
Challenges and Opportunities of Living and Working Longer

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Saving and Retirement in an Uncertain Financial Environment

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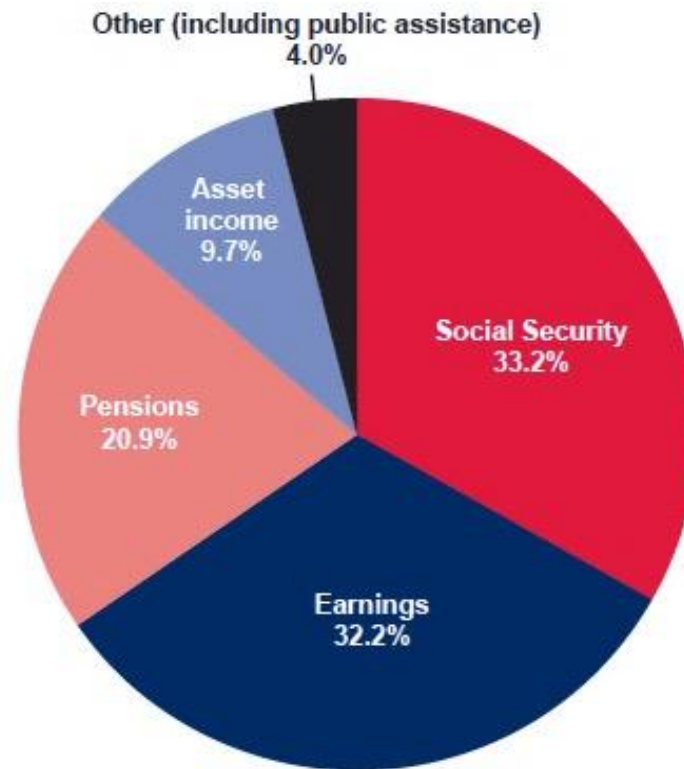
May 4 and 5, 2017

The Wharton School, University of Pennsylvania
Philadelphia, PA

Outline

- The new world of retirement income security in America: many causes for concern
- Are older Americans prepared for retirement?
- What might concerned potential retirees do?
- Are they doing it?
- Key outstanding questions

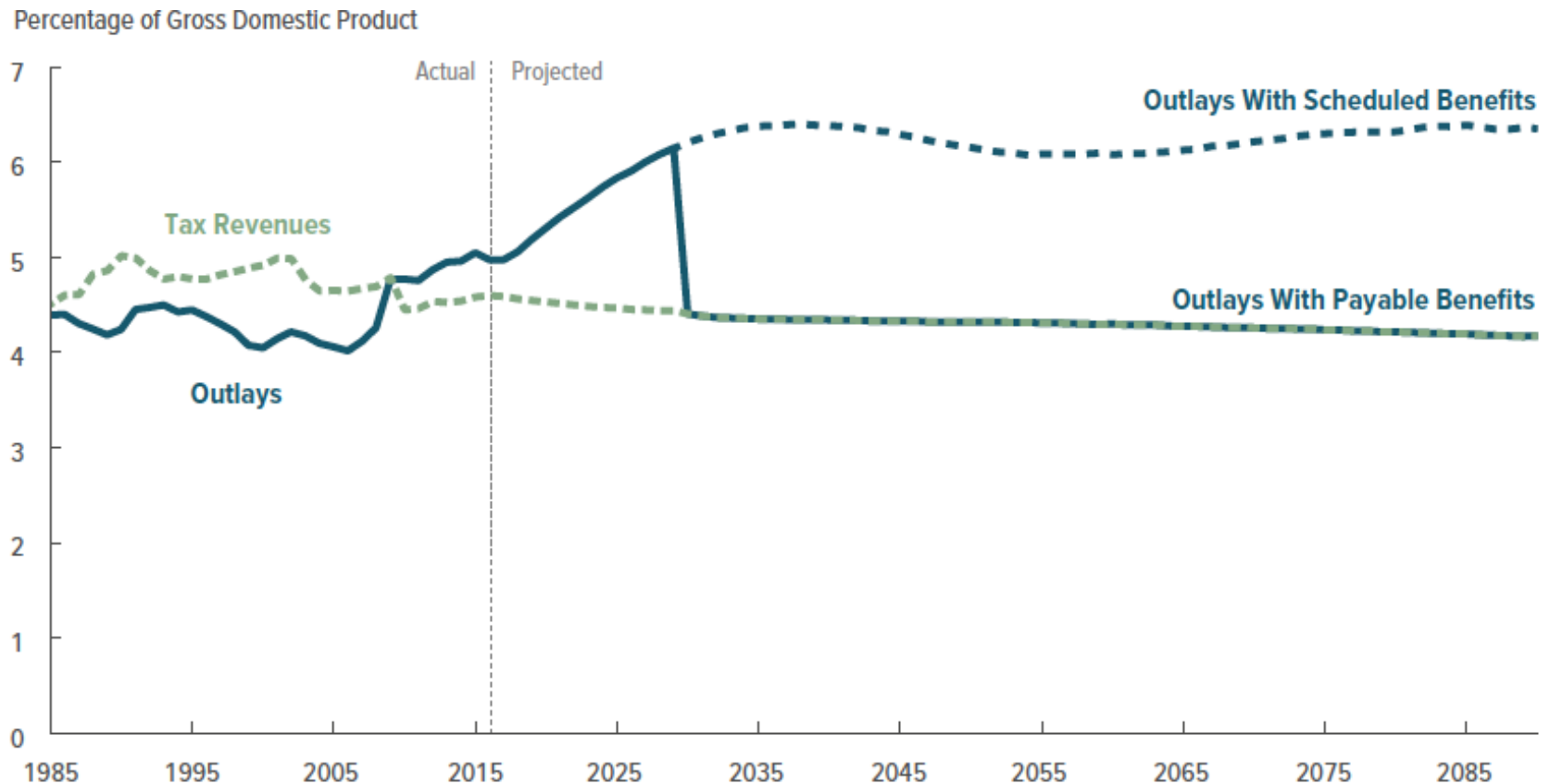
Shares of aggregate income for aged units 65 or older, by source, 2014



