Will Fifteen Million Older Workers Lower Your Wages?

Teresa Ghilarducci

Older workers conundrum

- More people age 55 and older are working than ever before because there are more older people in the population.
- Some older workers continue to work by choice, others because inadequate retirement resources leave them no choice.
- Elected officials and policymakers should make new laws and enact new policies to reflect the realities and meet the needs of today's and tomorrow's older workers and retirees.
- Ghilarducci proposes Guaranteed Retirement Accounts (GRAs) for workers whose employers do not offer retirement benefits. GRAs, run by the federal government, would invest workers' contributions in safe, low-fee accounts that earn secure, modest, guaranteed rates of return and preserve savings for retirement benefits paid out in a lifelong annuity—a fixed, incremental, monthly return on investment, on top of Social Security.

In the next seven years, an extra fifteen million people could be competing for jobs in the U.S. labor market. These unexpected entrants are not immigrants, or young wives, or newly minted high school and college grads. The new workers are "domestic immigrants," older people, who in the past would have otherwise been retired and not seeking work.

The expected influx of millions of older workers rivals that of other periods of American history when large increases in the labor supply reduced workers' bargaining power and leverage they used to achieve wage growth or improvements in working conditions.

Fifteen million new workers represent an almost 10 percent increase in the labor force, which is an increase that could rival the effect of the great black migration from the American South to the North on northern workers' wages. The increase in the supply of older workers could have a larger effect than the negative wage effect that a greater supply of educated women workers had on less educated men after 1950, or the negative effect the number of Baby Boomers had on their own wages since they entered the workforce in the early 1960s.

Economists at Boston College and the Urban Institute, Margarita Sapozhnikov, Robert Treist, and Richard Johnson, conclude it is likely that the increasing supply of older workers will lower the pay for experience, and that people born in large cohorts earn a significantly lower wage than members of smaller cohorts.

> The labor force participation rates of those ages 55 and older is higher than ever before.

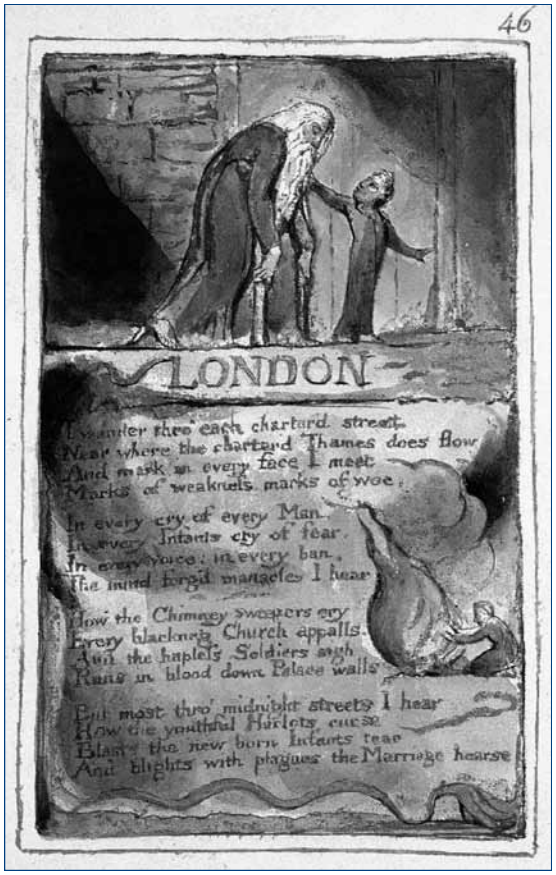
If more older workers work or seek work, the labor force participation of 55- to 64-year-olds increases by 25 percent and that of 65- to 74-year-olds increases by 33 percent (Gary Burtless from Brookings predicts a doubling of labor force participation rates), and the numbers of workers in that age group increases by 17.5 percent. In comparison, the number of black workers in the North increased by an average of 17.4 percent per year between 1910–1940, and the annual increase in the number of women in U.S. labor markets from 1950–2000 was 1.8 percent (see the graph on the following page).

