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Critical Issues

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Rethinking Retirement in an Aging America

As America ages, elderly workers have become an ever more critical driver of economic growth. Yet since the pandemic began, nearly one in ten have dropped out of the labor force. In this *Critical Issues*, we examine the economic, fiscal, and individual benefits of longer work lives. We also consider a variety of policy initiatives which could make remaining on the job longer more attractive for those workers who are able to do so, while at the same time protecting those who are not. America's success at reversing the recent decline in elderly labor-force participation and more fully unlocking the productive potential of the elderly may well determine whether it prospers while it ages.

GAI Global Aging Institute

TERRY The Terry Group

About Critical Issues

Critical Issues, jointly published by The Terry Group and the Global Aging Institute (GAI), is an occasional series of issue briefs on the demographic and economic trends reshaping America and the world, and in particular the future environment for retirement and health care. Some of the issues in the series explore broad macro-level developments, while others focus on specific developments in the retirement and health-care space.

While the series is primarily U.S. focused, it often places U.S. experience in an international context and sometimes turns the spotlight on other countries. The Terry Group and GAI hope that the series will help inform policymakers, business leaders, and strategic planners as they prepare for a rapidly changing future.

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Rethinking Retirement in an Aging America

The disruptive impact of COVID-19 continues to ripple through the U.S. economy and society. The pandemic has accelerated many important trends that were already under way, from the shift to remote work to the decline in birthrates and the increase in multigenerational living. At the same time, it has slowed or even reversed others, including the trend toward later retirement and longer work lives.

This trend has been a critical driver of economic growth over the past two decades. After falling steeply from the 1950s through the 1970s, the U.S. elderly labor-force participation rate bottomed out in the 1980s and 1990s. (See figure 1.) Since then, it has been rising steadily, with elderly workers accounting for nearly three-fifths of all growth in U.S. employment during the 2010s. Or at least it was rising steadily until the pandemic struck. Between February 2020 and October 2021, nearly one in ten elderly workers have dropped out of the labor force, in all likelihood never to return.[1]

> Elderly labor-force participation has been rising steadily in the United States over the past two decades—or at least it was until the pandemic struck.

It is too soon to tell whether the surge in retirements is a one-time event or heralds a lasting change in behavior. Let's hope it is the former, since a continuation of the trend toward longer work lives would have many benefits for an aging America. In economic terms, longer work lives could substantially offset the drag that slower growth in the population in the traditional working years would otherwise have on economic growth. In fiscal terms, the extra tax revenue they generate could help to alleviate the rising burden of old-age benefit spending. In individual terms, they could improve retirement security by increasing the number of years during which workers are able to save for retirement while decreasing the number of years of retirement that need to be financed. According to most gerontologists, moreover, longer work lives are good for the health of the elderly.

All of this should cause us to reconsider how we think about America's looming retirement crisis. Yes, shoring up Social Security's finances and increasing private retirement savings is critically important. But instead of worrying so much about how we can afford to support the growing number of elderly in retirement for the last third of their adult lives, perhaps

> Working longer as America ages is both natural and necessary.

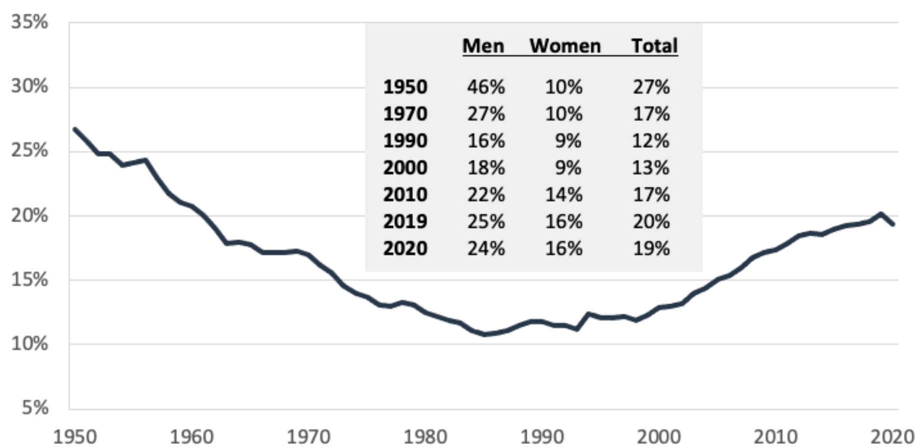
[1] Labor force data for the United States cited in this issue brief come from the Bureau of Labor Statistics (BLS); labor force data for other developed countries come from the OECD. Other demographic and economic data come from standard sources, including the U.S. Census Bureau, the Congressional Budget Office (CBO), the CDC's National Center for Health Statistics, the Social Security Administration's (SSA) Office of the Actuary, and the UN Population Division.

we should be worrying a bit more about how we can keep more of them productively engaged. Working longer as America ages is both natural and necessary. It is natural because life spans and health spans have risen dramatically since today's retirement institutions were first put in place in the early postwar decades. And it is necessary because an equally dramatic slowdown in economic growth, itself largely a consequence of population aging, is rendering those institutions unsustainable.

