of decreased learning ability and obsolesence of skills implies that training costs are likely to be relatively high for older workers, especially those with lower than average education and skills.[24]

Offsetting these detractions, older persons have some work characteristics that enhance their desirability as employees. Older employees generally have lower turnover rates than younger workers, because of less frequent job changes and lower probabilities of quitting or being fired. Some research indicates that older workers may also display steadier, more consistent work patterns. Work injuries generally do not increase with age, although the types of accidents and durations of disability do vary with age.[25]

Federal protection from age discrimination for persons 40 to 70 also can increase the demand for elderly workers. In 1980, about 50 percent of all workers were in jobs with mandatory retirement provisions of 70 or later. Most of these jobs were also covered by private pensions. In one survey, an estimated 80 percent of employees who faced mandatory retirement also were covered by private pensions.[26]

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24. R.M. Belbin, Training Methods for Older Workers, Employment of Older Worker Series, no. 2 (Paris: Organization for Economic Cooperation and Development, 1965), as cited in Clark, Kreps, and Spengler, "Economics of Aging," p. 928.

25. Clark, Kreps, and Spengler, "Economics of Aging," p. 928.

26. See Reno, "Why Men Stop Working Before Age 65," p. 45.

CHAPTER IV. FEDERAL PROGRAMS AND POLICIES AFFECTING EMPLOYMENT DECISIONS OF OLDER PERSONS

Through several programs and policies, the federal government significantly influences the employment and retirement decisions of older persons. On balance, the effect of these actions is to facilitate and encourage retirement. The federal income transfer and tax systems provide the strongest financial incentives to leave the work force. Those systems, as well as federal regulation of employer practices and other federal labor market programs, all provide both incentives and disincentives for continued work, however. This chapter describes the features of several federal programs and policies that affect the work and retirement decisions of older persons, including:

- Direct income transfer and tax programs

  --Social Security

  --Federal personal income tax;

- Regulation of employer practices

  --Private pension regulation

  --Anti-age discrimination statutes; and

- Other labor market programs

  --Employment and training assistance

  --Unemployment Insurance.

DIRECT INCOME TRANSFER AND TAX PROGRAMS

Social Security--the largest federal income transfer program--and the federal personal income tax include several major financial incentives and disincentives for work by older persons.

Social Security

As described in Chapter III, several provisions of Social Security affect the work effort of older persons. Once workers are eligible for benefits, the need to work can be reduced significantly by the guaranteed availability of benefits for life, at a level that is indexed for inflation. For most current retirees, expected benefits also exceed lifetime payroll tax contributions, thus increasing personal wealth and further reducing the need to work.

The earnings test in Social Security severely penalizes continued work by making benefit receipts conditional on at least partial labor force withdrawal. In 1982, retirees 65 to 71 lose $0.50 in benefits for each $1 they earn above an exempt amount of $6,000; retirees 62 to 64 lose the same amount for earnings above $4,440. This is equivalent to a tax of 50 percent on those extra earnings, in addition to the Social Security payroll tax and federal and state income taxes. In contrast, benefits are not reduced by the amount of unearned income--including, for example, dividend and interest income from investments and private pension benefits.

The set of provisions in Social Security that increases monthly benefits for delaying retirement can act as either an incentive or disincentive for continued work, depending on the characteristics of the particular worker and his or her family. After 62 and prior to 72, delaying retirement increases monthly benefits but reduces the amount of time the retiree can collect those benefits. For the recipient population as a whole, the increases in benefits for delaying retirement between 62 and 65 are approximately actuarily fair, while beyond 65 the increased credit for delayed retirement is less than actuarily fair.[1]

The features of Social Security that relate benefit levels to past earnings can encourage continued employment by some older persons. Although earnings are treated no differently in later

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1. To be actuarily fair, the expected lifetime benefits should be the same regardless of when benefits are accepted. Beyond 65, the actuarily fair rate of benefit increase is over 7 percent annually, compared to the actual annual increase in benefits of 3 percent. See National Commission on Social Security, Social Security in America's Future, Final Report (March 1981), p. 135.

years than in earlier ones, the increase over time in the Social Security taxable earnings limit (the maximum creditable earnings is currently $32,400) can allow older persons who earn high incomes to increase their retirement benefits by continuing to work.