The Size of the Domestic Supply of New Workers

More people age 55 and older are working than ever because there are more people that age and because the share of the working population has increased. More than 40 percent of the population growth since the mid-1980s has been among people over age 55. The number of people ages 55–74 will increase by 23 percent between 2012 and 2022.

And there will be more older workers, because the labor force participation rates of people ages 55 and older is higher than ever before. Between 1985 and 2013, the labor force participation rate for women ages 55 and older increased from 22 percent to just over 35 percent. Men's participation rate rose from 41 percent to nearly 47 percent.

The future of the labor force participation rates of older workers is in dispute, as all predictions are bound to be. The Bureau of Labor Statistics (BLS) predicts a modest increase in the percentage of workers ages 55–74, to 60 percent, so the BLS predicts the workforce for 55–74 will grow by 17 percent in the ten years between 2012 and 2022.



The BLS takes a conservative view that the economic and social factors affecting retirement decisions will not change significantly. These factors include tax laws, retirement income, Social Security and Medicare rules, and current cultural and personal preferences for work, as well as employer decisions about wages, hours, and working conditions.

In 2015, the highest percentage of workers ever measured—36 percent—say they will retire after age 65.

But there is strong evidence that older workers will work more and that the factors affecting work longevity, such as pension security, will drastically change. A lack of confidence in their retirement income and living standards could propel older people who wouldn't otherwise be competing in the labor market to work or look for work.

The Washington-based think-tank, Employment Benefits Research Institute (EBRI), reports workers' expected retirement age has been rising since 1991, when 11 percent of workers expected to retire after age 65. In 2015, the highest percentage of workers ever measured—36 percent—say they will retire after 65.

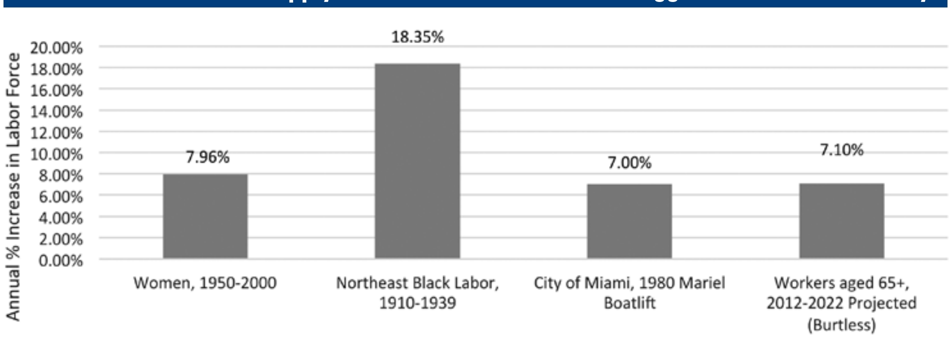
Non-existent and too-small 401(k) account balances give less bargaining power to older workers to either quit a job or find a job they love. The average Social Security benefit is about $15,000 per year; the median income from IRAs and 401(k) plans will yield $2,400 per year, which barely meets the federal poverty standard for living in a chronic state of want and deprivation.

Older people will have to take low-wage jobs with poorer working conditions than they want, and what would be worse than having a poor-quality, low-wage job? Sadly, not having a job at all. The stick of poverty could raise labor force participation rates.

Also, policymakers and advisers are clamoring for policies to increase the labor supply of older workers. If these policies are implemented, the BLS predictions may underestimate the increase in older workers' labor supply. The pro-work policies range from what Brookings economist Henry Aaron calls "mugging" policies to the other end of the range, to what are called "bribing" policies.

Redesigning Social Security communications to emphasize the large benefit hikes from delaying payments may boost work effort and reduce benefits. Some Republican presidential candidates have suggested that raising the Social Security full retirement age and the Medicare eligibility to age 70 would boost work effort among older workers.

