

Benefits of Older Adults in the Workplace: Three Illustrative Examples

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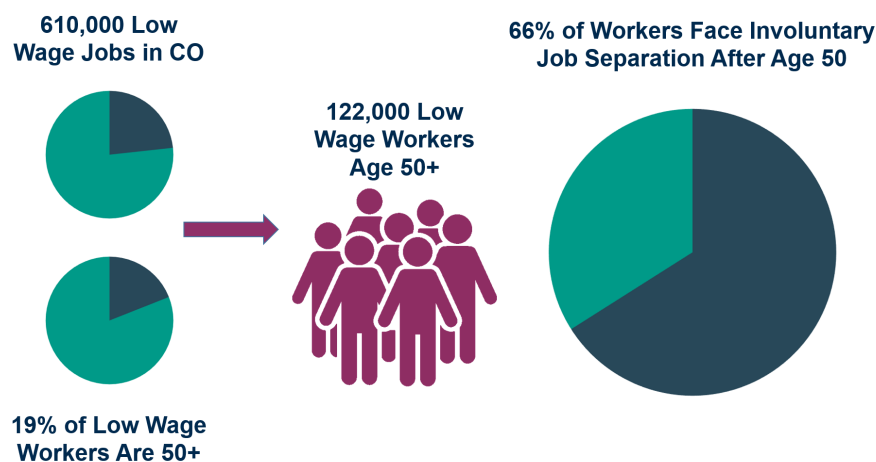
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Individuals approaching retirement face risks and offer benefits that should be considered by policymakers

Considering individual circumstances brings context to broader trends, and vice versa

Planning for retirement is a process fraught with uncertainty, and each individual must solve their own unique challenges to ensure that they are financially prepared to support themselves after they stop working. The circumstances facing Coloradans as they prepare for retirement today can affect individuals' quality of life and the economies in which they participate for decades to come. It is therefore critical that policymakers understand the retirement-associated challenges facing Coloradans, how individuals navigate those challenges, and the impact that individual circumstances can have on the rest of society.

For example, while the share of low wage jobs in Colorado's economy has been shrinking in recent years, 19% of the 610,000 low wage jobs in Colorado were held by an individual over the age of 50,^Σ making it essential to consider the impact of insufficient wages while saving for retirement. Individuals making higher wages also have reason to be concerned about retirement security, as 66% of workers over 50 face being forced out of their job, either by their employer or due to personal concerns.^ϕ



While these broader trends are important to understand, it is equally important to remember that they are driven by the cumulative impact of thousands of individuals facing their own unique challenges on the path to retirement. In the spirit of balancing a focus on broad trends with empathy for the individual, this document presents three fictional Coloradans as they approach retirement and considers how their circumstances and choices can impact their own financial security, as well as their wider economic impact. The effect of various changes to their situations was estimated based on preliminary analyses of publicly available datasets. While the characters presented here are in better financial shape than many of their peers, hopefully their stories can help frame policymakers' approach to thinking about how retirement readiness can have wide impacts on the state while stoking interest in more extensive research about the consequences of individuals' preparation for retirement.

^Σ Stiffler, C. (2019). Low-Wage Employment and the Minimum Wage in Colorado. *Colorado Fiscal Institute*. Retrieved from <https://www.coloradofiscal.org/wp-content/uploads/2019/09/Low-wage-2019-paper-final.pdf>

^ϕ Johnson, R.W., Gosselin, P. (2018). How Secure is Employment at Older Ages. *Urban Institute*. Retrieved from <https://www.urban.org/research/publication/how-secure-employment-older-ages>

