 August.
- U.S. Department of Labour (1965), “The Older American Worker”, *Report of the Secretary of Labour to the Congress Under Section 715 of the Civil Rights Act of 1964*, GPO, Washington, D.C.
- U.S. Social Security Administration (2004), *Annual Statistical Report on the Social Security Disability Insurance Program, 2003*, U.S. Social Security Administration, Washington, D.C.
- U.S. Social Security Administration (2005a), *OASDI Monthly Statistics, January 2005*, U.S. Social Security Administration, Washington, D.C.
- U.S. Social Security Administration (2005b), *SSI Monthly Statistics, January 2005*, U.S. Social Security Administration, Washington, D.C.
- U.S. Social Security Administration (2005c), *Annual Statistical Supplement, 2004*, U.S. Social Security Administration, Washington, D.C.

- Vroman, W. (1999), “Self-Employment Assistance (SEA) Program: Report to Congress”, Unemployment Insurance Occasional Paper 99-5, Unemployment Insurance Service, Employment and Training Administration, U.S. Department of Labor, Washington, D.C.
- Von Wachter, T. (2002), “The End of Mandatory Retirement in the US: Effects on Retirement and Implicit Contracts”, Center for Labor Economics Working Paper No. 49, University of California, Berkeley.
- Wentworth, S. G. and D. Pattison (2002), “Income Growth and Future Poverty Rates of the Aged”, *Social Security Bulletin*, Vol. 64, No. 3, pp. 23-37.
- Yamada, A. (2002), “The Evolving Retirement Income Package: Trends in Adequacy and Equality in Nine OECD Countries”, Labour Market and Social Policy Occasional Papers No. 63, OECD, Paris.

OECD PUBLICATIONS, 2, rue André-Pascal, 75775 PARIS CEDEX 16  
PRINTED IN FRANCE  
(81 2005 10 1 P) ISBN 92-64-00959-0 – No. 54027 2005