THE NEW SCHOOL
RETIREMENT EQUITY LAB

STATUS OF OLDER WORKERS

August 14, 2019

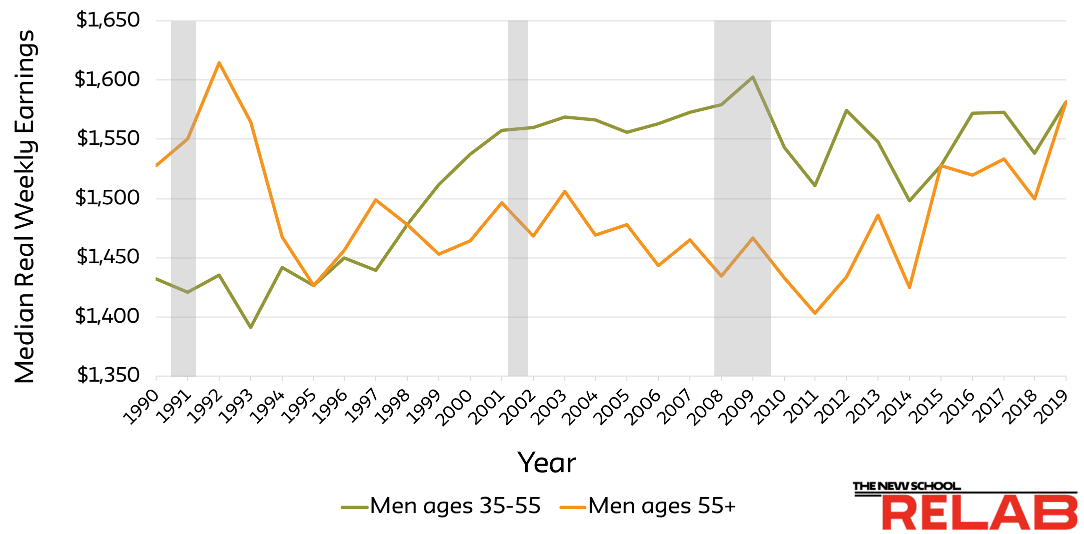
20+ Years of Older Workers' Declining Bargaining Power

- **Lagging Wages:** Over the past three decades, older workers' wages declined and lagged behind younger workers' wages.
- **Loss of Bargaining Power:** Older workers' declining wages are evidence of weakened bargaining power.
- **Policy Recommendations:** Ensuring older workers have bargaining power requires both protecting workers' rights and restoring retirement income to provide an alternative to low-quality jobs.

Older Men's Wages Are Falling

Beginning in 1992, older men's wages started to fall dramatically relative to younger workers and have lagged behind ever since. From 1990 to 2019, real median weekly earnings for older male workers (55+) with a bachelor's degree decreased by 2.9% but increased 8.7% for prime-age male workers (35-54) with a bachelor's degree. (Women's wages have increased slightly, but due to the persistent gender gap, they still haven't caught up with men.)

Older Men's Wages Fall While Younger Men's Wages Grow



Source: SCEPA Calculations using the Current Population Survey Outgoing Rotation Group.
Note: Sample includes workers with a bachelor's degree who report working more than 35 hours per week.
Shaded areas represent recessions.

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Declining Wages Signal Loss of Bargaining Power

The decline in older men's wages during the strong and prolonged economic recovery signals that older workers have lost bargaining power in the labor market.

The absence of rising wages during a time of the lowest unemployment rate since 1969 suggests that more than supply and demand forces determine wages. The wage outcomes of negotiations between a group of workers or a single individual depend on the struggle between employers' ability to pay and workers' ability to demand higher wages. Workers' ability to get higher wages is determined by their relative bargaining power, which relies on their ability to walk away from inadequate employment offers. A worker who is geographically restricted or has little in the way of retirement benefits is less able to walk away.

Why Older Workers Lost Bargaining Power

1. Eroding Retirement Security

Older workers with secure retirement income have the option to walk away from unsuitable jobs and retire. However, most older workers – at all income levels - do not have enough retirement wealth to meet target incomes.[1]

▪ The typical older worker in the bottom 50% of the income distribution (earning less than $40,000/year) has nothing saved for retirement. [1]

▪ The median savings of workers in the middle 40% (earning between $40,000 and $115,000/year) is only $60,000. [1]

▪ Even among the top 10% of earners (those earning above $115,000/year), the median amount saved is inadequate at only $200,000. [1]

Inadequate savings translates into downward mobility and deprivation in retirement. ReLab estimates that 8.5 million (40%) middle-class older workers and their spouses will fall into poverty or defacto poverty if they retire at age 62.[1]

Without a decent pension as a fallback position, older people tend to accept the hours, wages, and working conditions offered to them and employers experience a large supply of inexpensive, undemanding older workers.

