ExecutiveAction Series

U.S. Workers Delaying Retirement

What Businesses Can Learn from the Trends of Who, Where, and Why

By Gad Levanon, Ben Cheng, and Jeremy Goldman

U.S. workers have been working longer and retiring later since the mid-1990s, but the Great Recession has put even greater pressure on workers to stay on the job. Yet, increases in delayed retirement are not uniform across regions, industries, or occupations. Moreover, these trends are quite predictable and thus useful for forecasting and planning. Businesses can build a better workforce strategy by incorporating retirement trends specific to their operating environment.

The Great Recession of 2008–2009 reduced household retirement preparedness, much more than any other recession in the postwar era. Surveys have provided an abundance of evidence suggesting that workers are planning to delay retirement. According to the Employment Benefits Research Institute, for example, 36 percent of workers expect to retire after age 65 in 2011, compared to only 25 percent of workers in 2006. [1]

The pool of workers now planning to delay retirement may ease business concern about labor shortages and skill gaps. For businesses with larger numbers of older workers with hard-to-replace skills, this scenario may provide relief for several years. On the other hand, for companies that would like to reduce headcount, cut labor costs, or hire new staff, delays in retirement could pose challenges.

Companies can be proactive and develop a workforce plan in advance of retirement trends, or reactive and face gaps or oversupply of labor as they occur—a potentially risky strategy. A better approach is to first "do the math," and if there is an issue, act now to improve chances of creating a workforce strategy that succeeds in the long term.

1 *Employment Benefits Research Institute,* "March 2011 Issue Brief No. 355". http://www.ebri.org/pdf/briefspdf/EBRI_03-2011_No355_RCS-2011.pdf

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Long-running Trends behind Increasing Retirement Age

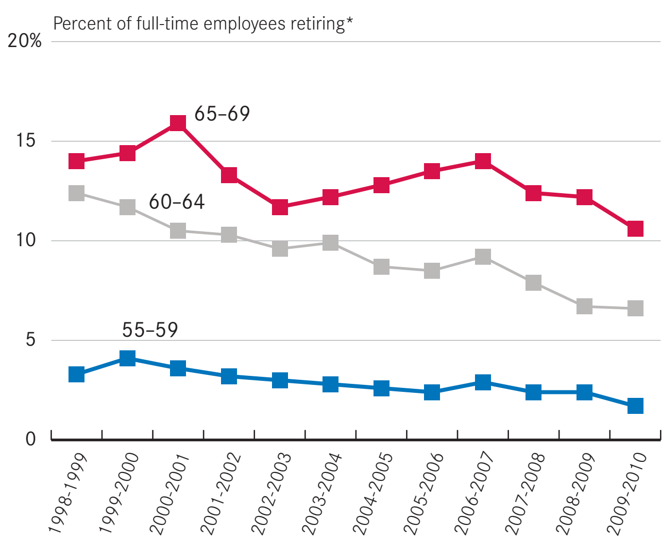
Data show that the tendency to delay retirement already began more than a decade ago. In Chart 1, we see the percentage of full-time workers who identified themselves as retired one year after they were initially surveyed, beginning in 1998, for three age groups. In all age groups, the percentage of full-time workers who retired in 2009–2010 was much larger than in the late 1990s. For example, among full-time workers ages 60–64, over 12 percent of full-time workers retired between 1998 and 1999. In contrast, less than 7 percent of the same age group retired between 2009 and 2010. Therefore, the tendency to delay retirement was not just a result of the latest recession, but is likely to be rooted in long-term factors.

Several trends have been pushing the average retirement age higher. In general, people are living longer with advances in medicine and need to accumulate more wealth to sustain their standard of living later in life. Changes in Social Security have also had an impact: the minimum age for receiving benefits has risen from 65 to 67, and penalties for collecting benefits while working have been lifted, thus providing incentives for older workers to continue working into their later years.

Chart 1

Percentage of retiring workers from 1998 to 2010

Since the late 1990s the percentage of retiring workers has been declining, but the trend accelerated between 2008–2010



* See the detailed definition of retirement in box on this page.

