III

Retirement: A Multiphased Transition

by Robert L. Brown

Abstract

Most existing pension plans are modeled implicitly on the assumption that workers spend a well-defined and extended period of time in full-time employment and then switch, virtually overnight, to full-time leisure, called retirement. This paper reviews these design assumptions in light of recently published literature for both Canada and the United States. The data indicate that rather than being a well-defined, one-time event, retirement is more and more a multiphased transition with workers moving slowly into full-time leisure. The paper also reviews data as to the trend to earlier retirement and presents evidence that this trend may have stopped, at least in the United States. The paper then discusses alternative pension design features in the light of these facts. In short, pension plans that were appropriate for the workplace of the 1950s and 1960s may not be appropriate for the 1990s.

1. Introduction

When one studies the design of most existing employer-sponsored pension plans, there seems to be an implicit assumption in their design that retirement is a well-defined, one-time event. Recent literature for both Canada and the United States indicates otherwise. Data indicate that retirement for most workers is a multiphased transition, with some workers moving through a series of jobs requiring less and less commitment until a true state of retirement is achieved.

If one accepts this new reality, then one must question whether the design of pension plans, which may have been appropriate for the 1950s and 1960s, is still appropriate today. The paper reviews these actuarial issues in some detail and makes some suggestions as to how plans could be changed to meet the needs of the modern workplace more appropriately.

2. Retirement: A Multiphased Transition

Recent research in both Canada and the United States has made available sound documentation as to the path that workers take in the process of moving from full-time employment to full-time retirement. These studies indicate that this transition is not a one-time event, but rather a multiphased transition.

For Canada, one of the most complete studies of retirement patterns was recently published by McDonald (1996). McDonald used a national survey of 20,036 respondents 45 years of age and over, who were selected from the September 1990 to June 1991 Labour Force files. Of those, 12,289 persons who had been in the labor force at some time in their lives were studied. Analysis was done separately for men and women with some interesting results.

McDonald found that between 30% and 50% of people move into their "final" retirement via partial retirement, or use "bridge jobs" from their "career" jobs into retirement, and that this process can take up to five years. For those who work post-retirement, most workers (51%) moved to a new employer after retirement; over 27% (mainly women) stayed with a former employer. Approximately 20% started their own business. The type of work most preferred, post-retirement, is part-time work.

Variables correlated with returning to work after retirement were counterintuitive and somewhat different for men and women. For men, being married, having post-secondary education or more, being from a higher socio-economic stratum, and being in good health were positively correlated with going back to work. Men who returned to work after retirement were more likely to have job-related pensions and income from investments and Registered Retirement Savings Plans (RRSPs). However, the most common reason given for just "staying retired" was poor health.

For women predictors of post-retirement work indicated that professional women with high personal incomes, who planned for retirement, and who retired because of early retirement incentive packages or no available jobs went back to work. For women the most common reason given for "staying retired" was the ability and desire to do so.

Thus we see what Hardy (1991) calls "status maintenance" into old age. Those most likely to have been employed when young are most likely to continue to work (at least part-time) after retirement. Although this statement is true for those who retire earlier than age 65, those who continue to work beyond age 65 appear to do so out of economic need.

McDonald (1996) also explores the reasons that people give for retiring. For men the most important factors in deciding to retire are having a job-related pension, personal income (for example, investments), early retirement incentives, and home ownership. For women the leading reasons for retiring are to give care (which is usually unanticipated), spouse's desire to retire, a large household size, and education level (the higher, the more likely is early retirement). McDonald says that the data show the importance of marriage to the decision to retire for women. It is also notable that there is virtually no overlap in the reasons for retirement between the sexes.

Similar analysis has been done for the United States. Recent primary authors in this area are Burkhauser (1996) and Quinn (1997 a, b, 1998). Quadagno and Quinn (1997) have found that a substantial number of older Americans did not follow the stereotypical retirement route even back in the 1970s; that is, they did not leave the labor force completely when they left their career jobs. Among wage and salary workers more than a quarter did not retire completely in one move. A few of them (mostly women) dropped to part-time status on their career jobs, but most found new jobs, often part-time and sometimes self-employment. Among the self-employed, who have more control over the amount and kind of work they do, only half went directly from full-time career work to complete retirement. Of those who kept working, half moved to part-time work in the same job, and the other half found a new job (Quinn 1997b, p. 12).

