CALIFORNIA BUDGET PROJECT

policy points

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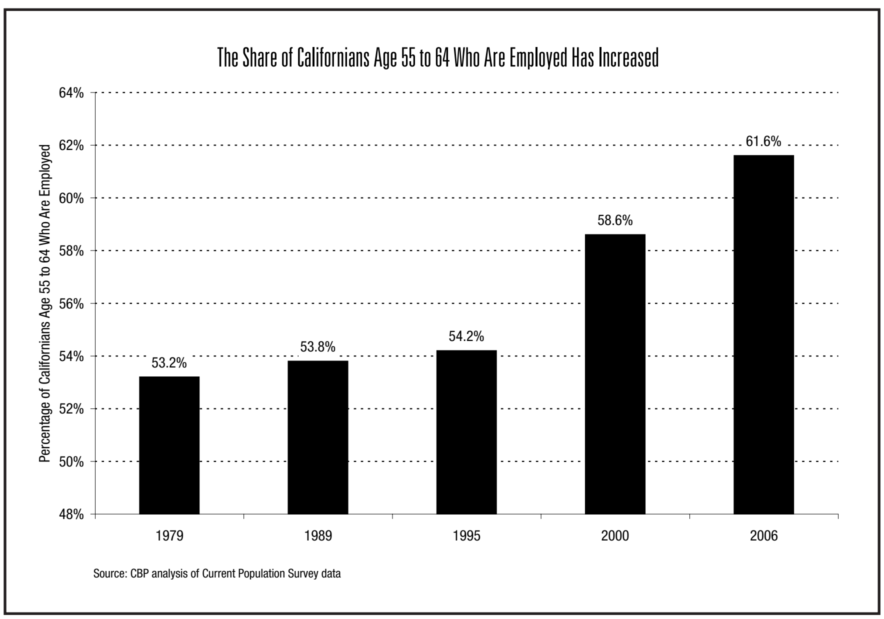
MORE CALIFORNIANS ARE WORKING LATER IN LIFE

Californians are working later in life than they once did. The share of Californians approaching or at the traditional retirement age – age 65 and older – who are employed increased considerably between 1995 and 2006, after a decade and a half of little change. This trend reflects a number of factors, including improved health and longer life expectancy, as well as diminished retirement security. This *Policy Points* examines recent employment trends for workers age 55 to 69.

KEY FACTS

- **More Californians age 55 to 64 are working.**

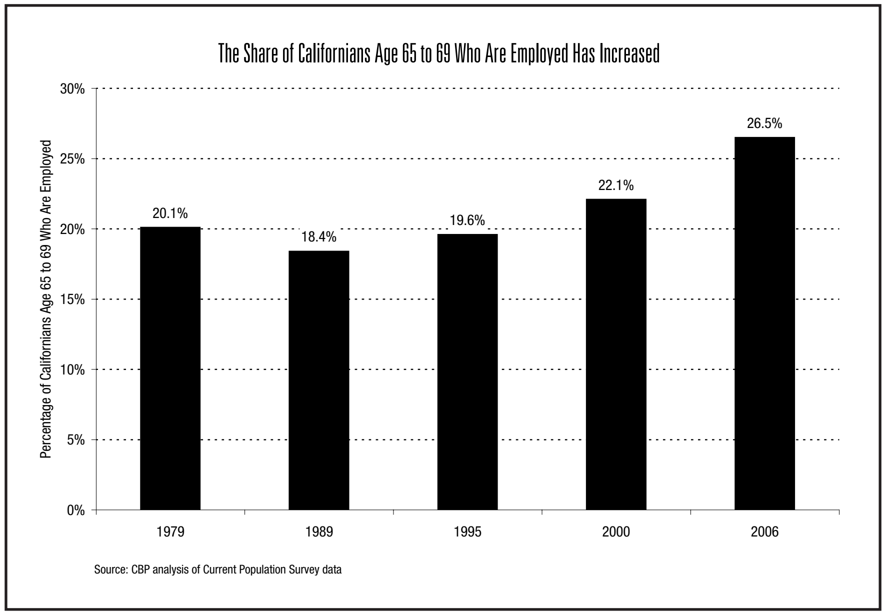
The employment rate of people age 55 to 64 increased by 7.4 percentage points between 1995 and 2006.[1] More than three in five Californians age 55 to 64 (61.6 percent) were employed in 2006, up from 58.6 percent in 2000 and 54.2 percent in 1995. The rising employment rate of these workers is a recent trend: between 1979 and 1995, the employment rate of people age 55 to 64 stayed relatively constant.



