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# HOW DO NON-FINANCIAL FACTORS AFFECT RETIREMENT DECISIONS?

BY STEVEN A. SASS\*

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## Introduction

Financial factors clearly influence retirement decisions, as everyone would like to have sufficient income when they leave the workforce. But numerous studies find that such factors are only a small part of the story. Non-financial considerations clearly contribute to the decision to retire.<sup>1</sup>

This *brief* reviews studies, mainly by the Social Security Administration's Retirement Research Consortium, that examine how two types of non-financial factors affect retirement decisions: the worker's on-the-job experience and the allure of retirement activities.

The discussion proceeds as follows. The first section presents evidence that a positive work experience is a critical component in decisions of workers ages 65 and over to remain in the labor force. The second section identifies job characteristics that either incline workers to retire or to remain on the job. The third section examines how personal objectives affect work/retirement decisions. The final section concludes that non-financial benefits seem far more important than non-financial costs – both in keeping some workers in the labor force and drawing others into retirement.

## Individual Characteristics and Retirement Behavior

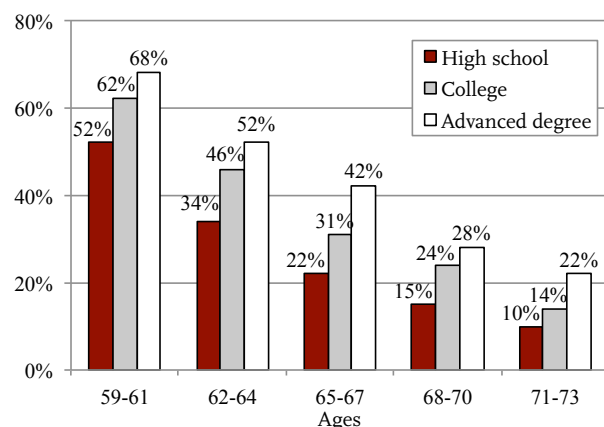
If financial considerations drive retirement decisions, workers financially prepared for retirement would exit the labor force and those not prepared would work longer. A study by Steven Haider and David Loughran shows that this is not the case for those who remain in the labor force past age 65.<sup>2</sup> Using data from the Census Bureau's *Current Population Survey* (CPS), the study finds that the individuals most likely to be working at these older ages are those with the strongest finances – those with the most education, greatest wealth, and highest lifetime incomes. Such workers have higher labor force participation at all ages, as they have fewer health impairments and better employment opportunities. But the gap by education widens dramatically at older ages, (see Figure 1 on the next page).<sup>3</sup>

Using data for the AHEAD cohort from the *Health and Retirement Study* (HRS), a biennial survey of a panel of older individuals, the study finds that those still working past age 70 earn significantly lower hourly wages than they had earlier in their careers

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FIGURE 1. LABOR FORCE PARTICIPATION BY AGE AND EDUCATION, 1991-1999



Source: Haider and Loughran (2001).

and are much more likely to work part-time.<sup>4</sup> It also finds that health shocks often lead to labor force exits after age 70, while financial factors, such as wages and wealth, have little or no effect. While these older workers likely value the additional income, the study characterizes their continued employment as more akin to “play” than “work.” Overall, the study concludes that non-pecuniary considerations drive the labor force decisions of older workers.

## The Work Environment and Retirement Decisions

A study by Marco Angrisani, Michael Hurd, Erik Meijer, Andrew Parker and Susann Rohwedder assesses the importance of a broad range of non-financial workplace characteristics on labor force transitions at older ages.<sup>5</sup> Using HRS data from 2002-2010, the study estimates the effect of these characteristics on the likelihood that, from one biennial survey to the next, full-time workers, ages 51-79: 1) remain in full-time employment; 2) shift to part-time employment; 3) shift to “non-employment, but not retirement;” or 4) retire.<sup>6</sup>

The great majority of these transitions occur prior to age 65. Relative to the Haider and Loughran findings for workers over age 70, retirement behavior for this younger group is more responsive to financial factors. Full-time workers with greater wealth and higher incomes are more likely to retire; those less

prepared are more likely to remain in the labor force. Like Haider and Loughran, the study finds that educated workers, all else equal, are more likely to remain in full-time employment and less likely to retire. This finding is consistent with the notion that educated workers get more non-financial rewards from work, and that these rewards have a significant effect on their work and retirement decisions.

