CALIFORNIA BUDGET PROJECT

policy points

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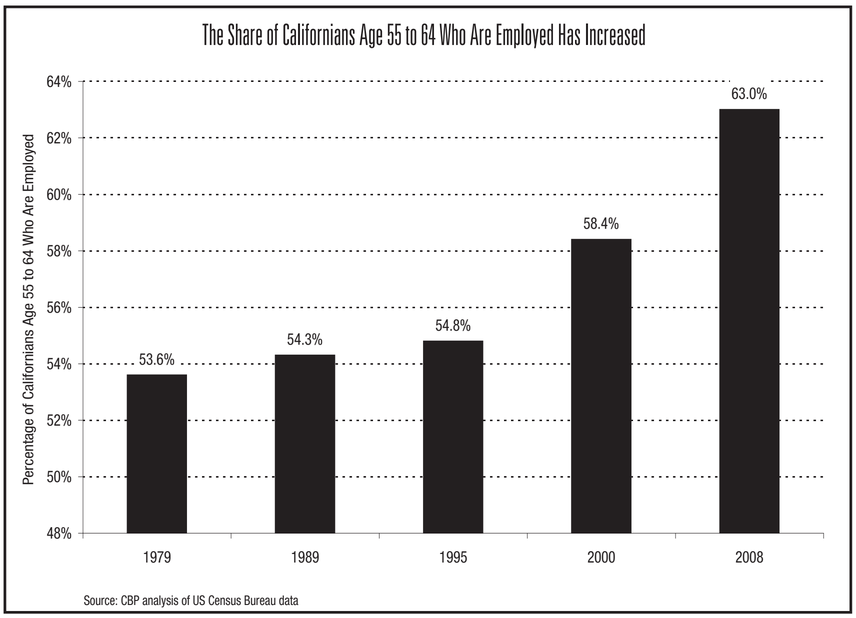
MORE CALIFORNIANS ARE WORKING LATER IN LIFE

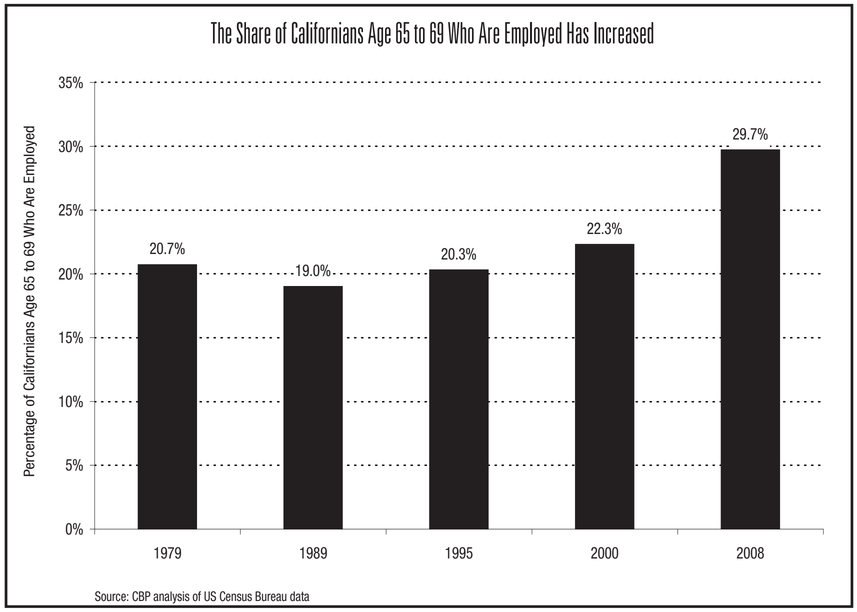
Californians are working later in life than they once did. The employment rate for Californians approaching or at the traditional retirement age increased considerably between 1995 and 2008, after a decade and a half of little change. In fact, the share of Californians age 55 to 69 who were employed continued to rise during the current downturn, reversing the pattern of declining employment rates for older Californians during the downturns of the 1980s and 1990s. Increased employment levels for Californians in their late 50s and 60s reflect a number of factors, including improved health and longer life expectancy, as well as diminished retirement security.