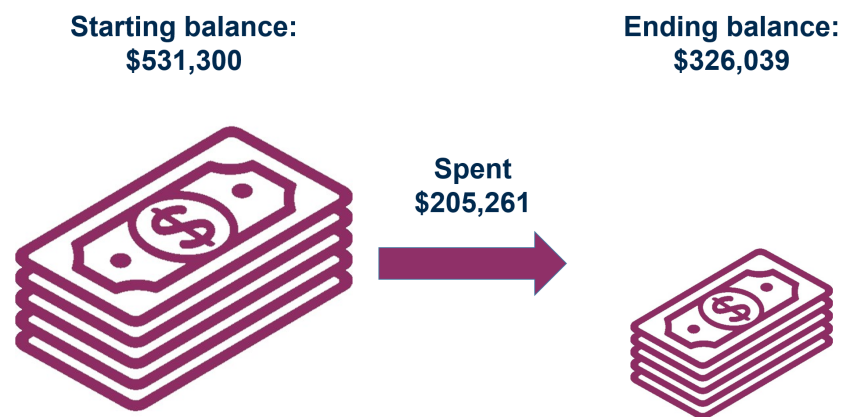
Age discrimination can have a profound negative impact on an individual's retirement readiness

Lack of continuous training, being passed over for promotions, and being pushed out of employment early can undo decades of work toward retirement readiness

Malick^λ is a former Cardiovascular Ultrasound Technician that was making \$75,900 a year, a fairly typical salary for his profession in Colorado,^ψ when he was pressured to retire at age 55.

Luckily for Malick, his situation was less precarious than many Coloradans, and throughout the course of his career he had managed to save the recommended 7 times his annual salary by the time he turned 55,^φ equal to \$531,300. Malick made an effort in the coming years to find a new position working as an ultrasound technician, but faced difficulty re-entering the work force. Over the past decade, he had noticed that his younger colleagues tended to be favored for training on new imaging techniques, such as three-dimensional echocardiography, which resulted in a widening skills gap between himself and his peers. Unbeknownst to him, during his job search he was frequently competing with 15 to 20 applicants for each position he pursued, and many of his competitors had received trainings on new technologies for which he had been passed over.^ε Due to his relatively comfortable nest egg, Malick didn't feel like it was financially necessary for him to secure work outside of his field—he did, however, restrict his spending habits and went from spending a total of \$60,968 per year to \$20,526.[†]

Despite feeling this financial security, the decade between his ages of 55 and 65 would ultimately have a severe impact on his retirement savings. With no income, Malick had to withdraw from his retirement savings in order to live—by the age of 65, Malick had withdrawn \$205,261, equivalent to 39% of his balance at 55.



^λ All individuals described in this document are fictional personas created to describe the circumstances older Coloradans may face and how they can have an impact on the wider economy and society.

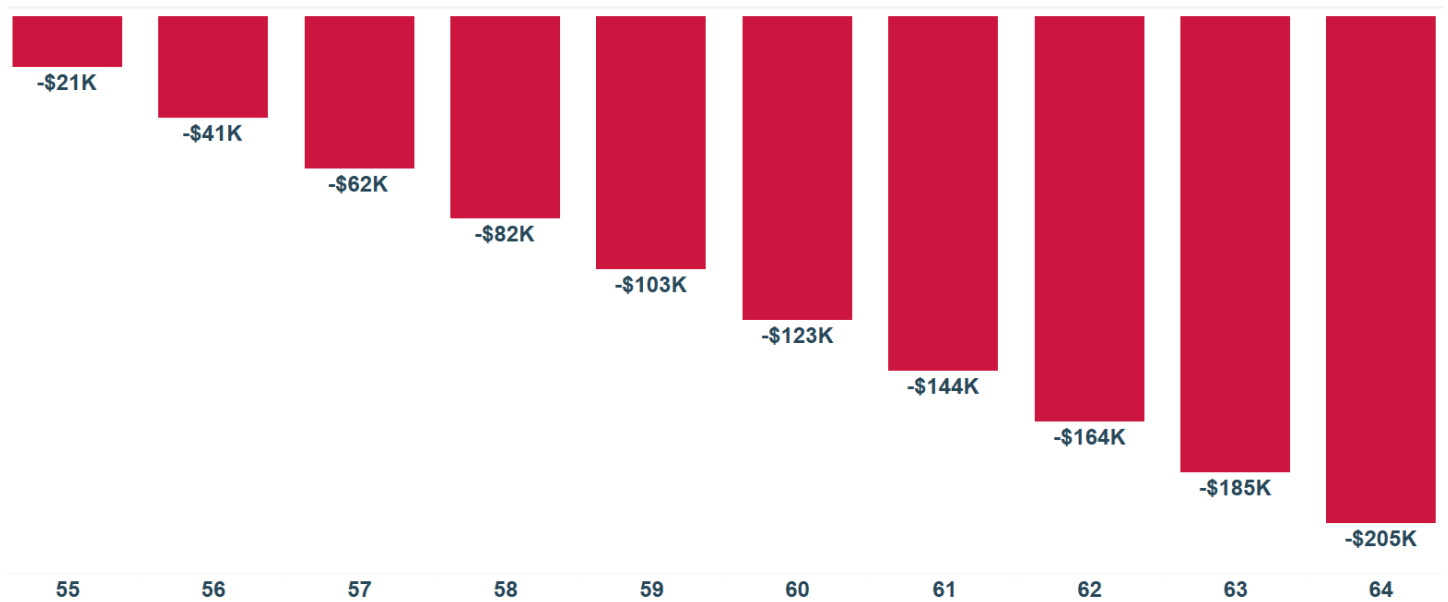
^ψ UltrasoundSchoolsGuide.com. (2019). *Colorado Ultrasound Technician Schools*. Retrieved from <http://ultrasoundschoolsguide.com/colorado/>

