

The decline of career employment

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THE DECLINE OF CAREER EMPLOYMENT

BY ALICIA H. MUNNELL AND STEVEN A. SASS*

Introduction

With a contracting retirement income system and increased life expectancy, working longer has emerged as perhaps the most effective lever for improving retirement income security. More work at older ages should be entirely feasible for the bulk of the population, given that today's workers are healthier and work is less onerous than in the past. Indeed, some indication that people might be willing to work longer comes from the fact that the century-long downward trend in the labor force participation of older men has clearly ceased, with participation rising slightly since the mid-1990s. But the changes to date fall far short of what is required to offset declining Social Security benefits and modest 401(k) balances – an increase in the average retirement age from the current 63 to an estimated 67.

A variety of impediments, however, stand in the way of such a response. First, perhaps 15 to 20 percent of older workers are not healthy enough to remain in the workforce that long. Second, Social

Security benefits are available at age 62, and the majority of workers essentially claim benefits as soon as they become available. Third, career employment – meaning employment with a single employer from middle age to retirement – is no longer the norm. So if workers are to remain in the labor force into their late 60s, most will face the difficult task of finding a new job in their 50s and 60s.

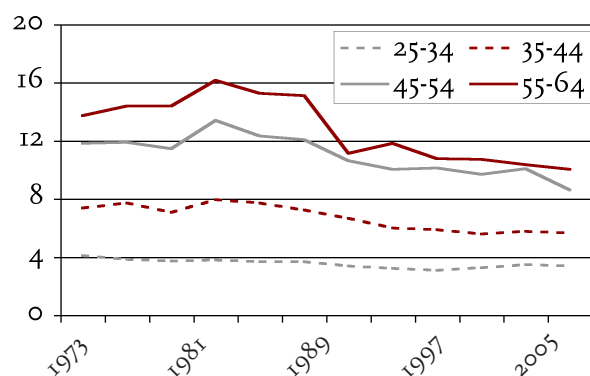
This *brief* addresses the last of these three impediments – the decline in career employment, with a focus on men. The first section documents the decline in tenure for older workers and shows that only half of full-time workers age 58-62 are still with their age-50 employer. The second section explores whether this shift from career employment is voluntary or whether older workers are pushed out. The third section documents some of the immediate financial implications of more job switching by older workers. The fourth section concludes.

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The Decline in Career Employment

One way to see the move away from career employment is to look at how long the typical older worker has been on the job. The median tenure data for employed males taken from the *Current Population Survey* (CPS) are presented in Figure 1.¹ The results are interesting in two respects. First, before 1990 the median years of tenure are virtually flat for every age group. This confirms much of the earlier work on mobility that showed very little change during the 1970s and 1980s.² Second, beginning in the early 1990s, after a decade of 401(k) plans, the median tenure for men at older ages drops sharply.³

FIGURE 1. MEDIAN YEARS OF TENURE OF EMPLOYED MALES BY AGE, CPS, 1973-2006

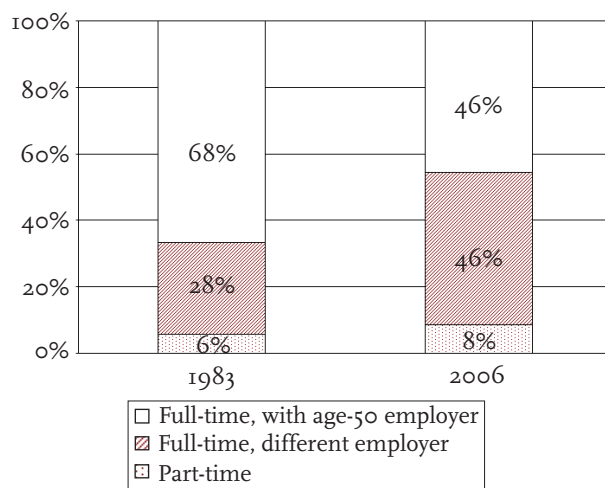


Source: Authors' calculations from U.S. Bureau of Labor Statistics and U.S. Bureau of the Census, *Current Population Survey* (CPS), 1973-2006.

An even more direct way to show the decline in career employment is to see how many workers toward the end of their careers are still with the employer they had at age 50.⁴ Figure 2 classifies men 58-62 in 1983 and 2006 as: a) working full-time with the same employer as at age 50; b) working full-time with a different employer; or c) working part-time. The portion each year working part-time and working

full-time was virtually identical. But the distribution of full-time workers changed dramatically. In 1983, 70 percent of male full-time workers age 58-62 were with their age-50 employer. In 2006, half were with a new employer. Career employment, though still quite common, is no longer dominant. If the average age of retirement is to rise from 63 to 67, it is reasonable to assume that most men will change jobs at some point after age 50 and work full time for a new employer.