KEY FACTS

- **Californians approaching or at retirement age are increasingly likely to work.**

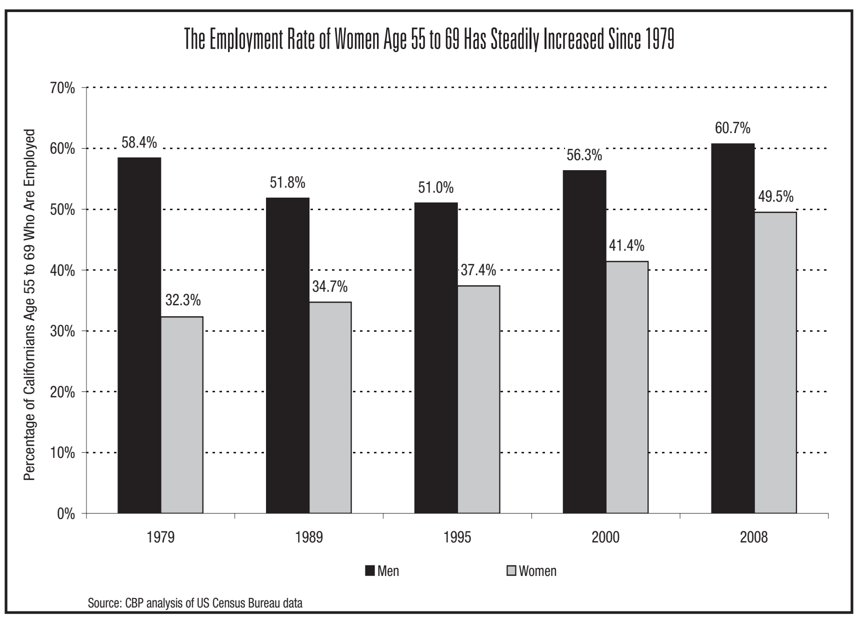
The employment rate of Californians age 55 to 64 increased by 8.2 percentage points between 1995 and 2008, from 54.8 percent to 63.0 percent.[1] In contrast, the share of Californians in this age group who were employed rose by just 1.2 percentage points between 1979 and 1995. Californians in their late 60s also are more likely to work now than in prior decades. The employment rate of Californians age 65 to 69 increased by 9.4 percentage points between 1995 and 2008, from 20.3 percent to 29.7 percent. Most of this increase – 7.4 percentage points – occurred between 2000 and 2008. In contrast, the employment rate for Californians in their late 60s declined by 1.7 percentage points between 1979 and 1989, then increased by a modest 1.3 percentage points between 1989 and 1995.





- **The employment rate of women at or near retirement age has steadily increased since 1979, while that of similarly aged men declined and then rebounded.**

Higher rates of employment for women in their late 50s and 60s helped to offset a drop in the employment rate of similarly aged men between 1979 and 1995. The share of women age 55 to 69 who were employed increased by 5.1 percentage points during this period, while that of similarly aged men declined by 7.4 percentage points. Since the mid-1990s, employment rates for both men and women at or near retirement age have increased. Approximately half of women age 55 to 69 (49.5 percent) were employed in 2008, up by 12.1 percentage points from 1995, while the employment rate of similarly aged men rose by 9.7 percentage points during this period. The rise in the number of employed women in this age group during the 2000s is particularly notable. The employment rate for women age 55 to 69 increased by 8.1 percentage points between 2000 and 2008 – nearly twice the increase in employment for similarly aged men (4.4 percentage points).