Federal Personal Income Tax

Taxation of earnings reduces the reward for work for persons of all ages and can discourage employment. For earnings above certain exempt amounts--which differ according to each taxpayer's personal situation--the 1982 tax rate increases from approximately 12 percent to 50 percent as income increases, thus providing a progressively stronger disincentive to work.

On the other hand, several provisions of the federal tax code potentially reduce the tax liability of older persons and can affect the attractiveness of being employed. First, Social Security benefits--unlike those from private pensions--are exempt from federal tax. In fiscal year 1982, the exemption of OASI benefits from tax will reduce tax revenues by an estimated $12 billion. Second, persons 65 or older are allowed an additional exemption of $1,000 from taxable income. In calendar year 1981, an estimated 11.6 million elderly persons took this exemption on their income tax returns. Third, low-income elderly persons are allowed a tax credit of 15 percent of a portion of their income if they receive less than $2,500 in nontaxable pension benefits--such as from Social Security--and have less than $12,500 in adjusted gross income.[2] An estimated $104 million was credited against taxes in 1981 on the basis of 711,000 tax returns using this credit.

These provisions both encourage and discourage continued employment, and the net impact on employment by older persons depends on the particular individual. Because they can reduce the amount of tax paid, these provisions can increase after-tax income and provide a disincentive for continued employment. They can also reduce the tax rate on earned income, thus increasing the reward for continued employment.

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2. For couples, the amounts are $3,750 in nontaxable pension income and $17,500 in adjusted gross income.

REGULATION OF EMPLOYER PRACTICES

The federal government also affects retirement decisions indirectly through the regulation of private pensions under the Employee Retirement Income Security Act (ERISA)[3] and through provisions in the Age Discrimination in Employment Act.

Private Pension Regulation

While ERISA acts to ensure minimum participation and vesting standards, private pensions are permitted certain latitudes that can create work disincentives when an employee reaches the age of pension eligiblity. First, the receipt of benefits is usually conditional on the employee's separation from the firm. Beginning in 1982, a Department of Labor ERISA regulation increased from zero to 40 hours per month the maximum allowable amount a person can work without loss of private pension benefits.[4] Before this regulatory change, reemployment on even a part-time basis could result in complete elimination of a worker's pension benefit during the period of employment, creating an all-or-nothing earnings test. Although beneficiaries of pensions from single-employer plans cannot lose benefits by working in other firms, participants in multiemployer plans can be prohibited from working in the same industry, trade or craft, and geographical area in order to receive their benefits.

Second, under ERISA and the 1978 amendments to the Age Discrimination in Employment Act, employers are not required to accrue additional pension benefits to employees who are eligible for normal (unreduced) pensions. Since the accrual of pension benefits can be a relatively large portion of a worker's compensation, the loss of this accrual reduces the value of continued employment. An estimated 27 percent of workers are covered by private pension plans that offer no increase in benefits after

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3. See Appendix C for a brief description of participation and vesting standards under ERISA. For a more detailed description of ERISA, see Ray Schmitt, "Private Pension Plan Reform: A Summary of the Employee Retirement Income Security Act of 1974," Congressional Research Service, Report Number 79-38 EPW.

4. See Federal Register, vol. 46 (December 4, 1981), pp. 59243-46.

they attain eligibility for normal retirement; an additional 22 percent are in plans that limit benefit accrual according to age and service standards.[5]

Anti-Age Discrimination Statutes

The federal government facilitates employment of older persons through the Age Discrimination in Employment Act (ADEA). Provisions of this law prohibit age discrimination against persons between 40 and 70 in hiring; job retention; compensation; and the terms, conditions, and privileges of employment. Exceptions to ADEA include any action in which age is a bona fide occupational qualification necessary for normal operation of the business, or in which the differentiation is based on reasonable factors other than age.

While ADEA potentially could eliminate significant barriers to continued employment, the actual consequences of this legislation have been less pronounced. The Department of Labor, for example, estimates that raising the minimum age of mandatory retirement from 65 to 70--as was done in the 1978 amendments to ADEA--will result in an additional 220,000 male workers 60 through 70 remaining in the labor force by the year 2000, or about a 5 percent increase.[6]

OTHER LABOR MARKET PROGRAMS

The federal government also affects the labor market for older workers through programs that provide employment and training assistance for such persons and through the provision of unemployment insurance. The participation of older workers in employment and training programs is quite low, however, in large part because of their relatively short remaining work lives and the consequent reduced value of finding employment. Because of their low unemployment rates and the availability of retirement income, relatively few older workers collect unemployment benefits.

