

The Changing Retirement Landscape:

Policies Must Improve Work, Retirement Options for a Diverse Baby Boomer Population

By Deborah R. Kelch M.P.P.A. and Karen A. Harris, M.P.H.

Introduction

The oldest of California’s baby boomers (now 54) will reach traditional retirement age in about a decade. By that time, a third of California’s workforce will be over the age of 50 — nearly twice the 1990 share (1). Representing the largest continued population growth in U.S. history, baby boomers (those born between 1946 and 1964) include an enormous range of people from different age, ethnic, cultural, and income groups (2). The health of these individuals is strongly related to the way they live — their lifestyles, surroundings, and work — and will play a role in determining when they stop working (3). The future retirement choices of baby boomers will reflect their diverse experiences, preferences, and needs.

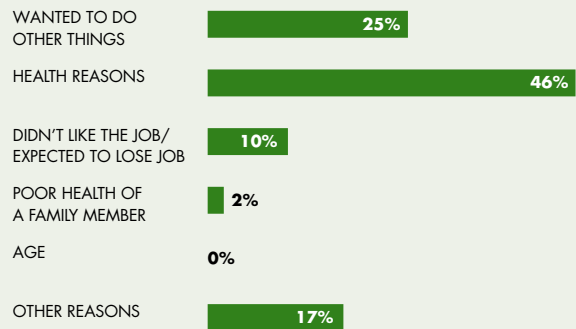
Californians make retirement decisions based on factors such as their level of savings, access to retirement income, health status and health insurance coverage (4). In California, health is the most common reason for (table 1), and poverty the most common outcome of, early retirement (5). Today, most Californians over 65 do not work at all during retirement; a significant percentage of those ages 55–64 are also fully retired (3). Yet, for an increasing number of Californians, employment is a part of retirement. Research indicates that this trend may continue in the years to come (2).

Given the links between work, retirement income, and health status (table 2, page 2), the well-being of millions of future elderly Californians depends on maximizing their retirement choices (5,6). This brief discusses three policy areas that impact work and retirement options: a) age discrimination in employment; b) access to health insurance coverage; and c) the availability and accessibility of training and re-training programs. It is intended to encourage dialogue among decision-makers about ways to expand work and retirement options for older persons through policy change.

TABLE 1

Health is the Main Reason for Retiring Early

Percentage of Californians, age 45–70 who retired before age 50, who gave these reasons for retiring.



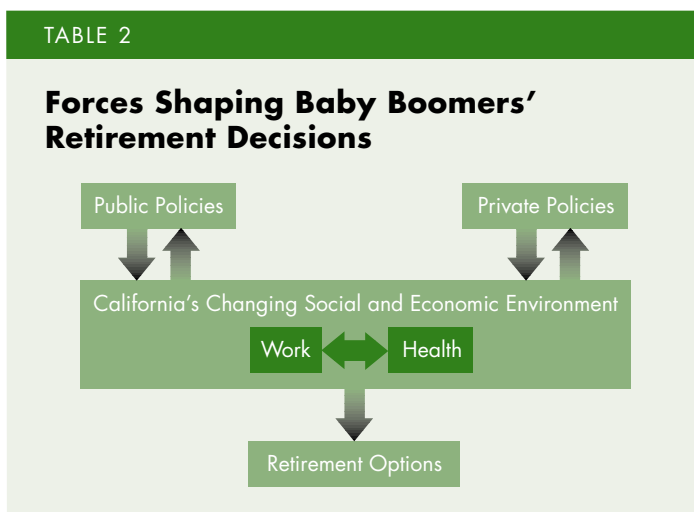
Source: *California Work and Health Survey* — Sept. 7, 1999. Institute for Health Policy Studies and the Field Institute, 1999.

Note From the Editor: At what age is a worker considered an older worker? The answer depends on whom you ask. For example, our colleagues at AARP (CCHI’s partner in developing this brief) identify age 50 as the threshold for association membership. The age of eligibility for full Social Security and Medicare benefits is 65 (by 2011, boomers will have to be 66 to receive full benefits). The Senior Worker Advocate Office, in California’s Employment Development Department, pledges to improve employment and training opportunities for workers age 40 and over. Finally, the Federal Age Discrimination in Employment Act protects workers 40 and older from age discrimination.

California's Diverse Baby Boomers: Health Will Play a Role in Retirement Decisions

California's baby boomers are diverse. Due to California's high rates of immigration, this state's baby boomer profile is substantially more diverse than in other states. One-third of California residents who were born during the baby boom period are foreign-born (7). As of 1996, approximately 42 percent of all California baby boomers (both U.S. and foreign-born) were Latino, African American, or Asian (7). California's U.S.-born boomers are more likely to have completed high school or college, more likely to hold high-paying jobs, more likely to be divorced, and less likely to have children living at home than those who were born in other countries (7). Boomers' retirement decisions will be based on a range of situations and priorities that reflect their diversity.