- **Employment rates for workers at or near retirement age have increased during the current downturn.**

The share of Californians age 55 to 64 who were employed increased by 0.9 of a percentage point between 2007 and 2008, from 62.1 percent to 63.0 percent, while the employment rate of Californians age 65 to 69 rose by 4.5 percentage points, from 25.2 percent to 29.7 percent.[2] In contrast, the share of Californians age 25 to 54 who were employed declined by 1.2 percentage points between 2007 and 2008. The recent rise in employment levels for older Californians departs from the trend in prior decades; employment rates for Californians in their late 50s and 60s declined during the economic downturns of the 1980s and 1990s.[3] Increased employment for Californians at or near retirement age could reflect a number of factors, including more Californians delaying retirement, a rising number of retirees re-entering the workforce, and more workers close to retirement age who are laid off finding employment elsewhere rather than retiring early.

Employment Rates for Workers Age 55 to 69 Increased, 2007 to 2008

	Percent of Civilian Noninstitutional Population		Percentage Point Change
	2007	2008	2007 to 2008
		Age 25 to 54	
Employed	77.9%	76.7%	-1.2
Not Employed	3.6%	4.9%	1.3
Not in Labor Force	18.5%	18.4%	-0.1
		Age 55 to 64	
Employed	62.1%	63.0%	0.9
Not Employed	2.5%	2.9%	0.4
Not in Labor Force	35.4%	34.1%	-1.3
		Age 65 to 69	
Employed	25.2%	29.7%	4.5
Not Employed	1.2%	1.7%	0.5
Not in Labor Force	73.6%	68.6%	-5.0

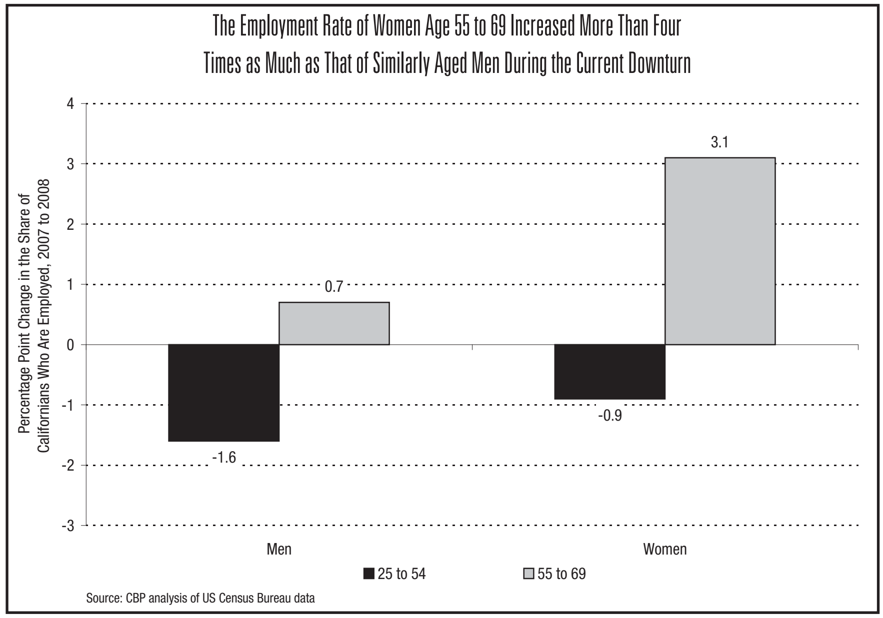
Source: CBP analysis of US Census Bureau data

- **The employment rate of women at or near retirement age increased considerably more than that of similarly aged men during the current downturn.**

The share of women age 55 to 69 who were employed rose by 3.1 percentage points between 2007 and 2008 – more than four times the increase in the share of similarly aged men who were employed (0.7 of a percentage point). This difference may reflect the fact that men in this age group disproportionately work in sectors of the economy that have experienced sharp declines during the recession, such as construction and financial activities.[4]

- **Improved health, longer life expectancy, and a declining share of physically demanding jobs enable workers to remain in the workforce later in life.**

Nationally, the share of people age 55 to 64 who reported fair or poor health declined from 25.1 percent in 1983 to 18.3 percent in 2006, and life expectancy increased from 73.9 years in 1979 to 77.8 years in 2005.[5] In addition, the share of jobs that are physically demanding has fallen in recent years.[6] Each of these trends means that workers are able to work later in life. At the same time, living longer has made the prospect of retirement at age 65 less financially feasible for many workers since increased longevity requires additional retirement savings.[7]