Source: Bureau of Labor Statistics Current Population Survey

Restructuring of benefits in the private sector has had an impact as well. The share of companies providing post-retirement health care coverage continues to decline, encouraging many employees to continue working until they are 65 and eligible for Medicare coverage. Also, the shift from defined benefit plans to defined contribution plans has reallocated much of the investment risk from employers to employees. (A defined benefit plan provides a fixed stream of retirement payments regardless of asset performance; a defined contribution plan provides a variable stream of income dependent on investment returns.) Defined contribution plans may be insufficiently funded, encouraging employees to continue working. Defined benefit plans, which were more prevalent in the past, had often included incentives to retire at a younger age. The overall shift to defined contribution plans has provided an additional incentive to continue working.

Voluntary or involuntary retirement: how do you define a "retiree"?

Many Americans have delayed retirement—or wished to—after witnessing their household net worth fall and retirement preparedness waver. However, older workers who lost their jobs and faced difficulty finding new ones in the weak labor market may have retired earlier than desired. When looking at aggregate retirement numbers, it is difficult to disentangle these factors. Yet for businesses, the increase in workers consciously planning to delay retirement is perhaps the more important factor, as strategic workforce planning hinges on the retirement decisions of the existing workforce.

In this study, we define retirees as those who were full-time workers and who twelve months after initially surveyed indicated they were retired and no longer in the labor force in any capacity. Furthermore, to isolate those who decided to retire on their own from those who were "forced" to retire (because they could not find work), we refined the definition by excluding individuals who were more likely to have been laid off. In particular, we excluded respondents who were full-time workers when initially surveyed, and 12 months later indicated that in the previous three months they were unemployed, working part-time (though they wanted full-time employment), or desired employment.

For more information on the methodology of this report, see "About the Data" on page 9.

The Great Recession Increases Pressure to Delay Retirement

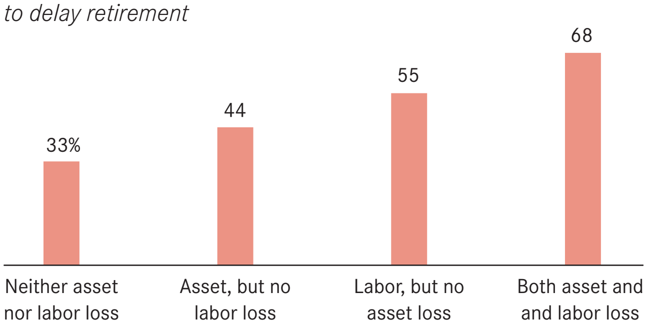
Recessions always harm retirement preparedness. But the 2008–2009 crisis will have a much larger impact than any recession in the post-war era because of two factors. First, it featured a large decline in home prices, while previous recessions did not. Second, the duration of very high unemployment is likely to be much longer than in previous recessions.

These two factors, asset loss and job loss, affected decisions about retirement. Using data from The Conference Board *Consumer Confidence Survey*®, Chart 2 illustrates the percentage of people planning to delay retirement according to these losses. An individual citing *asset loss* experienced at least a 20 percent decline in either financial assets or home value; an individual citing *labor loss* experienced some cutback in work, either through job loss or a cut in compensation. The distribution of the four groups was as follows: 28 percent of households suffered neither a labor loss nor an asset loss, 28.5 percent suffered from an asset loss but not from a labor loss, 19 percent suffered from a labor loss but not from an asset loss, and 24 percent suffered from both asset loss and labor loss. Based on this sample, those who experienced both asset and labor losses are more than twice as willing to delay retirement as those who experienced neither.

Chart 2

Recession job and asset losses among 45–64-year-olds and delayed retirement

Workers most affected by the recession plan to delay retirement



Note: Respondents aged 45–64 were asked "As a result of the financial crisis that began in 2008, are you or a household member planning to postpone retirement?" Each bar shows the number answering "yes" divided by those answering "yes" or "no."

Source: The Conference Board Consumer Confidence Survey® (March and May 2010)

How have households reacted to the recession?

To survive the impact of the recession, households can logically change tactics on three fronts: come to terms with more limited financial resources at the end of their lives, delay retirement, or increase savings.

We have already seen quantitative evidence of two of these options rippling through the economy—delayed retirement (treated in this report) and increased savings. As the crisis began, households cut spending, and the saving rate shot up to about 6 percent within a year. Previously, households only saved between 1 and 2 percent of their disposable income from 2005 through 2007, a historic low. Partly as a result of the large increase in households' net worth (following the surge in home values and stock prices during the previous two decades), households felt more prepared for retirement. That's no longer the case. (For more on the household savings rate and its impact on the U.S. economy see *The Great Recession and Household Savings,* Executive Action 343, February 2011.)