^φ Brown, J.E., Saad-Lessler, J., & Oakley, D. (2018). Retirement in America: Out of Reach for Working Americans? *National Institute on Retirement Security*. Retrieved from https://www.nirsonline.org/wp-content/uploads/2018/09/SavingsCrisis_Final.pdf

^ε American Society of Echocardiography. (2019). *Sonographer FAQs*. Retrieved from <https://www.asecho.org/sonographer-faqs/>

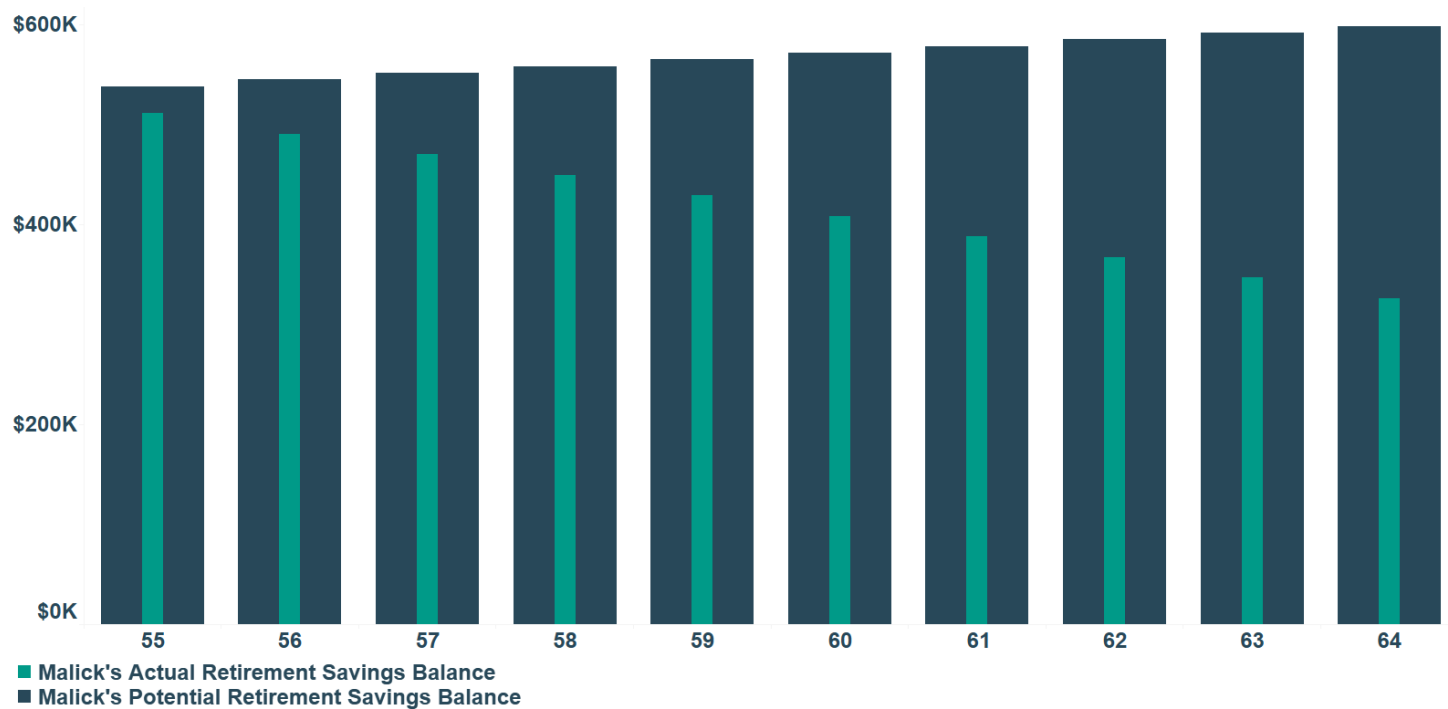
[†] Estimated change in spending is based on an original analysis of the U.S. Bureau of Labor Statistics' (BLS) Consumer Expenditure Survey (CE) conducted for this document. See "Rich datasets can help us better understand the economic impact of individuals working past age 65" for more details.