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5. Department of Labor, Interim Report: Studies on the Effects of Raising the Age Limit in the Age Discrimination in Employment Act (December 1981), p. 234.

6. Department of Labor, Interim Report, p. 199.

Employment and Training Programs

The federal government promotes continued employment of older persons through work support and training programs funded under the Senior Community Service Employment Program and the Comprehensive Employment and Training Act. Only a small proportion of the eligible population is served under these programs, however.

Senior Community Service Employment Program (SCSEP). This program, authorized under Title V of the Older Americans Act of 1965, provides subsidized part-time employment for low-income persons 55 and older. The program year 1981-1982 appropriation for SCSEP was $277 million, which supported about 54,000 job slots.

Program participants--two-thirds of whom are female--work an average of 20 to 25 hours per week in a wide variety of community service activities and facilities, including energy conservation and restoration projects, nutrition programs, day-care centers, and hospitals. The average hourly wage earned by this work force is about $3.50. All participants are economically disadvantaged and more than half are over 65. Recent annual placement rates in unsubsidized jobs have been less than 15 percent of program participants.

Comprehensive Employment and Training Act (CETA). A small number of older persons also receive training under CETA programs. In calendar year 1980, 19,000 persons 55 and older participated in skill training and updating programs under Titles II-B and II-C of CETA, accounting for about 2 percent of all participants served under these titles. Assistance included institutional and on-the-job training, work experience, and job-search support. Some older persons also enrolled in Title III programs in second-career training; most of these, however, were demonstration projects that served very few older persons.

Unemployment Insurance

The availability of unemployment compensation discourages persons of all ages from seeking work by reducing the cost of being unemployed. Unemployment benefits usually replace about half of former wages and generally last for up to 26 weeks, or longer during periods of high unemployment. These benefits are exempt from income taxation for single workers with incomes under $20,000 and under $25,000 for couples filing joint tax returns.

The disincentive for seeking reemployment can be especially strong for older workers. In addition to receiving unemployment compensation, unemployed older workers may also receive Social Security and private pension benefits, further increasing their incomes while not employed. The Congress reduced this disincentive in 1980, however, by requiring that unemployment compensation be reduced by a portion of retirement benefits, depending on the amount contributed by the most recent employer.[7] According to this statute, unemployment compensation generally is reduced by the entire amount of a private pension and by either half or all of Social Security benefits (depending on state law). It typically is not reduced, however, by the amount of a military pension.

Firms that wish to cushion the transition to retirement can also use unemployment compensation to provide additional benefits to workers reaching retirement age, although there is little evidence on the extent of this use. An employer, for example, could lay off older workers rather than retiring them, thus making those workers eligible for unemployment compensation. The employees could then collect unemployment benefits for a period of time before switching to retirement benefits, thus potentially increasing their total income during the retirement process.

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7. Multiemployer Pension Plan Amendents Act of 1980 (P.L. 96-364).

CHAPTER V. OPTIONS FOR CONTINUED EMPLOYMENT BY OLDER WORKERS

The federal government has been reasonably successful in developing programs that allow and encourage many older persons to retire. Given the increasing share of elderly in the population and the implications for future federal retirement costs, however, questions arise concerning whether there is too great an incentive to retire and at too young an age, and whether there are too few opportunities for continued work. The Congress might wish to consider changes in federal programs and policies to facilitate and encourage continued employment by those older persons who could and chose to continue to work. Options include those to:

- Modify provisions of the Social Security system;
- Revise existing regulations for employers; and
- Change other labor market programs that affect the supply of and demand for older workers.

The options likely to have the largest effects on employment probably would involve changing Social Security either by offering strong financial incentives for continued employment--thereby causing large increases in federal outlays--or by penalizing retirement--thereby resulting in large federal savings. Increases in employment also could be obtained, however, by other alternatives involving smaller federal outlays or changes in federal regulations. Further, any option that increases employment could also increase federal revenues from payroll and income taxes, thus offsetting part of its cost.

Much of the employment stimulated by these options probably would be part time. Part-time employment can be an appealing and practical way of remaining in, or reentering, the work force because it allows older persons to supplement their incomes while lowering their work pace.[1] Employers are often reluctant to hire

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1. A recent Harris Poll reported that of those employed persons 55 to 64, 79 percent said they would prefer part-time work to retiring completely. See Harris and Associates, Aging in the Eighties: America In Transition (1981).

part-time workers, however, because of perceived high fringe benefit costs, administrative difficulties, and lower productivity. To increase part-time employment, these negative factors must be outweighed by positive attributes of older workers, including stability, experience, and, in some cases, high skill levels.