Households are taking action—delaying retirement and increasing savings—perhaps to avoid the reaching retirement age with less wealth. Consuming less during retirement and/or supplementing retirement assets by continuing to work, even if part-time, is probably a solution with considerably less appeal.

The recession's impact on households' net worth

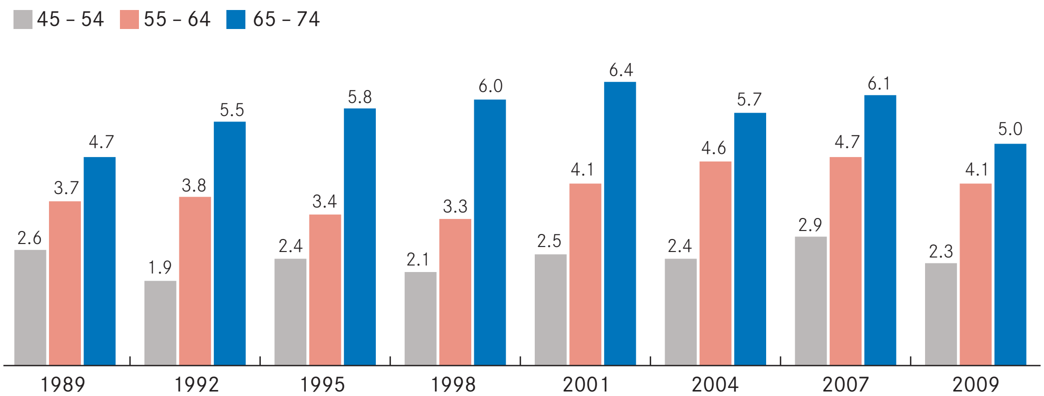
The Great Recession included significant cuts to households' net worth. Between 2007 and 2009, home prices in the United States fell by about 20 percent on average. Stock prices from peak to trough fell by over 50 percent, and while they have recovered since then, they are still well below their 2007 peak. As a result, households' net worth declined from $66 trillion in the 2nd quarter of 2007 to $48.5 trillion in the 1st quarter of 2009.

The ratio of household net worth to income is a rough proxy for how prepared individuals are for retirement. In Chart 3 we see this ratio for three age groups from 1989 to 2009. Due to the Great Recession, the ratio significantly declined between 2007 and 2009 for all groups. In the case of the 65–74 age group, the ratio of net worth to income in 2009 was the lowest since 1989. This suggests that older age groups may decide to delay retirement in the face of reduced net worth.

Chart 3

Ratio of household net worth by age group

During the Great Recession, household net worth relative to income reversed a decade of gains



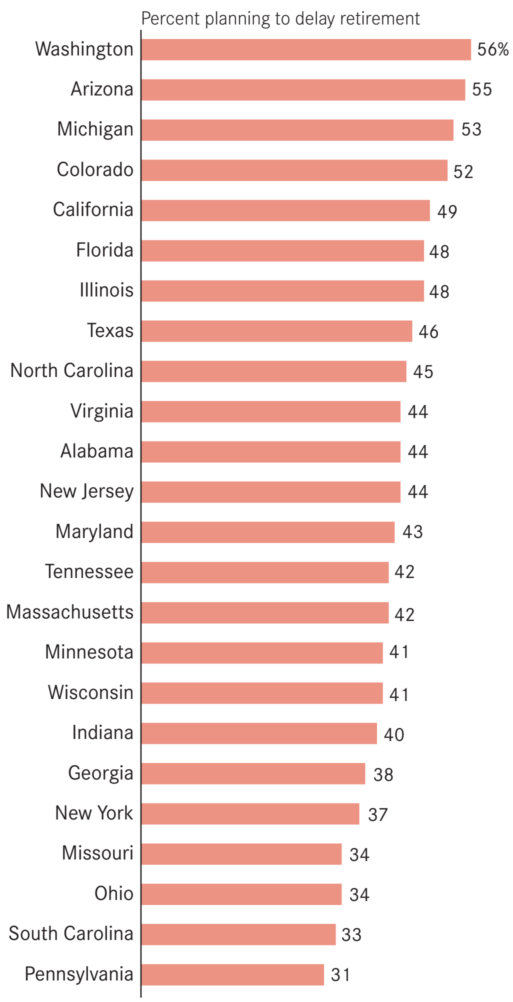
Note: The 2009 data is from a smaller sample that includes only respondents that participated in the 2007 survey and were available to participate in the 2009 survey.