There was some weak evidence that those at the ends of the economic spectrum—the rich and the poor—were the most likely to stay in the labor force after leaving career jobs; the poor because they had to, and the rich because they wanted to. Ruhm (1995) also found that partial or gradual retirement is widespread. His research was based on data from a Harris poll of older Americans. Between 30% and 40% (depending on age) of those aged 58 to 63 who were employed in 1989 were working at post-career "bridge" jobs.

Using the Current Population Surveys, Herz (1995) found that among men aged 55–61, 50% were working past retirement in 1993, compared to 37% in 1984. For men aged 62–64 in 1993, the percentage was 24% compared to 19% in 1984.

More recent evidence of gradual retirement comes from the Health and Retirement Study, a sample of over 12,000 men and women in about 8,000 households. The respondents were all aged 51 to 61 in 1992, but their spouses could be older or younger. The subjects are interviewed every two years. For those participants now fully retired, 30% of the men had a bridge job after their career job and before leaving the work force (Quinn 1998, p. 10). For women now fully retired, 60% had a bridge job before leaving the labor force. Among the career wage and salary workers who switched jobs, nearly a quarter switched to self-employment. Among the career self-employed who switched jobs, over half moved to wage and salary work. About half of the bridge jobs were part-time (less than 1,600 hours per year) while the other half were full-time, and the proportions were similar for men and women (ibid.). Seventy percent of bridge jobs represent a movement down the socioeconomic ladder, from white collar to blue collar, or from skilled to less skilled (Quinn 1998, p. 14). Bridge jobs generally pay less, and are less likely to include pension and health insurance coverage. This does not necessarily imply a problem. Many job changers may be voluntarily trading compensation (that is, salary and fringe benefits) for a change of pace, for more pleasant job characteristics, or for hours of flexibility not available in their career jobs (Quinn 1997b, p. 14).

What causes American workers to retire, and, in particular, what causes them to retire early? By analyzing data from social security files for early retirees, Burkhauser (1999, p. 23) found that the retirement decision is primarily driven by economic factors, not health factors as may have been intuitively assumed:

> the typical early Social Security beneficiary in 1993 and 1994 was about as healthy and wealthy as the typical postponer. . . . Most men who took Social Security benefits

at age 62 were healthy (80% report having no health problems that limit the type or amount of work they can perform), nearly two in three were receiving an employer pension to go along with Social Security, and the net assets of the median male early beneficiary were just over $160,000, more than the net assets of the median male postponer. The story for women who took benefits at age 62 is the same. . . .

> Fewer than 10% of male early Social Security beneficiaries were in poor health and also had Social Security as their only source of pension income, and this vulnerable group made up less than 3% of the population of 62-year-old men in our sample (p. 27).

Quadagno and Quinn (1997) suggest that pension benefits have much to do with the decision to retire. In short, they believe that we are retiring earlier because we can afford to retire earlier. They cite other research (for example, Kotlikoff and Wise 1987; Levine and Mitchell 1991) that indicates that there is a financial incentive in most defined benefit pension plans, and within OASDI, to take retirement benefits at the earliest possible age of eligibility. These come in the form of retirement supplements and bonuses, early retirement window plans, and a variety of other mechanisms (Levine and Mitchell 1991, p. 15). This is also because the increase in benefits provided for later retirement is almost never a full actuarial adjustment. The larger the potential pension wealth losses from continued employment, the more likely workers are to leave their career jobs, and often the labor force as well (Quadagno and Quinn 1997, p. 137; Quinn 1997b, p. 11). Burkhauser (1999, p. 23) states that

> the "normal" retirement age in the United States—that is, the age that the typical worker leaves a career job—can be and has been greatly affected by the incentive structure of employer and Social Security pension plans. Today the retirement decision is primarily driven by economic factors, not health factors. Hence, if the political will to change this incentive structure materializes, the labor force participation rates of older workers will also change.

Strong evidence of the importance of pension benefits to the timing of retirement can also be found in Canada. Lussier and Wister (1995) found that when British Columbia Public Service employees were offered early retirement incentive packages, the early retirement rates shot up. When the package was withdrawn, the rate declined. Likewise, the early retirement provisions of the Canada/Quebec Pension Plans (C/QPP) instituted in 1984 in Quebec and 1987 in the rest of Canada produced a surge of earlier retirements (Frenken 1991).

