

Work and Retirement Plans among Older Americans

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Abstract

We compare older workers' plans for work and retirement with their subsequent work and retirement outcomes using panel data from the Health and Retirement Study. Among those with retirement plans, about half indicate they would like to cut back on their work hours or otherwise change the type of work they do prior to, or instead of, fully retiring. Yet the fraction that follows through on these alternative plans is dramatically lower than the fraction that realizes plans to stop working. Our analysis shows that individuals who likely would need to change jobs in order to reduce their work hours are much less likely to have plans to reduce hours and, conditional on having such plans, are much less likely to follow through on them. Instead, a large fraction of these individuals stops working entirely. Our findings suggest that older workers may face substantial barriers to job change, and we conclude with a discussion of potential policy implications.

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As the baby boomers reach retirement age, US labor force growth is projected to slow and the share of the adult population that has withdrawn from the labor force is expected to rise (Mulvey and Nyce, this volume; Board of Trustees of the OASDI Trust Funds 2004). These demographic factors have raised concerns about whether the supply of labor will be sufficient to meet employer needs, and whether the Social Security and Medicare trust funds will remain solvent. Consequently, there is emerging interest in policy measures that might boost employment at older ages.

This chapter is motivated by evidence that many more people express an interest in working at older ages than actually end up doing so. For example, in the first wave of the Health and Retirement Study, 73 percent of workers aged 51 to 61 said that they would like to continue paid work following retirement (AARP 1998). Similarly, in responses to the 1997 Retirement Confidence Survey, more than 70 percent of baby boomers said that they expected to work at least part time following retirement (AARP 1998). Other surveys have yielded similar findings. Yet actual employment rates among older Americans are far lower than one might expect from these survey responses. Among men aged 55-64 who received pension or retirement plan income in 2002, for example, only just over a third were working in March 2003, and the corresponding share among men 65 and older was just 12 percent (Purcell, this volume).

In this study, we focus on older individuals' plans for retirement and the realization of those plans. Using Health and Retirement Study (HRS) data, we document the widespread interest among workers approaching retirement age in cutting back on their hours or changing the type of work they do, as a transition to, or in lieu of, full retirement. Next, we examine the

extent to which these individuals are able to realize their plans. Whereas those who plan to stop working altogether generally do, those who plan to reduce their hours or change the type of work they do most often do not realize these plans. After documenting these facts, we consider the factors that influence whether and how older individuals realize plans to reduce their hours and remain employed.

Background

Over the next two decades, the share of the US population age 55 and older is projected to grow dramatically. This projected growth is attributable to the aging of the baby boom generation born between 1946 and 1964. In 2000, when people born in 1946 turned age 54, the group age 55+ accounted for 21.4 percent of the population. The Census Bureau projects that the population share of the 55+ will reach 25.1 percent by 2010, and 29.5 percent by 2020. Over this same period, the share of the population aged 25-54, historically the ages of maximum attachment to the labor market, is projected to fall from 43.4 percent in 2000, to 40.8 percent in 2010, to 37.7 percent in 2020 (U.S. Census Bureau 2002). Even after 2020, increases in longevity will continue to fuel growth in the share of the population at older ages. Life expectancy at age 55 rose from 17.9 years in 1900 to 26.0 years in 2001; most observers expect life expectancy at older ages to continue to rise, at least through the end of the current century (Arias 2004; Social Security Advisory Board Technical Panel on Assumptions and Methods 2003). The Census Bureau projects that individuals 55 and older will account for one-third of the population in 2100 (U.S. Census Bureau 2002).

Several parties have expressed an interest in boosting labor force participation at older ages. Some raise concerns about the size of the projected workforce: all else the same, slower

growth in the population of prime working age will make it more difficult for employers to satisfy their growing demand for labor (Mulvey and Nyce, this volume). Others, concerned about the solvency of the US Social Security and Medicare systems in coming decades, worry that the number of workers per beneficiary will drop from 3.3 in 2003, to 2.2 in 2030, and then continuing to decline gradually thereafter. This means that there will be relatively fewer people contributing to the system to cover the costs of retiree benefits, fueling large projected system deficits (Board of Trustees of the OASDI Trust Funds 2004). It is clear that an increase in labor force participation among older Americans could be quite helpful, though it would not afford a complete solution to these problems. From workers' perspectives, if life expectancy continues to grow without a commensurate increase in saving or pension accumulations during the pre-retirement years, earnings from continued work could be a welcome supplement to old-age income. Social connections offered by work may also become increasingly attractive to individuals who, at age 55, 60 or 65, still can anticipate many more years of life.

Policy interest in facilitating employment among older workers prompted the 2000 passage of the Senior Citizens' Freedom to Work Act (PL 106-182). This Act eliminated the earnings test for Social Security beneficiaries as of the normal retirement age (age 65 for those born before 1938 and rising to age 67 for those born after 1959). This means that, in contrast to the situation for those between age 62 and the normal retirement age, there is now no ceiling on the amount those older than normal retirement age can earn while collecting their full Social Security benefits. Additional legislation introduced in the 106th Congress (HR 4837/S 2853, the Phased Retirement Liberalization Act) sought to ease restrictions that preclude workers from drawing partial retirement benefits while continuing to work for their current employers. Although that bill was not enacted into law, there is continuing discussion of methods of

removing legal impediments to phased retirement, together with other reforms that might facilitate increased labor force participation at older ages (c.f. Burtless and Quinn 2002; Penner, Perun and Steuerle 2002).