Underlying the success of any of these options is, of course, a strong economy. The extent to which employment gains by older persons are made at the expense of younger ones would be determined largely by the rate of future economic growth. Displacement could be reduced, however, by targeting employment efforts on industries and occupations in which workers will be in greatest future demand. Also, anticipated lower labor force growth in the future probably would result in less displacement of other workers.

MODIFY THE SOCIAL SECURITY SYSTEM

Aside from problems of deteriorating health, Social Security probably has the largest influence on the employment decisions of older persons. Certain changes in this system could increase significantly the incentive for older persons to continue working and decrease the propensity to retire early. Alternatives include modifying the following elements:

- Age-benefit structure; and
- Earnings test.

Change the Social Security Age-Benefit Structure

Changing the relationship between the retirement age and Social Security benefit levels usually has been proposed as a means of addressing the long-term financial problems of the Social Security system, rather than as a means of providing greater employment opportunities for older persons.[2] Many of these pro-

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2. Proposals to change the age-benefit structure in Social Security have been offered by many groups, including the National Commission on Social Security (1981), the President's Commission on Pension Policy (1981), the Reagan Administration (1981), the 1979 Advisory Council on Social Security, and several members of Congress. For a description of these proposals see CBO, Long-Run Options for the Social Security System (forthcoming, 1982).

posed changes also could affect significantly the behavior of older workers. Because such changes could disrupt the long-standing plans of many persons, and because the largest financial problems for Social Security are several decades in the future, proposals to change the age-benefit structure usually include a lengthy transition period from the current to the new system, with changes typically beginning after 1990 and concluding after 2000.

Among the ways to modify the age-benefit structure are changing the age of entitlement for full and reduced benefits or restructuring the amounts by which benefits are reduced for early retirement and increased for delayed retirement. Several proposals call for increasing the normal retirement age--as well as the maximum eligible age for claiming disability benefits--from 65 to 68. Some plans would also increase the eligible age for early retirement benefits from 62 to 65, while others would leave the 62-year age limit intact but require larger benefit reductions for those retiring this early. Reluctance to increase the age for early retirement, even if the normal retirement age is increased, is usually based on concern for older persons in poor health and for those with poor employment prospects who might find it difficult to remain employed until 65.

These proposals to raise the age of retirement would result in lower Social Security outlays because they would either limit eligibility for benefits or reduce benefit amounts. Although, if enacted, any such changes probably would not be implemented for several years, an indication of their eventual impact could be obtained by considering their results if effected in 1983. For example, if increases in the early and normal retirement ages to 65 and 68, respectively, were fully implemented in 1983, Social Security outlays to over 2 million retired-worker beneficiaries 62 to 64 and their dependents would be reduced by over $17 billion.[3] Extending the work lives of older persons would also result in increases in their incomes and in the total production of the economy.

Since life expectancies are longer now than in 1935 when the retirement age was set in the Social Security Act, some analysts contend that retirement ages should also be increased to maintain

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3. This estimate assumes that the maximum age of eligibility for claiming disability benefits would also be increased to 68 and includes an offset for increased payment of disability compensation to those 65 to 68.

the same proportion of life spent in retirement. Opponents argue that, although life expectancies are greater today than in the past, the general health of many older persons has not improved greatly and, therefore, the retirement age should not be increased.

Another change in Social Security could alter the amounts by which benefits are adjusted for early and delayed retirement. Reducing benefits for retirement at 62, for example, to 55 percent of full benefits instead of the current 80 percent (as was proposed by the Administration in 1981) would offer a strong financial incentive for workers to remain in the work force until age 65 when they could collect full benefits. Under this option, Social Security outlays also would decrease, however, because many people probably would still retire before 65. Assuming this change applied only to those reaching 62 after its implementation, initial savings would be relatively low--less than $1 billion during the first year and about $2 billion during the second (in 1983 dollars)--but outlay savings would continue to grow rapidly for several years as a greater share of the elderly population was included in the new rule. As many as one million persons 62 to 64 might delay their retirement somewhat because of this change, including perhaps 400,000 persons who would not retire until age 65.