The size of this group alone will affect policies and programs. Most of California's population growth for the next ten years will take place among persons ages 50 and older (1). The "aging of California" (a demographic shift brought on by an aging baby boomer population, increased longevity of adult populations and lower birth rates among Californians born after 1964) will mean that a greater proportion of state residents will be dealing with retirement issues. As a result, public demand for policies that respond to the needs of older workers and retirees will be strong.



Source: California Center for Health Improvement, 2000. Compiled from listed references.

Health status is a key factor in retirement decisions. National studies have found that older people nearing the current retirement ages of 62 to 65 are typically in good health, and are functionally able to work (8). Furthermore, of the vast majority of workers who have retired by age 65, most view themselves as able to work (9). An AARP study found that relatively few baby boomers believe they will have serious health problems when they are retired (2). However, the California Work and Health Survey found poor health to be the most common reason for early retirement among Californians (3, 5). A significant proportion of fully retired Californians age 45 to 70 withdrew from the workforce before age 50. Of this group, almost half (46 percent) stopped working for health reasons (3).

California's early retirees are not only in worse health than non-retirees, they disproportionately have incomes below 125 percent of the national poverty level. These retirees report that living on their incomes is difficult, and they expect to face difficulties in housing, food, and medical care in the near future (5). Adding insight to these California findings, a national AARP study found that individuals who retire due to poor health are more likely to have worked in physically demanding jobs, to be from ethnic minority groups, and to have earned lower wages (8). Differences in education and income profoundly impact health (6), and they also affect retirement options.

The early retirement trend has been changing. Currently, many Californians are retiring before the "normal retirement age" of 65. The California Work and Health Survey found 13 percent of Californians age 45–54 are either partially or completely retired, and 45 percent of 55–64 year olds are fully retired (3). According to researchers at the Social Security Administration, three main reasons that people retire early are: they can financially afford to do so; poor health forces them to stop working; and they are unable to find appropriate jobs (10). As recently as the 1997 Retirement Confidence Survey, workers nationwide continued to view early retirement as the ideal, with one-third of the respondents reporting they would like to retire at or before age 55 (8).

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Selected Policies Affecting Retirement Options: Experts Suggest Changes

Social and economic trends in California will affect whether boomers are able to retire in health and comfort. Income inequality has risen dramatically in California during the past two decades, and is more severe in this state than in the U.S. as a whole (11). This expanding gap between wealthy and low income groups is evident among boomers. A recent national AARP survey found that approximately one-quarter of baby boomers feel ill-prepared for, and pessimistic about, retirement. Although one in four baby boomers overall do not expect to be able to retire, that number increases to 44 percent among those at the low end of the income scale (2).

Boomers who are healthier, better educated, and have higher earnings will also have more protection against job loss, and more choices about whether or not to work during retirement. Those with lower education levels and lower earnings are more likely to have health problems, less protection against job loss, and fewer retirement options. The challenge for public policy is twofold: 1) to provide the flexibility needed for those who are capable of and willing to work longer; and 2) to ensure the availability of educational and social support programs for those who are unable to work longer, or who need assistance to remain viable in the workplace. These principles affect proposed modifications to the three policies discussed in this brief: age discrimination in employment; access to health insurance coverage; and the availability and accessibility of training and retraining programs.

Age Discrimination in Employment

Despite the federal Age Discrimination in Employment Act of 1967, the California Work and Health survey found persons 51 or older are about 50 percent more likely than those who are younger to report discrimination in employment (21.2 percent vs. 14.9 percent) (5). The data indicate that such persons are significantly more likely to report discrimination on the basis of age and gender. Further analysis of the data showed that reported discrimination was also associated with a decreased likelihood of employment, and an increased likelihood of underemployment.

While there is no sure way to identify the prevalence of age discrimination in the workplace, studies have consistently confirmed its existence. Experiments that dispatched older and younger job applicants to apply for the same job revealed both subtle and overt practices that favor younger workers (9). In addition, the California Employment Development Department (EDD) reports that unemployed workers 45 years of age and over average more than twice the time to procure new employment than their younger counterparts (12). According to EDD, 82 percent of displaced workers ages 25–54 are re-employed, while only 60 percent of displaced workers between 55 and 64 are re-employed (table 3, page 4). Furthermore, those older workers who do find new jobs are more likely to have to take a reduction in salary.

