

The Future of Retirement

An Exploration and Comparison of Different Scenarios¹

by Anna Rappaport

As the population is living longer, periods of retirement have been lengthening. At the same time, more people are leaving the workforce gradually rather than in one step. By building on research and data from a variety of sources and combining this information with intuition, the author of this article explores the context for retirement in the future; sets forth alternative scenarios for retirement; and discusses the public policy, individual and family implications of these scenarios. In doing so, she considers the perspectives of the individual, the employer sponsoring retirement plans and society as a whole.

OUTLINE

This article looks at different ways to define retirement as part of the lifecycle and focuses on reinventing retirement to create a better future. It provides scenarios for the future of retirement, expresses the opinions of the author and builds on the work done by the Society of Actuaries (SOA) in the *Risks and Process of Retirement Surveys* and other work. It is organized as follows:

- *Retirement: a historical perspective:* This section provides a brief history of retirement and a perspective on retirement today.
- *The scenarios:* This section builds four scenarios and compares them, linking them to demographics, retirement, work patterns, pension plan structures and economics.
- *Recommendations for institutional support:* This section provides a wish list for decision makers in key stakeholder organizations.
- *Context:* This section provides the research findings that together with intuition led the author to building the scenarios. It starts with the “puzzle about working longer,” which can be viewed as a synthesis of this information.
- *The future: Where do we go from here?* A conclu-

sion is presented, and the author’s opinions are summarized. The author presents opinions about the maximum age to which people are likely to work, the desirability of later and phased retirement, the potential for future labor shortages and the dangers of planning to never retire.

This article looks at the issues from a U.S. perspective, but many of the same issues can be found in other countries, and the concepts can be used to think through the challenges in different settings.

RETIREMENT: A HISTORICAL PERSPECTIVE

Life spans are increasing. Longer life spans, the aging of baby boom cohorts and lower fertility rates are combining to produce populations that will be much older on average than ever before. In many countries, there are more people at traditional retirement ages, and periods of retirement are growing. The relative lifetime balance between work and leisure has shifted, and retirement is expected to put increasing strains on many economies. Government-sponsored programs are a problem for taxpayers and raise questions of resource allocation to different types of programs.

This large demographic picture is common to industrialized countries. Within the United States, employer-sponsored programs can be a problem for the sponsoring organizations, and high legacy costs are a threat to old, well-established businesses as they compete against new companies. There are uncertainties about the balance of labor supply and demand, and there are predictions of worker shortages, at least in some occupations.

In the history of mankind, retirement is a relatively new social pattern, as is the allocation of time to leisure in the form of vacation and days off. Prior to the development of industrialized society, people worked as long as they could and did what they could. They got little leisure. The family and workplace were not as separate as they became in the last century.

During the 20th century, as the economy shifted to an industrialized and then service economy, people moved long distances. Work and family were no longer linked. Formalized retirement systems became widespread in many countries, as did provisions for vacation and days off. The expectation under these systems was that people would leave the paid labor force between the late 50s and the age of 65 or a little later, depending on country and specific employment. Final average pay plans were designed particularly for people to work for a long time in one organization and to work full time until they retired. The interaction between longer life spans and traditional retirement ages led to longer periods of retirement.

During the same time that retirement systems evolved and matured, the role of women and the structure of families changed. Women very often work outside the home today, but they still do the larger share of caregiving. The traditional idea was that retirement systems would cover a worker and dependent family members; but, today, as living together without marriage and divorce have become more common, people move in and out of family relationships. The benefits based on the traditional definitions of family do not work for everyone.

For example, a divorced older woman may not have much in the way of resources for retirement, depending on her personal work history and how pension and other assets were split at divorce. Today, retirement at usual retirement ages will lead to very long periods of retirement. In a few cases, some people may be retired more years than they worked.

As industrial society and retirement systems evolved, so did the expectation of a lifecycle pattern with three major phases. New patterns have been emerging. One such pattern is a four-phase lifecycle, with a period between full-time work and full-time retirement, often referred to as *the third age*. This term refers to a period when people are involved and

engaged in major activities, often working, but making a variety of life choices.

Another pattern has been called the *cyclical life plan*. Under this plan, periods of work and leisure are interspersed over a longer period. Academic employment, with its provisions for sabbaticals, is a very formalized version of the cyclical life plan.

Both the third age and phased retirement are discussed later in the article. *Phased retirement* can be defined as a reduced commitment to work before full retirement; and it can involve a change in schedule, place of work duties, or a combination of these. There is no standard definition of phased retirement, but some people would require that it include a partial payment of pension benefits and/or access to retirement resources. This author uses a more inclusive definition of phased retirement and would not require that it include partial payment of benefits.

SCENARIOS FOR THE FUTURE OF RETIREMENT

This section explores four scenarios:

1. Continuation of present trends—retirement is generally accepted part of the lifecycle
2. Increase in retirement ages
3. End of retirement
4. Move to new patterns of retirement—much later total retirement, but introduction of a third age where people work at a reduced level with more choices before total retirement.

Looking at these scenarios, it must be remembered that they are opinions operating in the context of increasing life spans, and are built on a combination of intuition and interpretation of research findings. Some experts are calling for a different term to replace *retirement*, but it appears to the author that it is unlikely that any consensus will be reached on a new term. While these scenarios have been built to fit the situation in the United States, issues surrounding retirement ages and the third age are applicable in many settings. The same types of scenarios can be considered in other industrialized countries, linking to their demographics, laws, retirement systems and family structures.

Scenario I: Continuation of Present Trends—Retirement Generally an Accepted Part of the Lifecycle

Under this scenario, many people will have access to regular retirement income, and the expectation is that, between the ages of 60 and 67, most people will leave the full-time paid labor force, and often they will leave all employment.

There is a substantial difference in individual circumstances with regard to access to pension benefits.

People with long-term employment in major firms and/or government employment are likely to have good resources for retirement, including their Social Security, and do well in retirement. The situation is much more mixed with regard to people who had many different jobs or who worked primarily for smaller firms. People without substantial attachment to the paid labor force are unlikely to have retirement benefits, although they could have family assets.

People seeking work during retirement have different experiences with their ability to find work. Professionals are most likely to find work based on contacts from former employment and professional associations, and are quite likely to be able to find contract work. Retailers often use part-time and/or older workers, and firms such as Home Depot are known for their hiring of older workers. On the other hand, many older persons seeking employment have difficulty finding work.

Scenario II: Increase in Retirement Ages

Under this scenario, there would be a significant increase in retirement ages. Retirement may be defined as it is now, or it might be defined to include much more phased retirement and different patterns of work and activity. As in Scenario I, there are substantial differences in individual circumstances with regard to retirement resources and employability. This scenario will create problems for people in very strenuous jobs who wear out early and are unable to do jobs later.

Scenario III: End of Retirement

Under this scenario, many people will need to continue working, and there will be no (or very inadequate) formal systems for retirement income. When people become disabled, they will usually stop working. Hopefully, disability benefit plans will be extended to higher ages. For some people, families will be available to help them out. While this scenario seems politically impossible, some commentators talk about people working much longer, and boomers not retiring. They seem to be promoting such a scenario.

People with adequate personal assets will have the choice to stop working, but those without will not, or they may find a bleak existence. People with larger families are more likely to be able to live with family members and to receive help from them. Widows are particularly likely to have problems in old age.

This scenario could well lead to an increase in fertility rates in the long run, as adult members of society would recognize the importance of children in helping care for them as they get older. This scenario will likely lead to conflict between generations,

as members of society fight over allocation of governmental resources, and will probably lead to more demands on government and a focus on increased programs for the poor.