Source: Federal Reserve Board, Survey of Consumer Finances

While losses in financial assets have been somewhat regionally uniform, declines in home prices and job losses varied across different areas of the United States. Chart 4 shows the percentage of households planning to delay retirement for the larger states in the union from the *Consumer Confidence Survey*®. Unsurprisingly, states where home prices suffered especially large slumps (e.g. California, Michigan, Florida, Arizona) correlate with a higher percent of households planning to delay retirement. Therefore, businesses operating in multiple regions across the United States can expect different retirement rates, depending, in part, on the degree of the housing market decline in the region in question.

Chart 4

Rates of retirement vary across the United States



Note: Ages: 45–64

Source: The Conference Board Consumer Confidence Survey®
(January, March, May, September 2010)

The role of the labor market

According to the *Consumer Confidence Survey*®, 17 percent of households experienced job loss during the recession, 24 percent experienced a compensation cut, and 36 percent experienced either job loss or a compensation cut—all indications that labor market conditions significantly worsened. Workers who wish to delay retirement, and especially older ones, may experience the impact of the recession as a kind of "double-bind:" workers may *want* to delay retirement because their net worth has dropped, but they cannot find jobs in the continuing poor labor market and are "forced" into retirement. A recent survey by the Bureau of Labor Statistics describes how likely it is for older laid-off workers to find jobs again. Only 49 percent of "long-tenured" workers displaced during the 2007–2009 period were re-employed in January 2010. ("Long-tenured" workers had worked for their employer for three or more years at the time of displacement.) Among older workers, the prospects of finding a job were even grimmer. Re-employment rates for older workers between 55–64 years of age and those 65 years and over were 39 and 23 percent, respectively. Among those aged 65 and over, 45 percent were no longer in the labor force when surveyed in January 2010. It is quite possible that many of these older workers became discouraged over time and decided to retire earlier than planned.[2]

2 U.S Department of Labor, Bureau of Labor Statistics, "Worker Displacement: 2007-2009," (Washington, DC: USDL-10-1174), August 26, 2010. www.bls.gov/news.release/pdf/disp.pdf

Delayed Retirement Is More Prevalent for Some Occupations and Industries

Closer inspection of the data suggests that for some groups the trend to delay retirement has indeed accelerated. In Table 1, we show the percentage of full-time workers aged 55–64 who retired one year after they were initially surveyed for the periods 2004–2007 (left column) and 2009–2010 (middle column). The column on the right-hand side shows the difference in the retirement rates between the two periods: the larger the difference, the higher the tendency for workers in that category to delay retirement. The table shows that while in all groups retirement rates declined between the two periods, there was a large variation across groups in the size of the decline. Workers in high-paying occupations were much more likely to delay retirement than workers in low-paying ones.[3] In high-paying occupations (excluding management), the retirement rate dropped from 4 to 2 percent between the two periods. In low-paying occupations, retirement rates declined much more moderately.

There are a few potential reasons why older workers in low-paying occupations are less likely to delay retirement. First, laid-off workers, who are more likely to be from low-paying occupations, would probably find it more difficult to delay retirement because of the difficulty of finding a job in the same depressed sector. Second, in some occupations, especially ones that involve manual labor, older workers may find it physically difficult to delay retirement.

The health industry experienced the largest decline in retirement rates between the two periods. From 2009 to 2010, only 1.6 percent of full-time workers aged 55–64 in the industry retired within 12 months compared with almost 4 percent from 2004 to 2007. The construction industry, while classified as a low-paying occupation, has also experienced a large decline in retirement rates. That is likely a result of the long slump in the industry, which resulted in many laid-off workers trying to stay in the labor force to make up for lost income.

There was essentially no change in the retirement rates among government workers. That is expected, since such workers are more likely to be offered defined benefits and are thus more insulated from the decline in financial asset values in their pensions.

