



ADJUSTING FOR LIFE EXPECTANCY IN MEASURES OF LABOR FORCE PARTICIPATION

Eugene Steuerle and Christopher Spiro

TO UNDERSTAND RETIREMENT TRENDS, researchers monitor labor force participation over time. Such studies reveal that a larger share of 65-year-old men* worked in 1940 than their counterparts do today: Their labor force participation has dropped from about 70 percent to roughly 30 percent (figure 1). However, few researchers take into account how increases in life expectancy affect the contrast between past and present older workers of the same chronological age. Because people now enjoy longer lives than they did in the past, comparing individuals who were 65 in 1940 to today's 65-year-olds is like comparing apples to oranges.

If, in studies of the economy, past and present currencies are made equivalent by adjusting dollars for inflation, why shouldn't age be adjusted for life expectancy in labor force studies of the elderly? Today's 65-year-olds can expect to live longer than they did in the past and, in this sense, are younger than 65-year-olds were 60 years ago. In 1997, men turning 65 could anticipate another 16 years of life; in 1940, men who could expect to live this long were

60 years old. While there is no perfect way to make past and present ages equivalent, given the comparability between the life expectancies of 65-year-olds today and 60-year-olds in 1940 (and assuming that equivalent life expectancy indicates a similar ability to work), studies of labor force participation that contrast the two may offer details not apparent in the traditional chronological measure.

By using 60-year-olds in 1940 as the benchmark with which to compare today's 65-year-olds, we find that the changes in labor force participation over the past 60 years have been more dramatic than previously believed. The labor force participation of 60-year-olds in 1940 was close to 80 percent—10 percentage points greater than the traditional calculation of 70 percent for 65-year-olds. According to this new measure, it has been a more precipitous decline to the current 30 percent labor force participation of today's 65-year-olds (figure 1).

This adjustment sheds new light on a recent debate about labor force participation. Some researchers, such as Joseph Quinn, argue that the trend toward earlier retirement may be reversing. As evidence, he cites the stabilization of male labor force participation during the early 1980s, and he notes that labor force participation has increased slightly since then. Dora Costa cautions that the leveling off observed by Quinn may turn out, over the long run, to have been a temporary blip.**

* We focus on male labor force participation because women are just now entering the labor force in rates equal to men.

** Presentations by Joseph Quinn and Dora Costa. May 20–21, 1999. "New Developments in Retirement Research: The Trend toward Early Retirement." First Annual Joint Conference for the Retirement Research Consortium.

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Initially, our adjusted measure also casts a shadow of a doubt on Quinn's interpretation: It introduces the possibility that labor force participation is continuing to decline. Yet, like Quinn's data, it also shows that the decline is slowing.

In figure 1, the new measure accentuates the steep drop in labor force participation that began in the 1960s. The drop is, from one perspective, counterintuitive. It coincides with changes over the last 40 or so years—improved health among the elderly and the decline of physically demanding jobs—that one might think would increase labor force participation.[†] If life expectancy is a sign of a person's ability to work, one would expect people to remain in the labor force at similar rates over time once labor force participation was adjusted for life expectancy. This stability is indicated by the horizontal portion of the top line in figure 1 from 1940 until the early 1960s.

However, the adjusted measure gives us new insights. For example, the steep drop also corresponds with the advent of certain public policies, raising suspicions that the timing of the drop is not a coincidence. The sharpest drop occurs soon after 1961, when early retirement (at age 62) was made

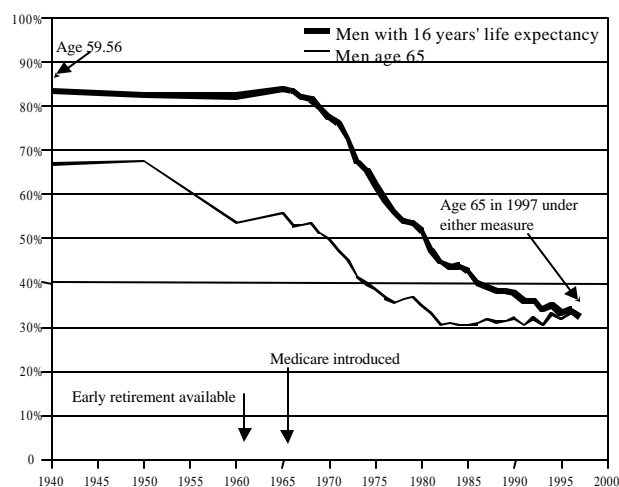
available to men, and at about the time that Medicare became accessible, 1966. The rapid decline appears to be substantial evidence that incentives created by public programs for the elderly and near-elderly have an even more powerful influence on retirement decisions than is apparent under the traditional measure.

Such a discovery actually lends credence to Quinn's observation that older people may be extending their working lives because, as the impact of earlier policies is offset by such changes as the recent increase in credits for delayed retirement, labor force participation is likely to climb.

Comparing people—past and present—who are at roughly the same phase in life may offer more insight into labor force participation than comparing people of the same chronological age. Adjusting for life expectancy, for instance, provides a detailed picture of how certain policies have influenced labor decisions of older individuals. This knowledge leaves one hopeful that public and private policy could be used to affect future retirement decisions, as long as society commits to making adjustments.

[†]See *Straight Talk on Social Security and Retirement Policy* No. 5, August 15, 1999.

FIGURE 1. Male Labor Force Participation, 1940–1997



Source: The Urban Institute, 1999. Based on data from the U.S. Social Security Administration, the U.S. Census of Population, and the Bureau of Labor Statistics.

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