2. Insecure Employment Relations

Insecure employment relations such as alternative work arrangements and the erosion of internal labor markets (opportunities for training and promotion from within) weaken bargaining power.

Most workers in alternative arrangements cannot bargain over the terms of their employment. Gig workers often obtain work through electronically-mediated platforms that explicitly prevent bargaining over wages.[2]

The erosion of internal labor markets decreases the duration of employment relationships and displaced workers are more likely to job-hop, suffer involuntary job losses, and experience subsequent unemployment.[3]

Older workers have been disproportionately impacted by these shifts in workplace structure.

▪ Older workers are the fastest growing age group in alternative employment arrangements, which include independent contractors, on-call workers, temporary agency workers, employees of contract firms, and gig workers.[4]

▪ Older workers have suffered more than other age groups from the erosion of internal labor markets, which decreases the median length of time workers have been on the job with their current employer. Between 1987 and 2018, job tenure for men 55-64 fell twice (16%) as much as for men ages 45-54 (36%).[5]

3. Erosion of Workers' Rights

Growth in employer's monopsony power (see page 3) and other forms of employer advantage is countered by unions and minimum wage requirements that strengthen employees' bargaining position. However, these institutions and policies meant to protect workers have been eroded by conscious policy choices. The Economic Policy Institute documents that anti-union policies and opposition to minimum wage increases have intentionally undercut institutions and standards that previously bolstered the economic leverage and bargaining power of typical workers.[6] Inaction and policies harming older workers include:

▪ Between 2004 and 2017, older workers suffered a sharper decline in already low union membership rates (16.7% to 12.6%) compared to prime-age workers (14% to 11.5%).[7]

▪ The federal minimum hourly wage is just $7.25 and has not increased since 2009. Furthermore, the subminimum wage for tipped workers ($2.13) has not changed since 1991. For older workers, the likelihood of having a job that pays at or near the minimum wage increases substantially as they near retirement.[8]

WHAT IS MONOPSONY POWER?

Monopsony refers to any situation where employers have leverage to set their workers' pay while still retaining and attracting the same number and quality of workers.

Persistent **monopsony** conditions in the labor market for older workers suppresses bargaining power and helps explain older workers' declining wages.

4. Geographic Immobility

Geographic immobility increases workers' exposure to **monopsony power (see above).** If a worker is unlikely or unwilling to move for a better job, they have fewer employment alternatives and therefore less leverage with their employer. This is a bad formula for older workers, who are more likely to live in regions with stagnant economic growth, falling home values, and stalled wages, but are less likely to move. In fact, older workers are only 17% as likely to move for a job compared to younger workers due to having established roots in their communities.[9]

5. Persistent Age Discrimination

Age discrimination is prohibited by law, yet signs are everywhere that ageism thrives in the workplace. Twenty percent of employers surveyed consider an aging workforce a liability.[10] Unconcerned about losing out on hiring skilled workers, these firms report that older workers are likely to increase costs or reduce productivity. Other studies reveal a gap between employers' expectations of how long workers should remain in the workplace (until 64) and employees' expectations that they should be able to work until 75.[11] Together, this evidence suggests that more older people seek work than there are employers willing to hire them. This excess in the supply of older workers favors employers by putting added downward pressure on older workers' wages.

6. Unintended Consequences of the EITC

The Earned Income Tax Credit (EITC) provides a taxpayer subsidy to boost the incomes of low-wage workers. However, for low-wage occupations that are mostly staffed by EITC-eligible individuals, it lowers wages by increasing the supply of workers.

The EITC negatively affects older workers in particular. Childless workers above 65 years old are ineligible for the credit, but often work side by side with EITC-recipients in low-wage jobs. The New School's Farmand and Ghilarducci document how the EITC dampens wage growth for these ineligible older workers while the employer enjoys much of the EITC subsidies indirectly (see The American Prospect for more detail).[12]

7. Employment in Smaller Firms

Highly productive and profitable firms – so-called 'superstar' firms - capture greater market share, giving them more ability to share profits with employees.[13] But older workers are 3% more likely than younger workers to work in smaller firms with less than 1000 employees. These employers have fewer profits to share with employees.[14] Low profit margins translate into lower wages for employees, which contributes to stagnant wages and further reduces workers' leverage.

