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Work and Retirement Plans among Older Americans

Upjohn Institute Staff Working Paper No. 04-105

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Work and Retirement Plans among Older Americans

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 stop 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.

As the baby boomers reach retirement age, labor force growth is projected to slow and the share of the adult population that has withdrawn from the labor force is expected to rise (Mulvey and Nyce, this volume; Board of Trustees of the OASDI Trust Funds 2004).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 employers' needs and whether the Social Security and Medicare trust funds will remain solvent, spurring policy interest in increasing employment at older ages.

This chapter is motivated by evidence that many more people express an interest in working at older ages than, in fact, 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 data from the Health and Retirement Study, 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 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 those born in 1946 were 54 years old, individuals 55 and older accounted for 21.4 percent of the population. The Census Bureau projects that the population share of those 55 and older 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 and 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).

These demographic trends have raised concerns about employers' ability to recruit an adequate workforce and about the solvency of the Social Security and Medicare trust funds in the coming decades. 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). The most recent Social Security projections show the number of current workers per beneficiary dropping 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 retirees' benefits, fueling large projected deficits (Board of Trustees of the OASDI Trust Funds 2004). While unlikely to be a complete solution, an increase in labor force participation among older Americans could ameliorate these problems. And there are other reasons for interest in labor force participation at older ages. From the worker's perspective, should life expectancy continue to grow without a commensurate increase in savings or pension accumulations during the pre-retirement years, earnings from continued work could be a welcome supplement to retirement incomes. In addition, the social connections offered by work may be 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 passage of the Senior Citizens' Freedom to Work Act of 2000 (PL 106-182). This act eliminated the earnings test for Social Security beneficiaries from the normal retirement age (age 65 for those born before 1938 and rising to age 67 for those born after 1959) through age 70. 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 beyond the normal retirement age can earn while collecting their full Social Security benefits. Legislation introduced in the 106th Congress (HR 4837/S 2853, the Phased Retirement Liberalization Act) would have eased restrictions that preclude workers from drawing partial retirement benefits while continuing

to work for their current employers. Although this bill was not enacted into law, there has been continuing discussion of reforms that would remove legal impediments to phased retirement, together with other reforms that might facilitate increased labor force participation at older ages (see, for example, Burtless and Quinn 2002 and Penner, Perun and Steuerle 2002).

What will happen to labor force participation rates at older ages remains an open question. The share of men aged 55 and older who were 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 and older were relatively flat through the mid-1980s. Since about 1985, labor force participation among older-aged women aged 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 have provoked 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 (see, for example, 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 (see, for example, 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, longer retirement periods should be expected.

Whichever of these perspectives is correct, whether a person works at any given age depends both on her *interest* in working and on her ability to obtain acceptable employment. This suggests the potential value of considering employees' 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 retirement plans or the extent to which actual retirement outcomes are consistent with those 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 a panel of individuals who are followed 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), which was initiated in 1992. There is a substantial body of research that 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) and that many have done little or no financial planning for retirement (see, for example, Ameriks, Caplin and Leahy 2003 and Lusardi 2003). To the extent that people's expectations about their retirements 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 deterioration in individuals' health status on actual versus planned retirement outcomes. Anderson, Burkhauser and Quinn (1986) ask whether the unexpectedly large increases in Social Security benefits in the early 1970s led potential recipients to retire earlier than they had planned. Coronado and Perozek (2001) examine the effect of the stock market boom of the 1990s on 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 are relatively accurate for those within a few years of planned retirement, but less accurate for those who expect 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.

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 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 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 the studies that look specifically at how people leave the labor market, moving from full labor market attachment directly to complete retirement generally 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 jobs with actual transitions into bridge jobs.

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 Health and Retirement Study (HRS). The HRS panel includes a representative sample of Americans born in the years 1931 to 1941.¹ Panel members have been interviewed biennially since 1992. Survey participants are 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 using data from the first six waves of the survey, which cover the period from 1992 through 2002. Wave-specific person-level analysis weights were used for all calculations.

