

OCTOBER 2004

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Vol. 11, No. 4

Employment Research is published quarterly by the W.E. Upjohn Institute for Employment Research. Issues appear in January, April, July, and October.

The Institute is a nonprofit research organization devoted to finding and promoting solutions to employment-related problems at the national, state, and local level. The Institute is an activity of the W.E. Upjohn Unemployment Trustee Corporation, which was established in 1932 to administer a fund set aside by the late Dr. W.E. Upjohn, founder of the Upjohn Company, to conduct research on the causes and effects of unemployment and seek measures for the alleviation of the hardships suffered by the unemployed.

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Work and Retirement Plans among Older Americans

NOTE: This article is based on the authors' research reported in a working paper published by the Upjohn Institute. See Abraham and Houseman (2004).

As the baby boomers reach retirement age, labor force growth is projected to slow dramatically, raising concerns about whether employers will be able to meet future workforce needs, and whether the Social Security and Medicare trust funds will remain solvent. These concerns, in turn, have spurred policy interest in increasing employment among seniors.

In fact, many more people express an interest in working at older ages than end up doing so. For example, in the first wave of the Health and Retirement Study (HRS), 73 percent of workers aged 51–61 said that they would like to continue paid work following retirement, and other surveys have yielded similar findings (American Association of Retired Persons 1998). Yet, actual employment rates among older Americans are far lower than one might expect from these survey responses.

Our study, motivated by this discrepancy, examines factors that influence older Americans' work and retirement plans and whether or not these plans are realized. Using data from the HRS, we document the widespread interest among workers approaching

retirement age in alternatives to full retirement—particularly in cutting back on work hours. Whereas those who plan to stop working altogether generally do, those who plan to reduce their hours or change the type of work they do most often do not realize these plans. We offer some preliminary evidence as to why so few individuals follow through on these alternatives to full retirement and their implications for policy.

The Problem of an Aging Population

Over the next two decades, the share of the population age 55 and older is projected to grow dramatically, from 21.4 percent in 2000 to 25.1 percent by 2010 to 29.5 percent in 2020. Over this same period, the share of the population aged 25–54, historically the ages of maximum attachment to the labor market, is projected to fall, from 43.4 percent in 2000 to 40.8 percent in 2010 and 37.7 percent in 2020 (U.S. Census Bureau 2002).

The smaller share of the population that is of prime working age will make it more difficult for employers to satisfy their demand for labor. There also will be relatively fewer people contributing to the Social Security system to cover the costs of retirees' benefits. The most recent projections show the number of current workers per beneficiary dropping

from 3.3 in 2003 to 2.2 in 2030, and then continuing to decline gradually thereafter, fueling large projected deficits (Board of Trustees of the Old-Age and Survivors Insurance and Disability Insurance Trust Funds 2004). An increase in labor force participation among older Americans could ameliorate these problems. Policy interest in facilitating employment among older Americans prompted passage of the Senior Citizens' Freedom to Work Act of 2000 (PL 106-182), which eliminated

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the earnings test for Social Security beneficiaries from the normal retirement age through age 70.

A voluminous literature on retirement and the factors that determine the age at which individuals retire already exists. Relatively little of this work, however, addresses either the formation of retirement plans or the extent to which actual retirement outcomes are consistent with those plans. Moreover, most researchers who have explored the formation and realization of plans for retirement have treated retirement as a binary outcome: a person either remains in the labor force or retires.¹

Plans for Work and Retirement

Our analysis on work and retirement plans among older Americans is based on data from the HRS, a panel study that includes a representative sample of Americans born between 1931 and 1941. Panel members have been interviewed biennially since 1992. Because we are interested in work to retirement transitions, we restrict our analysis to individuals who were working at least 20 hours per week and at least 1,000 hours per year at the time of the survey, and therefore had significant labor force attachment.

Figure 1 reports responses to questions about work and retirement plans asked in the first five waves of the survey, conducted from 1992 to 2000. Despite the fact that all of the HRS respondents

were in their fifties or sixties, the most common answer, accounting for 38 percent of responses, was that the person had not given much thought to future work and retirement plans or didn't have any plans. A quarter of responses reflected plans to stop work altogether, while 18 percent reflected plans to reduce hours of work. Changing their type of work, always working, or other plans each accounted for between 5 and 8 percent of responses. The pattern of responses was similar for men and women.

Do People Follow through on Their Work and Retirement Plans?