Policy Recommendations

Create a Federal Older Workers Bureau

An Older Workers Bureau at the U.S. Department of Labor would formulate standards and policies to promote the welfare of older workers, improve their working conditions, and advance their opportunities for profitable employment.

Advance Older Workers' Rights

We must protect institutions and polices that support workers' rights on the job, including support for unions and protection of the rights to labor representation and collective bargaining. However, given the low levels of union membership, minimum wage hikes are necessary to ensure living wages for older workers who are highly represented in low-paying jobs such as food service, retail, and care work.

Enforce Age Discrimination Laws

Age discrimination laws are on the books, but go unenforced. If employers are able to discriminate by age, older workers will lose even more bargaining power over time since employers are less likely to hire, promote, and train them.

Boost Retirement Security

Expanding Social Security and creating Guaranteed Retirement Accounts (GRAs) would allow all Americans access to a secure retirement.[15] GRAs are a proposal for universal individual accounts funded by employer and employee contributions throughout a worker's career and a refundable tax credit. With GRAs, workers can accumulate the savings they need to retire, rather than be forced into precarious, low-paying jobs. Moreover, if older workers could choose retirement over bad jobs, employers would be compelled to offer better pay, restoring the bargaining power of those choosing to extend their careers.

Older Workers at a Glance

2.8% ↓
U-3 Headline Unemployment

5.7% ↓
ReLab's U-7 Inclusive Unemployment

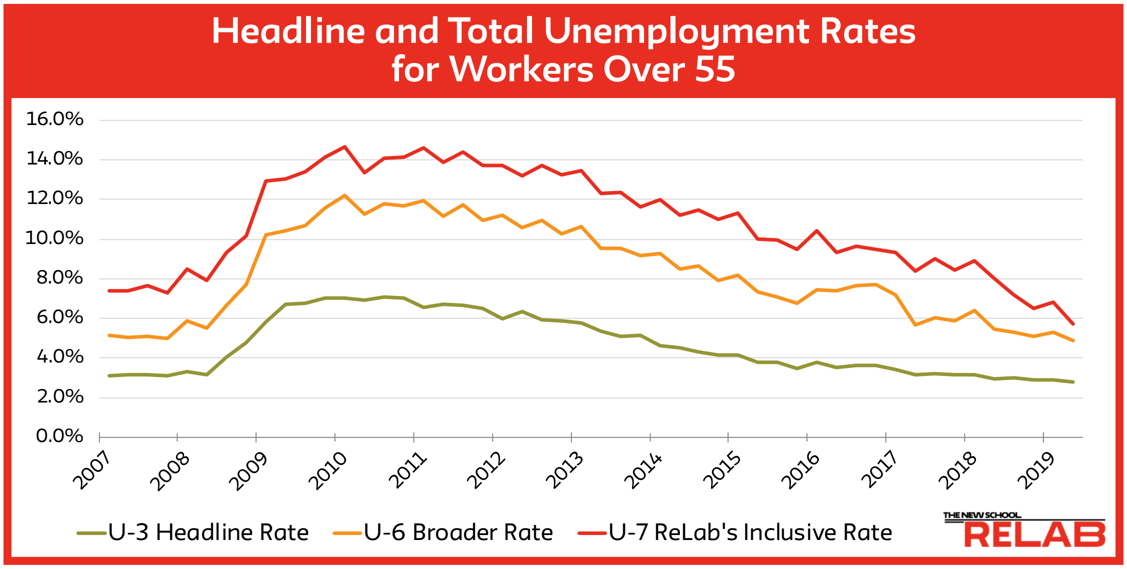
43¢/hr
Wage Increase in Personal Care & Home Health Jobs since 2009

44%
Workplace Retirement Coverage

*Arrows next to "Older Workers at a Glance" statistics reflect the change from the previous quarter's data.