Figure 1: Running total of Malick's withdrawals from his retirement savings accounts following early retirement



The cost of Malick's early retirement is more profound once we consider the difference between Malick's actual savings balance and what it could have been had he continued working and saving. Assuming that Malick would have saved at the national average of 8.8% of his income^Ω (a likely underestimate given the fact that Malick had managed to save significantly more than the national average), the gap between his actual and potential savings balance grows year after year until it reaches \$273,053!

Figure 2: Difference between Malick's potential and actual retirement savings balances after leaving work force



^Ω Shamrell, M. (2019). Fidelity 2019 Retirement Analysis: A Record Number of People Boost Their Savings Rate in Q2 as Average Account Balances Continue to Increase. *Fidelity investments*. Retrieved from https://www.fidelity.com/bin-public/060_www_fidelity_com/documents/press-release/quarterly-retirement-trends-082119.pdf

Individuals delaying retirement could pump hundreds of millions of dollars back into the state economy

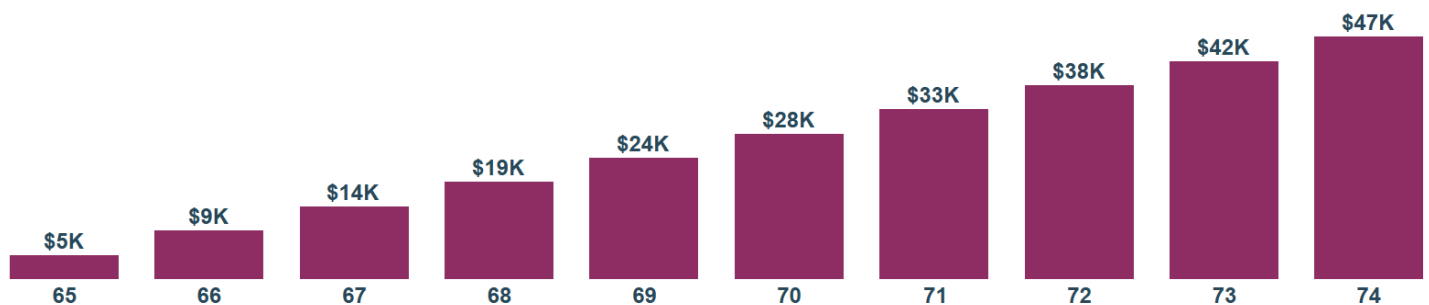
Full time workers over 65 maintain higher spending rates than their retired peers