Older Workers' Labor Supply Shock Could Be One of the Biggest in American History



Scenario 1: Increase in labor supply by age if there are no changes in labor force participation rates in any age category

	#s in millions	2012	2022	Change	% Change
25–54	Noninstitutional Population	124.31	127.47	3.16	3%
	Labor Force Participation	81.40%	81.40%	0.00%	0%
	Labor Force	101.19	103.76	2.57	3%
55–64	Noninstitutional Population	38.32	41.94	3.63	9%
	Labor Force Participation	64.50%	64.50%	0.00%	0%
	Labor Force	24.71	27.05	2.34	9%
65–74	Noninstitutional Population	23.65	34.25	10.59	45%
	Labor Force Participation	26.80%	26.80%	0.00%	0%
	Labor Force	6.34	9.18	2.84	45%
Total	Noninstitutional Population	186.29	203.66	17.37	9%
	Labor Force	132.25	139.99	7.75	6%

Scenario 2: Increase in labor supply where workers in the older age groups increase their work effort. This scenario assumes an increase in labor force participation of 25 percent for workers of ages 55–64, and 33 percent for workers of ages 55–74.

	#s in millions	2012	2022	Change	% Change
25–54	Noninstitutional Population	--------------No changes----------------			
	Labor Force Participation	--------------No changes----------------			
	Labor Force	--------------No changes----------------			
55–64	Noninstitutional Population	38.32	41.94	3.62	9%
	Labor Force Participation	64.50%	80.63%	n/a	25%
	Labor Force	24.71	33.814	9.1041	37%
65–74	Noninstitutional Population	23.65	34.25	10.6	45%
	Labor Force Participation	26.80%	35.64%	n/a	33%
	Labor Force	6.34	12.208	5.8681	93%
Total	Noninstitutional Population	--------------No changes----------------			
	Labor Force	--------------No changes----------------			

Sources:

Gihoon Hong and John McLaren, "Are Immigrants a Shot in the Arm for the Local Economy?" Working Paper 21123, http://www.nber.org/papers/w21123.

Nikolaj Malchow-Møller, Jakob R. Munch, and Jan Rose Skaksen,"Do Immigrants Affect Firm-Specific Wages? " *Scandinavian Journal of Economics*, 114(4), (2012): 1267–1295.

Spencer R. Crew, "The Great Migration of Afro-Americans, 1915–40," *Monthly Labor Review* 100 (1987).

Priscilla Murolo (Author), A. B. Chitty (Author), Joe Sacco (Illustrator), *From the Folks Who Brought You the Weekend: A Short, Illustrated History of Labor in the United States* (New York: The New Press, 2003).

Margarita Sapozhnikov and Robert K. Triest, "Population Aging, Labor Demand, and the Structure of Wages," Center for Retirement Research at Boston College, working paper, 2007-14. Released: October 2007.

Therefore, if older workers boost their labor force participation, the wave of 5.3 million new older workers predicted by the BLS will be a flood of more than fifteen million older workers in the U.S. labor pool. Bottom line, if the labor force participation increases about 25 percent for workers ages 55–64, and one-third for workers age 65–74, then about fifteen million more people in 2022 between the ages of 55 and 74, who would otherwise be retired, will be in the labor force.

The number of people working or looking for work in 2022 in that age category would be thirty-six million if work effort does not change. The number of workers in that age category will increase by more than 39 percent (15 million out of thirty-six million). This increase in the number of people working who would otherwise be retired is what I call the "new domestic immigrants."

Will Older Workers Spoil Labor Markets?

The increase of fifteen million workers over a ten-year period will affect labor markets, but will the effect be large enough to make a difference? The answer is most certainly yes.

