

A GRADUAL EXIT MAY NOT MAKE FOR A HAPPIER RETIREMENT

BY ESTEBAN CALVO, KELLY HAVERSTICK, AND STEVEN A. SASS*

Introduction

Workers often say they want to retire gradually.¹ As retirement is a sharp break with life as they know it, it's not surprising that many prefer to negotiate the transition a step at a time. Many policymakers also view gradual retirement favorably. They see it as a way to extend careers, shorten retirements, and thereby improve retirement income security. Expanding opportunities for gradual or "phased" retirement has thus gained a prominent place on the policy agenda.

Workers who say they want to retire gradually, however, are clearly not basing their preference on personal experience. These workers have not retired both ways, concluding that retiring in stages is better. To shed light on this issue, this *brief* summarizes a new study comparing individuals who retired gradually with those who retired "cold turkey" and asks which are happier in retirement.² The study uses happiness as the yardstick because it measures *realized* quality of life; other criteria — such as income, wealth, social status, or health — measure *potential* quality of life. Greater happiness in retirement is also what workers seem to expect if they exit the labor force gradually.

To measure happiness, the study uses responses to five questions in the *Health and Retirement Study* —

whether the respondent was generally happy, enjoyed life, was sad, lonely, or depressed over the previous week. Respondents are classified in one of two groups: 1) those who retired gradually; and 2) those who retired all at once. For each group, the analysis then compares the change between responses given in the last wave of full employment and the responses given in the first wave of full retirement. It confirms the importance of other factors identified in the literature as affecting happiness in retirement, specifically the individual's control over the retirement decision, health, and the loss of a spouse. But it finds no evidence that workers who retire gradually are happier than those who retire cold turkey.

Previous Research on Happiness in Retirement

Previous studies have found retirees to be generally happy, albeit with significant variation in their degree of satisfaction.³ Factors found to have a significant effect on the happiness of retirees include:

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- *The sense of control over one's life.* In terms of the work-retirement transition, individuals who retired voluntarily are happier than those forced out of their job.⁴
- *Social relationships.* Retirees who are married tend to be happier than those who are single.⁵ The death of a spouse, not surprisingly, significantly diminishes happiness.⁶
- *Health.* Functional limitations that lead to everyday hassles are particularly troublesome.⁷
- *Pension type.* Some recent research finds retirees are happier with a defined benefit pension than they are with a comparable amount of wealth in a retirement account.⁸

Factors not shown to have a significant effect on happiness include:

- *Age.* After controlling for declines in health and the loss of social roles and loved ones, previous research finds no significant relationship between age and happiness in retirement.⁹
- *Income and wealth.* Here the evidence is mixed. Cross-sectional studies find evidence of a positive relationship between wealth and happiness.¹⁰ But studies using longitudinal data find the effect of income and wealth on happiness is generally small, except around the poverty threshold.¹¹

The study described in this *brief*, which examines the effect of gradual as opposed to abrupt transitions on happiness in retirement, will control for these factors.

Defining Happiness and the Retirement Transition

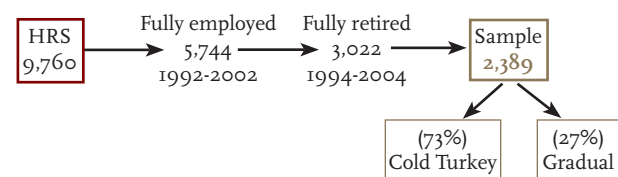
The study uses data from the *Health and Retirement Study* (HRS), a nationally representative, biennial, panel survey of older Americans and their spouses. The HRS began in 1992 and data are available through 2004.¹² The panel nature of the HRS is extremely valuable for a study on the effect of the work-retirement transition on happiness in retirement. Most of the research cited above used cross-sectional studies, which raise concerns about the direction of causation.¹³ The longitudinal nature of the HRS can give a better sense of the causal effect of a gradual as opposed to an abrupt transition on happi-

ness in retirement. To do that, for each individual in the HRS who makes a complete transition from work to retirement, this study establishes a baseline level of happiness when fully employed. It then compares changes from that baseline level among those who retired gradually and those who retired cold turkey, controlling for other factors shown to have an influence on happiness in retirement.