Berenice is a data analyst making the median salary for her profession at \$85,060 a year[¶], and her total expenses come to \$60,968 a year. If she decides to retire at age 65, we would expect her expenditures to contract by 7.72% based on a preliminary analysis of retired versus non-retired individuals in her age group.[†]

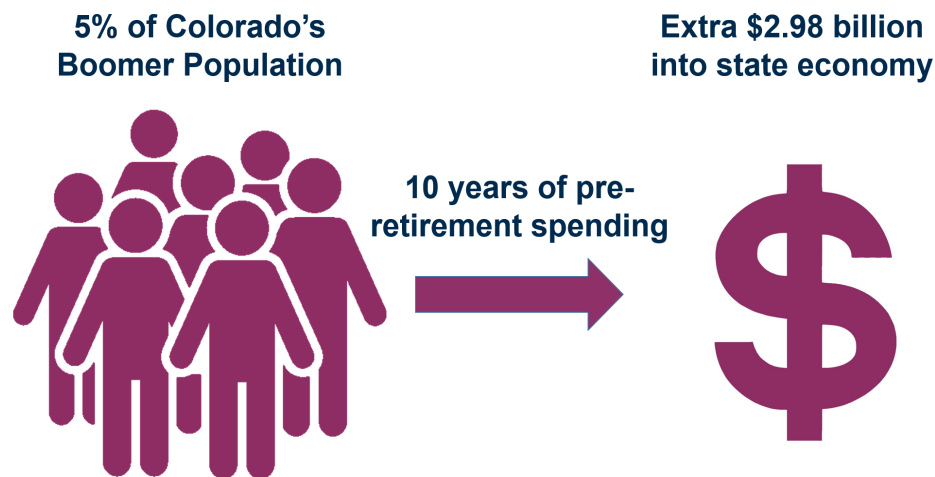
However, Berenice loves her job and decides to continue working at her current position until 75. She continues to spend at the same rate, which is equivalent to an additional \$4,710 per year compared to her expected post-retirement drop in spending.

\$4,710 may seem like a negligible amount, but it adds up. After 10 years, that translates to \$47,100.

Figure 3: Berenice's total additional spending at each age after she delays retirement



Berenice is just one of 1.3 million Baby Boomers in the State.[‡] If just 5% of the population continues to work full time up to age 75 as Berenice did, the group could account for an additional \$298 million in spending each year they delay retirement, or a total of \$2.98 billion over the decade of additional work.



[¶] Salary.com. (2019). *Business Data Analyst Salary in Denver, Colorado*. Retrieved from <https://www.salary.com/research/salary/listing/business-data-analyst-salary/denver-co>

[†] Based on previously mentioned analysis of BLS CE data.

[‡] Colorado State Demography Office. (2019). *Population by Single Year of Age—Region*. Retrieved from <https://demography.dola.colorado.gov/population/data/sya-regions/>

Switching to part time work after age 65 can help make up shortfalls in retirement savings balances

Individuals working part time after 65 benefit from more secure futures if they can continue contributing to their retirement savings

