

Has The Trend Toward Early Retirement Reversed?

Dora Costa

Prepared for presentation at the
First Annual Joint Conference for the Retirement Research Consortium
“New Developments in Retirement Research”
May 20-21, 1999

The research reported herein received generous support from the National Institute on Aging (NIA). The NIA funded data collection under National Institutes of Health (NIH) grant AG10120 and data analysis under NIH grant AG12658. The opinions and conclusions are solely those of the author(s) and should not be construed as representing the opinions or policy of NIA or any agency of the Federal Government.

Has the Trend Toward Early Retirement Reversed?

Dora L. Costa

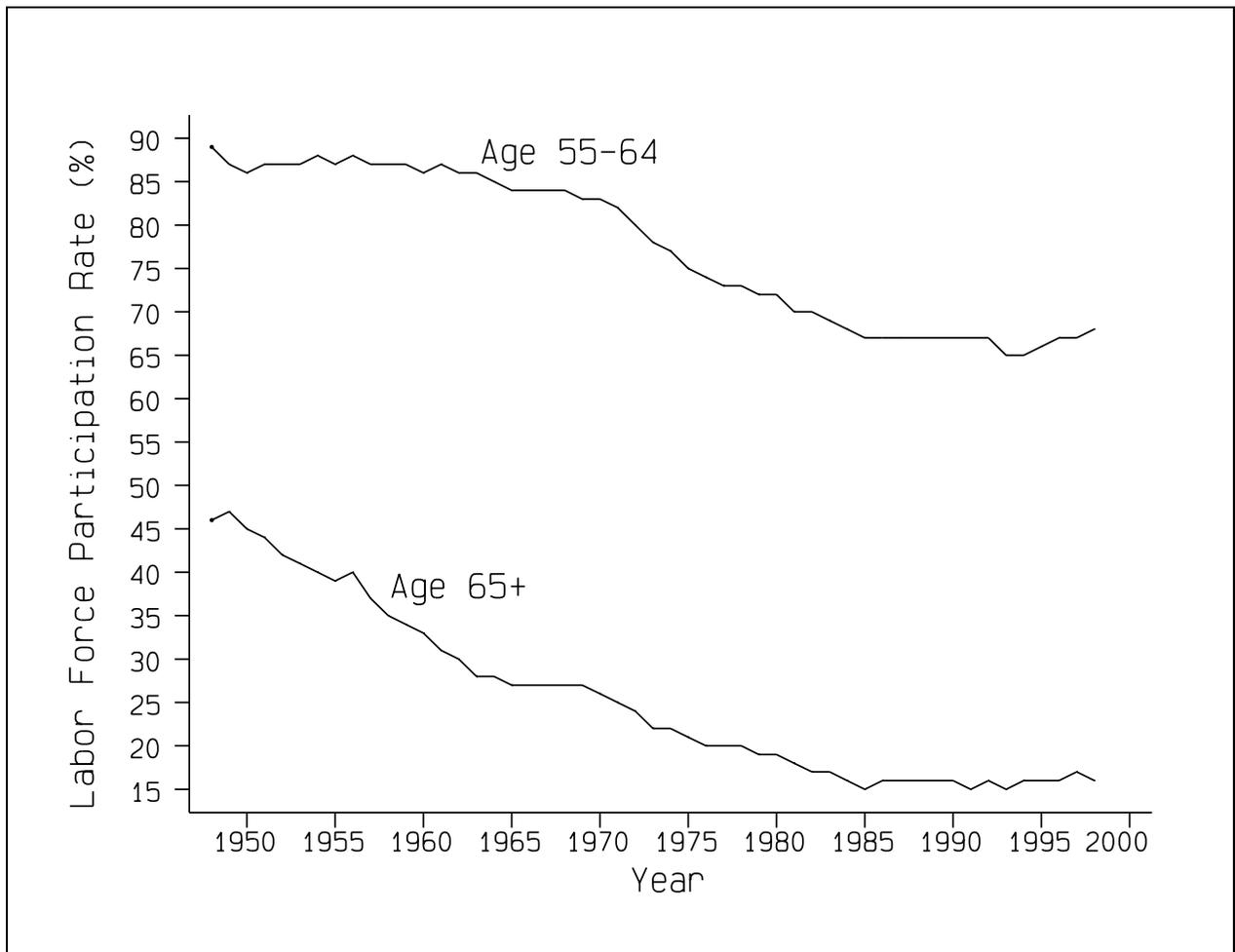
Comments prepared for Conference on “New Developments in Retirement Research,” First Annual Joint Conference for the Retirement Research Consortium, May 20-21, 1999. These comments draw upon my 1998 University of Chicago Press book, *The Evolution of Retirement: An American Economic History, 1880-1990*.