Scenario IV: New Patterns of Retirement

Scenario IV includes much later total retirement and a “third age in which people work at a reduced level with more choices before total retirement.” This scenario builds on Scenario II and takes it much further. As in Scenarios I and II, there are substantial differences in individual circumstances with regard to retirement resources and employability. This scenario redefines patterns of work in a later period of work, and introduces more work options and phased retirement. It introduces the concept of the third age, and anticipates that new careers and different activity patterns will be used widely.

This scenario will work much better for some jobs than for others.

Exhibits

Tables I through XVII compare various aspects and consequences of the four scenarios. Tables I-V show the scenarios.

The author’s preference is for Scenario IV, “Move to new patterns of retirement,” as her choice for the future, with eligibility for full benefits under public systems indexed to increases in longevity starting from the age of 67, and with employers fully allowed to pay benefits under employer systems while people continue to work after the age of 62, with that age indexed in parallel with the full benefit retirement age under public systems.

Scenario III, “The End of Retirement,” is viewed as very unfortunate, and it is the author’s opinion that this would lead to many more poor women in old age and an undesirable greater dispersion in wealth.

RECOMMENDATIONS FOR INSTITUTIONAL SUPPORT

The following is the author’s wish list for institutional support, including public policy and employer support, that would facilitate Scenario IV or an evolution from the current system as provided in Scenario II. This type of support is very desirable under Scenarios I, II or IV, but would not be consistent with Scenario III, the end of retirement. Under Scenario III, the retirement system would wither away, but that is a very undesirable result. This wish list is not endorsed by or included in the agenda of any organization. It is a personal statement about the path to a desirable future.

- Policy acceptance of the importance of an orga-

Table I
COMPARISON OF SCENARIOS—DEMOGRAPHICS

	I—Continue Present Trends	II—Increase Retirement Ages	III—End of Retirement	IV—New Retirement Patterns
Impact on retirement ages	Small increases	Major increases	Retirement no longer common pattern	Retirement more multistep with complete retirement at later ages
Role of family in retirement	Families are an economic unit, and retirement benefits provide for both parts of a couple. Members of a couple help care for each other when they need help. Unmarried people are more likely to need to buy help in the marketplace.	Similar to present situation	Greatly increased—Families will need to step in when people are no longer able to work because retirement income systems will not exist.	Similar to present situation
Special issues for unmarried and childless people	Need more money as family help much less likely available	Need more money as family help much less likely available	Very vulnerable in this scenario	Need more money as family help much less likely available
Groups that might have special problems			Groups in physically demanding jobs	
Pressure on fertility rates			Likely to encourage increases in fertility as families recognize the importance of children to help care for parents	
Link to increase in life spans		Can track changes in life spans		Can index and link link to increases in life spans, would need to link to new definition of retirement

Table II**COMPARISON OF SCENARIOS—IMPLICATIONS FOR PENSION PLANS**

	I—Continue Present Trends	II—Increase Retirement Ages	III—End of Retirement	IV—Move to New Retirement Patterns
Adjustments needed to defined benefit (DB) plans—phased retirement	Enable phased retirement with ability to make payments during work to phased retirees; requires regulatory changes	Same as with present trends	Plans likely to phase out	Same as with present trends
Adjustments needed to DB plans—retirement ages	Enable higher normal retirement ages up to 67; requires regulatory changes Note that Social Security and private plan retirement ages are currently out of synch.	Enable normal retirement ages to 70; requires regulatory changes		Enable normal retirement ages to 70; requires regulatory changes
Relevance of final average pay plans	Fit well for long-service people only	Same		Probably a poor fit, and new designs are needed
Usefulness of cash balance and career average designs	Good, but inflation protection is a concern.	Same		Same
Special provisions needed in defined contribution (DC) plans	Useful to have ability to make in-service distributions during retirement age range, at least for partial retirement	Same		Same
Impact on amount of benefit needed at retirement	Monthly income does not change; but, if work and retirement function side by side, a period of partial payment is desirable. Value is lower if benefit starts later.	Monthly income does not change; but, if work and retirement function side by side, a period of partial payment is desirable. Value is lower if benefit starts later.		Monthly income does not change; but, if work and retirement function side by side, a period of partial payment is desirable. Value is lower if benefit starts later.

Table III**COMPARISON OF SCENARIOS—THE WORK AND RETIREMENT EXPERIENCE**

	I—Continue Present Trends	II—Increase Retirement Ages	III—End of Retirement	IV—Move to New Retirement Patterns
Labor force participation at ages over 70	Minimal	Somewhat greater than at present	Very substantial	Somewhat greater than at present
How people leave the labor force	Retirement, death or disability	Retirement, death or disability	Death or disability	Retirement, death or disability
Need for development of alternative work options	Moderate	Much greater than at present	Much greater than at present; people will prefer reduced work after some point	Much greater than at present; depends on how scenario is developed
Relationship to disability programs	As at present	Would probably need to extend benefits to higher age	Disability programs would be much more important	Would need to adjust disability benefits
Likely work alternatives in marketplace	Part-time, part-year, project work, telecommuting, some special project work	Part-time, part-year, project work, telecommuting, some special project work	Part-time, part-year, project work, telecommuting some special project work; likely to see great demand for flexible job options as people try to work at much older ages	Part-time, part-year, project work, telecommuting, some special project work

nized retirement system and its value to society. Without such a system, there would be many more poor people in old age and a great deal more stress on society. Disabled individuals would be severely disadvantaged unless there was good coverage for them.

- Build integrated retirement policy including cash, medical and long-term-care elements, and use it to facilitate good public policy. The benefits are inter-related and should be dealt with in a unified way.
- Innovation is important—Support it, but don't get rid of the basics. It is important to accommodate new ideas and support emerging designs but, at the same time, remember system goals and support what has worked well previously.
- Remember the widows and divorced women.

Women who are alone are most likely to be poor and need protection. One person needs about 75% of what a couple needs! Families can be important in caring for family members, but those who spend their lives caregiving also need retirement benefits. It also needs to be remembered that not everyone has a family in retirement.

- Support defined benefit (DB) plans. DB plans remain the most efficient way to provide regular income to longer service employees. They are important to retirees today; and, in spite of rhetoric to the contrary, turnover patterns have not changed that much over time.
- Maintain Social Security as a system that pays out regular retirement income. For many people, this is the only retirement income guaranteed for

Table IV**COMPARISON OF SCENARIOS—ECONOMICS: EARNINGS AND RETIREMENT INCOME**

	I—Continue Present Trends	II—Increase Retirement Ages	III—End of Retirement	IV—Move to New Retirement Patterns
Economic role of retirement systems	Enable people to leave paid labor force, often when they choose to, and often when they could continue to work	Same idea but at a later age	Would not apply	Depends on system
Role of benefit systems in work and retirement choices	For people with good benefits, major role Health care availability prior to Medicare eligibility is a key issue. Employer-provided health care for retirees enables retirement, and the lack of it is a barrier to retirement. Health care access is important in defining feasible options.	Same	Not applicable	Same
Impact of defined contribution (DC) plans	Provides assets for retirement, but people are more likely to retire at higher ages with only DC plans.	Provides assets for retirement, but people are more likely to retire at higher ages with only DC plans.	Not applicable	Provides assets for retirement, but people are more likely to retire at higher ages with only DC plans.

life, and this will be true for a greater percentage of the population in the future.