The study assesses the effects of a wide range of workplace characteristics on labor force transitions, from physical demands and stress levels to age discrimination and the enjoyment of work, using worker assessments recorded in the HRS. These assessments are collected by asking respondents the extent to which they agree with statements such as “I really enjoy going to work” on a scale from 1 to 4, with 1 meaning “strongly disagree” and 4 meaning “strongly agree.”

Table 1 (on the next page) reports statistically significant relationships between a 1-unit increment on the response scale and the likelihood that a full-time worker remains in full-time employment, shifts to part-time employment, or retires over the two-year period between HRS interviews.<sup>7</sup> As expected, jobs that require physical effort or good eyesight increase the likelihood of retirement. So do a difficult or stressful work environment, perceived age discrimination, job inflexibility, and work interfering with the respondent’s personal life. Consistent with Haider and Loughran’s findings, the study finds that those who enjoy going to work – reaping non-financial rewards from employment – are more likely to remain in full-time employment and less likely to retire.<sup>8</sup>

The effect of health problems on the likelihood of retirement provides a useful yardstick for assessing the effect of these job characteristics. The study finds self-reported “fair” or “poor” health increases the likelihood of retirement by 6.3 percentage points. As indicated in Table 1, while no 1-point increment in a job characteristic affects the likelihood of retirement as much as health, 2-point increments for several of the characteristics would have a greater impact than “fair” or “poor” health. The study thus supports the notion that non-financial job characteristics can have large effects on labor force transitions.

Relatively few recent retirees in the HRS, however, cite adverse job characteristics as an especially important factor pushing them out of the labor force. Recently retired respondents are asked to identify whether: 1) poor health; 2) not liking work; 3) a desire to spend more time with family; or 4) a desire to do

TABLE 1. EFFECT OF JOB ATTRIBUTES ON LIKELIHOOD OF LABOR FORCE TRANSITIONS, PERCENTAGE-POINT CHANGE

	Remain in full-time employment	Shift to part-time employment	Retire
<b>Job requirements</b>			
Job requires physical effort	-1.8 ***	1.0 **	0.8 ***
Job requires good eyesight	-1.2 ***	0.0	1.1 ***
Job requires computer use	1.6 **	-1.2 **	-0.1
<b>Work environment</b>			
Difficult/stressful work environment	-1.2 *	-0.4	1.9 ***
Perceived age discrimination	-2.5 ***	-0.7	3.2 ***
<b>Job flexibility</b>			
Cannot reduce hours	2.1 **	-5.1 ***	2.7 ***
Wants to, but cannot, reduce hours	-6.5 ***	2.1 ***	4.2 ***
<b>Feelings about work</b>			
Enjoys going to work	5.4 ***	-0.2	-4.5 ***
Work interferes with personal life	-3.4 **	0.2	2.4 **

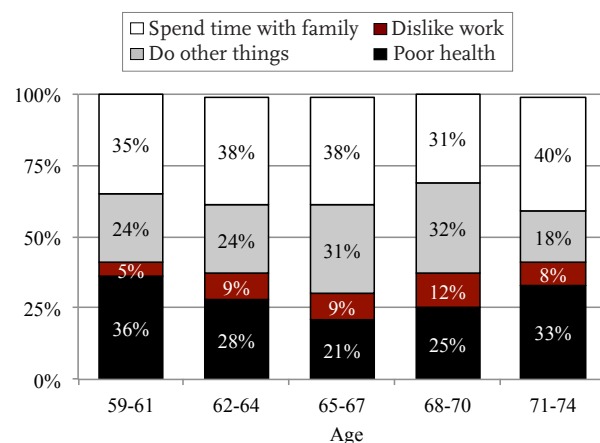
Notes: Statistically significant at 10-percent (\*\*), 5-percent (\*), or 1-percent level (\*\*\*). These results show the likelihood of labor force transitions over a two-year period for full-time workers ages 51-79 during 2002-2010.

