

Retirement Trends and Patterns in the 1990s:
The End of an Era?¹

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One of the most remarkable demographic changes in the United States during the past half-century has been the dramatic decline in the labor force participation rates of older men -- the well-known early retirement trend. In 1950, nearly three-quarters of all 65 year old men were in the labor force; by 1985, less than one-third were. At age 62, the rates for men were near 80 percent in both 1950 and 1960. After 1961, when men first became eligible for Social Security benefits at age 62, the age-62 participation rate began a steady decline to near 50 percent by the mid-1980s. At age 70, the rates declined from 50 percent in 1950 to only 16 percent in 1985. Similar trends are found for other ages as well (Burkhauser and Quinn 1997; table 1).

But equally remarkable has been the sudden demise of these long-run trends in the mid-1980s. Male participation rates have flattened and perhaps even turned around since 1985. The era of earlier and earlier retirement seems to have come to an abrupt halt. These changes are consistent with important policy initiatives that increased the options available to older workers and altered the relative attractiveness of work and retirement, and have been assisted by the strong macroeconomic performance of the American economy.

The purpose of this article is threefold: to document the dramatic change in retirement trends that occurred in the mid-1980s, to mention some factors that may have contributed to this change, and finally, to discuss some preliminary research on the nature of retirement patterns in the 1990s -- the exit routes that older Americans choose between their career jobs and complete labor force withdrawal.

Retirement trends, past and present: Figure 1 shows labor force participation rates for four age categories of older American men -- aged 55 to 59, 60 to 64, 65 to 69 and 70 and older -- from 1964 through the present (1996). For each group, I also show the time trend of the rates from 1964 through 1985 (a regression with only a constant and time), as well as the linear extrapolation of that pre-1985 trend from 1986 through 1996. The results of this simple exercise are striking, and can be seen in two ways. Ignoring the regression lines, one can see the flattening (and recent reversal?) of the long term trends. With the regression line, the annual differences between the extrapolated earlier trend and the actual labor supply behavior of these men can be seen clearly. The early retirement trend among older American men certainly appears to be over.

The retirement trends of American women have been complicated by a second factor -- the equally dramatic increases in the labor force participation of (primarily married) women during the postwar period. Among older women, these two trends have largely offset each other. As seen in Figure 2, from 1964 through 1985, there was a modest increase in the participation rates of women aged 55 to 59, and modest declines among those aged 60 and older. Since 1985, however, the change relative to the prior trend is qualitatively the same as it is for men, as seen in the comparison of the actual to the extrapolated rates. Older Americans, both men and women, are working much more now than the pre-1985 retirement trends would have predicted.

Retirement influences, past and present: An individual's retirement decision is complex, with many interrelated determinants, including health, family considerations, employment options, pension eligibility, health insurance status and personal preferences. One contribution of economists to the vast research literature on retirement has been to analyze the nature, magnitude and importance of financial factors, including the subtle but effective incentives to retire that are imbedded in many of our public and private retirement systems. Defined-benefit pension calculation rules can be crafted in a such way that they penalize workers who stay on the job too long, by lowering the expected lifetime benefits that workers can expect

after an additional year of work. (Basically, the pension benefits foregone during an additional year on the job are not fully made up by increases in benefits in the future. As a result, pension wealth (the present discounted value of the stream of expected lifetime benefits) declines if one stays too long on the job, and one's true compensation for the year is lower than the paycheck by the amount of the wealth loss -- a surreptitious but legal pay cut.²)

Both Social Security (for all at age 65, and for some earlier than that) and many defined-benefit employer pension plans contain these work disincentives. In many cases, the financial incentives are large, and considerable econometric evidence indicates that they do influence retirement decisions. An individual's probability of job departure increases with the size the financial incentive to leave (or, equivalently, the financial penalty to stay). These retirement carrots used to be supplemented by a much less subtle stick -- the prevalence of mandatory retirement provisions that once covered about half of all American workers.

What is different now? Many things, the net result of which is a much more neutral or even pro-work environment for older Americans. First of all, the earliest allowable age of mandatory retirement was increased from 65 to 70 in 1978, and then, in 1986, the concept was outlawed entirely for the vast majority of American workers. This increased the options available to some workers, and also sent an important message to society. (Nonetheless, the net effect of this policy change on retirement patterns has probably been modest, since many financial incentives to retire -- the carrots -- remained.³)

In addition, 1983 amendments to the Social Security Act began making work at later ages more attractive. The amount of income a recipient could earn before losing Social Security benefits was indexed to wage growth, and higher exempt amounts were introduced for those aged 65 to 69. The earnings test was eliminated altogether for those aged 70 and older; it had been age 72. In 1990, recipients aged 65 to 69 had the penalty for each dollar earned over the exempt amount reduced from 50 to 33 cents. Congress recently legislated a dramatic increase in the exempt amount for those 65 to 69, from \$13,500 (in 1997) to \$30,000 (by 2002).