In addition to federal discrimination protections, states have the ability to enact, strengthen and enforce statutes prohibiting age discrimination in employment. In 1999, State Senator Martha Escutia successfully authored SB 26, which made it illegal for employers to use the wages or salary of an individual over age 40 as the basis for management decisions. An earlier state appeals court ruling that a layoff decision based on salary was not age discrimination prompted the bill.

The Age Discrimination in Employment Act

The federal Age Discrimination in Employment Act (ADEA) of 1967 prohibits discrimination on the basis of age for those 40 and over; it protects workers from discrimination with respect to compensation and terms, and conditions and privileges of employment. The ADEA applies to organizations with 20 or more employees. It prohibits discrimination concerning: hiring and firing; compensation or classification; job advertising and recruitment; testing; use of company facilities; training and apprenticeship programs; fringe benefits; pay; retirement plans; and disability leave. For more information about laws protecting seniors in the workforce, see the Department of Fair Employment and Housing at www.dfeh.ca.gov or the Social Security Administration at www.ssa.gov.

Private policies can also affect the employment of older workers. The National Council on Aging's 1998 survey of 240 employers found that 73 percent had not developed a plan to increase their use of older workers (13), even though many employers hold positive attitudes about older workers and have had good experiences with them. The 1998 Older Employees and American Business survey revealed that employers value older workers for their strong work ethic, experience, knowledge, and stability (14). Despite the attractive attributes of older workers, employers may wish to minimize costs associated with having been in the workforce for an extended period of time (15), such as higher salaries, more expensive health insurance, and longer vacation times.



Source: California Employment Development Department, 1998. <http://www.edd.cahwnet.gov/swaoind.htm>

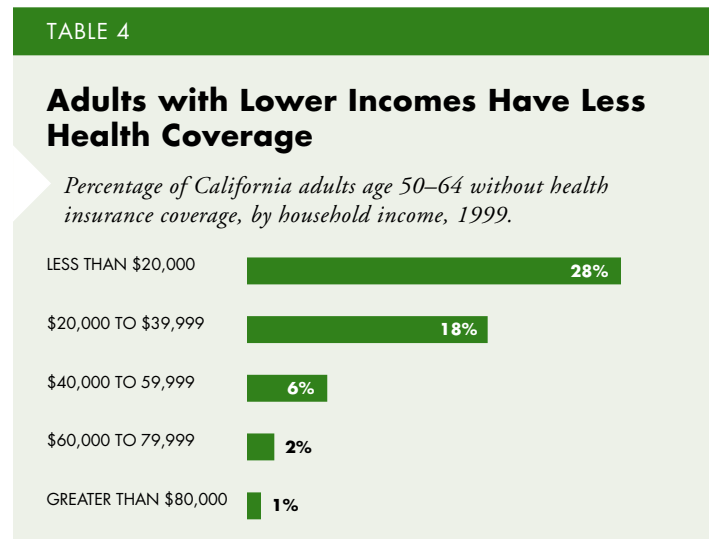
Health Coverage Impacts Retirement

Access to health coverage impacts one's health. Research has shown that lack of health coverage is one of the most significant barriers to obtaining health care. Persons without coverage, or with gaps in coverage, are less likely to have routine check-ups, be appropriately immunized, and receive other services to manage chronic disease. Therefore, accessible and affordable health insurance coverage is an important component of aging well.

Importantly, many older Californians are plagued by health problems that require medical attention. According to the work and health survey (3), over one quarter of Californians age 45–70 report having high blood pressure, arthritis or back problems. Over a fifth of older Californians surveyed reported that their health was “fair or poor.” Among individuals whose household income was less than \$20,000 per year, this number rose to more than 50 percent.

Health insurance coverage is an important employee benefit for older workers. Because individuals are more likely to experience health problems as they grow older, health insurance coverage for older workers is more expensive than for younger persons (4). Not only may the consequences of being uninsured be more drastic for older Californians than for younger ones, but high insurance costs can act as a deterrent to hiring older workers. Employer health insurance costs for men over the age of 50 are more than double the costs for men under 50. For women, health insurance costs are higher in the childbearing years, decline between ages 40 and 55, and then rise again after age 55 (9).

Employer-based insurance coverage is the primary source of health coverage for Americans under age 65. For older workers with access to employer-provided health insurance, health coverage provides a strong incentive to work. Although employer-based health coverage is the most common source of health insurance, in California, fewer than 59% of non-elderly (under 65) Californians are covered by employer-sponsored health insurance. California's rate of employer-based coverage falls significantly below the national rate of 69% (16). A primary reason for this discrepancy is that California workers are less likely to work for employers who offer insurance coverage. Latinos, non-citizens, and less educated workers are much less likely to be offered health insurance (17), possibly due to the types of jobs and industries in which they are employed (table 4).