In this *Critical Issues*, we examine the potential benefits of longer work lives for an aging America. We also consider a variety of policy initiatives which could make remaining on the job longer more attractive for those older workers who are able to do so, while at the same time protecting those who are not. But first we take a step back and review some of the critical developments that have shaped U.S. retirement behavior, from the emergence of today's retirement institutions in the early postwar decades up to and including the disruptive impact of COVID-19.

Figure 1

Labor-Force Participation Rate of the U.S. Elderly (Aged 65 & Over), 1950–2020



Source: BLS (various years)

A SHORT HISTORY OF RETIREMENT

It is easy to forget that retirement as a distinct lifecycle phase is a relatively recent social construct. For most of American history until well into the twentieth century, only soldiers, civil servants, and the members of a few other privileged professions could look forward to retirement. Most of the elderly worked as long as they were able, and when they could no longer work they were generally cared for by their extended families. The same was true throughout the developed world.

It is easy to forget that retirement as a distinct lifecycle phase is a relatively recent social construct.

It was only in the early postwar decades that retirement became commonplace. With both the workforce and wages growing rapidly, governments and employers began to encourage and subsidize retirement. Although Social Security dates to the mid-1930s, its generosity was vastly expanded between the early 1950s and the early 1970s through the introduction of early retirement at age 62, a long series of ad hoc benefit increases, and, beginning in 1972, automatic inflation indexing. At the same time, private pension coverage grew rapidly, with many employers tilting defined benefit pension formulas to reward early retirement and penalize late retirement. Elsewhere in the developed world, governments often went further, virtually bribing older workers to retire. Many European countries added no-actuarial-penalty early retirement options to existing government retirement systems, or else provided backdoor routes to early retirement by liberalizing access to disability and unemployment benefits for older workers. All of this helped to make retirement a universal aspiration, which before long became a universal expectation.

The result was an exodus of older workers from the labor force. As recently as 1950, 46 percent of American men aged 65 and over were in the labor force. By 1990 that share had fallen to just 16 percent. In much of Europe, elderly workers virtually disappeared. By 2000, the share of men aged 65 and over who were still in the labor force had dropped to 8 percent in the United Kingdom, 4 percent in Germany, and 2 percent in France. It is true that the labor-force participation rates of older women remained stable or even rose in most developed countries over the same period. But that was only because the mass entry of women into the labor market eventually began to push up female labor-force participation at older ages faster than earlier retirement was pulling it down.

The architects of this postwar retirement revolution assumed that rapid demographic and economic growth would continue indefinitely. America was in the midst of its Postwar High, Germany its Economic Miracle, and France its Trente Glorieuses, or Thirty Glorious Years. As Nobel Prize winning economist Paul Samuelson put it in a 1967 *Newsweek* article, "A growing nation is the greatest Ponzi game ever contrived."[2] With an expanding population and an expanding economy, he argued, there will always be more young people than old people, and the next generation will always be richer than the last. It thus seemed entirely affordable to pre-commit some of tomorrow's guaranteed affluence and channel it into retirement benefits for older workers.

The architects of the postwar retirement revolution assumed that rapid demographic and economic growth would continue indefinitely.

[2] *Newsweek*, February 13, 1967. The article is a popularization of the argument Samuelson made more formally in Paul A. Samuelson, "An Exact Consumption-Loan Model of Interest with and without the Social Contrivance of Money," *Journal of Political Economy* 66, no. 6 (December 1958).

It also seemed like enlightened social policy. As recently as the 1960s and 1970s, older adults in America had much lower incomes and much higher poverty rates than younger adults. They were also on average far less educated, often lacking not just the youthful stamina needed for manual labor but also the skills needed to compete in America's modernizing economy. Subsidizing retirement was the obvious solution. It also had the additional benefit, or at least so thought many at the time, of clearing the workplace of the old "deadwood" in order to free up jobs for the young.

Yet no sooner had the foundations of today's retirement systems been laid than Samuelson's Ponzi game began to unravel. By the 1970s, birthrates were in free fall across the developed world, even as life expectancy continued to rise. The result was a dramatic acceleration in population aging. In 1950 there were seven Americans aged 20 to 64 for every American aged 65 and over. Today there are three and one-half and by 2050 there will be just two and one-half. Nor was the demographic tide all that had turned. Real earnings growth also slowed precipitously beginning in the 1970s and has never fully recovered. All of a sudden, the retirement promises that had once seemed so affordable turned out to be unsustainable.

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At the same time, the vast improvement in the economic circumstances of the elderly began to undermine the social policy rationale for subsidizing retirement. In 1965, the poverty rate of U.S. adults aged 65 and over was nearly three times that of nonelderly adults. By the mid-1980s it was no higher and over the past fifteen years it has actually been lower. Meanwhile, the median net worth of adults aged 65 and over has risen steadily and now exceeds that of every younger age group.