Social Security is also changing the financial rewards for those who delay benefit receipt past age 65. The delayed retirement credit is the percentage increase in all subsequent benefits enjoyed by a potential recipient who delays receipt by one year. This credit, which was once 1 percent per year of delay, is being increased from 3 to 8 percent per year between 1990 and 2010. Eight percent is close to actuarially fair for the average worker, which means that the total value of expected Social Security benefits will no longer decline for those who work beyond age 65. The benefits foregone will be repaid by the higher benefits later. Social Security is becoming age-neutral.

Another important change will occur early next century. The normal age of eligibility for Social Security benefits (age 65 since the creation of the program 60 years ago) will be increased to 66 between 2003 and 2008 and then from 66 to 67 between 2021 and 2026. (Many analysts have suggested that the 12-year hiatus be eliminated.) Although these changes are really no different from across-the-board benefit cuts (waiting longer for the same benefit is the same as getting a smaller benefit at any given age), they send an important societal message about the appropriate age for retirement.

In the private sector, there has been a gradual shift from defined-benefit to defined-contribution employer pension coverage. Defined-contribution plans (like IRAs and 401(k)s) resemble savings accounts (but with significant tax advantages), and have none of the age-specific work disincentives that many of the more traditional defined-benefit plans have. They are by their very nature age-neutral; an employer cannot extract money from the account of an employee who continues to work. If defined-benefit plans continue to decline in importance, so will the impact of pension incentives on the timing of retirement.

The factors above primarily influence labor supply -- the willingness of older Americans to work. The economy has cooperated recently to maintain high levels of labor demand. Aggregate unemployment rates declined from near 10 percent in 1982 and 1983 to near 5 percent in 1989, and, following a brief recession in the early 1990s, have now dropped under 5 percent

for the first time since 1973. Some of what looks like a new trend may in fact be the result of cyclical macroeconomic factors. Time will tell.

Of course, correlation does not imply causation, and the impacts of macroeconomic performance, specific policy initiatives and other factors have not been disentangled. The point here is that retirement trends have been very different over the past 10 years, and the differences observed are consistent with the changes in economic incentives and signals that society has sent. The same incentives that worked so effectively to induce workers out of the labor market in the 1960s and 1970s can also be used to induce them to stay.

Retirement patterns, past and present: The labor force participation statistics discussed above imply a very dichotomous view of the retirement process. One is either in the labor force (employed or actively looking for work) or not. This is one definition of retirement, but not a very sophisticated one.

Considerable research over the past two decades (much of it based on data from the 1970s) has established that many Americans do not retire in a dichotomous fashion, moving directly from a full-time career job to complete labor force withdrawal. Retirement is best viewed as a process, not as a single event. Many workers leave the labor market in a more gradual fashion, often utilizing "bridge jobs" or periods of partial retirement on the way out.

Data from the 1969 - 1979 Retirement History Study (RHS) have shown that many older Americans did not leave full-time career jobs and the labor force at the same time.⁴ Among wage and salary workers, more than a quarter did something else. The vast majority of them found new jobs, often part-time and sometimes self-employed, while only a few (disproportionately women) were able to drop to part time while staying on their career jobs. Among the self-employed, who on average retire later than wage and salary workers do, only half went directly from their full-time career work to complete retirement. Those who did not were evenly split between continued part-time employment on their career jobs (an option rarely found in the wage and salary sector) and part-time or full-time work on a new job.

This earlier literature established that partial or gradual retirement was an important part of the retirement process in the 1970s, and that the traditional dichotomous view of retirement was inadequate. But what has happened in the meantime? Christopher Ruhm (1995) used data from a 1989 Harris poll of about 3,000 older Americans to compare men aged 58-63 in 1989 with men the same age in the RHS in 1969. Of course, he found much lower employment rates in 1989 than 2 decades earlier. But he continued to find substantial transitional employment, with about a third of the 58-63 year old men who were employed in 1989 working on post-career jobs.

