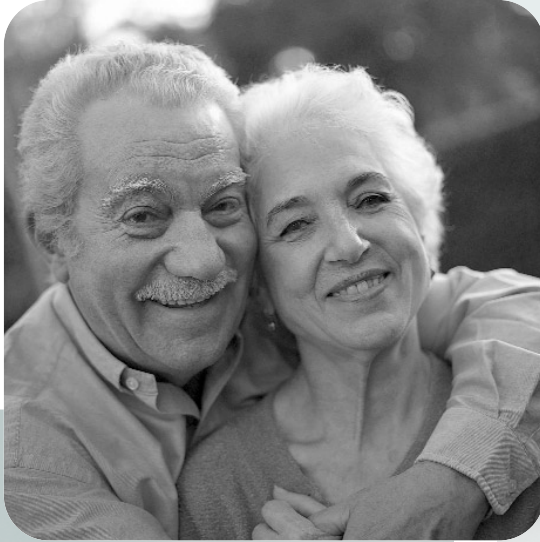


# The Graying of Massachusetts:

*Aging, the New Rules of Retirement,  
and the Changing Workforce*



A JOINT PROJECT OF:

**MassINC**

THE MASSACHUSETTS INSTITUTE FOR A NEW COMMONWEALTH

Publisher of *CommonWealth* magazine

A Project of the Economic Prosperity Initiative

CENTER FOR  
RETIREMENT  
RESEARCH  
AT BOSTON COLLEGE

SPONSORED BY:



# The Graying of Massachusetts:

## *Aging, the New Rules of Retirement, and the Changing Workforce*

Alicia H. Munnell  
Kevin E. Cahill  
Andrew D. Eschtruth  
Steven A. Sass

with:

Kevin Meme  
Amy Chasse  
Natalia Jivan  
Tatiana Mihailovschi-Muntean  
Mauricio Soto  
Greg Wiles

CENTER FOR RETIREMENT RESEARCH  
AT BOSTON COLLEGE

Dana Ansel, Ph.D.,  
*MassINC Research Director*

Rachel Deyette Werkema, Ph.D.,  
*MassINC Deputy Research Director*

June 2004

A JOINT PROJECT OF:

SPONSORED BY:

**MassINC**

THE MASSACHUSETTS INSTITUTE FOR A NEW COMMONWEALTH

Publisher of *CommonWealth* magazine

A Project of the Economic Prosperity Initiative

CENTER FOR  
RETIREMENT  
RESEARCH  
AT BOSTON COLLEGE



June 2004

Dear Friend:

MassINC is proud to present *The Graying of Massachusetts: Aging, the New Rules of Retirement, and the Changing Workforce*, a report produced in partnership with the Center for Retirement Research at Boston College and made possible by the generous support of Blue Cross Blue Shield of Massachusetts.

MassINC is at the leading edge of a huge demographic shift to a much older population. At the same time, the rules of retirement have changed, shifting much of the responsibility onto individual families. This change occurs as many of the state's 1.87 million Baby Boomers are getting ready to start retiring. Our research indicates that many people are not prepared for the new world and instead are falling through the cracks as the nature of pensions have rapidly changed from traditional pensions to employee-directed plans like 401(k)s. A stunning number of full-time workers do not have access to any form of 401(k) or other pension coverage from their current employer, and about one-quarter of those who have access to a 401(k) don't use it. In addition, savings rates remain at historic lows, and the average 401(k) balance is relatively small for households approaching retirement.

All of these changes point to a reversal of a 20-year trend. Since the mid-1980s, American workers have been retiring in their early 60s. Going forward, it is likely that workers will have to delay their retirement. There is a bit of a silver lining to this grim picture. It appears that Massachusetts residents are better equipped than their peers across the country to adjust to the new rules by working longer: Bay State residents are healthier, better educated, and our jobs are less physically demanding.

Finally, the shift to an older population has huge implications for the Massachusetts labor market. Absent a substantial increase in new immigrants, there could be a shortage of prime-age workers. In Massachusetts, over the next 25 years, the number of people under age 55 will decline in absolute terms. Older workers may offer a way to stem the impending labor shortages, but a number of challenges exist to be able to capitalize on this mutual interest.

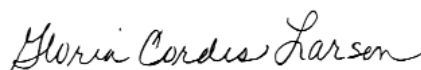
In presenting these findings, we owe a debt of gratitude to our partners: Alicia Munnell, Kevin Cahill, Andrew Eschtruth, Steven Sass and their colleagues who conducted the research. We would also like to thank the many reviewers whose critical insights have strengthened the final report. Lastly, we owe special thanks to Dana Ansel, MassINC's Research Director, for her excellent work in conceptualizing this important research and shepherding it to such a successful conclusion. Finally, we would like to thank our sponsors at Blue Cross Blue Shield of Massachusetts, who have been generous and enthusiastic partners, encouraging the authors to go where the data led them.

We hope you find *The Graying of Massachusetts* an informative and timely resource. We believe policymakers and civic leaders across the state should initiate a conversation about the implications of an aging Commonwealth. As always, we welcome your feedback and invite you to become more involved in MassINC.

Sincerely,



Ian Bowles  
President & CEO



Gloria Cordes Larson  
Co-Chair



Peter Meade  
Co-Chair

# TABLE OF CONTENTS

EXECUTIVE SUMMARY .....	5
Key Facts .....	9
FINDINGS .....	23
CHAPTER 1: Introduction .....	27
CHAPTER 2: The Population is Graying Rapidly .....	32
CHAPTER 3: Traditional Income Sources Will Fall Short .....	39
CHAPTER 4: Older Non-Married Women Are Most At Risk .....	55
CHAPTER 5: The Work-Retirement Divide .....	63
CHAPTER 6: Will Older People Want to Work Longer? .....	68
CHAPTER 7: Will Employers Want Older Workers? .....	77
CHAPTER 8: Meeting the Challenge of An Aging Population .....	98
ABOUT THE AUTHORS .....	103

## Executive Summary

Massachusetts is on a collision course. The Bay State faces a huge demographic shift to a much older population. At the same time, the rules of retirement that shaped our expectations of the “golden years” are in a state of transition. Changes to Social Security and private pensions mean that if workers want to maintain their standard of living, they will be forced to retire later than expected. And everyone will have to take more responsibility for managing their retirement savings. To add a dose of confusion, many of the state’s 1.87 million baby boomers who are on the brink of retirement will be caught in limbo between the new and old rules of retirement.

The degree of change depends on a worker’s age. For example, the oldest boomers, who will turn 63—the average age of retirement in Massachusetts—in less than five years, may not see a dramatic shift in their expected retirement income. The younger boomers and subsequent generations, however, will likely be forced to play by the new rules. Yet, while the world of retirement has fundamentally changed over the last decade, there has been surprisingly little financial education to prepare families.

The nation will soon enter uncharted territory about how to meet the needs of an older population. At the state level, Massachusetts must tackle many of the same issues. There are enormous public policy implications to an aging population: Housing, healthcare, and workforce development—to name a few policy areas—will confront dramatically new and different challenges. And the financial implications of this demographic shift loom large. How the Social Security system and Medicare will accommodate the growing number of seniors remains a hotly contested question.

While academics, policymakers, and advocacy organizations have been grappling with different pieces of this puzzle nationally, there has been little work at the state level. The shift to a much older population poses both enormous challenges and opportunities for Massachusetts. The good news is that there is time. Because the most rapid increase of older Bay Staters is expected between 2010 and 2030, there is a small but critical window for education and planning.

The purpose of this study is to begin the process. This research focuses on three specific questions:

- ✓What does this demographic shift look like?
- ✓How well prepared are families for retirement?
- ✓How will this demographic shift impact the Massachusetts labor market?

What we find is that Massachusetts, as the 12th oldest state in the nation, is at the leading edge of this coming age shift; indeed, some Massachusetts counties are already older than the oldest states in the nation. So the effects of this demographic change evident nationwide

## MASSACHUSETTS IS AT THE LEADING EDGE OF THE COMING AGE SHIFT.

are likely to be felt sooner here. How prepared are Massachusetts families—and the Massachusetts economy—to make this adjustment? The picture is mixed. Higher incomes ought to give families the means to save for retirement, but a high cost of living and low rate of homeownership offset some of that financial advantage. A slightly higher percentage of Massachusetts workers are covered by pensions than their national counterparts, but at least one-third of all full-time workers have

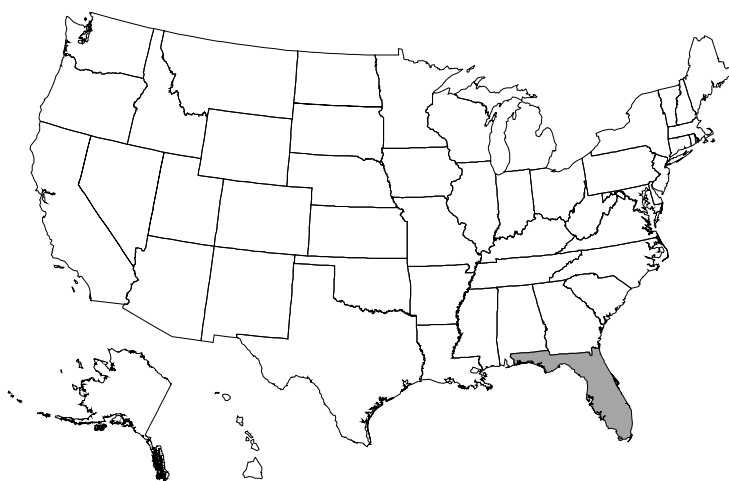
no access to any form of pension coverage at their workplace. There is, unfortunately, every reason to believe that Massachusetts families approaching retirement age are without sufficient resources and will have to consider working well past age 63, the current average age of retirement.