- Facilitate work options and work later in life. Under the emerging patterns of retirement and all of the scenarios, this is very important.
- Facilitate phased retirement. Part of later retirement and part of the idea of working in retirement is to have systems that support phased retirement, allowing people to use retirement resources for part of their support as they continue to work on a partial basis.

- Encourage full retirement at later ages. This is called for under some of the scenarios, and is important in adjusting to longer life spans. At the same time, this requires a balanced approach and a focus on how to handle disability and demanding jobs. Adjust to improving life spans on a gradual basis.
- Facilitate autopilot defined contribution (DC) plans. Autopilot DC plans are those that work well without employee decisions. They would

Table V**COMPARISON OF SCENARIOS—THE NATIONAL PICTURE**

	I—Continue Present Trends	II—Increase Retirement Ages	III—End of Retirement	IV—Move to New Retirement Patterns
Impact on possible worker shortage		Tends to decrease worker shortage	Significantly more older workers will become available	More older workers will be available, but many prefer alternative work options
Impact on likely supply of workers	If present participation rates continue by age, labor force growth will slow.	Will increase supply modestly	Will increase supply much more	Will increase supply; impact depends on scenario development
Social Security role	Serves as base layer of retirement protection for the working population and their families; also provides survivor and disability benefits	Serves as base layer of retirement protection for the working population and their families; also provides survivor and disability benefits; retirement benefit payable later, and disability increases in importance	No more general Social Security program to provide retirement benefits Might be a general disability and survivor benefit program but that is unclear	Serves as base layer of retirement protection for the working population and their families; also provides survivor and disability benefits
Social safety net role	Supplements Social Security and Medicare for those who are very poor and who do not have access to family help	Supplements Social Security and Medicare for those who are very poor and who do not have access to family help	Grows much more important	Supplements Social Security and Medicare for those who are very poor and who do not have access to family help

include autoenrollment, good methods of handling investment mix and, ideally, good distribution options.

- Support and encourage regular income with survivor benefits as a distribution option in DC plans. As DC plans have become important, regular income remains very important.
- Make life simpler for plan sponsors. Many of the problems of the last few years are rooted in complexity and uncertainty.

- Try to improve financial literacy, and remember the diversity of the people who need the messages. Offer education to increase personal savings but recognize the realities. There is ample evidence that many Americans are not positioned to make good retirement decisions. No amount of education can completely solve this, but the best efforts must be made.
- Provide health care access for all. If private individual insurance markets are central to this, use

a method of risk adjustment so that individual insurance markets can function. If there are no such private markets, make sure public programs are available to cover people who do not have employer coverage.

CONTEXT FOR THE FUTURE OF RETIREMENT

In this section, important groundwork is laid for the scenarios by looking at forces that drive the emerging retirement scene, and by looking at work and retirement in different ways. This section draws heavily on studies of how people work and on other research. It starts with a synthesis of what follows presented in the puzzles about working longer. The following topics are covered.

Synthesis: Bringing Together Different Perspectives— “The Puzzle About Working Longer”

Demographics

- Mortality and life spans
- Morbidity and health expectancy
- Changes in physical status and the need for help
- New ways to think about the lifecycle—the “third age”

The Work and Retirement Experience

- What people want
- Patterns of work after retirement
- Older workers have more problems securing work.
- Leaving the labor force at earlier ages
- Innovative practices to support working later in life

Economics:

Earnings and Retirement Income

- Sources of income for older Americans and earnings of employed older Americans
- The evolution of retirement benefit systems
- Understanding of risk

The National Picture

- Labor force projections
- Social Security and retirement ages
- Public policy and working longer

Synthesis: The Puzzle About Working Longer

A number of factors come together to create unanswered questions about how long people will work and what they often say. Key points are:

- More than seven in ten workers say they expect

to retire gradually or work as part of their retirement. While many people want to work in retirement, they may be seeking different job options and working conditions that differ from regular full-time work.

- About four in ten retire earlier than planned.
- Of people ages 50-61 who are not in the labor force, many more are disabled than retired.
- Typical workers say they expect to retire at 65 but are more likely to retire at 62 (Center for Retirement Research, Data Profile #4, April 5, 2004).
- More people say they plan to work in retirement than actually do work in retirement.
- When people work in retirement, retirement takes on a different meaning, and it can be viewed as reinventing oneself.
- Some people (13% in the *2005 Risks and Process of Retirement Study*) say they do not plan to retire; but, realistically, few people want to continue working beyond age 75. Of those who want to work, many may not be able to. Many people will have more than ten years of life beyond that point.
- Periods of retirement have lengthened dramatically over the last 50 years. Many experts feel that raising retirement ages so that periods of retirement track longer life spans is very appropriate.
- Today’s longer periods of retirement are creating financial problems and challenges in both government and private sector pension plans. Later retirement could go a long way in solving these problems and, at the same time, reduce the amount needed to be saved to get to an adequate retirement income. Savings need to last over fewer years, and need to earn investment income longer before they are used for retirement.
- With the baby boomers reaching traditional retirement ages, the balance between people ages 15 to 64 and those over 65 will shift dramatically. With no change in those traditional retirement ages, fewer people will support more people.
- The growth of the labor force will slow unless something changes (for example, there might be more immigration, or people might continue working longer). It is unclear whether there will be general labor force shortages and, if so, how severe they might be. Some occupations seem certain to be in very short supply. Early examples are nurses and nuclear engineers.
- If people work longer and retire later, more people are likely to be disabled before they retire. In addition, some people will be in jobs with heavy lifting and other physical demands, and they will burn out before retirement age. Later retirement is not feasible for everyone.

- While longer average work life is certainly a possibility for the future, it remains to be seen whether those who can and want to work longer will have access to jobs that enable them to do so. It also remains to be seen whether public policy will accommodate better options. The scenarios presented earlier are designed for considering good options for the future and what will be needed to make them work.

Demographics

This section provides information about key demographic variables and preferences that drive the environment for retirement in the future and provides rationale for Scenarios II and IV. Increasing life spans, including health status at higher ages, are important in this regard. On average, people are staying healthy to higher ages, but many still experience periods of frailty later and need assistance and ultimately long-term care. The information on life spans and on disability shows us how dangerous Scenario III would be. The concept of the *third age*, an important part of Scenario IV, is introduced. The third age is a period of changed engagement somewhere between full-time work with a major career commitment and total retirement.

Mortality and Life Spans

The percentage of the elderly population over the last century has grown dramatically, and further growth is projected for the next 50 years. Growth in the proportion of elderly is due to a combination of increasing life spans and changing fertility patterns. Life expectancy at birth and at ages 65 and 85 has increased (Table VI).

There is uncertainty with regard to future improvements in mortality. Experts disagree about the prospects for future improvement, with most expecting some continued improvement and some expecting dramatic improvement. An increase in life expectancy at age 65 of one year per decade seems quite plausible. Table VII shows the chances that a couple, both age 65, will survive to various ages based on current mortality, and mortality projected for 20 years and for 40 years. The projection is on a very simplified basis. We have assumed that the 1983 mortality table could be set back one year for each decade.

The simplified calculations indicate that by 2045, more than one in four couples will have one partner survive to age 100. Nearly all today (more than nine in ten) have at least one partner survive to the age of 80. Future expectations include:

- Continued reductions in mortality rates and increases in life spans, although it is not known how rapid they will be

- Women will still live longer, although the differences in life span by sex may narrow.
- Long periods of widowhood, as has been the rule for past decades
- Good health for many during later life; but, for a significant number of people, some period of ill health and frailty at the end of life
- Many people needing assistance during part of their later lives.