A new and exciting data set, the Health and Retirement Survey, has allowed us to update our knowledge of retirement patterns into the 1990s. The initial wave of the HRS sampled over 12,000 men and women in about 8,000 households. The age-eligible respondents were all aged 51-61 in 1992, but their spouses could be older or younger. The HRS contains detailed information on each individual's demographic background, health and disability status, family structure, current, past and prior employment, retirement plans (for those still working), health and life insurance coverage, housing status, income and wealth. Subsequent interviews are occurring at 2-year intervals. The research summarized below utilizes the first two waves; the third wave (from 1996) is now available.⁵

The HRS data confirm that gradual retirement remains an important phenomenon in America. I have focused on a specific issue -- the nature of the departure from a career job, defined as a full-time job held for at least 10 years. I have concentrated on only those in the HRS who appear in both of the first two waves (1992 and 1994) and who have had some work experience after age 49 -- about 4,400 men and 3,800 women.

In 1994, about 70 percent of these men were still working -- about 50 percent were still on a career job (and we will have to wait for subsequent waves to see how they retire) and 20 percent were already on a bridge job (either a part-time job, or a full-time job that will last less than 10 years even if the individual remains on it until age 62) -- and the other 30 percent were no longer working.⁶ When we look at the previous employment of the men on bridge jobs, we find that most (about 60 percent) were working full time before that. When we look back in time at the 30

percent of the men no longer working, two-thirds left directly from a full-time career job (the old stereotypical retirement pattern, labor force withdrawal in one move), while one-third last worked on a bridge job before leaving the labor force.

The experiences of the women in the sample are different. Although the proportion not working is identical to that of the men (30 percent; remember, these are just the women with work experience after age 49), those employed were more likely to be working on a bridge job (30 percent were, compared to 20 percent of the men). In addition, the 30 percent not working in 1994 were much more likely to have last worked on a bridge job; two-thirds did, compared to only one-third of the men.

How much bridge job activity do we observe in this 1994 snapshot? Among those who are no longer working, we see a great deal -- about one-third of the men and two-thirds of the women last worked on a bridge job. Even among those still working there is considerable bridge job activity. Assuming that workers younger than 62 continue working on their current jobs until age 62, over a third of the employed sample (29 percent of the men and 43 percent of the women) are currently working on part time job or one likely to last less than 10 years.

One reasonable objection to equating bridge jobs with retirement transitions is that some workers may have a life-time of part-time or short duration jobs. If so, is there any reason to believe that the current bridge job is necessarily a step toward retirement? (For a 35 year old, it certainly would not be; for some 55 year olds, it may not be either.) To focus on those for whom a bridge job does represent a change, I also analyzed the subsample for whom I could identify a full-time career job, whenever it was, and then observed the transition from that job.

Over half (56 percent) of the men in this subsample were still employed on full-time career jobs in 1994. One quarter had moved out of the labor force directly from their career jobs, and about one-fifth percent had moved to what is likely to be a bridge job. Of the men who have already left full-time status on their career jobs (the quarter and the fifth), over 40 percent moved to a bridge job rather than directly out of the labor force.

Transition data for the career women look very similar to those of the career men. Although these women are less likely to be out of the labor force than the men (due in part to the fact that they are a bit younger, on average), a similar proportion of those who have left full-time career status moved to another job rather than retired completely (47 percent, compared to 43 percent for the men). In general, the job exit patterns of career men and women look much more similar than the patterns of all men and women do.

The HRS data also revealed switches between wage and salary and self-employment status late in life. Among the career wage and salary workers who switched jobs, nearly a quarter switched to self-employment. Among the career self-employed who switched jobs, over half moved to wage and salary work. Although the proportion of self-employed switchers moving to wage and salary jobs is higher than the reverse, there is still a net increase in the number of self-employed, because of the much larger number of initial career wage and salary workers. This is one reason, along with the later retirement of career self-employed, that the importance of self-employment among those in the labor market increases with age.

By following those who did move from full-time career to bridge jobs, one can see how the two jobs compare. Over half of the bridge jobs were part time (less than 1600 hours per year), and the proportions were similar for men and women. Bridge jobs generally represent a movement down the socio-economic ladder, from white collar to blue collar, or from skilled to less skilled. Bridge jobs generally pay less, and are less likely to include pension and health insurance coverage. These differences do not necessarily imply a problem. Many job changers may be voluntarily trading compensation (salary and fringe benefits) for a change of pace, for more pleasant job characteristics or for hours flexibility not available on their career jobs.