Note: Totals do not necessarily equal the sum of the rounded components. Aged units include married couples with a least one person aged 65 or older and nonmarried persons aged 65 or older.

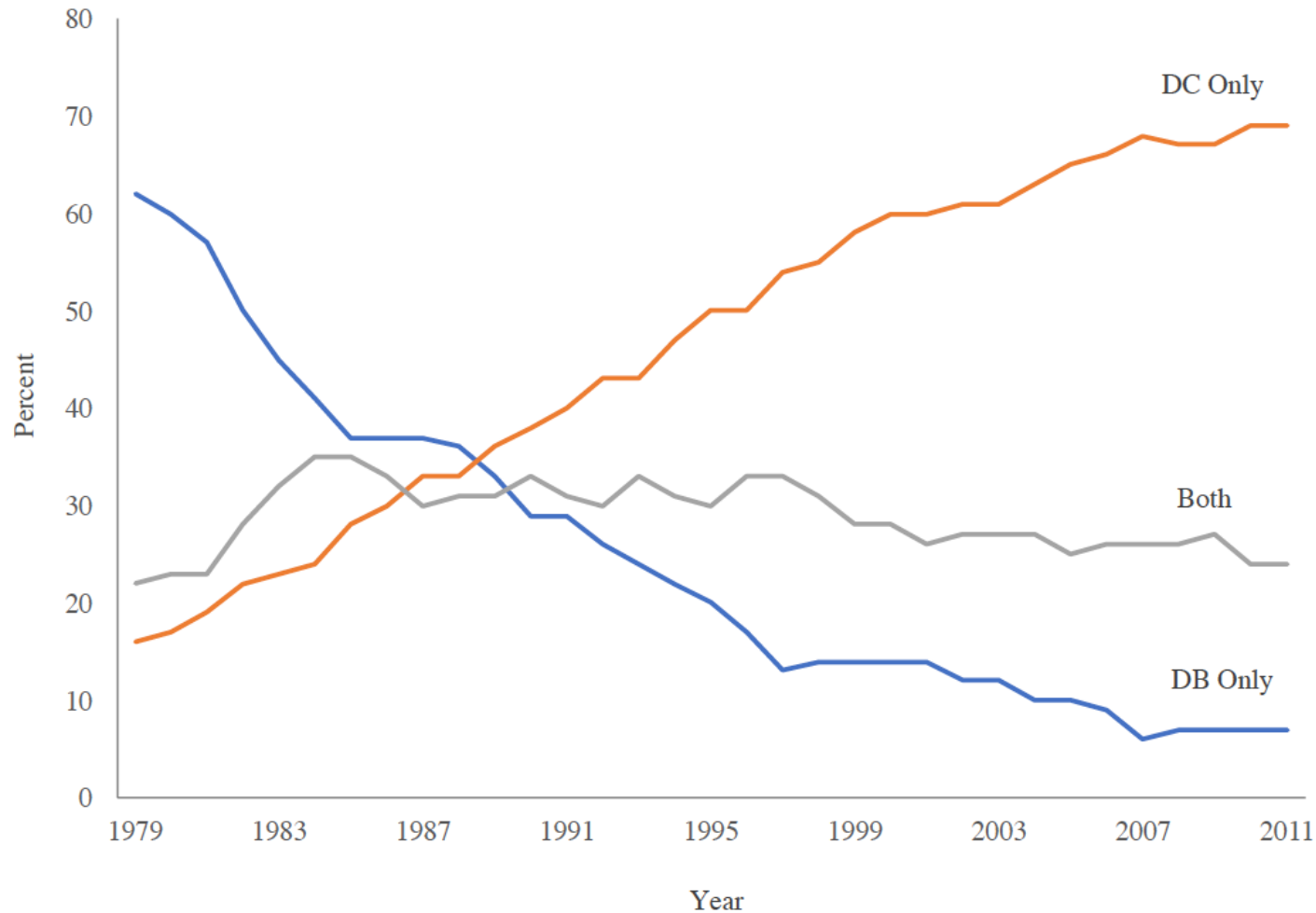
Source: US Social Security Administration (2016b).

