

# What makes older women work?

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# WHAT MAKES OLDER WOMEN WORK?

By Alicia H. Munnell and Natalia Jivan\*

## INTRODUCTION

As the U.S. population ages, traditional sources of retirement income will likely fall short of what is needed to maintain pre-retirement living standards for many individuals. The issue of retirement security is especially important for women, because their lower wages, interrupted work histories, and role as caregivers make them especially vulnerable to old-age poverty. Even today, nearly 30 percent of single women, who represent a majority of households at older ages, are classified as poor or near-poor.<sup>1</sup> Many of these women were married when they entered retirement and suffered a large drop in income when their spouse died. Part of the solution to this problem could be for women to extend their work lives. Of course, working longer requires women to be employed in the first place.

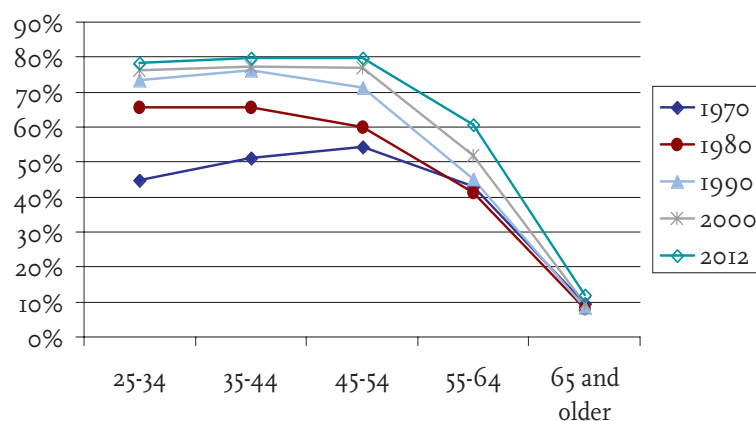
This brief explores the extent to which older women — particularly those who are married — face different employment opportunities and incentives than men. The first section provides background on trends in labor force participation. The second section describes different factors — demographic, financial and family-related — that might affect whether older women are employed. The third section assesses how influential these factors are by presenting the results of an empirical analysis. A subsequent brief will analyze the factors that affect women's planned and expected retirement ages.

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## TRENDS IN LABOR FORCE PARTICIPATION BY GENDER

Women's labor force attachment has increased dramatically in the past 30 years, particularly for younger women. In 1970, less than half of women age 45 and younger were in the labor force. Today almost 80 percent of women in this age group are in the labor force (see Figure 1).<sup>2</sup>

FIGURE 1. LABOR FORCE PARTICIPATION AMONG WOMEN, 1970-2012



Source: U.S. Bureau of the Census. 1995 and 2005. *Statistical Abstract of the United States*. Table No. 627 and No. 570.

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Because of this increased labor force attachment when young, women approaching retirement today have much more experience in the labor force and are much more likely to be working than previous generations. Between 1970 and 2000, the share of women aged 55-64 in the labor force rose from 43 percent to 52 percent. And the U.S. Census Bureau projects a further jump to 61 percent by 2012. Among women 65 and over, labor force activity has remained relatively steady at about 10 percent. This pattern is quite different than that for men aged 55-64, whose labor force participation rate dropped like a stone between 1970 and the mid-1980s and has since stabilized (see Table 1).

TABLE 1. LABOR FORCE PARTICIPATION RATES OF INDIVIDUALS AGED 55-64, 1970-2012

Year	Women	Men
1970	43.0%	83.0%
1980	41.3	72.1
1990	45.2	67.8
2000	51.9	67.3
2012 Proj.	60.6	69.9

Source: U.S. Bureau of the Census. 2005. *Statistical Abstract*. Table 570 and Purcell (2000).

## WHAT FACTORS MIGHT INFLUENCE WHETHER WOMEN WORK?

Although women's labor force participation rates have increased dramatically and are approaching those of men, their work patterns are still quite distinct. For example, women earn less than men, and they are more likely to work part time and have interrupted careers. Three sets of factors may influence these patterns: 1) demographic characteristics; 2) financial incentives; and 3) family considerations.