Morbidity and Health Expectancy

Not only has life span increased dramatically, but health expectancy has also improved in the past century. Public health programs, improved economic status, and improvements in medical knowledge and practice have prolonged the healthy life, allowing active engagement until later in life. This enables increases in retirement ages as more people want to stay actively engaged for more years, continuing the same work, starting in a new field or pursuing other interests. Some older persons prefer not to continue working. For them, continued good health enables them to enjoy active leisure activities in retirement. For people who are working to meet financial needs, good health allows employment, even in physically demanding jobs.

Changes in Physical Status and the Need for Help

The changes in physical status and the need for help can have a major impact on one's retirement, especially if it is unexpected and unplanned for. When retirees do not have employer-sponsored coverage for postretirement medical services, it is very difficult and costly to get any coverage until Medicare eligibility. After Medicare eligibility, nearly all Americans are eligible for Medicare, and supplemental coverage is also generally available.

The Society of Actuaries *2005 Risks and Process of Retirement Survey* (2006) provides insight into how the public views different types of risks. Retirees are most concerned about not being able to pay for good health care, long-term care costs and inflation, and less concerned that they might exhaust savings and be left only with Social Security.

The need for long-term care increases sharply with increasing age. The February 22, 2006 *Wall Street Journal*, in a story "How to Protect Against the High Cost of Nursing Homes," provides some key data. *WSJ* says that a projected 11% of 65-year-old men and 28% of 65-year-old women will end up needing more than five years of care at home or in a facility. They say that 37% of all 65-year-olds will need some care in a nursing home or assisted living facility. They also state that 8% of claimants with long-

TABLE VI
LIFE EXPECTANCY AT BIRTH, AGES 65 AND 85

	1900	1920	1940	1960	1980	1990	2000	2001
Birth	49.2	56.4	63.6	69.9	73.9	75.4	77.0	77.2
At age 65	11.9	12.5	12.8	14.4	16.5	17.3	18.0	18.1
At age 85	4.0	4.2	4.3	4.6	6.0	6.2	6.4	6.5

Source: Federal Interagency Forum on Aging-Related Statistics, *Older Americans 2004: Key Indicators of Well-Being*, Available at: www.aoa.gov/default.htm.

TABLE VII
PROBABILITY OF SURVIVAL FROM AGES 65 TO 80, 90 AND 100

	Current—1983 Mortality Projected 20 Years			
	Female 65	Male 65	Both Survive	Either Survive
Survive to 80	0.8005	0.6368	0.5097	0.9275
Survive to 90	0.4452	0.2341	0.1042	0.5751
Survive to 100	0.0882	0.0248	0.0022	0.1108
	Projection to 2025—1983 Mortality Projected 40 Years			
	Female 65	Male 65	Both Survive	Either Survive
Survive to 80	0.8405	0.6937	0.5831	0.9511
Survive to 90	0.5210	0.3021	0.1574	0.6657
Survive to 100	0.1406	0.0439	0.0062	0.1783
	Projection to 2045—1983 Mortality Projected 60 Years			
	Female 65	Male 65	Both Survive	Either Survive
Survive to 80	0.8726	0.7434	0.6488	0.9673
Survive to 90	0.5936	0.3751	0.2227	0.7460
Survive to 100	0.2043	0.0720	0.0147	0.2616

Calculations based on the 1983 Group Annuity Mortality (GAM 83) sex-distinct table.

term care policies with three-year limits will exhaust their benefits. Without appropriate financing, the cost of care can easily deplete retirement savings for most people. Future concerns about long-term care relate to financing, affordability and access to facilities and caregivers. In the long run, there is likely to be a shortage of qualified staff, due to the interaction of demographic factors, wages and the relative attractiveness of these jobs.

New Ways to Think About the Lifecycle— The Third Age

As people are living longer, and as more of them are reaching traditional retirement ages, new ideas about work and retirement have emerged. One way to summarize them is to think of the lifecycle as including a “third age.” The author is not aware of a specific fixed age definition for the third age but rather would think about it as a period defined by

TABLE VIII
WORK INTENTIONS OF PERSONS AGES 50 TO 70

Intention	Percent
Work part time doing the same type of work done now	24%
Work part time doing something different	22
Start own business doing same type of work done now	5
Start own business doing something different	5
Work full time doing the same type of work	5
Work full time doing something different	2
Other and don't know	5
Total	68

shifting priorities and different bases for making choices. The *third age* can be viewed as a period between the traditional full-time employment, career-building period and full-time retirement and leisure. Individuals combine work, volunteerism and leisure in different ways during this period. There is no institutional norm at present, and maybe none will emerge.

There are a variety of resources for people to use as they think about what might work for them. Many people just invent their own directions. Some of the resources can be found at various Web sites.

- Chicago Life Opportunities Initiative (www.clou.org)—This site lists many references and resources and includes a questionnaire, *Mapping Your Future*, that addresses five categories of planning: health, work and leisure, finances, housing and relationships. The questionnaire provides a good overview of things to think about.
- Civic Ventures (www.civicventures.org)—a national organization that includes a large number of resources and tools.
- The Age and Employment Network (www.taen.org.uk)—provides insight into parallel issues in the United Kingdom.
- AGE: The European Older People's Platform (www.age-platform.org)—organization looking at population aging issues in the European Union.

The Work and Retirement Experience

This section leads us to Scenario IV by providing information about what people say they want, based on public attitude surveys and other research, and information on how people are actually phasing out of full-time work and working in retirement. This infor-

mation focuses on schedule, type of work and duties. The section also includes data about the prevalence of disability within the group of people leaving the workforce early. It concludes with information about innovative work practices.

What People Want

Various attitude studies and focus groups provide perspective on what people say they want in retirement. Some key questions are: When do people want to retire? How often do people retire before they want to retire? Do people want to work in retirement? When people say they want to work in retirement, what does that mean?

The *2005 Risks and Process of Retirement Survey* (Society of Actuaries, 2006) shows that more than half of preretirees expect to retire from their primary occupation at 65 or before. The percentage of people indicating that they will never retire increased from 4% in the 2001 survey to 8% in 2003 and 13% in 2005 (see the figure).

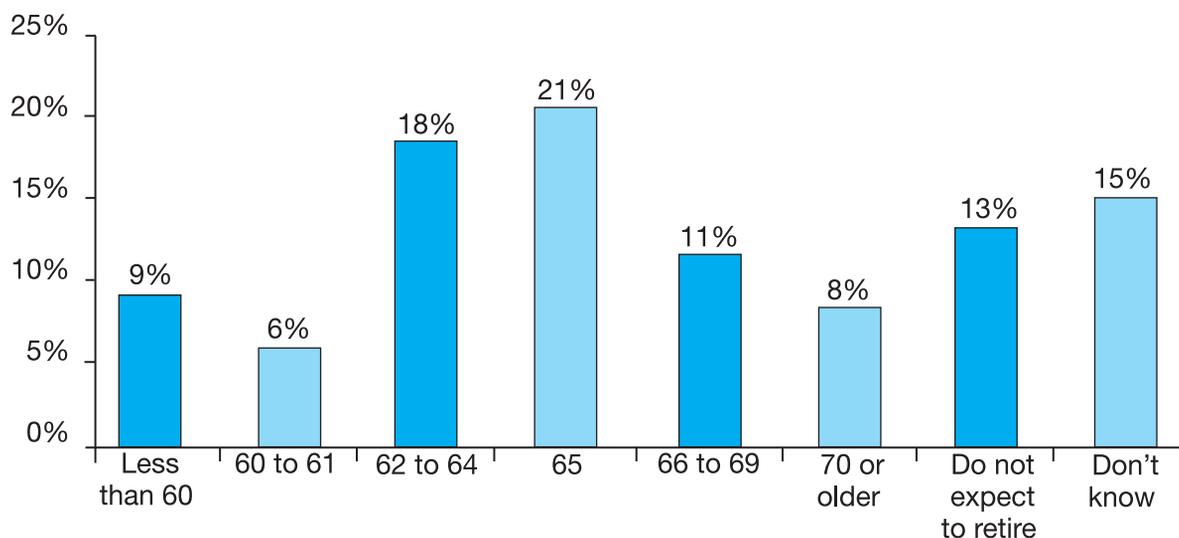
When people say that they do not expect to retire, that creates a potentially dangerous situation. Over the years, more than three in ten people have retired earlier than planned and not by choice. Not planning to retire means that it is not necessary to save for retirement and provides a rationale for not saving or protecting against the risks expected in old age.