Social Security tax revenues and outlays with scheduled and payable benefits, 1985 to 2085



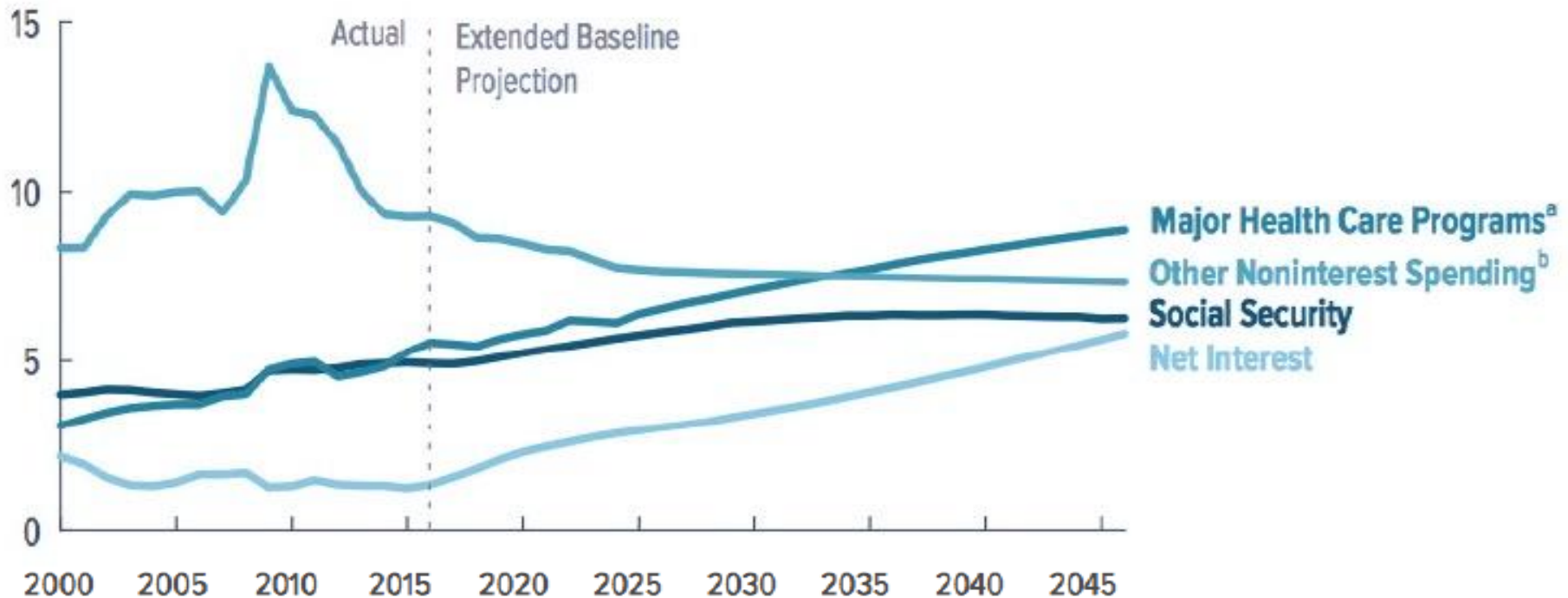
Source: Congressional Budget Office (2016). CBO's 2016 Long-Term Projections for Social Security: Additional Information. Washington, DC: US Government Printing Office. <https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/52298-socialsecuritychartbook.pdf>.

Private-sector participants in an employment-based retirement plan, by plan type, 1979 to 2011



Source: Employee Benefit Research Institute. FAQs about benefits – retirement issues. Washington, DC: Employee Benefit Research Institute. Downloaded March 10, 2017 at <http://www.ebri.org/publications/benfaq/index.cfm?fa=retfaqt14fig2>.