Source: Paringer, L. *Employment Based Health Insurance Among Californians Age 50–64: Implications for Retirement*. Human Investment Research and Education Center, March 2000.

Medicare provides care for the elderly. Individuals who retire early (prior to 65) may lose their employer-sponsored coverage without being eligible for Medicare, the federal health insurance program for the elderly. Some persons under age 65 are eligible for Medicare, but only if they meet the strict Social Security disability test; even then, they must wait for two years from the date of qualification before they can be enrolled. Once individuals turn 65, the Medicare program serves as a primary source of health insurance.

Workers considering retirement seem to understand these health insurance and Medicare eligibility considerations. In a 1998 Employee Benefit Research Institute survey, 74 percent of workers said they would not retire before becoming eligible for Medicare unless their employer provided them with retiree health benefits. Despite these workers' apparent expectation that employers will help to insure retirees who are not yet eligible for Medicare, few employers provide this benefit. In 1998, only 36 percent of large employers (500 + employees) offered retiree health coverage (4). This represents a huge drop from prior decades.

Another policy affecting health coverage in retirement is the federal Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) and the follow-up California legislation known as Cal-COBRA. The federal COBRA guarantees access to health insurance during periods of unemployment and job change, but only for workers in firms of 20 or more who had access to health insurance in their employment — and then only for 18 months. (Cal-COBRA extended similar protections to workers in firms of 2–19 employees.) The cost of this health insurance coverage is not paid by the employer, but must be borne in full by the worker; it is usually more expensive than group coverage.

For these reasons, many early retirees are likely to end up without any health insurance coverage at all. The Work and Health Survey found that one in seven Californians ages 45–64 are without health insurance. Workers age 50–64 who worked less than 40 hours per week were more likely to be uninsured (33 percent) than those who worked 44 or more hours per week (7 percent). Another disturbing finding was that, among workers age 50–64, those who indicated they were in fair or poor health, low-income (table 4, page 4), or Latino were less likely to have health insurance coverage (3,18).

As the World of Work Changes, Training and Retraining Provide Opportunities for Older Workers

In the last 20 years, Californians have seen dramatic changes in their employment situations. Some occupations and industries have disappeared, others have experienced sharp declines, and new ones have emerged. In the dynamic environment of California's new, information-based economy, some older workers are unable to move up a career ladder without obtaining new skills. During the corporate downsizing that took place from 1986 to 1991, a greater proportion of older workers were laid off, and firms spent more on training new entrants than on retraining existing employees (19). Further, many firms are not promoting workforce development and training through sponsored programs, but are expecting workers to obtain needed skills on their own.

Ongoing education can help older Americans overcome skills obsolescence, and make later life rewarding. Among older Americans, the functionally illiterate face the greatest difficulties. Illiteracy isolates people, and can prevent them from accessing many public benefit programs and employment opportunities. Lowering illiteracy rates in a state as diverse as California is especially difficult, given the many languages residents speak and read. State policies can support older persons by promoting the availability of quality learning opportunities for adults in a variety of settings. In addition, states can support programs that use older persons as paid employees and volunteers in literacy and other training programs. This support must include student financial aid for qualified adults, as well as public information programs to alert adults to educational opportunities.

The California Senior Worker Advocate Office

The California Senior Worker Advocate Office, formerly known as the California Task Force for Employment of Older Workers, is administered by the state Employment Development Department (EDD). It works to improve employment and training opportunities for senior workers 40 and over, and to raise public awareness of the issues and problems confronting senior workers. The Office works directly with the public and private sectors to foster access to employment-related resources for all senior workers in California. It disseminates information to senior workers and their potential employers, and recognizes exemplary seniors and employers. Contact information: (916) 654-6502, <http://www.edd.ca.gov/swaoind.htm>.