Although it took the developed countries a while to catch up with the new realities, by the 1990s and early 2000s most had reversed direction and begun to encourage longer work lives. Increasingly, policies deliberately designed to subsidize early retirement or penalize late retirement are a relic of the past. Most countries have eliminated their no-actuarial-penalty early retirement options and slammed shut their backdoors to early retirement. Many, including the United States, have also raised the full-benefit retirement ages in their government retirement programs, and some are

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indexing them to future gains in life expectancy. At the same time, the shift from defined benefit pensions, whose cost rises with age, to defined contribution pensions, whose cost does not, has made it more attractive for employers to hire or retain older workers.

Along with retirement policy, the broader social and economic environment was also changing in ways that facilitated longer work lives. The gap in educational attainment between older and younger adults steadily narrowed over the course of the postwar era and by now has all but vanished, even as the ongoing shift from manufacturing to services rendered youthful stamina increasingly irrelevant in most jobs. Life spans and health spans also increased dramatically. Between 1950 and 2019 U.S. life expectancy rose by eleven years, from 68 to 79. Back in 1950, a 65-year-old American had only a one in four chance of living another twenty years to 85. Today, the odds are one in two. Meanwhile, beginning in the 1980s, elderly disability rates also entered a steep decline. On average, according to the WHO, Americans who reach their sixties can now expect to spend nearly three-quarters of their remaining life disability free.[3]

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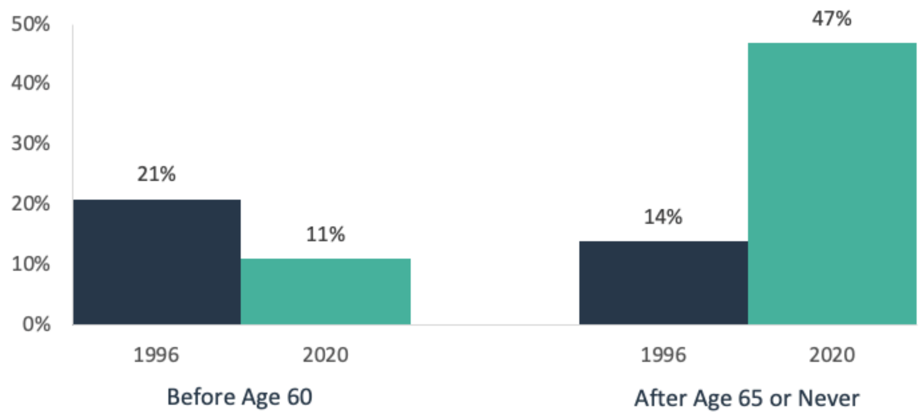
All of this helped to spur a generational reevaluation of the attractions of all-or-nothing retirement versus continued productive engagement. According to EBRI's annual Retirement Confidence Survey, the share of U.S. workers who expect to retire before age 60 declined from 21 percent in 1996 to 11 percent in 2020. At the same time, the share who expect to retire after age 65 or never increased from 14 to 47 percent. (See figure 2.) Actual retirement behavior, moreover, has borne out these expectations. The labor-force participation rate of U.S. men aged 65 and over started to rise again, climbing from 16 percent in 1990 to 25 percent in 2019 on the eve of the pandemic. Meanwhile, the equivalent rate for women rose from 9 to 16 percent. Employment at older ages also increased in many European countries, especially among adults in their late fifties and early sixties. Between 2000 and 2019, the share of men aged 60 to 64 who are in the labor force doubled in Germany and tripled in France and the Netherlands.

[3] For the decline in elderly disability rates, see Kenneth G. Manton, Xi-Liang Gu, and Vicki L. Lamb, "Change in Chronic Disability from 1982 to 2004-2005 as Measured by Long-Term Changes in Function and Health in the U.S. Elderly Population," *Proceedings of the National Academy of Sciences* 103, no. 48 (November 2006); David M. Cutler, Kaushik Ghosh, and Mary Beth Landrum, "Evidence for Significant Compression of Morbidity in the Elderly U.S. Population," NBER Working Paper no.19268 (Cambridge, MA: National Bureau of Economic Research, July 2013); and Eric Stallard, "Compression of Morbidity and Mortality: New Perspectives," *North American Actuarial Journal* 20, no. 4 (2016). The WHO data, which refer to "health-adjusted life expectancy" (HALE) at age 60, are available at https://apps.who.int/gho/data/node.main.688.

Figure 2

Percent of Workers Expecting to Retire before Age 60 and after Age 65 or Never, 1996 and 2020



Source: *Retirement Confidence Survey* (Washington, DC: EBRI, 1996 and 2020), available at https://www.ebri.org/retirement/retirement-confidence-survey

There is one more important twist to the story. The trend toward longer work lives has been largely driven by more highly skilled and better educated workers who are remaining in the labor force longer because they want to. As they have delayed retirement in greater and greater numbers over the past two decades, they have pushed up the average earnings of elderly workers an astonishing two to three times faster than the earnings of nonelderly workers.[4] But there is also another and very different contributor to the trend. Although the economic circumstances of the elderly have improved enormously over the course of the postwar era, numerous studies have revealed that a growing share of U.S. workers are approaching retirement age without sufficient financial resources to maintain their living standard if they stop working.[5] There are many reasons for the erosion in retirement preparedness, including rising wage inequality, large and persistent gaps in private retirement plan coverage, low personal savings rates, growing indebtedness, and the increase in the number of never married and divorced adults. The unsurprising result is that, along with the more highly skilled and better educated workers who are remaining in the labor force because they want to, there are also many lower-skilled and less educated workers who are remaining in the labor force because they have to.