Federal spending as a percentage of GDP by component, 2000 to 2045



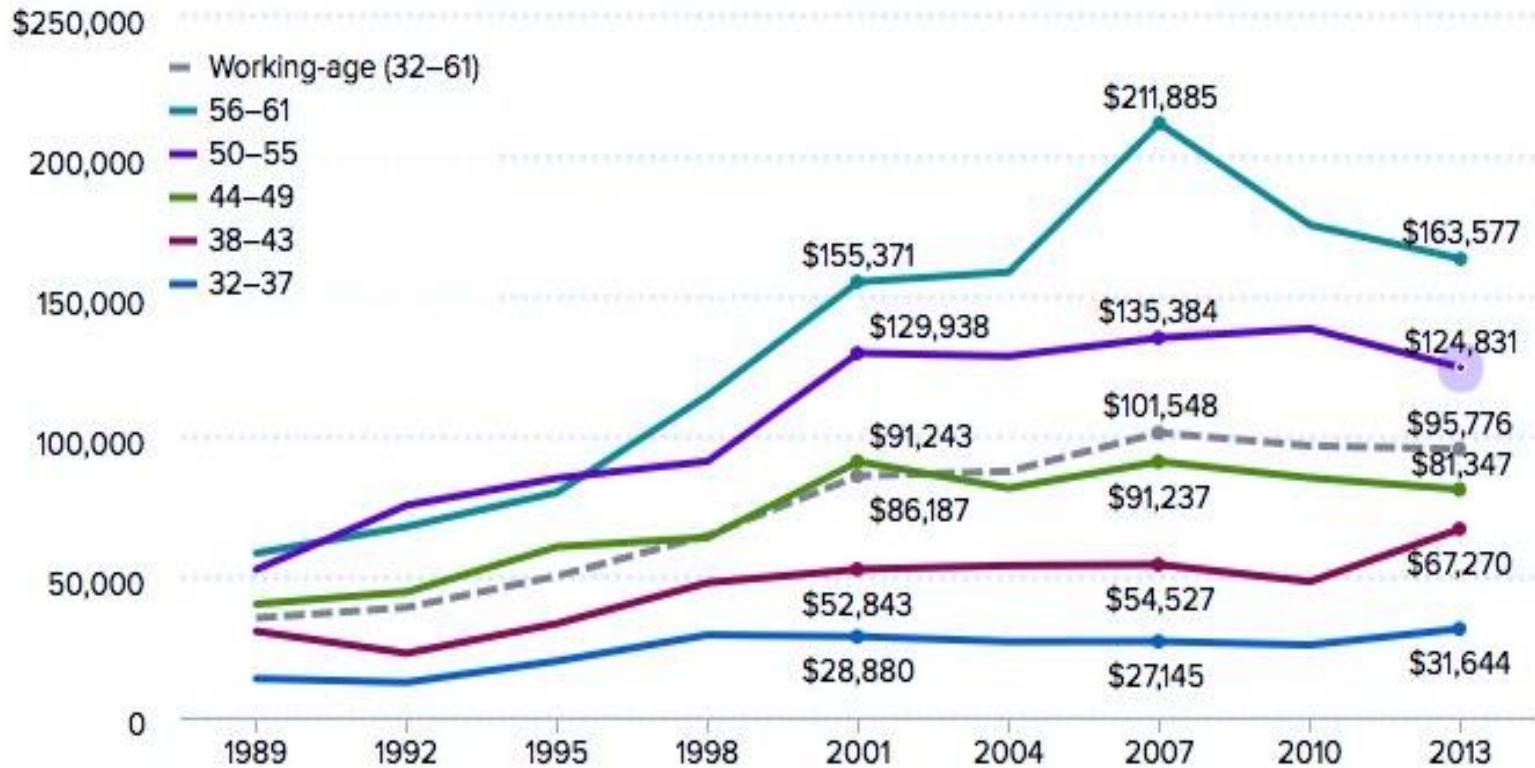
Notes:

^a Consists of spending on Medicare (net of offsetting receipts), Medicaid, and the Children’s Health Insurance Program, as well as outlays to subsidize health insurance purchased through the marketplaces established under the Affordable Care Act and related spending.

^b Consists of all federal spending other than that for Social Security, the major health care programs, and net interest.

Source: Congressional Budget Office (2016), Figure 1-2.

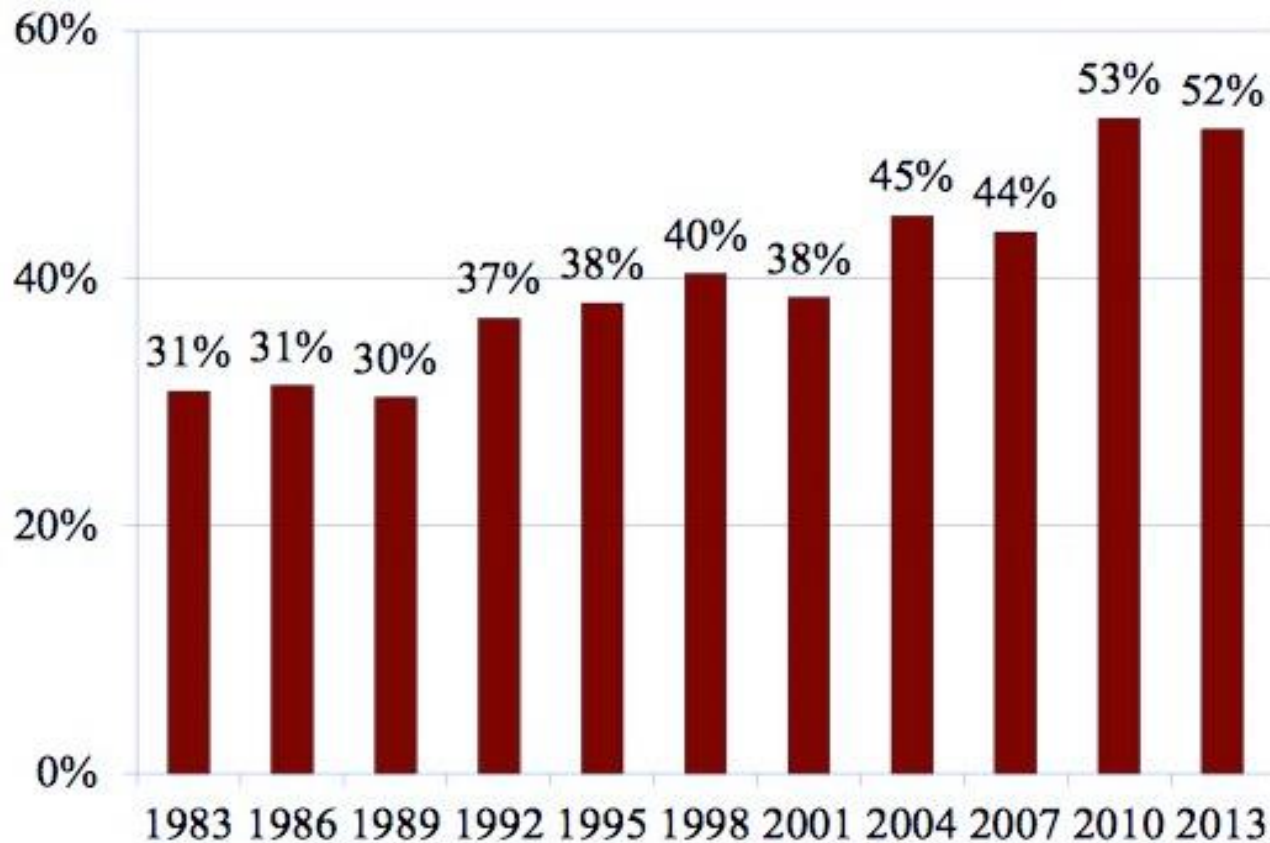
Mean retirement account savings of families by age, 1989 to 2013