### DEMOGRAPHIC CHARACTERISTICS

Certain characteristics of women have changed markedly in recent decades. Two attributes that may affect employment decisions are health status and divorce. (Educational status will be addressed in the section on financial incentives).

Health status is likely an important determinant of a person's labor force activity. Having poor health

makes it harder to fulfill work responsibilities and limits job opportunities. However, there is a trend of improved health among women as well as men. For example, the share of women reporting activity limitations dropped from 13.4 percent in 1997 to 12.3 percent in 2002.<sup>3</sup> Improving health conditions should allow older women to stay in the labor force longer.

Divorce — either as a theoretical possibility or an actual occurrence — may also affect a woman's decision about whether to work. The dramatic increase in the probability of divorce between the mid-1960s and the late 1970s may explain, in part, the increase in female labor force activity during this period. Between 1962 and 1979, the number of divorces per 1000 married women soared from 9 to 23 and has remained high since then (see Figure 2). Divorce is a negative financial shock due to the loss of the husband's earnings, which often forces a woman to enter the labor force.<sup>4</sup> In addition, divorced women might begin treating jobs as a career where they can define themselves rather than a means of earning an income.

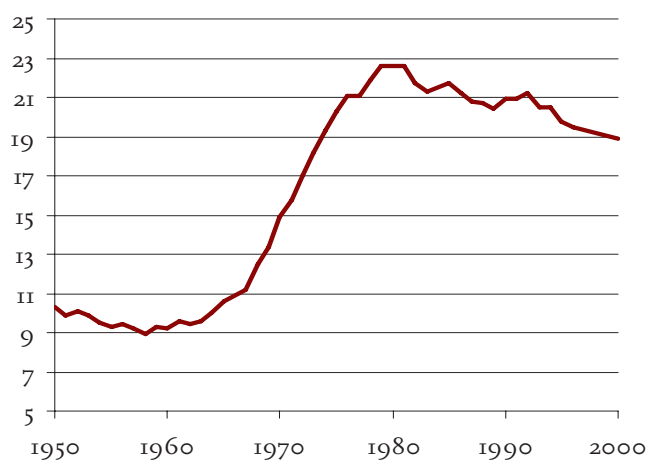
### FINANCIAL INCENTIVES

Women face different financial incentives than men when considering whether to work. This generalization applies to the wages they earn before tax, their after-tax earnings, and rewards to working under Social Security.

#### Women Earn Lower Wages

Despite improvement in the ratio of female to male earnings, women still earn less than men. In 2002,

FIGURE 2. NUMBER OF DIVORCEES PER 100 MARRIED WOMEN, 1950-2000



Source: National Vital Statistics Reports. Center for Disease Control and Prevention.

the median earnings for women full-time workers were 78 percent of that for their male counterparts. Women earned less than men at every level of education and across occupational categories. And women are far more likely than men to work part time, either for their entire work lives or for a part of their careers. In 2003, almost 25 percent of married women in the labor force aged 25-54 worked part time compared to only 5 percent of men.<sup>5</sup>

#### *Women May Face Higher Tax Rates*

In addition to earning less, married women generally face higher tax rates than men or single women. The U.S. personal income tax is progressive with rates ranging from 10 percent for couples with incomes of \$14,600 or below to 35 percent for couples with incomes above \$326,450. Even though the status of women has changed dramatically in the last 40 years, the man is usually considered the primary breadwinner. This perception more or less fits the reality in that, in families where both the wives and husbands work, only 24 percent of wives earn more than their husbands.<sup>6</sup>

Because the man is usually the primary breadwinner, within the family his earnings are often considered to be taxed at the lower marginal rates. When the woman is regarded as the secondary earner, the couple usually views her income as "stacked" on top of her husband's and taxed at the higher marginal rates. The higher tax rates faced by married women, together with the lower wage that women receive, make their financial return from work significantly less than that for men.