FIGURE 2. EMPLOYMENT OF MEN AGE 58-62, 1983 AND 2006

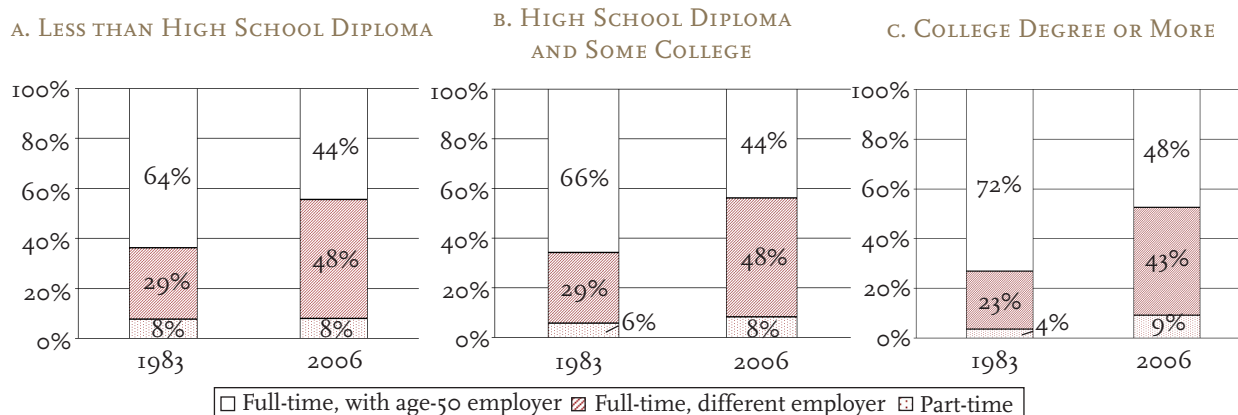


Source: Authors' calculations based on 1983 and 2006 CPS.

Career employment is more common among workers with more education. But the shift away from career employment is consistent across educational groups, and the differences by educational attainment are much less today than in the past (see Figure 3 on the next page).

In terms of the likelihood that workers will remain in the labor force longer, a key question is whether this job switching at older ages is voluntary. That is, are workers moving on their own volition to better jobs or are they laid off or otherwise forced to take inferior jobs?

FIGURE 3. EMPLOYMENT OF MEN AGE 58-62, 1983 AND 2006, BY EDUCATIONAL ATTAINMENT



Source: Authors' calculations based on 1983 and 2006 CPS.

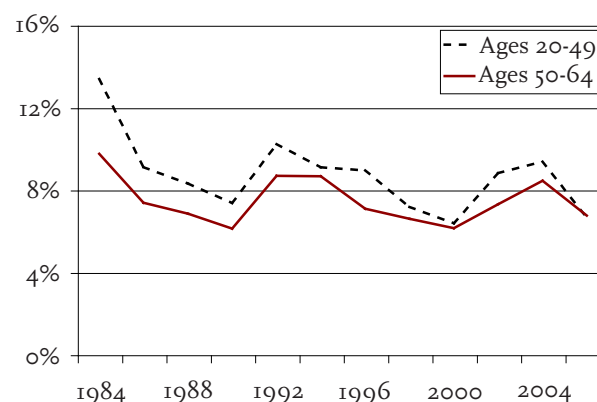
Is the Increased Mobility Voluntary?

Economists really do not know why more older workers are shifting jobs. The only measure of layoffs is the displacement rate as measured by the *Displaced Worker Survey*. This survey asks workers whether they lost their job for one of the following reasons: their plant or company closed down or moved; their company had insufficient work; their position or shift was abolished; a seasonal job was completed; a self-operated business failed; or other reason.

Displacement rates for older workers have always been lower than for younger workers.⁵ The theory is that employers who have invested in these workers are reluctant to let them go.⁶ Figure 4 shows that displacement rates, while cyclical, show no discernible upward or downward trend over the period 1984-2006. This is encouraging, as finding a new job is generally quite difficult for older displaced workers. The data presented in Figure 4 suggest that the dramatic rise in worker separations from their age-50 employer is largely due to quits, not layoffs – to decisions made by workers, not employers. But the *Displaced Worker Survey* collects very specific data. It collects and reports information only on layoffs where the job itself is eliminated and only records one job loss for each individual. Nevertheless, this survey suggests that job changing has not increased because older workers have become more vulnerable to displacement.

There is no historical series on quits, comparable to the *Displaced Worker Survey*, to verify that this is the case. The distinction between layoffs and quits, moreover, is not always clear. Employers can reduce a worker's compensation or increase job demands. Workers could also feel insecure in their current job, due to technological change or increased competition, especially from overseas. If workers quit in response to such pressures, they would be leaving on their own volition. But the decline of career employment, if the result of such voluntary quits, could not be characterized as a positive development. That is, it would not reflect the emergence of attractive opportunities with other employers, but rather the decline in the attractiveness of workers' current situation.