1. Unemployment Rates

The headline unemployment rate (U-3) for workers ages 55 is 2.8% this quarter (from April to June), which represents a 0.1% decline from last quarter. ReLab's U-7 figure includes everyone in headline unemployment, plus marginally attached and discouraged workers, involuntary part-time workers, and the involuntarily retired (those who say they want a job but have not looked in over a year). U-7 decreased from 6.8% to 5.7% in the last three months. The share of jobless older workers who reported spending more than 27 weeks looking for work was 38%, down from 42% last quarter.



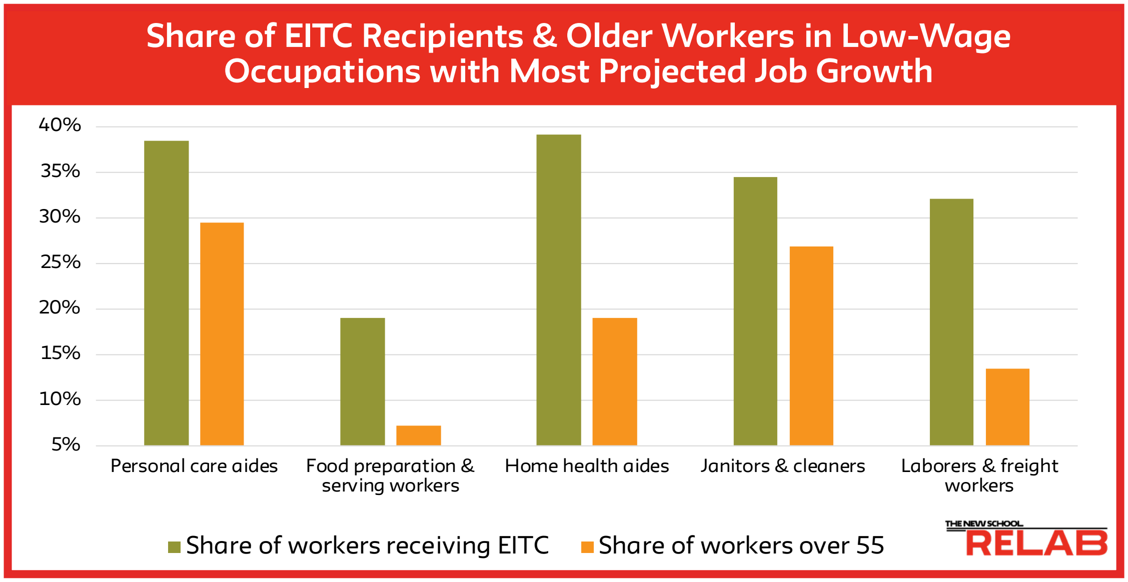
Source: Bureau of Labor Statistics (BLS) and SCEPA calculations based on Current Population Survey (CPS) data.
Notes: U-3 is sourced from BLS' Employment Situation report, and is defined as the share of the labor force that is unemployed. U-6 and U-7 are SCEPA calculations. U-6 is the share of the labor force and marginally attached members that are unemployed or working part-time for economic reasons. U-7 is the share of all people saying they want and are available for a job that are not working or working part-time for economic reasons. Quarterly unemployment rates are the average of the unemployment rates for each month in the quarter.

2. Low-Paying Jobs

Older workers are increasingly employed in low wage jobs. If nothing changes, Bureau of Labor Statistics projections indicate older women will be disproportionately working low-wage personal and home health care jobs. Many prime-age workers in personal and home health care occupations receive EITC benefits, but the majority of older workers and many workers without children are ineligible to receive the credit.

Since the EITC incentivizes eligible individuals to join the labor force, it puts downward pressure on wages.