This numerical increase represents a 36 percent increase in the supply of workers in the 55–74 age group. If older workers are substitutes for each other, the impact would be similar to a 31 percent unemployment rate unless the number of jobs for older workers increases by 110,000 a month over and above what is the normal rate of increase. This means most of the new jobs created in the economy would have to go to people over age 55, and not people between the ages of 25 and 54.

Speculation about how more older workers in the labor force will affect the labor market is deeply divided between two camps.

The first camp argues that more older workers seeking work—especially if the motive is because their pension income is reduced—will increase competition for jobs and lower the wages plus well-being for both the older workers and the other workers against whom this new supply of workers competes.

The second camp argues older people working will only be positive—positive for the economy, positive for older people because they will have more income and, perhaps, better health, more sociability, and higher levels of cognition.

Case 1: More Older Workers Will Lower Wages and Erode Working Conditions

The negative view argues that the new supply of workers will ramp up the competition for jobs and reduce bargaining power. Evidence for less bargaining power of older workers is already showing up. Older workers make up a larger share of the long-term unemployed than ever before, workers over 55 earn substantially less than people in their late 40s, and the quality of jobs older people hold has stopped improving. The share of older workers who say they have very physically demanding jobs is increasing, and the share of jobs reported as easy is falling. The incidence of requirements for stooping, bending, and using keen eyesight and intense concentration is increasing.[1]

In addition, University of Michigan economist Lauren Schmitz found that older people who have jobs where they have little control over the pace and content of their work may experience an acceleration in the erosion of their health. For many people, the only way to get the control they need and to avoid stress is to retire with a decent pension so they can control how they spend their time.

Sharp increases in labor supply have lowered wages in the past and in certain labor markets. Economists Pryor and Schaffer in 1999 concluded that if women had not increased their labor supply, the American labor force would have been smaller by thirty million workers in 2000 and the wages of less educated white men would have grown faster. Without women workers, the American economy would certainly have been less robust and productive, but women, who otherwise would not have competed for jobs some men had, did, in targeted areas, lower wages and raise the unemployment rates.

The Great Migration of southern blacks in 1916–1940 increased the northern black labor force by 5 percent and lowered wages by 3 percent, according to economist George Borjas.

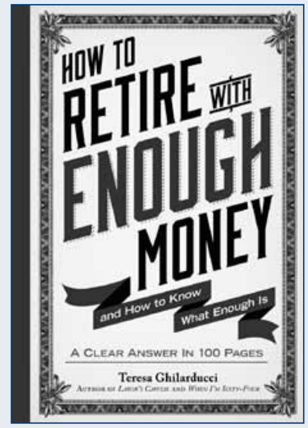
Danish economists—I know Denmark is far away, but they have detailed data on workers and their employers, so a lot of good labor market theories are tested with Danish data—show that immigrants may help the overall economy.

Employers know that increases in labor supply put downward pressure on wages. In fact, University of Pennsylvania economics professor Peter Cappelli advises public policymakers to disregard employers complaining about labor shortages (for example, Silicon Valley employers want more HB-1 visas, claiming the lack of trained workers). Cappelli argues that if employers paid more to retrain older tech workers, the shortage would disappear.

Employers concerned about the slow growth in the labor force are worried about having to raise wages and improve working conditions. Many prime-aged workers are underemployed and, as Cappelli argues, employers need to embrace training practices of the past in order to maintain a supply of skilled workers.

Continued on page 73

How to Retire with Enough Money



Teresa Ghilarducci
Workman Publishing, 2015, 112 pp.
Available Dec. 15, 2015

Most personal finance books never discuss labor markets or public policy. In fact, many tell older people to work more—without recognizing the different life courses they may be on that they can't control—or to forget about Social Security.

Here is a single-sit read than can change the course of a person's work and retirement planning. It discusses the adult world of Social Security, limitations and opportunities in the world of work, and the pitfalls of do-it-yourself retirement plans.

Written by economics professor Teresa Ghilarducci, a retirement and savings specialist, and a trustee of two retiree health care trusts worth more than $54 billion, *How to Retire with Enough Money* cuts through the confusion, misinformation, and bad policymaking that keeps us spending or saving poorly.