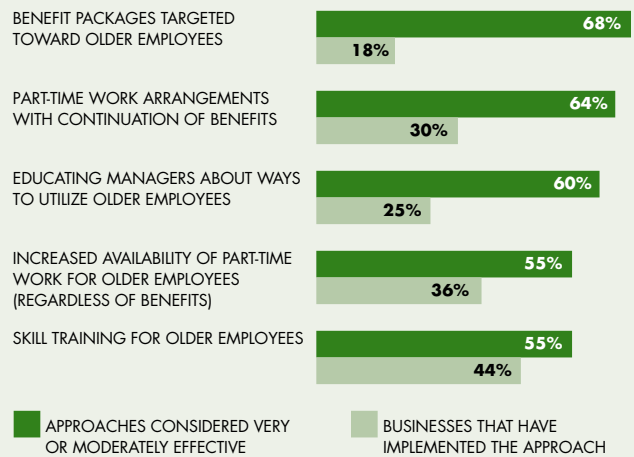
California employers need a skilled senior work force. According to the Bureau of Labor Statistics, over the next five years the percentage of employees age 45 and older will increase nationwide by 33 percent. In contrast, the number of workers ages 25 to 34 will decrease by more than 9 percent (20). In the current environment of low unemployment and demand for skilled workers, employers will increasingly need to accommodate an aging workforce. Some of these practices are in place today (table 5). Employers are using nontraditional methods to find skilled older workers. They are also offering nontraditional work arrangements, such as two-hour shifts (in the case of one major retailer); re-hiring older workers as consultants; flexible hours; or the option of telecommuting (8).

Since age discrimination already poses a barrier to older people in the workforce, these workers will need to pay attention to maintaining their own professional growth and development. They can do this by seeking out the education and training they require to remain competitive. The new economy will not reward tenure alone, but will reward workers who seek out and use information in new ways (20).

TABLE 5

Top Five Ways to Fully Utilize Older Workers

Responses of human resources managers from 400 large companies.



Source: *American Business and Older Employees: A Summary of Findings*. AARP, 2000.

California Baby Boomers: Health, Retirement Decisions

Continued from page 2

Regardless of their preferences, the reality is that early retirement is not a realistic option for many people. In recent years, evidence has been mounting that many people are extending their working lives beyond the traditional retirement ages of 62 to 65. After declining fairly steadily since the late 1940s, the labor force participation rate for persons age 65 and above began to level off in 1985, and has been inching upward ever since (4). It is not yet clear whether this development will continue, or is simply a short-term response to a strong economy (5).

About the Work & Health Series

This report continues our series of publications on the connections between work and health. It is intended to promote dialogue among policy-makers and concerned stakeholders about policies to improve the health of working Californians and their families. Other reports in the series include:

- *California's Changing Economy: Producing New Concerns About the Future Health of Workers, Their Families*

- *Information Technology and Training: Those Who Have It and Those Who Don't — Experts Propose Policies to Bridge California's Digital Divide, Improve Health*

"A good job is one of the best health promotion strategies for California."

- *Opportunities to Improve Productivity, Mental Health of Workers: AB 88 Important Step for Insured Workers; Needs of Uninsured Loom*

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Policy Recommendations to Improve Work and Retirement Options for Older Workers

Many factors will shape when and why California's baby boomers retire. While many will leave the workforce because they have the resources to do so, a significant portion will leave involuntarily due to poor health or changes in the nature of work. Increasingly, older workers will seek alternatives to traditional full-time retirement. The aging of the workforce will also create economic imperatives for employers to retain older employees beyond traditional retirement years. The policies discussed in this publication could be strengthened or modified to assist older workers with their work and retirement options.

Protect Older Workers from Age Discrimination

- Strengthen both state public policies and employer-based private policies to ensure that they are neutral toward work in the later years.
- Enforce statutes protecting older workers from age discrimination.
- Create a corporate culture of zero tolerance for age discrimination within California's workplaces.

Provide Access to Health Coverage for Older Persons, Older Workers

- Establish incentives for employers to offer health coverage to older persons and their spouses. Individuals who work part-time prior to age of Medicare eligibility should also be covered.
- Expand mechanisms to assist small businesses in purchasing health insurance for employees and their families through large businesses and organizations.

- Create a strong safety net for persons who are unable to find employment due to health status or disability. Include strategies to insure those between ages 45 and 65, and retrain those who are no longer capable of performing physically demanding jobs.
- Evaluate the degree to which the cost to workers of taking advantage of Cal-COBRA restricts access to health coverage.

Strengthen the Training Imperative

- Develop incentives for private employers to provide lifelong learning and training opportunities for workers. Include specific programs to meet the needs of low-income and minority seniors.
- Ensure the quality of training and retraining programs for older persons, including evaluating whether or not the training is culturally appropriate and affordable.
- Fund expansion of programs to retrain older workers for the contemporary labor market, and to assist these workers in securing employment.
- Provide incentives for employers to recruit, hire and retain older workers through programs that focus on these workers' unique needs and contributions.
- Develop state policies that support the use of older workers in public training and retraining programs.
- Develop ways to measure California's progress in reducing rates of illiteracy among seniors.



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