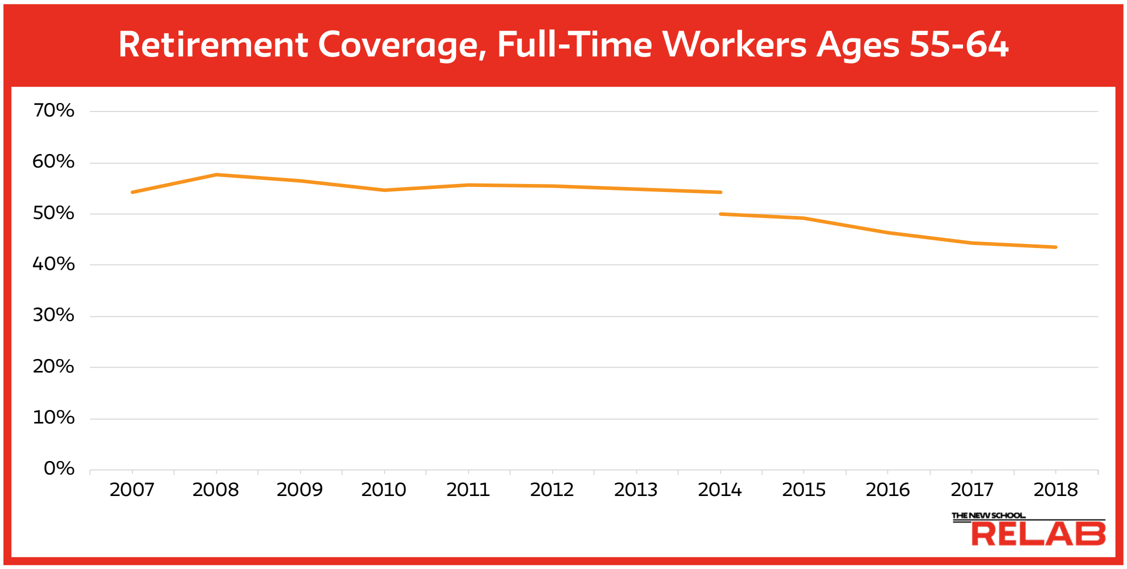
Therefore older workers who are not eligible will get lower pay, but not the supplement. Real median hourly pay (about $11 per hour) for older workers in personal care and home health ocupations rose by 43 cents from 2009 to 2019, a strong indicator of weakened bargaining power.



Source: SCEPA Calculations using the March Supplement to the 2018 Current Population Survey & BLS job growth projections.
Note: Occupations listed have most projected job growth by 2026.

3. Retirement Coverage

Workplace retirement plan coverage remained low in 2018 at just 44%. Low retirement plan coverage increases retirement insecurity for workers and weakens their bargaining position.



Source: SCEPA calculations using Current Population Survey - Annual Social and Economic Supplement data.
Notes: Share of workers with a retirement plan from their current workplace. Sample includes workers who reported working 30 hours or more per week in the previous year. Starting with 2014 the CPS changed the sequencing of questions related to sources of income and plan coverage. The question text pertaining to pension coverage was not changed. In 2014, the CPS fielded the old survey to part of the sample and the new survey to the rest. We present results for the old and new survey as separate lines.

Endnotes

1. Retirement Equity Lab. (2018). "Backgrounder: The Retirement Crisis." Policy Notes Series. Schwartz Center for Economic Policy Analysis at The New School for Social Research.

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3. Sass, S. A., & Webb, A. (2010). "Is the Reduction in Older Workers' Job Tenure a Cause for Concern?" SSRN Electronic Journal.

4. See Endnote #2.

5. Farmand, A. and Ghilarducci, T. (2019) "Why American Older Workers Have Lost Bargaining Power." Working Paper Series 2019-2. Schwartz Center for Economic Policy Analysis and Department of Economics, The New School for Social Research.

6. Bivens, J. and Shierholz, H. (2018). "What labor market changes have generated inequality and wage suppression?" Economic Policy Institute.

7. See Endnote #5.

8. Borgschulte, M. and Cho, H. (2018) "Minimum Wages and Retirement" Discussion Paper Series No. 11728. IZA Institute of Labor Economics.

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12. Farmand, A. and Ghilarducci, T. (2019). "What's Not to Like About the EITC? Plenty, It Turns Out." The American Prospect.

13. Autor, D., Dorn, D., Katz, L., Patterson, C., & Van Reenen, J. (2017). "The Fall of the Labor Share and the Rise of Superstar Firms." In NBER Working Paper Series.

14. See Endnote #5.

15. Retirement Equity Lab. (2016). "A Comprehensive Plan to Confront the Retirement Savings Crisis." Schwartz Center for Economic Policy Analysis at The New School for Social Research.

WHY FOCUS ON OLDER WORKERS

With **10,000 baby boomers turning 65 every day**, the American labor force is transforming. Out of the 11.4 million jobs expected to be added to the U.S. economy by 2026, **6.4 million will be filled by workers over 55.*** Moreover, all of the net increase in employment since 2000 - about 17 million jobs - was among workers ages 55 and older.

The aging American workforce and these workers' lack of retirement readiness will shape employment patterns, the direction of public policy, and the strength of bargaining power for all American workers, old and young.

*Authors' calculations from Bureau of Labor Statistics Data

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