The book begins by acknowledging what a person or household actually needs to have saved—the rule of thumb is eight to ten times your annual salary before retirement—and good strategies if you don't have that kind of cash. And most people will not. It helps people understand how much to expect from Social Security.

Then it delivers the basic principles that will make the money grow, including a dozen good ideas to get current expenses under control. Why to get rid of your "investment advice guy" —those for-fee (or hidden-fee) financial planners who suck up valuable assets. Why it's always better to pay off a loan or a mortgage.

This is not an ordinary personal finance book—most are narrow investment books. For example, the top finance books mostly ignore Social Security or the challenges and opportunities of work after age 65.

This is a book for everybody and all the roles people have in our modern society: We are consumers, workers, savers, investors, and voters. No other personal finance book covers all that.

How to Retire with Enough Money shows individuals and families how to act in all their roles to create a dignified old age. People can make wise savings, investment, and spending decisions, and should know how in their citizen role their votes affect Social Security and Medicare.

There are no gimmicks; there is no magical thinking—just an easy-to-follow program that works.

For more information on *How to Retire with Enough Money,* visit workman.com/retire.

 Continued from page 25

Case 2: More Workers Will Be Good for the Labor Market

The argument against the worrisome view that an increase in labor supply at current wage levels will lower wages is fierce.

Alicia Munnell and her colleagues, including Yanyuan Wu, say the theory that new proletariats will lower wages, hours, and working conditions has always been untrue. They describe the well-known "lump of labor fallacy" as the belief that in most cases if older workers retired, more jobs would be available for younger workers. But that is only true if older worker do not compete with younger workers at all.

It is certain that more than 3.2 million people will turn 65 every year in the next ten years. Over the past decade or so the American economy created about 2.8 million jobs each year. This year more than 8.3 million workers are unemployed. If everyone between 65 and 74 retired today and if (a big if) all the unemployed filled those jobs the unemployment rate would be 1.3 percent and wages would surely go up.

The pro-work camp also argues that workers with college degrees, tending to be healthier than those with less education, will say their work is satisfying and will have some autonomy on the job.

America is pro-older worker because the United States is among the few rich countries—those that make up the group of thirty-six countries in the Organization for Economic Cooperation and Development—that ban mandatory retirement as a form of age discrimination. Americans' sophisticated legal infrastructure supports workers suing for age discrimination. With few exceptions, Americans cannot be banned from work or paid, promoted, or trained less because of their age. The pro-work camp argues that more work means people have more control over their lives.

"There's no evidence to support that increased employment by older people is going to hurt younger people in any way," said Munnell, director of the Center for Retirement Research and the coauthor with Wu of *Are Aging Baby Boomers Squeezing Young Workers Out of Jobs?* "It's not going to reduce their wages, it's not going to reduce their hours, it's not going to do anything bad to them."

Munnell and her coauthors can draw support from David Card's study of the immediate effects of the Mariel boatlift on incumbent Cuban-American workers, which showed no effect of a rapid supply of workers in Miami labor markets. In 1980, more than 125,000 Cuban refugees, former prisoners, and mental health patients increased the supply of mostly unskilled labor in the Miami labor market by 7 percent in just two months. Wages did not fall immediately, because the Miami economy was expanding and the refugees were not substitutes for existing workers. However, later studies showed a negative effect on male wages.

The case for a positive effect argues that the new older workers will complement the existing labor force, expand demand for goods and services, raise profits for employers as wages decline, lower prices for consumers, and help older workers stay engaged with life.

My response to the pro-work camp is that I am not making a lump of labor argument. Older workers might increase the number of jobs available. I argue that without the increase in labor, despite employers' complaints, wages, hours, and working conditions would be improved.