On the positive side, Massachusetts residents appear better equipped than their peers

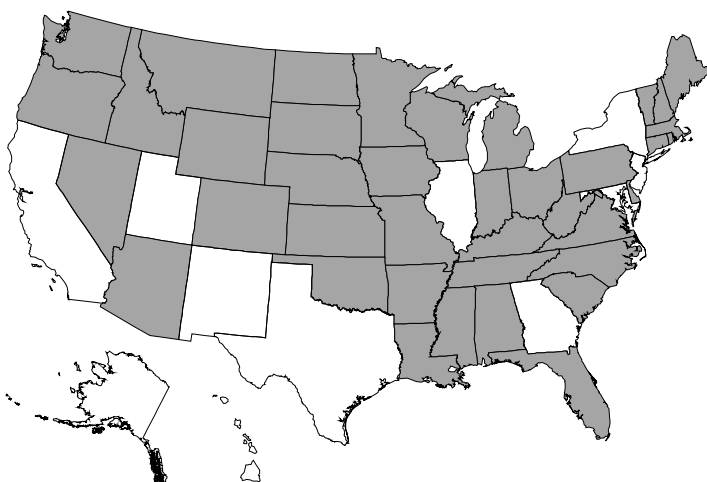
across the country to work longer. Over the last several years, large numbers of older workers in our state have already been postponing retirement and/or re-entering the labor force. This recent trend could benefit Massachusetts companies, because in just a few years, there could be a shortage of prime-age workers. Thus, if businesses can prepare for both the opportunities and challenges of a mature workforce, a mutually beneficial solution can potentially be forged between older workers who need to work longer and employers who will be searching for workers.

**ES FIGURE 1. States with 18 Percent of the Population 65 and Over, 2000 and 2025**

TODAY



TOMORROW



Source: Committee for Economic Development. 1999. *New Opportunities for Older Workers*. New York: Research and Policy Committee of the Committee for Economic Development. Updated with the 2000 Census. [Available at: <http://www.census.gov/population/cen2000/phc-t13/tab03.pdf>].

### The Graying Population: “A Nation of Floridas”

Our nation is growing older, and it is happening quickly. Today, one out of every eight people is 65 years or older. By 2030, one out of five people (20%) will be 65 years or older. Consider that, today, the state with the oldest population is Florida, where 18 percent of the population is at least 65 years old. In the five youngest states, that number is less than 10 percent. By 2025, 39 states will look like Florida does today, which has led one commentator to describe the future United States as a “nation of Floridas.”<sup>1</sup>

Two simple factors explain why the nation is aging: 1) individuals are living longer; and 2) women are having fewer children than in previous generations, and they are having them later in life. The increases in a person’s life expectancy in the United States are dramatic. In 1935, at the time that Social Security was enacted, men were expected to live 12 years after the Social Security age (65 years old), while women were expected to live 13 years. Today, the life expectancy for 65-year-olds has increased to 16.6 years for men and 19.6 years for women.

At the same time that people are living longer, fertility rates have declined, and women are having children later. In 1800, an average woman gave birth to seven children; today, she has about two children. Because women are having fewer children, the new supply of younger people is limited, while the increase in life expectancy means that there are greater numbers of older people.

### An Aging Massachusetts

Massachusetts is already an older state, and New England is the oldest region in the country. As of 2000, the Commonwealth was the 12th oldest state in the union, with 13.5 percent of its population older than 65 years. By 2025, that number will jump to 18 percent.

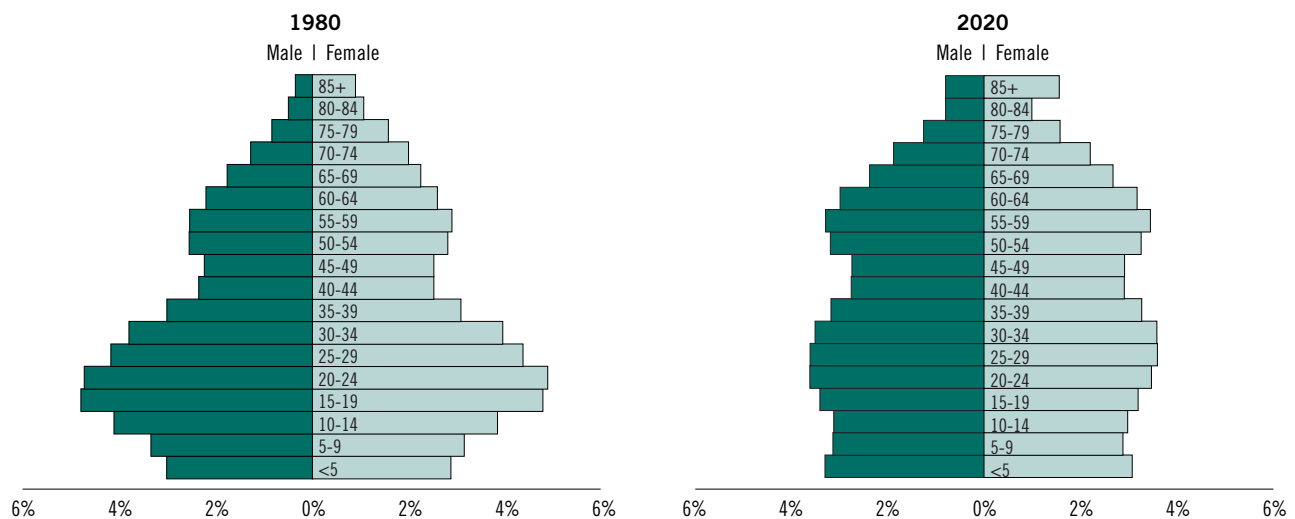
Within Massachusetts, Barnstable County and Berkshire County, the oldest counties, are at opposite ends of the state. Both of these counties have a significantly higher proportion of older residents than the other Bay State counties. Indeed, even today, the populations in these two counties are already older than the state of Florida. In Barnstable, 23.1 percent

of the population is older than 65, and in Berkshire, 17.9 percent—compared to 17.6 percent of Floridians. Nonetheless, as the most populous county, Middlesex is the home to the greatest number of older people, with 187,000 people over age 65.

So far, the social and economic implications of the aging population have been masked by what could be called a “demographic holiday.” Many of today’s elderly were born during the 1920s and 1930s, a period when there was a sharp drop in fertility rates. At the same time, the huge number of baby boomers has swelled the non-aged population. As a result, today’s retirees are a relatively small group compared with the working-age population. But this holiday is about to end.

Over the next 20 years, the United States will see a rapid acceleration of its aging population because of the baby boom generation—the 80 million people born between 1946 and 1964. The oldest baby boomers will turn 62—the nation’s average retirement age—in 2008. At that time, the boomers will begin a massive shift to retirement.

**ES FIGURE 2. Massachusetts Age Distribution, 1980 and 2020**



Source: U.S. Census 1980 and 2000.

### How Well Prepared Are Families for Retirement?

As the baby boomers prepare for retirement, fundamental changes in the sources of retirement income point to a reversal of a 20-year trend. For the last two decades, the average retirement age for men has been stable at about 63.<sup>2</sup> For women, it has remained steady at about 61. In Massachusetts, the average age of retirement is slightly higher; for men, it is 64, and for women, 62.<sup>3</sup> Compare this to the early 1900s when the national average age of retirement for men was 74. The retirement age declined dramatically in the last century because of increased prosperity, but the new retirement realities seriously call into question whether future retirees will have the choice of retiring in their early 60s.

Before examining the sources of income, it is important to consider the issue of what income people need to retire. Ideally, families in retirement should be able to maintain the same standard of living that they enjoyed while working. This is not an unreasonable goal: Retirees typically need less money because they have

lower costs than working people. They have lower clothing and transportation expenses as a result of not working; they no longer pay payroll taxes; many have paid off their mortgages; and they have less need to save money. Financial planners assume that households need 65 to 85 percent of their pre-retirement income to maintain their standard of living.

That calculation may be changing, though. As life expectancy increases, more and more baby boomers face the additional and unknown responsibilities of caring for elderly parents. The rising costs of long-term care and health care also add uncertainty to the equation. A recent study by the Employee Benefit Research Institute (EBRI) finds that routine, unreimbursed medical expenses can drastically reduce the share of Massachusetts households that have adequate retirement income.<sup>4</sup> Overall, our ability to forecast the future is complicated, making it difficult to prepare for retirement.

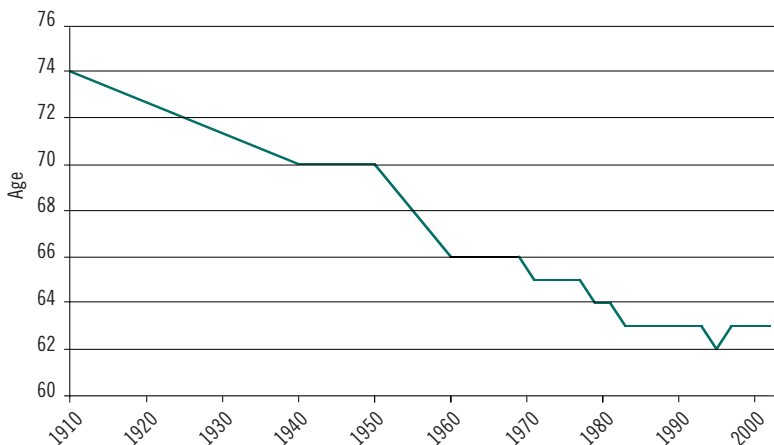
Anxiety among Massachusetts families is already evident. According to the MassINC survey *The Pursuit of Happiness*, almost one quarter of families have no money set aside for retirement. Fully 75 percent of families headed by someone between the ages of 50 and 64 years old say that they are “somewhat” or “very” concerned about not having enough money for retirement. Younger respondents voice similar concerns.<sup>5</sup>

#### Sources of Retirement Income:

##### Social Security

The sources of retirement income are often described as a three-legged stool: Social Security, private pensions, and savings.<sup>6</sup> Currently, Social Security is the biggest source of retirement income. In 2000, in the typical household headed by an individual age 65 or older, Social Security benefits accounted for nearly

ES FIGURE 3. Average Retirement Age of Men, 1910-2002



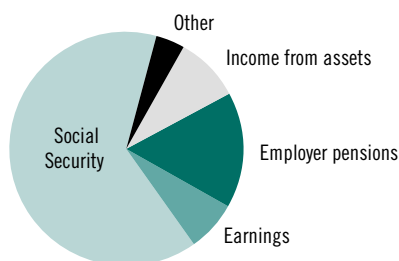
Source: Gary Burtless and Joseph F. Quinn. 2002. “Is Working Longer the Answer for an Aging Workforce?” Issue Brief No. 11. Chestnut Hill, MA: Center for Retirement Research at Boston College, (December). Authors’ calculations using BLS data.

two-thirds (64%) of its income.<sup>7</sup> Indeed, for one-third of all older households, Social Security accounted for at least 90 percent of their income. Going forward, however, Social Security will replace less of retirees' pre-retirement income than it does now.

