

New Paths to Retirement

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Joseph F. Quinn
Department of Economics
Boston College
Chestnut Hill, MA 02167

phone: (617) 552-4623
fax: (617) 552-2308
joseph.quinn@bc.edu

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ABSTRACT

Labor force participation rates among older Americans are no longer declining. Many more older men and women are working today than pre-1985 trends would have predicted. In this paper, we analyze retirement patterns in the 1990s, using the first three waves of the new Health and Retirement Study. We find that many Americans withdraw from the labor market gradually, often utilizing bridge jobs between full-time career employment and complete labor force withdrawal. These patterns of labor force withdrawal will become more important to analysts and policy-makers in the future as the baby-boom generation approaches their retirement years.

Until recently, one of the most important and intriguing phenomena in American labor markets was the post-war early retirement trend -- the fact that older men were leaving the labor force earlier and earlier. In 1950, 72 percent of all 65-year old men were in the labor force, employed or actively looking for work. As seen in table 1, this percentage fell steadily and precipitously over the next three-and-a-half decades, reaching about 30 percent by 1985 -- a decline of well more than a half. Even larger percentage declines were observed for men older

---Table 1 about here---

than 65; for example, from 58 to 20 percent for those aged 68, from 50 to 16 percent at age 70 and from 39 to 15 percent at age 72. The decline is also unmistakable at age 62, although it did not begin until the 1960s, when the earliest age of entitlement for Social Security old-age benefits was lowered from 65 to 62 for men. Even below the age of Social Security eligibility, significant declines occurred; for example, from 85 to 71 percent at age 60, and from 91 to 84 percent at age 55.

Economists and others have spent considerable effort trying to explain these dramatic changes. Analysts have pointed to the increasing wealth of subsequent cohorts of Americans, and to the fact that leisure (at the margin, at least) is a normal good. Earlier retirement is one of the ways that Americans have chosen to "spend" their increased wealth. Others focused more specifically on the Social Security program, whose increased coverage and generosity over time bestowed large windfall gains on past cohorts of retirees. Economists also examined the details of Social Security's benefit calculation rules, and demonstrated that many Americans faced substantial financial penalties if they remained in the labor force too long -- certainly beyond age 65, and for some, even earlier (Quadagno and Quinn, 1997). Benefits foregone because of continued work were never fully made up later.

Employer policies reinforced these trends. Mandatory retirement, which once covered about half of all American workers, forced departure from the firm (although not from the labor force), usually at age 65. Many defined-benefit employer pensions, the dominant form of coverage for those participating in pension plans in prior decades, contained the same type of work disincentives that Social Security did. Those who stayed on the job too long could expect lower lifetime benefits (higher benefits per year, but for fewer years, and not enough higher to compensate for the benefits initially foregone) than those who left earlier. These three factors -- mandatory retirement, the financial incentives imbedded in Social Security and many employer pension rules, and increasing levels of wealth -- combined to induce older Americans out of the labor force at earlier and earlier ages. Evidence suggests that most of these retirements were voluntary. Given the options they faced, most workers chose to leave their jobs when they did.

Early Retirement Trends - the End of an Era?

Since 1985, however, the trends have looked very different. Figure 1 (borrowed from Quinn (1997a) and updated) shows actual labor participation rates for the years 1964 through

---Figure 1 about here---

1997, for men aged 60 to 64 (traditionally, earlier retirement years) and 65 to 69 (traditional retirement years), along with a linear extrapolation of the trends that existed between 1964 and 1985.¹ The male participation rates have flattened out and have actually increased in recent years. The same phenomena can be observed at younger (55 to 59) and older (70 and older) ages (*ibid.*). The post-war early retirement trend seems to have come to an abrupt halt in the mid-1980s. Many more older men are working today than the pre-1985 trends would have predicted.²

The labor force participation story of older American women is different in one regard, but similar in another. Because the early retirement trend was accompanied by another very important post-war phenomenon, the increasing labor force participation rates of American women, especially married women, the participation rates of older women did not exhibit the dramatic declines that men's rates did. For women, the two trends have tended to offset each

other late in the life cycle. At younger ages, female participation rates have risen substantially. At older ages, however, very gentle increases (e.g., at ages 55 to 59) or declines (at ages 60 and older) are observed.

What is similar to the male phenomenon is the post-1985 experience, as seen in figure 2. For both of the age-groups shown (ages 55 to 59 and 60 to 64), women's labor force

---Figure 2 about here---

participation rates since 1985 have been much higher than the pre-1985 trends would have suggested. The same is true, although less dramatically, for women aged 65 to 69 and 70 or older (*ibid.*). The similarity of the break points in the male and female time series is striking. Something is very different today than it was a decade-and-a-half ago.

I believe that these changes are consistent with important policy initiatives that have increased the options available to older workers, and thereby altered the relative attractiveness of work and retirement. As a result, I have argued, the era of earlier and earlier retirement is over, at least for the near future.

What changes have occurred to make the environment more encouraging (or at least less discouraging) toward work at older ages? First, mandatory retirement has virtually been eliminated. The earliest allowable age of mandatory retirement was first increased from 65 to 70 in 1978, and then was outlawed entirely for the vast majority of American workers in 1986. This increased the options open to those who wanted to work beyond their mandatory retirement ages and also sent an important message to society about the appropriate age to retire.³

In addition, Social Security rules have changed and continue to do so, making work more attractive.⁴ The amount of income a recipient can earn before losing any Social Security benefits has been indexed to wage growth since 1975, and higher exempt amounts were introduced for those aged 65 to 71 in 1978. In 1983, the age at which the earnings test no longer applied (and recipients could earn any amount without loss of benefits) was decreased from 72 to 70, and in 1990, the benefit loss for each dollar earned over the exempt amount reduced from 50 to 33 cents for recipients aged 65 to 69. In 1996, Congress legislated a set of increases in the exempt

amount for recipients aged 65 to 69 far in excess of the rate of wage growth, and by 2002 they will be able to earn up to \$30,000 per year without loss of benefits.

Social Security is also changing the financial rewards for those who delay benefit receipt past the normal retirement age, currently 65. The delayed retirement credit is the increase in all subsequent benefits enjoyed by a potential recipient who delays receipt by one year. This credit was increased from one percent per year of delay to three percent in 1977, and is now being increased from three to eight percent (by 2010) per year of delay. Eight percent is close to actuarially fair for the average worker, which means that the present discounted value of expected Social Security benefits will not decline because of work beyond age 65.⁵ Instead of penalizing work at older ages, Social Security is becoming age-neutral.

Another important change will begin soon. The normal age of eligibility for Social Security benefits -- the age at which one receives 100 percent of one's Primary Insurance Amount -- has been age 65 since the creation of the program 60 years ago. Between the years 2003 and 2008, however, it will be increased from 65 to 66, and then increased further from 66 to 67 between 2021 and 2026. Although these changes are almost identical to across-the-board benefit cuts, they will also send an important societal message about the appropriate age for retirement.⁶

Importance changes have also occurred in the private sector. There has been a shift in the relative importance of defined-benefit and defined-contribution pension plans.⁷ Defined-contribution plans have none of the age-specific work disincentives that defined-benefit plans often contain. By their very nature they are age-neutral. As defined-benefit plans decline in relative importance, so does their ability to discourage work and encourage retirement.

The counter-argument to our "end of an era" conjecture is that we are observing a temporary hiatus in the long-run decline in retirement ages -- a decline made inevitable by the increasing wealth of the nation and the desire of older Americans to stop working. When the Social Security transitions mentioned above are complete, it is argued, the participation rate declines will resume. Buttressing this point of view is the fact that the American economy has

performed beautifully over the last decade. The overall unemployment rate declined from about 10 percent in 1983 to near 5 percent in 1989, and, following a brief recession in the early 1990s, has now fallen below 5 percent for the first time since 1973. This creates employment options for older workers who want to stay employed. Some of what looks like a new labor force participation trend may actually be the result of strong, but cyclical, labor demand. If so, the long-run declines may resume when the economy falters.⁸

Although macroeconomic effects are undoubtedly important, I believe that there is also a new attitude toward work late in life, encouraged by public policy initiatives, shifts from manufacturing to less arduous service occupations, and the realization that many 62-year olds today can anticipate two decades or more of healthy activity ahead. Although many may not want to continue full-time on their career jobs, many do want to remain active in the labor market, perhaps part time, perhaps self-employed, perhaps in an entirely new line of work.

Survey evidence suggests that many older Americans would like to work more. In 1989, the Commonwealth Fund sponsored a survey of 3,500 older Americans, men aged 55 to 64 and women aged 50 to 59. Of those no longer employed, between 14 and 25 percent (depending on how strict one made the criteria for "wanting to work") suggested that they preferred to be working if a suitable job were available (McNaught, Barth and Henderson 1989). Though far from a majority of the retirees, this percentage did represent between 1 and 2 million potential workers. Quinn and Burkhauser (1994) analyzed the subset of the sample who were still working in 1989, and found that a minority -- another million people -- said that they expected to stop work before they really wanted to. One interpretation of this response is that these individuals expected to stop given the financial incentives (from Social Security and employer pensions) that they faced, but would be happy to continue working in the absence of these work disincentives.

How Do Older Americans Leave the Labor Force?

Considerable research has shown that the retirement patterns of American workers are much more complicated and varied than is suggested by the stereotypical retirement -- a one-step move directly from a career job to complete labor force withdrawal.⁹ Although the latter is still common, many older Americans retire gradually and in stages, utilizing bridge jobs on the way out. Retirement, we have learned, should be viewed as a process, not as a single event. Labor market departure resembles initial labor market entrance (with some experimentation before one settles on a career job) than we once thought.

Much of our knowledge about recent retirement patterns in the United States comes from the Social Security Administration's Retirement History Survey (RHS), an extensive longitudinal study of older Americans conducted during the 1970s. Over 11,000 men and (non-married) women aged 58 to 63 were interviewed in 1969, and then re-interviewed every other year through 1979. Although research utilizing these data has provided great insight, the RHS sample is now outdated and fresh analysis is required.

The purpose of this paper is to update our knowledge of the retirement process in the United States, by analyzing a sample of older Americans in the 1990s. The data set that makes this possible is the offspring of the RHS, the new and on-going Health and Retirement Survey.¹⁰

Data and Sample.

The 1990s Health and Retirement Survey (HRS) represents a significant improvement over the 1970s RHS. The HRS is current and much more sophisticated, and, unlike the RHS, it includes married women as primary respondents. The initial wave of the HRS, in 1992, sampled over 12,000 men and women in about 8,000 households. The age-eligible respondents were all aged 51-61 in 1992, but 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.

In previous research, I have analyzed the first two waves of the HRS data, gathered in 1992 and 1994 (Quinn, 1997b). In 1994, the primary sample was aged 53 to 63, and many were still at work. In this paper, we add the wave III data from 1996, which has recently become available. The primary respondents are now aged 55 to 65, and more of them have crossed the important age 62 threshold.