Conclusion: The first two waves of the Health and Retirement Survey suggest that bridge job activity will be an important part of the retirement process for a significant number of older Americans in the 1990s. Bridge jobs are observed among those who have already stopped working and among those still employed. The exact magnitude of the phenomenon must await the further aging of these cohorts, since a majority of the HRS workers were on still on their

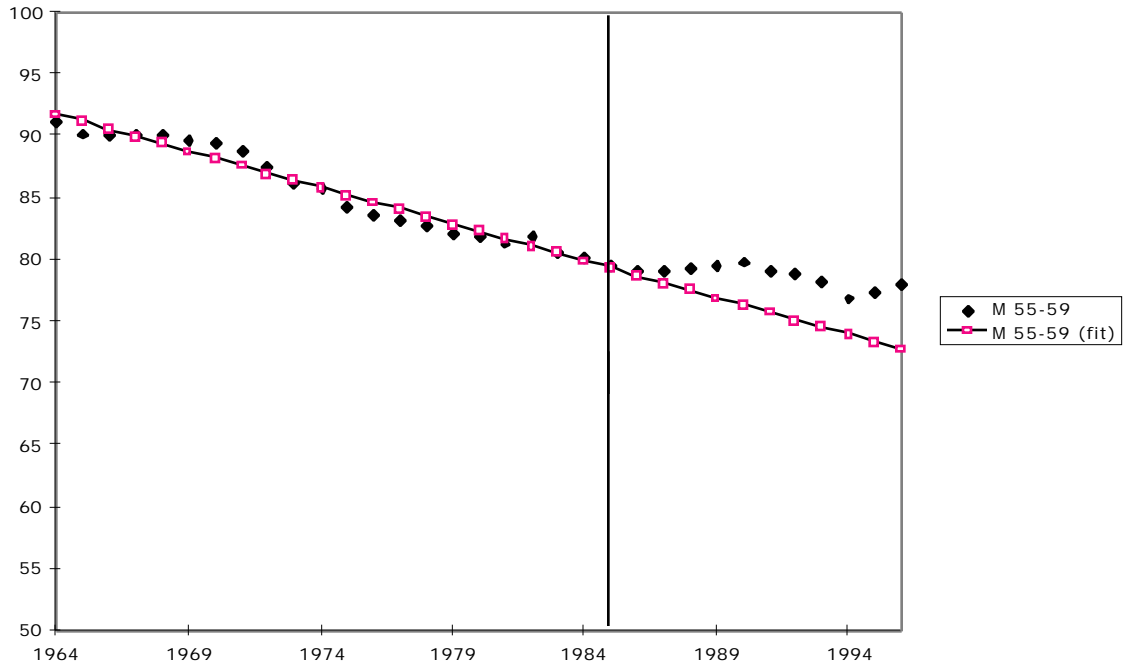
career jobs in 1994, and those who had departed were not a random subset of the population. But these preliminary findings make clear that retirement patterns in America are rich and varied. Although many workers do leave their career jobs and the labor market simultaneously, many others utilize bridge jobs and second careers on the way out -- often part-time and sometimes self-employed -- in order to retire more gradually.

The importance of gradual retirement is likely increase in the future, as the population continues to age and as life expectancies continue to increase. As mentioned above, many public policies are changing to encourage more work by older Americans. Mandatory retirement has been eliminated, Social Security work disincentives are being reduced, and the normal retirement age for Social Security is being increased. At the same time, however, many (defined-benefit) employer pension plans continue to penalize work, in order to induce departure at particular ages. This contradictory combination of public and private incentives (encouraging work by older American, but not on their career jobs) may make gradual retirement via second careers even more prevalent than it is today, as rational workers leave their career jobs when pension incentives or personal preferences dictate, but continue to work with another employer or on their own.

