Point of No Return: How Does the Duration of a Jobless Spell Affect Retirement Timing?

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Recessions are hurting young and old alike.

- Younger workers bear the brunt
  - …and did again during the Great Recession.

- Older workers are usually unscathed, but not this time.
  - Record 7.3 percent unemployment
  - Record 14 percent lost job
  - Longest average jobless duration
Older workers no longer immune to job loss.

Change in Unemployment Rate in Recent Recessions, Men 25-54 and 55+

What does an older jobless individual do?

- Keep searching?
- Retire earlier than planned?
- Drop out, but keep options open?

- Depends on resources available
  - Social Security
  - Assets and pension wealth
  - UI benefits
  - Labor market prospects
What do we know already?

- High unemployment rate => More retirements

- Job loss => Labor force exit
  - Chan and Stevens, 1999, 2001, and 2004; and Tatsiramos 2010

- This paper’s contribution:
  - First estimates of resources on retirement timing in U.S.
  - How retirement/LF exit timing has changed over time.
Data and sample

- **Survey of Income and Program Participation (SIPP)**
  - 1990-2008 panels
  - Use person-waves (every 4 months)

- Sample: Workers 55-70 who left job
  - Exclude immediate retirement/labor force exit
  - Not too close to end of sample
  - 3,400-6,500 individuals
How do jobless spells end?

1) Re-employment
   - No weeks worked in month t-1, some or all in t, all in t+1

2) Censoring
   - SIPP panel ends, attrition

3) Retirement or labor force exit
Defining “retirement”

“What is the main reason [you] did not work?” (1996-2012)

1) Strict definition:
   • Say “retired,” don’t un-retire

2) Quasi-strict definition
   • Say “retired,” un-retirement allowed after four months

3) Loose definition
   • Say “retired,” health, or taking care of others
     Un-retirement allowed after four months
Defining labor force exit

• Available for all years (1990-2012)

• No weeks worked

• No weeks looking for work

• Out of labor force for last six months or more
  o Sample cut off six months before censoring

• Note: spotty employment is neither re-employment nor exit
Independent variables

- State unemployment rate
- Age and Social Security retirement benefit availability
- Remaining UI benefit eligibility
- Net worth quintile
- DB and DC pension ownership
- Spouse’s age and work status
- Demographics, year dummies, health status, health insurance
- Number of months since job loss
Recently, fewer spells end in retirement.

Probability of Jobless Spell Ending in Retirement, by Period

More retirement in moderate U rate states.

Probability of Jobless Spell Ending in Retirement, by Unemployment Rate Tercile

Retirement spikes at age 62.

Probability of Jobless Spell Ending in Retirement, by Age

Retirement more likely in last months of UI.

Probability of Jobless Spell Ending in Retirement, by UI Eligibility

Unhealthy, disabled more likely to retire.

Probability of Jobless Spell Ending in Retirement, by Health Status

Retirement/exit more likely with age.

Multinomial Logit Regression Results, by Retirement/Labor Force Exit Definition

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Strict retirement</th>
<th>Quasi-strict retirement</th>
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<th>Labor force exit (1990-2012)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean hazard rate</td>
<td>0.082</td>
<td>0.110</td>
<td>0.190</td>
<td>0.080</td>
</tr>
<tr>
<td>State unemployment rate</td>
<td>-0.001</td>
<td>-0.005 ***</td>
<td>-0.007 ***</td>
<td>-0.005 **</td>
</tr>
<tr>
<td>Around 62nd birthday</td>
<td>0.053 ***</td>
<td>0.065 ***</td>
<td>0.063 ***</td>
<td>0.085 ***</td>
</tr>
<tr>
<td>62 to FRA</td>
<td>0.034 ***</td>
<td>0.049 ***</td>
<td>0.045 **</td>
<td>0.085 ***</td>
</tr>
<tr>
<td>Around FRA birthday</td>
<td>0.061 ***</td>
<td>0.098 ***</td>
<td>0.112 ***</td>
<td>0.155 ***</td>
</tr>
<tr>
<td>After FRA</td>
<td>0.029</td>
<td>0.087 ***</td>
<td>0.080 **</td>
<td>0.086 **</td>
</tr>
<tr>
<td>Age (quadratic)</td>
<td>0.043 ***</td>
<td>0.051 ***</td>
<td>0.033 **</td>
<td>0.025</td>
</tr>
<tr>
<td>Still on UI</td>
<td>0.016</td>
<td>0.014</td>
<td>-0.029</td>
<td>-0.019</td>
</tr>
<tr>
<td>UI exhausted</td>
<td>0.013</td>
<td>0.006</td>
<td>-0.006</td>
<td>0.016</td>
</tr>
<tr>
<td>Sample size</td>
<td>21,314</td>
<td>20,240</td>
<td>12,127</td>
<td>9,443</td>
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Note: *** p<0.01, ** p<0.05, * p<0.1.
Retirement/exit earlier with wealth, DB plan.