The word retirement means many things to many people, and often creates more confusion than light. Some analysts equate retirement with complete labor withdrawal, while others would consider retired someone who was still working, but who had cut back significantly on hours worked late in life. Other researchers base retirement on the receipt of retirement benefits, from Social Security or an employer pension, regardless of labor force status, while others use responses to subjective questionnaire items -- the retired are those who call themselves retired.

Rather than enter this debate, I prefer to pose the question in a different way, and analyze how older Americans leave their full-time career jobs. As noted above, some go directly out of the labor force, in one move. Here, the timing of retirement is relatively unambiguous. But others, as we will see, exit more gradually, utilizing bridge jobs on the way out. When along this exit route an individual is first labeled "retired" is not of primary interest. Rather, the goal of this research is to document the nature of the labor force withdrawal process in the early- and mid-1990s. How important are bridge jobs to older Americans today? Do these jobs tend to be full time or part time? How do they compare to the individuals' career jobs? How important is self-employment in this process?

Since we are focusing on the transition from work, we have excluded from our research those respondents and spouses with no work experience after age 49 (who are disproportionately women) and we are left with a sample of nearly 8,000 individuals who appear in the first three waves of the HRS. This sample includes about 4,300 men and 3,700 women. In much of the analysis below, we slice the sample once more, concentrating only on those for whom we can identify a career job; that is, a full-time job that has lasted or is expected to last for at least 10 years. In this subsample are just over 5,800 respondents -- about 3,600 men and 2,200 women.

Retirement Patterns in the 1990s

Labor force status of the sample in 1996. As seen in table 2, 38 percent of the respondents in our HRS sample were no longer working at the time of the 1996 survey -- 36 percent of the men and 40 percent of the women.¹¹ By utilizing the longitudinal nature of the

---Table 2 about here---

dataset, we will be able to look back in time and ask how they stopped work. The other 62 percent were still working -- some still on full-time career jobs (and we will have to wait to see how they retire) and others on bridge jobs, often as part of the retirement process.

The employment rates of this sample have declined over time, as the individuals aged. In 1994, two years earlier, 70 percent of this sample was still working, compared to 62 percent in 1996, and in 1992, nearly 80 percent were employed. Each wave of the HRS will provide more insight into how people retire, since more respondents will have left the labor force.

The effect of age can also be seen in figure 3, which shows employment rates in 1996, by

---Figure 3 about here---

age and gender, for the individuals in our sample. Employment declines monotonically with age, for both men and women, and there are noticeable drops at ages 62 and 65, the ages of eligibility for early (actuarially reduced) and normal Social Security benefits, and for some employer pensions.

The importance of part-time work and self-employment both rise with age in the United States. In 1997, for example, over half (51 percent) of all American men aged 65 or older employed in nonagricultural industries worked part-time (fewer than 35 hours per week), compared to 17 percent of those 55 to 64 and only 11 percent of men aged 25 to 54 (U.S. Bureau of Labor Statistics (January 1998, table 22) and unpublished BLS statistics). Among employed women, part-time work is even more important than it is for men, but the age pattern is the same -- two-thirds of employed women aged 65 or older worked part time, as did one-third of those 55 to 64 but only 28 percent of those aged 25 to 54 (*ibid.*).

Nearly one-quarter (23 percent) of all working men aged 65 or older were self-employed in 1997, compared to 14 percent of men aged 55 to 64, and only 8 percent of those aged 25 to 54 (*ibid.*, table 15). Self-employment rises with age both because career self-employed retire later than wage-and-salary workers, and because, as we will see, some wage-and-salary workers switch to self-employment late in life. Among women, self-employment is less prevalent but it still rises with age, from six percent (ages 25 to 54) to nine percent (55 to 64) to 15 percent for employed women aged 65 or older (*ibid.*).

Figures 4 and 5 show the part-time and self-employed patterns for our HRS sample, by gender and age.¹² The patterns match those in the BLS statistics. The proportion of workers

---Figures 4 and 5 about here---

who are employed part time rises with age (figure 4), with dramatic jumps at ages 62 and 65, and is generally higher for women than for men. The proportion self-employed also rises with age for the men, with a noticeable jump at age 62, and is always higher for men than for women (figure 5). For the working women in our sample, there is little change in the percentage self-employed below age 62, and then a higher rate for those 62 and older.

A look back: how did the respondents get where they are? In Figures 6a and 6b, we show the current (1996) labor market status of the 8,000 men and women in our sample in more detail. We differentiate between those who are still on full-time career jobs and those who are on bridge jobs, and then look back in time to see how they got where they are. A "full-time career job" is defined here as one of at least 10 years duration on which the individual is working at least 1600 hours per year. A bridge job, therefore, could be either a part-time job or a full-time job of less than 10 years duration.

For those still working, the concept of job duration is a fluid one. Some full-time workers were on jobs with less than 10 years duration in 1996, but will have more than 10 years tenure by the time they leave. What looks like a bridge job in 1996 by our definition may turn out to be a career job when it is over. Rather than classify all these jobs with less than 10 years duration in 1996 as bridge jobs, as though all these workers were just about to leave, we assume that full-

time workers younger than 62 remain on their current jobs until age 62 and those still employed after age 62 remain until age 65.¹³ We then classify the 1996 jobs as either "career" or "bridge" depending on their (assumed) eventual tenure.

---Figures 6a and 6b about here---

Of the nearly 4,300 men in this sample, 40 percent were still working on career jobs in 1996 (see figure 6a). We will have to follow them through subsequent waves of the HRS to see how and when they retire. Thirty-six percent were not working at all (as noted in table 2), and nearly a quarter (23 percent) were working on what we define as a bridge job.¹⁴ Two-thirds of these bridge jobs were part time, and the remaining third were full-time jobs that are likely to end with less than 10 years duration.

How did the 36 percent of the male sample who had already stopped working by 1996 leave the labor market? As seen in figure 6a, nearly two-thirds left directly from a full-time career job (the stereotypical retirement pattern), while about 30 percent last worked on a bridge job before leaving the labor force. About half of these bridge jobs were part time (not shown), and the other half were full time, but of less than 10 years duration.

Nearly a quarter of these men were working on bridge jobs in 1996. Where did they come from? We looked at their prior jobs, and of those for whom we had good data, about two-thirds had held full-time career jobs before their bridge jobs (not shown on figure 6a), and appear to be utilizing bridge jobs on the way out of the labor force.

The experiences of the women in the sample were different, and bridge jobs appear to be more important (figure 6b). A slightly higher percentage of the women had already stopped working by 1996 (40 percent, compared to 36 percent for the men, despite the fact that the women are on average a bit younger), and of those still at work, a higher proportion of the women were still working on bridge jobs (44 versus 36 percent for the men).¹⁵ An even higher proportion of the women's bridge jobs were part-time rather than short-duration in nature (80 rather than 65 percent).

Of the women not working in 1996, nearly 60 percent (of those with good data on their last job) last worked on a bridge job, compared to only about 30 percent of the non-employed men. Again, women's bridge jobs were more likely to have been part-time rather than short duration work (not shown).

This snapshot reveals a considerable amount of bridge job activity among older Americans in the 1990s. Of those no longer employed, nearly half (44 percent - about 30 percent of the men and 60 percent of the women) last worked on a bridge job. Among those still working, between 35 percent (of the men) and 45 percent (of the women) were employed on what we define as a bridge job. These numbers will change as people retire, both because our assumptions about the timing of the departures of those still working on full-time jobs (but with less than 10 years tenure in 1996) may prove false, and also because we do not know how those still on full-time career jobs will exit.

As a likely lower bound on the importance of bridge job activity, let us assume that none of those still working on full-time career jobs in 1996 will utilize a bridge job on the way out -- an unlikely assumption. In that case, about one-third of the men (those on bridge jobs in 1996, plus those who already left the labor market via a bridge job) and nearly one-half of the women will change jobs between their last career job and complete labor force withdrawal.

The definition of a full-time career job adopted in this paper is arbitrary, as is any definition. The hours per year threshold (less than 1600) seems reasonable (less than 31 hours per week for 52 weeks, or 40 hours per week for less than 40 weeks), but some have argued that the 10 years duration we require is too much; that this definition treats as bridge jobs some experiences that really should be viewed as second (or third) careers. To test the sensitivity of our results, we also experimented with definitions using eight and five years duration, although the latter seems very short for a "career."

---Table 3 about here---

In table 3, we have recalculated, for each of the three tenure definitions,

- the percent working on a bridge job in 1996,
- the percent of those who were not working in 1996 whose last job was a bridge job, and
- our lower bound of the extent of bridge job activity (assuming that none of those still working on a career job will utilize a bridge job on the way out).

The definitions do make a difference, but the qualitative conclusions remain unchanged. Bridge job activity is an important part of the labor force withdrawal process in America. When we drop the tenure definition for a career job from 10 to eight years, the differences in the extent of bridge job activity is modest -- on the order of five percent (table 3). When we drop the definition to five years, the number of bridge jobs drops about 20 percent. But even under this severe definition, our lower bound estimates suggest that between a quarter (of the men) and 40 percent (of the women) -- compared to a third to a half percent under the 10 year definition -- pass through a bridge job late in life.

A look forward: how did those with career jobs leave them? In the discussion above, we are implicitly assuming that part-time or short duration jobs among older Americans indicate gradual or partial retirement. For some, this is true, but for others, it might not be. What about workers whose job histories consist only of what we call bridge jobs; that is, part-time or short-duration jobs? What is there to suggest that one we observe in 1996 indicates any more about retirement than the previous ones?

To focus on those for whom a part-time or short-duration job would represent a change in behavior, we concentrate here on just the subsample for whom we can identify a full-time career job. For each individual with work experience after age 49, we search in the dataset back in time, to see if we can identify a career job that meets our definition. We return to the original definition here -- more than 1600 hours per year, and at least 10 years duration. If we cannot find such a job, the person is dropped from this part of the analysis. If we do find one, we then proceed forward in time in the dataset to see how (if at all) the individual leaves that career job.

By searching the HRS information on the current, last (for those no longer working) and prior jobs of those with some work experience after age 49, we are able to identify a full-time career job for most of the men (84 percent) and for 60 percent of the women we analyzed above.¹⁶

---Figures 7a and 7b about here---

By gender. In figures 7a and 7b, we describe the retirement transitions of those men and women for whom we can identify a full-time career job. About 44 percent of these men were still working on their full-time career jobs (figure 7a), and we do not yet know when or how they will leave.¹⁷ About 28 percent moved out of employment directly from their career jobs, and a quarter moved to a bridge job.¹⁸ (Most of them were still on this bridge job in 1996; some had subsequently moved out of employment altogether.) Of the men who had already left their full-time career jobs and for whom we have good data, nearly half (47 percent) moved to a bridge job rather than directly out of employment.

The transition data for the full-time career women tell a similar story (figure 7b). Although these (slightly younger) women less likely to have left their career jobs than were the men, the proportion of those who have left who moved next to a bridge job rather than out of employment is almost identical to that of the men (49 versus 47). In general, the exit patterns of career men and career women look more similar than do those of men and women in general.¹⁹

By class of worker. Of the men and women with identified full-time career jobs, 13 percent were self-employed on those jobs. Prior research suggests that self-employed and wage-and-salary workers leave their career jobs in different ways, and that cross-overs between class of worker are common late in life (Quinn, Burkhauser and Myers 1991). The HRS data confirm both of these conclusions.