4 See Neil Howe, "Are Retiring Boomers Suppressing Wage Growth?" (Stamford, CT: Hedgeye, March 15, 2018), available to subscribers at https://demography.hedgeye.com/publications/reports/trend-watch/2018/18-03-15-are-retiring-boomers-suppressing-wage-growth.

5 Perhaps the best-known study is the National Retirement Risk Index, which has been updated triennially since 2004. For the latest 2019 results, see Alicia Munnell, Anqi Chen, and Robert L. Siliciano, "The National Retirement Risk Index: An Update from the 2019 SCF," CRR Briefs 21-2 (Chestnut Hill, MA: Center for Retirement Research at Boston College, January 2021).

THEN ALONG CAME COVID-19

Just a year and a half ago, there was little reason to doubt that the trend toward longer work lives would continue. It had been gathering momentum for over twenty years. Along the way, moreover, it had proven remarkably resistant to economic shocks which might have been expected to slow or reverse it, most notably the Great Recession, in whose wake labor-force participation continued to rise for every five-year age bracket over age 60, even as it fell for every five-year age bracket under age 60.

Then along came COVID-19. Everyone knows that the pandemic caused a huge spike in unemployment. What is less well known is that it also caused a large drop in labor-force participation—that is, the number of people either working or actively seeking work. This drop has been especially steep among the elderly. As of October 2021, the labor-force participation rate of U.S. adults aged 65 and over was 8.2 percent lower than in February 2020, while that of "prime age" adults aged 25 to 54 was just 1.4 percent lower. The Federal Reserve Bank of St. Louis estimates that roughly 3 million more workers have retired since the start of the pandemic than would have been expected to retire based on prior-year trends.[6] These excess retirements explain more than half of the overall decline in U.S. labor-force participation.

> The drop in U.S. labor-force participation since the pandemic began has been especially steep among the elderly.

It is hardly surprising that the elderly have exited the labor force in large numbers in the midst of a pandemic to which they are particularly vulnerable. Yet more than concerns about health and safety may be driving the exodus. Although a disproportionate share of those older workers who have retired since the pandemic began are lower-income workers, which is to say those workers who are least likely to be able to work remotely, higher-income workers have also been retiring in greater than expected numbers.[7] While the reasons are not entirely clear, it is possible that the widespread death and disruption caused by the pandemic is prompting a "life is short" reevaluation of the trade-offs between continued work and retirement. If so, the decline in elderly labor-force participation could turn out to be more than a one-time shock.

6 Miguel Faria-e-Castro, "The COVID Retirement Boom," Economic Synopses 2021-25 (St. Louis: Federal Reserve Bank of St. Louis, October 15, 2021), available at https://files.stlouisfed.org/files/htdocs/publications/economic-synopses/2021/10/15/the-covid-retirement-boom.pdf.

7 See Geoffrey T. Sanzenbacher, "How Have Older Workers Fared during the COVID-19 Recession?" CRR Briefs 21-7 (Chestnut Hill, MA: Center for Retirement Research at Boston College, April 2021) and Richard Fry, "The Pace of Boomer Retirements Has Accelerated in the Past Year" (Washington, DC: Pew Research Center, November 9, 2020), available at https://www.pewresearch.org/fact-tank/2020/11/09/the-pace-of-boomer-retirements-has-accelerated-in-the-past-year/.

While one might hope that surveys of retirement expectations would provide some clear indication of how all of this is likely to play out, the results are difficult to interpret. In EBRI's 2021 Retirement Confidence Survey, for instance, more current workers say that they have postponed the date they plan to retire since January 2020 than say that they have moved it up. Yet at the same time, the share of current workers expecting to retire after age 65 or never has declined from 47 percent in the 2020 survey to 39 percent in the 2021 survey, while the share who expect to retire before age 60 has risen from 11 to 18 percent.[8] What may be happening is that some workers are now planning to work a little longer than previously in order to recoup earnings lost during the pandemic, while others are reconsidering their prior plans to work well into the traditional retirement years.

As yet, neither the CBO nor the BLS has revised its long-term assumptions about elderly labor-force participation. In its latest *Long-Term Budget Outlook*, published in March 2021, the CBO projects that the labor-force participation rates of adults in their sixties and seventies will soon begin rising again roughly in line with what it was projecting in 2019 on the eve of the pandemic. The latest BLS projections, published in September 2021, assume a similar reversion to the pre-pandemic trend.[9]

It would be a mistake, however, to take this reversion for granted. COVID-19 has shaken up labor markets in countless ways, and it is simply too soon to be sure what the long-term impact on elderly labor-force participation will be. It is not too soon, however, to begin to think about how America can ensure that the trend toward longer work lives resumes, or even accelerates, once the pandemic is past. We consider some of the available policy levers later in the issue brief. But first we take a closer look at the potential benefits of longer work lives for an aging America.

