To retire or not to retire

Vidalina Alpuerto-Abadam

Like a movie plot twist, the rise in the share of the American workforce composed of people ages 66 and older seems to contradict our notions about the labor force. In fact, the labor force participation rate of older workers has been steadily increasing since the late 1990s. Pundits are pointing a finger at several factors. A likely explanation is demographic change. People are living longer after retirement, so they need additional retirement savings and continued access to employment-based health insurance. At the same time, the birth rate is tumbling, which in turn decreases the share of younger workers in the labor force.

On the flip side, it’s possible that older employees are opting to stay or remain in the workforce simply because it makes them happy and healthy. The literature is teaming with evidence that the extra years at work may actually be better for the mind and body. However, less is known on how various working and partial-retirement arrangements—such as part-time work and flexible employment—correlate with older workers’ well-being.

In “Employment, late-life work, retirement, and well-being in Europe and the United States” (IZA Journal of European Studies, 2014), authors Milena Nikolova and Carol Graham take a look at that. They explore the relationship between employment arrangements and levels of subjective well-being and job satisfaction. They use pooled cross-section individual-level data spanning 2009 to 2012 from the Gallup World Poll (GWP) for the United States and nine European countries.

The GWP includes questions that capture the respondents’ life and job satisfaction and levels of anger, stress, and happiness. The authors use these metrics as the dependent variables in their regression analyses. The individuals are classified into age cohorts and six employment categories: employed full-time for an employer, employed full-time for self, voluntarily employed part-time, involuntarily employed part-time, unemployed (i.e., did not work in the past 7 days but were actively looking for a job and were able to begin work), and out of the labor force (i.e., homemakers, retired, students, and disabled individuals).

The GWP is a probability-based and nationally representative (of populations ages 15 and over) survey that is done annually in 160 countries. The data are collected using the same survey methodology across countries, thereby making results comparable on a cross-sectional basis and over time.

The study challenges the traditional model of full-time work followed by retirement by age 66. The authors report three important findings. First, the regression analyses confirm that the unemployed are more likely to experience anger compared with full-time workers. Second, their results reveal that, in general, voluntary part-time workers—that is, people who work part time by choice—are happier, experience less stress and anger, and have higher job satisfaction than other employees. Finally, the propensity score matching estimation, which compares retired individuals with observably similar late-life workers, shows that older people who continued
working under full-time and voluntary part-time arrangements reported higher levels of well-being and job satisfaction than their retired counterparts. The study results can prove helpful for policymakers when they consider issues that deal with optimal retirement age and contribution plans.