Retirement Time: The New Contested Terrain

Retirement is a form of paid time off like paid sick-leave policies. In the 19th century, fights for paid working time took the form of demands for the ten-hour workday and free weekend. Fighting to preserve pensions is similar to the fight for the weekend and explains the populist resistance to cutting benefits by raising the age of Medicare eligibility and increases the penalties under Social Security for retiring early.

Calling for Americans to work longer at older ages is consistent with the extreme position Americans already hold on the world stage of labor contracts. Americans work more and longer years and weeks than people in most advanced industrialized countries. The United States ranks in the bottom one-third in achieving a balance between work and life,[2] mainly because Americans work more hours per year than do workers in other OECD countries—on average, about a week more. The United States ranks eighth out of thirty-three nations in the percentage of adults working more than fifty hours per week (11.8 percent), versus the 8 percent average working less than fifty hours per week. For comparison, less than 1 percent of Dutch workers work more than fifty hours a week.

In addition, the United States leads rich countries in low-wage jobs—those paying two-thirds of the median wage; more than 22 percent of jobs in the United States pay less than $23,000 per year. Older people face this labor market reality, as many can find work only in the generally low-wage service and retail sectors.

Employers have a stake in people working longer. The call for older people to work longer is sometimes connected to the fear that the prime-aged labor force of 25–64 will grow at only 3 percent by 2022. A tight labor market means one thing. Employers have to pay more and manage smarter.

Tighter labor markets encourage employers to devise long-term labor contracts, train workers, and provide pensions. Many economists, including Cappelli, note that wage increases provide a sure-fire motive for employers to invest in efficient processes and labor-saving capital, both of which spur economic growth.

Ghilarducci on her own retirement plans

And how you should think about yours …

I am a retirement policy wonk, but not enough people ask me how I plan for my retirement. That matters, doesn't it?

In terms of public policy, I advocate for a mandatory savings plan of 5 percent of salary on top of Social Security.

A government fund—or highly regulated private market funds—should handle all investment decisions. That fund will be managed so that it guarantees a rate of return above inflation. The add-on individual account would pay out a fixed, incremental, monthly return on investment.

What American workers need is a mandatory Social Security supplement that is invested by professionals in a diversified portfolio of investments, with risks that are pooled and that pays out a group annuity. A low-cost, pooled large fund will provide greater value and longevity for every invested dollar and can pay out safe returns for the rest of a retiree's life.

Guaranteed Retirement Accounts

One such universal, prudently invested, low-fee option is a proposal called Guaranteed Retirement Account. GRAs, run by the federal government, would invest workers' contributions in a safe, low-fee account that earns a secure, modest, guaranteed rate of return. The guarantee will be backstopped by a private insurance company or public agency.

There is no risk to the government or taxpayers. To summarize some of the advantages:

- Administration would be low cost, and contributions would be protected.
- GRA accounts would be mandated for all workers not offered retirement plans by their employers or who choose not to participate in a private employee-sponsored plan. The federal government would put 5 percent of earnings into a GRA that would pay retiree benefits.
- If the GRA were implemented and workers saved 5 percent of their pay from the beginning of their working lives, and earned a guarantee of 3 percent plus inflation, middle-income workers would replace 70 percent of their pre-retirement earnings with Social Security.

Another key aspect of the GRA is that saving is mandatory. Nudging, cajoling, and paying people with tax breaks to save voluntarily and consistently for the future have been proven by many economic studies (and simple observation) to be more than futile.

My Own Retirement Plan

Why do I advocate Guaranteed Retirement Accounts? Because a mandatory well-managed plan works for me. My own retirement plan is on track because, unlike today's savers in 401(k)s, I was forced to save, and save a lot, from the very start of my career.

I finished my doctorate when I was twenty-six, and I landed an assistant professorship at Notre Dame. The university's retirement plan is a 403(b) plan at TIAA-CREF, which is the educational institution version of the 401(k). Luckily for me, participation was mandatory. I contributed 5 percent of my salary, and Notre Dame added another 10 percent—which is pretty typical. Note that the 15 percent savings rate is in addition to Social Security.