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. This section of the survey begins with a question about the usual age of retirement at the respondent's workplace. This is followed by a question about the respondent's own plans. In 1992, this question reads, "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 reads, "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, 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.² 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.

The 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, the accuracy of predictions about retirement can be expected to decline as the length of time increases until the predicted retirement date (Bernheim 1989). We document that many individuals do not plan for retirement much before they make the transition (see also Ameriks, Caplin and Leahy 2003; Lusardi 2003), so that predictions of retirement age given 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 2001). We attempt to minimize this problem by comparing plans with outcomes over a short time horizon and by explicitly coding as “don’t know” responses in which individuals say they have given little thought to future work and retirement plans.³

Plans for Work and Retirement

Table 1 shows the prevalence of work and retirement plans among our sample of HRS respondents. Here we report responses to the questions about plans asked in waves 1 through 5 (1992, 1994, 1996, 1998, and 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, and the figures reported in table 1 thus may contain multiple observations for a particular individual.

Despite the fact that all of the HRS respondents were in their 50s or 60s at the time they were asked the question about their retirement plans, the most common answer, accounting for 38 percent of responses, was that the person had not given much thought to future work and retirement plans or didn't have any plans. A quarter of responses reflected plans to stop work altogether, while 18 percent reflected plans to reduce hours of work. Changing their type of work, always working, or other plans each accounted for between 5 and 8 percent of responses. The pattern of responses was similar for men and women.

Table 1 Plans for Retirement, by Age

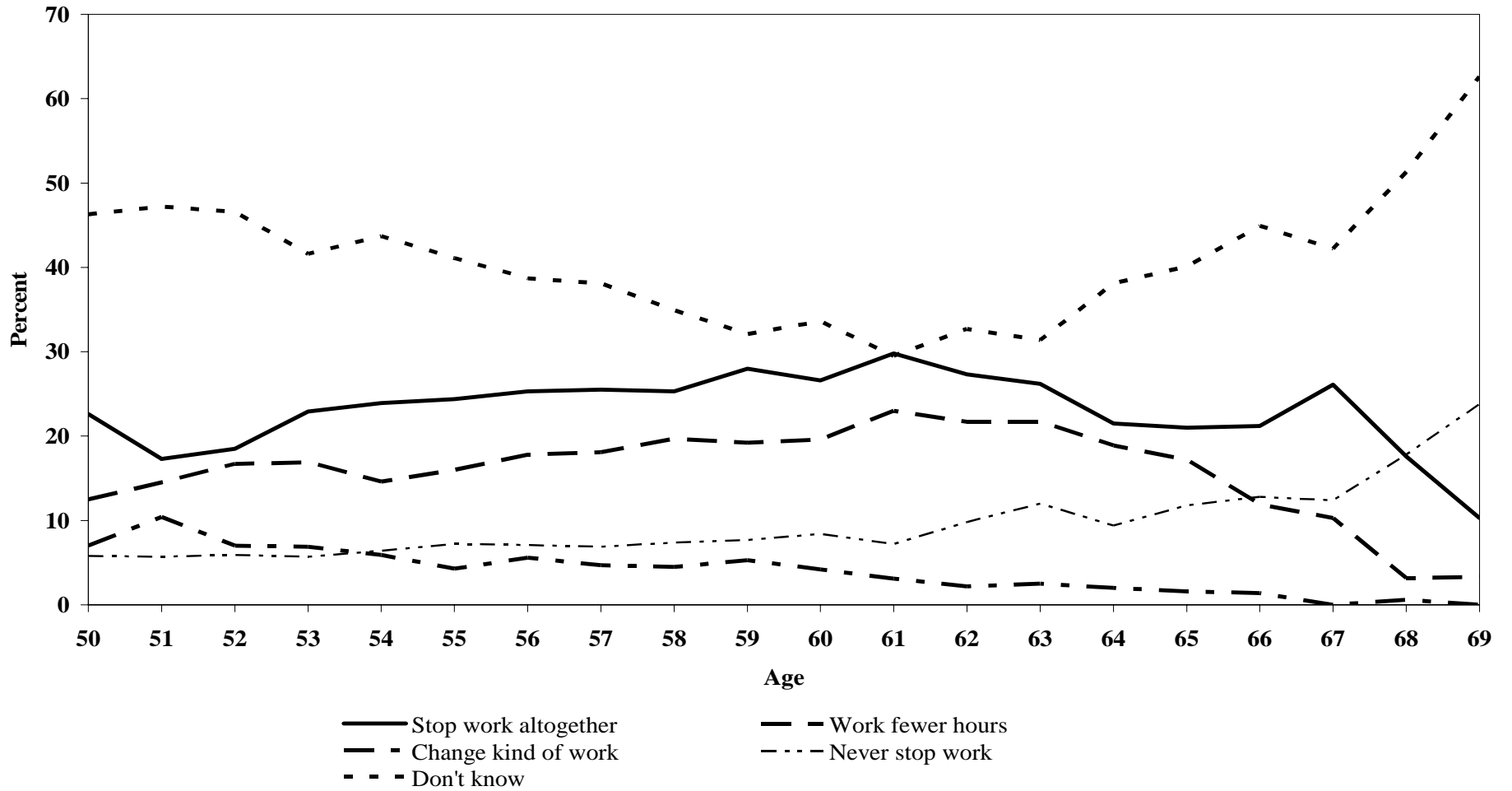
| Age at Time of Interview | Number of responses | Plans for Retirement (weighted percent) | | | | | |
|--------------------------|---------------------|---|------------------|---------------------|-----------------|------------|-------|
| | | Stop Work Altogether | Work Fewer Hours | Change Kind of 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 |