The serious long-term financial deficit of Social Security, a “pay-as-you-go” system, has been well documented. What is less well understood is that the Social Security law has already changed to address some of the structural problems, and these changes are now being implemented. Perhaps the most significant change is the increase of the Normal Retirement Age, from age 65 to age 66 and then to age 67. People born between 1943 and 1959 will have to wait until they are at least 66 years old to collect the maximum amount of Social Security benefits each year, and people born in 1960 or later will have to wait until they are at least 67 years old. Thus, these changes will affect all of the baby boomers.

Today, the majority of people collect their benefits before they reach age 65. As a result, they receive less money each year for the rest of their lives. In 2001, 54 percent of all men and 58 percent of all women started claiming their benefits at age 62. Consider that an aver-

**ES FIGURE 4. Retirement Income by Source, Households Age 65 and Older, Middle Income Quintile**



Source: U.S. Social Security Administration. 2002. *Income of the Population Aged 55 and Older, 2000*. Washington, D.C. (February). [http://www.ssa.gov/policy/docs/statcomps/inc\\_pop55/2000/incpop00.pdf](http://www.ssa.gov/policy/docs/statcomps/inc_pop55/2000/incpop00.pdf)

## KEY FACTS

- Fundamental changes in the sources of retirement income point to a reversal of a 20-year trend. Since the mid-1980s, American workers have been retiring in their early 60s. In Massachusetts, the average retirement age is 64 for men and 62 for women. Going forward, the increase in the Social Security age and low savings rates are just two factors that make it likely that workers will have to delay retirement.
- About one-third of full-time workers in Massachusetts lack any form of pension coverage—including a 401(k)—at their current workplace.
- Of those households that do have pensions, the nature of pension coverage has changed dramatically. Since 1992, the percentage covered by a traditional pension plan decreased from 40% to 20%. During the same time, the share of those with a tax-deferred retirement account at the workplace, such as a 401(k), increased from 38% to 58%. The new type of pension shifts a substantial portion of the responsibility for retirement to the employee.
- About one-quarter of people eligible to participate in pensions do not.
- The average 401(k) balance of households approaching retirement (ages 55-64) is only \$55,000.
- At slightly more than 2%, the personal savings rate of 2001 was at its lowest point since the Great Depression.
- As the Social Security age increases from 65 to 67, future retirees will either have to work longer or accept a reduction in their monthly Social Security benefits.
- In less than five years, the 1.87 million baby boomers in the Bay State (29% of the population) will begin to retire.
- Several key factors suggest that Massachusetts residents are better positioned to work longer. Compared with their national peers, Bay State residents approaching retirement are healthier; they have higher levels of education; and their jobs are less physically demanding.
- One important disadvantage is the state's lower rate of homeownership, a key finding since a home is the primary asset for most people. Slightly less than 76% of Massachusetts households approaching retirement (ages 55-64) own their homes, compared with almost 80% of their peers nationwide. The gap widens to 10 percentage points for household heads over the age of 65.
- Old-age poverty is concentrated among single women. In Massachusetts, 10,312 single women over 65 years old (28% of all women in this age group) are poor or near poor.
- In 2000, Massachusetts was the 12th oldest state in the U.S., with 13.5% of its population older than 65 years. By 2025, that number will jump to 18%.
- Massachusetts labor markets could face labor shortages as the number of people under 55 is projected to decline in absolute terms between 2010 and 2025. As older workers become a growing portion of the labor force, they could provide a new source of labor.

**ES TABLE 1. Percent of Men and Women Claiming Social Security Benefits, by Age, 2001**

	AGE 62	AGE 63-64	AGE 65	AGE 66+	TOTAL
Men	53.6	21.5	20.7	4.1	100.0
Women	57.6	20.9	14.4	7.2	100.0

Source: U.S. Social Security Administration. 2002b. Social Security Bulletin, Annual Statistical Supplement. Table 6.B5. Washington, D.C.: U.S. Government Printing Office, (December). <http://www.ssa.gov/policy/docs/statcomps/supplement/2002/supp02.pdf>.

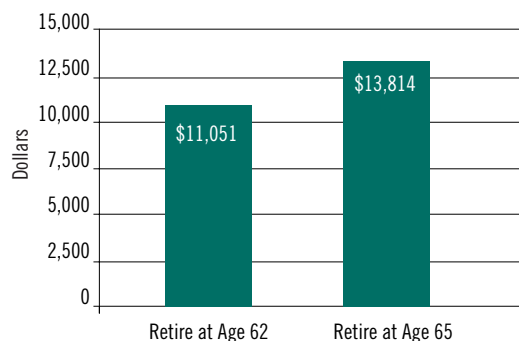
age earner who retires at age 62 will receive \$11,051 per year, compared with the \$13,814 if that person waited until 65 to start collecting benefits.<sup>8</sup> If the Normal Retirement Age were 67 today, a person who retired at age 62 would collect only \$9,670 per year. Future retirees will face the stark choice of working longer or retiring before age 67 and receiving a significant reduction in their monthly benefits.

Other changes in the law will also decrease the amount of pre-retirement income that individuals will receive, due to an increase in the Medicare premiums and a greater number of people subject to taxes on a portion of their Social Security benefits because the income threshold is not indexed for growth in wages or for inflation. Moreover, it is likely that additional cost-saving changes in the future will be necessary to address the structural deficit. Taken together, these changes mean that Social Security will replace a smaller share of income for retirees, even if they work until age 67. If they continue to retire at an earlier age, then monthly benefits will be even lower.

*Pensions: The Dawn of the 401(k)*

The second key source of retirement income is private pensions provided by employers. Since the 1970s, the portion of U.S. workers who have a pension plan has remained stable. A slightly higher proportion of workers in Massachusetts have pension coverage. In the Bay State, 58.5 percent of full-time workers

**ES FIGURE 5. Social Security Benefits for the Average Earner, 2003**



Source: Social Security Administration

participate in a pension plan, compared with 55.8 percent of workers nationwide.<sup>9</sup>

While the overall participation rate has remained static, the nature of pension coverage has fundamentally changed over the last 10 years. Traditionally, most people with a pension had what is called a “defined benefit” plan. These pensions pay a lifetime annuity at retirement. For instance, a typical annuity might be worth \$50 per month for each year of service. So, a worker with 20 years of service would receive \$1,000 per month at age 65. In these types of plans, employers finance benefits at no direct cost to the employee. Employers also hold the assets in trust, direct the investments, and ultimately bear the risk.

Today, the world of pensions looks very different. There has been a huge shift from traditional pensions (defined benefit plans) to a new style of pensions (defined contribution

**ES TABLE 2. Percent of the Private Workforce Participating in a Pension, 1980 and 2002**

	MA		US	
	1980	2002	1980	2002
Aged 25-64, full-time only	63.9	58.5	61.8	55.8
Aged 25-64, all workers	49.0	51.6	50.7	48.7
All ages, all workers	42.7 <sup>a</sup>	44.8	40.7	41.1

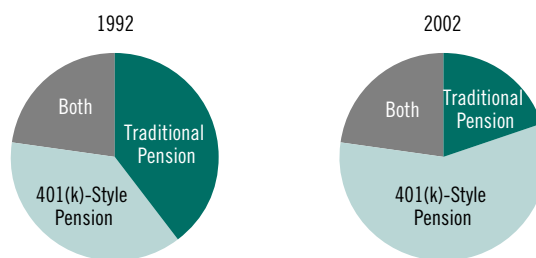
Source: Authors' calculations using the March CPS, 1980 and 2002.  
a. The Massachusetts coverage figure comes from the 1981 survey.

plans)—most often a 401(k). Since 1992, of all the households with pension coverage, those covered by a traditional pension plan decreased from about 40 percent to 20 percent. During this same period the percent of households with a 401(k)-type pension increased 20 percentage points, from 38 to 58 percent.

The new type of pension shifts a substantial portion of the responsibility for retirement income to the employee. First, unlike the traditional pensions, participation in these plans is voluntary. Second, an employee must sacrifice money today to save for retirement. If an employee decides to participate, he or she must determine how much to contribute, how to invest the assets, and, at the time of retirement, how to use the assets, which are generally received as a lump sum. Moreover, workers can withdraw money from their 401(k) before they retire, although they pay a steep penalty fee to do so.

*In theory*, workers could accumulate substantial pension wealth under 401(k) plans.

**ES FIGURE 6. Types of Pension Coverage**



Source: Authors' calculations from the Survey of Consumer Finances.

But *in practice*, they do not. Nationally, the average household approaching retirement has accumulated only \$55,000—not much money to support a couple for two decades. In the new world of retirement, almost all of the burden of saving and investing for retirement falls on employees, and many make poor choices or mistakes at every step. One-quarter of those eligible do not even participate in a plan. Of those who do participate, less than 10 percent contribute the maximum amount of money allowable by law. Further, over half of partici-

### The Retirement System for Massachusetts Public Employees

Unlike their counterparts in other states, the nearly 290,000 public employees in Massachusetts are not covered by Social Security. When Social Security was originally passed, there were constitutional concerns about the federal government's ability to tax the individual states. However, as Social Security expanded over the next thirty years, coverage was extended to public employees on a voluntary basis. Only Nevada, Ohio, and Massachusetts opted to stay out of Social Security and instead provide state and local employees with their own defined benefit pension plans.