What will happen to labor force participation rates at older ages remains an open question. The shares of men age 55+ employed fell steadily through the mid-1980s. Beginning in about 1985, however, labor force participation rates among older men leveled off, and since the mid-1990s, they have risen somewhat. Among women, the pre-1985 trend towards earlier retirement was offset by rising labor force participation overall, with the result that labor force participation rates among women 55+ were relatively flat through the mid-1980s. Since about 1985, labor force participation among women age 55+ has trended upwards (Quinn 1999; Burtless and Quinn 2002). Both male and female labor force participation at older ages has continued to increase over the past few years, despite relatively weak labor market conditions (Purcell, this volume).

These facts are provoking considerable debate about likely future trends in labor force participation at older ages. Those who believe that labor force participation will hold constant or grow point to recent changes in Social Security rules, the shift from defined benefit to defined contribution pension plans, and other changes in the workplace as factors that can be expected to make continued employment more attractive (c.f. Quinn 1999). Moreover, they argue, if labor shortages due to changing demographics begin to develop, wage rates are likely to rise and employers are likely to amend their policies to encourage increased participation at older ages. Conversely, those who believe that labor force participation rates at older ages will resume their historical declines argue that, recent experience notwithstanding, retirement lifestyles have become increasingly attractive and, with the secular rise in productivity leading to continuing

growth in lifetime incomes, more affordable as well (c.f. Costa 1999). Even if only a fraction of the future growth in lifetime incomes is devoted to the purchase of increased leisure at the end of the work life, by this theory, longer retirement periods would be expected.

Whichever of these perspectives is correct, whether someone works at any given age depends on that person's *interest* in working and *ability* to obtain acceptable employment. This suggests the potential value of considering peoples' plans for retirement, separately from retirement outcomes. A voluminous literature on retirement and the factors that determine the age at which individuals retire already exists. Relatively little of this work, however, addresses either the formation of *ex ante* retirement plans or the extent to which actual retirement outcomes are consistent with those *ex ante* plans. Moreover, most researchers who have explored the formation and realization of plans for retirement have treated retirement as a binary outcome: a person either remains in the labor force or retires. In planning retirement, however, many people contemplate a more gradual process rather than the abrupt transition this formulation implies.

Learning about plans for retirement and the realization of those plans requires information from following individuals over time. Most research in this area has used data from either the Retirement History Survey (RHS), conducted biennially from 1969 through 1979, or the Health and Retirement Study (HRS), initiated in 1992 and continuing. A substantial body of research shows that individuals approaching retirement age have a weak understanding of the pension and Social Security benefits for which they are eligible (Gustman and Steinmeier 1999); further there is evidence that many have done little or no financial planning for retirement (c.f. Ameriks, Caplin and Leahy 2003; Lusardi 2003).

To the extent that people's expectations about retirement do not reflect careful planning, it would not be surprising to find that their expectations are not always realized. In addition,

changes in circumstances may lead to changes in plans or to discrepancies between actual as compared to planned retirement dates. Benitez-Silva and Dwyer (2003) show that developing certain health problems may lead to changes in planned date of retirement. Dwyer and Hu (2000) and Dwyer (2001) study the effects of deteriorating health status among older peoples on actual versus planned retirement outcomes. Anderson, Burkhauser and Quinn (1986) evaluate whether the unexpectedly large increases in Social Security benefits paid in the early 1970s led potential recipients to retire earlier than they had planned. Coronado and Perozek (2003) examine the effect of the stock market boom of the 1990s actual as compared to planned age of retirement among older workers who began the decade with corporate equity holdings. Bernheim (1989) reports that expectations about date of retirement were relatively accurate for those within a few years of planned retirement, but less accurate for those who expected to retire further in the future. All of these studies treat retirement as a discrete event and, for those that examine actual behavior, use individuals' self-reported status to measure retirement outcomes.

Previous research also has documented the importance of "bridge jobs," or partial retirement, as a part of the process of withdrawal from the labor market. In these studies, the intermediate state between full labor market attachment and full retirement is defined variously in terms of the individual self-reporting his/her labor force status as "partially retired" (Gustman and Steinmeier 1983, 1984); a fall in earnings to less than half of earnings in the worker's peak earnings year (Honig and Hanoch 1985); working on a job after leaving the firm at which the individual experienced his/her longest spell of employment (Ruhm 1990); or working fewer than 35 hours per week (Blau 1994). Gustman and Steinmeier (2000) compare a variety of different measures of both full and partial retirement. In studies that look specifically at how people leave the labor market, they find that moving from full labor market attachment directly to complete

retirement is the most common path, but there are significant numbers of working individuals who pass through some intermediate state en route to complete retirement. None of these studies, however, links *plans* for bridge employment with actual transitions into this state.

Methodology

Our analysis focuses on plans that older workers may have to reduce their hours or to change the type of work they do, rather than withdrawing completely from the labor force, and on the extent to which these plans are realized. We utilize data from the HRS, which contains a representative sample of Americans born between 1931-41¹ interviewed biennially since 1992. Survey participants were asked detailed questions about many aspects of their health, work, and finances. Because we are interested in work-to-retirement transitions, we restrict our analysis to individuals who had significant labor force attachment, as reflected in their weekly and annual hours of work. We then examine the work and retirement experiences of our sample members using data from the first six waves of the survey covering the period 1992-2002.²

To compare work and retirement plans with actual outcomes, we draw upon questions asked in each wave of the HRS about workers' plans for retirement. That section of the survey begins with a question about the usual age of retirement at the respondent's workplace, followed by a question about the respondent's own plans. In 1992, this question read: "Are you currently planning to stop working altogether or work fewer hours at a particular date or age, to change the kind of work you do when you reach a particular age, have you not given it much thought, or what?" In 1994 and later waves, it read: "Now I want to ask about your retirement plans. Do you plan to stop working altogether or reduce work hours at a particular date or age, have you not given it much thought, or what?" Although individuals were allowed to give more than one

response to this question, few did so. Answers to this open-ended question were coded into several categories: stop work altogether, work fewer hours, change kind of work, work for myself, never stop work, not given it much thought, don't know, and other. Beginning in the third wave of the survey, the answer "work until my health fails" also was coded separately, although very few individuals gave this answer.³ In the analysis that follows, we combine the categories "not given it much thought" with "don't know"; "change kind of work" with "become self-employed"; and "work until my health fails" with "always work". The category that we label "other" includes those coded as other in the HRS and those who gave more than one answer to the question.