FIGURE 4. DISPLACEMENT RATES, BY AGE, 1984-2006



Sources: Munnell, Sass, Soto, and Zhivan (2006) based on the 1984-2006 CPS and the U.S. Bureau of Labor Statistics and U.S. Bureau of the Census, *Displaced Workers Survey*, 1984-2006.

The Implications of Job Changes

One way to evaluate what the decline in career employment means for older workers is to observe the change in compensation. Separations from long-term employment relationships involve a loss of firm-specific human capital. They also involve a loss of seniority-based protections that shield older workers from the consequences of skill erosion and market competition. Because of the loss of firm-specific human capital, a shift to a new employer would seem to suggest a fall in wage and benefit compensation. On the other hand, one would expect an increase in the compensation of workers who quit voluntarily to take a new position.

A simple comparison of wages for full-time workers who switch jobs with the wages of those who do not shows that, over the period 1983-2006, the wages of switchers consistently averaged about 75 percent of the wages of those who remained with their age 50-employer (see Figure 5). This suggests that the decline in career employment marks a transition to a more difficult labor market for older workers.

FIGURE 5. PERCENT OF FULL-TIME WORKERS THAT ARE “SWITCHERS,” AND SWITCHERS’ WAGES AS A PERCENT OF NON-SWITCHERS’ WAGES, MEN AGE 55-64, 1983-2006

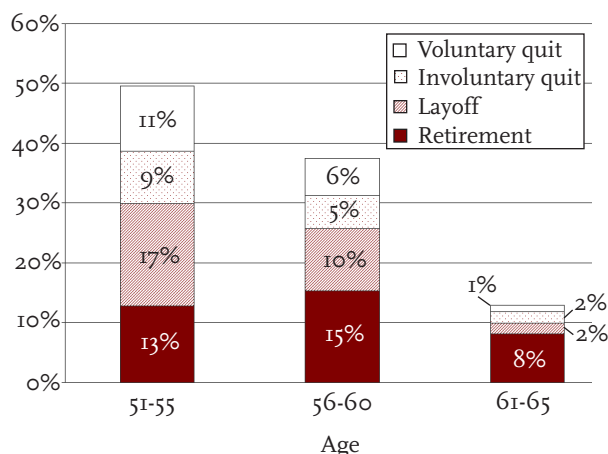


Note: A “switcher” is one who no longer works for his age-50 employer.

Source: Authors’ calculations based on the 1983-2006 CPS.

A recent study of employment transitions by workers in the *Health and Retirement Study* (HRS) age 51-65, who left jobs with at least 10 years of tenure, shows how the nature of the job change affected wages, benefits, and job satisfaction.⁷ As shown in Figure 6, retirements, layoffs, and voluntary and “involuntary” quits (quits due to health, family reasons, personal problems, etc.) each accounted for about a third of these employment transitions – with retirements accounting for a greater share of employment transitions at older ages and quits a greater share at younger ages. However, if we combine the figures for layoffs and involuntary quits (the middle two segments in Figure 6), it is clear that a lot of workers are leaving long-term jobs because they have to – they are either laid off or forced to shift for personal reasons.

FIGURE 6. PERCENT OF WORKERS WHO CHANGE JOBS, BY AGE AND REASON FOR SEPARATION, 1986-2004



Note: Figure refers to those workers in the HRS whose former job lasted more than 10 years. “Involuntary Quit” includes leaving job because of relocation, poor health and disability, family or child care responsibilities, marriage, spouse’s preferences, personal problems, and dissatisfaction with work hours or length of commute.

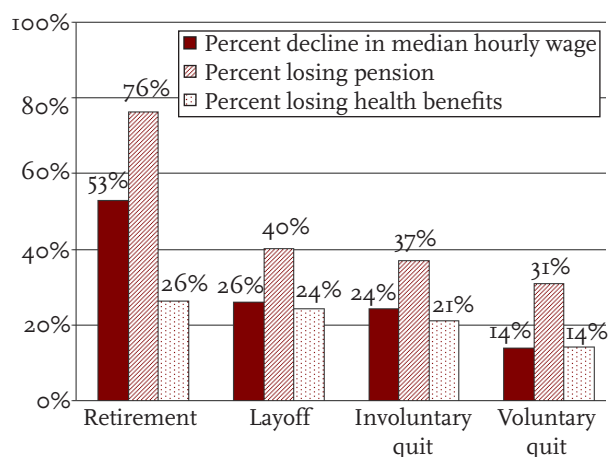
Source: Authors’ calculations based on Johnson and Kawachi (2007).