The Massachusetts pension plan for public employees has both some advantages and disadvantages relative to the Social Security system. The benefits of the Massachusetts system are quite generous, but it is important to remember that they replace both Social Security and private pensions for these workers. In addition, the state provides health and life insurance for almost all public employees. On the other hand, the state plan lacks several important features of Social Security. The most important is inflation protection. Social Security benefits are adjusted annually for increases in the cost of living. In contrast, the state system makes some ad hoc adjustments on the first \$12,000 of benefits. Second, Social Security pays at least 50 percent of the employee benefit to spouses without sufficient earnings to claim a higher benefit on their own. The state system provides no such allowance. Finally, the Massachusetts system offers more limited survivor benefits for young widows and widowers.

pants fail to diversify their investments, and almost none re-balance their investments as they age or in response to market returns. Finally, many cash out of their 401(k) when they change jobs, paying substantial penalties and wiping out their retirement nest egg.

These problems underscore the fundamental challenge of shifting all of the responsibility for managing one's pension to the individual worker. At best, these are difficult financial decisions for people to manage on their own. Considering the magnitude of the shift, the accompanying financial education has been meager, despite research indicating its positive impact on people's savings behavior.<sup>10</sup> Still, those with pensions are the lucky ones; about one-third of all full-time workers in Massachusetts work for employers who do not offer any form of pension coverage.

### *Individual Savings*

In 2001, individual savings, the third leg of retirement, were at their lowest rate since

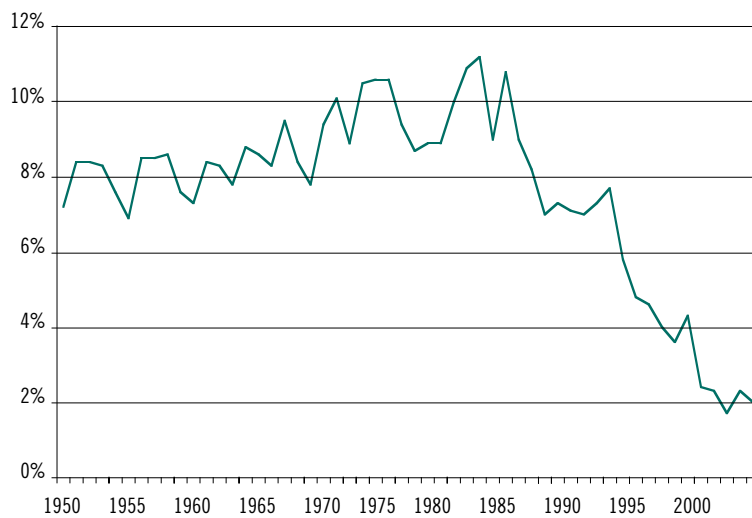
the Great Depression. In 1980, the personal savings rate was 10 percent of disposable personal income, and in 2001, it was just over 2 percent. According to a recent national survey, about 4 in 10 workers are currently not saving any money for retirement.<sup>11</sup> Moreover, the amount of assets that families do have is relatively small. According to the 2001 Survey of Consumer Finances, excluding the value of a person's primary home, the median value of family assets is only \$47,000. The amount of savings varies by a person's age. For workers between the ages of 45 and 54 years old, prime earning years for retirement savings, 30 percent have saved less than \$25,000 (excluding the value of a primary residence).<sup>12</sup> These data indicate that few boomers have enough money to bridge the inevitable gap between Social Security and pensions and what they will need to maintain their current standard of living in retirement.

In short, we are currently in a transition to a new set of rules for retirement. In the new world, people will have to defer retiring until they are 67 years old, compared to the average age of retirement of 62 today, or be prepared to collect substantially less money each year from Social Security. Individuals will also have to take much greater responsibility for saving and managing their retirement money. Many of the 1.87 million baby boomers in Massachusetts who are on the brink of retirement age will be caught between the old and new rules of retirement.

### **Older Women Are Most at Risk**

Women, and especially women living on their own, are the most at risk for not having enough money in retirement, and as a consequence, living in poverty. Non-married women account for 71 percent of all senior

**ES FIGURE 7. Personal Saving in the United States as a Percentage of Disposable Personal Income, 1950-2003**



Source: Bureau of Economic Analysis. 2003. National Income and Product Accounts (NIPA) data. <http://www.bea.gov/bea/dn/nipaweb/SelectTable.asp?Selected=Y>

households in Massachusetts who live in poverty. About 10,300 single women over age 65 (28%) live at or near the poverty line. The two main reasons that so many women end up poor are: 1) the retirement system in our country is based on earnings and women tend to have low earnings; and 2) women live longer than men, and the retirement income of married women drops significantly when their husbands die.

### *The Low Earnings of Women*

Women have low lifetime earnings compared to men because: 1) they have lower wages; 2) they are more likely to work part-time; and 3) they spend fewer years in the labor force. In Massachusetts, the earnings of female full-time workers equal only 74 percent of their male counterparts. The wage gap is due to a number of factors, including different work histories, different levels of education, different occupations, possible gender discrimination, etc. In addition, because more than twice as many women work part-time compared with men (25% vs. 11%), their lifetime earnings are lower. Finally, of the women who retired in 1999, the typical woman worked 32 years compared with 44 years for the typical man. Lower lifetime earnings lead to low benefits for women, both in terms of Social Security benefits and pension benefits.

### *Women Live Longer*

Married women who share their husbands' benefits fare better than single women. But even the situation for married women is precarious, because women tend to live longer than men. Because the life expectancy for a 65-year-old woman is 19.6 years compared with 16.6 years for a similar man, many women end up widowed. When the husband dies, the cou-

ple's Social Security benefit is reduced between one third and one half. The couple's private pension is either reduced or completely disappears. Upon the death of their husbands, women suffer a severe decline in their income.

## WOMEN ARE THE MOST AT RISK FOR NOT HAVING ENOUGH MONEY IN RETIREMENT.

### *The Financial Future for Older Women*

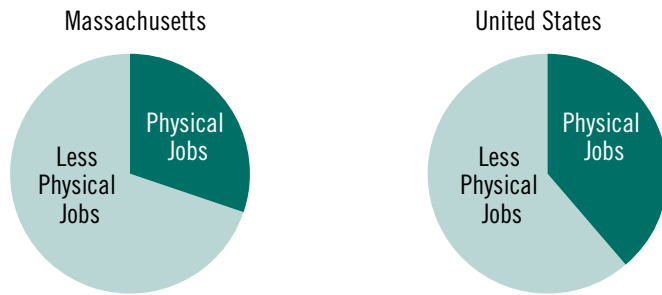
Because more women are working, in the future, women will have higher earnings, which will tend to improve their retirement income prospects. However, the large increases in divorced and never-married women are likely to negatively affect women's financial security because of their lower earnings. In addition, a greater reliance on 401(k) plans does not bode well for women because of the low balances in these accounts. The financial future for women appears to be a mixed story, but it seems likely many will continue to be at risk for poverty.

### **What Does This Mean for Massachusetts Families?**

The story for Massachusetts families is a mixed one. Overall, the changes in the retirement system will affect Massachusetts families in much the same way that they will affect their peers across the nation. The impact of the increase in the Social Security age and the change in the nature of pensions should be the same for families here as they are for families elsewhere. There are some indications, however, that Massachusetts workers may have some advantages in making the transition to the new world of retirement.

First, Massachusetts families might not be

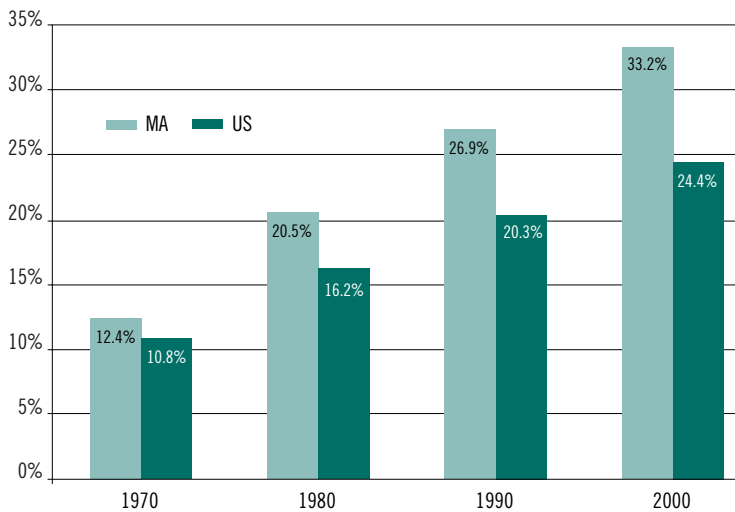
**ES FIGURE 9. Job Status of Workers, 2000**



Source: U.S. Bureau of the Census. 2003. Summary Social, Economic, and Housing Characteristics (Massachusetts and U.S. 2000). [Available at: <http://www.census.gov/prod/cen2000/phc-2-23.pdf> and <http://www.census.gov/prod/cen2000/phc-2-1-pt1.pdf>].

Note: “Physical” jobs include the following occupations: Farming, Fishing, and Forestry; Construction and Maintenance; Production and Transportation. “Less physical” jobs include Service, Sales and Office, and Management and Professional.

**ES FIGURE 10. Percent of Persons 25 and Over with a Bachelor’s Degree or More, U.S. and Massachusetts, 1970-2000**



Source: Authors’ calculations using the Census one-percent file, 1970, 1980, 1990; U.S. Bureau of the Census. 2003. United States: 2000 - Summary Social, Economic, and Housing Characteristics. PHC-2-1. <http://www.census.gov/prod/cen2000>

as strapped financially as their national counterparts. Massachusetts households have higher incomes—20 percent above the national average in 2000. Of course, this average conceals the vulnerable members of the Commonwealth—those who have low incomes, poor health, and little or no higher education. In addition, income inequality is more extreme in Massachusetts than in most other states.