3. A Shift to Later Retirement?

Over the past 40 years, ages at retirement have fallen, and fallen significantly, as can be seen in Table 1. Similar indications can be seen in labor force participation rates in the United States (see Table 2). However, one can also see indications in the United States data that the trend to earlier retirement has ended. (This opinion is not held unanimously, however. See, for example, Gendall 1998.) Quinn shows that for men aged 55–59, 60–64, and 65–69, the labor force participation rates have actually increased recently. For women in the same age groups, labor force participation rates are also up, and are up much more significantly than in the period prior to 1985. Thus, as Quinn says, "Older Americans, both men and women, are working much more now than the pre-1985 retirement trends would have predicted" (1998, p. 4).

Why?

Quinn (1997a) lists several influences. First, there has been an end to mandatory retirement (with some small exceptions). Quinn does suggest, however, that the net impact of this influence alone is small (Quinn, 1997b, p. 11). Second, the 1983 amendments to Social Security make working longer more attractive (or perhaps less

TABLE 1
AVERAGE RETIREMENT AGE IN SELECTED COUNTRIES 1950–90

Country	1950	1970	1990	1990–1950
Canada	67.3	65.0	62.3	–5.1
U.K.	68.6	65.9	62.9	–5.7
United States	67.9	65.3	63.9	–4.0
Sweden	67.7	65.3	64.2	–3.4
Japan	67.0	69.5	67.6	+0.6

Source: Latulippe (1996), pp. 10, 14.

TABLE 2
U.S. MALE LABOR FORCE PARTICIPATION RATES 1950–97

	Age			
Year	55	60	65	70
1950	90.6	84.7	71.7	49.8
1960	92.8	85.9	56.8	37.2
1970	91.8	83.9	49.9	30.1
1980	84.9	74.0	35.2	21.3
1990	85.3	70.5	31.9	17.1
1997	83.4	68.3	32.4	21.7

Source: Quinn (1998), p. 21.

unattractive). The "clawback" of Social Security benefits between ages 65 and 70 because of employment income has been reduced from an effective 50% to 33%, and the exempt amount has been raised significantly (from $13,500 in 1997 to $30,000 by 2002). Further, the delayed retirement credit is being increased from 3% per year of delay in 1990 to 8% per year in 2010 (8% is close to a full actuarial adjustment). Finally, the OASDI "normal retirement age" (the age at which full benefits are first paid) is being raised from age 65 today to age 67 by 2026 (in two stages). Thus, Social Security benefits are becoming age neutral. This change also sends an important public policy message about society's expected age for retirement.

In the private pension sector, Quinn notes a shift from defined benefit plans (which often provide incentives for early retirement) to defined contribution plans, which are age-neutral.

All of the above affect labor supply. As to labor demand, a thriving economy has driven unemployment rates to below 5% and has created job demands for older workers. Quinn (1998, p. 7) also notes that the new economy offers the elderly a wide variety of less arduous jobs. Finally, he states that a worker facing two decades of healthy life expectancy may prefer labor force activity at least part-time.

Rejda (1999, p. 63) adds the following to the list of potential reasons for later retirement:

- Real wages for many occupational groups have declined over time. As a result workers in these occupations are unable to save enough to retire early.
- The proportion of larger employers making health insurance plans available to retired workers has declined. This lack of medical coverage, post-retirement, is extremely important in the decision to retire. For example, U.S. workers are motivated by the health risk to work at least until age 63.5, when they become eligible for the 18-month group health benefit extension, which takes them to age 65 and Medicare.
- Most private pensions are not indexed for inflation, which means that workers need larger savings to provide a consistent standard of living in retirement.
- Married couples often delay having children until they are in their middle or late thirties. This couple may still be paying for the children's college expenses until after age 50 and cannot afford to retire early.
- Fewer employers offer the same generous package of early retirement benefits that prevailed in the 1980s, thus reducing the financial incentive to retire early.

Almost none of these forces have been replicated in Canada, and there is no evidence to date that the effective age of retirement in Canada is rising. Thus, Canada may have to look to experience in the United States if there is ever a conscious public policy decision to reverse the trend to earlier retirement and to encourage more labor force participation among older workers. As a recent Statistics Canada (1996, p. 39) analysis concluded that

> labour market conditions might favour greater participation by the elderly. For instance, the creation of part-time jobs provides the elderly with more opportunities for paid work. Furthermore, long-term demographic trends indicate there may be a shortage of younger labour, and thus, an increase in demand for older employees.

Marshall (1995, p. 64) came to similar conclusions (for Canada).