- **Changes in the Social Security Program have increased the incentive to work later in life.**

Studies show that rising employment levels for people at or approaching the traditional retirement age can be partially attributed to changes in the Social Security Program, which created a financial incentive to continue working later in life. For example, in 2000, Congress repealed a provision that had reduced the amount of Social Security benefits people age 65 to 69 received if they had earnings from work above a certain threshold. Some studies suggest that this change increased the employment rate of people in their late 60s.[8]

- **Both financial and non-financial factors motivate people at or near retirement age to work; however, the need for money is most frequently cited.**

Working later in life boosts retirement income. One study found that each additional year of employment increases annual retirement income by an average of 9 percent.[9] Given this finding, it is not surprising that financial factors ranked high among the reasons workers at or near retirement age remained employed even before the current recession began. For example, in a 2006 national survey, 72 percent of workers age 55 to 59, and 60 percent of workers age 60 to 65, said that the need for income to live on was one of their primary reasons for working; this was the most frequently cited reason for both age groups.[10]

Financial motivations to work later in life reflect Americans' diminished confidence in their ability to afford retirement. The 2008 Retirement Confidence Survey found that "Americans' confidence in their ability to afford a comfortable retirement has dropped to its lowest level in seven years."[11] Between 2007 and 2008 alone, the share of US retirees who reported that they are "not too" or "not at all" confident that they have enough money to live comfortably throughout their retirement years increased from 21 percent to 34 percent.[12]

While financial factors are the most commonly cited reasons for working later in life, surveys find that non-financial factors are also important. In a 2006 survey, nearly half of US workers age 55 to 59, and more than half of the nation's workers age 60 to 65, said they were employed because they wanted to stay active and engaged; more than two out of every five workers in both of these age groups reported working because they wanted to do meaningful work.[13]

- **Fewer workers may be able to afford to retire at the traditional retirement age because job-based pension and retiree health coverage have declined.**

The share of private-sector California workers with a job-based pension plan declined from 46.1 percent in 1980 to 37.7 percent in 2005, and national data show that workers without job-based pension plans retire later than those with pensions.[14] Consequently, the decline in job-based pension coverage may help to explain why workers in their late 50s and 60s are working longer. The share of large US employers offering health coverage for retirees also has fallen considerably in recent decades.[15] Given the substantial rise in health care costs, this drop increases the cost of retirement for many workers, creating an incentive for workers to remain employed at least until age 65, when they qualify for Medicare – a federal program that provides health coverage for seniors and people with disabilities.[16]

- **The shift from "defined benefit" to "defined contribution" pension plans has increased the incentive to work later in life.**

Nationally, the share of private-sector workers with a defined benefit pension plan declined from 39 percent in 1980 to 20 percent in 2007, while the share with only a defined contribution plan increased from 8 percent to 31 percent.[17] Defined benefit plans guarantee workers a fixed benefit based on salary and years of experience, regardless of the return on the investments in their plan. In contrast, the retirement benefits of defined contribution plans are not guaranteed and depend in large part on workers' success in investing their funds, as well as the performance of the stock market when workers want to retire. Thus, the shift toward defined contribution pension plans has generally reduced retirement security for an increasing share of workers. As a result, workers whose primary source of retirement savings is a defined contribution plan may work later in life in order to build up their savings, make up for past investment losses, or simply to increase their earnings.[18]

Some defined benefit plans create a disincentive to work beyond the retirement age established by such plans. Typically, for every year that workers remain employed beyond the retirement age established by these plans, they lose one year of retirement benefits, and this loss tends not to be offset by the additional benefits accrued from another year of work.[19] Workers with defined benefit plans tend to leave the workforce one or two years earlier than workers with defined contribution plans because of this financial incentive to retire "on time."[20] Consequently, the shift away from defined benefit plans means a smaller share of workers face this disincentive to work later in life.