Increasing the amount of the delayed retirement credit also would promote later retirement, but probably would affect many fewer persons. If the credit was increased to an average annual rate of 7 percent from its present 3 percent, for example, approximately 10 percent of persons who otherwise would have retired at age 65--or less than 30,000 persons annually--might postpone their retirement. Although this change would increase Social Security expenditures in the long run, outlays would be reduced in the first few years because of continued work by some elderly who otherwise would have retired and begun to collect benefits.

Modify the Social Security Earnings Test

Certain changes in the Social Security earnings test might induce beneficiaries to continue working, but also would worsen the financial position of the Social Security trust funds.[4] These changes include restricting the ages for which the test applies,

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4. See p. 28 in Chapter IV for an explanation of the earnings test.

increasing the amount of annual exempt earnings, or completely eliminating the test. They would affect persons currently receiving reduced benefits because of the earnings test as well as other persons who have restricted their employment so as not to have their benefits reduced.[5]

The Social Security Administration estimates that lowering the maximum age for the earnings test from 71 to 69 in 1983--as will occur under current law--would increase benefit payments to 150,000 to 200,000 persons and cost $600 million. Further reduction of the maximum age to 64 in 1983 could increase benefits to an additional 900,000 persons and cost $3.5 billion more. Completely eliminating the test could increase benefits to approximately 2 million persons by nearly $8 billion in 1983, compared to the test with maximum age 69.[6] The increase in employment that will result from reducing the maximum age to 69 will probably be small, although further reducing the age to 64 could add 75,000 to 300,000 persons age 65 to 69 to the work force--plus increase the number of hours worked by over 200,000 workers. There is no reliable estimate of the employment that would be stimulated by total elimination of the test.

Increasing the amount of exempt earnings for persons 65 and older would also increase benefit payments and employment. If the earnings test limit was increased to $10,000 in 1983, approximately $900 million in additional benefits would be paid. If the exempt amount was increased to $20,000 in 1983, $2 billion in additional benefits probably would be paid. Although the employment increases that would result from these changes would be less than

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5. Another approach for modifying the earnings test would be to return to the pre-1977 statute which tested earnings on a monthly, rather than annual, basis. Instead of withholding benefits when annual income is greater than $6,000, benefits could be withheld during any month in which earnings exceeded the prorated monthly limit of $500. This option would allow elderly workers to move in and out of employment while retaining their Social Security benefits when they are not employed. The administrative costs of this option could be higher than under the current law, but this change would allow more flexibility in terms of seasonal or part-year employment.

6. The reason for this large effect is that many persons 62 to 64 who work and do not collect benefits would likely begin to collect benefits if the test were removed for that age group.

those from total elimination of the test for those 65 and older, firm estimates are not available.

These changes in the earnings test could result in additional payroll and income tax revenues, thereby offsetting part of the increased outlays. The increased work effort both by those older persons who are currently working and by those who might be induced to reenter the labor force would add to revenues. A 1979 study by the Social Security Administration investigated the potential tax revenue effects of removing the earnings test for those 65 and older.[7] According to that study, approximately 16 percent of the resulting increase in benefits could be offset by increased tax revenues based on the increased work activity of those persons 65 and older who were not completely retired before this change. If 5 percent of those fully retired former workers 65 to 69 were to resume their employment as well, an additional 32 percent of increased benefit costs could be offset by resulting tax increases. (This 5 percent figure would represent an additional 150,000 persons in the work force.) Thus, under this scenario, almost half of the increased benefit costs could be offset by increased tax revenues.

Modifying the earnings test would not benefit those with low earnings, but the relation between total income and changes in the earnings test is less clear. Data on persons affected by the test in 1977 indicate that 16 percent of affected retired-worker beneficiaries had less than $6,500 in earnings, while 42 percent had earnings above $16,000 (both in 1982 dollars).[8] These data do not include unearned income, however, and do not reveal the relation between total income and incidence of the test. Also, the same earnings test limit represents different levels of purchasing power in different regions of the nation, depending on the cost of living in each area.

The basis for much of the argument for and against the earnings test in general, and changes in that test in particular,

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7. Josephine G. Gordon and Robert N. Schoeplein, "Tax Impact From Elimination of the Retirement Test," Social Security Bulletin, vol. 42 (September, 1979).