Intuitively, one would expect the biggest decline in compensation would occur in the case of retirement, because the purpose of leaving is to work less hard. Similarly, one would expect the second biggest decline would occur in the case of layoffs, because displaced workers usually face a costly search process

and end up in an inferior position. The next biggest decline would likely occur among those who quit for personal or health reasons. Finally, one might expect an increase for those who quit voluntarily, presumably for “better jobs” with higher compensation and/or more non-monetary rewards. The results of the study, shown in Figure 7, confirm the expected *ordinal* pattern. However, all four groups of workers who left a long-term employer, even those who quit “voluntarily,” saw a decline in both wages and benefits. These findings confirm the results of the simple comparison of CPS wages. The decline in career employment means that the wages and benefits earned by older workers – the primary economic rewards from continued employment – are significantly less than they would have been had most workers remained with their age-50 employer.

The one silver lining is that all groups report an increase in the non-pecuniary rewards of employment. Workers say their new jobs are less stressful, less physically demanding, and more enjoyable than their old jobs.

FIGURE 7. PERCENT DECLINE IN WAGES AND FRINGE BENEFITS AMONG OLDER WORKERS WHO CHANGE JOBS AFTER 10 YEARS WITH FORMER EMPLOYER



Note: Loss of pension encompasses those who were covered by a pension on their old job but not on their new job. Loss of health benefits encompasses those who were covered by health benefits on their old job but not on their new job. Involuntary quit refers to changing jobs for reasons such as relocation, poor health, or family.

Source: Authors' calculations based on Johnson and Kawachi (2007).

Conclusion

Career employment is no longer the norm. How this development affects worker decisions to extend their careers is not entirely clear. The new jobs generally pay less and are less likely to offer pension and health insurance coverage. This fall in wages and benefits makes continued employment less attractive vis-à-vis retirement – a “substitution effect” that encourages labor-force exits. On the other hand, the increase in job satisfaction and non-pecuniary rewards that generally accompany employment transitions makes work more attractive vis-à-vis retirement – a “substitution effect” that encourages continued employment. The fall in wages and benefits also reduces household wealth, and this “wealth effect” also encourages continued employment. How workers respond depends on the strength of these various effects.

The upsurge in job changing could be compatible with an increase in the average retirement age. It might even promote continued employment. This would involve workers and employers developing new relationships – generally paying less in wages and benefits, but involving less stress and more non-pecuniary rewards. Developing such relationships, however, will not happen overnight. In the meantime, the upsurge in job changing is likely to be a significant obstacle to keeping workers employed into their late 60s.

Endnotes

1 The CPS has asked respondents about job tenure since 1973. Specifically, CPS tenure supplements are available for 1973, 1978, 1981, 1983, 1987, 1991, 1996, 1998, 2000, 2002, and 2004. All data are from the Workplace Topics I (January/February) supplements, although the 1973 tenure data are from the Displaced Worker supplement. The question changes slightly over the period. In 1973, 1978, and 1981, the question refers to time working at the present job or business, while for 1983 and later the question refers to working “continuously” for the present employer. If respondents experience temporary separations, their responses would indicate less tenure in more recent surveys despite the same underlying behavior. Since other researchers do not view this as a significant problem and make no adjustment, the raw median tenure data for employed males are presented in Figure 1.

2 Neumark (2000); and Gottschalk and Moffitt (1999).

3 Friedberg and Owyang (2004), using data from the Federal Reserve’s *Survey of Consumer Finances*, also conclude that current and remaining job tenure fell over the period 1983-2001 and they attribute some of the change to the movement from defined benefit to defined contribution plans. On the other hand, Stevens (2005) in a paper aptly titled “The More Things Change, the More They Stay the Same” comes to the conclusion that nothing has changed. Using three different data sets that follow people over an extended period of time, the author concludes that despite some ups and downs, the average tenure of workers in the longest job in their careers has remained virtually unchanged between 1969 and 2002 (21.9 to 21.4 years). Stevens, however, does not focus on older workers. That the average tenure in 1969 was 21.9 years could also be seen as indicating unusual stability, as 1969 is just 24 years after the end of the Second World War, and prior to that the Great Depression, events very disruptive to career patterns.

4 Specifically, for each survey it is possible to identify those working full time at age 55, 60 etc. who are still with the same employer they worked for at age 50. Mechanically, this exercise involves simply asking, say, the 55-year-old full-time worker how long he has

been with his current employer. If the response is five years or more, the worker is classified as working with his age-50 employer.

5 Farber (2005), using the *Displaced Worker Surveys* (DWS), showed that the probability of displacement declines with age when looking at men and women together. Boisjoly, Duncan, and Smeeding (1998), using the *Panel Study of Income Dynamics*, found that the likelihood of involuntary joblessness for men with the same level of education is higher among younger men than among those over 50. Rodriguez and Zavodny (2000 and 2003) using the DWS from 1984-1998 show that the probability of displacement decreases with age.

6 Becker (1975).

7 Johnson and Kawachi (2007).

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