4. Pension Policy Implications

The trend to early retirement is well known and well documented. However, what may not be so widely known is the fact that retirement often occurs more than once in the lifetime of a worker. Retirement can be, and often is, a multiphased transition.

There also have been indications in this paper that the decision to leave a career job (whether to then go to a "bridge" job or retire fully may not matter) is highly influenced by the structure and design of the worker's pension benefits including social security. If we accept that this influence is significant (and the data support that contention), then it follows that if we wish to change the retirement patterns, we should look to the design and structure of pensions and social security to send the correct signals and to create the correct incentives.

It is clear that the labor force in Canada and the United States cannot continue to grow at the pace that it experienced in the 1970s and early 1980s. The entire Baby Boom generation is now beyond age 30 and has made its way into the labor force. As Baby Boomers start to retire (particularly after 2010), it is possible that Canada and the United States could face labor shortages, especially in areas requiring skilled workers. If that turns out to be true, and all demographic projections point in that direction, then one would predict a need to create incentives, not for early retirement, but rather for later retirement. Continuing with the assumption that employers will want to retain skilled older workers, then one also could predict that once older workers fully understand their new value in the workplace, they will respond with increased demands for rewards for their services. This could come in the form of enhanced compensation, but it could just as easily come in a demand for more flexible pension arrangements.

What would the trend for later retirement mean for the design and administration of employer-sponsored pension plans? One would expect that in the normal realm of labor economics once the older worker determines that he or she is a scarce and valued commodity, that person will bargain for arrangements more acceptable to them. For example, a worker might ask to be allowed to work Tuesday through Thursday and contribute to the pension plan, but then take every Friday and Monday off and draw from their pension benefits on those two days. Or, similarly, a worker might suggest a work year covering the seven months from April to October during which the worker would be employed full-time and contribute to the pension plan, but for the months from November to March the worker would be considered "retired" and draw from the pension plan. Neither of these arrangements exist today and are probably beyond what pension regulations would allow in qualified plans, but there is nothing to stop them actuarially.

What is needed is not costlier retirement benefits, but more flexible retirement benefits and administration that can be tailored to the needs of the individual worker. The day of "one size fits all" should be over. What is needed are employers and pension plans that allow for a longer-term transition from full-time work to full-time retirement. Workers should not have to leave their primary or career employer to find "bridge jobs." They should be able to find bridge jobs where their skills are most valuable, and that is within their career path. To do otherwise is to deny and waste a huge asset, namely, the older worker.

As indicated by the data reviewed earlier in this paper, early retirement is positively correlated with education level. However, return to work (either part-time or a bridge job) is also positively correlated with education level. Thus, through early retirement incentives, we are encouraging our best workers to leave productive careers, even though these workers do not wish to retire full-time. This cannot make any sense if we shift to a period of skilled labor shortages.

5. Some Recent Changes

Pension regulations in Canada lock employees pension benefits in until retirement. This discourages partial retirement and discourages multiphased retirement. However, three provinces, Quebec, Ontario, and New Brunswick, have indicated an intention to reconsider the locking-in of pension benefits. Quebec has already adopted legislation allowing members access to their employer-sponsored pension plans to facilitate phased retirement. The legislation allows workers aged 55 and over who accept reduced work hours to receive an annual benefit from their company pension plan (or their personal Life Income Fund [LIF] if any) until they reach age 65. In cases where company pension plans have set an earlier retirement age, this measure can be extended to workers aged 50. This benefit offsets the reduction in employment earnings. Also, workers are allowed to contribute to Social Security (that is, C/QPP) on their *full* imputed salary to ensure that their Social Security retirement benefits are not negatively affected. The phased retirement must be voluntary and subject to an agreement between the employer and the worker to be eligible. Note that this does not cost the employer or the government anything directly. This is just a more flexible arrangement of the benefits the worker would have received anyway.

There are also rules in existence in Canada today that prohibit the paying of lump sums out of pension plan benefits. The income must be periodic and be paid over the lifetime of the recipient. (Note that in the U.S. ERISA requires a qualified plan to offer a Joint and Last-Survivor Life Annuity as the normal benefit). However, if many retirees wish to return to work as self-employed individuals, then shouldn't good public policy allow for some lump-sum payments in pre-defined situations?

6. Conclusions

Through a review of the literature, this paper has indicated a number of important matters.

First, retirement is not a one-time, clearly demarcated event. Retirement patterns are rich and varied (Quinn 1997b, p. 14). For a growing percentage of the labor force, retirement is a multistaged transition, with a significant proportion of workers holding "bridge" jobs between their career jobs and full-time retirement.