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THE BENEFITS OF LONGER WORK LIVES

There is no question that the trend toward longer work lives has had large economic benefits. As the smaller cohorts born since the end of the postwar Baby Boom have climbed the age ladder, the average annual growth rate in the U.S. labor force has decelerated, from 2.6 percent in the 1970s to 0.7 percent from 2010 to 2019. Yet were

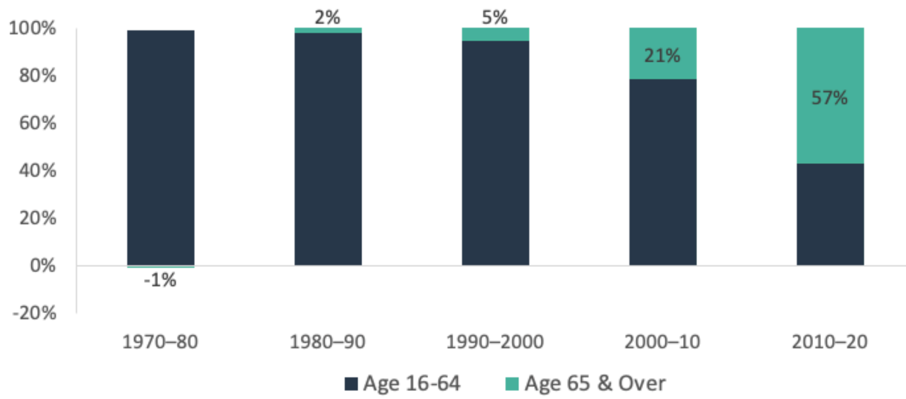
[8] *Retirement Confidence Survey* (Washington, DC: EBRI, 2020 and 2021), available at https://www.ebri.org/retirement/retirement-confidence-survey.

[9] For the latest CBO projections, see the "Long-Term Economic Projections" data supplement to *The 2021 Long-Term Budget Outlook* (Washington, DC: CBO, March 2021), available at https://www.cbo.gov/system/files/2021-03/57054-2021-03-Long-Term-Economic-Projections.xlsx; for the latest BLS projections, see Kevin S. Dubina et al., "Projections Overview and Highlights, 2020-2030," *Monthly Labor Review* (October 2021), available at https://www.bls.gov/opub/mlr/2021/article/projections-overview-and-highlights-2020-30.htm.

it not for the surge in the number of elderly workers over the past two decades, the slowdown would have been even more dramatic. For most of the postwar era, the contribution of the elderly to U.S. labor-force growth was negligible. But during the 2000s adults aged 65 and over accounted for one-fifth of all growth in the labor force and during the 2010s they accounted for nearly three-fifths of it. (See figure 3.)

Figure 3

Contribution to Labor-Force Growth, by Age Group and Decade, 1970-2020



Source: Kevin S. Dubina et al., "Projections Overview and Highlights, 2020-2030," *Monthly Labor Review* (October 2021), available at https://www.bls.gov/opub/mlr/2021/article/projections-overview-and-highlights-2020-30.htm, and GAI calculations.

In coming years, the contribution of the elderly to economic growth will become even more critical. By the 2030s and 2040s, according to the CBO, the labor force will be growing at an average rate of just 0.3 percent per year, an outcome which could pull down real GDP growth to between 1.0 and 1.5 percent per year, just one-third to one-half of its average since 1950. If the ongoing increases in elderly labor-force participation built into the CBO projections fail to materialize, labor-force growth and GDP growth would sink even lower. On the other hand, if elderly labor-force participation were to increase more than the CBO anticipates, it could significantly improve the growth outlook. To gain some sense of the upside potential, consider the following illustration. The CBO currently assumes that the labor-force participation rate of adults aged 60-69 will by 2050 increase to about two-thirds of the rate for adults aged 55-59. If it were to equal the rate for adults aged 55-59, GAI calculates that, all other things being equal, employment and GDP in 2050 would be roughly 5 percent larger than the CBO projects.

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Beyond the economic benefits of longer work lives, there would be substantial fiscal benefits. It is true that longer work lives would not necessarily yield much savings in Social Security benefits. Once workers reach the full-benefit retirement

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age, they can collect benefits without penalty while working, and if workers choose to defer benefits the delayed retirement credit compensates them later. However, longer work lives would generate substantial new tax revenue. FICA revenue would of course grow in lock step with the increase in employment income. Higher employment income would also generate higher income tax revenue, though the tax gain might in the near term be partially offset by a tax loss if workers decide to withdraw less tax-deferred retirement savings from 401(k) plans and traditional IRAs.