Table 1 **Percent of full-time workers retiring within a 12-month period**

Retirement rates vary widely within education, occupation, and sector groups

	Category	Average annual rate (2004–2007)	Annual rate (2009–2010)	Difference
Education	BA or higher	4.04%	2.79%	-1.25%
	Less than BA	4.99	3.94	-1.05
Occupation	High-paying: managers	4.18	2.98	-1.20
	High-paying: other	4.03	2.01	-2.02
	Low-paying	4.91	4.02	-0.89
Sector	Construction	4.60	3.18	-1.42
	Manufacturing	5.04	4.41	-0.63
	Government	5.65	5.65	-0.01
	Education	6.12	4.36	-1.76
	Health	3.95	1.55	-2.40
	Other services	4.18	3.42	-0.76

Source: Bureau of Labor Statistics, Current Population Survey, Ages 55–64.

3 We define "high-paying occupations" as management occupations; business & financial operations occupations, computer & mathematical science occupations; architecture and engineering occupations; life, physical, and social science occupations; legal occupations; and health care practitioner and technical occupations.

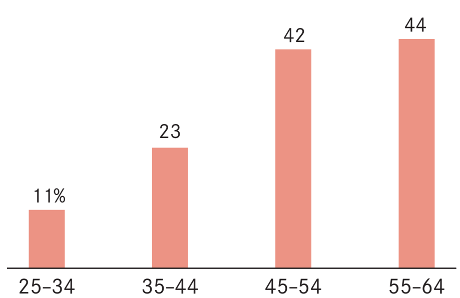
Annual Number of Workers Retiring in the Near Future

Unless households' net worth strongly recovers in the next several years, which is unlikely, we can expect the current lack of retirement preparedness to ripple through retirement rates for decades to come. Workers middle-aged and older have surprisingly similar attitudes toward retirement (Chart 5). Naturally, younger workers have more time to make alternative decisions for saving and accumulating adequate wealth for retirement, whereas older workers already near the age of retirement have fewer alternatives to postponing retirement. Since both these upper age groups have similar attitudes, the tendency to delay retirement may be strong for some time.

Chart 5

Workers middle-aged and older have similar plans to delay retirement in response to the financial crisis

Percent planning to delay retirement by age group



Note: Respondents aged 45–64 were asked "As a result of the financial crisis thatbegan in 2008, are you or a household member planning to postpone retirement?" Each bar shows the number answering "yes" divided by those answering "yes" or "no."

Source: The Conference Board Consumer Confidence Survey® (January, March, May, andSeptember 2010)

Among the *Consumer Confidence Index*® respondents planning to delay retirement, nearly half planned to do so five years or more from the survey date (September 2010). However, in predicting the number of workers retiring annually in the next several years, it is important to recognize three developments contributing to an increased number of retirees in the coming years. First, the negative effect of the Great Recession on decisions to retire is likely to wane as the recovery continues and the number of individuals delaying retirement out of financial necessity declines. Second, the size of the cohort near or at retirement age will grow due to the aging of baby boomers. Lastly, those who have already delayed retirement, particularly those who did so between 2008 and 2010, will eventually leave the labor force and retire.

Moreover, an additional development could lead to an above-normal level of retirees beginning in 2014. In that year, according to health care reform legislation, the health care exchanges could be up and running. If they function properly, that could enable workers to retire before 65 instead of waiting until they are eligible for Medicare. This is especially true for employees in companies without postretirement health care coverage.

On the other hand, the trend of increased retirement age is likely to continue due to previously mentioned long-term trends, such as increased lifespan, shifts to defined contribution plans, changes in Social Security, decline of postretirement health care coverage, and the like.

Economic and Business Implications

The macroeconomic implications of delaying retirement are largely positive. By working longer, households can consume more today and thus reduce the probability of a prolonged slowdown in the U.S. economy. Delaying retirement will also allow households to reach retirement with more financial resources. On the other hand, delaying retirement is probably increasing the already high unemployment rate as older workers continue to compete over the small number of available job vacancies.