8. Barbara A. Lingg, "Beneficiaries Affected by the Annual Earnings Test in 1977," Social Security Bulletin, vol. 43 (December 1980), p. 7.

rests on the insurance versus welfare nature of Social Security. Some proponents of easing or eliminating the test argue that Social Security benefits should be paid as a matter of right since contributions were made by workers.[9] Others maintain that removal of the test would undermine the main purpose of the Social Security program--to replace earnings losses caused by retirement.

Certain combinations of options could strongly encourage continued employment without increasing Social Security outlays. For example, early retirement benefits could be reduced to 55 percent of full benefits while, simultaneously, the earnings test could be removed for those 65 and older. These changes would encourage persons to continue working until 65 and beyond and would also reduce Social Security outlays. In the long run, the savings from reducing early retirement benefits would be approximately five times larger than the cost of removing the earnings test.[10]

REVISE EXISTING REGULATIONS FOR EMPLOYERS

Changes in federal regulations of private pension systems and anti-age discrimination laws could provide additional opportunities for older persons to continue their employment. Although there would be no increase in direct federal costs as a result of these changes, they could increase costs for employers and decrease their flexibility in dealing with older workers. Specific options include those to:

- Require continued accrual of private pension benefits for work after the normal retirement age;
- Increase the amount of allowable work without the loss of private pension benefits; and
- Raise the minimum allowable mandatory retirement age.

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9. As described in Chapter III, however, this argument is mitigated somewhat by the fact that, for a particular worker, the present value of past employee and employer contributions are considerably less than the present value of benefits.

10. As a fraction of taxable payroll, the Social Security Administration estimates that the long-term savings from reducing age-62 benefits to 55 percent of full benefits would be 0.71 percent; the estimated cost of eliminating the earnings test for those 65 and older would be approximately 0.14 percent.

Require Continued Accrual of Private Pension Benefits

If pension plans regulated under the Employee Retirement Income Security Act (ERISA) were required to continue to accrue pension credits for work even after a person has met the age and service requirements for normal pension benefits, this would encourage some persons to continue working after becoming eligible for benefits. Currently, employment beyond normal retirement need not add to a worker's (deferred) pension amount.

If this change were implemented, an estimated 50,000 more men 60 to 70 would be employed in the year 2000, assuming the mandatory retirement limit of age 70 was retained. If that limit was removed as well, a total of 68,000 more men aged 60 to 70 probably would be in the work force by that year.[11] These estimates represent approximately 1.0 and 1.5 percent, respectively, of the predicted male work force in 2000.[12]

Requiring private pensions to continue benefit accrual would give them less flexibility, but would increase the number of older persons seeking employment. The potential expansion in employment could be limited, however, because of the increased cost of employing older workers, and because private pensions might react by modifying other features, such as reducing benefit levels, to compensate for this change.

Increase Allowable Work After Retirement Under Private Pensions

Under present regulations, a pensioner can work up to 40 hours per month without losing his pension. Another option for modifying private pension regulations would be to increase the amount a beneficiary could work without the suspension of bene-

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11. Department of Labor, Interim Report, p. 223. In both cases the increase in employment of those over 70 is thought to be small, although no estimate is provided. Without the mandatory retirement age of 70, slightly more men aged 60 to 70 would respond to this change, presumably because their continued employment could not be arbitrarily terminated at 70.

12. Because of data limitations, the effect on the female work force was not estimated.

fits. Currently, there is no statutory provision delimiting the exact amount of allowable employment; the present level was set by Department of Labor regulations for plans covered by ERISA. Expansion of the amount of allowable work, perhaps by law, would be most useful to retirees in multiemployer pension plans. The benefit suspension provisions in those plans effectively limit work after retirement not only with the same firm but also in the same industry, trade or craft, and geographical region.

Because over 85 percent of private pension beneficiaries also receive Social Security, the effect of changing this provision would be determined in part by the amount of the Social Security earnings test. At 40 hours per month and $10 per hour, for example, a worker's part-time earnings of $4,800 annually would exceed the present earnings limit for Social Security beneficiaries under 65 ($4,440), but would be less than the $6,000 limit for beneficiaries 65 to 71. If the earnings test limits were raised or eliminated, raising the 40-hour limit for private pensions could have a significant effect on part-time employment by private pension beneficiaries.