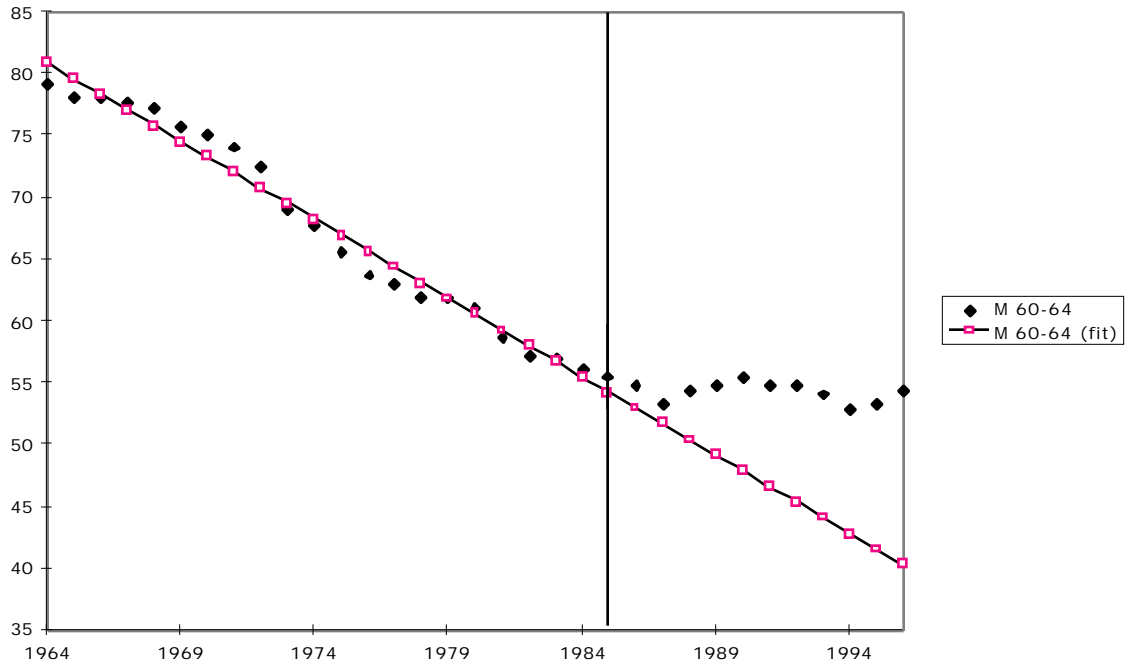
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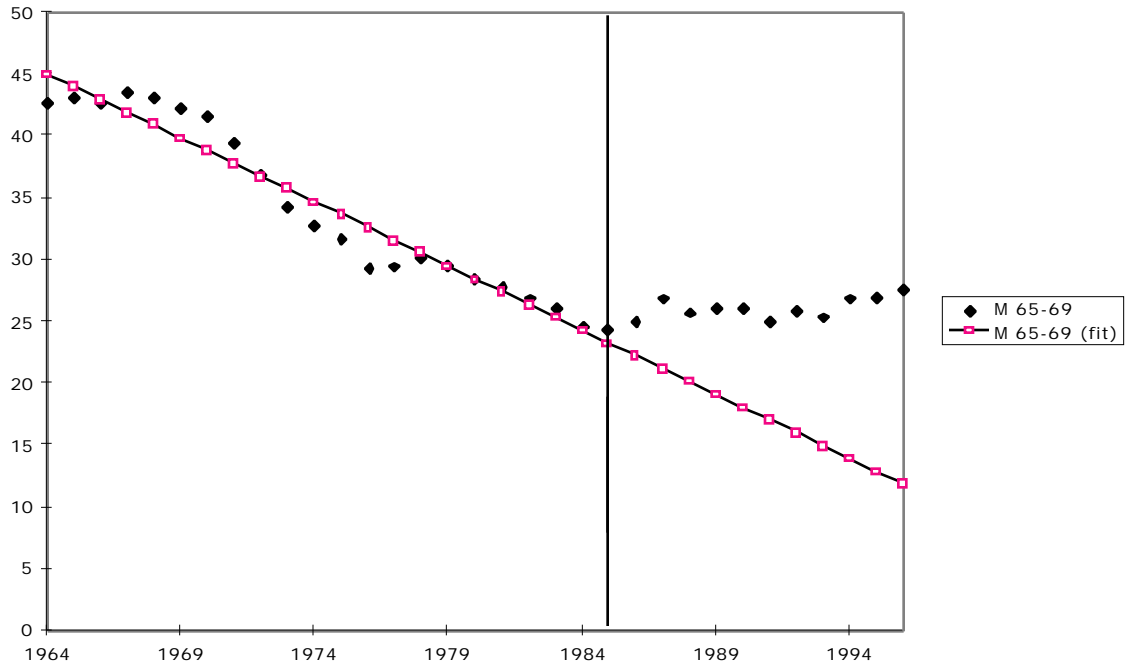
Labor Force Participation Rates
Males, Age 55-59