Note: 2013 dollars. Retirement account savings include 401(k)s, IRAs, and Keogh plans.

Source: Morrissey (2016).

The National Retirement Risk Index 1983 to 2013

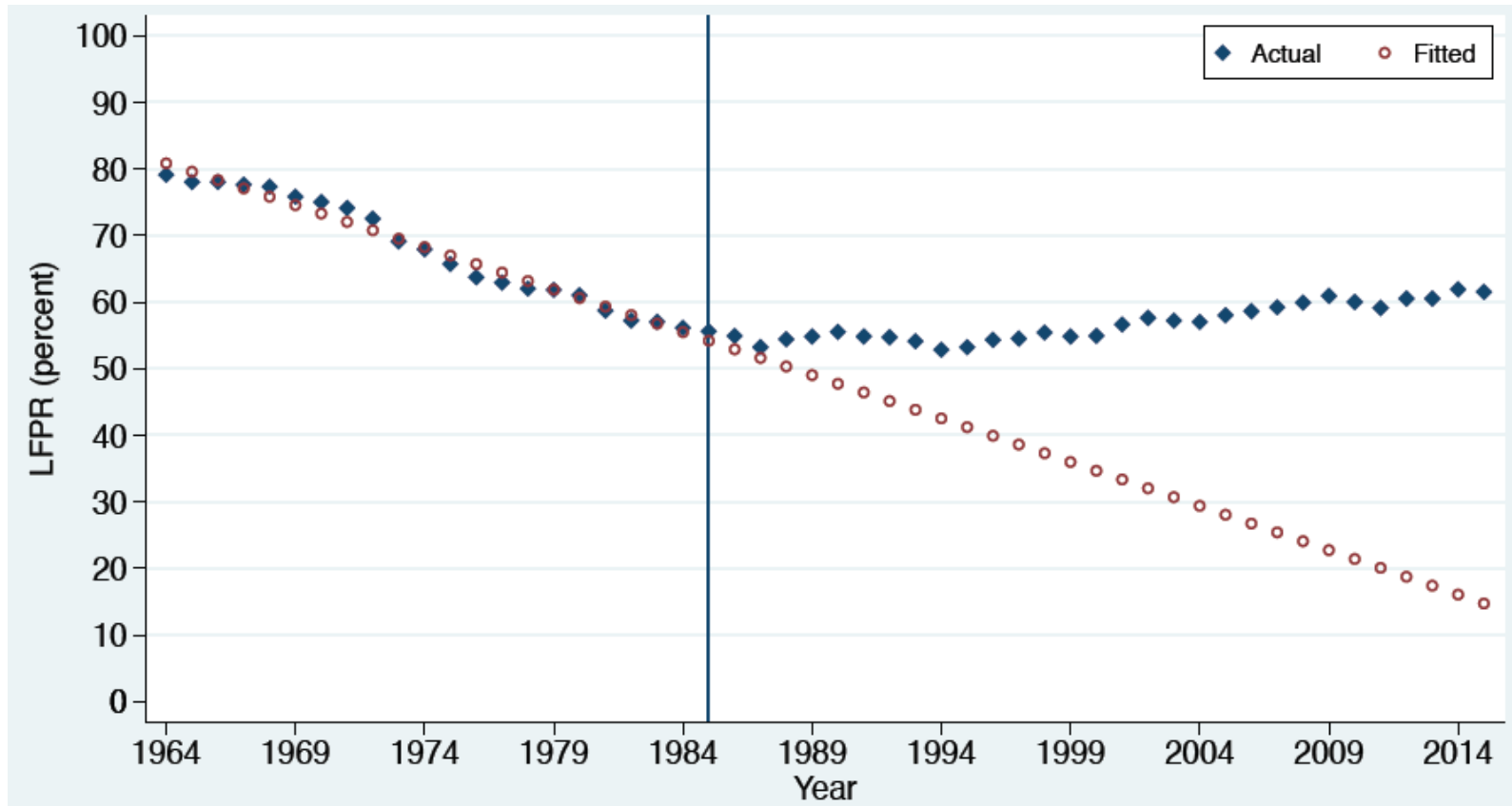


Source: Munnell (2015a), Figure 2.

