

Barriers to Later Retirement: Increases in the Full Retirement Age, Age Discrimination, and the Physical Challenges of Work

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Population aging in the United States has led to numerous Social Security reforms intended to increase the labor supply of seniors, including phased increases in the full retirement age (FRA) – the age of eligibility for full benefits – from 65 to 67. But policy changes intended to delay retirements of older workers and extend their work lives may run up against two constraints – demand-side barriers in the form of age discrimination, and supply-side barriers in the form of the rising physical challenges of work as people age.

To the extent that these efforts are hindered by age discrimination, stronger and more vigorously-enforced age discrimination laws could make these policy changes more effective. Rising physical challenges of work for some older individuals can imply either low responsiveness to supply-side incentives to work longer, or diminished welfare from doing so. Finally, the two can interact, if age discrimination reduces the extent to which employers are willing to accommodate the physical challenges some older workers face.

Neumark and Song (2011) considered whether stronger state-level age discrimination protections enhance the effects of Social Security reforms. They found that in states with age discrimination laws that are stronger than the federal Age Discrimination in Employment Act (ADEA), increases in the FRA did more both to delay retirement (claiming benefits) and to increase employment of workers for whom the FRA increased beyond age 65.

The focus on discriminatory barriers to older workers' employment is limited, however, because of the additional barriers some older workers may face – namely, physical challenges of work itself, which can become more of a constraint with age. Moreover, how these physical challenges are accommodated in the work place may be affected by age discrimination and, concomitantly, by laws that restrict this discrimination. In this paper we therefore expand on the analysis of barriers to increasing employment of older workers. We take a dynamic approach, focusing on the employment transitions of older individuals affected by increases in the FRA, and more generally on the employment transitions of individuals in the age ranges affected by efforts to delay retirement, studying how these transitions are influenced by physical challenges older workers face, and the types of transitions workers make to reduce physical challenges.

We study three sets of questions. First, how do age discrimination protections affect the labor market transitions of workers directly affected by increases in the FRA? In particular, while our past research found increases in employment among those “caught” by increases in the FRA, here we ask how the employment increases come about. Is it through continued employment at the same employer, hiring by new employers, or re-entry into employment?

The effects of age discrimination laws on labor market transitions of those caught by increases in the FRA is important in thinking about efforts to delay retirement, because workers nearing retirement age frequently seek new employment in part-time or shorter-term “partial retirement” or “bridge jobs,” rather than continued employment of workers in their long-term career jobs (e.g., Cahill et al., 2005; Johnson et al., 2009). But evidence also suggests that discriminatory barriers based on age may be particularly strong for hiring (Adams, 2002, 2004; Hutchens, 1988; Johnson and Neumark, 1997; Kite et al., 2005; Lahey, 2008). If hiring discrimination against older workers deters transitions to new jobs, then some workers may have to respond to increases in the FRA by remaining in their current jobs. One consequence of this is that age discrimination can limit overall responsiveness to increases in the FRA, perhaps allowing only minor adjustments to increases in the FRA as workers remain at their same employer, but inhibiting partial retirement or taking up bridge jobs. But if stronger age discrimination protections enhance hiring or re-employment of older workers, then these protections may lead to more substantial lengthening of work lives as the FRA increases.

Second, we ask how physical challenges at work influence the employment transitions of older workers in the age range for which public policy is trying to delay retirement. Are older workers in this age range who face physical challenges at work more likely to leave the workforce, or are they able to move to other employers (or to self-employment)? Are older workers who face physical challenges able to reduce the physical demands of work, and how do they do this? Do their challenges appear to be mitigated, if they are, at the same employer, or does this mitigation require changing employers?

These questions about physical challenges and labor market transitions are significant with respect to efforts to delay retirement because such efforts will inevitably

create some tensions between increased incentives to work and rising physical challenges from doing so; this is why reservations about raising the FRA often focus on the difficulties some workers will face because of the lengthening of work lives (e.g., Rho, 2010). Some older individuals with physical limitations, or in physically-demanding jobs, may find it difficult to remain on the current job, and their ability to change jobs or otherwise reduce the physical challenges of work may be central to efforts to delay retirement. Again, if barriers posed by the physical challenges of work can be reduced it will be easier for policy to induce later retirement.

