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Employment Trends by Age in the United States: Why Are Older Workers Different?

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Introduction

There have been major changes in US labor force behavior in the past two decades. The long downward trend in employment at older ages ended in the 1980s, and the employment rate of older men has increased substantially. The male employment rate at ages 62-69 rose from around 30% in 1990 to 37-38% in 2007-2010. In contrast, the employment rate of men aged 25-54 declined from around 84% in 1990 to 83% in 2003-2007 and 76% in 2009-2010. The changes for women were also striking. The long trend of rising female employment at younger ages ended around 2000, and the female employment rate at ages 25-54 has been declining since 2000. At older ages, female employment has been increasing at a rate very similar to that of older men.

Understanding trends in employment by age is important because these trends determine the future size and age composition of the US labor force, and have important implications for the Social Security system. The US experienced an unprecedented decline in the overall employment rate beginning in 2000, largely due to the decline in employment of younger workers. Analysis of this issue has focused mainly on labor supply in the prime working years, but rising employment at older ages will help offset the decline among younger workers. There will be a large increase in the share of the older population in the next two decades, increasing the importance of understanding labor supply at both younger and older ages.

Methods and Analysis

We evaluate potential explanations for the divergence in employment trends by age group. We use a labor supply framework to motivate the empirical specification, but unlike other papers we focus on differences in labor supply behavior across age groups. We analyze the effects on labor supply by age group of two broad sets of driving forces: economic factors, including the wage rate, Social Security policy, pension coverage, and the income tax rate; and demographic factors, including education, marital status, race and ethnicity, number of children, and health. The effects of these variables are allowed to differ by age group, and we use the results to analyze the contribution of age-specific trends in the explanatory variables to explaining differences in employment trends across age groups. We use data from the Current Population Survey and several other sources from 1965 through 2010.

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Findings

We have three main findings. First, changes in demographic composition can explain most of the decline in employment of men aged 25-61. The two main drivers are changes in marital status and race/ethnicity. Never-married and divorced, separated, and widowed men in this age group are 20-27 percentage points less likely to work than their married counterparts, other things equal. The share of never-married men in this age group increased by 10 percentage points from 1965-1988 to 1989-2010, and the share widowed, divorced, or separated rose by four percentage points. The increase in the share never-married is a result mainly of delay in first marriage; there was no increase in the share never-married at older ages. So the delay in first marriage clearly contributed to the divergence in employment trends between younger and older men. Black, other race, and Hispanic men have lower employment rates than white men, and the share of each group in the population increased substantially, contributing to the decline in prime age male employment. Changes in marital status and racial and ethnic composition each can explain about half of the decline in the employment growth rate of men aged 25-61 from 1965-1988 to 1989-2010. Although women experienced similar trends in marriage, this cannot account for divergence in employment trends by age, because unmarried women work more than their married counterparts.

Second, Social Security reforms can explain a modest portion, about one tenth, of the increase in employment at older ages. For given lifetime earnings, Social Security benefits have declined for recent cohorts as a result of an increase in the Full Retirement Age, and the incentive structure has tilted to favor later claiming. These changes caused increased employment at older ages. A novel contribution of our paper is to show that Social Security reforms also contributed to the decline in employment of younger men. Thus these reforms help explain divergence in employment trends across age groups.

Third, changes in the educational composition of the labor force account for a moderate share of the increase in employment at older ages: 11% for older men and 23% for older women. The employment rate is increasing in education, and cohorts that experienced large increases in educational attainment reached their 50s and 60s in recent years, driving up employment at older ages. In contrast, recent cohorts passing through the younger ages do not have higher educational attainment than their predecessors.

Conclusion

The effect of Social Security reforms on the divergence in labor supply by age will persist and perhaps increase in magnitude as cohorts that reach their sixties in the 2020s experience a further benefit cut as a result of another increase in the Full Retirement Age. In contrast, the effects of rising educational attainment will be transitory, as future cohorts of older workers will be as well-educated as their younger counterparts. The effects of the increase in age at first marriage on the divergence in employment trends by age likely will be persistent unless there is a dramatic and unforeseen reversal or an increase in the fraction of the population that never marries.

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