Because wage-and-salary workers constitute the majority of the sample, their transition patterns look like the patterns for the career group as a whole. Forty-six percent of these men and women (who are combined in figure 8a) were still on their career jobs in 1996, 38 percent were not working (some of whom had moved to and then out of a bridge job in the interim), and 16 percent were employed on a post-career bridge job.

---Figures 8a and 8b about here---

Of those who had left their career jobs by 1996, nearly half (44 percent) moved to bridge jobs. Of all those who did move to a bridge job (whether still on it or no longer working), nearly two-thirds moved from full-time to part-time status (not shown in figure 8) and nearly a quarter (23 percent) moved from the wage-and-salary world to self-employment. This is one of the reasons why self-employment is more prevalent among older workers than it is among the labor force in general. For some older Americans, self-employment provides the means for gradual retirement, with additional flexibility with respect to hours and type of work.

Among the career self-employed, in contrast, 77 percent were still working in 1996 (figure 8b), compared to only 62 percent of the wage-and-salary workers. The majority of the employed were still on their career jobs, but some had switched to bridge jobs. Of those who had switched, more than half (54 percent) moved from full-time to part-time status, and about a third switched from being self-employed to wage-and-salary work. Although the proportion of self-employed job switchers moving to a wage and salary job 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.

Comparisons Between Jobs Career and Bridge Jobs

In this section, we follow the transitions of those career employees who moved to bridge jobs (both those who were still on the bridge jobs in 1996 and those who had subsequently stopped working), and ask how the two jobs compare.²⁰ About 60 percent of these bridge jobs involved part-time work (see footnote 19), whereas all of the career jobs, by definition, were full time. In table 4, we categorize the jobs, career and bridge, in a rough socio-economic scale, by white collar/blue collar status and by skill level -- four cells in all. About three-quarters of those

---Table 4 about here---

who switched to bridge jobs stayed in the same cell. Among those who switched cells, however, there was a net movement down the ladder. About 70 percent of those who switched cells moved down the scale, and only 30 percent moved up. The largest increase occurs among those in blue

collar jobs without high skill requirements, which increases from 13 percent of the career jobs to 21 percent of the bridge jobs.

---Table 5 about here---

Slippage can also be seen in table 5, which disaggregates by the hourly wage rate on career and bridge jobs. Whereas only about one-third of these workers earned less than \$10 per hour on their career jobs, 60 percent did on their post-career jobs, mostly in the \$5 to \$10 per hour category. At the upper end of the spectrum, 20 percent of these workers earned over \$20 per hour in career employment, but only 13 percent did on their bridge jobs. Overall, about one-third of these job switchers stayed in the same wage category in table 5. Of the three-quarters who did not stay in the same cell, three quarters moved down one or more wage rate categories, while only one-quarter moved up.

Summary

This paper has two primary points. The first is that the post-war trend toward earlier and earlier retirement has come to a halt. Participation rates for older American men have been flat since the mid-1980s, and have even increased slightly in recent years. This is in stark contrast to the steady declines observed in the prior decades. For older women, the trends before 1985 were much more gradual, but since then, participation rates have been on the rise. Many more older men and women are currently working than the pre-1985 trends would have suggested.

In this paper, we discuss some possible reasons for this recent change in trend. Some of the explanations are institutional, such as the elimination of mandatory retirement, changes in the work incentives imbedded in Social Security rules, and the steady increase in the relative importance of defined-contribution pension programs, which do not contain the strong age-specific retirement incentives that many defined-benefit plans do. Other explanations are more cyclical in nature, such as the strength of the American economy over most of the past decade, and the attendant strength of labor demand. If the latter is the primary reason for the steadiness of labor force participation rates, then the downward trend can be expected to resume if and when the economy falters. If not, then we really may be seeing the end of an era.

In the remainder of the paper, we utilized the first three waves (1992, 1994 and 1996) of the ongoing Health and Retirement Survey to ask how older Americans are leaving their career jobs in the 1990s. We emphasize the importance of bridge jobs -- part-time or short-duration jobs between career employment and complete labor force withdrawal. Although precise estimates of the extent of bridge job activity depend on the definition of what constitutes career employment, we conclude, using several definitions, that non-traditional routes are a very important part of today's retirement process.

Many older Americans do retire gradually, often using part-time jobs or stints of self-employment on the way out. The exit routes from career jobs are many and varied, and the traditional one-step retirement is only part of the story. For many Americans, retirement is best viewed as a process, not as a specific event. Subsequent waves of the Health and Retirement Survey will increase our understanding of the labor market transitions of older workers, which are about to become much more important as the leading edge of the baby boom generation begins to contemplate when and how to leave the world of work.

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Smeeding, Timothy M. and Joseph F. Quinn, "Cross-National Patterns of Labor Force Withdrawal," Luxembourg Income Study Working Paper No. 170, December 1977.

Social Security Administration. 1996. Annual Statistical Supplement to the Social Security Bulletin. Washington, DC: U.S.G.P.O.

U. S. Bureau of Labor Statistics. (January issues of various years). Employment and Earnings. Washington, DC: U.S. Government Printing Office.

The financial incentives imbedded in the Social Security and defined-benefit pension rules acted as a surreptitious pay cut for older workers. One's true compensation includes both the pay check and any changes in Social Security and pension wealth (the present value of future benefits) that accrue during that year at work. Many of these pension systems are set up so that after some age, the present values begin to decline. At this point, the annual "accruals" become negative, and one's compensation (the paycheck minus the loss in retirement wealth) declines. Faced with these implicit pay cuts, many workers retired. Under these circumstances, the distinction between voluntary and involuntary becomes a fuzzy one. Given the pay cut, the workers chose to retire. But the change in the terms of employment was not something they chose. See Quinn (1991) for a discussion of these issues.

¹ The trends are based on simple linear regressions with a constant and a time trend.

² To get an estimate of the magnitude of this change, Burkhauser and Quinn (1997: table 2) multiplied [the difference between the actual 1996 participation rates and rates predicted by the pre-1985 extrapolations] by [the population figures for men at these ages.] The difference in the number of men aged 60 to 69 who were working in 1996 was about 1.4 million.

³ The net effect of the elimination of mandatory retirement on retirement patterns was probably small, since the financial incentives to retire found in many public and private pension schemes remained. Burkhauser and Quinn (1983) estimated that at least half of what looked like a mandatory retirement effect was really due to the simultaneous financial incentives.

⁴ The changes outlined in the next several paragraphs can be found in the Social Security Administration's Annual Statistical Supplement to the Social Security Bulletin, 1996, tables 2.A20 and 2.A29.

⁵ Inadequate delayed retirement credits meant that benefits foregone because of continued work were never fully made up via higher benefits in the future. This loss in Social Security wealth was the "pay cut" mentioned earlier. Of course, a delayed retirement credit that is actuarially fair on average will not be so for individual workers with different life expectancies.

⁶ Waiting longer for a given benefit is the same as getting a smaller benefit at any given age. Imagine an upward sloping line showing the relationship between age of initial receipt (on the horizontal axis) and monthly benefit (on the vertical axis.) A benefit cut would drop the line; a benefit delay would move it to the right. The two changes are indistinguishable, yet they can have very different interpretations. Describing the change as a benefit cut makes it appear that the benefit is too high, an opinion with which many recipients and elderly advocates will disagree. Describing the change as a benefit delay makes it sound like the amount is correct, but the age is wrong, a view which resonates with many more people, given the increases in life expectancy we have enjoyed. Despite the different spins, however, the policies are nearly identical.

⁷ The proportion of employer pension plan participants whose primary coverage is in a defined-benefit plan increased from 13 to 30 percent between 1975 and 1985, and then to 42 percent by 1993. Including secondary plans, which are nearly all defined-contribution, the proportion of participants in defined-contribution plans doubled from 26 to 52 percent between 1975 and 1993 (EBRI 1997; table 10.2).

⁸ Peter Diamond has pointed out (in correspondence) that labor force participation rates for older American men were also very flat in the late 1960s, when the economy was strong and the unemployment rate was on its way to a post-war low of 3.5 percent. When the economy sagged in the 1970s, the participation rates began to tumble, as one can see in figure 1. A (very small) silver lining in the next recession will be some resolution on this debate.

⁹ See Quinn, Burkhauser and Myers (1991) for a more extensive overview.

¹⁰ See Juster and Suzman (1995) for an overview of the Health and Retirement Survey. This volume of the Journal of Human Resources also contains detailed articles of various aspects of the HRS dataset.

¹¹ The employment rates for this sample are not comparable to the labor force participation rates published by the Bureau of Labor Statistics. We have eliminated those with no worker experience after age 49, and we are looking at employment rather than labor force participation, which includes a relatively small number of those not employed and actively searching for work.

Since the HRS oversamples blacks, Hispanics and residents of Florida, sample weights are provided so that the estimates will better represent population percentages. The percentages used in this paper are all weighted numbers.

¹² We define part-time on an annual basis (fewer than 1600 hours per year), rather than on a weekly basis, as the Bureau of Labor statistics does. We do so because part-time bridge activity may appear as a reduction in weeks per year as well as a reduction in hours per week.

¹³ There is no need for any such assumption for those working part time (the majority of those on bridge jobs), since we consider part-time jobs to be bridge jobs no matter what the duration.

¹⁴ A small percentage of these men and women were known to be working, but missing data prevented us from discerning whether they were on full-time career jobs or not.

¹⁵ These are the ratios of those on a bridge job to those on a bridge or a full-time career job. Those whose full-time career status cannot be determined were ignored in these calculations.

¹⁶ In defining this subsample of full-time, career workers, we do not have to assume that workers remain on their current jobs until age 62 or age 65. For those who leave these career jobs by 1996, we can calculate the actual tenure at transition to define the job one leaves as either full-time career or bridge. On the other hand, for those who take another job when they leave their career jobs, we do assume they remain on the post-career job until age 62 (or age 65 for those already 62 or older) when deciding to describe it as a bridge job or as another career job.

¹⁷ In wave II of the HRS (1994) 56 percent of those with a full-time career job in their history were still on that job. This percentage dropped by 12 percentage points between 1994 and 1996.

¹⁸ A small number moved out of employment via an intermediate job, but data deficiencies prevent us from determining whether the intervening job was a bridge job or another career job.

¹⁹ One difference did remain, which is not shown in figures 7a and 7b. The bridge jobs to which women moved were more likely to be part time (about 65 percent were) than were the bridge jobs to which men moved (about 58 percent).

²⁰ Tables 4 and 5 contain very preliminary data. The early-release version of Wave III is missing data on occupational status and wage rates, so the comparisons in tables 4 and 5 are based on those career workers in our wave I-III sample who switched to a bridge job by 1994.

