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Age discrimination and reform of the U.S. Social Security System

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Some analysts have concluded that reform of the U.S. Social Security system is necessary to ensure it will be able to meet its obligations. The Census Bureau projects that the number of people age 65 years and older in the working-age population (16 years and older) will rise from the current 19 percent to 29 percent by 2060, and this increase will skew the dependency ratio—that is, the ratio of nonworkers to workers. Additional workers will be needed to support the retired population.

Reforms under consideration involve creating incentives to encourage older workers to stay in the labor force longer. Key highlights from this strategy include (1) reducing benefits for those who receive claims at 62, (2) further increasing the full retirement age, and (3) reducing taxes on earnings after Social Security benefits are claimed.

On the surface, these reforms appear logical. David Neumark, Ian Burn, and Patrick Button explore culturally-entrenched barriers to the effectiveness of such changes in their article titled "Age discrimination and hiring of older workers" (*Economic Letter*, Federal Reserve Bank of San Francisco, February 27, 2017). Age discrimination in the labor market is a major obstacle to this supply-side reform. Neumark, Burn, and Button define discrimination as occurring "when equally productive people are treated differently in the labor market—in this case, with respect to getting hired—simply because of their group membership, whether based on age, race, sex, etc." Even if more seniors enter the labor force, research shows that some businesses are not willing to hire older workers.

The authors used a correspondence study to measure age discrimination. They created applicant profiles on paper or electronically and then measured callbacks for job interviews. This is an established technique for measuring differences in hiring rates.

More than 40,000 resumes were sent for over 13,000 positions in 12 cities within 11 states. The authors note that this correspondence study is the largest to date. The authors created realistic resumes for what they refer to as young (ages 29—31), middle-aged (ages 49—51) and older (ages 64—66) job applicants. The resumes were submitted in response to advertisements for relatively low-skilled workers of all ages. The authors note that they responded to lower skilled job openings "because labor economists using audit and correspondence study methods believe that realistic responses to fictitious job applicants are less likely in more high-skilled labor markets where employers are more likely to be familiar with job applicants." Applications were sent to respond to job openings for administrative assistants and secretaries, janitors and security guards, and retail sales positions.

The study showed that younger female applicants had a higher callback rate than middle-aged female applicants, and older female applicants had the lowest callback rate. For administrative jobs, older female applicants had a callback rate of 7.6 percent versus 14.4 percent for young applicants. In sales, the callback rate for older applicants was 18.4 percent compared with 28.7 percent for young applicants.

Older male applicants fared better than their female counterparts. They, too, had lower callback rates for sales, security, and janitorial occupations than did young applicants, but the pattern was not as stark as it was for the older women. Some of the differences observed for this group were not statistically significant. The study finds that callback rates for older male versus younger male applicants for sales jobs show a slightly smaller but nonetheless noteworthy difference, 14.7 percent versus 20.9 percent.

The authors conclude by noting that their research provides evidence of age discrimination in hiring, which is a demand-side barrier to effective Social Security reform. Such reform may be especially challenging for women because the authors' research shows that older women face more age discrimination in being hired than do older men.