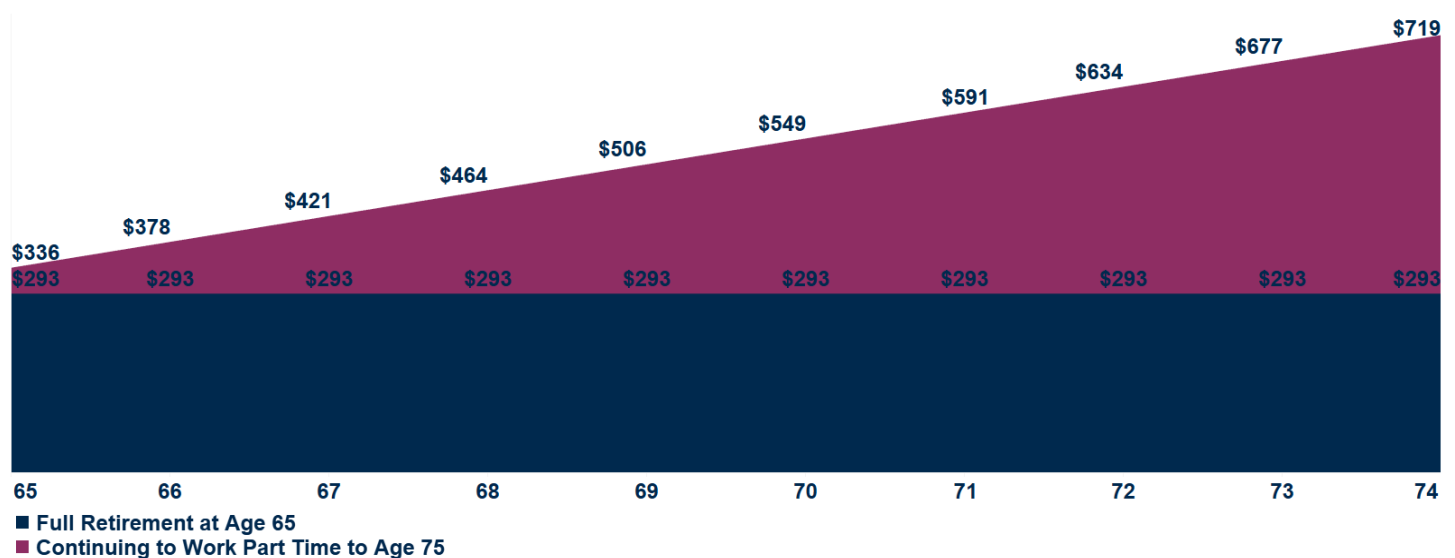
Jessica is a 65 year old nurse who, like many Coloradans, is concerned that she doesn't have enough money saved for retirement. She has saved \$88,000, which is close to the median amount held in retirement assets for someone in her age group with savings^ϕ—that is only equal to 1.2 times her annual salary of \$72,570, and far short of the recommended target of having saved 10 times an individual's annual salary by retirement. She had planned to continue working full time past age 65 in order to make up for this savings deficit.

Unfortunately, her plans had to change when her husband's arthritis started to severely affect his ability to walk—he remained in good health otherwise, but he started to require assistance with basic tasks such as preparing food. Rather than shoulder the expense of hiring outside help, Jessica decided to scale back to working part time (20 hours a week) in order to take on caregiving for her husband.

Even though her income has been reduced, Jessica's husband's mobility challenges did not introduce a severe increase in expenses, and as a result she is still able to make contributions to her retirement savings over the next 10 years. Due to her need to overcome a shortfall, Jessica sets an aggressive savings rate of 35.2% of her annual income, about 4 times the average savings rate of the country.^ψ This is an additional \$12,772 added to her nest egg, each year, culminating in a new total of \$228,496 by the time she reaches 75!

Assuming that Jessica follows the recommended rule of thumb of withdrawing 4% of her starting retirement balance per year, this implies that her monthly payout from her retirement savings grows from \$293 to \$719 by the time she reaches 75. Even if she is unable to work all the way to age 75, each year of additional saving increases the eventual monthly payout from her retirement savings.

Figure 4: Jessica's expected monthly payouts from her retirement savings after delaying retirement