The cost of living in Massachusetts is also higher than in other parts of the country, which eats into our incomes. Still, our higher earnings and income suggest that Massachusetts residents, on average, might be more able to save for retirement on their own than individuals in other states.

In addition, if Massachusetts families do not have sufficient money to retire in their early 60s, they also appear in a better position to work longer. According to the Health and Retirement Study, Massachusetts residents approaching retirement appear to be healthier than older Americans generally.<sup>13</sup> Both men and women in Massachusetts were half as likely to report their health status as “poor” compared with older workers nationally. Older Massachusetts women were much more likely to rate their health status as “excellent” or “very good” (65% versus 53%). Our general good health will enable workers to work to a more advanced age, if they need to.

Moreover, the mix of jobs in Massachusetts is less physically demanding than in the nation as a whole. In 2000, only 30 percent of jobs in the Bay State were considered physical, compared with 39 percent of jobs nationally. For obvious reasons, jobs that require less physical activity tend to be a better fit for older workers. Finally, that Massachusetts workers are highly educated makes them attractive to employers. In 2000, one-third of all Bay State residents age 25 and older had at least a bachelor’s degree, compared with about one-quarter of all U.S. residents, and the gap in educational attainment between older and younger workers is diminishing.

There is some indication that older workers in Massachusetts (and across the nation) have begun to adjust to the new rules. In recent years, older workers (ages 55 to 64) appear to

be postponing retirement and/or re-entering the labor force. Nationally, from 2000 to 2002, the labor force participation rate for older men increased from 67.3 to 69.2 percent, and the rate for older women increased from 51.8 to 55.2 percent. The magnitude of the increase appears to be even greater in Massachusetts than in the nation, although we need more data to verify this trend.<sup>14</sup> Given the long-term trend toward earlier retirement, this increase in labor force participation by older workers is noteworthy. While we cannot say for certain why workers are postponing retirement or re-entering the labor market, some analysts believe it is related to the recent downturn in the financial markets. An interesting question remains about whether the greater increase of older Massachusetts workers indicates that our older workers are better able and willing to work or whether they have greater financial anxiety about their future.

One key area where Massachusetts families are at a disadvantage is homeownership. For most families, their home represents their main financial asset in retirement. Massachusetts has one of the lowest rates of homeownership in the country. Of the pre-retirement households (ages 55 to 64 years old), slightly less than 76 percent of Massachusetts households own their homes, compared with almost 80 percent of their peers nationwide.<sup>15</sup>

### **The Impact of an Aging Population on the Massachusetts Labor Markets**

The challenges of an aging population will not be limited to individual families. Little noticed is the profound impact that the shift to an older population will have on the Massachusetts (and national) economy. Absent a substantial increase in new immigrants, there could be a shortage of prime-age workers.

**ES TABLE 3. Massachusetts Population, 1980-2025<sup>a</sup>**

YEAR	AGE			TOTAL (15-64)
	15-24	25-54	55-64	
1980	1,110,141	2,147,705	588,349	3,846,195
1990	923,573	2,619,912	515,055	4,058,540
2000	820,016	2,863,136	546,407	4,229,559
2010	962,439	2,681,435	742,765	4,386,639
2015	947,870	2,644,240	819,690	4,411,800
2020	921,232	2,602,950	870,711	4,344,893
2025	919,815	2,599,192	834,412	4,353,419

Source: U.S. Bureau of the Census. 2002. "State Population Projections." <http://www.census.gov/population/www/projections/stproj.html>; U.S. Bureau of the Census. 2003. "Census 2000 Gateway." <http://www.census.gov/main/www/cen2000.html>.

a. Projections use the Census Bureau's middle assumption about immigrants.

This shortage may lead employers to view older workers as an important source of labor, which, in turn, has the potential to reshape the workplace in terms of new types of careers starting at older ages, more part-time work opportunities, more opportunities for gradual retirement, and other changes reflecting an older workforce.

### *Labor Shortages Ahead*

As the baby boomers age over the next two decades, older workers will be a growing portion of the labor force across the country. Because older workers will still account for a small fraction of the labor force, the United States labor force is projected to grow at a relatively slow rate, which suggests a potential for future labor shortages.

In Massachusetts, despite our current relatively high unemployment rates, future labor shortages could be even more serious than the nation's. Unlike the nation, in Massachusetts the number of people under age 55 will decrease in absolute terms. In 2000, there were 2.86 million people between the ages of 25 and 54 years old in Massachusetts. In 2025, that number is projected to be 2.60 million people—a decline of 263,944 prime-age workers.

(This projection assumes the current rate of immigration, which is fairly high by historical standards.) If additional workers are not found, the state's economic base will shrink, threatening future prosperity.

Massachusetts labor markets will likely become significantly tighter over the next 20 years. If there is a lack of qualified workers, the ability of existing firms to expand will be limited and they may opt to do so elsewhere. In addition, efforts to recruit new firms could become increasingly difficult. Although the rest of the country will also be shifting to an older population, Massachusetts already suffers from one of the nation's lowest labor force growth rates. Further, there will more young people in other parts of the country. The bottom line is that the search for workers is likely to be a top business concern over the next several decades.

#### *Conventional Sources of Labor Supply*

Given the impending shortages, where will the labor supply come from? Traditional sources of supplemental workers include: immigrants, domestic migrants, and women. As we shall see, these traditional sources will likely not be sufficient to compensate for the decline of prime-age workers.

During the 1990s, Massachusetts relied heavily on immigrants to meet its labor force needs. In fact, without immigrants, the Massachusetts labor force would have shrunk.<sup>16</sup> The current labor force projections forecasting a decline of prime-age workers assume the same immigration patterns of the 1990s. Given today's much more restrictive environment, it is hard to imagine the much higher levels of immigration that would be needed to solve future labor shortages.

Domestic migration is also unlikely to yield enough new workers. Recent MassINC and

UMass research, *Mass.Migration*, documented that over the last 12 years, on net, Massachusetts lost 213,000 domestic migrants. Even during the economic boom of the late 1990s—despite the Bay State's low unemployment rates and high vacancy rates—the state lost more people than it gained every single year. Thus, neither domestic nor international migration is likely to solve future labor shortages.

The number of new women workers who can be lured into the labor market also appears limited. Massachusetts already outpaces the rest of the nation in terms of the percentage of women in the labor force. In the Bay State, 62.3 percent of all women work outside the home, compared with 59.6 percent of women across the country. Massachusetts employers appear to be close to fully tapping into the supply of women workers, making it unlikely that they will be able to close the labor force deficit solely by hiring more women.

#### *Unconventional Sources of Labor Supply: Older Workers*

Older workers—those over the age of 55—are a less conventional source of labor, but they may offer a way to stem the impending labor shortages. Consider that in 2000, there were 546,407 people in Massachusetts between the ages of 55 and 64. By 2025 that number will increase by 53 percent to 834,412 people. The number of Massachusetts residents between the ages of 65 and 74 is also projected to increase significantly—from 427,830 in 2000 to 690,777 in 2025.

Because of the high labor force participation rates of older workers in Massachusetts, there is an opportunity for older workers to offset the decline of prime-age workers. In 2003, the labor force participation rate of workers between the ages of 55 and 64 years

old was 72.3 percent. If those rates remain, in 2025 there will be roughly 606,000 older workers in this age range. There will also be more workers over the age of 65. These workers could be enough to offset the decline in prime-age workers and, at the same time, maintain a growing labor force. It does mean that the age mix in the workforce will shift to include a greater number of older workers, and it is unclear how their presence will alter the workplace.

### *Potential Demand for Hiring Older Workers*

Three important factors suggest that there may be a demand for tomorrow's older workers: 1) older workers are well educated; 2) they are healthier than in the past; and 3) jobs are no longer as physically demanding.

The educational gap between older and younger workers is diminishing. While people over 65 years old have substantially less education than their younger counterparts, the educational levels for men aged 45 to 64, which includes the bulk of the baby boomers, is about the same as levels for younger men. The picture for women is a bit more complicated, but the gap between older and younger women is also getting successively smaller.

While older workers have increased levels of education, whether they have the skills to fill future jobs is an open question. Over the next decade, over half of the new jobs in Massachusetts are projected in professional, managerial, and technical jobs. This includes computer analysts, engineers and scientists, teachers, and health practitioners. Service workers, such as nursing and home health aides, cooks, janitors, etc., are the next largest component of job growth. Of the 345,000 new jobs projected over the period of 1998 to 2008, over half will require at least a bache-

lor's degree, and 62 percent will require at least an associate's degree. At the same time, there will also be a large number of replacement jobs—i.e., job vacancies due to workers who retire, change jobs, or advance up the career ladders. Many of these jobs will be in less skilled occupations.

A key factor in determining a person's job prospects is the ability to learn new skills or update existing skills. A common employer perception is that older workers are not as able to adapt to the changing skills requirement. The state's workforce development programs will need to play a bigger role in helping older workers attain the skills they need to be competitive in the job market. Changes will be necessary because, for the most part, these programs are not currently geared to older workers. The Blue Ribbon Commission on

## THE STATE'S JOB TRAINING PROGRAMS MUST MEET THE NEEDS OF OLDER WORKERS.

Older Workers has offered a number of important steps that the workforce development system could take to better align the programs with the needs of older workers.<sup>17</sup> For instance, community-based organizations, plus community colleges and other post-secondary institutions, should do more outreach and training of older workers. As the workforce ages, it is essential that the state's training programs adapt to meet the needs of older workers.

The news is positive when it comes to the health of the elderly. Today's elderly are increasingly healthy and getting even healthier. This should help make them attractive to employers. Recall that older people in Massachusetts are even healthier than the national

average. In addition, because the nature of employment has changed dramatically over the last 20 years, jobs are now much more concentrated in knowledge-based activities, not in physically demanding tasks. This new generation of older workers should be very appealing to employers.