- **The recent decline in the stock market has taken a toll on many individuals' retirement savings, increasing the incentive for those at or near retirement age to continue working.**

Nationally, total assets in defined contribution pension plans and Individual Retirement Accounts (IRAs) lost $2.8 trillion (32.2 percent) of their value between September 30, 2007 and December 2, 2008, reducing retirement savings for many Americans.[21] Some evidence suggests that individuals close to retirement were disproportionately affected by this decline.[22] Therefore, California's older workers may have postponed retirement and more retirees may have re-entered the workforce in response to decline in stock values.

- **The recent drop in home prices contributes to diminished retirement security for homeowners.**

Nationwide, more than eight out of 10 households with adults age 55 to 64 (81.1 percent) have housing wealth; on average, home equity represents 22 percent of these adults' total wealth.[23] Experts expect housing wealth to become an increasingly important source of financial support for retirees, particularly as other sources of retirement savings prove insufficient.[24] However, the value of the median-priced California home declined by 53.7 percent between May 2007 and January 2009, reducing the amount of equity available for older Californians to use during retirement.[25]

- **Declining retirement security points to the importance of ensuring the vitality of Social Security.**

Social Security benefits are an important source of income for retirees and help reduce poverty. Nationally, 64 percent of people age 65 and older depended on Social Security for at least half of their income in 2006, and nearly one-third (32 percent) depended on Social Security for 90 percent or more of their income.[26] In California, Social Security benefits are responsible for lifting more than 1 million Californians age 65 and older out of poverty. Without Social Security income, two out of five Californians age 65 and older (39.8 percent) would have had incomes below the federal poverty line in the early 2000s. Once Social Security benefits are taken into account, fewer than one out of 12 Californians age 65 and older (7.9 percent) had incomes below the poverty line.[27]

Alissa Anderson prepared this Policy Points. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's website at www.cbp.org.

ENDNOTES

1 The employment rate is the share of noninstitutional civilians who are employed. CBP analysis of US Census Bureau, Current Population Survey data.

2 This analysis is based on the number of people in the civilian noninstitutional population, which excludes individuals who are on active duty with the Armed Forces or who live in institutions, such as prisons. Therefore, the "employed" and "not employed" rates displayed in the table do not match the Bureau of Labor Statistics' employment and unemployment rates, which are based on the number of people in the labor force – which is a subset of the civilian noninstitutional population. In this analysis, "not employed" reflects individuals who are jobless only if they have actively searched for work in the past four weeks.

3 For example, the employment rate of Californians age 65 to 69 declined by an average of 1.1 percentage points per year during the downturn of the early 1980s and by an average of 0.7 of a percentage point each year during that of the early 1990s. In contrast, the employment rate for this age group increased by 1.2 percentage points per year, on average, during the downturn of the early 2000s and by an average of 1.7 percentage points per year during the current downturn. This pattern is similar for those age 55 to 64. CBP analysis of US Census Bureau, Current Population Survey data.

4 In 2008, 9.0 percent of California's male workers age 55 to 69 were employed in the construction sector – 7.5 times the share of the state's female workers in the same age group (1.2 percent); 2.9 percent of male workers age 55 to 69 were employed in financial activities, compared to 1.7 percent of female workers. CBP analysis of US Census Bureau, Current Population Survey data. Data from the Employment Development Department show that the number of construction jobs declined by 12.0 percent between 2007 and 2008, while the number of jobs in financial activities dropped by 6.0 percent.

5 Moreover, the share of people age 65 to 74 who reported fair or poor health fell from 32.5 percent in 1983 to 22.9 percent in 2006. National Center for Health Statistics, National Health Interview Survey data downloaded from http://www.cdc.gov/nchs/hdl.htm on February 27, 2009. Data are for 1982 to 1984 and 2005 to 2007. Life expectancy data are US Census Bureau data downloaded from http://www.census.gov/compendia/statab/cats/births_deaths_marriages_divorces/life_expectancy.html on February 26, 2009.