American Association of Retired Persons (AARP) research provides insights into the type of work people are interested in and the type of retirement plans they are considering. AARP's study, *Staying Ahead of the Curve 2003: The AARP Working in Retirement Study*, looked at workers ages 50 to 70. Of this group, 68% said that they expected to work in retirement. Of the 68%, the vast majority indicated that they ex-

TABLE IX**WORK EXPERIENCE DURING PRIOR YEAR AMONG RETIREES PROVIDING RETIREMENT AGE PERCENTAGE WITH VARIOUS WORK EXPERIENCES**

	2003 Results	2005 Results
Did not work for pay	59%	60%
Worked full time	10%	15%
Part time	15%	13%
Full time or part time part of the year	13%	12%
Don't know	3%	1%
Number in this category	242	274

Source: Society of Actuaries' 2003 and 2005 Risks and Process of Retirement Surveys.

**FIGURE
EXPECTED RETIREMENT AGE**

pected to work part time. Table VIII shows the respondents' intentions.

We know from other sources that people do not always do what they say they plan to do. However, many do work in retirement and this is likely to increase.

Patterns of Work After Retirement

The Society of Actuaries' series of studies on *Risks and Process of Retirement* provide insights into public knowledge about postretirement risk and into

how people retire. They provide evidence with regard to gradual retirement. Of the respondents who say that they are retired, nearly 40% worked for pay during the last year. Data from 2003 and 2005 are shown in Table IX.

Those who gradually reduced the amount they worked report different patterns of work (Table X).

One way of thinking about the transition into retirement and the third age is to think about reinventing one's life. One definition can be found in the book, *Don't Retire, Rewire*, providing advice to

TABLE X**WORK EXPERIENCE OF THOSE WHO GRADUALLY REDUCED WORK
PERCENTAGE WITH VARIOUS WORK EXPERIENCES**

	2003 Results Who They Worked for	2005 Results Who They Worked for
Worked for a different company	33%	40%
Worked for the same company at the same job	32%	31%
Became self-employed	25%	27%
Worked for the same company at a different job	8%	*
	Schedules of Work	Schedules of Work
Worked on regular basis	52%	65%
Worked on project or as-needed basis	25%	25%
Served as a consultant	10%	7%
Worked seasonally	6%	10%
Number who participated in phased retirement	67	81

*Question changed a little between 2003 and 2005.

Source: Society of Actuaries' 2003 and 2005 Risks and Process of Retirement Surveys.

people as they plan for later in life: "To rewire is to reroute personal energy that was spent on full-time work into deeply satisfying, personally customized work activities (full time, part time, flextime, phased, sabbatical, seasonal, paid, personal and/or volunteer) that transform your next act into the most fulfilling time of your life" (Sedlar and Miners, page xiii).

Older Workers Have More Problems Securing Work

More older people might work, but some of them have difficulty securing work. A new study (Lahey, 2005) of the hiring process concludes "The evidence presented paints a picture of age discrimination against older workers in labor markets. The demand for labor from older workers is smaller than that from younger workers. Simply encouraging older workers to reenter the labor force will not guarantee that they will be able to find jobs in a timely manner, if at all." Lahey (2005) explores a number of possible reasons why employers prefer younger workers but does not reach definite conclusions. Rather it states that more work is needed. Two issues discussed in

some depth include fear of age discrimination litigation and higher benefit costs for older workers. It is contended that discrimination in hiring is harder to demonstrate than discrimination after hiring, and that hiring is less likely where there are more stringent nondiscrimination laws.

Studies of displaced workers indicate that older displaced workers are less likely to have found work than younger displaced workers, and they are more likely to leave the labor force (Table XI).

A Congressional Research Service study (Levine 2005) concludes: "The lower employment rate of older displaced workers compared to either younger workers or to nondisplaced workers appears related to the restricted opportunities that older job seekers typically encounter." The study also cites an analysis of the 1992-1998 *Health and Retirement Study (HRS)*, which indicates that displacement is a key predictor of involuntary withdrawal from the labor force.

Leaving the Labor Force at Earlier Ages

The U.S. Congressional Budget Office (CBO) has looked at the early exit of some baby boomers from

TABLE XI**EMPLOYMENT STATUS IN JANUARY 2004 OF WORKERS
DISPLACED IN 2001-2003, BY AGE**

Age Range	% Employed	% Unemployed	% Not in the Labor Force
20-24	65%	20%	15%
25-54	69	20	12
55-59	63	22	14
60-64	42	29	29
65 and over	24	13	63
Total	65%	20%	15%

Source: Linda Levine, *Older Displaced Workers in the Context of an Aging and Slowly Growing Population*, Congressional Research Service, August 29, 2005, page CRS-5. Data based on CRS calculations from the 2004 Displaced Worker Supplement to the *Current Population Survey*.

the labor force (U.S. CBO 2004). CBO has examined the Survey of Income and Program Participation (SIPP) database to look at people who were ages 50 to 61 and not participating in the labor force in 2001. Status was based on self-reporting, and people were classified as retired or disabled. Some of CBO's key findings included:

- Men and women not in the labor force because of disability generally had much lower income, higher poverty rates and fewer assets than those who were retired.
- Of the total population ages 50 to 61, 14% of men and 24% of women were reported as not being in the labor force at any time during the year. Of the men in the study, 32% were retired, 64% were disabled and 4% reported the reason for not being in the labor force as "other." Among the women, 26% were retired, 40% were disabled and 34% reported as "other" the reason for not being in the labor force.
- Men not working at all at ages 50 to 61 were twice as likely to be disabled as retired. Women were 167% as likely to be disabled as retired. Of the total population ages 50 to 61, 9% of men and 10% of women were reported as disabled. Of the total, 4% of men and 6% of women reported themselves as retired and did not work at all during the year. The study provides no information about what percentage may have reported themselves as retired but who also worked during the year. (Other studies show considerable numbers of people who say they

are retired and report work.) People who reported themselves as "other" generally indicated that they were caring for others or were not interested in working.

- About 73% of retired men and 35% of retired women received income from their own DB pension.
- About 80% of the men and women who reported themselves as disabled received Social Security disability benefits and/or were in a family that received Supplemental Security Income program payments.

Table XII summarizes the income and assets of Americans ages 50 to 61 in 2001 who were not in the labor force during the year, and compares the income and assets to amounts for those who were in the labor force.

About four in ten Americans retire earlier than they planned to. The *Retirement Confidence Survey* is an annual study that looks at a sample of retirees.² That study indicates that over a period of several years, the results were about the same. Involuntary retirement is often driven by job loss and/or disability. Family health problems can also make continued work very difficult.