Table 1

Male Labor Force Participation Rates by Age, 1950 to 1997

Year	Age						
	55	60	62	65	68	70	72
1950	90.6	84.7	81.2	71.7	57.7	49.8	39.3
1960	92.8	85.9	79.8	56.8	42.0	37.2	28.0
1970	91.8	83.9	73.8	49.9	37.7	30.1	24.8
1975	87.6	76.9	64.4	39.4	23.7	23.7	22.6
1980	84.9	74.0	56.8	35.2	24.1	21.3	17.0
1985	83.7	71.0	50.9	30.5	20.5	15.9	14.9
1990	85.3	70.5	52.5	31.9	23.4	17.1	16.4
1995	81.1	68.9	51.3	33.5	22.4	20.6	16.0
1997	83.4	68.3	52.6	32.4	22.4	21.7	17.3

Source: Burkhauser and Quinn (1997: table 1), updated

Table 2

Employment Status of Sample with
Work Experience After Age 49

	Men	Women	Total
1996			
Employed	64	60	62
Not Employed	36	40	38
1994			
Employed	71	70	70
Not Employed	29	30	30
1992			
Employed	79	79	79
Not Employed	21	21	21

Source: HRS, Waves I-III

Table 3

**Extent of Bridge Job Activity
Using Various Definitions of Full-Time Career Job**

Full Time Career Job Requires	Percent Working on a Bridge Job, 1996 (a)		Percent Not Working Whose Last Job Was a Bridge Job (b)		Lower Bound of Bridge Job Activity (c)	
	<u>Men</u>	<u>Women</u>	<u>Men</u>	<u>Women</u>	<u>Men</u>	<u>Women</u>
10 years tenure	23%	25%	30%	58%	34%	49%
8 years tenure	21%	24%	29%	55%	32%	46%
5 years tenure	17%	22%	25%	48%	27%	41%

- (a) first entry on figures 6a and 6b (working, bridge job) and analogous figures for definitions with tenure equal to 8 or 5 years.
- (b) for those not employed, bridge / (bridge + FTC) on last job
- (c) (currently working on bridge job) plus (not working and last job was a bridge job) as a percent of all those whose current or last job could be identified as a full-time career or a bridge job. This ignores the DK's, and assumes that none of those currently working on a full-time career job utilizes a bridge job on the way out.

Source: HRS, Waves I-III

TABLE 4
Occupational Status of Career and Bridge Jobs
(vertical percentages)

<u>Bridge Job</u>	<u>Full-Time Career Job</u>				<u>Total</u>
	<u>White Collar Highly Skilled</u>	<u>White Collar Other</u>	<u>Blue Collar Highly Skilled</u>	<u>Blue Collar Other</u>	
White Collar Highly Skilled	79%	15%	9%	6%	41%
White Collar Other	6%	67%	4%	1%	14%
Blue Collar Highly Skilled	8%	9%	64%	11%	24%
Blue Collar Other	7%	6%	23%	82%	21%
Total	45%	15%	27%	13%	100%

NOTE: Occupational Status definitions, using 1980 Census occupational codes.
 White Collar, Highly Skilled: Managers (003-037); Professionals (043-235).
 White Collar, Other: Sales (243-285); Clerical (303-389).
 Blue Collar, Highly Skilled: Service, protection (413-427); Mechanics and repair (503-549); Construction and extraction (553-617); Precision production (633-699); Operators, machine and transport (703-859).
 Blue Collar, other: Other services (403-407 and 433-469); Farming, forestry and fishing (473-499); Operators, handlers (863-889).
 Other: Armed Forces (900).

Source: HRS, Waves I - III

Table 5

Wage Rate on Career and Bridge Jobs
(vertical percentages)

Full-Time Career Job

<u>Bridge Job</u>	\$0-\$5	\$5-\$10	\$10-\$15	\$15-\$20	\$20-\$30	\$30+	Total
\$0-\$5	51%	19%	14%	15%	10%	4%	18%
\$5-\$10	26%	64%	44%	34%	34%	24%	43%
\$10-\$15	16%	12%	27%	19%	15%	8%	18%
\$15-\$20	1%	3%	9%	20%	6%	8%	8%
\$20-\$30	3%	1%	3%	7%	25%	24%	7%
\$30+	1%	2%	2%	6%	9%	32%	6%
Total	9%	26%	28%	17%	14%	6%	100%