- **Californians age 65 to 69 are also more likely to work now than in prior decades.**

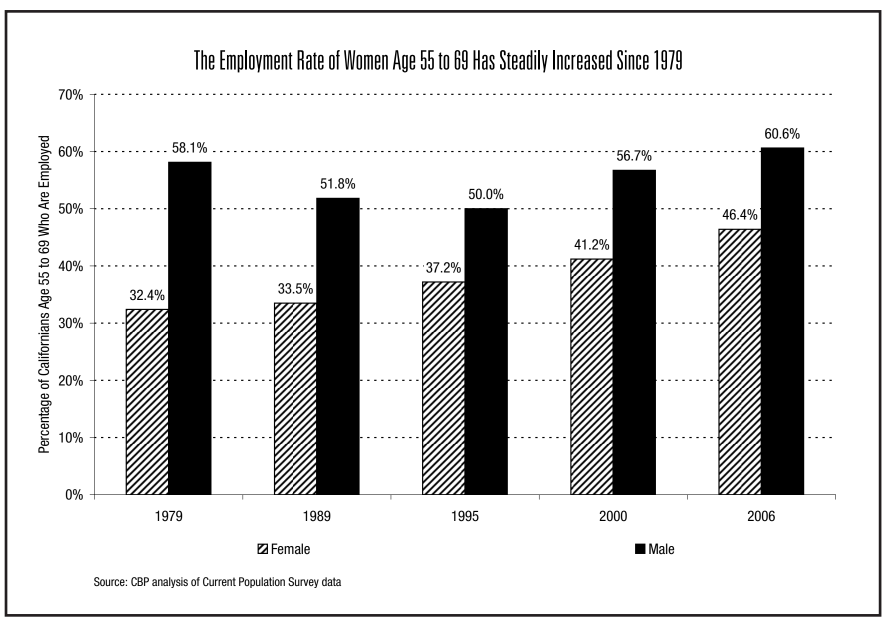
In 2006, approximately one-quarter (26.5 percent) of people age 65 to 69 were employed, up from 19.6 percent in 1995. Between 2000 and 2006 alone, the share of Californians in their late 60s who were employed rose by 4.4 percentage points. This trend stands in stark contrast with earlier trends: the employment rate of people age 65 to 69 declined by

1.7 percentage points between 1979 and 1989, and increased by a modest 1.2 percentage points between 1989 and 1995.



- **The employment rate of women age 55 to 69 has steadily increased, while that of similarly-aged men declined and then rebounded.**

Higher rates of employment for women age 55 to 69 helped to offset a drop in the employment rate of similarly-aged men between 1979 and 1995. The share of women in this age group who were employed increased from 32.4 percent in 1979 to 37.2 percent in 1995. In contrast, the employment rate of similarly-aged men declined over the same period, from 58.1 percent to 50.0 percent. Since 1995, however, the employment rate of women and men age 55 to 69 increased at about the same rate. Nearly half of women age 55 to 69 (46.4 percent) were employed in 2006, up 9.2 percentage points from 1995. Meanwhile, the employment rate of similarly-aged men rose by 10.6 percentage points, reaching 60.6 percent in 2006.



- **Improved health and longer life expectancy enable workers to remain in the workforce later in life.**

Nationally, 17.9 percent of people age 55 to 64 reported fair or poor health in 2004, down from 26.6 percent in 1982.[2] In addition, life expectancy increased from 74.5 years in 1982 to 77.9 years in 2004.[3] As a result, the share of workers who are able to work later in life has increased. At the same time, however, living longer has made the prospect of retirement at age 65 less financially feasible for many workers.[4]

- **Both financial and non-financial factors motivate people age 55 to 70 to work; however, the need for money is the most frequently cited reason for working among those in their late 50s and early 60s.**

Nationally, 72 percent of workers age 55 to 59, and 60 percent of workers age 60 to 65, say that the need for income to live on is one of their primary reasons for working; this was the most frequently cited reason for both age groups.[5] However, financial motivations for working are less frequently cited by older workers. Fewer than 40 percent of workers age 66 to 70 report financial reasons for working.

Non-financial factors also motivate workers in their late 50s and 60s to work. Nearly half of US workers age 55 to 59, and more than half of workers age 60 to 65, say they are employed because they want to stay active and engaged. In addition, more than two in every five workers in both of these age groups report working because they want to do meaningful work. Non-financial reasons for working are more frequently cited by workers age 66 to 70. More than 70 percent of workers in this age group report working in order to stay active and nearly half say they are employed so that they can do meaningful work.