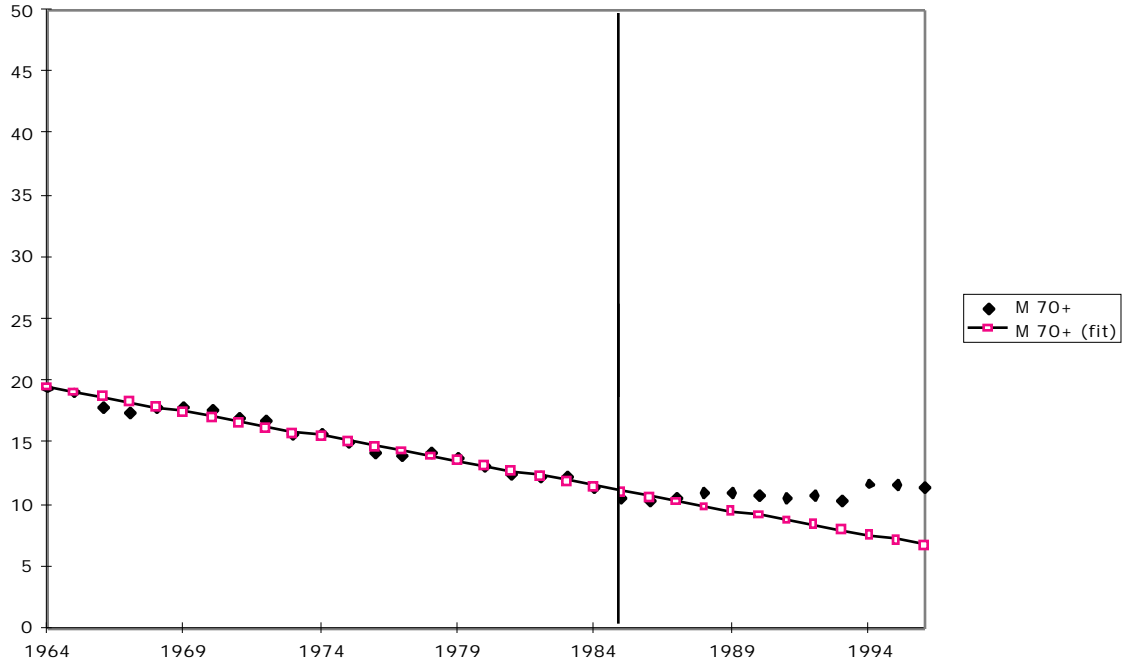
Labor Force Participation Rates
Males, Age 60-64



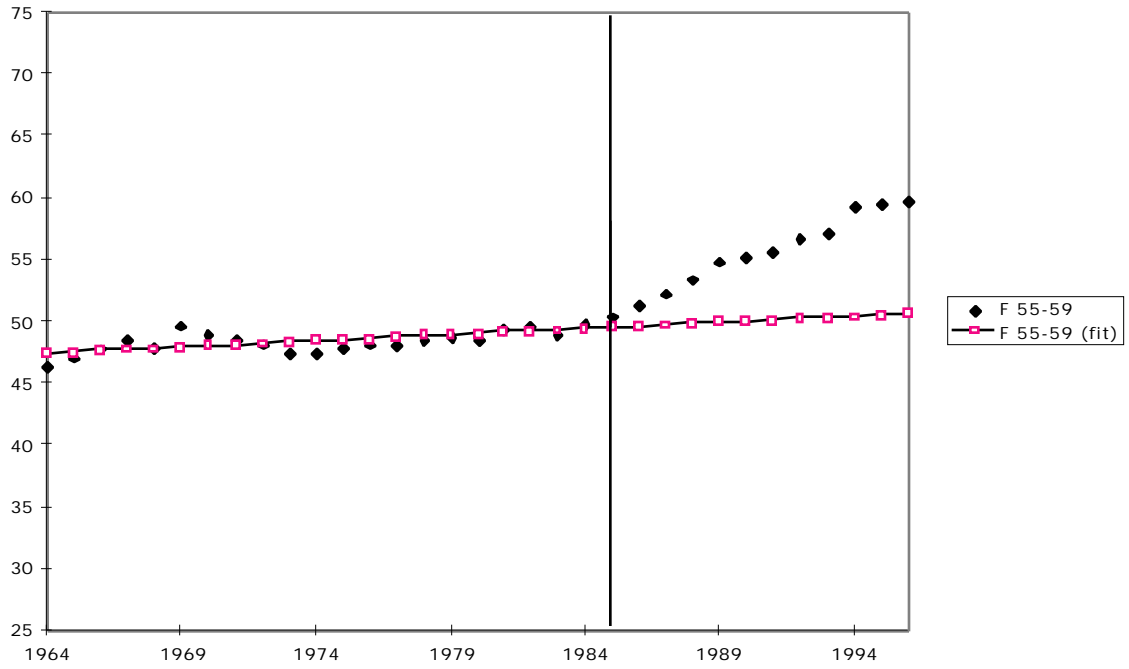
Labor Force Participation Rates
Males, Age 65-69