Those reporting that they planned to stop work, reduce their hours, or change their type of work were asked at what age or in what year they planned to make this transition. We use this information on the timing of the planned change in conjunction with the date of the next wave interview to determine whether or not an individual would be expected to have made the transition by the time of that interview.²

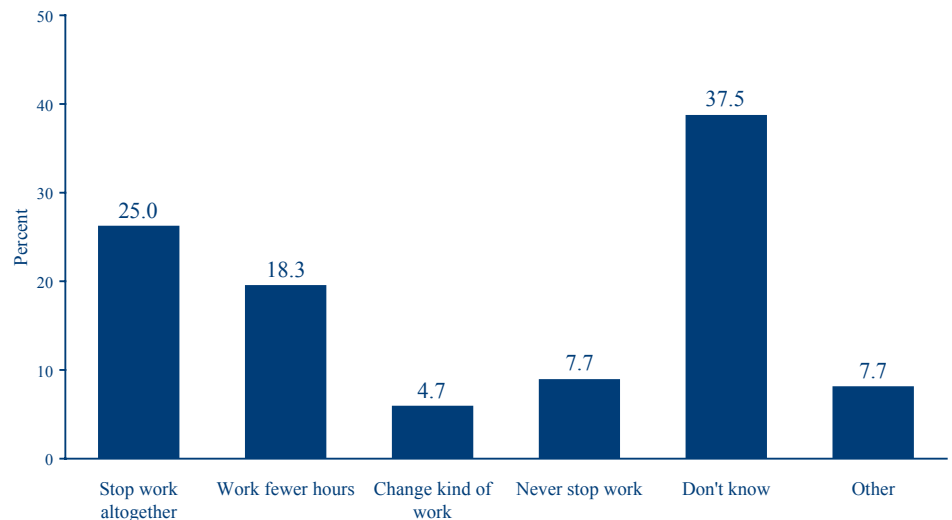
We are particularly interested in examining whether people are more likely to succeed in making certain

transitions than others. Comparisons of outcomes between those planning to stop work altogether, reduce their hours, or change their type of work are reported in Figure 2. We include in this figure only those who planned to make a transition prior to the next interview, about two years later, and consequently, those who planned to make a transition in the relatively short term. Differences in the fraction that followed through on initial plans are striking. Nearly two-thirds

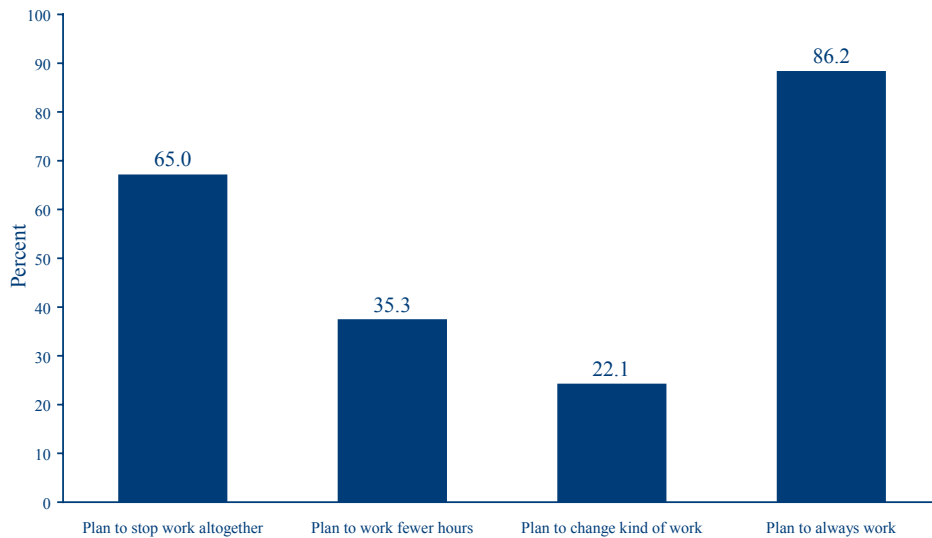
Among older workers in the survey, a quarter planned to stop work altogether and 18 percent planned to reduce hours of work.

of those who planned to stop working prior to the next wave interview did stop working by that time, and about 86 percent of those who planned never to stop working were still working, in some capacity, at the next interview. In sharp contrast, among those who planned to reduce their work hours or to change their type of work, only 35 percent and 22 percent, respectively, followed through on those plans.

Figure 1 Older Workers' Plans for Work and Retirement



NOTE: Authors' calculations based on plans reported in waves 1 through 5 of the Health and Retirement Study, conducted in 1992, 1994, 1996, 1998, and 2000. Each interview with a person who reported working 20 or more hours/week and 1,000 hours/year, and was interviewed in the subsequent wave, constitutes an observation. The tabulations thus include multiple observations for some people who are interviewed multiple times. The "other" category includes those who reported plans not listed or cited more than one plan for retirement. Person-level analysis weights used for calculations.

Figure 2 Percentage of Older Workers Realizing Their Work or Retirement Plans

NOTE: Authors' calculations based on plans reported in waves 1 through 5 of the Health and Retirement Study, conducted in 1992, 1994, 1996, 1998, and 2000, and outcome measure for each observation collected in the subsequent survey wave, approximately 2 years later. See note to Figure 1 for further description of sample.