Source: HRS, Waves I-III

Figure 1
Labor Force Participation Rates
Men, Age 60-64

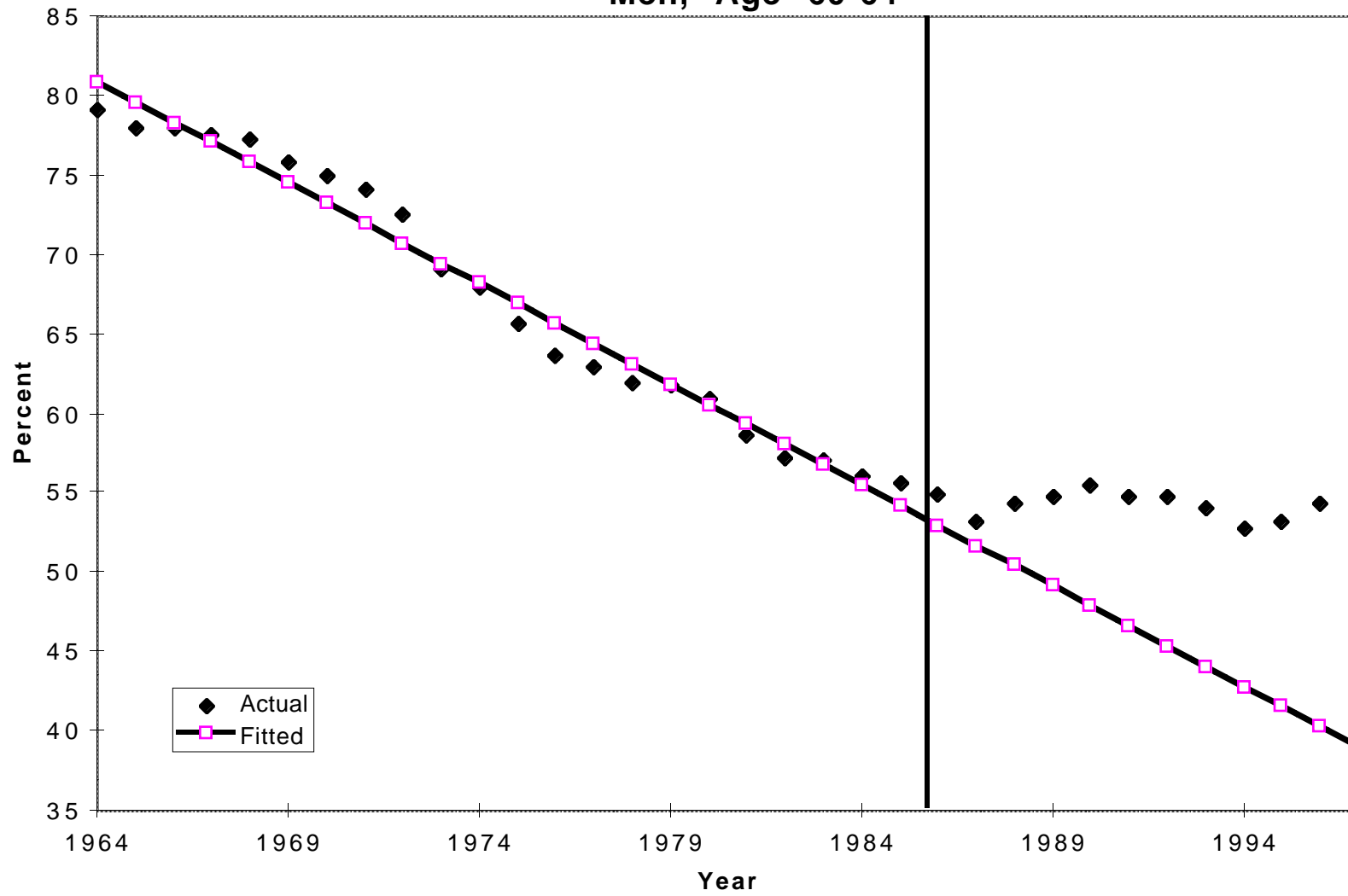


Figure 1 (cont.)
Labor Force Participation Rates
Men, Age 65-69

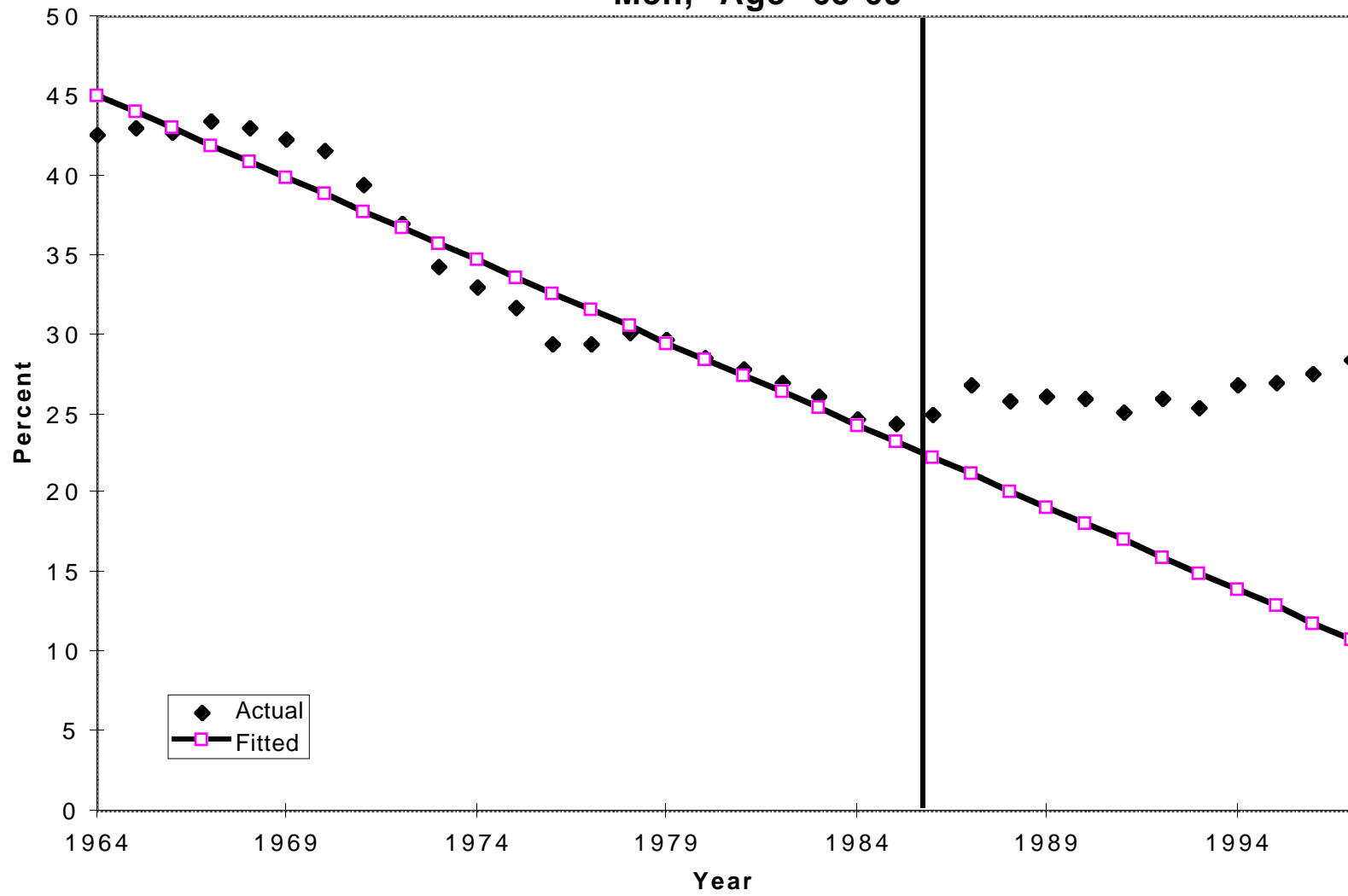


Figure 2
Labor Force Participation Rates
Women, Age 55-59

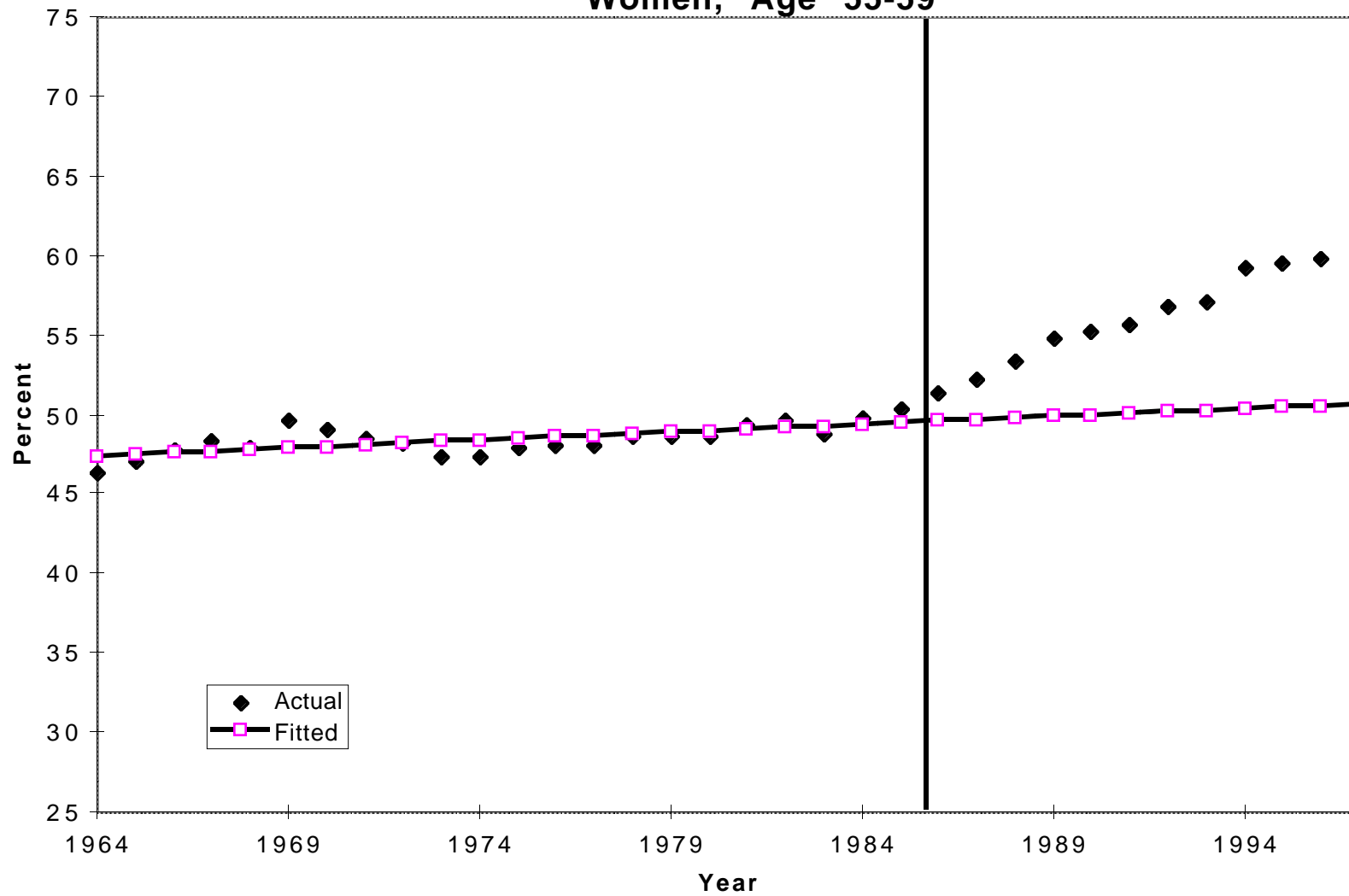


Figure 2 (cont.)
Labor Force Participation Rates
Females, Age 60-64

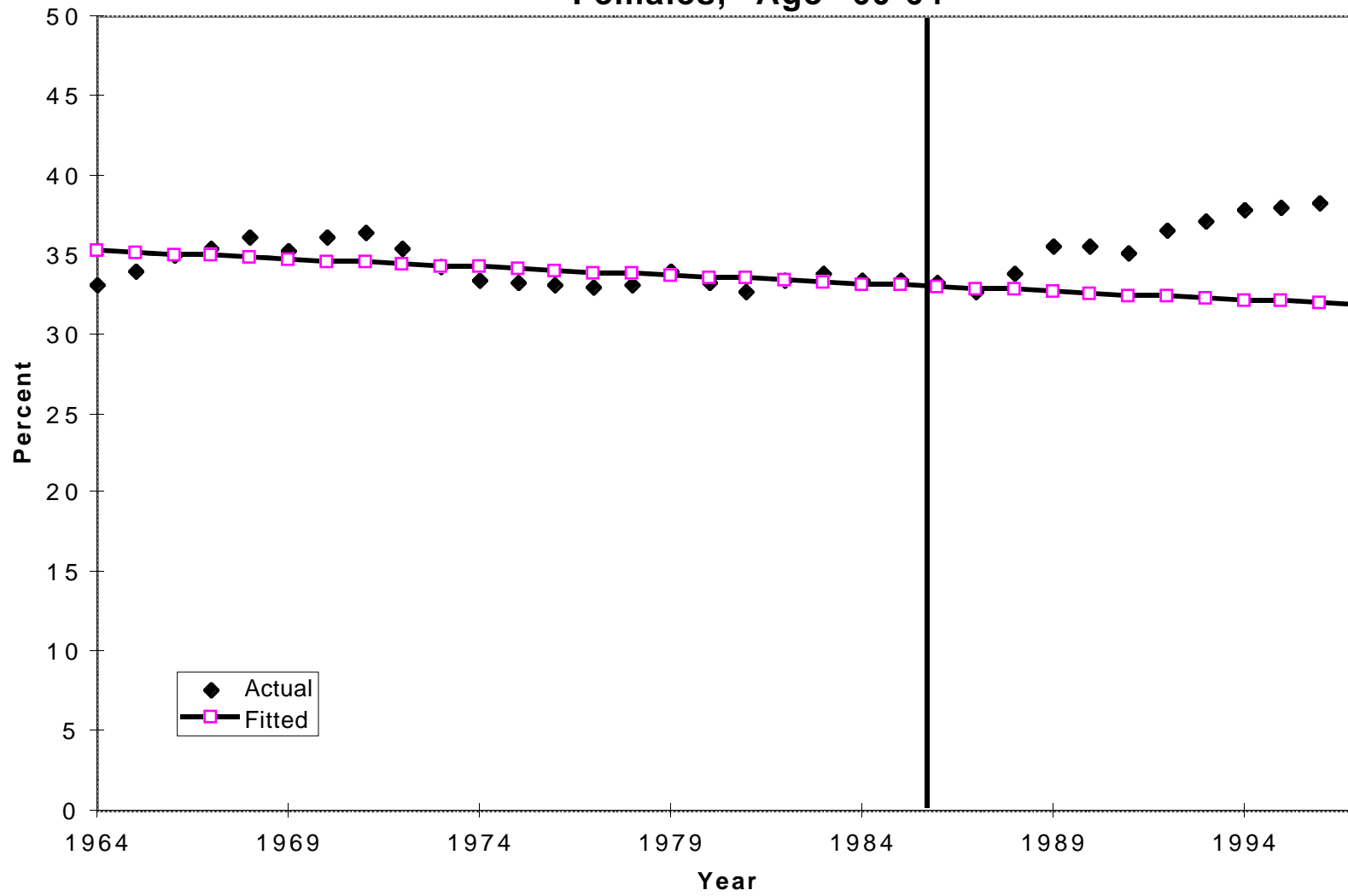
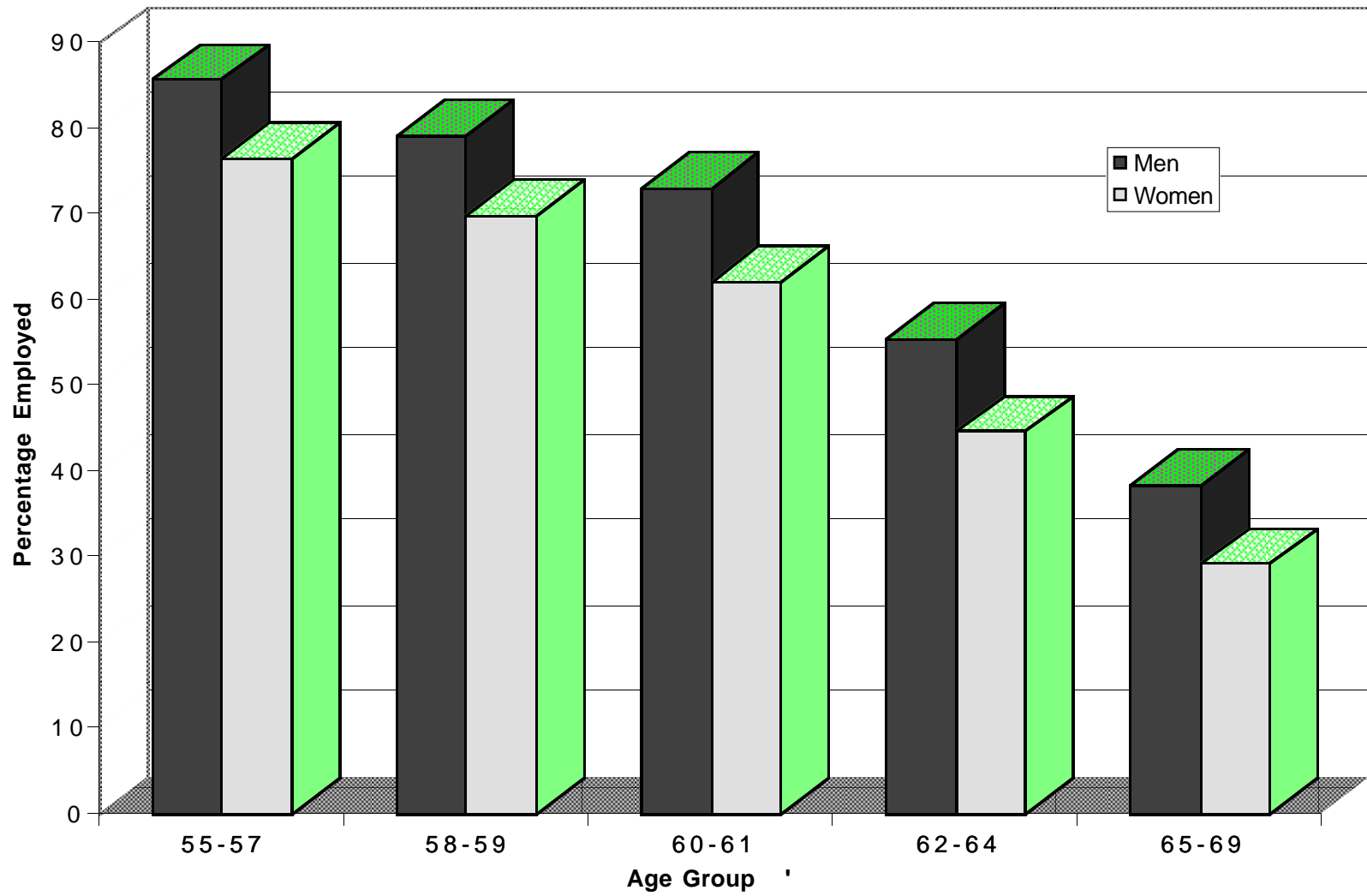