Options for concerned potential retirees

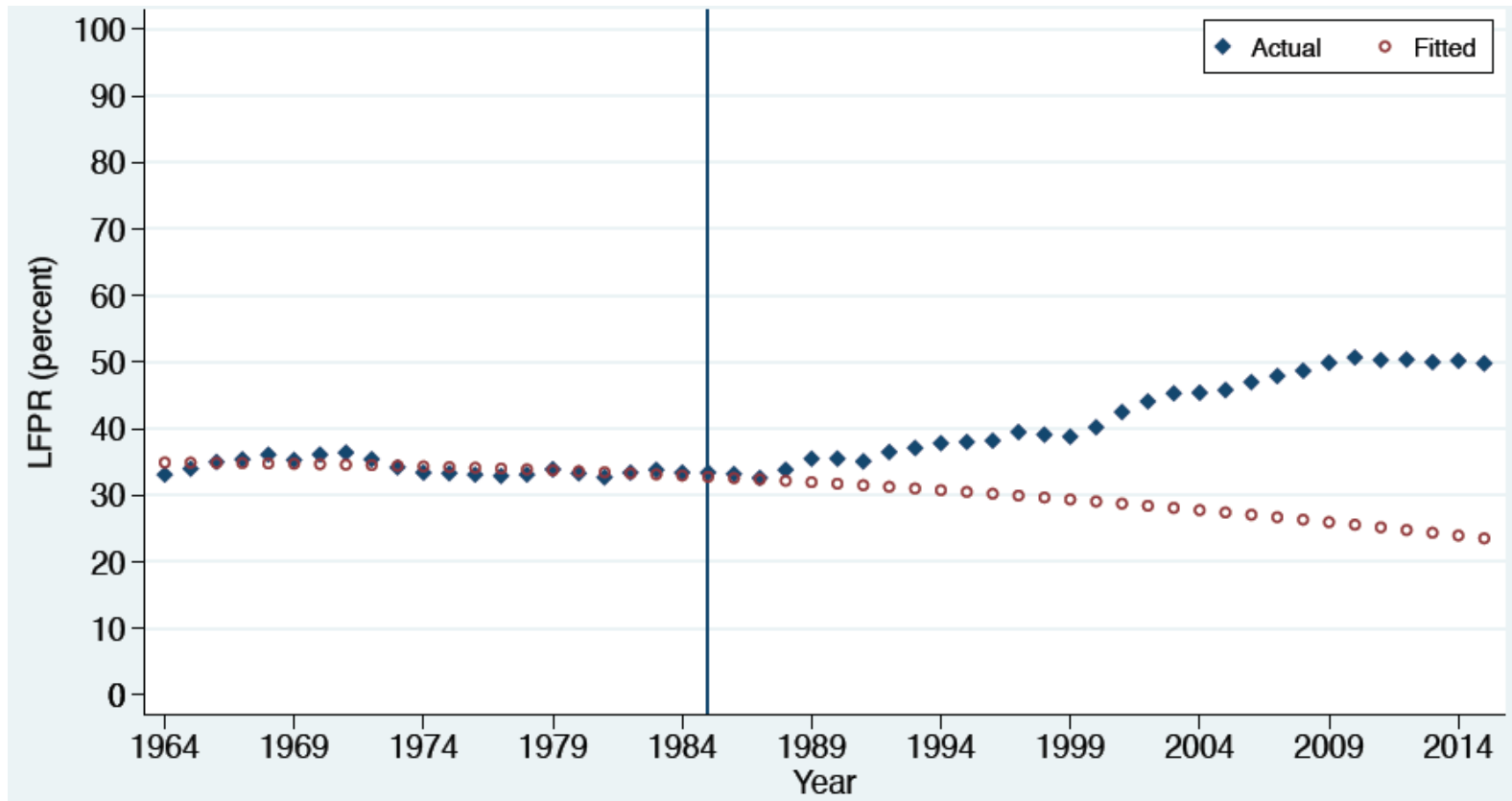
- An individual has no control over:
 - Social Security, Medicare, or Medicaid reform;
 - employers' decisions regarding pension coverage; or
 - pension type or post-retirement health insurance.
- The potential for additional saving at older ages is limited (it's too late!).
- What **can** one do?

Labor force participation rates: men 60-64 actual and fitted values, 1964 to 2015



Source: Authors' calculations based on US Bureau of Labor Statistics, Employment and Earnings.

Labor force participation rates: women 60-64 actual and fitted values 1964 to 2015



Source: Authors' calculations based on US Bureau of Labor Statistics, Employment and Earnings.