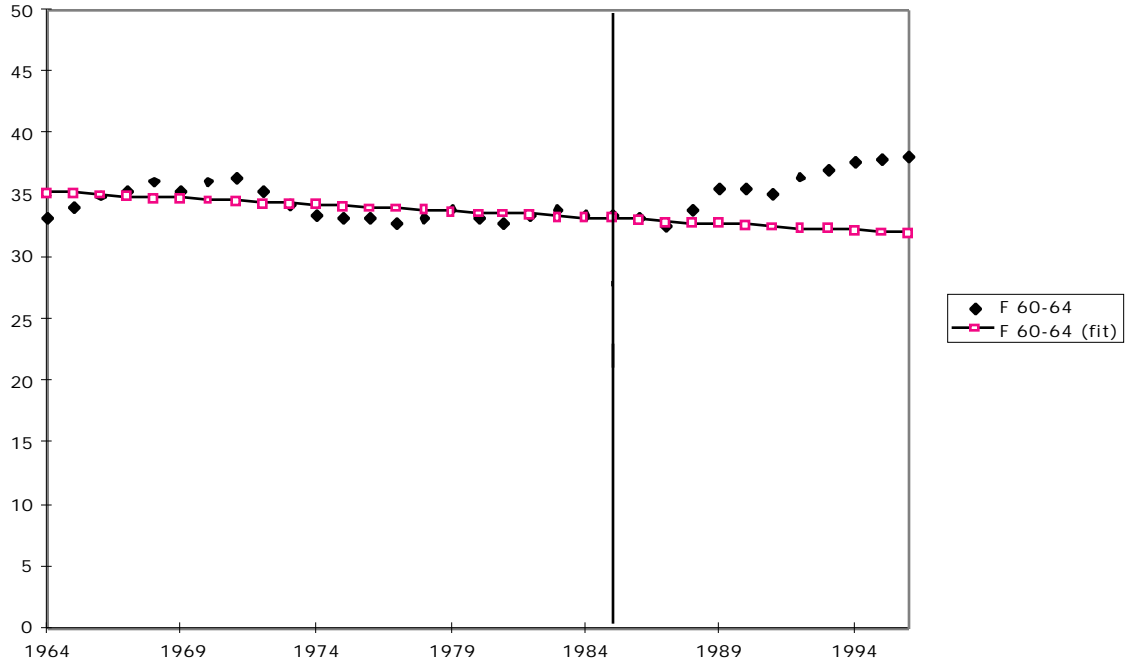
Labor Force Participation Rates
Males, Age 70+



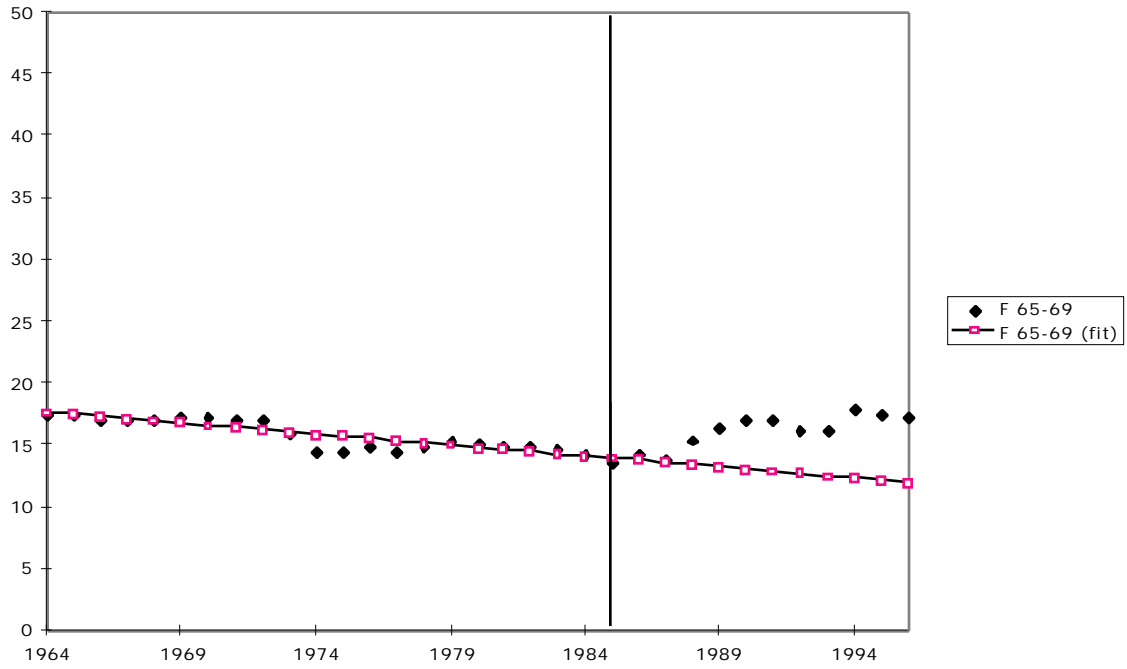
Labor Force Participation Rates
Females, Age 55-59



