

OLDER WORKERS' LABOR FORCE TRANSITIONS FROM WORK TO RETIREMENT: FINDINGS FROM RECENT STUDIES, 2010-2015

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INTRODUCTION

Retirement patterns have changed substantially in the United States in the last 30 years. During the period from 1900 to 1980, there was a continuous decline in the labor force participation of older individuals. However, this trend has reversed since the 1980s. Americans are now retiring later and expect to continue doing so. Recent research suggests a number of significant changes that have increased the labor force participation of older workers. These include the following:

In this issue brief, we describe recent trends in retirement patterns and the increasingly complex ways in which older workers now transition from work to retirement. Read the full report here:

https://www.dol.gov/asp/evaluation/completed-studies/Lit_Review_Older_Workers_Labor_force.pdf

- **Americans are more educated and are living longer.** Significant increases in educational access were experienced throughout the last century. At the same time, life expectancies have increased steadily since 1900 and are predicted to continue rising.¹
- **Congress eliminated mandatory retirement.** In the 1970s, about half of Americans were covered by mandatory-retirement provisions requiring that they leave their jobs no later than a certain age, usually 65. In 1986, Congress abolished mandatory retirement by amending the Age Discrimination in Employment Act.
- **Social Security raised full retirement age (FRA).** The last major reform of the Social Security system occurred in 1983, when the Social Security Amendments (P.L. 98-21) gradually increased the FRA from age 65 to age 67 for workers born after 1937.
- **Employers have changed pension work plans.** Increases in the delayed retirement credit and a move from defined- benefit pensions to defined-contribution plans such as 401(k)s have decreased work disincentives.
- **Employer-sponsored post-retirement health coverage has declined.** Due to increases in health care costs, fewer firms are providing post-retirement health insurance, and when they do, the retiree has to pay a higher premium.

Within this issue brief, we describe the increasingly complex patterns emerging between older workers and their labor force participation. Our findings are based on a comprehensive review of studies released between 2010 and 2015.

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LABOR FORCE TRANSITIONS

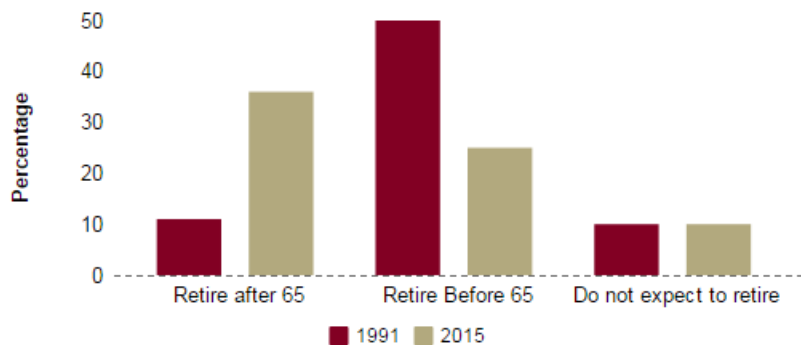
In addition to longer labor force participation, older workers now transition through their working lives in more complex ways. Retirement is no longer a single, one-time event; rather, it is a gradual move out of the labor force. Before presenting the main patterns of the increasingly complex transitions into retirement, we provide the following concepts from the research on older workers.²

- **Career jobs** are full-time, full-year jobs held for a long period of time. They are usually defined as a worker's longest spell of employment with a single firm.
- **Bridge jobs** are usually part-time, part-year, or short-term jobs that workers engage in between a full-time career job and withdrawal from the labor force.
- **Reentry jobs** are jobs that follow a period of full retirement. They include *encore jobs*, in which older individuals provide a community or societal service and may be paid or unpaid.
- **Phased retirement** allows seasoned workers to move gradually from full-time employment to full retirement by reducing hours and responsibilities.
- **Retirement** is a period following career employment during which there is no labor force participation. It can be permanent or temporary.

Over the past two decades, permanent exits from the workforce (directly from full-time employment) have become less frequent. According to the Employee Benefit Research Institute's (EBRI) Retirement Confidence Survey,³

- In 1991, 11 percent of workers expected to retire after age 65, 50 percent expected to retire before age 65, and about 10 percent said they did not expect to retire at all.
- In 2015, 36 percent of workers reported that they expected to retire after age 65, but only 25 percent said they planned to retire before age 65, and 10 percent said they did not plan to retire at all.

Difference in Retirement Expectations Between 1991 and 2015



- More importantly, the survey also found that about 67 percent of workers in 2015 said they plan to work for pay in retirement.

But if older workers are choosing not to fully retire, what types of choices are they making?