Respondents who indicated that they planned some sort of transition, whether it was complete retirement, a reduction in hours, a change in type of work, or a move to self employment, were asked when they expected to make the change. Most respondents gave an age at which they expected to make the transition, though some provided a calendar year.

This information on timing of planned transitions was used to determine whether stated plans in one wave were consistent with actual work and retirement outcomes in the next wave, about two years later. There are at least two reasons to compare plans with outcomes over this relatively short time horizon. First, the answers to the HRS question about retirement plans may be best interpreted as providing information about the next step individuals planned to take. For instance, workers might indicate that they planned to reduce work hours in one wave, then actually reduce their hours, and in a subsequent wave indicate that they planned to stop working altogether. Because of the potentially short-term nature of the reported plans, it is appropriate to compare plans to outcomes over a short time horizon. Second, accuracy of workers' predictions about future retirement behavior can be expected to rise as the predicted retirement date draws

nigh (Bernheim 1989). We document that many individuals do not plan for retirement much before they make the transition (c.f. Ameriks, Caplin and Leahy 2003; Lusardi 2003), so that predictions of retirement ages any significant amount of time in advance often have little thought behind them. In addition, over a longer time period, there is more potential for life changes that affect what people end up doing (Benitez-Silva and Dwyer 2003; Dwyer and Hu 2000; Dwyer 2001; Anderson, Burkhauser and Quinn 1986; Coronado and Perozak 2003). We seek to minimize this problem by comparing plans with outcomes over a two-year time horizon, and by explicitly coding as “don’t know” any responses where people say they have given little thought to future work and retirement plans.⁴

Plans for Work and Retirement

The prevalence of work and retirement plans among our sample of HRS respondents appears in Table 1. Here we report responses to the questions about plans asked in waves 1 through 5 (every two years from 1992-2000) provided by those working at least 20 hours per week and 1000 hours per year at the time of the survey interview. Responses to this question have been combined across the five waves, so the figures reported in Table 1 contain multiple observations for given individuals.

Table 1 here

Despite the fact that all of the HRS respondents were in their 50’s or 60’s at the time they were asked about their retirement plans, the most common answer (38 percent of responses) was that the respondent had not given much thought to future work and retirement plans, or had no plans. One-quarter of responses reflected plans to stop work altogether, while 18 percent reflected plans to reduce hours of work. Changing the type of work, always working, or other,

each accounted for between 5 and 8 percent of responses. The pattern of responses was similar for men and women.

In light of the large numbers who planned to reduce their hours of work, it is interesting to consider whether these respondents viewed shorter hours as a vehicle to retire partially at an earlier age, or as a vehicle to continue working beyond an age at which they otherwise would retire. Although there is no direct evidence on this question, we can glean some insights into respondents' motivations by comparing the age at which they planned to reduce working hours, and the normal retirement age at their place of employment. A clear majority, 60 percent, reported that they planned to reduce their hours at or after the "normal" retirement age at their workplace, suggesting that most view shorter work weeks as a substitute for full retirement.

Figure 1 plots the pattern of reported plans by age of respondent. The fraction indicating that they planned to stop work altogether peaks at age 61 and falls thereafter, while the fraction indicating they had no plans to retire is lowest at age 61 and rises thereafter. Even at age 61, however, only 30 percent indicated they wished to stop work altogether, while another 30 percent still reported having no future retirement plans. The fraction indicating they wished to cut back on their hours also peaked for workers in their early 60's. At age 61, three-quarters as many workers indicated they wished to cut back on their hours (23 percent) as reported they wished to stop work altogether (30 percent).

Figure 1 here

The fall in the fraction of workers in their mid-60's saying they wished to make some type of transition—stop work altogether, reduce hours, or change their type of work—and the corresponding rise in the fraction indicating they never wanted to stop work or didn't know what they wanted to do, likely reflects the selected group still working at those ages. Most people

who wanted to reduce their work hours or change their type of work likely already made whatever changes they were going to make at younger ages. Not surprisingly, those still working in their mid-sixties were more likely than average to want never to stop working.

We also investigated the pattern of responses by age of respondent for each wave of the survey. There is some tendency—though it is not entirely consistent for all ages—for a decline over time in the fraction of those of a given age responding “not given it much thought” or “don’t know”. Perhaps the process of participating in a survey on retirement issues spurred respondents to think more carefully about their future. If so, the fraction of “don’t know” responses shown in the table would actually understate the fraction of the population at large that is uncertain about future work and retirement plans.

Do People Follow through on their Work and Retirement Plans?

A sizable fraction of HRS respondents reported that they planned to make a future change in their work situation. Accordingly, we next examine the extent to which people’s stated work and retirement plans in one wave were consistent with their work/retirement outcomes in the subsequent wave, about two years later. Reductions in weekly hours are recorded if the sum of weekly hours worked on all jobs dropped by 8 or more hours from one survey wave to the next. We impose this threshold decline—about a day of work in the typical 5 day, 40 hour per week, full-time job – to avoid overstating minor changes in reported hours, whether due to actual variations or to misreporting of average work weeks. Of course, ascertaining whether people change the type of work they do is somewhat subjective, so we experimented with several alternative measures. Table 2 codes all who changed occupations as having changed the type of work they were doing.⁵ Because our measure of work and retirement plans groups those who

plan to change their type of work with those who plan to begin working for themselves, we also treat those who move from employee to self-employed status, or the reverse, as having changed their type of work.