The third set of questions concerns the intersection of the first two. In particular, do age discrimination protections influence the ability of older workers facing physical challenges of work to remain employed? Do these protections make it more likely that workers will be able to remain employed in less physically-demanding jobs, whether because of changes on the current job or transitions to jobs with weaker physical demands? If stronger age discrimination protections act mainly to extend employment of older workers with the current employer, there may be less scope for reducing physical challenges. Alternatively, the current employer may be more compelled to find ways to help accommodate aging workers. Or if stronger age discrimination protections make it easier for older workers to move to other employers, then such transitions may serve as a means to reduce physical challenges at work.

These questions are studied using HRS data from 2000-2008, a period covering the first phase of increases in the FRA. We study men only, to minimize complexity from issues pertaining to eligibility for Social Security retirement benefits. The analysis also relies on the detailed compendium of differences in statutory-, judicial-, and enforcement-related differences in state age discrimination laws that was constructed for the research in our earlier paper (Neumark and Song, 2011). We focus in particular on whether the state age discrimination law applies to smaller employers than the federal ADEA – hence increasing coverage – and whether the state law allows for stronger remedies (penalties). These were the two features of age discrimination laws that the earlier research indicated were important in delaying retirement and increasing employment of older workers affected by the increase in the FRA.

The evidence points to a few conclusions. First, for 65 year-olds caught by

increases in the FRA, stronger state age discrimination protections appear to enable labor market transitions that permit people to remain at work, through either moving to a new employer, or re-entering employment. Given that individuals in states with weaker age discrimination protections instead stay at work by remaining at the same employer, these results for stronger age discrimination protections suggest that such protections may make extended work lives more viable by boosting transitions to bridge or partial retirement jobs. This may be particularly relevant to think about how workers facing physical challenges on the job respond to efforts to get them to work longer.

Second, evidence on the labor market transitions of those with physically-demanding jobs suggests that physical challenges faced by older workers are a barrier to extending work lives. Among workers in the age ranges for which policy is trying to extend work lives, those who are in physically-demanding jobs are more likely to leave employment and less likely to remain at their employers. Moreover, there is no evidence that they are more likely to switch employers, perhaps as a way of reducing physical demands. On the other hand, there are some workers with physically-demanding jobs who are able to mitigate these demands, although how this occurs is somewhat of a mixed bag – sometimes occurring through moves to new jobs, and sometimes occurring while staying with the same employer.

Third, stronger age discrimination protections do not appear to help in the process of making labor market transitions to different employers for those with physically-demanding jobs. On the other hand, there is some evidence that a lower firm-size cutoff under state law does ease accommodation of physical demands, as older workers in states with this stronger protection are more likely to make a transition to a job with less physical demands, if they make an employment transition. Other evidence we find suggests that this kind of age discrimination protection boosts hiring of older workers. Our results suggest that this protection does not have this effect, on net, for those in physically-demanding jobs, but that for those who do change jobs it helps them move to jobs that are less demanding physically.

Overall, then, the results do not provide an unambiguous indication that stronger state age discrimination protections can help reinforce efforts to extend work lives. We do find that for older workers caught by increases in the FRA, stronger state age

discrimination protections increase employment, and in fact increase the likelihood of *new* employment. That is positive from the point of view of policies intended to extend work lives, because many older individuals are likely to have to move to new jobs in order to significantly extend their work lives.

However, when we focus on workers for whom this issue is likely to be most severe, namely those in physically-demanding jobs, the picture is more muddled. On net, stronger age discrimination protections do not appear to make it easier for these workers to move to new jobs, or to move – in particular – to jobs that are less physically demanding. However, among those who change jobs, there is sometimes evidence suggesting that these laws make it more likely that the jobs have less strenuous physical demands. Nonetheless, the absence of net effects on transitions to new jobs – and especially to new jobs that are less physically demanding – makes it impossible to conclude that stronger age discrimination protections would help older workers facing physical challenges at work to adjust to staying in the workforce longer.

At this point we do not know whether this is a definitive answer, or one that stems either from inadequate measurement of physical challenges at work, or overly-taxing demands on the data since we are estimating differences among small groups of workers (e.g., those who are in the narrow age ranges we study, face physical challenges at work, and are in states with specific types of age discrimination laws). In addition, physical demands of jobs may not fully capture the physical challenges older workers face, because their own physical condition and limitations also matter, although we could not detect anything more systematic with the data on physical limitations available in the HRS. And finally, once we start to think about physical challenges at work, we are led also to consider the legal environment regulating employer treatment of disabled workers, which raises the possibility (which we will consider in future research) that we have not fully characterized the relevant legislation regarding older workers, who have high disability rates. Because older workers are more likely to have to develop work-related disabilities, state laws regarding discrimination against disabled workers could figure prominently in the treatment of older workers in the labor market.

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