

# LABOR FORCE TRANSITIONS AT OLDER AGES: THE ROLES OF WORK ENVIRONMENT AND PERSONALITY

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September 2013

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While financial preparedness for retirement and health shocks are often cited as main predictors of the choice to exit the labor force, there exists relatively little research documenting the extent to which the work environment itself and its interaction with economic variables influence retirement decisions. Unfavorable work conditions may adversely impact one's motivation and willingness to pursue goals on a career job. This may induce some to seek out alternative employment (bridge or part-time jobs) and others to withdraw from the labor force altogether. Whether one or the other option prevails hinges crucially on individuals' financial needs and proclivity to work, on the availability of jobs for older workers, as well as on the perception that individuals have about job opportunities at older ages. Conceivably, all these factors are linked to and affected by specific personality traits.

The goal of this study is twofold. First, we aim to assess the extent to which job characteristics lead full-time employees to move to part-time employment, retirement, or out of the labor force. Second, we wish to investigate the relationship between labor supply decisions and personality traits at old ages and examine whether individuals with different personalities cope differently with similar work environments and exhibit different retirement paths.

Intuitively, job characteristics, work conditions and ability to adapt to them should predict retirement proclivity. For example, high levels of work-related stress may induce individuals to retire earlier. Adequate financial rewards and generous benefits are likely to keep individuals on the job, but they might also lead to anticipated exits from the labor force, should they boost wealth accumulation to finance retirement. The interactions among work environment, job satisfaction, and labor supply decisions are rather complex. Such complexity is further increased by the potential for both endogeneity and heterogeneity in these relations. First, individual preferences shaping labor supply decisions may also be responsible for self-selection into specific jobs or occupations. Second, aspects that may encourage some to retire may prevent others from doing so: what is stimulating or challenging for some individuals may be demanding for others. We hypothesize that selection into certain jobs and heterogeneity in labor force transitions can be partly explained by personality traits. We study these issues for a longitudinal sample of older individuals interviewed in the Health and Retirement Study.

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We find that job characteristics are indeed strongly predictive of labor force transitions. Specifically, respondents covered by an employer-provided health insurance plan are more likely to remain in full-time employment, and less likely to move to part-time or out of the labor force. Similarly, a higher hourly wage is associated with a higher probability of remaining in full-time employment and a lower probability of moving to part-time or out of the labor force. Interestingly, individuals with higher wages are also more likely to retire. Among non-monetary factors, we document that physical strains increase the chances to either switch to part-time or retire altogether, while the use of computer is associated with a higher probability of remaining full-time employed. We also find that age discrimination in the workplace and flexibility in terms of hours of work play a key role in shaping labor supply decisions at older ages. Furthermore, individuals who perceive that their work activities interfere with their personal life are less likely to transit from full-time employment to retirement. Finally, the quality of the relationship with coworkers and supervisors has a strong, negative impact on the likelihood that full-time employees switch to part-time or move out of the labor force.

We do not observe a significant, direct effect of personality traits on labor force transitions. The only trait that is significantly related to labor supply decisions at older ages is openness to experience. Specifically, we estimate that the probability of remaining in full-time employment decreases with the level of openness to experience, while the probability of retirement increases. On the other hand, we show that the influence of job characteristics on labor supply decisions varies with the “intensity” of each personality trait. This result points to the fact that individuals’ ability to cope with unpleasant job conditions and work-related stress is highly heterogeneous and plausibly driven by personality traits.

We further investigate the extent to which job characteristics themselves can be directly explained by personality traits and find numerous significant relationships. Especially openness to experience and neuroticism are often significantly related to job characteristics and, somewhat surprisingly in the light of the extant literature on personality and economic outcomes, conscientiousness has relatively less predictive power. The magnitudes of the significant effects are usually moderately large, but in some cases very large. In particular, openness to experience is strongly related to hourly wage and to computer use on the job. Neuroticism is negatively related to desirable job characteristics. We also find evidence suggestive of a so-called method effect, given that neuroticism and extraversion have very strong and significant patterns in the leave-behind questionnaire and much less so in the core questionnaire, which uses different types of response categories.

Although our results are suggestive, we cannot claim that they are estimates of causal effects. First, besides personality traits, other unobservable individual preferences may affect both selection into job with specific characteristics and labor supply decisions at older ages. Second, job separations during economic booms are typically voluntary, followed by continued full-time employment, whereas during a recession, job separations are typically involuntary, followed by unemployment, disability claims, involuntary retirement, or otherwise not being in the labor force. Thus, individual labor force transitions are likely to be different during an economic boom (supply driven) than during a recession (demand driven). We control for this to some extent by using wave dummies (we have also experimented with interacting these with explanatory variables of interest), but we cannot claim to have estimated causal pathways from job conditions to employment transitions. Further research will be aimed at unraveling causal mechanisms and pathways.

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**Sponsor Information.** The research reported herein was performed pursuant to a grant from the U.S. Social Security Administration (SSA) through the Michigan Retirement Research Center (MRRRC). The findings and conclusions expressed are solely those of the author(s) and do not represent the views of SSA, any agency of the federal government, or the MRRRC.

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