There would also be substantial benefits for individuals. For one thing, retirement security would improve. All other things being equal, if workers contribute for five more years to a defined contribution retirement plan, and collect benefits for five fewer years, the plan's income replacement rate would be roughly one-third greater. For another thing, a growing literature concludes that continued productive engagement has a large positive effect on the physical health, cognitive function, and emotional well-being of older adults. Indeed, there appears to be a virtuous feedback loop. Longer health spans facilitate productive aging, and productive aging helps to further lengthen health spans.[10]

Continued productive engagement has a large positive effect on the physical health, cognitive function, and emotional well-being of older adults.

Some worry that more jobs for the old would mean fewer jobs for the young. Almost all economists agree that this concern is groundless. They even have a name for the notion that there is a zero-sum competition between age groups for the jobs that the economy creates: the "lump of labor fallacy." The truth is that a job for one person does not deny a job to another. In fact, just the opposite is true. Additional jobs generate additional income, resulting in new demand for goods and services that in turn translates into still more jobs. While there may be competition for jobs between young and old at the firm level, or even at the industry level, at the economywide level longer work lives are a win-win proposition. And in fact, countries with relatively high rates of elderly employment also tend to have high rates of youth employment.[11]

[10] See, among others, Robert N. Butler, *The Longevity Revolution: The Benefits and Challenges of Living a Long Life* (New York: PublicAffairs, 2008), 237-55; Chenkai Wu et al., "Association of Retirement Age with Mortality: A Population-Based Longitudinal Study among Older Adults in the USA," *Journal of Epidemiology and Community Health* 70, no. 9 (March 2016); and Ursula M. Staudinger et al., "A Global View on the Effects of Work on Health in Later Life," *The Gerontologist* 56, issue supplement 2 (April 2016).

[11] For a review of the evidence, see *OECD Employment Outlook 2013* (Paris: OECD, 2013), 49-53.

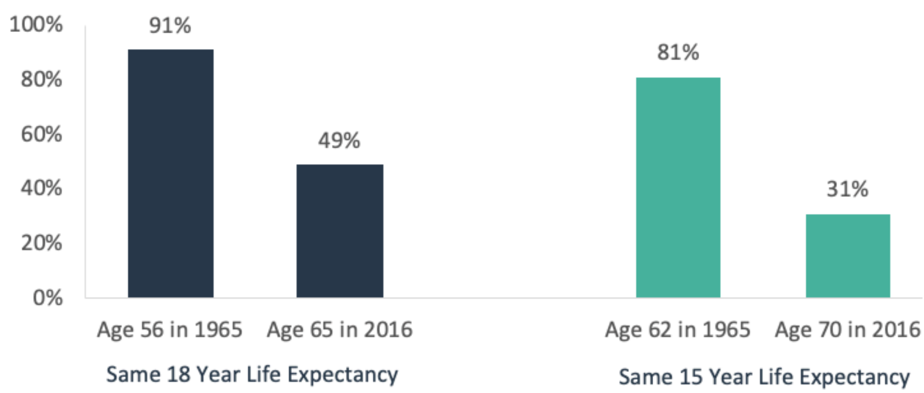
Others worry, with more justification, that longer work lives would be a hardship for many Americans. As we pointed out in a previous issue of this series ("From Longevity Leader to Longevity Laggard," June 29, 2021), there are large and growing differences in U.S. life expectancy and health expectancy by income and educational attainment. These differences will indeed make it difficult for many Americans to extend their work lives. Not everyone has shared equally in the transformation of old age, and there must be policies in place that protect those who need to retire early.

Not everyone has shared equally in the transformation of old age, and there must be policies in place that protect those who need to retire early.

Yet this caveat notwithstanding, substantial increases in U.S. elderly labor-force participation are clearly feasible. Despite the gains of the past two decades, just one in six elderly women are employed. At one in four, the share of elderly men who are employed, though considerably greater, is still just half of what it was in 1950, when life expectancy was much lower than it is today. If we compare the employment rates of people with the same life expectancy over time rather than people with the same chronological age, the results are eye-opening. According to data compiled by the Urban Institute, a 65-year-old man in 2016 had the same eighteen-year life expectancy as a 56-year-old man did in 1965. Yet 91 percent of 56-year-old men worked in 1965, compared with 49 percent of 65-year-old men in 2016. A 70-year-old man in 2016 had the same fifteen-year life expectancy as a 62-year-old man did in 1965. Yet 81 percent of 62-year-old men worked in 1965, compared with 31 percent of 70-year-old men in 2016. (See figure 4.)

Figure 4

Employment Rates of U.S. Men Aged 65 and 70 in 2016, Compared with Those of Men with the Same Life Expectancy in 1965



Source: Urban Institute Program on Retirement Policy, "Case Study: Employment at Older Ages," available at https://www.urban.org/policy-centers/cross-center-initiatives/program-retirement-policy/projects/modernizing-our-retirement-programs/ alternative-measures-age/case-study-employment-older-ages

America is aging, old-age dependency burdens are rising, and economic growth is slowing. Meanwhile, the productive potential of the elderly remains largely untapped. The benefits of extending work lives would be enormous, but more fully realizing those benefits may require significant policy changes.