Note: Authors' calculations based on plans reported in waves 1 through 5 of the Health and Retirement Study, conducted in 1992, 1994, 1996, 1998 and 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 some people who are 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.

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 the age at which they otherwise would retire. Although we have 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 they reported for 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 uses the data reported in table 1 to plot 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 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 not having future work or retirement plans. The fraction indicating they wished to cut back on their hours also peaked for workers in their early 60s. 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 Retirement Plans by Age of Respondent
(Percent of respondents)**



The fall in the fraction of workers saying they wished to make some type of transition—stop work altogether, reduce hours, or change their type of work—among those in their mid-60s, 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 who are 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 are more likely than average to want never to stop working.

We also looked at the pattern of responses by age of respondent for each wave of the survey. There is some tendency—though it is not entirely consistent across age categories—for the fraction of those of a given age responding “not given it much thought” or “don't know” to fall after the first wave of the survey. It is possible that 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 actually understates the fraction of the population 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 some type of change in their work situation. We next examine the extent to which people's stated work and retirement plans in one wave are consistent with their work and retirement outcomes in the subsequent wave, about two years later. We classify people as having reduced their weekly hours if the sum of weekly hours worked on all jobs dropped by 8 hours or more between waves. We require this threshold decline (which represents about a day of work in the typical 5 day, 40

hour per week, full-time job) to avoid classifying as declines minor changes in reported hours, whether due to actual variations or to misreporting of average work weeks. Whether individuals have changed the type of work they do is somewhat subjective, and there is no clean measure of such a work change in the HRS. We experimented with several measures. In table 2, we consider anyone who changed occupation to have changed the type of work they were doing.⁴ 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.

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.⁵ If the individual indicated that 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 that time, or she could have planned to retire later in the year. Finally, if she stated that she planned to retire at age 63, she is not 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. The patterns of the outcomes in the second wave are consistent with individuals' planned timing for making those transitions. Those planning to stop work

altogether, reduce their work hours, or change the type of work they do prior to the next wave, are much more likely than the HRS population overall to have made that transition by the next wave. Those planning to make a transition during the year of the next wave interview are much more likely than the HRS population overall, but much less likely than those planning the transition prior to the next interview, to have made the transition. Finally, the probability of having made a specific transition is about the same for those planning that transition after the next wave interview as it is for the HRS population overall.