Labor force participation rates: men, by age 1950 – 1985 and 1985 – 2016

	55	60	62	65	68	70	72
1950	90.6	84.7	81.2	71.7	57.7	49.8	39.3
1985	83.7	71.0	50.9	30.5	20.5	15.9	14.9
2016	80.2	70.9	60.1	46.3	32.6	27.1	23.2
<i>% Change</i>							
1950-1985	-8%	-16%	-37%	-57%	-64%	-68%	-62%
<i>% Change</i>							
1985-2016	-4%	0%	18%	52%	59%	70%	56%

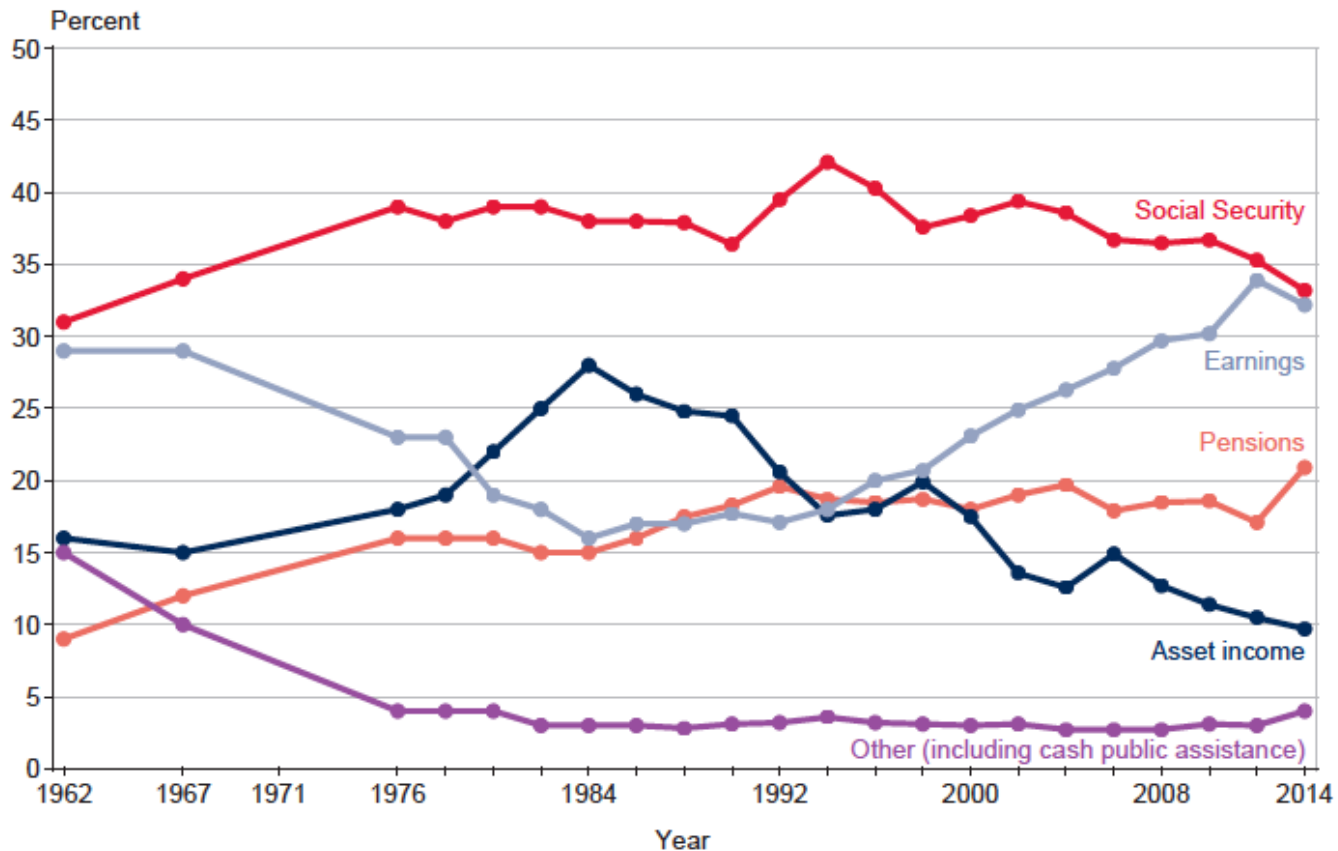
Source: US Bureau of Labor Statistics.

Labor force participation rates: women, by age 1970 – 1985 and 1985 – 2016

	55	60	62	65	68	70	72
1970	52.6	44.0	36.1	22.1	15.0	12.2	8.6
1985	55.5	41.9	31.5	16.2	12.1	9.0	8.2
2016	68.0	58.6	50.7	35.0	24.3	18.1	14.5
% Change							
1970-1985	6%	-5%	-13%	-27%	-19%	-26%	-5%
% Change							
1985-2016	22%	40%	61%	116%	101%	102%	76%

Source: US Bureau of Labor Statistics.