SOME IMPORTANT POLICY LEVERS

Our purpose in this section is not to present a comprehensive set of policy recommendations for encouraging longer work lives. In fact, it is not to make recommendations at all. Rather, it is simply to call attention to some of the important policy levers that are available.

The obvious place to start is with Social Security, which plays a critical role in determining the retirement decisions of most workers. In recent decades, a number of reforms have helped to realign the program with the needs of our aging society. Social Security's delayed retirement credit for workers who retire after the program's full-benefit retirement age, which had previously been less than actuarially fair, has been increased, while its earnings test, which had previously withheld benefits from most retirees who continued to work, has been liberalized. Nonetheless, several features of Social Security continue to create significant disincentives to longer work lives. One involves the way in which initial benefits are calculated. Currently, Social Security's Primary Insurance Amount (PIA) formula only counts the highest thirty-five years of wages. If it were changed to include workers' entire wage histories, it would encourage longer careers. Another involves the delayed retirement credit, which currently is only applied through age 70, after which no further actuarial adjustments to benefits are made. It could be changed to allow for ongoing actuarial adjustments up to whatever age benefits are claimed.

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While the disincentives on the benefit side of Social Security are significant, there is an even bigger disincentive on the tax side. Workers continue to pay FICA taxes as long as they remain employed, regardless of whether they are accruing additional benefits. Since the elasticity of labor supply is high at older ages, reducing the FICA tax rate for older workers or even granting them "paid up" status and exempting them from FICA taxes entirely would encourage more of the elderly to work or, if they are already employed, to work more hours. Although this reform would naturally result in a loss in FICA revenue, some economists calculate that the additional income taxes paid on the additional employment income earned would more than compensate for the loss.[12]

Beyond these adjustments, policymakers could consider raising Social Security retirement ages. A hike in the program's early retirement age would do the most to increase employment at older ages, but could also cause considerable hardship for some workers, and especially lower-income workers, who tend to have more physically demanding jobs than higher-income workers and who also tend to be in poorer health. Lower-income workers, moreover, have a lower life expectancy than higher-income workers, which means that they would suffer disproportionate losses in lifetime benefits. An increase in the early retirement age would therefore need to be accompanied by some sort of enhanced income protection for those older workers who cannot stay on the job longer. This protection could take any number of forms, including easier access to Social Security disability benefits for older workers or a new means-tested "bridge benefit."

Unlike a hike in Social Security's early retirement age, a hike in its normal or full-benefit retirement age would not require anyone to work longer to claim benefits. In fact, it would not really be a retirement age hike at all, but rather a pro rata benefit cut at each age that benefits are claimed. Nonetheless, raising the full-benefit retirement age would likely encourage longer work lives for two reasons. To begin with, there would be a signaling effect. It is no accident that Social Security retirement benefit claims currently cluster around the program's early and full-benefit retirement ages, which many workers understandably interpret as the most appropriate ages to retire. There would also be an incentive effect, since at least some workers would decide to postpone retirement in order to receive the same monthly benefits that they would have received prior to the reform. It is possible that the incentive effect would be strongest for lower-income workers, who are also the workers for whom working longer might pose the greatest hardship. If this is a concern, the reduction in their monthly benefits due to the hike in the full-benefit retirement age could be offset by further increasing the progressivity of the PIA benefit formula.

Few reform proposals are more controversial than raising Social Security retirement ages, and few are more fraught with concerns about equity. Yet provided that adequate safeguards are put in place, it is difficult to see why raising them would be unacceptably onerous. Social Security's early retirement age of 62 has remained unchanged

> For retirement to last no longer today than it did at age 65 in 1940 when Social Security first began paying benefits, workers on average would have to wait until age 74 to retire.

[12] See Robert L. Clark and John B. Shoven, *Enhancing Work Incentives for Older Workers: Social Security and Medicare Proposals to Reduce Work Disincentives* (Washington, DC: Brookings Institution, January 2019).

since early retirement was first introduced for women in 1956 and for men in 1961. And although its full-benefit retirement age, which was originally 65, has been rising in stages and will reach 67 for workers born in 1960 or later, this increase still leaves it lagging far behind gains in life expectancy. In fact, for retirement to last no longer today than it did at age 65 in 1940 when Social Security first began paying benefits, workers on average would have to wait until age 74 to retire.[13]

Social Security is not the only government benefit program whose current rules discourage work at older ages. Medicare's do so as well, though in its case the disincentives affect employers rather than workers. Currently, employer-sponsored health plans at firms with twenty or more employees remain the primary payer for Medicare-eligible employees, which, given the fact that health-care costs rise steeply with age, discourages the hiring and retention of older employees. Making Medicare the primary payer for most Medicare-eligible employees would come at a cost to the federal budget, but would remove a major disincentive to employing the elderly.