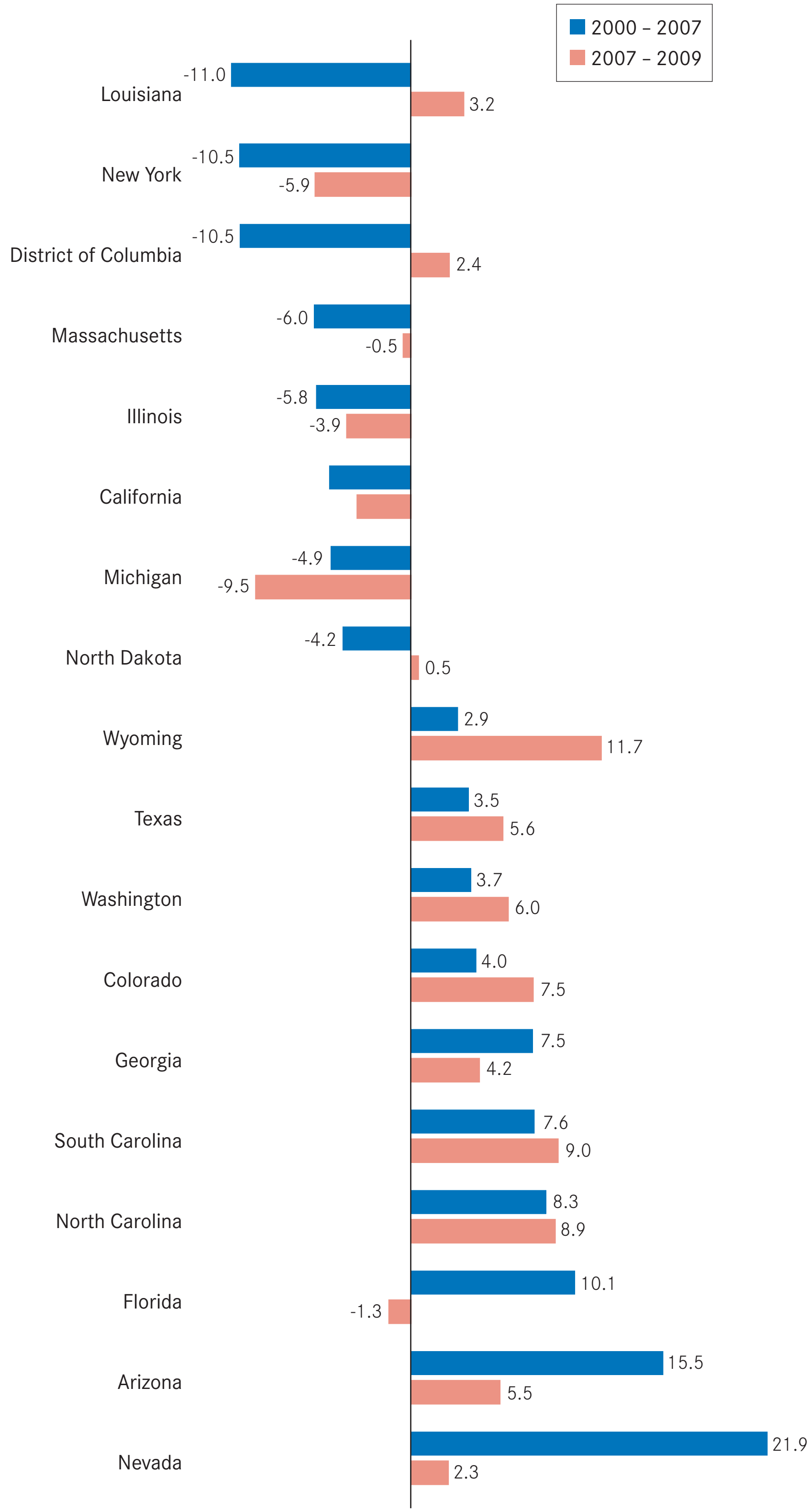
Delayed retirement has even affected the demographic distribution within the United States. Since the recession began, there has been a change in migration patterns between U.S. states (Chart 6). Most importantly, the three largest migration destinations prior to the recession (Arizona, Florida, and Nevada) fell "off the map" in the last two years. Net migration rates for Nevada and Arizona fell dramatically, while Florida's even turned negative. Part of the decline in net migration to states like Florida and Arizona is likely due to the trend of delayed retirement. Fewer individuals are leaving the labor force and moving to these retirement destinations.

The overall business impact of delayed retirement is mixed. On the positive side, delayed retirement provides relief for several more years in industries that will suffer significant "brain drain" from baby boomers reaching retirement age. On the other hand, there are several potential problems. For companies that would like to reduce headcount, slash labor costs, or hire new workers, workers delaying retirement could pose a challenge. Older workers are usually more expensive due to higher salaries and health care costs. Delayed retirement could clog promotion pipelines and prevent younger workers from being hired or promoted. In addition, older employees who would rather retire than keep working could be less engaged.

Chart 6

Annual net migration rates for selected U.S. states

Retirement destinations like Florida experienced low and even negative net migration.