Table 2 Comparison of Plans for Retirement with Subsequent Outcomes

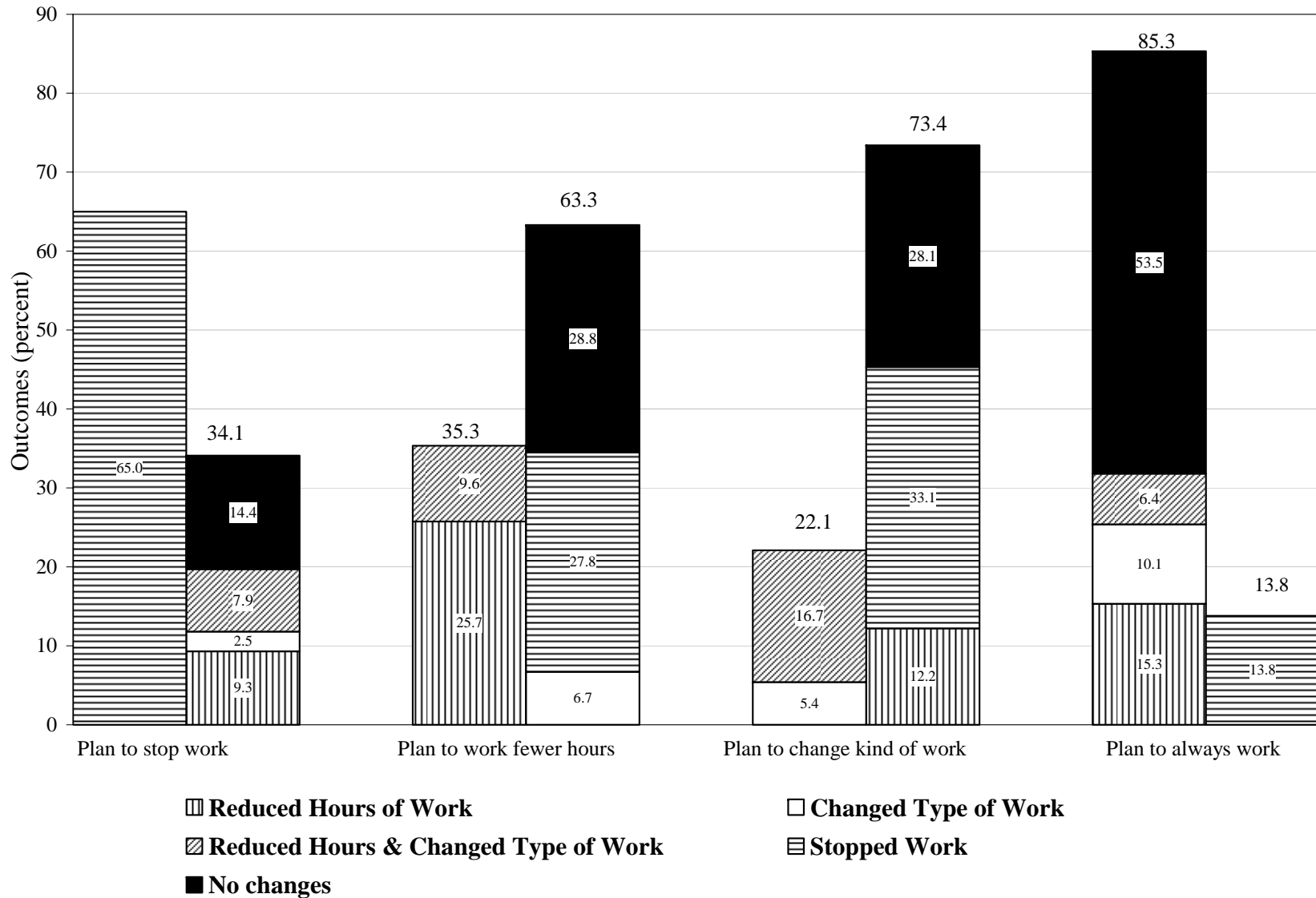
| Plans for Retirement | Number of Responses | Actual Outcome at Next Interview (weighted percent) | | | | | |
|--------------------------------------|----------------------------|--|-----------------------------|---|------------------------|-------------------|----------------|
| | | Working Fewer Hours | Changed Type of Work | Working Fewer Hours and Changed Type of Work | Stopped Working | No changes | Missing |
| 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. Outcome measures collected in waves 2 through 6 of the Health and Retirement Study, conducted in 1994, 1996, 1998, 2000 and 2002. See note to table 1 for further description of sample. The time elapsed between interview dates was approximately 2 years. "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.