- **In the early 2000s, workers approaching retirement age were increasingly likely to say they could not afford to retire.**

Nationally, 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.[6] Meanwhile, the share of baby boomers who reported that they will never have enough money to retire increased from 5 percent in 2001 to 16 percent in 2005. The sharp rise in the share of baby boomers who are not financially prepared to retire may reflect the stock market decline – and subsequent drop in savings and pension assets for many workers – in the early part of this decade.[7]

- **Fewer workers may be able to afford to retire because job-based pension coverage has declined.**

National data show that workers covered by job-based pension plans retire earlier than those without pensions.[8] Consequently, the decline of job-based pension coverage may help explain why workers in their late 50s and 60s are working longer. In California, the share of workers with a job-based pension plan declined from 57.7 percent in 1980 to 49.4 percent in 2004.[9]

- **The shift from "defined benefit" to "defined contribution" pension plans has diminished workers' retirement security.**

The shift away from traditional "defined benefit" pension plans toward "defined contribution" pension plans, such as 401(k)s, has diminished workers' retirement security and encouraged workers to remain in the workforce later in life.[10] The share of US workers with pension coverage who had a defined benefit plan – either alone or in combination with a defined contribution plan – declined from 83 percent in 1980 to 39 percent in 2004.[11] Defined benefit pension plans guarantee workers a fixed benefit based on salary and years of experience, regardless of the return on the investments in their plan.[12] 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. Consequently, workers with only a defined contribution plan may decide to work later in life if they lack sufficient retirement savings.

- **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, two-thirds of people age 65 and older (66 percent) depended on Social Security for at least half of their income in 2004, and more than one-third (34 percent) depended on Social Security for 90 percent or more of their income.[13] 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 in five Californians age 65 and older (39.8 percent) had incomes below the federal poverty line in the early 2000s. Once Social Security benefits are taken into account, fewer than one in 12 Californians age 65 and older (7.9 percent) had incomes below the poverty line.[14]

Alissa Anderson Garcia 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 data in this report exclude people in the Armed Forces, as well as people in institutions, such as prisons and nursing homes.

2 National Center for Health Statistics data downloaded from http://209.217.72.34/aging/TableViewer/tableView.aspx?ReportId=313 on February 5, 2007.

3 US Census Bureau data downloaded from http://www.census.gov/compendia/statab/vital_statistics/ on February 5, 2007. 2004 data are preliminary.

4 A 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).

5 MetLife Mature Market Institute, *Living Longer, Working Longer: The Changing Landscape of the Aging Workforce – A MetLife Study* (April 2006).

6 MetLife Mature Market Institute, *The MetLife Survey of American Attitudes Toward Retirement: What's Changed?* (October 2005).

7 Sara E. Rix, PhD, *Aging and Work – A View from the United States* (AARP Public Policy Institute: February 2004).

8 Alicia H. Munnell, Robert K. Triest, and Natalia A. Jivan, *How Do Pensions Affect Expected and Actual Retirement Ages?* (Center for Retirement Research: November 2004).

9 CBP analysis of Current Population Survey data. Figures represent three-year averages for 1979 to 1981 and 2003 to 2005.

10 One national study found that the shift from defined benefit to defined contribution pension plans helped to explain why a larger share of workers age 51 to 56 in 2004 expected to work beyond age 62 than did comparable workers in 1992. Gordon Mermin, Richard W. Johnson, and Dan Murphy, *Why Do Boomers Plan To Work So Long?* (The Urban Institute: December 2006).

11 Alicia H. Munnell and Pamela Perun, *An Update on Private Pensions* (Center for Retirement Research: August 2006), p. 5.

12 However, these plans discourage working beyond retirement age. For every year that workers remain employed beyond the retirement age set by the plan, they lose one year of retirement benefits. Richard W. Johnson, Gordon Mermin, and C. Eugene Steuerle, *Work Impediments at Older Ages* (The Urban Institute: May 2006).

13 Social Security Administration, *Fast Facts & Figures About Social Security*, 2006, downloaded from http://www.ssa.gov/policy/docs/chartbooks/fast_facts/2006/fast_facts06.pdf on February 27, 2007. Total income excludes withdrawals from savings and nonannuitized IRAs or 401(k) plans, as well as in-kind support, such as food stamps, housing, and energy assistance.

14 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). Figures represent three-year averages for 2000 to 2002.