6 Alicia H. Munnell, Dan Muldoon, and Steven A. Sass, *Recessions and Older Workers* (Center for Retirement Research at Boston College: January 2009).

7 One national study found that 44 percent of people age 55 to 59 are not confident they will have enough money to live comfortably past age 85. MetLife Mature Market Institute, *Living Longer, Working Longer: The Changing Landscape of the Aging Workforce – A MetLife Study* (April 2006).

8 Alan L. Gustman and Thomas Steinmeier, *How Changes in Social Security Affect Recent Retirement Trends* (NBER Working Paper No. 14105: June 2008), Alicia H. Munnell, Dan Muldoon, and Steven A. Sass, *Recessions and Older Workers* (Center for Retirement Research at Boston College: January 2009), Jonathan F. Pingle, *Social Security's Delayed Retirement Credit and the Labor Supply of Older Men* (Federal Reserve Board, Divisions of Research & Statistics and Monetary Affairs: 2006), and Patrick Purcell, *Older Workers: Employment and Retirement Trends* (Congressional Research Service Report for Congress: Updated September 7, 2006).

9 Barbara A. Butrica, Karen E. Smith, and C. Eugene Steuerle, *Working for a Good Retirement* (Urban Institute: May 2006).

10 The survey found that financial motivations for working were less important for older workers. Fewer than 40 percent of workers age 66 to 70 reported financial reasons for working. MetLife Mature Market Institute, *Living Longer, Working Longer: The Changing Landscape of the Aging Workforce – A MetLife Study* (April 2006). A more recent survey, conducted in the spring of 2007, found that the need for money and the need to save more for retirement were the first and third most frequently cited reasons, respectively, that workers age 45 to 74 were working. In addition, the survey found a 6-percentage-point increase between 2002 and 2007 in the share of respondents age 45 to 74 who strongly agreed that their only reason for continuing to work was the need for money. The authors suggest that had the survey been conducted in 2008, financial need likely would have been an even more significant factor in workers' decision to stay in the workforce. AARP, *Staying Ahead of the Curve 2007: The AARP Work and Career Study* (September 2008).

11 Ruth Helman, Jack VanDerhei, and Craig Copeland, *The 2008 Retirement Confidence Survey: Americans Much More Worried About Retirement, Health Costs a Big Concern* (Employee Benefit Research Institute: April 2008), p. 1.

12 Ruth Helman, Jack VanDerhei, and Craig Copeland, *The 2008 Retirement Confidence Survey: Americans Much More Worried About Retirement, Health Costs a Big Concern* (Employee Benefit Research Institute: April 2008). Even before the current downturn began, Americans' confidence in their ability to afford retirement was diminishing. The share of "baby boomers" – people born between 1946 and 1964 – who reported having enough money to retire between age 55 and 64 declined from 47 percent in 2001 to 27 percent in 2005, while the share who reported that they will never have enough money to retire increased from 5 percent to 16 percent. MetLife Mature Market Institute, *The MetLife Survey of American Attitudes Toward Retirement: What's Changed?* (October 2005).

13 Non-financial reasons for working were more frequently cited by workers age 66 to 70. More than 70 percent of workers in this age group reported working in order to stay active and nearly half said they were employed so that they could do meaningful work. MetLife Mature Market Institute, *Living Longer, Working Longer: The Changing Landscape of the Aging Workforce – A MetLife Study* (April 2006). Similarly, a 2007 survey found that enjoying work was the second-most-frequently-cited reason that workers age 45 to 74 were employed. AARP, *Staying Ahead of the Curve 2007: The AARP Work and Career Study* (September 2008).

14 Economic Policy Institute analysis of US Census Bureau, Current Population Survey data. Includes workers age 18 to 64 who worked at least 20 hours per week, 26 weeks per year. Data represent three-year averages: 1979 to 1981 and 2004 to 2006. Alicia H. Munnell, Robert K. Triest, and Natalia A. Jivan, *How Do Pensions Affect Expected and Actual Retirement Ages?* (Center for Retirement Research at Boston College: November 2004).