Between 1948 and 1985 the labor force participation rate of men older than 64 fell from 47 to 16 percent and that of men age 55 to 64 from 90 to 68 percent. Since 1985 the labor force participation rate of men older than 64 has risen slightly to 17 percent and that of men age 55 to 64 has remained at 68 percent (see Figure 1). This slowdown in retirement rates since 1985 has led some researchers to conjecture that the trend towards early retirement may even reverse. I will argue that such an assessment is premature.

We are not the only generation to have witnessed a slowdown in retirement rates. Between 1850 and 1870 the labor force participation rates of men older than 64 rose from 78 to 84 percent. Between 1910 and 1920 their labor force participation rates rose from 58 to 60 percent. Between 1940 and 1950 their labor force participation rates fell by only one percentage point, from 42 percent to 41 percent (see Figure 2). To understand whether the slowdown in retirement rates is likely to be permanent we must understand the causes of both long-term and short-term declines in retirement rates.

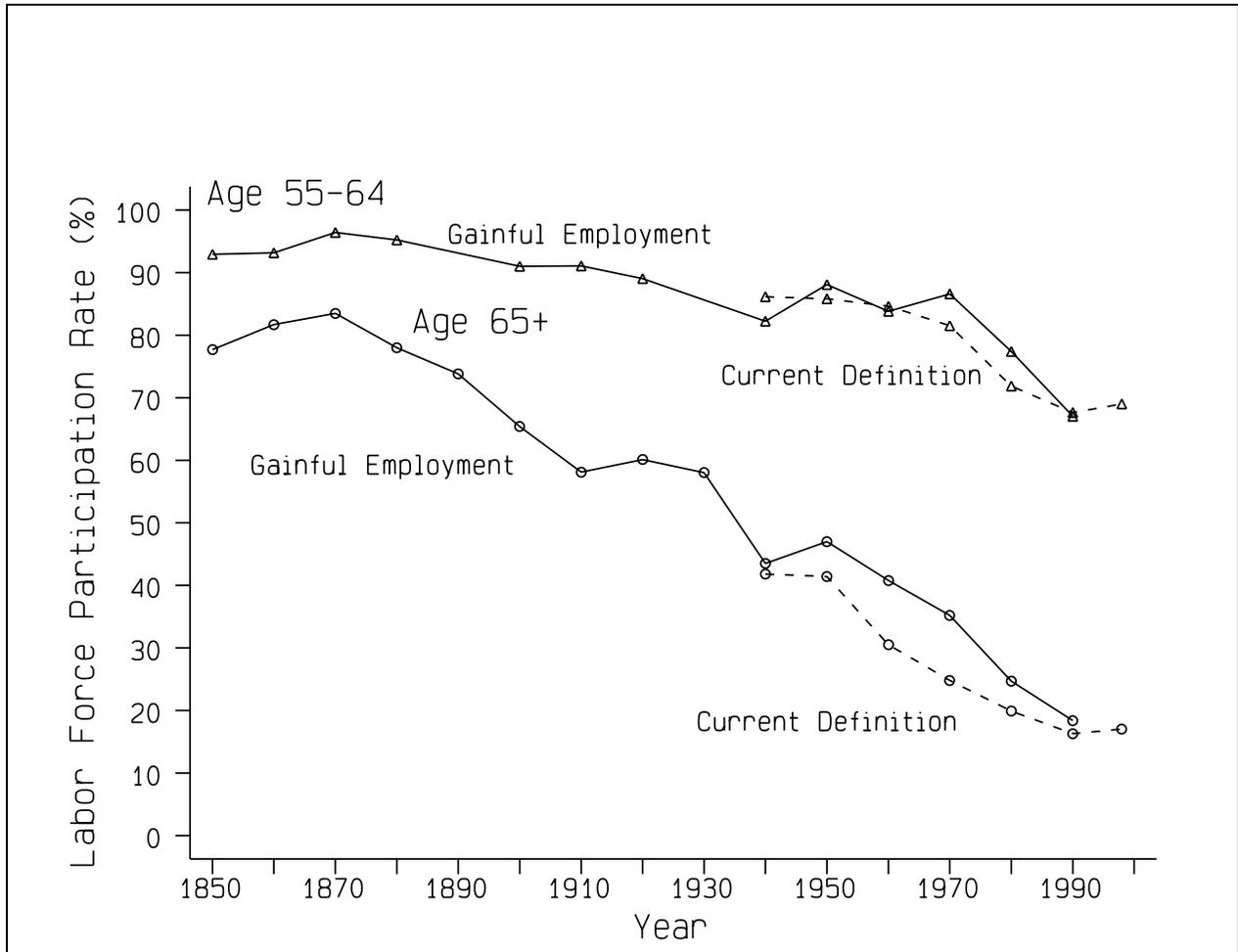
Several factors have been cited as possible contributors to the recent slowdown in retirement rates. These include changes in employer pension plans from defined benefit to defined contribution, the slowdown in private pension coverage, the decreased bite of the Social Security earnings test, the shift from manufacturing to service sector jobs, the increased health

Figure 1: Labor Force Participation Rates of Older Men, 1948-1998



Source: Series LFU604901 and LFU606501, Bureau of Labor Statistics, <http://stats.bls.gov>

Figure 2: Labor Force Participation Rates of Older Men, 1850-1998



Note: The gainful employment definition of the labor force based upon having had an occupation in the past year. The current definition of the labor force is based upon having worked during the survey week.