Source: Angrisani et al. (2013).

“other things” was a “very important reason” why they retired. Not liking work accounts for less than 10 percent of the “very important reasons” cited in the most recent 2012 survey, except for respondents ages 68-70 (see Figure 2). Poor health accounts for less than 30 percent, except for respondents younger than

62 or older than 70. Far more prevalent than these factors pushing workers out of the labor force are factors pulling them into retirement – a desire to “do other things” or “spend more time with family.” This inclination is especially strong during the popular retirement ages of 62-67.<sup>9</sup>

FIGURE 2. DISTRIBUTION OF FACTORS CITED AS “VERY IMPORTANT” IN THE DECISION TO RETIRE, BY AGE, 2012



Source: Authors' calculations from University of Michigan, *Health and Retirement Study* (2012).

## The Allure of Retirement

A study by Ruby Brougham and David Walsh supports the importance of non-financial rewards in pulling workers into retirement. Interestingly, it also supports the Haider and Loughran finding that non-financial rewards keep *some* workers in the labor force longer. The study assesses how subjective assessments of the likelihood of achieving five different personal objectives affect the work and retirement plans of workers ages 55 and over at the University of Southern California. The five objectives are: 1) personal growth; 2) meaningful relationships; 3) a sense of identity; 4) financial security; and 5) passing one's knowledge and values to the next generation.

The study identifies two groups of workers – those planning to retire at least two years earlier than the median planned retirement age of their co-workers

(age 65) and those planning to retire at least two years later. Both those planning on retiring earlier and those planning on retiring later indicate that all five objectives are reasonably important.

The study, however, finds significant differences in whether continued employment or retirement offers the better opportunity for achieving these objectives. Respondents were asked to assess the probability of attaining each objective if they continued to work or if they retired in the coming year. As shown in Figure 3a, those planning to retire at least two years later than their co-workers see themselves as more likely to achieve all five objectives by remaining employed, and unlikely or only marginally likely to achieve each objective should they retire. Those planning to retire early also see continued employment as significantly more likely to provide financial security (see Figure 3b). But, unlike those who plan to keep working, those planning to retire early see retirement providing better opportunities for achieving three of the other objectives: personal growth, meaningful relationships, and a strong identity.

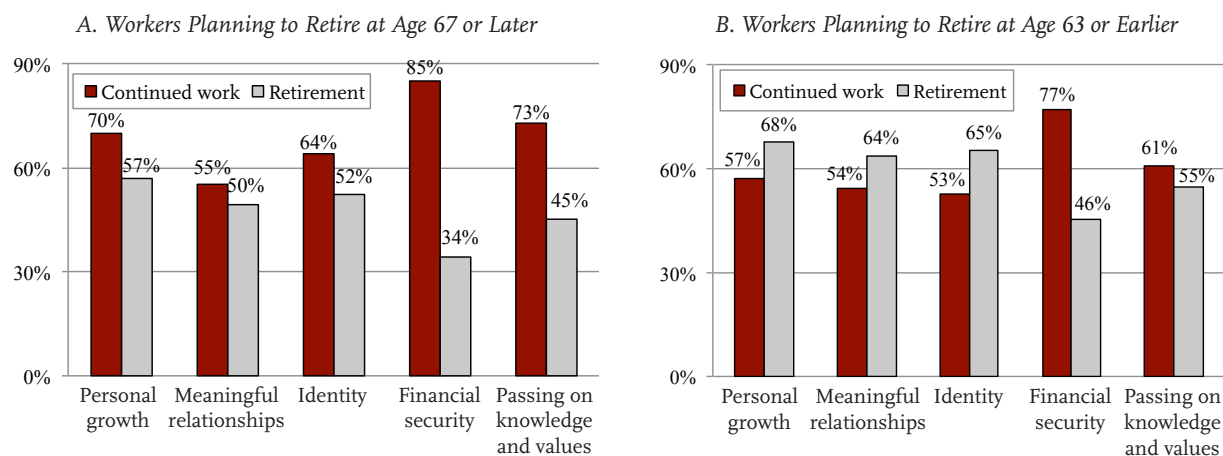
The study's sample – university faculty and staff – is hardly representative of the nation at large. Nor does it assess the allure of simple leisure that retirement provides that in no way contributes to more lofty personal objectives (e.g., watching TV and snacking on chips). The findings are nevertheless consis-