I hate to be a sucker and pay fees for actively managed stock mutual funds. I have the rest in one of the best deals on the planet: TIAA. I have plenty of retirement assets because I saved 15 percent of my salary.

How did I have the discipline? I didn't. I didn't have a choice. Do the math and anyone finds out that accumulation is quite important as is fund allocation.

I also invest in my physical flexibility, static strength, and keeping my risk of heart disease and diabetes under control. I lost some weight and go to the gym and walk all around town. It's not all about vanity, but about saving money in old age by not paying to manage a future bout of diabetes and injuries from falls.

I can work for quite a while because I can control the pace and content of my work. The stress of being in a low-hierarchy-status job at an old age can be doubly hard. I also have a simplified employee pension plan, or SEP-IRA, with TIAA-CREF that I fund with self-employment income from my consulting work and books.

If older people work longer because of carrots, in the form of better jobs—and not sticks, in the form of lower pensions—we can expect higher wages and better working conditions.

Conclusion

What conditions would have to exist for older workers to shock the labor market? The flood of fifteen million older workers would lower wages of the incumbent workers if older workers compete with, and are substitutes for, prime-aged workers. Second, if older workers merely maintain their buying power by working, and did not increase aggregate demand, then demand for younger workers will not increase. Finally, if older workers have less bargaining power than the prime-age workers, we can expect worse labor market conditions than would otherwise be the case if older people retired. Also, we have seen that this Baby Boom cohort has been reducing wages beyond what they would have been had the cohort not been so large. So an increase in even more workers in this cohort will reduce wages.

Bargaining power for all workers should increase, especially if older workers will accept lower pay because their retirement income security has eroded.[3] Older workers facing declining 401(k) balances and eroding retiree health care coverage will have to work for pay.

Work is good, and many Americans like it. Anyone who wants to work should be able to. But a retirement period is paid time off, and working more means workers have diminished living standards. Losing retirement is like having to work on Saturday. No matter how much we love the work, working on Saturday is still working an extra day in the week.

Notes

1. http://www.economicpolicyresearch.org/images/docs/research/retirement_security/Bonen%20Policy%20Note%201.23.13.pdf; http://www.urban.org/uploadedpdf/1001154_older_ages.pdf
2. http://www.oecdbetterlifeindex.org/topics/work-life-balance/
3. The new workers would presumably be entering competitive labor markets, not monopsony markets. These workers would have no less information about other opportunities, and no less mobility than incumbent workers. The last two conditions are especially important in markets that aren't textbook-like competitive markets—what economists call monopsony labor markets. If firms, not the market, set wages, then an entrance of relatively uninformed and less-mobile workers lowers wages for all workers in the firm.

Teresa Ghilarducci

Teresa Ghilarducci is the Bernard and Irene Schwartz Chair of Economic Policy Analysis at the New School for Social Research. She is the author of When I'm Sixty-Four: The Plot against Pensions and the Plan to Save Them *(Princeton University Press, 2008). Ghilarducci's current two-year project, "Beyond the 401(k): Guaranteeing Retirement Security," is funded by the Rockefeller Foundation.*

Ghilarducci is a former corporate director (representing the labor unions) for the YRCW Corporation; a trustee for the UAW Retiree Medical Benefits Trust for the UAW retirees at GM, Ford, and Chrysler; and a trustee for the Goodyear Retiree health care trust fund.

In 2007, Ghilarducci served on California Governor Schwarzenegger's Public Employee Post-Employment Benefits Commission. She was appointed by Indiana's governor to serve as a trustee for the Public Employee Retirement Fund in Indiana from 1997–2002, and President Clinton appointed her twice to serve on the Pension Benefit Guaranty Corporation's Advisory Board, from 1996–2001. She was the Wurf Fellow at the Labor and Worklife Program at Harvard Law School from 2007–2008.