Table 2 here

Those reporting that they planned to stop work, reduce their hours, or change their type of work were asked at what age or in what year they planned to make this transition. We used this information on the timing of the planned change in conjunction with the date of the next wave interview to determine whether or not an individual would be expected to have made the transition by the time of that interview. Suppose, for example, that an individual was age 60 at the time of the initial interview, and age 62 at the time of the next interview.⁶ If that individual indicated she planned to retire at age 61, then she would be expected to have retired by the time of the next interview. If, however, she indicated that she planned to retire at age 62, her expected retirement status at the next wave interview is ambiguous: she could have planned to retire by the survey date, or she could have planned to retire later in the year. Finally, if she stated that she planned to retire at age 63, she would not be expected to have retired by the next interview.

Differences in the precise timing of planned transitions are reflected in Table 2, which compares work and retirement plans in the initial wave with work and retirement outcomes in the subsequent wave. In general, we find that the outcomes observed in subsequent waves are consistent with the planned timing for making those transitions. That is, those planning to stop work altogether, reduce their work hours, or change the type of work they do prior to the next wave, were much more likely to have made that transition by the next wave. The probability of having made a specific transition is about the same for those planning that transition after the next interview, as it is for the HRS population overall.

We are particularly interested in examining whether people are more likely to succeed in making certain transitions than others. Comparisons of outcomes between those planning to stop work altogether, reduce their hours, or change their type of work, are cleanest if we restrict our attention to outcomes among those who planned to make these transitions prior to the next interview. These outcomes are reported in the first row of each of the first three panels of Table 2. Data from these three rows, along with outcomes for those who planned never to stop working, are summarized in Figure 2. Here, for each planned outcome—stop work altogether, reduce hours, change type of work, and always work—two columns are reported. In each case, the left-hand column represents the percent with outcomes that are consistent with initial plans, while the right-hand column represents the percent with outcomes that are inconsistent.

Figure 2 here

Differences are striking, regarding the fraction that followed through on initial plans. Nearly two-thirds of those who planned to stop working prior to the next wave interview did stop working by that time, and about 85 percent of those who planned never to stop working were still working, in some capacity, at the next interview. In sharp contrast, among those who planned to reduce their work hours or to change their type of work, only 35 percent and 22 percent, respectively, followed through on those plans. It is interesting to note that among the minority who did follow through with plans to change the type of work they were doing (measured by occupation change), more than three-quarters also significantly reduced their hours.

In sum, older workers stating they intended *to stop work* were much more likely to follow through on these plans, than individuals who planned *to reduce* their work hours or *change the type* of work they were doing. In fact, those who planned to reduce work hours prior to the next wave were about equally likely to reduce their hours (35 percent), to stop work altogether (28

percent), or to continue working the same or more hours (36 percent). Similarly, whereas just 22 percent of those planning a change in type of work performed prior to the next wave realized those plans, 28 percent continued to work the same or more hours in the same occupation, and about a third stopped working altogether; 12 percent reduced their hours of work without changing occupation. These patterns were quite similar between men and women (results available on request).

One caveat to the results thus far is that respondents might make multiple transitions in the two-year period between waves, which we do not observe. For instance, a worker who moved to a shorter work schedule or a new type of work, but then stopped work altogether prior to the next wave interview, would be counted as having stopped work altogether, rather than as having reduced hours or changed type of work. The HRS does not allow an assessment of more finely-grained transition patterns, but we believe our qualitative conclusions are robust. In other words, people who plan to reduce their hours or to change the type of work they do are much less likely to follow through on their plans, than people who plan to stop working altogether.⁷

The Transition to Working Fewer Hours

Although nearly as many older working Americans have plans to reduce their work hours as have plans to retire fully, the former group is about half as likely as the latter to follow through on plans. We have no *a priori* reason to believe that people planning to reduce their hours are less committed to their plans than workers planning to stop working altogether. Why then does the transition to working fewer hours appear so difficult for older workers? While we have no definitive answer to this question, we next turn to some suggestive evidence.

Full retirement entails leaving a job completely. Unless a worker holds multiple jobs, however, reducing work hours requires either that he arrange a reduction in hours on the current job or that he find a suitable new job with shorter hours. Someone seeking to cut hours on his current job may need to obtain approval from an employer and formally renegotiate the terms of his employment, including hours, compensation, and job duties. Inasmuch as some job duties may not be easily divisible, some employers may be unwilling to reduce employee hours, even if the employee accepts a commensurate reduction in pay.

In many circumstances, therefore, the employee wishing to reduce work hours will need to find another job. Empirical support for this proposition is provided by Altonji and Paxson (1992), who show that married women who change jobs are able to adjust their hours of work more fully to changes in their circumstances, than are married women who remain on the same job. Yet, as a group, older workers find the transition to new employment particularly difficult (Chan and Stevens 2001). Many years may have passed since an older worker last sought a new job, implying a lack of good connections to other employers, or room for discouragement in the job search process. Older workers may not know how to obtain the new skills required by available positions, or they may overestimate the difficulty of skill upgrading. Some may also have unrealistic expectations about the pay and benefits they can hope for on a new job. Finally, seniors searching for work may encounter discrimination from potential employers since antidiscrimination law is difficult to enforce, particularly at the hiring stage. To the extent that older workers do not fully anticipate the obstacles to reducing work hours, those planning reductions in hours may be less likely to follow through on their plans than those planning full retirement.