#### *Social Security Spousal Benefit May Discourage Work for Some Women*

While working usually increases an individual's Social Security benefit, married women may not improve their Social Security outcome through additional.<sup>7</sup> Working men and women are treated identically under the Social Security system in terms of benefit accrual, but low-earning or non-employed spouses, who are generally women, are also entitled to a 50 percent spouse's benefit based on the primary earner's wages. If the husband's benefit is sufficiently large relative to the benefit based on the wife's own earnings, continued employment produces little or no increase in her Social Security benefits. Despite women's increased labor force participation, about two-thirds of women 62 and over still receive benefits based in whole or in part on their husbands' earnings records and therefore gain little from further work.

#### FAMILY CONSIDERATIONS

Women, for the most part, are still the primary family caregivers. Generally, employment patterns for women and men are similar early in life but then differ during the child rearing years. While men continue working to the same extent as they did previously, women tend to move from full-time to part-time employment — or leave the labor force entirely — in order to take care of children.<sup>8</sup> A study by Metropolitan Life Insurance Company indicated that 20 percent of women moved from full time to part time and 33 percent of "full time" women workers decreased their hours in order to meet their caregiving responsibilities.<sup>9</sup> As the children grow up, married women appear to return to the labor force. For example, in 2003, 81 percent of married women with children aged 14 to 17 were in the labor force compared to slightly more than half of those with children under 3.<sup>10</sup> While children often involve the most significant caregiving commitment, women may also serve as caregivers for an ailing spouse or parent.

Caregiving responsibilities are not the only family

**WOMEN FACE DIFFERENT INCENTIVES TO WORK THAN MEN — THEY EARN LESS AND HAVE MORE CAREGIVING RESPONSIBILITIES.**

consideration that may influence women's work decisions. For example, several studies indicate that wives

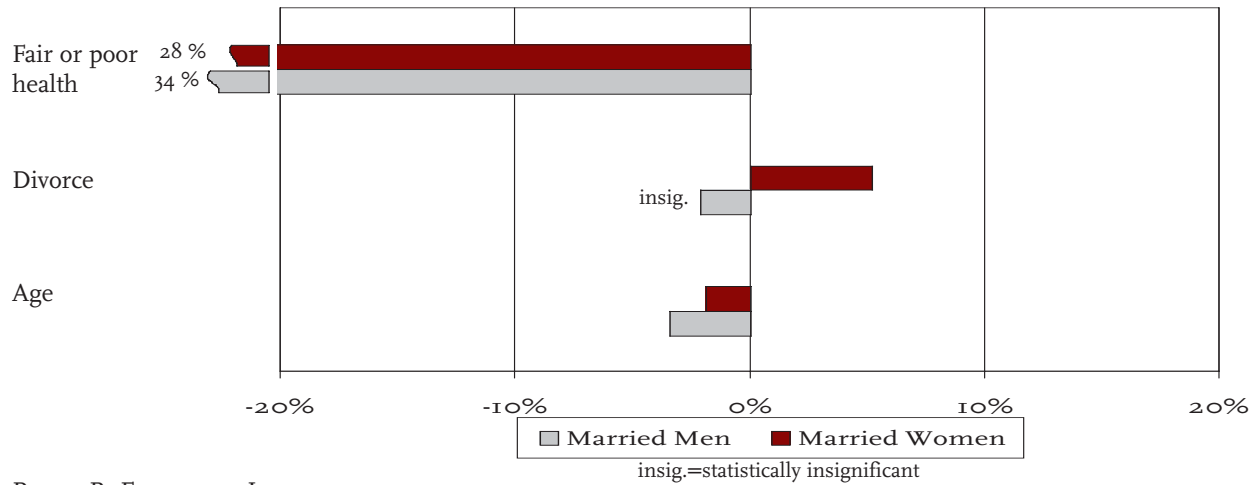
and husbands often retire at the same time in order to spend more time together.<sup>11</sup> And, since women tend to be younger than their husbands, this tendency toward joint retirement means that they often leave the labor force at an earlier age than men. Finally, married women may also be influenced by their spouse's income — the more that their spouse makes, the less of an incentive to work.