Figure 3

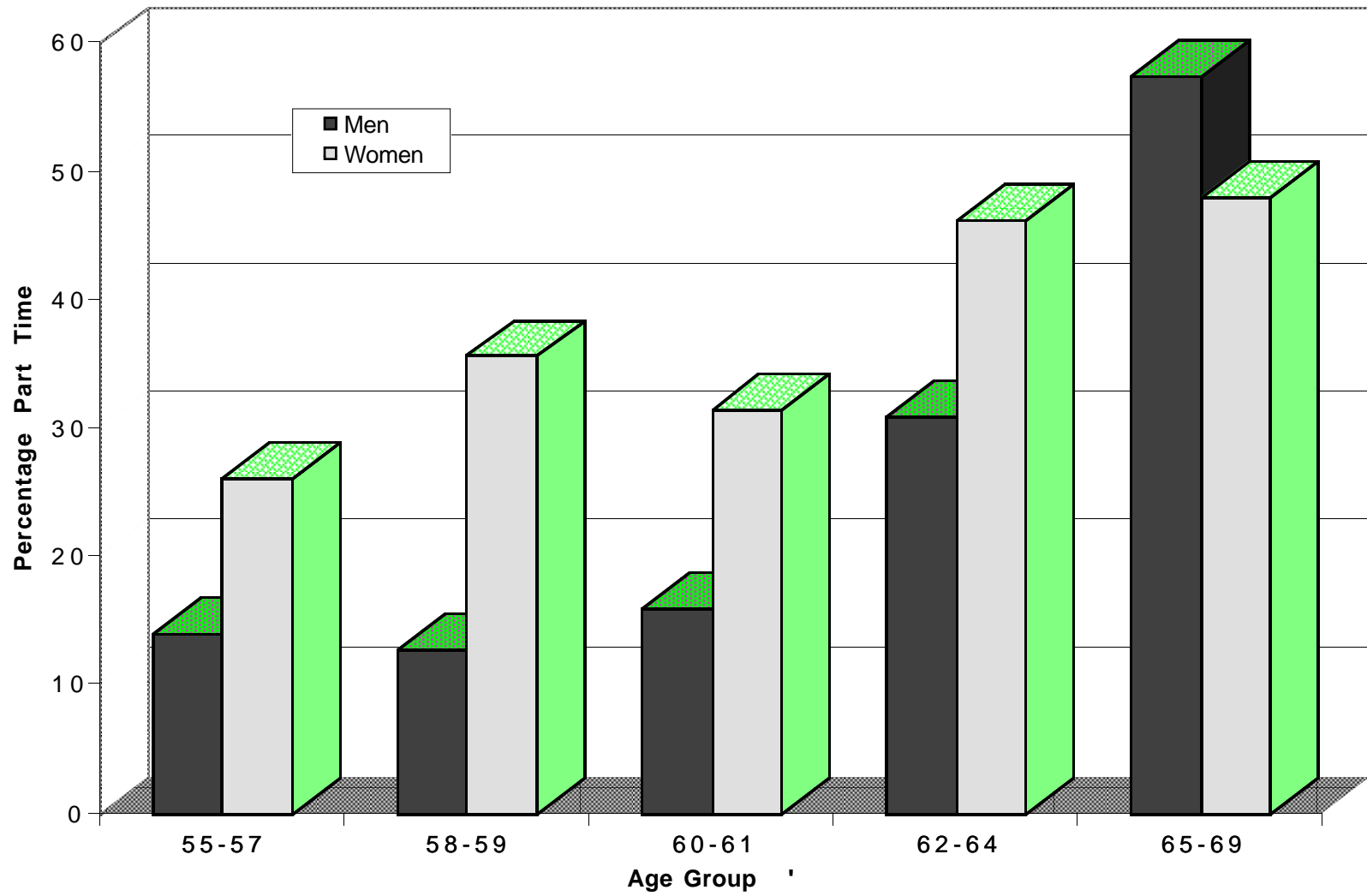
**Percentage Employed
by Age and Gender, 1996**