Reducing hours may be easier in certain circumstances than in others. Those who hold multiple jobs can reduce their hours just by quitting one of the jobs. Self-employed individuals may have considerable flexibility to reduce their work hours if they so choose. Among those who work for someone else and hold a single job, certain tasks may be more easily divided into part-time jobs than others, and we would expect employers to be more willing to allow hours reductions among employees doing such work. Finally, employees who work very long hours, especially those working substantial amounts of overtime, may be able to cut back on work hours more easily. A sizable fraction (16 percent) of HRS older workers are employees who report working 48 or more hours per week on a single job; such individuals could substantially reduce their weekly work hours and still work what is defined as a “full-time” schedule. And for those who are salaried rather than hourly, a reduction in work hours would not necessarily involve a formal renegotiation of employment conditions with their employer or any reduction in compensation.

We expect those holding jobs in which it is easier to transition to fewer hours to be more likely to plan to reduce hours and, to the extent that obstacles to hours reductions are not fully anticipated by those who make such plans, more likely to succeed in doing so. Table 3 provides some evidence on these hypotheses. The HRS includes 474 cases of workers indicating they plan to reduce hours before the next interview. We categorize these cases into five mutually exclusive categories based on the characteristics of the job held at the time that hours plans were reported: self-employed; employee with multiple jobs; employee working 48 or more hours per week; employee working less than 48 hours per week who reports that her employer would allow a reduced regular work schedule; and employee working less than 48 hours per week who reports that her employer would not allow a reduced regular work schedule.

Our tabulations are ported in Table 3, where the first two columns show that workers in jobs with certain characteristics are over-represented among those planning hours reductions, whereas those in jobs with other characteristics are under-represented. For example, whereas the self-employed account for 18 percent of the population represented by the HRS, they account for 27 percent of those planning hours reductions prior to the next wave interview. Not surprisingly, among employees working 48 hours or less, those who report that their employers would allow them to reduce their hours are greatly over-represented and those who report that their employers would not allow a reduction in hours are greatly under-represented among those planning hours reductions. These data suggest strong correlations between job characteristics and future plans, though the direction of causality is unclear. Employees whose companies would permit them to cut back on their hours face fewer obstacles in making such a transition and are more likely to find this alternative attractive. At the same time, people who think they might like to reduce hours in the future may be more likely to seek companies that will permit such hours reductions.

Table 3 here

The four columns on the right side of Table 3 show that there are substantial differences in the fraction of individuals following through on plans to reduce hours, by the characteristics of their job. Although sample sizes are small, individuals with multiple jobs are the most likely to realize plans to reduce hours (63 percent), followed by employees initially working very long hours (48 percent). Among the self-employed, just 37 percent realized plans to reduce hours. Employees who work less than 48 hours and who indicated that their employers would not allow them to reduce their work schedules were the least likely to follow through on hours reductions plans. It is perhaps surprising that among employees who worked less than 48 hours per week and who reported that their employers would allow reductions in hours, the percent realizing

plans to reduce work hours (31 percent) was only somewhat higher than among employees who worked less than 48 hours and who reported that their employers would not allow an hours reduction (27 percent). Interestingly, however, employees who reported that their employer ruled out hours cutbacks were much more likely to stop working (43 percent) than those who reported that their employer would allow them to reduce hours (22 percent).

Underlying the different outcomes in Table 3 are differences in the workhour options available, and, we argue, the difficulty people face in achieving hours reductions. For those who followed through on plans to reduce hours, Table 4 reports how this was accomplished. People could reduce their work hours by curtailing hours on their current jobs, changing jobs, or, in the case of multiple job holders, quitting jobs. As expected, we see that almost all multiple job holders who reduced their hours did so by leaving a second job. Almost all self-employed individuals, employees with long hours, and employees who reported that their employers were amenable to their working a reduced schedule, cut back on hours by arranging a shorter work week on their initial job. Only among employees who initially worked less than 48 hours on a single job and reported their employer would not allow hours reductions did a sizable fraction reduce hours by changing jobs (38 percent). Nonetheless, even among this last group, almost two-thirds realized hours reduction plans by curtailing their hours on their initial job. Although the sample sizes underlying Table 4 are quite small, we conclude that very few individuals approaching retirement who realize plans to reduce hours do so by changing jobs.

Table 4 here

The evidence presented in Tables 3 and 4 broadly supports the argument that, if it is easier to make a transition to working fewer hours is less difficult, these people are more likely to plan such reductions and, given these plans, they are more likely to realize them. The fraction

following through on plans to reduce hours among multiple job holders is similar to the fraction of all those planning to stop work altogether who follow through on their plans. In each case, realization of plans entails leaving a job, and the relative ease of making such a transition arguably helps to account for the relatively high fraction in these two groups who follow through on their plans. Similarly, many who initially work very long hours may be able to reduce working time without needing to take a reduction in compensation or formally renegotiate other conditions of employment. This likely explains the relatively high fraction in this group that realizes plans to cut back on their hours.⁸

About a third both the self-employed and those working fewer than 48 hours per week who reported that their firms would allow them to reduce hours followed through on plans to reduce hours. Even larger shares of individuals in these groups continued to work the same or more hours. We do not know the extent to which these individuals had difficulty arranging hours reductions, were unwilling to accept the reduction in pay that would have accompanied a reduction in hours, or had other reasons for not following through on their plans. It should be noted that failure to follow through on plans to reduce hours may have resulted, on net, in more total work among these groups, because these individuals were more likely to continue to work the same hours rather than to fully retire. Unfortunately, the HRS data do not permit a precise comparison between planned and actual hours worked.⁹

Those working under 48 hours per week who reported that their employer would not allow hours reductions were the least likely to follow through on plans to reduce hours. These individuals presumably had planned to reduce their hours by leaving their jobs for new employment with shorter hours. Instead, they proved most likely to stop working altogether; they left their jobs but failed to obtain new jobs with fewer hours. Thus, among this group, failure to

follow through on plans to reduce working time appears to have resulted, on net, in less total work. In addition, among those who did reduce their hours, most managed to arrange hours reductions with their initial employer rather than moving to a new job. These preliminary findings suggest that, the need to change jobs is a major obstacle to reducing work hours and remaining employed among older Americans.