Innovative Practices to Support Working Later in Life

Some employers focus on offering good opportunities to mature workers and seek them out. AARP has a program to provide awards to companies that do a good job of offering programs to support older

TABLE XII**2001 INCOME AND ASSETS OF AMERICANS AGED 50 TO 61 PARTICIPATING IN LABOR FORCE VERSUS THOSE NOT PARTICIPATING THAT YEAR**

	Retired	Disabled	Not in Labor Force for Other Reason	Total for Population Not in Labor Force	Population in Labor Force During 2001
Men					
Percentage of total				14%	86%
Percentage not in labor force	32%	54%	4%	100%	
Median annual family income	\$30,000	\$20,000	*	\$23,000	\$62,000
Mean net worth	\$231,000	\$19,000	*	\$61,000	\$148,000
Percentage who were poor	15%	24%	*	21%	3%
Women					
Percentage of total				24%	76%
Percentage not in labor force	26%	40%	34%	100%	
Median annual family income	\$34,000	\$19,000	\$43,000	\$30,000	\$54,000
Mean net worth	\$218,000	\$14,000	\$120,000	\$82,000	\$132,000
Percentage who were poor	15%	40%	26%	29%	8%

*Not available because of small sample size.

Source: U.S. CBO, *Disability and Retirement: The Early Exit of the Baby Boomers From the Labor Force*, November 2004, page 3.

worker employment. A research report, *Staying Ahead of the Curve 2004: Employer Best Practices for Mature Workers*, analyzes the practices of winners of the AARP award in 2002, 2003 and 2004 (AARP 2004). This report focuses on programs that support, enhance and create new work and career opportunities, and on programs that provide added value to mature employees and on extras. Phased retirement and flexibility are featured in the report. Flexibility in jobs is described as flexibility in schedule, place of work and duties. Other practices that are featured include support for caregivers, mentoring and retiree benefits.

AARP also has partnerships with a number of companies that have been designated as *featured employers*. These companies have a commitment to hiring older workers. The featured employers, as of November 29, 2005, include retailers, financial services companies, health care organizations, temporary employment services, communications companies, car rental companies, security services and others.

Retailers include Home Depot, CVS, Walgreens and Borders. Temporary services include Adecco, Kelly Services and Manpower. Communications companies include Cingular Wireless, Verizon and Comcast. Health companies include Johns Hopkins Medicine, Universal Health Care and Quest Diagnostics. Other organizations include Cendant Car Rental Group (Avis/Budget), Allied Barton and Pitney Bowes, Inc.

Economics: Earnings and Retirement Income

This section includes information on the income of older Americans and the importance of earnings in different age groups. By showing how many people are in different age groups, it indicates how people might be moving toward Scenarios II and IV today. It provides some background on retirement systems, offers current perspectives on understanding of risk by individuals and demonstrates the practical limits of good results from too much individual responsibility. It also discusses labor force projections and the uncertainty surrounding them.

TABLE XIII**PERCENTAGE OF OLDER AMERICANS WITH VARIOUS SOURCES OF INCOME, 2004**

Age Group	Social Security	Private Pensions or Annuities	Public Pensions	Earnings From Current Work	Income From Assets
55-64	17.7%	9.4%	6.3%	66.5%	58.3%
65-69	83.1%	20.7%	11.5%	32.6%	57.2%
70-79	89.6%	24.5%	11.9%	16.2%	56.2%
80 +	91.2%	26.1%	11.4%	5.1%	54.5%
Median Amount—Age 65 +	\$10,399	\$6,720	\$15,600	\$15,000	\$952

Source: Debra Whitman and Patrick Purcell, *Topics in Aging: Income and Poverty Among Older Americans in 2004*, CRS Report for Congress, dated November 7, 2005, Table 1, page CRS-4, developed from the Congressional Research Service (CRS) analysis of the March 2005 *Current Population Survey*.

TABLE XIV**PERCENTAGE OF OLDER AMERICANS WITH EARNINGS, 2004, AND MEAN AND MEDIAN AMOUNTS**

Age Group	% with Earnings	Mean Annual Earnings	Median Annual Earnings
55-64	66.5%	\$44,673	\$32,000
65-69	32.6	32,792	19,428
70-79	16.2	27,256	12,000
80 +	5.1	21,101	10,000

Source: Debra Whitman and Patrick Purcell, *Topics in Aging: Income and Poverty Among Older Americans in 2004*, CRS Report for Congress, dated November 7, 2005, Table 1, page CRS-4, developed from the Congressional Research Service (CRS) analysis of the March 2005 *Current Population Survey*.

Sources of Income for Older Americans and Earnings of Employed Older Americans

Americans are combining earnings and retirement income sources and making individual choices about work and retirement. They combine earnings with support from other sources in various combinations by age. Table XIII shows the percentage of people by age with income from various sources. Fewer work at older ages, but earnings are significant for those who do work even at ages over 80. Table XIV shows the percentage with earnings, together with mean and median earnings for those who had earnings. The author believes that a substantial number of people can be expected to work into their early 70s but that,

after 75, the number of people working will be small. Work after age 75 should be viewed as more the exception than the rule.

The Evolution of Retirement Benefit Systems

The retirement benefit system in the United States is a combination of Social Security, employer-sponsored retirement benefit plans and personal savings.

The number of retirement plans in private industry has grown as shown in Table XV.

The number of total participants (in millions) in private industry plans is shown in Table XVI.

It should be noted that, while the total number of DB participants has continued to grow, the number

TABLE XV**RETIREMENT PLANS IN PRIVATE INDUSTRY, 1975-1999**

	1975	1990	1999
Defined benefit*	103,346	113,062	49,895
Defined contribution**	207,748	599,245	683,100
Total	311,094	712,307	732,995
*Cash balance included in DB	na	na	1,324
**401(k) included in DC	na	97,614	335,121

Source: EBRI, The U.S. Retirement Income System, Facts from EBRI, April 2005.

of active participants has not. Active plan participants numbered 26.8 million in 1975 and 22.6 million in 1999.

After a period of growth and liberalization, DB plans have been subject to cutbacks and restructuring. Most boomers with long service in organizations with DB plans will have a secure retirement, but not necessarily what they expected. Market forces are leading to plan freezes and terminations, often a few years before boomers expect to retire. The design of many traditional plans is such that much of the benefit is earned in the last few years before retirement, so many boomer families will get lower benefits than they once expected, forcing them to work longer or have a lower standard of living.

While DC plans are growing, successful outcomes rely on individuals to make good decisions, and they rely on market outcomes. Some plans are heavily invested in company stock; and, in a few companies, these stocks have had major losses. Some boomer families with long service covered by 401(k) and other DC plans have very good balances. Others have not been in plans long enough, or they have been hit by poor investment experience.

The major trends and issues that affect retirement benefit systems today are as follows.

- Decline of the DB pension system and a reduced role by employers in providing benefits for retirement. Plans are frequently being frozen or changed. Some boomers will be included in groups that are grandfathered into old plans, but many will not. Early boomers are much more likely to be grandfathered than late boomers. Generations after the boomers are unlikely to be grandfathered when plans are changed.
- Growth of the DC pension system with increasing reliance on stock and bond market performance for retirement security. Many plan spon-

sors have reduced their commitment to providing retirement benefits. Depending on the timing of the shift, many boomers are caught in the middle, with not enough time and discipline to save in the newer DC plans. Younger employees will have more time to save.