Source: Costa (1998), Ruggles and Sobeck (1998), Series LFU604901 and LFU606501, Bureau of Labor Statistics, <http://stats.bls.gov>

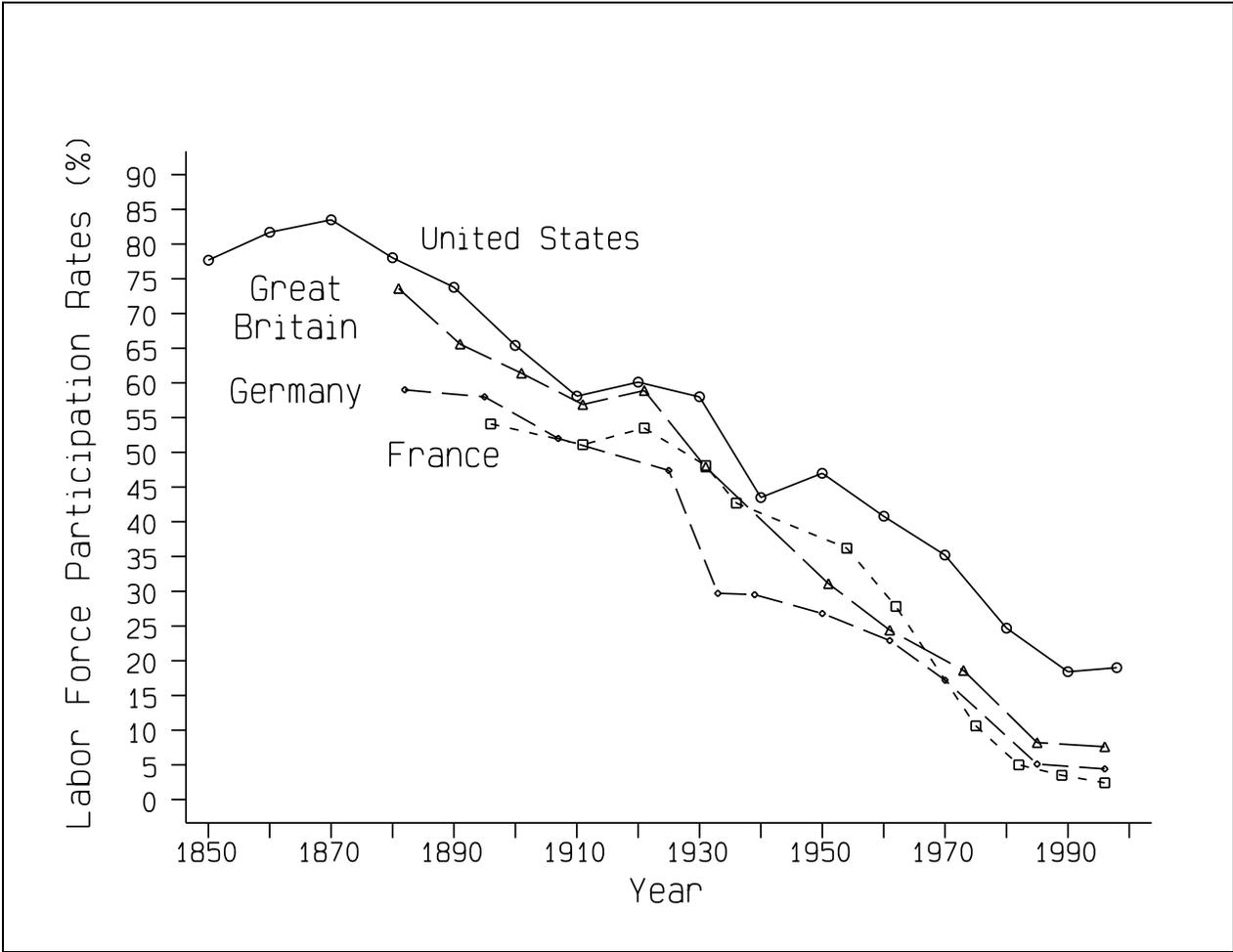
and longevity of the American population and the accompanying realization of Americans that up to one third of their lives will be spent in retirement, and the increased demand for labor because of the strength of the American economy. Researchers have argued that many Americans leave the labor force gradually, moving to a “bridge” job in which they can either reduce hours of work or intensity of work effort.