Conclusions and Implications

Our analysis of older working Americans with retirement plans indicate that about half said that they would like to cut back on work hours or change the type of work they do prior to, or instead of, fully retiring. But only a minority followed through on these alternative plans. Analysis of those intending to reduce their work hours—a group that represents the majority of those with alternative plans—suggests that the ease of reducing hours on a current job was strongly correlated with having plans to reduce hours and with following through on those plans. Workers whose current employment arrangements would likely require changing jobs in order to reduce work hours were the least likely to have plans to reduce hours and, conditional on having such plans, were the least likely to follow through with them. Instead, these persons were most likely to stop working entirely.

For many people, then, it appears that the only feasible way of reducing work hours is to change jobs. Nevertheless this path to a shorter workweek was taken by very few of those approaching retirement who had planned to reduce their hours. Our finding is open to several interpretations. One is that many people plan to reduce hours by changing jobs but they have unrealistic expectations about the alternative job opportunities available to them. Hence, when it is time for them to search for new employment, they find the jobs available to them unattractive

and change their minds, continuing in their current jobs, or, more likely, fully retire. We note that under this scenario, there is no clear justification for policy intervention: thus as people become better informed about their employment options, they make their choices based on this information.

A different interpretation is that many older workers face barriers to changing jobs. Despite laws prohibiting age discrimination, some firms may discriminate against older job applicants. Moreover, older workers who have not changed jobs recently may not know how to search effectively for work or how to acquire even relatively simple skills needed for a new job. Consequently, older workers in this group would likely benefit from services to facilitate job transitions, a suggestion often recommended for dislocated workers. In this scenario, policies to combat age discrimination, provide information on employment and training opportunities, and increase the efficiency of job transitions could have positive effects on employment among seniors.

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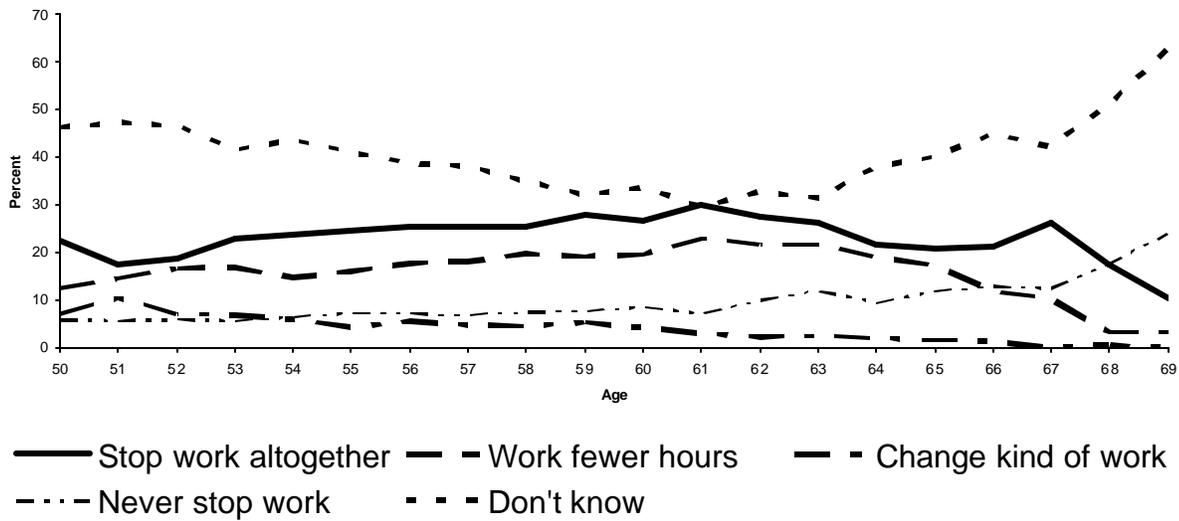
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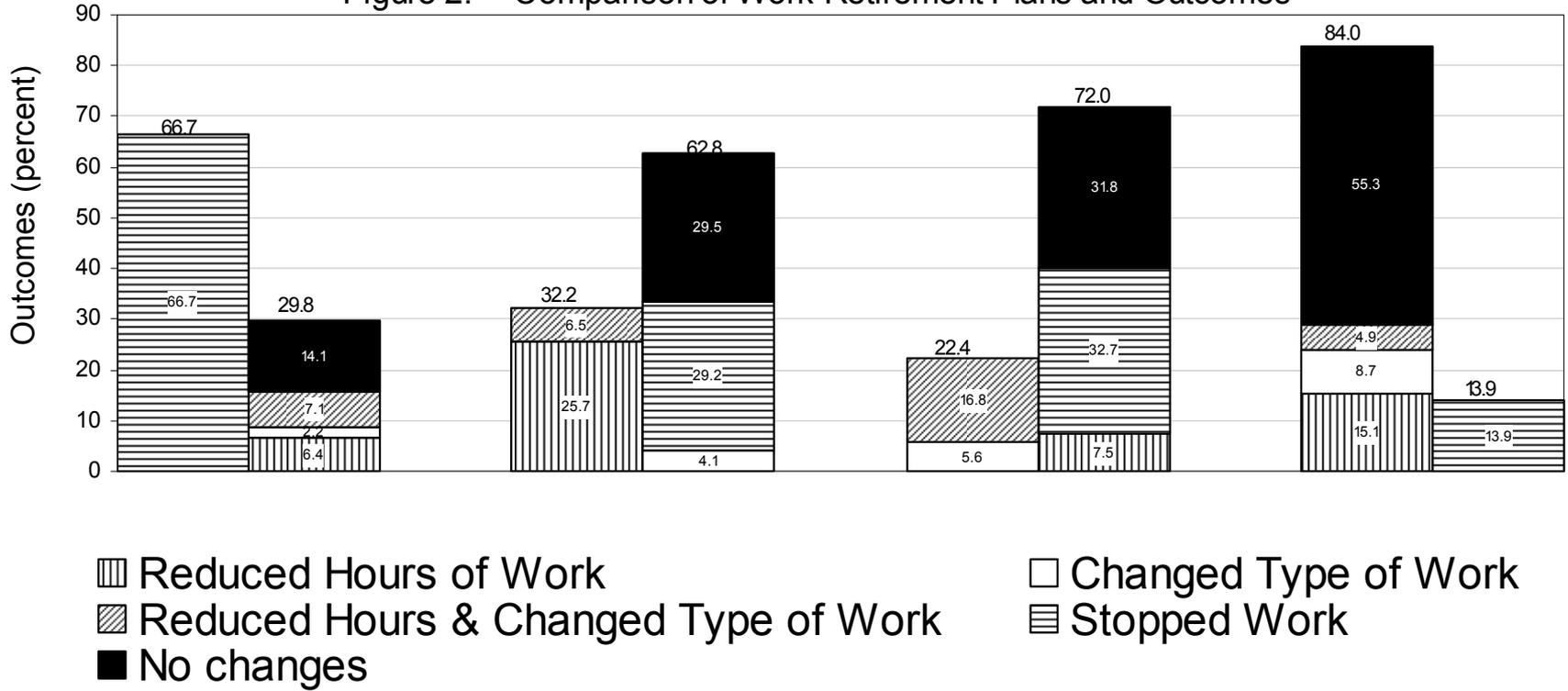
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Figure 1. Retirement Plans by Age of Respondent
 (Percent of respondents)