An alternative would be to require that pension benefits be provided on a prorated basis according to the fraction of full-time hours worked by a pension beneficiary. For example, a person working half time would receive half of the full pension amount. Approximately 20,000 additional retirees 65 to 69 might choose to work part-time under this rule, at an added cost to private plans of $20 million.[13]

This option would allow increased flexibility in part-time employment for affected older workers and would also protect private pensions from having their plans used to subsidize nonplan employers by providing full benefits while beneficiaries work for those other firms. It could reduce plan flexibility in designing benefit structures, however, and could increase plan costs, because current benefit suspensions would be reduced and because some workers would retire earlier and then work part-time.

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13. According to one estimate, there were about 66,000 pensioners 65 to 69 who did not work because of the suspension rule which existed before 1982. If all such persons worked part-time, pension costs would have increased by an estimated $70 million. See Department of Labor, "Regulatory Impact Analysis: Suspension of Pension Benefits Upon Reemployment of Retirees," undated manuscript, p. 16.

Raise the Minimum Allowable Mandatory Retirement Age

Another option affecting the practices of employers of older workers would be to remove the retirement limit of age 70 under the Age Discrimination in Employment Act (ADEA). While eliminating this upper limit could have a moderate impact on employment of older persons, its effect on the labor force as a whole would likely be small.[14] If the upper-age limit were removed altogether, the Department of Labor estimated that 195,000 additional male workers 60 to 70 probably would remain in the labor force in the year 2000. The majority of this increase was predicted to occur in the 65 to 70 age group, in which 65,000 additional workers 65 to 67 and 90,000 aged 68 to 70 were forecast. The report estimated that the increase of 195,000 workers would represent about 5 percent of the 60 to 70 male work force, but less than 0.2 percent of the total work force in the year 2000.

The eventual impact of changing the mandatory retirement age would also depend on the characteristics of future private pension plans. If employers could not dismiss workers on the basis of age but were permitted to structure fringe benefits to make it very expensive to continue working beyond a particular point, then changes in mandatory retirement rules would have only a modest aggregate impact. On the other hand, if employers were to remove these financial disincentives to work, the effect of this change in ADEA could be more pronounced.

One argument in favor of raising the allowable mandatory retirement age is that the present limit allows judgments based solely on age to supercede job performance considerations. Job performance, it is argued, is not necessarily related to age, and in many occupations there are larger differences in job accomplishments among workers of a given age than between age groups. Moreover, even if the upper limit on coverage was eliminated, ADEA provisions would still allow employers to restrict employment of older workers in cases in which age was a bona fide occupational qualification or in which differentiation was based on reasonable factors other than age.

Several arguments have been made against raising the upper age limit. Some analysts maintain that, on average, certain skills and abilities do decline with age and that age does offer employers some information on expected job performance. Others contend that job termination on the basis of age provides

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14. Department of Labor, Interim Report, p. 231.

employers with an impersonal and impartial way of retiring older workers who may be, in fact, less productive. Still others contend that wage inflexibility created in collective bargaining agreements--through work rules and seniority systems, for example--necessitates mandatory retirement rules. Some also argue that mandatory retirement should be required to make room for younger workers and to allow for more rapid job promotions.

CHANGE OTHER LABOR MARKET PROGRAMS

The federal government could increase both the demand for and supply of older workers by targeting employment assistance for those persons. Demand could be enhanced by providing employment subsidies to firms that hire older workers, and more older persons could be induced to continue or resume their employment by programs to improve their employability.

Because older participants in these programs would be given an advantage over younger nonparticipants, some of their increased employment would come at the expense of jobs for younger persons who were not assisted. Some maintain that this advantage would better be given to younger persons because of their longer remaining work lives, while others argue that older workers should be treated equally with younger persons who are assisted by other federal programs such as CETA. Also, some of the assistance probably would be provided to older persons who might have obtained jobs without this help.

Provide Employment Tax Credits for Older Workers

Increased demand for older workers could be stimulated by providing an employment subsidy for their wages. This could be accomplished by paying employers directly or by reducing the employers' federal tax liability. The tax reduction could be incorporated into the existing Targeted Jobs Tax Credit (TJTC), which provides employers with a nonrefundable credit on a portion of the wages paid to certain economically disadvantaged or handicapped persons.[15] The current tax credit is 50 percent of the

15. The groups currently targeted for assistance under the TJTC include economically disadvantaged 18-to-24-year olds, Vietnam era veterans, former convicts, and youths 16 to 19 in co- (Continued)