The Transition to Working Fewer Hours

While nearly as many older working Americans have plans to reduce their work hours as have plans to retire fully, the former are about half as likely as the latter to follow through on their plans. We have no *a priori* reason to believe that individuals planning to reduce their hours are less committed to their plans than individuals planning to stop working altogether. Why then does the transition to working fewer hours appear so difficult for older workers? Although we do not have a definitive answer to this question, we offer some preliminary thoughts and suggestive evidence.

Full retirement entails simply leaving a job. Unless individuals hold multiple jobs, however, reducing work hours requires either that they arrange shorter hours on the current job or that they find a suitable new job with shorter hours. Individuals seeking to cut hours on their current job may need to obtain employer approval and formally renegotiate the terms of their employment, including hours, compensation, and job duties. Some job duties may not be easily divisible and employers consequently may be unwilling to reduce an employee's

hours, even if the employee accepts a commensurate reduction in pay. Arranging a reduction in hours may be easier for people who are self-employed. Similarly, many who initially work very long hours may be able to reduce working time without a pay cut or other formal changes in the conditions of their employment.

In many circumstances, however, an employee wishing to reduce work hours

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will need to find another job. Yet, older workers, as a group, find the transition to new employment particularly difficult (Chan and Stevens 2001). Many years may have passed since an older worker last sought a new job. Such workers may lack good connections to other employers or be easily discouraged in the job search process. They may not know how to obtain the new skills required by

available positions or may overestimate the difficulty of skill upgrading. Others may have unrealistic expectations about the wages they can hope to earn in a new job. Finally, seniors searching for work may encounter discrimination from potential employers; although discrimination against older workers in employment is illegal, the law is difficult

The need to change jobs is a major obstacle for older Americans who seek to reduce their work hours and remain employed.

to enforce, particularly at the hiring stage. To the extent that older workers do not fully anticipate the obstacles to reducing work hours, those planning hours reductions may be less likely to follow through on their plans than those planning full retirement.

In the HRS data we find that individuals for whom the transition to working fewer hours is less difficult—in particular, those who are less likely to require a job change—are more likely to plan such reductions, and given these plans, are more likely to realize them. The fraction following through on plans to reduce hours is 63 percent among multiple job holders and 48 percent among those initially working very long hours. Those working less than 48 hours per week who reported that their employers would not allow hours reductions are the least likely to follow through on plans to reduce hours (27 percent). These individuals presumably had planned to reduce their hours by leaving their jobs and finding new ones with shorter hours. Instead, they were the most likely to stop working altogether (43 percent), leaving their jobs but not obtaining another with fewer hours. In addition, among those who did reduce their hours, most nevertheless arranged hours reductions with their initial employers rather than moving to a new job. These preliminary findings suggest that the need to change jobs is a major obstacle for older Americans who seek to reduce their work hours and remain employed.³

Policy Implications

Many people express a desire to continue working at older ages but wish to reduce their hours of work. Often, the only feasible way of reducing work hours is to change jobs, but this path to a shorter work week is taken by very few of those who had planned to reduce their hours. This finding is open to different interpretations. One possible interpretation is that many people plan to reduce hours by changing jobs but have unrealistic expectations about their job alternatives.⁴ When it comes time for them actually to search for new employment, they find the jobs available to them unattractive and change their minds, continuing in their current jobs or, more likely, fully retiring. In this scenario, individuals become fully informed about their employment options and make rational choices based on this information. Thus, there is no clear justification for policy intervention.

Alternatively, older workers may face substantial barriers to changing jobs: age discrimination in employment and lack of information about job opportunities and options for skills training. In this scenario, policies to combat age discrimination, provide information on employment and training opportunities, and increase the efficiency of job transitions could have positive effects on employment among seniors. These issues warrant further study.

Notes

Financial support for the authors' research was provided by the Boettner Center for Pensions and Retirement Security at the Wharton School, University of Pennsylvania.

1. We provide an expanded discussion and citations to the literature on retirement in Abraham and Houseman (2004).

2. We classify people as having reduced their weekly hours if the sum of weekly hours worked on all jobs dropped by 8 hours or more between waves. Requiring this threshold decline avoids classifying as declines minor changes in reported hours, whether due to actual variations or to misreporting of average work weeks. We classify anyone who changed occupation or who moved between employee and self-employed status to have changed the type of work they were doing.

3. It is unclear whether the low fraction following through on plans to reduce hours results,

on balance, in less total work, because individuals may either continue working the same or more hours or stop working altogether. However, among those initially working less than 48 hours and whose employer does not allow hours reductions, failure to realize hours reductions plans likely results in a net reduction in work.

4. Organization for Economic Co-operation and Development (2001, pp. 82–83) reflects this perspective.

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