#### **WHAT FACTORS ACTUALLY INFLUENCE WHETHER WOMEN WORK?**

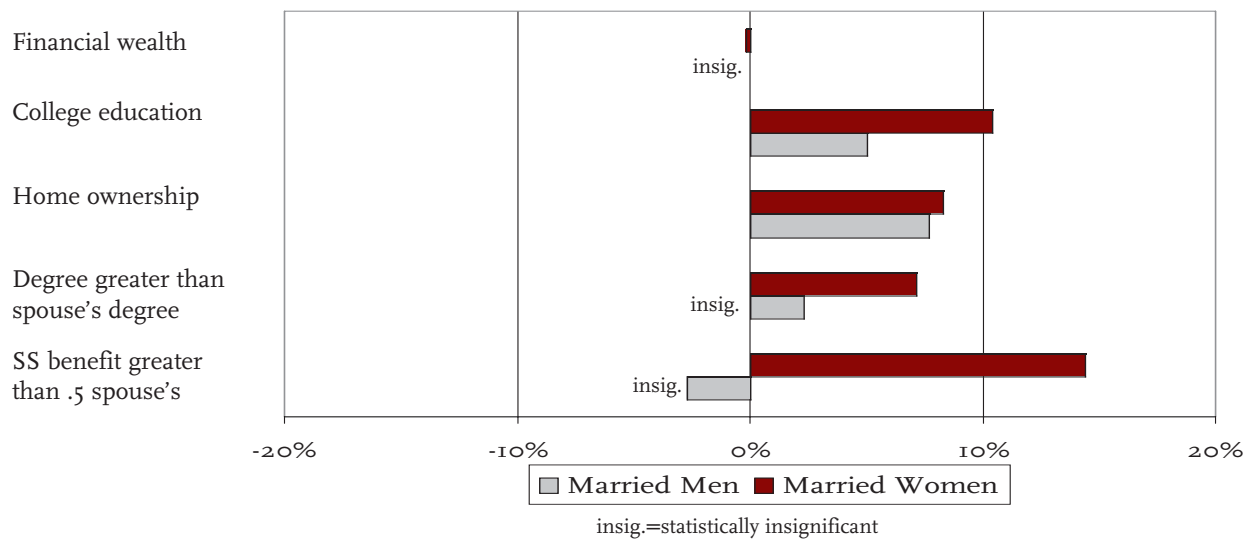
The Health and Retirement Study (HRS) — a nationally representative survey of older Americans — reveals how the various factors discussed above affect the probability that older women will be employed.<sup>12</sup> Most respondents to the HRS are in their 50s and 60s. The analysis summarized here describes results for married men and married women (see Appendix Table A1 for full results). Additional results for single men and single women are reported in Appendix Table A2. The basic equation used in the analysis is: Probability of working = f (demographic characteristics, financial incentives, family considerations).