The first task is to identify individuals who made a complete transition — who were fully employed in the initial wave of the HRS and fully retired by the last available wave. Individuals are classified as “fully employed” if they worked at least 30 hours a week and reported themselves as “not retired” (as opposed to “completely retired” or “partly retired”). Individuals are classified as “fully retired” if they have zero hours of work and report themselves “completely retired.” The transition from work to retirement is based on when workers first report their status as other than “not retired.” Individuals who directly go from “not retired” to “completely retired” in sequential waves are classified as making a cold-turkey transition. Those who go from “not retired” to “partly retired” are classified as retiring gradually.¹⁴ This procedure yielded a sample of 2,389 individuals, 1,733 retiring “cold turkey” and 656 retiring gradually (see Figure 1).

To measure the happiness of an individual when fully employed and fully retired, the study uses five yes-or-no questions in the HRS. Respondents are asked whether “much of the time this past week” they were 1) happy; 2) enjoyed life; 3) felt lonely; 4) felt depressed; or 5) felt sad.¹⁵ Changes in the HRS happiness variables can be used to indicate whether a gradual exit from the labor force leads to a happier retirement. The change can take on one of three possible values: -1 (from happy to not happy), 0 (no change), or 1 (from unhappy to happy).

FIGURE 1. CONSTRUCTION OF SAMPLE FOR ANALYSIS OF RETIREMENT TRANSITION AND HAPPINESS



Source: Authors' illustration.

Does a Gradual Exit Make For a Happier Retirement?

The study uses five regression equations — one for each of the five HRS happiness indicators — to test whether retiring gradually results in a happier retirement as measured by the particular indicator.

The analysis controls for factors identified in the literature as affecting happiness in retirement:

- death of spouse during the transition;
- change in self-reported health status;
- defined-benefit pension coverage in the individual's last wave of full employment; and
- the individual's sense of control over the retirement decision.

The analysis also controls for:















- the number of years between full employment and full retirement (as the greater number of years under gradual retirement could affect happiness);
- “unemployment” reported in the first wave of “complete retirement” (as this factor might indicate unwanted retirement); and
- standard demographic variables, such as wealth, education, and gender.

The dichotomous nature of the five HRS happiness indicator variables limits their ability to measure changes in happiness from the baseline (last wave of full employment) to the first wave of full retirement. The indicator variables in the HRS can only take on the value of “yes” or “no.” So they cannot reveal a change from “yes” to “more yes” or “no” to “more no” — from enjoy life (do not enjoy life) while working to enjoy life even more (even less) in retirement. As a result, the study reports only the direction of change a factor has on happiness in retirement, not the magnitude of that change.¹⁶

The results of the regressions for each of the five indicator variables are reported in Figure 2. A sun indicates a statistically significant positive effect of a particular factor (the rows) on the particular happiness indicator (the columns). A cloud indicates a statistically significant negative effect. As the Figure shows, a cold-turkey retirement (as opposed to the default, gradual retirement) has no statistically significant effect on any of the five measures — happiness, enjoyment of life, sadness, loneliness, or depression

in retirement. The regression results also confirm the significance of other factors identified in the literature as affecting happiness in retirement — the death of a spouse, voluntary as opposed to forced retirement, and health status. Surprisingly, the results indicate that coverage by a defined benefit pension has no significant effect on any of the five indicators of happiness in retirement.

FIGURE 2. EFFECTS OF SELECTED FACTORS ON HAPPINESS IN RETIREMENT, 1992-2004

	Happy	Enjoy life	Sad	Lonely	Depressed
Cold turkey					
Retirement wanted					
Retirement partly wanted					
Spouse death					
Health decline					
Defined benefit					

Note: The sun symbol indicates a statistically significant positive effect. The cloud symbol indicates a statistically significant negative effect.