- **Career-to-career job changes have become increasingly common.** Many older workers have had success in making job transitions. Data from the American Institute for Economic Research 2014 Survey⁴ show that, among older workers who had tried to change careers in the preceding year, 82 percent were successful. Respondents reported that the most important factor in a career change was having transferable skills and qualifications (from a previous job). Motivations for changing jobs included financial reasons as well as non-market reasons, such as “quality of life” and “wanting a change.”
- **Bridge employment is on the rise.** Between 1960 and 2010, the prevalence rate of 60 to 62-year-olds in bridge jobs rose from near zero at the beginning of the period to more than 15 percent during the period from 1990 to 2010. For 65 to 67-year-olds, the rate reached 20 percent in 2010.⁵
- **Older workers are more likely to become self-employed.** The likelihood of a worker becoming self-employed increases with age.⁶ Older workers value work flexibility, they tend to have greater access to capital as they age, their lifetime experience increases their chances of being successful in business, and they have reduced access to wage and salaried employment alternatives as they age.⁷
- **Reentry jobs are more common.** About 15 percent of older workers who exit the labor force for two years return to paid work.⁸ For a great majority of these retirees in recent years, reentry is planned and not a result of inadequate planning, insufficient wealth, or financial shocks.⁹ Rather, the most important reasons for returning to work after a period of retirement include the following: “want to feel productive and useful”; “find work is fun and enjoyable”; “work helps to find interaction with people”; and “want to stay physically/mentally active.”¹⁰
- **Phased retirement continues to be unpopular in the United States.** Despite the fact that phased retirement is more common in Europe, the misalignment in federal and state laws and regulations makes it difficult to implement in the private sector.¹¹ Obstacles include issues related to receipt of pensions under defined-benefit plans during a period of phased retirement, access to employer-provided health insurance, and provisions in anti-discrimination legislation.

Work to Retirement Transitions

20th Century:



21st Century:



The literature identifies the following factors associated with individuals who retire in stages: have good health; are relatively young when leaving a career job; and can afford to retire early (but choose later to return to the workforce), or return to the workforce for financial reasons.¹² Also, macroeconomic instability influences the ways in which older Americans leave the labor force, including the prevalence of bridge and reentry jobs.¹³ If planned retirement income becomes insufficient, a return to the labor force may be the only choice for retirees to maintain their standard of living.

LOOKING AHEAD

Will retirement age continue to increase? Or will retirement trends return to the previously observed declining patterns? Similarly, will these complex transitions out of the labor market continue to be observed?

It is likely that Americans will continue to be highly educated and lead long lives. It is unlikely, given ever increasing health care costs, that generous post-retirement health benefits will return. Concerns about the future viability of the Social Security program suggest that future changes will be focused on decreasing or further delaying benefits, not on increasing them. In addition, households in the future will be less financially prepared for retirement than those in the past. This new environment and the aggregated changes seem persistent over the foreseeable future.

What is not clear on the horizon of older workers' labor force transitions from work to retirement are the complex dynamics underlying their connections to work. Many of these patterns are still in flux, however, and studies of retirement patterns will be a fruitful area of research for years to come. Likewise, policymakers must ensure that policies are in place to safeguard an older workforce and protect the economy as a whole.

¹ OASDI Trustees Report, 2016. Retrieved from <https://www.ssa.gov/OACT/TR/2016>.

² These definitions are taken from different sources mentioned in this document. Definitions are generic and do not reflect the empirical detail and variation in each study.

³ Helman, Ruth, Craig Copeland, Jack VanDerhei. (2015). "The 2015 Retirement Confidence Survey: Having a Retirement Savings Plan a Key Factor in Americans' Retirement Confidence." EBRI Issue Brief No. 413. Washington, DC: Employee Benefit Research Institute.

⁴ Kreisberg, Nicole. 2015. "New Careers for Older Workers." Great Barrington, MA: American Institute for Economic Research.

⁵ Gorodnichenko, Yuriy, Jae Song, and Dmitriy Stolyarov. 2013. "Macroeconomic Determinants of Retirement Timing." Working Paper No. 2013-281. Ann Arbor: University of Michigan Retirement Research Center. NBER Working Paper No. 19638.

⁶ Hipple, Steven F. 2010. "Self-Employment in the United States." *Monthly Labor Review* 133(9): 17-32.

⁷ Cahill, Kevin E., and Joseph F. Quinn. 2014. "A Balanced Look at Self-Employment Transitions Later in Life." *Public Policy & Aging Report*, 24(4): 134-140.

⁸ Giandrea, Michael D., Kevin E. Cahill, and Joseph F. Quinn. 2010. "The Role of Re-Entry in the Retirement Process." BLS Working Paper No. 439. Washington, DC: Bureau of Labor Statistics.

⁹ Maestas, Nicole. 2010. "Back to Work: Expectations and Realizations of Work after Retirement." *Journal of Human Resources*, 45(3): 718-748.

¹⁰ Brown, Melissa, Kerstin Aumann, Marcie Pitt-Catsouphes, Ellen Galinsky, and James T. Bond. 2010. *Working in Retirement: A 21st Century Phenomenon*. New York: Family and Work Institute.

¹¹ Johnson, Richard W. 2011. "Phased Retirement and Workplace Flexibility for Older Adults: Opportunities and Challenges." *Annals of the American Academy of Political and Social Science* 638(1): 68-85.

¹² Cahill, Kevin E., Michael D. Giandrea, and Joseph F. Quinn. 2011. "Reentering the Labor Force After Retirement." *Monthly Labor Review*, 124(6) (June)., and Cahill, Kevin E., Michael D. Giandrea, and Joseph F. Quinn. 2013b. "New Evidence on Self-Employment Transitions Among Older Americans with Career Jobs." BLS Working Paper 463. Washington, DC: U.S. Bureau of Labor Statistics.

¹³ Gorodnichenko, Yuriy, Jae Song, and Dmitriy Stolyarov. 2013. "Macroeconomic Determinants of Retirement Timing." Working Paper No. 2013-281. Ann Arbor: University of Michigan Retirement Research Center. NBER Working Paper No. 19638.