Working Paper
Executive Summary

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IDENTIFYING LOCAL DIFFERENCES IN RETIREMENT PATTERNS

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Postponing retirement is frequently touted as a solution to numerous concerns related to well-being in old age, including inadequate retirement saving, post-retirement gaps in health insurance coverage, and underfunding of Social Security and Medicare. But, an individual's ability to retire at an age and in a manner of his choosing depends on his ability to find and retain employment at older ages. Given the low level of geographical mobility of older workers, this depends on local labor market conditions.

This paper investigates how local labor market conditions affect retirement transitions, and in particular, their impact on both involuntary exits from jobs and the opportunity after either voluntary or involuntary exits to find bridge jobs that allow phased retirement.

It makes use of data from the Health and Retirement Study (HRS), a detailed longitudinal survey of over 7,600 households with a member born between 1931 and 1941. The HRS began in 1992 and surveys people every two years. We make use of data through 2004. We analyze the data to identify each participant's employment transitions between one birthday and the next. Making use of HRS geographic identifiers available to qualifying researchers on a restricted basis, we indentify each participant's Core Based Statistical Area (CBSA) of residence. A CBSA comprises one or more counties with at least one urban area of at least 10,000 population, plus adjacent territory that has a high degree of economic and social integration as measured by commuting ties – a local labor market.

We match the HRS data with Bureau of Labor Statistics data on the local unemployment rate and estimate multinomial logit regressions with birthday-to-birthday job transition as the dependent variable. Our sample consists of the 31,991 person-year observations in which the individual was employed at the start of the year. We classify individuals according to whether they:

- were still working for the same employer at the end of the year
- made an involuntary exit to a new job
- made a voluntary exit to a new job
- involuntarily retired, defined as not working
- voluntarily retired

In some specifications, we further distinguish between voluntary exits to new full time and part time jobs, full time being defined as 30 or more hours a week.

Our covariates include the local unemployment rate and a full set of controls, including age, occupation, industry, educational attainment, marital status, ethnicity, pension type, and wealth.

We find that the MSA unemployment rate has large and statistically significant effects on many of the job transitions we consider. Although the magnitudes of the effects vary with sample (being stronger for men than for women), and with initial job (usually being greatest for the semi-skilled), consistent patterns emerge. The MSA unemployment rate has a negative effect on the likelihood of voluntary exit to either a new job – especially to one that is part-time – or retirement, and a positive effect on involuntary exits to retirement, relative to staying in the job. Thus, high unemployment discourages voluntary exits, perhaps reflecting not only the difficulty an older worker faces in finding a new job during bad times but also an unwillingness to leave a job and then search for another when nothing has been lined up.

The magnitudes of the estimated effects of local unemployment are relatively important in size. A one percentage point increase in the MSA unemployment rate (from 3% to 4%, say, which is a smaller difference than is observed between the peak and trough of a typical business cycle) reduces the likelihood of voluntary exit to a new job by 8.5%. Further, a one-percentage point increase in the local unemployment rate reduces the likelihood of voluntary exit to retirement by 1.9%, and it raises the likelihood of an involuntary exit to retirement by 5.7%.

Our analyses indicate that calculations based on labor force participation rates may fail to capture important aspects of the impact of labor market conditions on older workers. High unemployment rates may substantially constrain the ability of those not confronting involuntary unemployment to transition into retirement at an age and in a manner of their choosing.

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