Source: Authors' calculations based on waves 1 through 5 of the Health and Retirement Study, conducted in 1992-2000. Percentages calculated using person-level analysis weights and row percentages sum to 100

Figure 2: Comparison of Work-Retirement Plans and Outcomes



Source: Authors' calculations based on waves 1 through 5 of the Health and Retirement Study, conducted in 1992-2000. Percentages calculated using person-level analysis weights and row percentages sum to 100

Table 1: Plans for Retirement, by Age

Age at Time of Interview	Number of responses	Plans for Retirement (weighted)					
		Stop Work Altogether (%)	Work Fewer Hours (%)	Change Kind of Work (%)	Never Stop Work (%)	Don't Know (%)	Other (%)
50	179	22.6	12.5	7.0	5.8	46.3	5.8
51	626	17.3	14.5	10.4	5.7	47.2	4.9
52	781	18.5	16.7	7.0	5.9	46.6	5.4
53	1,104	22.9	16.9	6.9	5.7	41.6	6.0
54	1,164	23.9	14.6	5.9	6.4	43.7	5.6
55	1,398	24.4	16.0	4.3	7.2	41.1	6.9
56	1,480	25.3	17.8	5.6	7.1	38.7	5.6
57	1,630	25.5	18.1	4.7	6.9	38.1	6.7
58	1,702	25.3	19.7	4.5	7.4	34.9	8.1
59	1,732	28.0	19.2	5.3	7.7	32.1	7.7
60	1,611	26.6	19.6	4.2	8.4	33.6	7.6
61	1,330	29.8	23.0	3.1	7.2	29.5	7.4
62	814	27.3	21.7	2.2	9.8	32.7	6.3
63	616	26.2	21.7	2.5	12.0	31.4	6.1
64	419	21.5	18.9	2.0	9.4	38.1	10.1
65	298	21.0	17.2	1.6	11.8	40.1	8.4
66	186	21.2	11.9	1.4	12.8	44.9	7.8
67	106	26.1	10.3	0.0	12.4	42.2	9.0
68	77	17.6	3.2	0.6	17.8	51.3	9.6
69	23	10.3	3.3	0.0	23.8	62.6	0.0
Total	17,276	25.0	18.3	4.7	7.7	37.5	6.9

Source: Authors' calculations based on plans reported in waves 1 through 5 of the Health and Retirement Study, conducted in 1992-2000. Each interview with a person who reported working 20 or more hours/week and 1,000 or more hours/year, and was interviewed again in the subsequent wave, constitutes an observation. The tabulations thus include multiple observations for those interviewed multiple times. The "other" category includes those who reported plans not listed or cited more than one plan for retirement. Percentages calculated using person-level analysis weights and row percentages sum to 100.

Table 2: Comparison of Plans for Retirement with Subsequent Outcomes

Plans for Retirement	Number of Responses	Actual Outcome at Next Interview (weighted)					Missing (%)
		Working Fewer Hours (%)	Changed Type of Work (%)	Working Fewer Hours & Changed Type of Work (%)	Stopped Working (%)	No changes (%)	
Plan to stop work altogether:							
Before next interview	655	9.3	2.5	7.9	65.0	14.4	0.9
During year of next interview	529	7.0	3.0	3.0	47.8	38.5	0.8
After next interview	2,953	9.9	3.9	2.1	11.8	71.9	0.5
No date given	179	13.5	4.3	2.8	28.1	50.9	0.4
Plan to work fewer hours:							
Before next interview	474	25.7	6.7	9.6	27.8	28.8	1.4
During year of next interview	382	17.7	5.4	7.0	23.9	44.0	2.0
After next interview	2,120	13.4	8.7	4.7	7.6	65.0	0.7
No date given	160	22.3	8.5	9.4	12.2	46.3	1.2
Plan to change kind of work:							
Before next interview	118	12.2	5.4	16.7	33.1	28.1	4.4
During year of next interview	123	8.2	4.7	12.3	27.8	44.8	2.2
After next interview	529	10.4	6.8	3.9	10.6	68.1	0.3
No date given	69	14.2	13.7	5.8	10.5	54.0	1.8
Plan to always work	1,300	15.3	10.1	6.4	13.8	53.5	0.9
Don't have plans	6,544	12.7	8.0	4.5	11.6	62.4	0.8
Other plans	1,141	15.4	6.5	7.1	14.6	55.4	0.9
Total	17,276	12.9	6.9	4.9	15.8	58.8	0.8