Source: Authors' calculations from the University of Michigan, *Health and Retirement Study* (HRS), 1992-2004.

Conclusion

Retirement marks a transition between two significantly different stages of life. A gradual transition gives workers time to shift their daily activities, social relationships, and identity in a more deliberate manner than a cold-turkey transition. This *brief* however, finds no evidence that a gradual transition produces a happier retirement.

It is unclear, however, whether the results of this study will alter the preferences of workers who currently say they would prefer to retire gradually. People “know” it generally makes no difference whether they dive straight into a swimming pool or gradually acclimate their body to the water. But, for whatever reason, most opt for the latter approach. So even workers who “accept” the results of this analysis might continue to prefer a gradual exit from the labor force.

The study finds gradual retirement to have no effect on happiness in retirement. Nor might it reduce the pressure on the nation's retirement income system. A recent study found that, if opportunities for part-time employment were expanded, some workers would remain in the labor force longer than they otherwise would but other workers would exit full-time employment earlier.¹⁷

The study did find that a worker's sense of control over the retirement transition has a significant effect on happiness. The *ability* to retire gradually, if that's what workers want — not the effect of gradual retirement per se — should make workers happier in retirement. Giving workers a sense of control over their retirement, not creating gradual retirement pathways per se, should be the item on the policy agenda.

Endnotes

- 1 Hutchens (2007); and U.S. General Accounting Office (2001).
- 2 Calvo, Haverstick, and Sass (2007).
- 3 For a full list of references to these studies, see Calvo, Haverstick, and Sass (2007).
- 4 Gallo et al. (2006); and Szinovacz and Davey (2005).
- 5 Bierman, Fazio, and Milkie (2006).
- 6 Cheng and Chan (2006).
- 7 Dulin and Pachana (2005); and Kosloski et al. (2005).
- 8 Bender (2004); and Panis (2003).
- 9 Cheng (2004); and Pinguart (2001).
- 10 Arendt (2005).
- 11 Diener and Biswas-Diener (2002).
- 12 The HRS is conducted by the Institute for Social Research at the University of Michigan and is made possible by funding from the National Institute on Aging. See Juster and Suzman (1995) for a detailed overview of the survey.
- 13 The problem in the attribution of causation is highlighted in a study by Charles (2004), which found a cross-sectional correlation among a group of workers between retirement and feelings of loneliness and depression. But did retirement cause these unhappy feelings? The researchers found that unhappy workers were more likely to retire than happy workers. After controlling for this selection, they found that retirement reduces, rather than increases, feelings of loneliness and depression.
- 14 The sample omits individuals who report themselves as “completely retired” but work more than zero hours, as their employment status in that wave and the nature of their transition are ambiguous. The sample also omits individuals who reverse direction and report themselves “not retired” after reporting themselves “partly retired.”

15 Other researchers studying happiness in retirement often use responses to the HRS inquiring about “satisfaction in retirement.” For example, see Rohwedder (2006), Panis (2003), and Bender (2004). As this study identifies the effect of the retirement transition using change from a baseline when individuals are working, this “satisfaction in retirement” variable could not be used.

16 To address the methodological problem created by the dichotomous nature of the indicator variables, the study also identified a latent “Affect” variable presumed to “drive” the five dichotomous HRS indicators. As a continuous variable, changes in “Affect” provide a more sensitive measure of the effect of the independent variables on happiness in retirement. The study also divided the sample for each indicator into respondents who were initially “happy” and those who were initially “unhappy” to measure the magnitude of the effect of the various factors in diminishing happiness (a change in the initially “positive sample” from “happy” to “unhappy”) and in increasing happiness (a change in the initially “negative sample” from “unhappy” to “happy”). The results of regressions using the latent “Affect” variable and split samples are consistent with those reported in this *brief*. For more details, see Calvo, Haverstick, and Sass (2007).

17 Gustman and Steinmeier (2007).

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