Although the stage seems set for hiring older workers, a number of stumbling blocks still exist. First, older workers are more expensive for a number of reasons. Their earnings tend to be higher than those of younger workers—beyond what can be attributed to productivity gains. In addition, the cost of benefits such as health insurance also rises with age. In particular, for jobs that require little training, the cost of older workers is likely a serious impediment.

## HOW CAN WE BEST PREPARE FAMILIES TO TAKE GREATER RESPONSIBILITY IN MANAGING THEIR RETIREMENT SAVINGS?

In addition, the structure of the workplace does not tend to match the preferences of older workers. Older workers consistently prefer to work part-time, while employers have traditionally resisted part-time work. Indeed, during the 1990s, the percent of workers employed part-time declined and is currently slightly less than 12 percent of all workers. Part-time work is concentrated in small businesses and in companies in the service sector. If some of the fixed costs associated with hiring and training workers could be reduced, perhaps part-time workers would look more attractive. Older workers also prefer phased retirement, where they gradually reduce their work effort as they approach retirement. But

few firms offer such an option. For companies, there are often legal complications concerning the treatment of benefits.

While increased employment of older workers is clearly in the interest of workers and employers, a number of challenges to capitalizing on this mutual interest remain.

### Concluding Thoughts

Our nation and the Commonwealth are on the brink of a huge demographic change. Over the next several decades, the population will age rapidly. At the same time, the rules of retirement are changing. Because of changes in the Social Security law and the nature of private pensions, it is likely that most people will no longer be able to retire in their early 60s as they have been doing for the last 20 years.

While there are some indications that Massachusetts families might be better positioned to transition into the new world of retirement by working longer, transitions such as this one are difficult. It will require attitudinal and behavioral shifts at all levels of society, including individuals, employers, and policymakers. There are clearly a number of ways that the federal government, as the biggest provider of income and services to older citizens, can help ease this transition for families. Putting the finances of Social Security and Medicare on sound long-term footing is critical. While the federal issues are critical, they have already attracted significant policy attention. In contrast, there has been much less of a focus on issues at the state level, both within and outside of government. Our goal is to get business, labor, and community leaders and people at all levels of government to work together to help families better prepare for retirement and, at the same time, prepare the Commonwealth for its aging population.

The key issues at the state level include: How can we best prepare families to take greater responsibility in managing their retirement savings? How can we make it as easy as possible for employers to offer a pension plan, ideally with some form of a matching contribution? And, finally, how can we help older workers remain competitive in the job market and help employers find the employees they need? To start the conversation, we offer six ideas for action:

✓ *Increase access to retirement savings plans at the workplace.*

About one-third of full-time workers in Massachusetts do not have access to any form of pension—including a 401(k)—at their current place of employment.<sup>18</sup> Saving works best when it is directly deducted from a paycheck, and the limits on personal IRAs are much lower than those of 401(k)s. Given these realities, efforts to expand access should focus on the workplace.

Not surprisingly, workers at small businesses are the least likely to have pension coverage. Among the reasons that small employers offer for not providing coverage are: high employee turnover and the preference of their employees for cash wages, the cost of setting up and administering the account, and uncertainty about future earnings. Efforts to increase access have focused on federal law and policy. However, there are opportunities at the state level for creative policymaking. There is a range of possible ways to expand pension coverage. Ideas include:

- Business associations offering group retirement savings plans, like the group health care plan model, for its members to help reduce the cost for individual businesses;
- Using its power of persuasion, the state

playing an intermediary role connecting small businesses and financial institutions;

- Allowing small employers to participate in the state's 457-pension plan.

These are complex ideas that require consensus. To do this, government should convene a task force of small businesses, regional chambers of commerce, business associations, financial institutions, and other stakeholders to develop a strategy to help more small businesses offer private pensions. The goal of this taskforce should be to create a plan to increase pension access that includes outreach to small businesses.

✓ *Employers should consider ways to help increase employee participation and help employees manage their retirement savings.*

Employers have an opportunity to help their workers better plan for retirement. About one-quarter of eligible workers do not participate in 401(k)s, and of those who do participate, their account balances tend to be low. There are a number of ways employers can encourage employees to participate. First, research indicates that participation rates are higher when there is an employer match. Whenever possible, as many already do, employers should share in the responsibility of helping workers prepare for retirement.

In addition, some employers offer what is called “automatic enrollment” (or “presumptive” enrollment) in 401(k)s. In these companies, an eligible employee is automatically enrolled in a 401(k) plan with a specific percentage of their salary deducted and deposited in the retirement account. Employees are, of course, free to opt out of the plan or change the amount of the deduction at any time, but few actually do so. Rather, research finds that automatic enrollment can have a dramatic effect on retire-

ment savings.<sup>19</sup> Automatically deducting money from a worker's salary should never be taken lightly, even if the money is for the worker's own retirement. In companies that offer an employer match, however, employees who do not participate are sacrificing a portion of their benefits. These employers, in particular, should consider trying automatic enrollment. Again, if they do so, employees must be fully informed and able to opt out easily.

*✓The state should take a more active role in the financial education of its citizens.*

Everyone agrees that more financial education is necessary. The changes to the new rules of retirement have happened with virtually no accompanying financial education, despite the evidence that such efforts do make a positive difference. State government, labor unions, business associations, employers, and community-based organizations all have a role to play in this public education effort.

With its large-scale convening powers, the state is in a unique position to offer leadership on such an effort. The goal is not to offer investment advice, but rather to give people a wake-up call and offer general information about the need to save, possible savings vehicles, etc. There are already many existing offices and organizations within government that could sponsor these programs. For several years, the Office of the State Treasurer has offered financial education programs focused on young people and women. These efforts could be expanded to include retirement planning for all ages. One option could be a new Retirement Planning Initiative, using the visibility of top elected officials to shine a light on this issue. Part of this initiative should include a marketing campaign to highlight the benefits of saving for retirement.

The workplace is the best place to reach workers. While most large employers already offer some form of financial education, there is a gap at many small businesses. In partnership with regional Chambers of Commerce, business associations, and small employers, the state should consider spearheading an effort to offer retirement financial education for employees at small businesses. Most of this work could be done through the existing infrastructure with little additional funding. If additional funds are needed, corporate or foundation support could be sought. The state could also consider spinning off the financial education component, once it is established, into its own nonprofit, as the state of Delaware did in 2001. An independent nonprofit offers better fundraising opportunities, but it is critical that the state provide oversight and quality control.

*✓For individuals, we hope this report serves as a wake-up call.*

In the new world of retirement, individuals must take more responsibility for their retirement finances. Fading fast are the days when workers could retire in their early 60s, expecting Social Security and private pensions to provide them with most of the income they need. Baby boomers and younger generations will need to save more on their own and manage that money wisely. They will also need to commit themselves to lifelong learning. Today's workers need to constantly upgrade their skills, and, whatever their age, they must be able to adapt to the demands of the workplace.

*✓ The workforce development system should improve opportunities for job training of older workers.*

Historically, the workforce development system has focused on younger workers, displaced workers, and low-skilled workers. As the workforce ages, the state's job training and post-secondary education programs must adapt to meet the needs of older workers. Programs and services should be designed to accommodate the physical challenges faced by many seniors. In addition, a key factor in determining a person's job prospects is the ability to learn new skills or update existing skills. The state's workforce development programs could play a bigger role in helping older workers attain the skills they need to be competitive in the job market. In order to change the status quo, the State Workforce Investment Board and the Board of Higher Education should develop a specific focus on older workers, led by the Department of Labor and Workforce Development. The Department should track the number of older workers served by the Career Centers. It should develop a strategy for additional outreach to older workers. And, finally, it should evaluate the outcomes of older workers who are served by state-funded workforce development programs.

*✓ Policymakers and civic leaders should initiate an ongoing statewide conversation about the implications of the aging Commonwealth.*

The topics addressed in this report are just the beginning. The shift to an older population will affect our communities in many different ways. It will influence housing, transportation, public safety, workforce development, volunteerism, and health care. There is a critical window of opportunity to prepare for these

changes. The Executive Office of Elder Affairs is beginning some of this work through its Boomer Ready Initiative, which will help prepare municipalities for the aging population. Such efforts are critical. Policymakers should initiate an ongoing public conversation with business and labor leaders, local officials, non-profit organizations, foundations, and civic leaders about the upcoming demographic changes and what they will mean for the Commonwealth.