- Concerns about the financial stability of Social Security benefits and the form and level of benefits, together with calls for reform and system restructure. Social Security issues create uncertainty for all future generations of retirees.
- Public attitudes and knowledge that do not encourage very much saving for retirement. This has resulted in lower savings for many Americans. Many women are also vulnerable because of inadequate focus on spousal rights.

DB plans are threatened by the interaction of several different forces:

- Contributions required of private sector DB plans have been subject to very large increases and big fluctuations due to the interaction of economic issues and legal requirements.

► THE AUTHOR

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TABLE XVI**RETIREMENT PLAN PARTICIPANTS IN PRIVATE INDUSTRY,
BY PLAN TYPE, 1975-1999**

	1975 (millions)	1990 (millions)	1999 (millions)
Defined benefit	33.0	38.8	41.4
Defined contribution	11.5	38.1	60.4
Total*	44.5	76.9	101.8

*Note that, where multiple plans are present, participants are counted in each plan.

Source: EBRI, *The U.S. Retirement Income System*, Facts from EBRI, April 2005.

- Increasing levels of litigation are a major threat to the pension system.
- Litigation and legal uncertainties have served to put innovative new plan designs virtually on hold.
- Bankruptcies leading to plan terminations and partial loss of benefits. Federal pension insurance covers only part of the benefits.

Understanding of Risk

The accumulated research to date would indicate that there are major gaps in the understanding of risk and that, in spite of the shift to individual responsibility in retirement programs, this is not changing much. 401(k) plans have been in existence for more than 20 years, and employers have been working to educate people about plan investments and saving for retirement. While there is evidence that education helps some people, there is also evidence that many people are not interested in education and that it has little influence on them.

An emerging body of knowledge provides new insights into how people understand and deal with risk and uncertainty. That body of knowledge should be considered together with the surveys and research presented in this article. An overview of behavioral finance as it applies to pensions can be found in Olivia Mitchell and Stephen Utkus, *Pension Design and Structure: New Lessons from Behavioral Finance*, Oxford, 2004. In his paper, Gary Selnow (Mitchell and Utkus, 2004, p. 45) discusses some of the factors that make retirement savings difficult. He advises readers to remember that:

- The payoff for behavioral change is quite uncertain.
- Workers do not easily buy the idea of payoffs in the distant future.
- The promise of pleasure tomorrow means pain today.

- The wrong decision yields instant gains.
- There is no immediate tangible reward for saving now.
- The savings decision can be postponed without immediate penalty.
- There are no specific functional deadlines for action.

Selnow studies how people make decisions and brings us a perspective different from that of the people who have worked extensively with pension plans.

The findings of behavioral finance can be brought together with what participants have indicated in focus groups sponsored by the Society of Actuaries. Some key points to remember are that:

- Long-term thinking is foreign to many people.
- Some people make decisions about retirement on a very intuitive basis without much quantitative analysis of needs and resources.
- Many Americans do not have good skills in mathematics and do not understand compound interest. That makes it very challenging to understand long-term savings and the impact of inflation.
- Personal experiences can be much more powerful than statistics and probabilities in influencing how people act and think.

The National Picture

In this section, labor force projections and the uncertainty that surrounds the issue of possible future labor shortages are discussed. This leads to the author's opinion that there is a great deal of uncertainty and a puzzle surrounding the future employment of older persons, particularly those within the 65-to-75 age group. That puzzle was discussed earlier in the article. This section also includes information about how Social Security serves to influence retirement patterns,

and information on public policy and retirement patterns. This section also reinforces the importance of having a retirement system that works for people who do not make good decisions on their own.

Labor Force Projections

The Department of Labor projections for the years 2002-2012 (Horrigan 2004) show that the labor force grew by 1.6% per year from 1950 to 2000. Growth is expected to slow to 1.1% per year from 2000 to 2010, or 0.6% if the entire 2000-2050 period is reviewed. The projections assume a labor market that clears, i.e., supply adjusts to meet demand. An economist with service in the Labor Department commented in discussions about these topics that it was amazing how many people entered the labor force or increased work schedules when there was increased demand for labor.

Some experts have predicted substantial shortages. For example, Edward E. Potter, president of the Employee Policy Foundation, in an October 11, 2001 letter to John Boehner, chairman, Committee on Education and Labor, U.S. House of Representatives, stated:

Shortages in a wide range of occupations that are evident today provide a glimpse of greater shortages to come. Current trends point to chronic shortages across the entire spectrum of the occupations and industries, but most especially in those that offer the greatest potential for economic growth and rising incomes over the next 30 years. Over the next 30 years, the labor force needed to maintain current per capita growth in the standard of living will increase to nearly 200 million, but current growth of the working age population, productivity growth trends and current labor force participation rates point to an available labor force of only 165 million. The shortage may reach a total of 35 million workers—21% more than the available labor force—in 2031.

In contrast, Peter Cappelli, professor of management and director of Wharton's Center for Human Resources, did a study that is reported as "debunking the myth" in *Knowledge@Wharton* (published August 27, 2003). Cappelli says that predictions of a labor shortage are false, and gives the following reasons:

- Even though the baby bust group is 16% smaller than the baby boom group, not every subgroup is smaller. For example, more people are enrolling in college after the time of the baby boom. Higher percentages choosing college educations have offset the fact that the next cohort is smaller.

- The predictions are based on the unrealistic idea that baby boomers will retire at age 65. Cappelli predicts that many boomers will work past age 65, although they may change the work they do.
- Individual companies do not usually reflect the demographic profile of the United States. Companies' profiles reflect their own histories and the periods of time when they were growing and changing.
- Few companies target hiring to specific age groups, and companies adapt their hiring to the age groups that are available.
- The economy has always grown faster than the labor force, due to productivity growth. The U.S. economy is about eight times the size it was at the end of World War II and the labor force is about twice the size. Labor force growth is not necessary for the economy to grow.
- Demographic changes are slow and predictable, giving the economy time to adjust to them.
- Slow growth in the labor force will constrain economic growth only if there is full employment.
- The labor force will continue to grow, although more slowly.

However, Cappelli also recognizes that there could again be a tight labor market, and that companies could be challenged to find the right employees.

Shortages in specific occupations or locations are a different issue. It seems quite likely that, at a minimum, there will be shortages of key health care professionals. There may also be shortages in specific geographic areas and occupations.

Immigration is an important factor in potential growth of the labor force. From 1994 to 2004, the native-born labor force in the United States grew by 7% while the foreign-born labor force grew by 66% (Table XVII).

CBO (U.S. CBO 2005) concludes that, when immigration is considered together with the aging of the baby boom, foreign-born workers are likely to continue to increase as a percentage of the total labor force.

There are a number of uncertainties with regard to future labor demand and supply, including:

- The impact of immigration. Immigration increases labor supply and is estimated by the Department of Labor at 1.1 million persons per year from 2000 to 2005, forecasted at 900,000 from 2006 to 2010 and 1.3 million from 2012 to 2012.
- The impact of outsourcing to offshore locations. In the last few years, outsourcing has grown, with much greater outsourcing of functions such as programming, call center management, cus-

TABLE XVII
U.S. LABOR FORCE BY NATIVITY

	Number in U.S. Labor Force—1994 (millions)	Number in U.S. Labor Force—2004 (millions)	Percentage Change 1994-2004
Native-born	118.1	126.0	7%
Foreign-born	12.9	21.4	66
Total	131.1	147.4	12

Source: U.S. CBO, The Role of Immigrants in the U.S. Labor Market, November 2005, page 3.

tomers service, accounting, etc. Manufacturing has long been done offshore.