Second, pension policy (including Social Security) can have a measurable impact on the decision to retire. This is supported most strongly by evidence from the United States. However, evidence from Canada, where nothing has been done in the public policy arena to stem the trend to earlier retirement, and where the trend to earlier retirement continues unabated, reinforces the hypothesis that pension policy can have a major effect on the decision to retire.

Third, the trend to early retirement in the United States appears to have stopped and may have even reversed. Reasons for this seem to be based mostly in amended pension benefit rights, including the formulas for Social Security benefits.

If the hypothesis that pension policy can have a significant influence on the decision to retire, and in anticipation of the significant demographic changes ahead, societies must ask whether their current pension programs remain appropriate. It is the contention of this paper that inducements will be needed to keep older workers active longer. As stated, this does not need to mean increased costs, it need only require increased flexibility.

REFERENCES

Burkhauser, R. V. 1999. "Touching the Third Rail: Alternative Solutions for Bringing the Social Security Retirement System into Long-Term Balance," in *The Old-Age Crisis—Actuarial Opportunities: The 1996 Bowles Symposium,* pp. 23–29. Schaumburg, Ill.: Society of Actuaries.

Frenken, H. 1991. "The Pension Carrot: Incentives to Early Retirement," Statistics Canada, *Perspectives on Labour and Income,* pp. 18–27. Ottawa: Ministry of Industry, Science and Technology.

Gendell, M. 1998. "Trends in Retirement Age in Four Countries, 1965–95," *Monthly Labor Review* (August): 20–30.

Hardy, M. A. 1991. "Employment after Retirement: Who Gets Back in?" *Research on Aging,* 13, no. 3:267–88.

Herz, D. E. 1995. "Work after Early Retirement: An Increasing Trend among Men," *Monthly Labor Review* (April):13–20.

Kotlikoff, L. J., and Wise, D. A. 1987. "The Incentive Effects of Private Pension Plans," in *Issues in Pension Economics,* edited by Z. Bodie, J. B. Shoven, and D. A. Wise, pp. 283–336. Chicago: University of Chicago Press.

Latulippe, D. 1996. *Effective Retirement Age and Duration of Retirement in the Industrial Countries between 1950 and 1990.* Issues in Social Protection. Discussion Paper no. 2. Geneva: Social Security Dept., International Labour Office.

Levine, P. B., and Mitchell, O. S. 1991. *Expected Changes in the Workforce and Implications for Labor Markets.* Working Paper Series 91-2. Philadelphia: Pension Research Council, University of Pennsylvania.

Lussier, G., and Wister, A. V. 1995. "A Study of Workforce Aging of the British Columbia Public Service, 1983–1991," *Canadian Journal on Aging* 14, no. 3:447–51.

Marshall, V. M. 1995. "The Older Worker in Canadian Society: Is There a Future?" in *Rethinking Retirement,* edited by E. M. Gee and G. M. Gutman, pp. 51–68. Vancouver: Gerontology Research Centre, Simon Fraser University.

McDonald, L. 1996. *Transitions into Retirement: A Time for Retirement.* Final Report. Human Resources Development, Canada. August.

Quadagno J., and Quinn, J. 1997. "Does Social Security Discourage Work?" in *Social Security in the 21st Century,* edited by Eric Kingson and James Schulz pp. 127–46. New York: Oxford University Press.

Quinn, J. 1997a. "The Role of Bridge Jobs in the Retirement Patterns of Older Americans," in, *Social Security and the Labor Market,* edited by Philip deJong and Theodore Marmor, pp. 91–116. London: Ashgate.

———. 1997b. "Retirement Trends and Patterns in the 1990's: The End of an Era?" *Public Policy Aging Report* 8, no. 3 (summer):10–15.

———. 1998. "New Paths to Retirement," Working paper. Forthcoming.

Rejda, G. E. 1999. *Social Insurance and Economic Security.* 6th ed. Englewood Cliffs, N.J.: Prentice Hall.

Ruhm, C. 1995. "Secular Changes in the Work, and Retirement Patterns of Older Men," *Journal of Human Resources* 30:362–95.

Statistics Canada. 1996. *Canada's Changing Retirement Patterns: Findings from the General Social Survey.* Catalog no. 89-546-XPE. Ottawa: Minister of Industry.

See the discussion of this paper by Ron Solomon (p. 210).