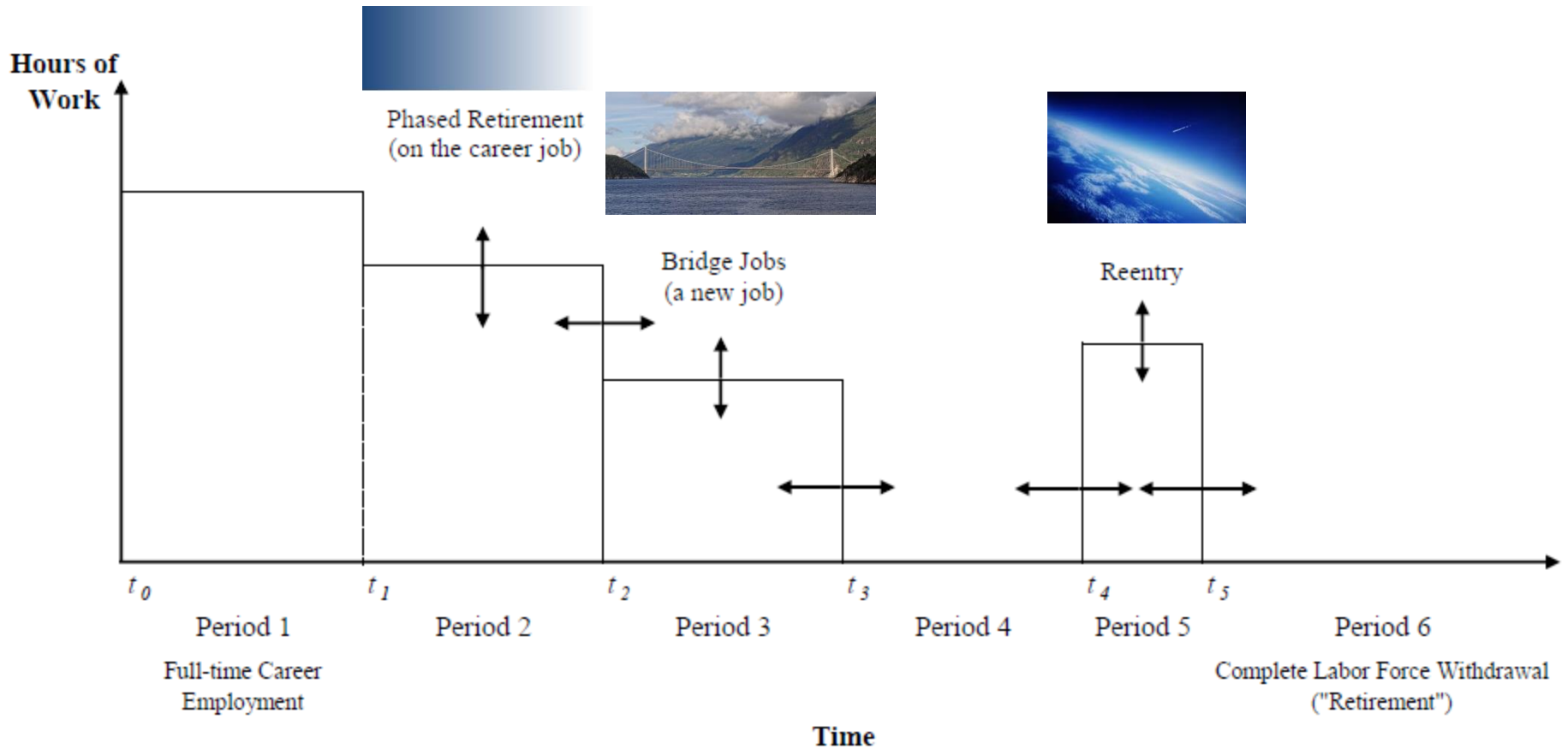
Shares of aggregate income, by source selected years



Notes: Totals do not necessarily equal the sum of the rounded components.

Source: US Social Security Administration (2016). Income of the Aged Chartbook: 2014. Washington, DC: SSA.
https://www.ssa.gov/policy/docs/chartbooks/income_aged/2014/iac14.pdf

For most, retirement is a *process*, not an event



Source: Cahill, Kevin E., Michael D. Giandrea, and Joseph F. Quinn. 2015. "Retirement Patterns and the Macroeconomy, 1992 – 2010: The Prevalence and Determinants of Bridge Jobs, Phased Retirement, and Re-entry among Three Recent Cohorts of Older Americans." *The Gerontologist*; 55(3), 384-403; doi: 10.1093/geront/gnt146.

Some outstanding questions

- To what extent does bridge employment increase labor supply over the retirement transition period?
- How do bridge jobs compare with the career jobs that older workers leave behind?
- How can society address some of the challenges associated with hiring and retaining older workers (e.g., age discrimination and the cost of employee benefits)?

Some outstanding questions (*continued*)

- To what extent are low interest rates masking the financial instability of older Americans with substantial debt and suppressing the urgency of continued work later in life?
- For savers, is the low-return environment altering appetites for risk in order to achieve higher returns?

Conclusion

- The implications of societal aging will depend in large part on how we respond to the challenges and opportunities of living and working longer.
- Causes for concern:
 - the financial outlook for Social Security, Medicare, and Medicaid
 - the shift to DC plans in the private sector
 - low personal savings rates
- Reasons for optimism:
 - the way older Americans have responded to the retirement income challenge by staying in the labor force later in life
 - the remarkable ability of older Americans to adjust the ways in which they work
- Policymakers would be wise to consider additional ways to support continued work later in life to help mitigate the challenges our aging society will face in the decades ahead.