FIGURE 3. CHANGE IN THE PROBABILITY OF BEING EMPLOYED FOR MARRIED INDIVIDUALS AGE 51-61, HRS 1992

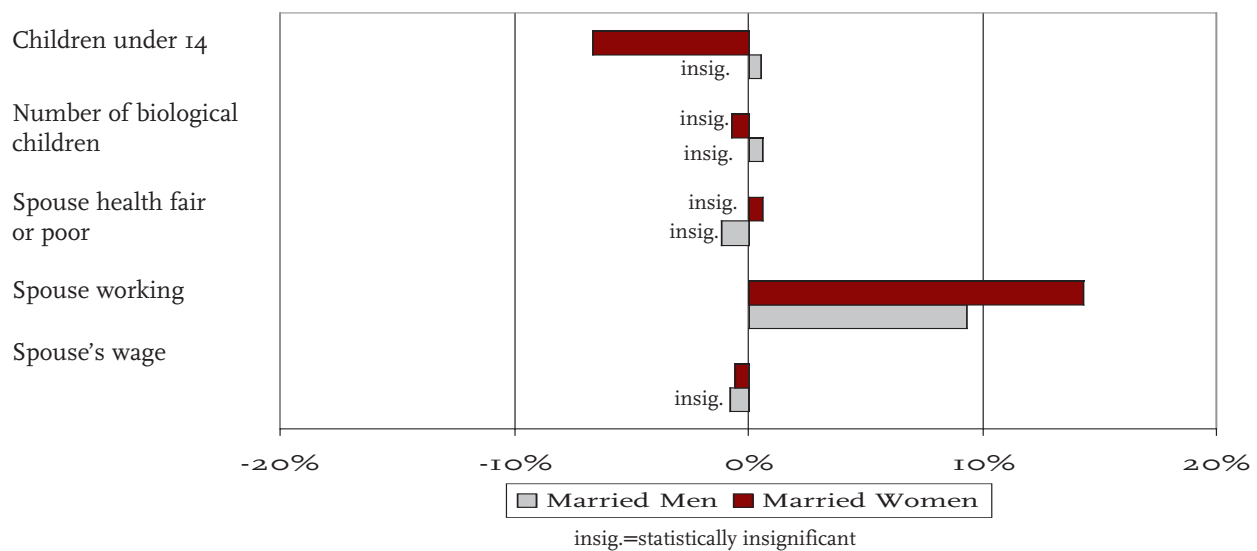
## PANEL A. DEMOGRAPHIC CHARACTERISTICS



## PANEL B. FINANCIAL INCENTIVES



## PANEL C. FAMILY CONSIDERATIONS



Source: Authors' calculations using *Health and Retirement Study* (1992).

Note: The variable "caring for a parent" is not shown here as the effects were so small.

### DEMOGRAPHIC CHARACTERISTICS

The findings for demographic characteristics are consistent with expectations (see Panel A of Figure 3). Both married women and married men reporting fair or poor health are much less likely to be employed — by nearly 30 percent for women and more than 30 percent for men. With respect to divorce, women who are currently married but who have been divorced are more likely to be employed. Finally, the demographic analysis tested for the impact of age and found that the older an individual, the less likely that he or she was employed.

### FINANCIAL INCENTIVES

The analysis of financial incentives included measures relating to wealth and earnings, a test of the impact of tax incentives, and a variable for examining the influence of the Social Security spousal benefit.

Wealth and earnings are represented in the equation by the household's financial assets, the individual's education, and homeownership. Financial assets directly impact the need to work.<sup>13</sup> That is, having substantial financial resources means there is less of a need for paid employment. Education serves as a proxy for wages since it is impossible to observe wages for those not in the labor force. A college educated person is more likely to have a higher earning potential and therefore may have a greater incentive to work. Homeownership may work either way. As a measure of financial wealth, it would indicate less need to work. On the other hand, meeting monthly mortgage payments may require both members of a couple to be employed.

The results shown in Panel B of Figure 3 indicate that greater financial assets indeed make married women less likely to work.<sup>14</sup> Both higher levels of education and home ownership make them more likely to work. The latter finding suggests that the need to cover mortgage payments outweighs the additional financial wealth that a house represents.

To test the impact of tax incentives, the analysis looked at whether the spouse with the highest educational attainment — again, a proxy for higher earnings potential — is more likely to be employed. The notion is that if a woman's education exceeds that of her husband, she is less likely to be viewed as the marginal earner and face the higher marginal rates. Again, the analysis found support for this notion, with married women who are more educated than their husbands 7 percent more likely to work.

To test the impact of Social Security's spousal benefit on work incentives, the analysis compared workers whose benefits are projected to exceed 50 percent

of their spouse's benefit with those projected to be at or below 50 percent. Women in the first group should be more likely to work, since they can improve future benefits through employment. In fact, the results supported this hypothesis — women whose Social Security benefits are projected to exceed 50 percent of their husbands' benefits are almost 14 percent more likely to work than women with lower projected benefits.

