

Workplace Characteristics and Employment of Older Workers

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The ability of older Americans to maintain gainful employment is of increasing importance as baby boom cohorts reach retirement age and pressures on public programs build. While the labor force participation rates of older Americans trended downward for most of the 20th century, this trend began to reverse in the 1990s, suggesting that older Americans may be both willing and able to work into their 60s and early 70s. Researchers have explored both supply-side and demand-side explanations for the recent upward trend, including changes in the Social Security program itself, the shift from defined benefit to defined contribution pension plans, and the rise in the education level of the workforce. While studies based on household surveys have provided information on the role of savings, health status, pension and health insurance coverage, there are fewer papers examining how workplace and firm level characteristics affect the employment of older workers.

In this paper, we explore the importance of workplace and firm level characteristics on work and retirement at older ages, using matched employer-employee data. One important variable may be industry or sector of employment. Blue collar jobs in construction and manufacturing may require physically demanding work leading to earlier retirement. Over time, the shift from manufacturing to service sector jobs may have both increased labor supply of older workers as well as increased the demand for older workers by reducing the demand for physically demanding work. Recent papers have also shown that skill requirements have changed even within sectors, with technology reducing the demand for routine, physical tasks in favor of non-routine cognitive tasks. Changes in technology could either help or hinder employment of older workers. On the one hand, technology may replace demand for physically demanding work in blue-collar jobs, benefiting older workers as in the argument above. On the other hand, technology may require investment in new skills and since older workers have shorter horizons, they may be less likely to invest or adapt to these changes. Peer effects may also be important to labor force behavior in different firms and industries.

Our analytic approaches considers characteristics of employment at age 55, and how those characteristics influence whether people retire around age 62, or whether they continue working until older ages. We focus on a sample of 63 year olds drawn from the 2005-2008 American Community Survey. We match this sample to information on their earnings, employment, employers and coworkers drawn from the Longitudinal Employer-Household Dynamics data for the years in which they age from 55 to 63. We use employment status as reported in the ACS to split the sample into those who have retired by age 63 and those who continue to work. We then examine differences between early retirees and continuing workers in the characteristics of their employment at age 55, and at how these characteristics change as they approach age 63.

We find that earlier retirees are more likely to be working in sectors such as manufacturing and construction, consistent with the theory that physically demanding jobs contribute to earlier retirement.

Earlier retirees are also more likely to be in public administration and education services (among women), which suggests that generous pension coverage may also help account for earlier retirement. Using a simple linear probability model of early retirement, we find that education is a strong predictor of employment behavior, even with the addition of workplace controls. We find a positive relationship between establishment size and early retirement, even when controlling for industry of employment. Co-worker characteristics are also related to early retirement probability. Younger co-workers are associated with a reduction in the probability of early retirement. Higher own earnings reduce early retirement, but higher co-worker earnings generally increase the probability of retirement.

The full working paper is available on our website, www.nber.org/programs/ag/rrc/books&papers.html, as paper NB12-18.

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