Source: HRS, Waves I-III

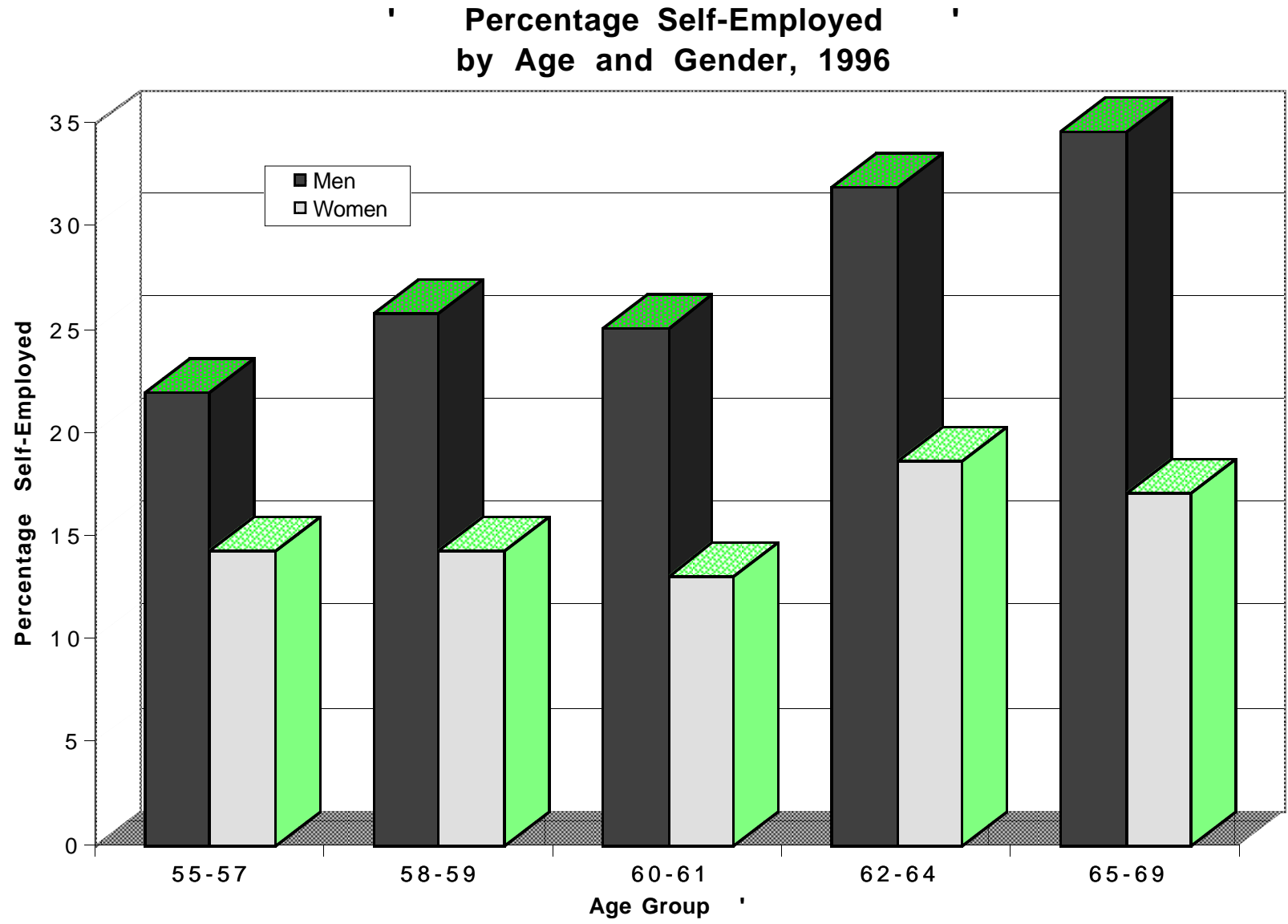
Figure 4

Percentage Employed Part Time
by Age and Gender, 1996



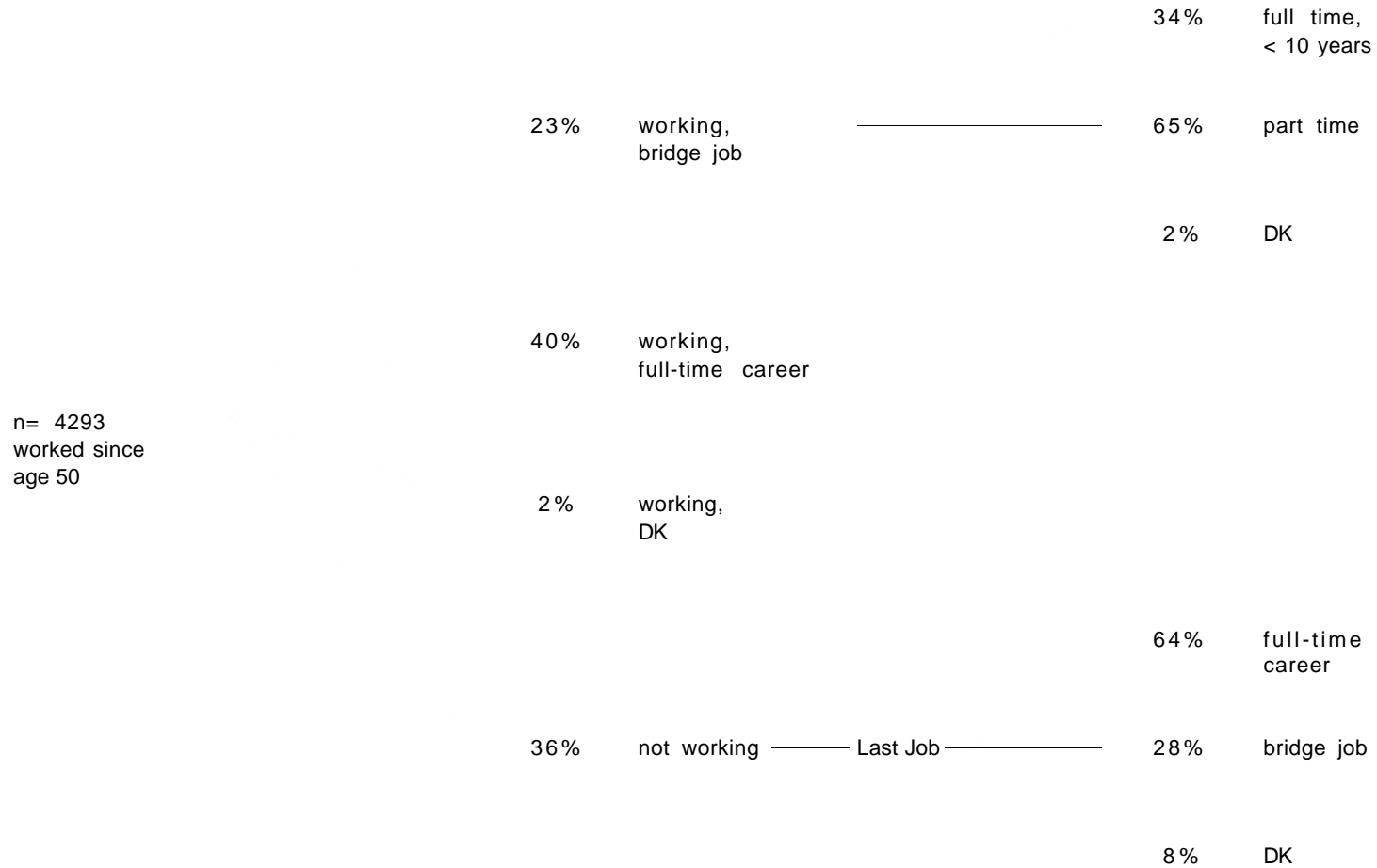
Source: HRS, Waves I-III

Figure 5



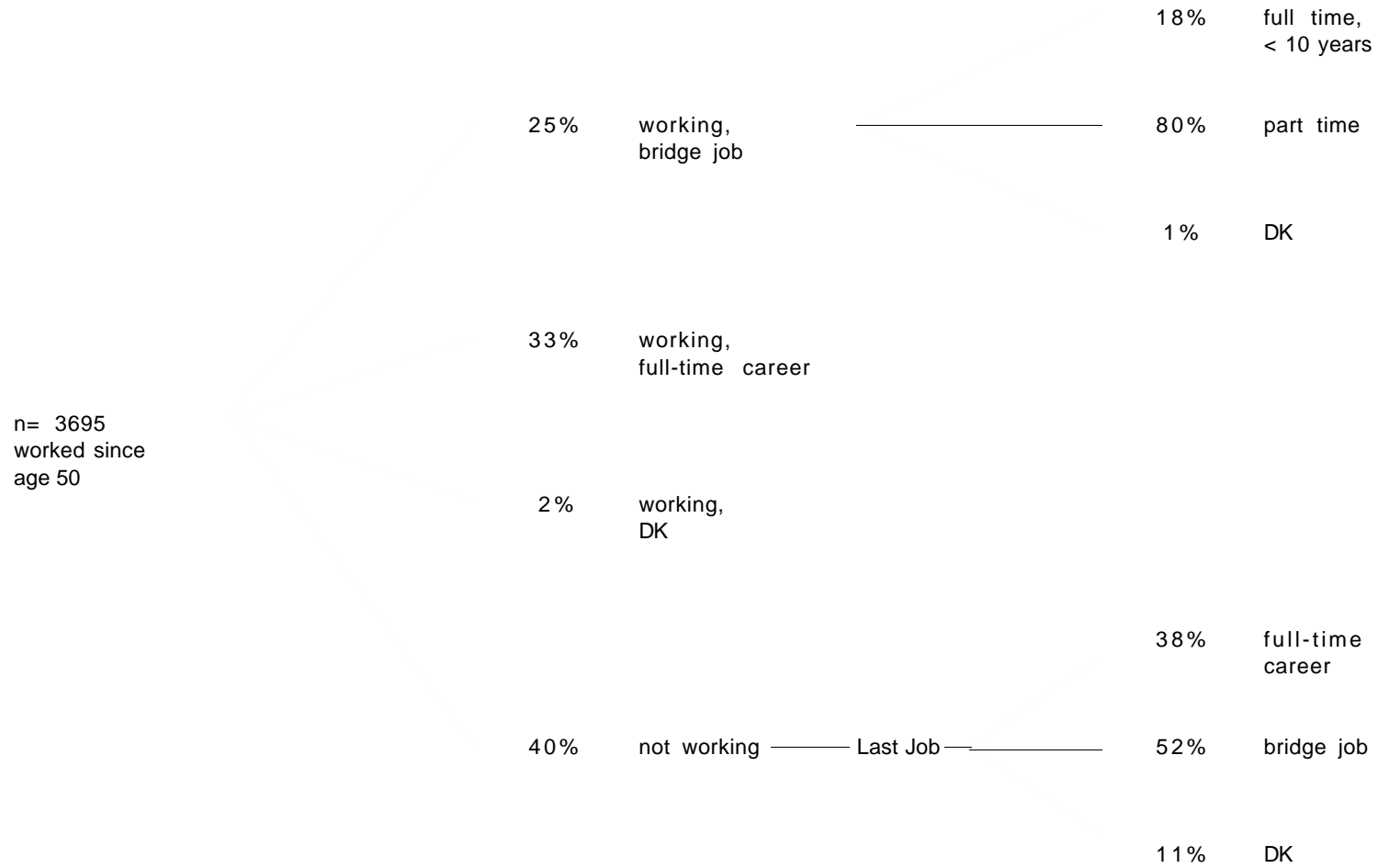
Source: HRS, Waves I-III

Figure 6
 Current Job Status, 1996
 Men with Work Experience Since Age 50



Source: HRS, Waves I-III

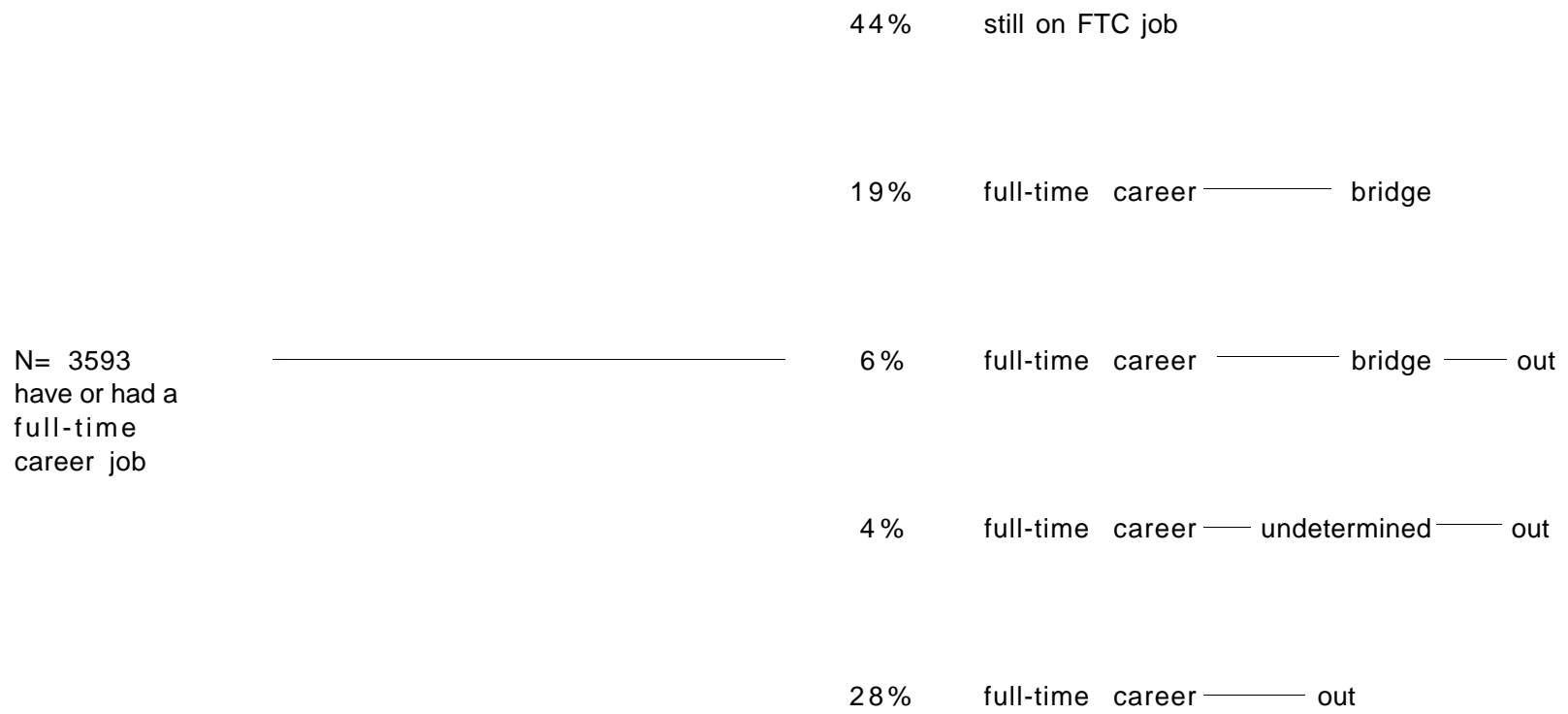
Figure 30
 Current Job Status, 1996
 Women with Work Experience Since Age 50