- The extent to which older Americans will work. This depends on people’s ability to work and the availability of suitable jobs for them.
- The strength of the economy.

It is the conclusion of the author that in the absence of significant increases in participation rates and/or immigration, labor force growth will slow significantly from the last 50 years. At the same time, there are many moving parts. More older Americans are likely to be available for work if there are good opportunities for them. It is the author’s view that one cannot conclude that there will be a general labor shortage or to what extent there will be spot shortages. This will depend on the ability of the system to adjust as needs emerge.

Social Security and Retirement Ages

Social Security benefits are available at age 62 on a reduced basis, and full benefits are available at an age that is gradually increasing from 65 to 67. Benefits after the full benefit, or normal retirement, age continue to increase for later retirement, reflecting the shorter period of payment. It is widely believed that the use of age 65 as a normal retirement age in Social Security has had a major influence on the private retirement system. However, when the age 65 requirement was amended, this did not lead to changes in the private retirement system. This is complicated by the fact that the Employee Retirement Income Security Act (ERISA) and related pension regulation has not been modified to reflect the changing Social Security retirement age.

An individual who is claiming Social Security prior to normal retirement age will have benefits reduced if earnings exceed the earnings test limit, \$12,480 in 2006.

The Social Security full-benefit retirement age is increasing gradually because of legislation passed by Congress in 1983. Traditionally, the full benefit age was 65, and early retirement benefits were first available at age 62, with a permanent reduction to 80% of the full benefit amount. In 2005, the full benefit age is 65 and six months for people born in 1940, and it will gradually rise to 67 for those born in 1960 or later. Early retirement benefits will continue to be available at age 62, but they will be reduced more. When the full-benefit age reaches 67, benefits taken at age 62 will be reduced to 70% of the full benefit, and benefits first taken at age 65 will be reduced to 86.7% of the full benefit.

There is a financial adjustment for delayed retirement. An individual reaching the full-benefit age in 2005 (65 years and six months) receives an additional 6% benefit for each year he or she delays collecting benefits. If he or she delays taking benefits until age 70, the benefit will be 31% higher because of that delay. The maximum retirement benefit for someone who waits until age 70 to collect benefits is \$2,252 a month in 2005. This delayed retirement credit will rise to 8% a year for workers born in 1943 or later.

The availability of Social Security benefits is a major factor in retirement decisions. Most people claim Social Security before they reach the age for full benefits. Of people who started getting retired worker benefits in 2003, three out of four (75%) received benefits that are reduced for early retirement. About half (51%) were aged 62 when they first received benefits. Many experts encourage Americans to claim benefits early. The analysis of the decision is often incomplete in that it may not consider spousal benefits.

The average benefits in January 2005 were:

- \$955 a month for retired workers
- \$1,574 a month for retired couples

- \$920 a month for widows or widowers over the age of 60
- \$895 a month for disabled workers
- \$1,497 a month for a disabled worker, spouse and one or more children
- \$1,979 a month for a widowed mother and two children.

The maximum Social Security benefit for a worker retiring at the 2005 full retirement age (age 65 and 6 months) is \$1,939 a month.³

Public Policy and Working Longer

National policy in the United States is mixed with regard to encouraging people to work longer. The elimination of the Social Security earnings test encourages people to work longer, but the availability of benefits at 62 encourages them to retire earlier.

Prior to the Pension Protection Act (PPA), DB plans were not permitted to offer partial or full in-service distributions prior to normal retirement age. PPA permitted limited phased retirement with distributions possible beginning at the age of 62. The age limit and other regulatory uncertainties continue to serve as barriers to employer phased retirement offerings. When benefits are liberal, employees are likely to retire early. They may go on to other work or, in some cases, be rehired by their former employers. But employers rehiring retirees face legal uncertainties. It is important that provisions for rehiring retirees and allowing partial pension payments to early retirees be modernized to support and encourage phased retirement.

In general, policy is not very favorable to DB plans sponsored by private sector employers. This has been one of several factors encouraging employers to freeze or terminate these plans. The decline in DB plans may serve to encourage people to work longer, as they will have fewer resources for retirement.

THE FUTURE: WHERE DO WE GO FROM HERE?

Factors That Can Be Managed or Influenced, and Those That Can't

Moving into the future, many of the conditions that influence retirement patterns are in a state of flux and they are interacting.

Further increases in life span seem very likely. Individuals can make decisions that will influence their personal health and likely life span. On a community level, the same can be done by improving sanitation, making immunization available to all, helping the uninsured secure health care, etc. It is important to both

recognize the impact of these forces and to work to create a positive influence.

As a society, people can decide to what extent they want to support retirement, and what arrangements they want to offer and encourage.

Conclusions

The evolution of retirement and the management of retirement benefits are at a crossroads. Systems for supporting organized retirement have grown and prospered over the last 50 years, but today their future is uncertain. This article sets forth ideas for helping build and maintain a strong retirement system for the future, and provides opinions and insights from the author. Some important opinions and insights are key to moving ahead to building the right scenario for our society:

- It is very unclear whether general labor shortages will emerge. Neither individuals nor institutions should rely on expectations of future labor shortages as a way to create employment opportunities for older workers and to supplement retirement income. *The author's opinion is that spot shortages are very likely, but future general shortages are uncertain.*
- Working longer will be important to many Americans, but individuals should not plan on the basis that this will be an option available to them. Individuals who want to work longer need to be prepared on a contingency basis for labor force exit or partial exit relatively early due to disability, family needs or lack of an available job. *The author's opinion is that individuals should position themselves for work options but, at the same time, build resources in case they have no reasonable options.*
- Planning to "never retire" and using that as a basis for not building resources is a dangerous idea. For people who live to higher ages, a majority are unlikely to want, and in many cases be able, to work to very high ages. People need to have assets enabling some choice of retirement or at least major scaling down. *The author's opinion is that age 75 or earlier is the practical limit of work for most people.*
- The public is not prepared to handle individual responsibility well, and education can solve at best less than half of that problem. *The author's opinion is that retirement systems that work well without individual decisions are critical to having a society with a reasonable level of security in old age.*
- Demographics and economics, as well as the desire for personal involvement in productive activities, point to the desirability of later retire-

ment and phased retirement. Disability and poor health point to the need to recognize that, for about 10% of people, this is not a feasible reality.

The author's opinion is that enabling phased retirement, increasing general retirement ages and maintaining strong disability systems is very good policy and good for all parties involved. All three are needed to work together, or they will not work out well. The author's preference is for Scenario IV: "Move to new patterns of retirement" as her choice for the future, with the age at eligibility for full benefits under public systems indexed to increases in longevity starting from age 67, and with employers fully allowed to pay benefits under employer systems while people continue to work after age 62, with that age indexed in parallel with the full benefit retirement age under public systems. ◀

Editor's Note: This paper was previously published as "The Future of Retirement—An Exploration and Comparison of Different Scenarios" by Anna Rappaport in the *2006 Re-Envisioning Retirement in the 21st Century Symposium* monograph published in August 2006. It was presented at the Re-Envisioning Retirement in the 21st Century Symposium, May 3-4, 2006 in Washington, D.C. Copyright 2008 by the Society of Actuaries, Schaumburg, Illinois. Reprinted with permission.

Endnotes

1. Thanks to Monica Dragut, ASA, who provided assistance with this article.
2. www.ebri.org/surveys/rcs/
3. Source of statistics on Social Security: National Academy of Social Insurance Web site, www.nasi.org.

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