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In many respects, the United States is well positioned to extend work lives. One reason is its flexible labor markets. Seniority pay scales, which are common in other developed countries, can discourage employers from retaining older workers, while job guarantees, which are even more common, can discourage employers from hiring them in the first place. Such policies are not a major obstacle to longer work lives in the United States. Unlike many developed countries, moreover, the United States has laws that specifically prohibit age discrimination in the workplace. These laws may not always be effectively enforced, as evidenced by the fact that spells of unemployment last much longer for older workers than they do for younger ones. But they at least form a basis for further progress.

Nonetheless, realigning incentives in government benefit programs is only the first step if the United States is to more fully realize the productive potential of the elderly. Employment and workplace practices will need to change as well. Some of the initiatives that would do the most to help older workers stay on the job longer would also help younger workers, and so would be desirable in any case. Investing more in lifelong learning is as important for

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[13] Equivalent retirement ages can be calculated assuming either the same duration of retirement years or the same ratio of retirement years to working years. GAI's calculation takes the first approach. The age 74 figure refers to 2018, the most recent year for which the CDC has published a complete life table.

40-year-olds as it is for 60-year-olds. Leave policies that help workers balance work and family responsibilities can also help young and old alike. Sometimes time off is needed to care for a new baby, while sometimes it is needed to care for an aged spouse. Older workers, however, also have their own special needs and face their own special challenges. Employers could help by expanding opportunities for partial retirement, phased retirement, and "unretirement." Although these are becoming more common, they are still far from universal. They could also help by including more older workers in training programs, from which they are too often excluded.

Then there is what is undoubtedly the greatest challenge of all. While life spans and health spans have increased dramatically in recent decades, opening up new possibilities for productive aging, the rising tide of lifestyle-related morbidity and mortality afflicting today's young and midlife adults threatens to throw the trend into reverse in future decades. Preventing this from happening will require a major educational campaign. It will require new investments in the health of the elderly, and especially the health of the future elderly. It may also require broader economic reforms that reduce income inequality and reverse the hollowing out of the middle class.

PROSPERING WHILE AGING

The midst of an ongoing pandemic that has exacted its greatest toll on the elderly may not seem like the most opportune time to make the case for longer work lives. But long-term success requires long-term planning, and the stakes are enormous. Indeed, nothing is likely to do more to maintain economic and living standard growth in an aging America than unlocking the productive potential of the elderly, who are not only its most underutilized human resource but also the fastest growing segment of its population.

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Yes, increasing the labor-force participation of prime-age adults, which has fallen since the Great Recession, would help. But prime-age adults already work at a much higher rate than older adults do and, moreover, will be a shrinking share of the population. And yes, higher immigration would also help. But net immigration has fallen since the Great Recession as policy has grown more restrictive, and the prospects for reversing the trend are uncertain. As for higher productivity growth, which some might hope could substitute for higher employment growth, there is little reason to expect a sudden surge. Indeed, productivity growth is more likely to fall than to rise in an aging America, which may have lower rates of investment, an aging capital stock, and a less entrepreneurial workforce.

The goal should not be to have everyone work forever. Ensuring that most people are able to enjoy a period of well-earned retirement leisure after a lifetime of hard work is one of the great accomplishments of the modern welfare state, and there is no need to turn back the clock. The goal should not even be to have everyone work longer. Some will not be able to do so, and some will simply prefer not to. But if a significantly larger share of adults were to remain productively engaged during their sixties and seventies, when the health constraints on continued employment are broadly similar to those facing adults in their forties and fifties, the benefits to the economy, to the budget, and to individuals themselves would be immense.

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America was on the right track before the pandemic struck, and it will need to get back on the right track once the pandemic is past. Whether it succeeds may well determine whether it prospers while it ages.

About the Global Aging Institute

The Global Aging Institute (GAI) is a nonprofit research and educational organization dedicated to improving our understanding of global aging, to informing policymakers and the public about the challenges it poses, and to encouraging timely and constructive reform. GAI's agenda is broad, encompassing everything from retirement security to national security, and its horizons are global, extending to aging societies worldwide.

GAI was founded in 2014 and is headquartered in Alexandria, Virginia. Although GAI is relatively new, its mission is not. Before launching the institute, Richard Jackson, GAI's president, directed a research program on global aging at the Center for Strategic and International Studies which, over a span of fifteen years, played a leading role in shaping the debate over what promises to be one of the defining challenges of the twenty-first century. GAI's Board of Directors is chaired by Tom Terry, who is CEO of the Terry Group and past president of the International Actuarial Association and the American Academy of Actuaries. To learn more about GAI, visit us at www.GlobalAgingInstitute.org.

About The Terry Group

The Terry Group is an actuarial consulting firm whose consultants and researchers help organizations navigate the complexities of health care, pensions, investments, and employee benefits. We are actuaries, clinicians, and experts in capital markets. We build models, analyze data, and provide expert testimony, working in partnership with our clients to help solve challenging problems and achieve their goals. Our deep experience, superior technical expertise, and passion for continuous learning are central to who we are. To learn more about The Terry Group, visit us at www.terrygroup.com.

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