Source: HRS, Waves I-III

Figure 7a

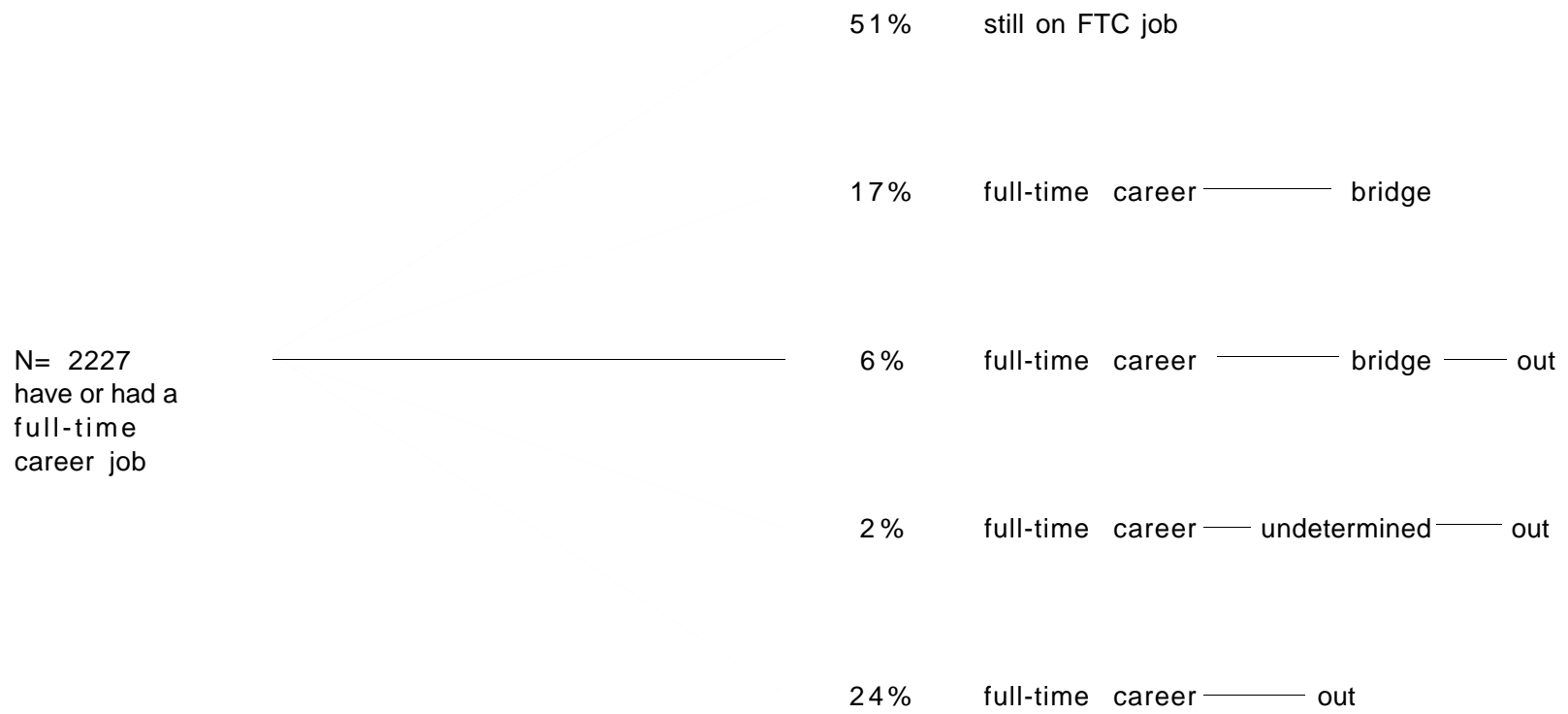
Job Transitions of Men with a Full-Time Career Job



Source: HRS, Waves I-III

Figure 7b

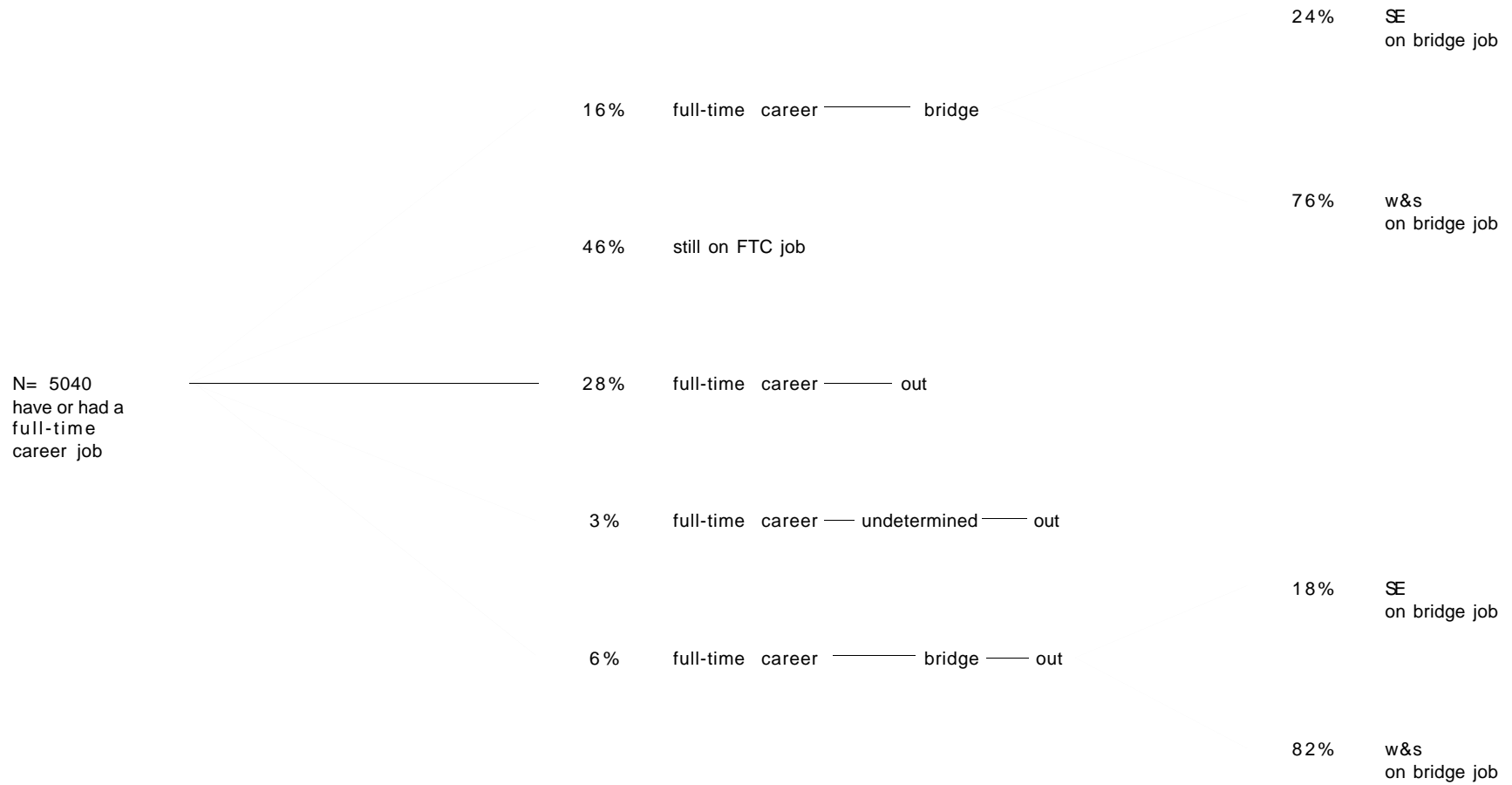
Job Transitions of Women with a Full-Time Career Job



Source: HRS, Waves I-III

Figure 6a

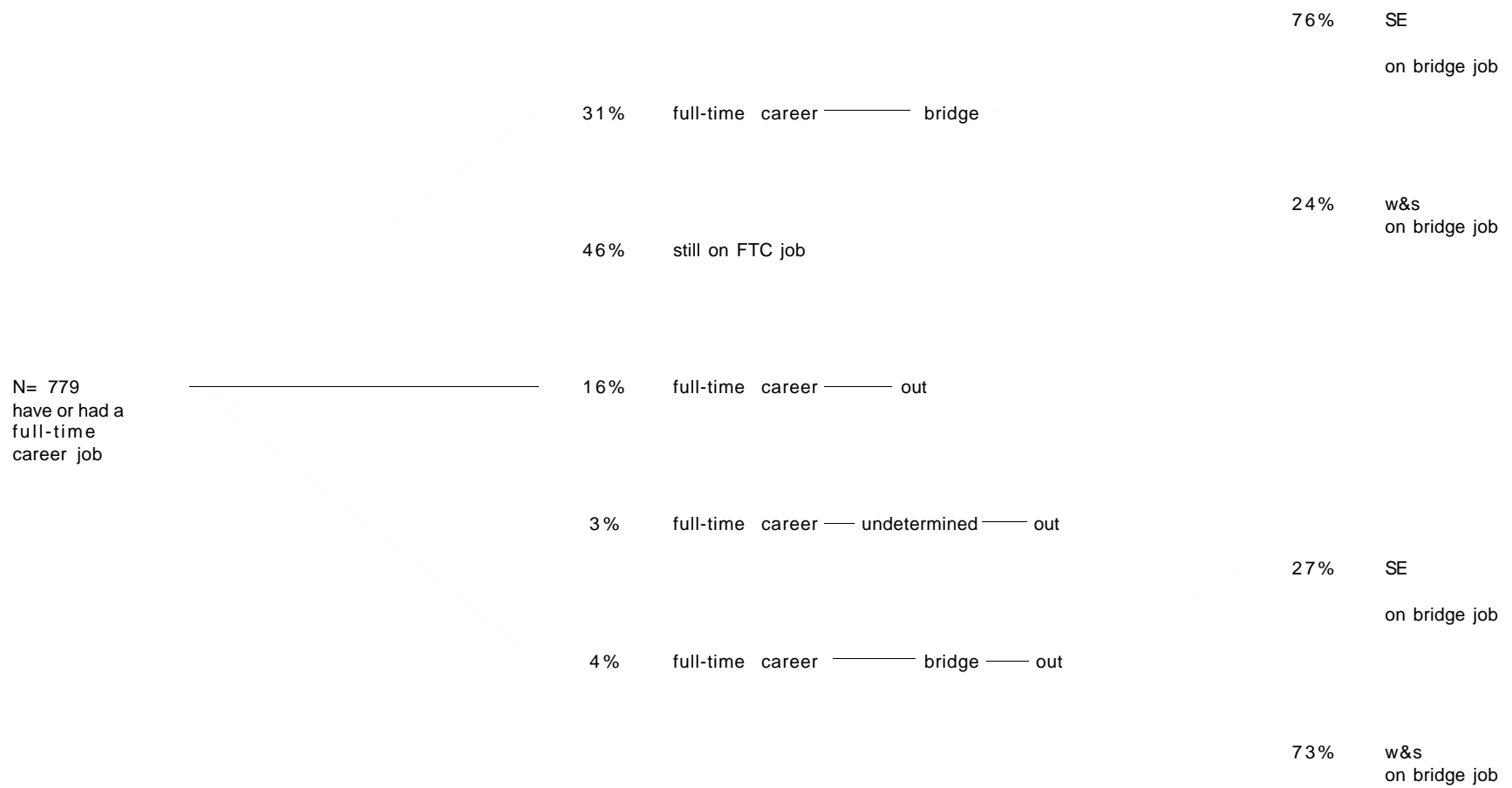
Job Transitions of Career Wage and Salary Workers with a Full-Time Career Job



Source: HRS, Waves I-III

FIGURE 30

Job Transitions of Career Self-Employed Workers with a Full-Time Career Job



Source: HRS, Waves I-III