---

## ENDNOTES

1. Peter G. Peterson. 1996. *Will America Grow Up Before it Grows Old?: How the Coming Social Security Crisis Threatens You, Your Family, and Your Country*. Random House.
2. In this report, the average retirement age is defined as the youngest age at which half of the population is out of the labor force.
3. Our special thanks to Andrew Sum and his colleagues at the Center for Labor Market Studies at Northeastern University for supplying the Massachusetts retirement data. Their work also shows that the average age of retirement varies by the education of the worker. The average age of retirement for male workers with a master's degree is 67-68 years, compared with 60-61 years for workers who lack a high school diploma.
4. VanDerhei, Jack L. and Craig Copeland. "2002 Massachusetts Future Retirement Income Assessment Project: Third Draft." Mimeo. Washington, D.C.: EBRI Education and Research Fund.
5. Princeton Survey Research Associates. 2003. *The Pursuit of Happiness: A Survey on the Quality of Life*. MassINC.
6. AARP considers health insurance to be the fourth leg of retirement, with Medicare covering major expenses but supplemental insurance as an additional need for most retirees.
7. "Typical" household refers to households in the middle quintile of the income distribution.
8. These amounts are actuarially fair, meaning that the average individual will receive the same lifetime benefit regardless of what age they start claiming benefits.
9. The data refer to individual workers at one point in time. Over a lifetime and on a household—rather than an individual—basis, coverage rates are somewhat higher. In addition, coverage varies by income, with high-income households having much more coverage.
10. Choi, James, David Laibson et al., *Defined Contribution Pensions: Plan Rules, Participant Decisions, and the Path of Least Resistance*, NBER Working Paper No. w8655, December 2001.
11. Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, Inc., *2004 Retirement Confidence Survey*.
12. *Ibid.*
13. According to the survey, those Massachusetts residents who were aged 51-61 in 1992 appeared to be healthier than older Americans generally.
14. The labor force participation rate comes from the Current Population Surveys. Because of the small sample size for Massachusetts, we need additional years of data to determine the robustness of this finding.
15. Depending on the educational level of the household, the gaps in the rates of homeownership are either much larger or non-existent. The rates of homeownership among the Commonwealth's better educated households are comparable to their national peers, but those for the less educated households are significantly lower than their national peers. Our thanks to Andrew Sum and his colleagues at the Center for Labor Market Studies at Northeastern University for sharing this insight.
16. Sum, Andrew M., W. Neal Fogg, et al. 1999. *The Changing Workforce: Immigrants and the New Economy in Massachusetts*. MassINC.
17. Commonwealth of Massachusetts Blue Ribbon Commission on Older Workers. 2000. *Older Workers: An Essential Resource for Massachusetts*.
18. Our special thanks to Nelson Gerew at the Federal Reserve Bank of Boston for supplying us with this number.
19. Choi, James, David Laibson, et al., *For Better or For Worse: Default Effects and 401(k) Savings*, NBER Working Paper No. w8651, December 2001.

## Findings

### ✓The Graying Population: “A Nation of Floridas”

Today, 1 out of every 8 people in the United States is 65 years or older. In 2030, 1 out of every 5 people will be 65 years or older. . . .32\*

In Massachusetts, today, 1 out of every 7 people is 65 years or older. . . . .34

The Northeast is the oldest region in the country, and Massachusetts is the 12th oldest state. . . . .35

Barnstable and Berkshire are the oldest counties in the state. Nantucket and Suffolk counties are the youngest . . . . .35

In Massachusetts, women account for over 68 percent of the residents who are 80 years or older . . . . .35

The most rapid increase in the number and share of people over 65 years old will take place between 2010 and 2030 . . . . .34

### ✓How Well Prepared Are Families for Retirement?

Financial planners estimate that retired households need 65 to 85 percent of their pre-retirement income to maintain their standard of living . . . . .39

The average retirement age has declined dramatically among men for much of the last century. In 1910, the average retirement age was 74 years old for men. Today, it is 63 years old for men and 61 years old for women. In Massachusetts, the average retirement age is slightly higher . . . . .63

In recent years, however, more older people are working. Between 2000 and 2002, labor force participation rates of workers aged 55 to 64 increased by about 2-3 percentage points . . . . .73

Some studies indicate that one reason for the increased labor force participation of older workers is the decline in stock market wealth . . . . .74

Up to the 1990s, the retirement income system provided financial incentives for early retirement, but in recent years, many of those incentives have been eliminated . . . . .69

Financial incentives influence workers’ decisions about when to retire . . . . .70

In 2008, the oldest baby boomers will begin to retire. At that time, the boomers will begin to shift from ages when most people work to ages when most people withdraw from the labor force . . . . .27

### Social Security

In 2001, Social Security was by far the largest asset of the typical household approaching retirement. Social Security accounts for nearly two-thirds of retirement income for the typical household . . . . .40

As people get older, Social Security accounts for a larger and larger share of their income. . . . .42

Most people start collecting Social Security at age 62. More than 75% of people start collecting their benefits before they turn 65 . . . .41

\*Refers to page number.

In 2003, an average earner who starts collecting Social Security at age 62 will receive \$11,051 per year. A person who waits until age 65 will collect \$13,814 per year. . . . .41

The Normal Retirement Age for Social Security is gradually increasing from age 65 to age 67 . . . . .42

The premiums for Medicare Part B, which are automatically deducted from Social Security benefits, are scheduled to increase, which will decrease the amount of people's Social Security benefits . . . . .43

Today, only about 20 percent of Social Security recipients pay taxes on their benefits. Going forward, a significantly higher percentage will be subjected to taxes . . . . .43

**Private Pensions**

About half of private sector workers participate in employer-sponsored pension plans . . . .44

Massachusetts workers have slightly higher pension coverage, but still more than 40 percent of full-time workers lack pension coverage . . . . .45

Over the last 20 years, pension coverage has generally decreased for male workers and increased for female workers . . . . .45

Participation in pensions is closely correlated with earnings, with greater coverage for workers in the top earnings quintile . . . . .45

The nature of pension coverage has shifted over the last twenty years from defined benefit pensions to defined contribution pensions. . .46

In 2001, of those households with pensions, 58 percent had a defined-contribution pension plan—most often a 401(k) . . . . .46

One-quarter of those eligible to participate in retirement plans do not . . . . .46

Balances in 401(k) plans are surprisingly low—the average balance of households approaching retirement (ages 55-64) is \$55,000 . . .46

**Individual Savings**

The personal savings rate of 2001 was at its lowest point since the Great Depression . .49

In 2001, the personal savings rate, as a percentage of disposable income, was just over 2 percent, compared with 10 percent in 1980 . .49

Outside of employer-sponsored pensions, people seem to have almost no additional savings. . . . .50

**✓What does This Mean for Massachusetts Families?**

The median Massachusetts household income is 20 percent higher than the national average . . . . .36

Massachusetts residents approaching retirement are healthier than older Americans generally . . . . .36

Massachusetts workers have higher levels of educational attainment than their national counterparts . . . . .36

The jobs in Massachusetts are less physically demanding than those in the rest of the nation (39% vs. 30%) . . . . .36

More workers in Massachusetts remain in the labor force at older ages compared with their national counterparts . . . . .74

The homeownership rates for older Massachusetts households is 10 percent lower than that of their national counterparts . . . . .37

Employee Benefit Research Institute (EBRI) research finds that regular unreimbursed health care costs sharply reduce the share of Massachusetts households with adequate income at retirement . . . . .50

**The System for Massachusetts Public Employees**

Unlike most other states, the nearly 290,000 public employees in Massachusetts are not covered by Social Security . . . . .48

Relative to Social Security, there are both advantages and disadvantages to the state's pension plan . . . . .48

**✓Older Women are Most At Risk**

Old-age poverty in the Commonwealth, as in the nation, is concentrated among single women . . . . .55

Non-married women account for 71 percent of all older Massachusetts residents living in poverty. In 2000, 28 percent of single older women in Massachusetts (about 10,312 state-wide) are either poor or near poor. . . . .55

Women are at greater risk of old-age poverty because the retirement income system in the country is based on earnings. Women have low earnings because they have lower wages, they are more likely to work part-time, and they spend fewer years in the labor force . . . . .56

Massachusetts is ahead of the nation in terms of labor force participation of women, especially for older women . . . . .82

Because the life expectancy for women at age 65 is 19.6 years compared with 16.6 years for men, most women end up widowed. When a husband dies, the couple's Social Security benefit is cut between one-third and one-half, and the couple's private pension either disappears completely or is reduced . . . . .58

Since more women are working, women will have higher future earnings, and perhaps more savings and pension benefits. . . . .60

On the other hand, the number of divorced women and never-married women has increased, and both groups have high poverty rates. In addition, some of the changes in Social Security and the nature of pensions are likely to adversely affect women . . . . .60

**✓The Impact of an Aging Population on the Massachusetts Labor Markets**

Older workers will constitute an increasing proportion of the labor force over the next two decades . . . . .77

All of the growth in the Massachusetts labor force over the next two decades will come from older workers . . . . .78

Nationally, the number of younger workers will remain constant between 2010 and 2025 . . . . .78

In Massachusetts, the number of people under age 55 is projected to decline in absolute numbers between 2010 and 2025 . . . . .78

Massachusetts labor markets will likely become significantly tighter over the next 20 years, and there could be labor shortages . . . . .78

Conventional sources of labor are unlikely to compensate for this decline . . . . .78

Current levels of immigration are already relatively high, and the projected decline of prime-age workers already assumes a substantial number of new immigrants . . . . .79

Given the state's historic patterns of domestic out-migration, it seems unlikely that domestic migrants will fill the gap . . . . .80

Massachusetts employers already appear close to fully tapping the supply of women workers . . . . .81

Older workers are a less conventional source of labor, but they may offer a way to stem the impending labor shortages . . . . .83

Both part-time work and self employment are much more common among older workers. . . . .72

Older workers in Massachusetts are more likely to be working part-time and less likely to be self-employed than their national counterparts . . . . .72

**Potential Demand for Older Workers**

Older workers are well-educated. The educational gap between older and younger workers is diminishing. . . . .83

Older workers are healthier than in the past. The share of the elderly with severe disabilities has declined . . . . .84

Across the nation, jobs are no longer as physically demanding. In Massachusetts, there is an even greater concentration of knowledge-based jobs than in other states . . . . .85

**Impediments to Hiring Older Workers**

Older workers are expensive. Their earnings are higher than those of comparable younger workers, and the cost of benefits also rises with age . . . . .85

Older workers may not have the required skills for the jobs . . . . .88

Employers resist part-time employment, while older workers prefer it . . . . .90

Few firms offer phased retirement, which many older workers desire . . . . .92

Older workers must combat age discrimination . . . . .94

Regulatory restrictions constrain employers in implementing flexible work arrangements that appeal to older workers . . . . .92

June 2004

Dear Friend:

MassINC is proud to present *The Graying of Massachusetts: Aging, the New Rules of Retirement, and the Changing Workforce*, a report produced in partnership with the Center for Retirement Research at Boston College and made possible by the generous support of Blue Cross Blue Shield of Massachusetts.