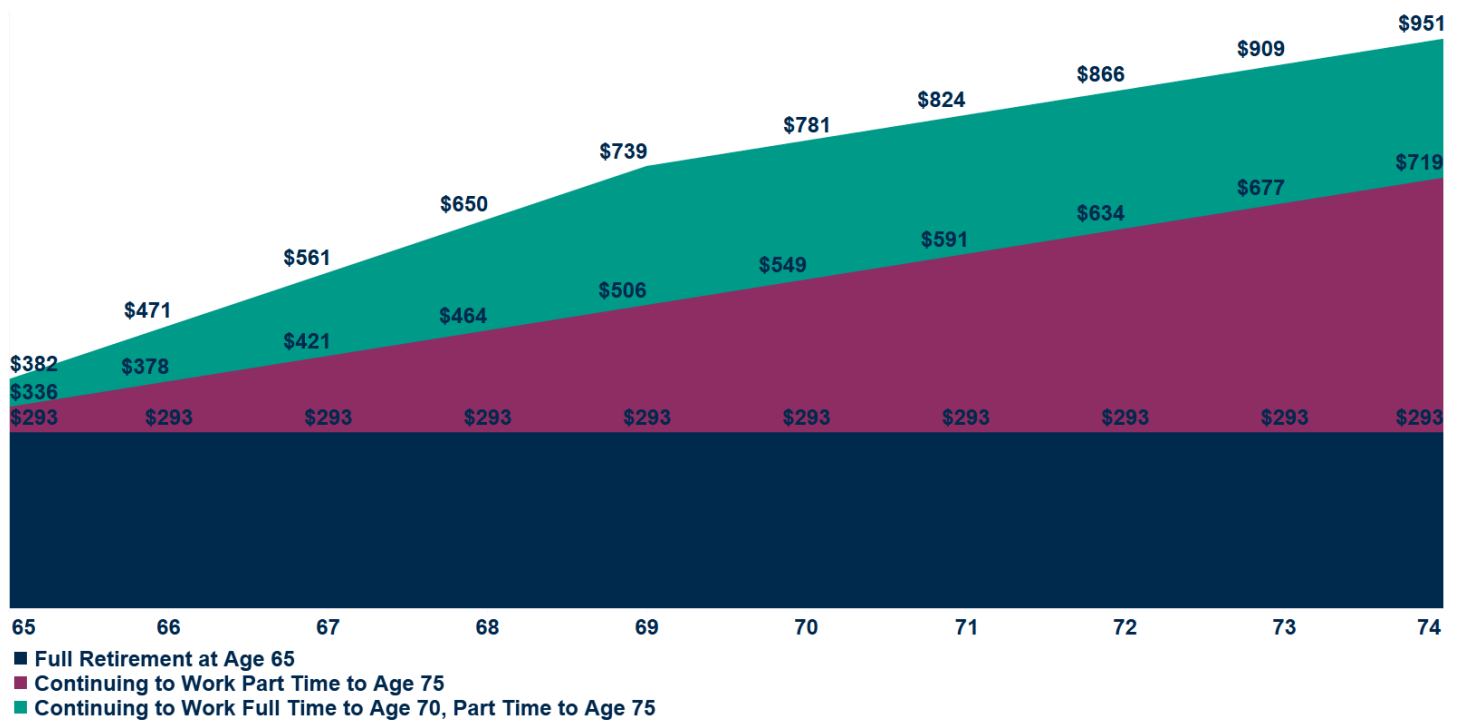


^ϕ Brown, J.E., Saad-Lessler, J., & Oakley, D. (2018). Retirement in America: Out of Reach for Working Americans? *National Institute on Retirement Security*. Retrieved from https://www.nirsonline.org/wp-content/uploads/2018/09/SavingsCrisis_Final.pdf

^ψ Brown, J.E., Saad-Lessler, J., & Oakley, D. (2018). Retirement in America: Out of Reach for Working Americans? *National Institute on Retirement Security*. Retrieved from https://www.nirsonline.org/wp-content/uploads/2018/09/SavingsCrisis_Final.pdf

The monthly payouts from her retirement savings are enhanced even further if Jessica is able to work full time to age 70 before switching to part time between ages 70 and 75.

Figure 5: Jessica’s expected monthly payouts from her retirement savings, 3 scenarios



Working over 65 may have additional qualitative benefits for individuals while helping to stimulate the economy as a whole

While the analyses for Berenice and Jessica focus on the direct quantitative benefits that they might experience as a result of delayed retirement, there is evidence that they would also experience a series of qualitative positive outcomes by extending the length of their careers. There is research that suggests that the continued social connections and mental engagement that comes with work could have health benefits that would both improve their quality of life while also reducing the potential healthcare related costs they would face in retirement,¹¹ thus further improving their financial security.