tent with the findings reported above based on data drawn from the nationally representative HRS. For those who plan on working longer, *employment* promises greater opportunities to meet personal objectives. For those who opt to exit the labor force early, *retirement* promises greater opportunities to meet key objectives, which tips the scales in favor of retirement despite the expected cost in financial security.

## Conclusion

The studies reviewed in this *brief* provide little support for the notion that adverse job characteristics push a significant number of workers into retirement. They instead identify the importance of non-financial rewards in keeping some workers in the labor force and pulling others – the majority – into retirement. Non-financial factors rightly play an important role in work-and-retirement decisions. But given the importance of the decision to workers' financial well-being, it is important that they also understand and carefully weigh the financial implications in deciding when to exit the labor force. Few workers, however, are equipped even to estimate the financial implications. This inability raises the prospect of many workers being pulled out of the labor force too early to gain a financially secure retirement.

FIGURE 3. MEAN EXPECTATION OF MEETING OBJECTIVE BY CONTINUING TO WORK OR BY RETIRING



Source: Brougham and Walsh (2009).

## Endnotes

1 Researchers found financial factors quite significant in retirement decisions when defined benefit pension plans provided strong incentives to retire at a particular age and modest Delayed Retirement Credits in the Social Security program offered strong incentives to retire by age 65 (Lumsdaine and Mitchell, 1999). These well-defined financial incentives are now largely gone, replaced by a much more amorphous set of financial incentives, typically to work longer than is generally the case. For a recent study that reviews the literature and illustrates the limited ability of financial considerations to explain current retirement behavior, see Rutledge, Gillis, and Webb (2015).

2 Haider and Loughran (2001).

3 The labor force participation data presented in Figure 1 is from 1991-1999, when defined benefit pension plans and relatively low Social Security Delayed Retirement Credits encouraged workers to retire by age 65 or earlier. Munnell (2013) updated Figure 1 using data from 1999 to 2012, when these incentives were significantly reduced or eliminated. While Munnell's results show labor force participation rising in all age and education groups, the disparities by education remain much the same. This finding suggests the continued importance of non-financial rewards in the work-and-retirement decisions of older workers.

4 AHEAD stands for the study of Aging and Health Dynamics among the Oldest Old. The AHEAD group consists of those born before 1924.

5 Angrisani et al. (2013). For a related study that includes objective, as well as self-reported, job attributes, see Angrisani, Kapteyn, and Meijer (2015).

6 The study controls for standard financial and demographic characteristics to isolate the effect of workplace characteristics on these labor force transitions.

7 Not shown is the likelihood of shifting to "non-employment, but not retirement" – the residual likelihood that brings the likelihood of all four transitions to 0.

8 See Haider and Loughran (2001) for similar results in an earlier period.

9 Consistent with the finding that a dislike of work is not a major reason for retiring, a large percentage of older workers report that they enjoy going to work. In addition, some of the workplace characteristics listed in Table 1 as increasing the likelihood of retirement – such as "work interfering with personal life" – suggest factors that pull workers into retirement rather than push them out of employment.

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