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. We summarize the data from these three rows, along with outcomes for those who planned never to stop working, in figure 2.

In figure 2, 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. Differences in the fraction that followed through on initial plans are striking. 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.

Figure 2 Comparison of Retirement Plans and Outcomes



In sum, individuals planning 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 are quite similar between men and women, and for this reason we do not report separate tabulations by gender.

One caveat to the numbers reported in table 2 and figure 1 is that individuals may have made multiple transitions in the two-year period between waves. We classify the transition according to what the individual was doing at the time of the next interview. For instance, people who moved to a shorter work schedule or a new type of work but then stopped working altogether prior to the next wave interview are counted as having stopped work altogether, rather than as having reduced their hours or changed the type of work they do. The information available does not allow us to tabulate exactly the number of such cases. Nevertheless, our qualitative conclusion that 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 is robust to any reasonable allowance for multiple transitions between interviews.⁶

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 are about half as likely as the latter to follow through on their plans. We have no *a priori* reason to believe that individuals planning to reduce their hours are less committed to their plans than individuals planning to stop working altogether. Why then does the transition to working fewer hours appear so difficult for older workers? We cannot provide a definitive answer to this question, but can offer some preliminary thoughts and suggestive evidence.

Full retirement entails simply leaving a job. Unless individuals hold multiple jobs, however, reducing work hours requires either that they arrange a reduction in hours on the current job or that they find a suitable new job with shorter hours. Individuals seeking to cut hours on their current job may need to obtain approval from an employer and formally renegotiate the terms of their employment, including hours, compensation, and job duties. Some job duties may not be easily divisible and consequently employers may be unwilling to reduce an employee's hours, even if the employee accepts a commensurate reduction in pay.

In many circumstances, therefore, an 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 married women who remain on the same job. Yet, older workers, as a group, 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. Such workers may lack good connections to other employers or be easily discouraged in the job search process. They may not know how to obtain the new skills required by available positions

or may overestimate the difficulty of skill upgrading. Others may have unrealistic expectations about the wages they can hope to earn in a new job. Finally, seniors searching for work may encounter discrimination from potential employers; although discrimination against older workers in employment is illegal, the 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 hours reductions 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 their work hours more easily. A sizable fraction (16 percent) of older workers in the HRS 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 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 lower 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. In our HRS sample, there are 474 cases in which individuals 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 plans to reduce hours 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.

The first two columns of Table 3 show that workers in jobs with certain characteristics are overrepresented among those planning hours reductions, whereas those in jobs with other characteristics are underrepresented. 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 overrepresented 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 employers would allow 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, individuals who think they might like to reduce hours in the future may be more likely to seek jobs with employers they know will allow hours reductions.

Table 3 Subsequent Outcomes among 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 percent) | | | |
|--|-------------|------------------|---|------------------|--|-------------------------------|-----------------|-----------------|
| | 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 table 1 and table 2 for description of sample. The time elapsed between interview dates was approximately 2 years. Individuals were categorized as working fewer hours if their weekly hours had fallen 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.