Note: Authors' calculations. See Table 1. "No changes" means that the individual did not reduce weekly hours by 8 or more and did not change occupation or move between employee and self-employed status. Missing outcomes reflect missing weekly hours data, missing occupation codes, and missing employment status information. The "other plans" category includes those who reported plans not listed and those who cited more than one plan for retirement. Percentages calculated using person-level analysis weights and row percentages sum to 100.

Table 3: Subsequent Outcomes For Those Who Planned to Reduce Hours Prior to Next Interview, by Initial Employment Arrangement

Initial Employment Arrangement	Full Sample		Sample Planning to Reduce Hours Before Next Interview		Actual Outcome at Next Interview Among Those Planning to Reduce Hours (weighted (%))			
	Number	Weighted Percent	Number	Weighted Percent	Working Fewer Hours	Working Same or Greater Hours	Stopped Working	Outcome Missing
Self-employed	2,898	18	117	27	37	41	19	3
Multiple job holder	1,582	9	46	9	63	25	13	0
Employee with 1 job, work 48+ hours	2,758	16	53	10	48	20	29	3
Employee with 1 job, work < 48 hours, believe employer would allow reduced hours on job	2,803	16	126	26	31	47	22	0
Employee with 1 job, work < 48 hours, do not believe employer would allow reduced hours on job	7,235	41	132	28	27	30	43	0
Total	17,276	100	474	100	36	36	27	1

Note: Authors' calculations. See notes to Tables 1 and 2 for sample description. Individuals categorized as working fewer hours if weekly hours fell by 8 or more. Missing outcomes reflect missing weekly hours data. Because these tabulations do not require information on occupation or employment status, there are fewer observations with outcomes categorized as "missing" than for the same group in Table 2. Percentages calculated using person-level analysis weights. Percentages in the last four columns sum to 100.

Table 4: Among Those Who Followed Through on Plans to Work Fewer Hours, Means of Reducing Hours, by Initial Employment Arrangement (weighted %)

Initial Employment Arrangement	Number of Observations	Changed Employer	Reduced Hours with Same Employer	Dropped 2nd Job
Self-employed	41	19	81	NA
Multiple job holder	26	0	22	78
Employee with 1 job, work < 48 hours, believe employer would allow reduced hours on job	39	19	81	NA
Employee with 1 job, work < 48 hours, do not believe employer would allow reduced hours on job	35	38	62	NA
Total	163	20	68	12

Note: Authors' calculations. See Tables 1 and 2 for sample description. Missing outcomes reflect missing weekly hours data. Percentages calculated using person-level analysis weights and row percentages sum to 100.

Endnotes

¹ The HRS also interviews other adults living in these households and therefore includes some individuals born before 1931 or after 1941, but we analyze only HRS participants born during this time period.

² Wave-specific HRS person-level analysis weights are used in all calculations.

³ Except as noted, respondents' answers to the retirement plans question were coded into the same categories in all survey waves. The fraction of respondents of a given age saying that they planned to change the kind of work they did was higher in 1992, when changing type of work was mentioned explicitly as a possible response to the question about retirement plans, than in 1994 and later years, when it was not.

⁴ Much of the previous research comparing predicted and actual retirement outcomes from the HRS has used answers to a question included only in the first wave of the survey that asked individuals when they planned to retire fully. If individuals said they did not know, they were further prodded to give a response with the question, "When do you *think* you will retire?" One exception is Benitez-Silva and Dwyer (2003), who draw on the same questions about retirement plans asked in successive waves of the survey that we use for our analysis. Benitez-Silva and Dwyer focus on planned age of retirement and do not consider the full range of plans that individuals report.

⁵ The HRS also asks individuals when they started doing their current type of work. In theory, this should measure change in the type of work individuals do, as they themselves define such change. We found, however, that measuring work change in this way was less correlated with planned work changes than measuring work change as a change in occupation.

⁶ Because the time elapsed between interview dates in adjacent waves could be somewhat less or somewhat greater than 24 months, an individual age 60 in the initial wave could also be 61 or 63 in the subsequent wave.

⁷ As is discussed below, workers in certain kinds of jobs—including multiple job holders, the self employed, those working more than 48 hours per week, and those who said their employers would allow a reduction in hours—are more likely to follow through on plans to reduce their hours than others. Even if we assume that all workers in these categories who planned hours reductions but instead stopped working first cut back on their hours, the fraction of people following through on plans to reduce hours would still be substantially below the fraction following through on plans to stop work altogether. People who change employers between interviews seem most likely to have changed the type of work they do. Again, however, even if all job changers are counted as having changed their type of work, plans to change type of work still are far less likely to be realized than plans to stop working altogether.

⁸ Unfortunately, in the HRS the time period for which data on earnings are collected does not correspond to the time period for data on hours worked. Therefore, while we suspect that many long-hours workers who reduce working time do not incur a reduction in pay, we cannot directly test this hypothesis.

⁹ To accurately compare the work hours planned versus those actually realized, one would need additional information on how many hours the individual planned to work, and how long the individual planned to reduce work hours before fully retiring. One would also need to examine work hours over time. It is possible that an individual who did not reduce hours as planned could work more in the short term by continuing in the same job with the same hours, but fully

retire earlier than if that individual had been able to arrange a job with shorter hours, and thus work less in the long term.