Source: Bureau of Labor Statistics

Develop a Workforce Plan

Companies can forecast future retirement rates for specific segments of their workforce based on historical patterns (sometimes called Strategic Workforce Planning). Start by studying retirement trends in your company from 2008 to 2010 and compare those trends to prior years. Since retirement rates vary dramatically by age, analyze narrow age groups separately (e.g. by three-year groupings: 64–66, 61–63, 58–60, 55–57, and so on). Then for each age group, look at the percentage of people who retired every year. Did you notice a decline in the percentage of people retiring in specific age groups in 2008–2010? Most likely, the answer is yes. Use analytics or modeling to create alternative scenarios and examine their impact on the retirement forecast. Prepare for a range of possibilities.

Examine where the large changes occurred by occupation, age group, location, income group, education, gender, tenure, household structure, pension plan, assets in pension funds, or other available data. You are likely to find that in some groups, the changes are larger. For example, you may find that retirement rates are higher in certain categories: high-paying occupations rather than production workers, employees living in Arizona rather than Pennsylvania (because of the housing crisis), or those with defined contribution plans rather than defined benefit plans, and so on.

Based on the trends you define, proceed with two different scenarios: one in which the retirement rates for each group remain the same for the next three to five years, and another in which retirement rates gradually return to prerecession levels. The truth is probably somewhere in the middle. You can then project the number of individuals retiring across the different groups you analyzed. Consider what areas or business units will have labor shortages or excesses. In particular, what is the retirement forecast for managers? How many people will you be able to promote in the near future? What are the implications for health care costs?

With these insights, businesses can adjust to the retirement trends in their industry and region by restructuring job options if necessary. Changes in schedule, place, and work duties may be necessary to ensure a good fit for employees in different situations. One such policy is phased retirement, which transitions older workers from full-time positions to full retirement. In particular, policies regarding executives may be needed—businesses can move senior executives into advisory roles, thus using their knowledge and experience while allowing for promotions among the less tenured. Whatever the approach, companies can be proactive by assessing how delayed retirement in their workforce will affect their business in the short and long term by considering the principal trends.

About the Data

In this Executive Action Report we use two major data sources: the Current Population Survey from the Bureau of Labor Statistics and The Conference Board *Consumer Confidence Survey®*, a monthly survey based on a representative sample of 5,000 U.S. households.

A unique sample of over 12,000 respondents was drawn from four monthly surveys (January, March, May, and September of 2010) of The Conference Board *Consumer Confidence Survey®*. The survey asks specific questions about the impact of the recession as well as demographic and socioeconomic information such as industry, occupation, state, household structure, and business ownership.

The *Consumer Confidence Survey®* provides additional information that does not exist in government surveys, such as the intentions of working respondents to delay retirement. On the other hand, since it is measuring intentions, survey respondents who report planning to delay retirement may not end up doing so. In the March and May surveys, we asked several questions regarding the impact of the 2008–2009 recession.

Among these questions were the following:

1. Did Self/Household member lose job during the financial crisis?
2. Did Self/Household member have salary/benefits reduced?
3. Has the value of your home declined by more than 20 percent since the beginning of the housing crisis in 2006?
4. Has the value of your financial assets declined by more than 20 percent since the beginning of the crisis?

The Bureau of Labor Statistics' (BLS) Current Population Survey (CPS) is a monthly survey based on a sample of roughly 50,000–60,000 households. Each household is interviewed for four consecutive months, dropped out of the sample for eight months, and again interviewed for four additional consecutive months. The BLS CPS provides detailed information on labor force status and an array of demographic characteristics such as age, family income, education, race, industry, and occupation. In addition to this information, we were able to utilize the BLS CPS dataset in order to observe movements of unique individuals from one labor force status group to another over a period of 12 months.

About the Authors

Gad Levanon is associate director for macroeconomic research in the economics department at The Conference Board. He currently oversees a group of economists conducting research on various macroeconomic and labor market topics. Levanon developed *The Conference Board Employment Trends Index*™, which aggregates eight labor market indicators to more accurately depict underlying trends in employment.

Ben Cheng is a researcher in the economics department at The Conference Board.

Jeremy Goldman is pursuing studies in economics and finance at the Wharton School of the University of Pennsylvania.

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Gad Levanon at gad.levanon@conferenceboard.org or (212) 339-0317

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