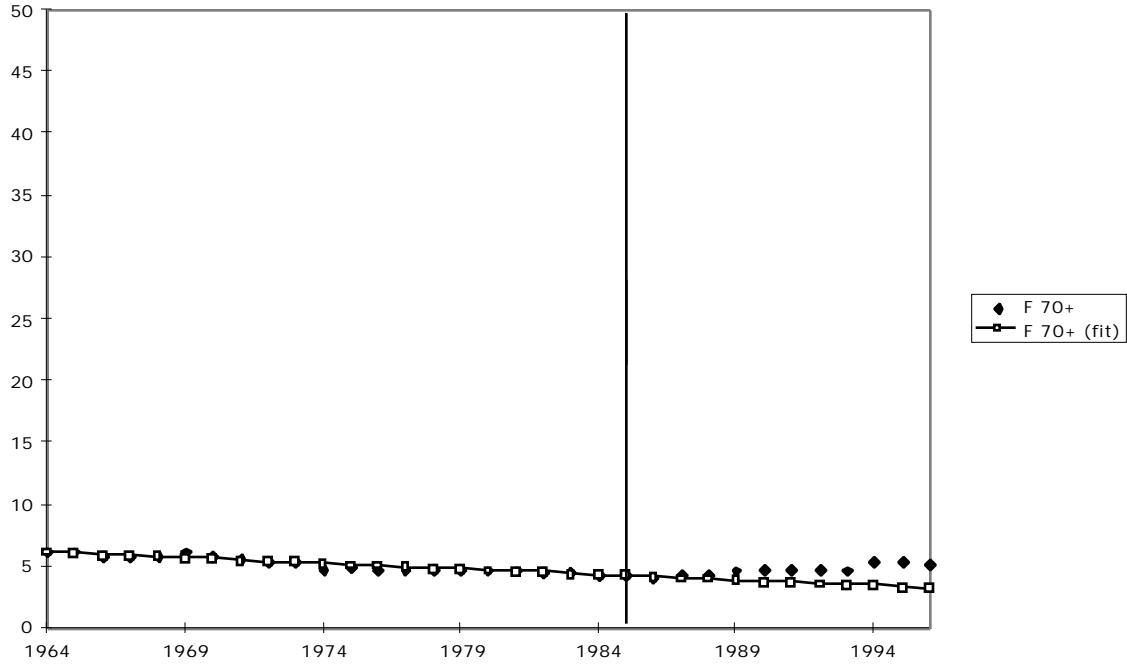
Labor Force Participation Rates
Females, Age 60-64



Labor Force Participation Rates
Females, Age 65-69



Labor Force Participation Rates
Females, Age 70+



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² See Quadagno and Quinn (1997) for more details.

³ See Burkhauser and Quinn (1983) for a discussion of the impact of mandatory retirement provisions on retirement decisions.

⁴ This brief summary is taken from Quinn, Burkhauser and Myers (1990), who review much of the retirement literature from the Retirement History Study.

⁵ A special issue of the Journal of Human Resources (Supplement 1995) includes an overview of the HRS by Thomas Juster and Richard Suzman, and a number of articles on data quality and early results.

⁶ These results are taken from Quinn (1997).