### FAMILY CONSIDERATIONS

Family caregiving responsibilities can include care for a child, a parent, or a spouse. The analysis includes variables to test for all three cases. As shown in Panel C of Figure 3, having a child under 14 is quite influential — it reduces the likelihood that married women will be in the labor force by almost 7 percent. In contrast, the other caregiving variables — number of biological children, caring for a spouse, and caring for a parent — have no significant impact on the employment activity of married women.

As discussed earlier, married women appear to make their employment decisions jointly with their husbands. This study finds that joint decision making appears alive and well. Having a working spouse increases the probability of working by about 14 per-

cent for women and by about 9 percent for men. At the same time, the more a person's spouse

earns the less need she has to work for pay. The analysis tested for this effect as well and found that every additional ten thousand dollars of spousal income decreases the probability of working by 0.6 percent for women.

### CONCLUSION

The challenge to the continued employment of older women is that fewer women than men work — at all ages. Moreover, women's work histories are not as strong. Many women spend a number of years out of the labor force taking care of children, so they end up with shorter careers. In addition, more women than men work part time. And even when women work full time, they earn less than their male counterparts.

Women also face different financial incentives than men. Women are likely to be viewed within the family as the secondary earner and face higher marginal tax rates under the personal income tax. In addition, fewer women than men are able to increase their Social Security benefit by continued work, since even today only a third of women are entitled to benefits based solely on their own earnings records.

In some ways, the future looks brighter than the

*TAX AND SOCIAL SECURITY INCENTIVES AFFECT WOMEN'S WORK.*

past for women, since their labor force participation has risen significantly. This trend means that women are more likely to earn Social Security benefits on their own. And they are less likely to be considered the marginal earner in the household. Both these developments should keep women in the labor force. Increasingly, their work decisions and careers look more like those of men. Finally, since husbands and wives tend to coordinate their retirement decisions, the fact that more husbands will be covered by 401(k) plans (which encourage later retirement) suggests that wives will also be retiring later.

However, current trends suggest that both women and men will have insufficient resources to retire in their early 60s. And women also live longer than men, so their nest egg needs to last longer. Therefore, both women and men should plan on working at least until their mid-60s. But the challenge is greater for women given their weaker attachment to the labor force and smaller financial incentives.

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## ENDNOTES

1 U.S. Social Security Administration (2004).

2 One important distinction that affects women's labor force participation is marital status. Below age 45, married women are noticeably less likely to work than single women. For example, in 2004, 80.1 percent of single women aged 25-34 were in the labor force compared to only 68.1 percent of their married counterparts (authors' calculations based on the 2004 Current Population Survey).

3 National Center for Health Statistics (2004).

4 Labor force participation may also provide the financial means to permit women to divorce without becoming impoverished.

5 Not only do part-time earners make less due to the fewer hours they work, they also receive less per hour worked. In 2004, women aged 45-54 who were working part time earned an average of roughly \$12 per hour while women working full time earned \$14 per hour (authors' calculations based on the 2004 Current Population Survey).

6 U.S. Department of Labor (2004).

7 Social Security benefits are based on the 35 years of highest earnings. Working an additional year allows participants to replace a year of low earnings with a year of higher earnings later in life.

8 This tendency for women to choose caregiving over work appears to be increasingly popular among women with high levels of education (see Story, 2005).

9 Metropolitan Life Insurance Company (1999).  
 U.S. Bureau of the Census (2005).

10 U.S. Bureau of the Census (2005)

11 Blau (1998), using the Retirement History Survey, found that among 30 to 40 percent of married couples the spouses left the labor force within a year of each other. Hurd (1988), using the Social Security Administration's New Benefit Survey estimated that among one quarter of couples the husband and wives retired within one year of each other. Johnson and Favreault (2001), looking at married couples in the 1998 wave of the Health and Retirement Study, calculated that between 22 and 40 percent of husbands and wives retired within two years of each other.