While these factors may indeed explain the recent slowdown in retirement rates it is unclear whether over the long-run they can lead to a lasting reversal in the trend towards early retirement. A quick examination of the long-run trend in labor force participations in several countries suggests that the specific institutional details of private pension plans and of social security systems are not the primary forces driving the long-run trend (see Figure 3). In the United States the introduction of Social Security and of private pension plans in the postwar period did not lead to an acceleration of retirement rates. Although labor force participation rates in Great Britain, France, and Germany are now lower than in the United States, the long-run trends in these countries are similar despite the very different dates at which social security programs were introduced.

What factors might therefore explain the rise of retirement observed in all four countries and help us predict future trends? We can quickly dismiss explanations based upon health. Because of reduced life-time exposure to infectious disease, the shift from manual to white collar occupations, and the increased efficacy of medical care, chronic disease rates at older ages have declined. Given that retirement rates have been rising despite improvements in elderly health, it is unlikely that continued improvements in elderly health will lead to a decrease in retirement rates. Explanations based upon sectoral shifts may be over-rated as well. An earlier shift – that from manufacturing to agriculture had no effect on retirement trends.

Perhaps the most important explanation for the rise of retirement observed in Figure 3 is rising incomes. The first major pension program in the United States – that which covered

Figure 3: Labor Force Participation Rates of Older Men, United States, United Kingdom, France, and Germany, 1850-1998



Note: Labor force participation rates for the United States are based upon the definition of gainful employment.
 Source: Costa (1998), Ruggles and Sobek (1998), Series LFU604901 and LFU606501, Bureau of Labor Statistics, <http://stats.bls.gov>

Union Army veterans – had a substantial impact on labor force participation rates. These findings suggest that the high labor force participation rates of older men prevailing at the beginning of the century arose because retirement incomes were too low to fully support them and that as retirement incomes have risen so have retirement rates. I attribute much of the long-term increase in retirement rates to the rising incomes of the elderly. Much of the increase in the incomes of the elderly has been the result of rising wages, lifetime income, and hence private retirement income. Forty-one percent of the long-run decline in labor force participation rates occurred before the post-war growth of Social Security and private pension plans.

Increased incomes are not, however, the sole explanation for the rise of retirement. Income effects are no longer as pronounced as they were in the past perhaps because current income levels are fairly high, because retirement has become a social norm, or because retirement has become much more attractive than it was in the past. The retired are no longer dependent upon their families for support. The growth of retirement communities in low cost (and warm climate) areas, the declining price of transport and of communication with family members, and the rise in private and state social support services, among other factors, have lowered the price of living alone. Retirement has also become much more attractive because of mass tourism and mass entertainment.

Some scholars have argued that the availability of bridge jobs to retirement may make work relatively more attractive. It is, however, important to remember that leaving one job and starting up another at older ages is not a new phenomenon. For example, among older men who were artisans in 1900, 28 percent were retired by 1910 and 26 percent became either farmers, professionals, proprietors, or laborers. Increased job flexibility, such as more time off for vacations, may increase the relative attractiveness of work. But, such flexibility may be paid for with low wages and low wages may not be enough to induce men to remain in the labor force.

Survey reports suggest that retirement continues to remain attractive. Twenty-seven

percent of men interviewed in the first wave of the Retirement History Survey in 1969 reported that they would never retire. In contrast, only 18 percent of men interviewed in the first wave of the Health and Retirement Survey in 1992 reported that they would never retire. Among those planning to retire, the mean age of planned retirement has fallen from age 64 to 60 (see Table 1).

Future generations, generations with much higher average levels of education and with much better average health than past generations, may redefine the retirement lifestyle. But, provided that retirement continues to be attractive and that income levels do not fall dramatically (and permanently), the trend towards early retirement is unlikely to reverse. There may, however, be years when the trend does reverse because of declines in retirement income or improved employment prospects. Between 1910 and 1920 the proportion of men older than 64 eligible for Union Army pensions declined and labor force participation rates rose. Between 1940 and 1950 employment prospects for all Americans improved dramatically and retirement rates of older men barely changed. Until we have clear evidence that men are increasingly preferring to smooth their leisure time over the life-cycle rather than to consume 36 percent of it during the last 8 years of life, we should not base any policy recommendations upon the recent upsurge in labor force participation rates.

Table 1: Retirement Plans of Older Men, 1969 and 1992

	Retirement History Survey	Health and Retirement Survey
% Planning to Never Retire	26.6	18.1
If Planning to Retire:		
Mean Age Planned Retirement	64.3	60.4