MassINC is at the leading edge of a huge demographic shift to a much older population. At the same time, the rules of retirement have changed, shifting much of the responsibility onto individual families. This change occurs as many of the state's 1.87 million Baby Boomers are getting ready to start retiring. Our research indicates that many people are not prepared for the new world and instead are falling through the cracks as the nature of pensions have rapidly changed from traditional pensions to employee-directed plans like 401(k)s. A stunning number of full-time workers do not have access to any form of 401(k) or other pension coverage from their current employer, and about one-quarter of those who have access to a 401(k) don't use it. In addition, savings rates remain at historic lows, and the average 401(k) balance is relatively small for households approaching retirement.

All of these changes point to a reversal of a 20-year trend. Since the mid-1980s, American workers have been retiring in their early 60s. Going forward, it is likely that workers will have to delay their retirement. There is a bit of a silver lining to this grim picture. It appears that Massachusetts residents are better equipped than their peers across the country to adjust to the new rules by working longer: Bay State residents are healthier, better educated, and our jobs are less physically demanding.

Finally, the shift to an older population has huge implications for the Massachusetts labor market. Absent a substantial increase in new immigrants, there could be a shortage of prime-age workers. In Massachusetts, over the next 25 years, the number of people under age 55 will decline in absolute terms. Older workers may offer a way to stem the impending labor shortages, but a number of challenges exist to be able to capitalize on this mutual interest.

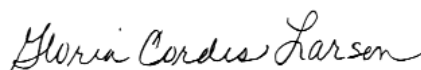
In presenting these findings, we owe a debt of gratitude to our partners: Alicia Munnell, Kevin Cahill, Andrew Eschtruth, Steven Sass and their colleagues who conducted the research. We would also like to thank the many reviewers whose critical insights have strengthened the final report. Lastly, we owe special thanks to Dana Ansel, MassINC's Research Director, for her excellent work in conceptualizing this important research and shepherding it to such a successful conclusion. Finally, we would like to thank our sponsors at Blue Cross Blue Shield of Massachusetts, who have been generous and enthusiastic partners, encouraging the authors to go where the data led them.

We hope you find *The Graying of Massachusetts* an informative and timely resource. We believe policymakers and civic leaders across the state should initiate a conversation about the implications of an aging Commonwealth. As always, we welcome your feedback and invite you to become more involved in MassINC.

Sincerely,



Ian Bowles  
President & CEO



Gloria Cordes Larson  
Co-Chair



Peter Meade  
Co-Chair

# TABLE OF CONTENTS

EXECUTIVE SUMMARY .....	5
Key Facts .....	9
FINDINGS .....	23
CHAPTER 1: Introduction .....	27
CHAPTER 2: The Population is Graying Rapidly .....	32
CHAPTER 3: Traditional Income Sources Will Fall Short .....	39
CHAPTER 4: Older Non-Married Women Are Most At Risk .....	55
CHAPTER 5: The Work-Retirement Divide .....	63
CHAPTER 6: Will Older People Want to Work Longer? .....	68
CHAPTER 7: Will Employers Want Older Workers? .....	77
CHAPTER 8: Meeting the Challenge of An Aging Population .....	98
ABOUT THE AUTHORS .....	103

*MassINC wishes to express its thanks to those individuals and organizations whose financial support makes our work possible. Your generosity is deeply appreciated.*

### **MassINC's Mission**

The mission of MassINC is to develop a public agenda for Massachusetts that promotes the growth and vitality of the middle class. We envision a growing, dynamic middle class as the cornerstone of a new commonwealth in which every citizen can live the American Dream. Our governing philosophy is rooted in the ideals embodied by the American Dream: equality of opportunity, personal responsibility and a strong commonwealth.

MassINC is a non-partisan, evidence-based organization. We reject rigid ideologies that are out of touch with the times and we deplore the too-common practice of partisanship for its own sake. We follow the facts wherever they lead us. The complex challenges of a new century require a new approach that transcends the traditional political boundaries.

MassINC is a different kind of organization, combining the intellectual rigor of a think tank with the vigorous civic activism of an advocacy campaign. Our work is organized within four Initiatives that use research, journalism and public education to address the most important forces shaping the lives of middle-class citizens:

- **Economic Prosperity**—Expanding economic growth and opportunity
- **Lifelong Learning**—Building a ladder of opportunity through the continuum of learning
- **Safe Neighborhoods**—Creating crime-free communities for all
- **Civic Renewal**—Restoring a sense of "commonwealth"

MassINC's work is published for educational purposes. Views expressed in the Institute's publications are those of the authors and not necessarily those of MassINC's directors, staff, sponsors, or other advisors. The work should not be construed as an attempt to influence any election or legislative action.

MassINC is a 501(c) 3, tax exempt, charitable organization that accepts contributions from individuals, corporations, other organizations, and foundations.

### **About MassINC's Economic Prosperity Initiative**

Through the Economic Prosperity Initiative MassINC works to improve the overall economic well being of Massachusetts citizens by pursuing answers to a range of economic questions. Among them: How hard are people working and for what kinds of rewards? How secure are their futures? How healthy are our families? What are the strengths and limitations of state government in promoting economic activity? What is the role of the private sector? And, what are the keys to our future economic success?

MassINC has a long history of work within this initiative. Past research projects include: *Mass.Migration* (2003), *The State of the American Dream in Massachusetts, 2002* (2002), *The Changing Workforce: Immigrants and the New Economy in Massachusetts* (1999), *The Road Ahead: Emerging Threats to Workers, Families, and the Massachusetts Economy* (1998), and *Lessons Learned: 25 Years of State Economic Policy* (1998). Recent articles in *CommonWealth* magazine include: "Blue Collar Blues" (Spring 2004), "Job (Dis)Qualifications" (Fall 2003), "Mass. Production" (Summer 2003), "The Sprawl Doctor" (Spring 2003), "Life After Lucent: A region tries to adjust" (Winter 2002), and "Heritage Road, Five Years Later: The American Dream, Still Elusive in Suburbia" (Spring 2001). All of MassINC's research and *CommonWealth* articles are available free-of-charge through our website, [www.massinc.org](http://www.massinc.org).

## BOARD OF DIRECTORS

Gloria Cordes Larson, <i>Co-Chairman</i>	Chris Gabrieli	Paul Mattera
Peter Meade, <i>Co-Chairman</i>	C. Jeffrey Grogan	Kristen McCormack
Joseph D. Alviani	Steve Grossman	Melvin B. Miller
Andrew J. Calamare	Rev. Raymond Hammond	Hilary C. Pennington
Heather P. Campion	Bruce Herzfelder	Michael E. Porter
Kathleen Casavant	Harold Hestnes	Mark E. Robinson
Neil Chayet	Joanne Jaxtimer	Charles Rodgers
Vincent Cipolla	Jeffrey Jones	Alan D. Solomont
Mark Erlich	Tripp Jones	Benaree P. Wiley
David H. Feinberg	Elaine Kamarck	
Robert B. Fraser	R.J. Lyman	

## BOARD OF POLICY ADVISORS

### ECONOMIC PROSPERITY INITIATIVE:

Wayne M. Ayers, *FleetBoston Financial*  
Peter D. Enrich, *Northeastern University*  
Rosabeth Moss Kanter, *Harvard Business School*  
Edward Moscovitch, *Cape Ann Economics*  
Andrew Sum, *Northeastern University*  
David A. Tibbetts, *Merrimack Valley Economic Development Council*

### LIFELONG LEARNING INITIATIVE:

Harneen Chernow, *AFL-CIO of Massachusetts*  
Carole A. Cowan, *Middlesex Community College*  
William L. Dandridge, *Lesley University*  
John D. Donahue, *John F. Kennedy School of Government*  
Michael B. Gritton, *City of Louisville*  
Sarah Kass, *City on a Hill Charter School*  
Leonard A. Wilson, *First Essex Bank*

### SAFE NEIGHBORHOODS INITIATIVE:

Jay Ashe, *Hampden County House of Correction*  
William J. Bratton, *The Bratton Group LLC*  
Mark A. R. Kleiman, *UCLA School of Public Policy and Social Research*  
Anne Morrison Piehl, *John F. Kennedy School of Government*  
Eugene F. Rivers 3d, *Ella J. Baker House*  
Donald K. Stern, *Bingham Dana, LLP*

### CIVIC RENEWAL INITIATIVE:

Alan Khazei, *City Year*  
Larry Overlan, *Stonehill College*  
Jeffrey Leigh Sedgwick, *University of Massachusetts Amherst*

## MASSINC STAFF

### EXECUTIVE

Ian Bowles, *President & CEO*

### RESEARCH & POLICY

Dana Ansel, Ph.D., *Research Director*  
Rachel Deyette Werkema, *Deputy Research Director*  
Christopher Fox, *Senior Policy Advisor*

### COMMONWEALTH MAGAZINE

Robert Keough, *Editor*  
Michael Jonas, *Associate Editor*  
Robert Sullivan, *Associate Editor*

### THE RENNIE CENTER FOR EDUCATION

#### RESEARCH & POLICY

S. Paul Reville, *Executive Director*  
Celine Toomey Coggins, *Research Director*  
Jennifer Candon, *Assistant Director*

### DEVELOPMENT & COMMUNITY AFFAIRS

Lori Davis Febbo, *Director*  
Ben Geffen, *Deputy Director*

### COMMUNICATIONS

Jennifer Armini, *Director*

### PROGRAMS & OPERATIONS

John Schneider, *Director of Programs & Operations*  
John Donato, *Outreach Director & New Media Manager*  
Colleen Lynch, *Events & Administrative Manager*  
David N. Martin, *Controller/IT Director*  
Emily Wood, *Assistant Outreach Director*  
Heather Kramer Hartshorn, *Graphic Designer*

\$25.00

# MassINC

---

THE MASSACHUSETTS INSTITUTE FOR A NEW COMMONWEALTH  
Publisher of *CommonWealth* magazine

18 Tremont Street, Suite 1120  
Boston, Massachusetts 02108

[www.massinc.org](http://www.massinc.org)

PRESORTED  
STANDARD  
U.S. POSTAGE  
PAID  
HOLLISTON, MA  
PERMIT NO. 72