The four columns at the right side of table 3 show that there are substantial differences in the fraction of individuals following through on plans to reduce hours according to 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 working very long hours initially (48 percent). Among the self-employed, just 37 percent realize plans to reduce hours. Employees who work less than 48 hours and who reported that their employers would not allow them to reduce their work schedules are the least likely to follow through on hours reductions plans. It is perhaps surprising that among employees who work less than 48 hours per week and who reported that their employers would allow reductions in hours, the percentage realizing plans to reduce work hours (31 percent) is only somewhat higher than that among employees who work 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 would not allow them to cut back on their hours are 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 options open to individuals for reducing their work hours, and, we argue, in the difficulty they face in achieving an hours reduction. Table 4 reports, for those who followed through on plans to reduce hours, how this was accomplished. Individuals could reduce work hours by reducing hours on their current job, changing jobs, or, in the case of multiple job holders, quitting a job. As expected, 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 their 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 reducing hours on their initial job. Although the sample sizes that underlie table 4 are quite small, the figures indicate that, among individuals approaching retirement who realize plans to reduce hours, very few do so by changing jobs.

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

| 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 note to table 1 for description of sample. The time elapsed between interview dates was approximately 2 years. Individuals categorized as working fewer hours if weekly hours have fallen by 8 or more. Missing outcomes reflect missing weekly hours data. The Percentages calculated using person-level analysis weights and row percentages sum to 100.

The evidence presented in tables 3 and 4 broadly supports the argument that individuals for whom the transition to working fewer hours is less difficult are more likely to plan such reductions and, given these plans, 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.⁷

About a third both of the self-employed and of those working less than 48 hours per week who reported that their employers 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 greater 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 data available in the HRS do not allow us to make a precise comparison between planned and actual hours worked.⁸

Those working less than 48 hours per week who reported that their employer would not allow hours reductions are the least likely to follow through on plans to reduce hours. These individuals presumably had planned to reduce their hours by leaving their job and finding a new one with shorter hours. Instead, they were the most likely to stop working altogether; they left their job, but failed to obtain another job 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 Policy Implications

Among older working Americans with retirement plans, about half indicate 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. Yet, a minority follows through on these alternative plans.

Analysis of individuals planning to reduce their work hours—a group that represents the majority of those with alternative plans—suggests that the ease of reducing hours in the individual's current job is strongly correlated with having plans to reduce hours and with following through on those plans. Individuals whose current employment arrangements would most likely require changing jobs in order to reduce work hours are the least likely to have plans to reduce hours and, if they do have such plans, are the least likely to follow through with them. Instead, these individuals are most likely to stop working entirely.

For many people, it appears, the only feasible way of reducing work hours would be to change jobs, but this path to a shorter work week is taken by very few of those approaching retirement who had planned to reduce their hours. This finding is open to different interpretations. One possible interpretation is that many people plan to reduce hours by changing jobs, but have unrealistic expectations about the alternative job opportunities that will be available to them. When it comes time for them actually to search for new employment, they find the jobs available to them unattractive and change their minds, continuing in their current job or, more likely, fully retiring. In this scenario, there is no clear justification for policy intervention. Individuals become fully informed about their employment options and make their choices based on this information.

Alternatively, older workers may face substantial barriers to changing jobs. Despite laws prohibiting age discrimination in employment, some employers likely discriminate against older job applicants. Moreover, many older workers, especially those 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. As is the case for many dislocated workers, such older workers likely would benefit from services that facilitate job transitions. 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. These issues warrant further study.

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Notes

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 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.

³ 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.

⁴ 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.

⁵ Because the time elapsed between interview dates in adjacent waves could be somewhat less or somewhat greater than 24 months, an individual aged 60 in the initial wave could also be 61 or 63 in the subsequent wave.

⁶ 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.

⁷ 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.

⁸ 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 work reduced 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.