Berenice’s delayed retirement benefited the economy of the state as a whole by contributing an extra \$47,100 in spending, and there would likely be additional benefits rippling throughout the economy from Jessica’s delayed retirement as well. Her initial nest egg only allowed for \$293 a month, and even with Social Security payouts it is likely that Jessica would face an income shortfall at some point during her retirement. Such a predicament would make her more likely to rely on Colorado’s Medicaid program for healthcare, thus increasing the burden on that service, or she might rely on her children to cover the difference, which could negatively impact their own savings and thus perpetuate the financial instability down another generation. Her extra years of working could increase those payouts to as much as \$951 a month, which gives her additional funds to spend in the economy while also decreasing the likelihood of her having to rely on state resources in order to survive.

¹¹ Zulkarnain, A., Rutledge, M.S. (2018). How Does Delayed Retirement Affect Mortality and Health? *Center for Retirement Research*. Retrieved from https://crr.bc.edu/wp-content/uploads/2018/10/wp_2018-11.pdf

Rich datasets can help us better understand the economic impact of individuals working past age 65

With time and resources dedicated to research, the scenarios offered here could be expanded into robust models of individual behavior in different circumstances

The stories of the fictional characters described here are built on datasets that hold a great deal of promise for understanding how older individuals staying in the work force can impact their own financial security as well as the economy as a whole. Malick highlighted how critical earning and saving in an individual's late 50s and early 60s can be, which in turn shows that there may be a high return on investment for training opportunities that can keep individuals in the work force. Berenice and Jessica both illustrated how the decision to work past 65 can ripple throughout the economy by increasing discretionary spending, and Jessica also demonstrated how a phased approach to retirement can improve an individual's financial security.

Of course, the factors that determine how an individual navigates the world of work, retirement, savings, and expenditures are complex, and one should be cautious whenever extrapolating individual behavior to the group as a whole, or vice versa. That said, there are several comprehensive datasets that could be leveraged to better our understanding of how individuals make these decisions, should there be resources made available to study them. Of particular note is the Bureau of Labor Statistics' Consumer Expenditure Survey (CE), which captures individuals' spending, working, and saving behaviors.[†] This dataset was used in this document to estimate how an individual's spending habits might change depending on their employment status (an analysis that appears to be novel for this particular age group and subject matter based on a review of available research), but the findings could be further strengthened if time and resources were committed to an in-depth analysis of the CE and building a model for individuals' spending behavior in different circumstances. In particular, the CE appears to have sufficient data to support the following improvements on the analyses presented here:

- *Disaggregate spending changes by income level:* For this document, an analysis was conducted that compared the median spending of fully employed vs. part-time employed vs. unemployed individuals in different age groups to estimate how a change in employment might impact spending. This ignores how an individual's starting income (or assets) might affect any changes in their spending habits. The CE does capture income data that can be linked to specific individuals' expenditures, which would enable a more precise estimation of this change.
- *Limit analysis to discretionary spending:* The analyses in this document do not distinguish between types of expenditures. In reality, an individual who restricts their spending in response to financial pressures is likely to cut spending in only specific categories, while leaving others largely unchanged. For example, an individual forced into early retirement might cut back on their entertainment spending, but they may not have much ability to cut back on their housing and healthcare expenses. Each expense in the CE is coded, so a research team would be able to study changes in spending for just specific categories of interest.
- *Study the impact of dependents on spending:* The CE tracks expenditures at the household level, and the average number of individuals per household does tend to change as the age of the head of the household increases. The analyses presented here improve upon similar work by considering expenditures per household member, as opposed to overall expenditures per household, though there are various other factors that could be controlled for. For example, the work habits of an individual's spouse will likely impact their spending decisions, and the CE's reporting of each individual's spouse's income and work habits could be used to study precisely what this impact might be.

[†] U.S. Bureau of Labor Statistics. (2019). Consumer Expenditure Survey Public-Use Microdata [Interview data from 2018]. Retrieved from https://www.bls.gov/cex/pumd_data.htm#csv