[15] In 2008, 31 percent of employers with 200 workers or more that offered health benefits to their employees offered coverage to retirees, down from 66 percent in 1988. The Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits 2008 Annual Survey* (September 24, 2008). Comparable California data are not available, but there is no reason to expect that the trend would be significantly different.

[16] Alicia H. Munnell, Dan Muldoon, and Steven A. Sass, *Recessions and Older Workers* (Center for Retirement Research at Boston College: January 2009).

[17] The Retirement Policy Project, *Employer-Sponsored Pensions: A Primer* (Urban Institute: January 2008).

[18] Gordon Mermin, Richard W. Johnson, and Dan Murphy, *Why Do Boomers Plan To Work So Long?* (Urban Institute: December 2006) and Alicia H. Munnell, Dan Muldoon, and Steven A. Sass, *Recessions and Older Workers* (Center for Retirement Research at Boston College: January 2009).

[19] The Retirement Policy Project, *Employer-Sponsored Pensions: A Primer* (Urban Institute: January 2008). See also Richard W. Johnson, Gordon Mermin, and C. Eugene Steuerle, *Work Impediments at Older Ages* (Urban Institute: May 2006).

[20] Alicia H. Munnell, Kevin E. Cahill, and Natalia A. Jivan, *How Has the Shift to 401(k)s Affected the Retirement Age?* (Center for Retirement Research at Boston College: September 2003) and Leora Friedberg and Anthony Webb, *Retirement and the Evolution of Pension Structure* (NBER Working Paper No. 9999: September 2003).

[21] Mauricio Soto, *How Is the Financial Crisis Affecting Retirement Savings?* December 3, 2008, Update (Urban Institute: December 3, 2008).

[22] Individuals with larger 401(k) account balances, who typically are closer to retirement, as well as those with a longer tenure with their plan sponsor and those with a larger share of their assets invested in stocks, experienced greater declines in their savings between January 1, 2008 and January 20, 2009. Although older individuals typically have smaller shares of their assets in stocks, more than one out of five 401(k) participants age 56 to 65 (22 percent) had more than 90 percent of their account balance in stocks at the end of 2007, and 43 percent had at least 70 percent of their balance in stocks, making them particularly vulnerable to losses. These findings are based on an analysis of approximately 21.8 million individuals with job-based 401(k) plans – representing 45 percent of all 401(k) plan participants. Jack VanDerhei, *The Impact of the Recent Financial Crisis on 401(k) Account Balances* (Employee Benefit Research Institute: February 2009). See also Richard W. Johnson, Mauricio Soto, and Sheila R. Zedlewski, *How Is the Economic Turmoil Affecting Older Americans?* (Urban Institute: October 2008).

[23] Gordon B. T. Mermin, Sheila R. Zedlewski, and Desmond J. Toohey, *Diversity in Retirement Wealth Accumulation* (Urban Institute: December 2008). Data represent the average share of wealth per adult for households in the middle fifth of the wealth distribution in 2001 and 2004.

[24] Alicia H. Munnell, Mauricio Soto, and Jean-Pierre Aubry, *Do People Plan To Tap Their Home Equity in Retirement?* (Center for Retirement Research at Boston College: May 2007).

[25] MDA DataQuick data, downloaded from http://www.dqnews.com on February 23, 2009.

[26] Social Security Administration, *Fast Facts & Figures About Social Security*, 2008, downloaded from http://www.ssa.gov/policy/docs/chartbooks/fast_facts/2008/fast_facts08.pdf on March 3, 2009. Total income excludes withdrawals from savings and nonannuitized IRAs or 401(k) plans as well as in-kind support, such as food stamps and housing and energy assistance.

[27] Arloc Sherman and Isaac Shapiro, *Social Security Lifts 13 Million Seniors Above the Poverty Line: A State-by-State Analysis* (Center on Budget and Policy Priorities: February 24, 2005). These figures are three-year averages for the period from 2000 through 2002.