

Declining social security benefits keep older men in workforce

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The decline in the generosity of Social Security benefits for workers who recently reached their 60s has been the leading cause of the trend toward delayed retirement of older men, a new national study suggests.

Between the periods of 1988-1992 and 2001-2005, there was a 4.7 percentage point increase in the number of men aged 55 to 69 in the workforce.

The new study found that between 25 and 50 percent of that increase can be explained by declining Social Security benefits, said David Blau, co-author of the study and professor of economics at Ohio State University.

"Older individuals don't get the same level of Social Security benefits when they retire as they once did, and that has been one reason why a significant number of men continue to work longer than they otherwise might have," Blau said.

These results give a glimpse of what may happen if the federal government opts to further decrease benefits to shore up Social Security's bottom line, as many experts expect.

"This issue is very important because Social Security is in financial imbalance, and one way to correct that imbalance is for people to work longer and delay receiving their benefits," Blau said.

"These results suggest that less generous benefits have the desired effect

of inducing people to work longer."

Blau conducted the study with Ryan Goodstein of the Federal Deposit Insurance Corporation. Their study appears in a recent issue of *The Journal of Human Resources*.

The researchers use data from a variety of sources, including the Social Security Administration, the Current Population Survey and the Survey of Income and Program Participation. With this data, they were able to look at labor force participation of men aged 55 to 69 between the years of 1962 and 2005.

One contribution of this study is that it looks at labor force participation rates for more than 40 years, so that long-term trends can be identified and explained, according to Blau. In addition, the study looked at a wide range of factors, in addition to Social Security benefits, that could explain why [older men](#) leave or stay in the labor force, such as changes in company pensions, retiree health insurance, and the large increase in employment of older women.

The average age of [retirement](#) declined during most of the period of the study, from the early 60s to the late 80s. This was a continuation of a trend that dates back at least to 1900. This research, like many previous studies, could not identify the major reasons for this decline, Blau said. Results suggest that rising generosity of Social Security benefits offered during this time played a role in men retiring early, but it was not the main story.

However, experts speculate that a general rise in living standards and well-being led people to value leisure more and gave them the opportunity to retire earlier, he said.

While the main reasons for the declining retirement age from the 60s to

the 80s remain unknown, Blau said the results are clear that new Social Security rules put in place in the 1980s have pushed men to stay in the workforce longer - even after changes in workplace pensions, retiree health benefits and other factors are taken into account.

Between the periods of 1988-1992 and 2001-2005, the share of men aged 55 to 69 in the workplace rose from 54.6 percent to 59.2 percent, an increase of 4.7 percentage points. Results suggest from one-quarter to one-half of that increase may be explained by declining Social Security benefits, depending on how the researchers took into account other factors.

"Average retirement ages had been declining in the United States for decades, so a turnaround like we saw beginning in the late 80s is a significant change," Blau said. "It's clear that changes in Social Security benefits played a major role in that turnaround."

The study identified two Social Security changes in particular that have led older men to work longer: the increase in the full retirement age beyond age 65, and the financial incentives offered to older workers to delay retirement even beyond the full retirement age.

"These two features of Social Security that were changed in 1983 played a substantial role in persuading men to work longer," Blau said.

But while changes in benefits played the largest role in leading men to delay retirement, the study found these changes weren't the only reasons.

One important factor identified by the study was the increasing number of older married women in the workforce. In the early 1960s, there weren't many older women working outside the home, but that number has increased substantially over time.

How does that affect men's retirement? Blau noted that men tend to be a few years older than their wives, and if couples want to retire at the same time, husbands often have to work a few years longer than they otherwise might.

The final important factor in later retirement ages was the increasing education levels of older men. In the early 1960s, the period first covered by this study, the majority of older men in the workforce were high school dropouts. But by the 2000s, dropouts were a small minority.

Other studies have shown that more highly educated people tend to retire later than those with less education, so it is no surprise that more people are retiring later these days.

He noted that the United States is not alone in seeing these changes in retirement patterns. Western European countries and Japan also saw the drop in retirement ages until the late 80s and early 90s, and then a steady increase since then.

Nearly all these countries have experienced the same demographic trends and social security trends that encouraged workers to retire earlier, at least up to the late 80s, according to Blau. Now, a decline in fertility rates in advanced economies has left fewer younger workers to support retirees, and has resulted in reduced benefits in government programs like Social Security and workers staying on the job longer.

The big question is whether the trend toward later retirement will continue, Blau said. The education effects found in this study are unlikely to play a major role in the future, and the effects of older married women in the work force may continue to push men's retirement back further, but only marginally.

The biggest impact will continue to be changes in Social Security

benefits, he said.

The full retirement age for Social Security will increase from 66 to 67 for workers born in 1960 and later, so that may induce older workers to remain employed longer. After that, no major changes are in store for Social Security benefits - at least for now.

"Most experts think it is inevitable that there will be further reductions in [Social Security](#) benefits to keep the program financially balanced," Blau said. "Those changes may very well lead to even later retirements."

Provided by The Ohio State University

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