12 The Health and Retirement Study (HRS) is conducted by the Institute for Social Research at the University of Michigan. The HRS is a nationally-representative data set of about 12,650 individuals from about 7,600 households. This study began in 1992 by interviewing people ages 51-61 and their spouses (regardless of age). The survey has been re-administered every two years. For a detailed overview of the survey, see Juster and Suzman (1995).

13 Although individuals with a stronger taste for work may accumulate more financial assets we do not control for it. Despite that, in our analysis financial wealth has a negative effect on the probability of being employed and is statistically significant. Controlling for taste would make the effect of financial wealth more negative.

14 Total financial wealth is equal to the value of assets in stocks, bonds, checking accounts, certificates of deposit, and any other account, minus household debt. All wealth variables are measured in \$10,000 increments.

## APPENDIX

TABLE A1. MARGINAL EFFECTS FROM EQUATION EXPLAINING THE PROBABILITY OF BEING EMPLOYED FOR MARRIED MEN AND WOMEN, HRS 1992

Factors	Married Men		Married Women	
	dF/dx	z-statistic	dF/dx	z-statistic
<b>Financial Incentives</b>				
Financial wealth	-.0003	-0.77	-.002	-3.00
College education	.050	2.55	.104	4.75
Home ownership	.077	3.22	.083	3.35
Degree greater than spouse's degree	.023	1.32	.071	4.05
SS benefit greater than .5 spouse's	-.027	-1.62	.144	9.56
<b>Family Considerations</b>				
Number of biological children	.006	1.61	-.007	-1.60
Children under 14	.005	.20	-.067	-2.65
Help parents (continuous)	-.00005	-1.27	0	-.32
Spouse health fair or poor	-.012	-.60	.006	0.32
Spouse working	.093	5.54	.143	7.80
Spouse's income	-.008	-1.61	-.006	-2.39
<b>Demographic Characteristics</b>				
Fair or poor health	-.337	-17.66	-.283	-14.08
Divorced	-.021	-1.15	.052	2.94
Age	-.034	-21.76	-.019	-11.77
<b>Pseudo R-squared</b>	.1934		.1169	
<b>Sample size</b>	4951		4939	

Source: Authors' calculations using Health and Retirement Study (1992).

TABLE A2. MARGINAL EFFECTS FROM EQUATION EXPLAINING THE PROBABILITY OF BEING EMPLOYED FOR SINGLE MEN AND SINGLE WOMEN, HRS 1992

Factors	Single Men		Single Women	
	dF/dx	z-statistic	dF/dx	z-statistic
<b>Financial Incentives</b>				
Financial wealth	-.001	-1.03	-.004	-2.16
College education	.134	2.52	.109	2.66
Home ownership	.090	2.27	.133	4.83
<b>Family Considerations</b>				
Number of biological children	-.012	-1.16	-.009	-1.44
Children under 14	-.014	-.20	-.111	-1.39
Help parents (continuous)	-.0001	-1.63	-.0001	-2.52
<b>Demographic Characteristics</b>				
Fair or poor health	-.395	-9.62	-.415	-14.64
Divorced	.073	1.78	.108	4.06
Age	-.017	-2.75	-.033	-7.72
<b>Pseudo R-squared</b>	.1450		0.1976	
<b>Sample size</b>	743		1629	

Source: Authors' calculations using Health and Retirement Study (1992).

## ABOUT THE CENTER

The Center for Retirement Research at Boston College was established in 1998 through a grant from the Social Security Administration. The Center's mission is to produce first-class research and forge a strong link between the academic community and decisionmakers in the public and private sectors around an issue of critical importance to the nation's future. To achieve this mission, the Center sponsors a wide variety of research projects, transmits new findings to a broad audience, trains new scholars, and broadens access to valuable data sources. Since its inception, the Center has established a reputation as an authoritative source of information on all major aspects of the retirement income debate.

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