Multinomial Logit Regression Results, by Retirement/Labor Force Exit Definition (cont’d)

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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Lowest</td>
<td>-0.033***</td>
<td>-0.037***</td>
<td>-0.041***</td>
<td>-0.032**</td>
</tr>
<tr>
<td>2nd</td>
<td>-0.023***</td>
<td>-0.020**</td>
<td>-0.040***</td>
<td>-0.040***</td>
</tr>
<tr>
<td>3rd</td>
<td>-0.014*</td>
<td>-0.019**</td>
<td>-0.034***</td>
<td>-0.016</td>
</tr>
<tr>
<td>4th</td>
<td>-0.007</td>
<td>-0.010</td>
<td>-0.027**</td>
<td>-0.022**</td>
</tr>
<tr>
<td>DB pension coverage</td>
<td>0.037***</td>
<td>0.061***</td>
<td>0.068***</td>
<td>0.033***</td>
</tr>
<tr>
<td>DC pension coverage</td>
<td>-0.009**</td>
<td>0.000</td>
<td>-0.007</td>
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Disability correlation depends on definition.

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<td>Married</td>
<td>0.017**</td>
<td>0.022**</td>
<td>0.057***</td>
<td>0.031**</td>
</tr>
<tr>
<td>Spouse 62 or older</td>
<td>0.004</td>
<td>0.002</td>
<td>0.001</td>
<td>-0.001</td>
</tr>
<tr>
<td>Spouse FRA or older</td>
<td>-0.009</td>
<td>0.000</td>
<td>-0.004</td>
<td>-0.017*</td>
</tr>
<tr>
<td>Spouse working</td>
<td>-0.027***</td>
<td>-0.025***</td>
<td>-0.007</td>
<td>-0.023**</td>
</tr>
<tr>
<td>Female</td>
<td>-0.002</td>
<td>-0.011**</td>
<td>0.037***</td>
<td>0.036**</td>
</tr>
<tr>
<td>Work limitation</td>
<td>-0.050***</td>
<td>-0.086***</td>
<td>0.083***</td>
<td>0.071***</td>
</tr>
<tr>
<td>Fair or poor health</td>
<td>0.012*</td>
<td>0.005</td>
<td>0.031***</td>
<td>0.036**</td>
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Does retirement increase with high U rate?

- Interact unemployment rate with age, months since separation
- Predict probability of retiring each month by:
  - Age group: 55-61, around 62, around FRA
  - State unemployment rate
    - 5 percent: 2004-2007 average
    - 8.3 percent: 2008-2012 average
- Result: Modest increases, but largest effect at FRA
Small increase in retirement at 55-61.

Predicted Probability of Retiring at Age 55-61, by Unemployment Rate

Source: Author’s estimates from *Survey of Income and Program Participation*, 1996-2008 panels.
Slightly larger increase in retirement at 62.

Predicted Probability of Retiring around Age 62, by Unemployment Rate

Source: Author’s estimates from Survey of Income and Program Participation, 1996-2008 panels.
Largest increase in retirement around FRA.

Predicted Probability of Retiring around Full Retirement Age, by Unemployment Rate

Source: Author’s estimates from Survey of Income and Program Participation, 1996-2008 panels.
Other results

• By age
  o Net worth, DB pension only important for age 55-61
  o Correlation with health, spouse’s work status strongest for age 55-61

• By period
  o Age 62+ more likely to retire in expansions than recessions
Conclusions

- After separation, few search for long

- Greater resources encourage retirement/exit, not job search
  - Social Security, high net worth, DB pensions

- High unemployment associated with only slightly more rapid retirement
  - Concentrated among age 62+

- Unhealthy, disabled retire sooner
Policy implications

- Older workers have little tolerance for job search
  - Not very dependent on labor market prospects

- Consequences of impatience are getting worse
  - Fewer DB plans, retiree health insurance
  - Lower Social Security replacement rates
  - Insufficient 401(k) balances

- But recent cohorts healthier, expect to work longer anyway