

# Financial incentives and retirement: evidence from federal civil service workers

Beth Asch<sup>a</sup>, Steven J. Haider<sup>b,\*</sup>, Julie Zissimopoulos<sup>a</sup>

<sup>a</sup>RAND, USA

<sup>b</sup>Department of Economics, Michigan State University, 101 Marshall Hall, East Lansing, MI 48824, USA

Received 29 January 2003; received in revised form 17 September 2003; accepted 9 December 2003

Available online 18 March 2004

---

## Abstract

We examine the retirement behavior of federal civil service workers employed by the Department of Defense. These workers provide an interesting population for studying retirement because they face relatively simple financial incentives, high quality administrative data are available, and they are not covered by the Social Security system. We find that these workers respond to their financial incentives in a similar manner to what others have found when analyzing much different retirement systems. We also find no evidence of “excess retirement” at key ages of the Social Security system, which does not support the existence of societal-wide norms regarding retirement.

© 2004 Elsevier B.V. All rights reserved.

*JEL classification:* J26; J33

*Keywords:* Retirement; Option value model; Pensions

---

## 1. Introduction

Numerous studies have examined the impact of financial incentives on retirement behavior.<sup>1</sup> Understanding such behavior is fundamental to assessing the solvency of public and private retirement programs and evaluating the potential impacts of any proposed changes.

In this paper, we examine the impact of financial incentives on retirement behavior for a unique set of workers, the federal civil service workers in the Department of Defense. There are several benefits to examining these workers. First, they face a simple retirement scheme

---

\* Corresponding author. Tel.: +1-517-355-1860; fax: +1-517-432-1068.

E-mail address: haider@msu.edu (S.J. Haider).

<sup>1</sup> See Hurd (1990) for a useful review. See Rust and Phelan (1997), Samwick (1998), Coile and Gruber (2000), and Gustman and Steinmeier (2002) for more recent examples.

because we study workers who are covered by the Civil Service Retirement System (CSRS). The CSRS is a typical defined benefit plan in which pension benefits are a function of years of service and salary, and workers covered by the CSRS are not covered by the Social Security system. Increasing evidence suggests that individuals often know very little about their retirement incentives (e.g., [Gustman and Steinmeier, 2001](#)). The simplicity of the CSRS suggests that individuals are much more likely to know their incentives, and thus, these data provide a “best case” in assessing individual retirement responses.

The second benefit to studying CSRS workers is that they provide important evidence regarding whether there is “excess retirement” at ages 62 or 65. Several previous studies have concluded that there exists excess retirement because, after the incentives in Social Security and Medicare are accounted for, more people retire at ages 62 and 65 than models suggest (e.g., [Lumsdaine et al., 1996](#)).<sup>2</sup> This excess retirement is attributed to the existence of social norms influencing retirement behavior. Our data provide an interesting test of whether there is excess retirement at ages 62 and 65 because the workers in our sample do not face special incentives to retire at these ages: none of the pension rules relevant to our sample involve ages 62 and 65, and upon retirement, all employees have access to the same health insurance they had while working.<sup>3</sup>

The third benefit is that we have high-quality administrative data for hundreds of thousands of CSRS workers. These data include a complete description of pension rules and the corresponding information necessary to compute pension values for each worker in the sample. Such information minimizes the potential for measurement error in computing financial incentives.

Our results suggest that civil service workers delay their retirement probability by 4% for each additional US\$10,000 of the expected pension wealth they would gain for working another year. This estimate is very similar to those found in previous studies using much different data and analyzing much different retirement schemes. We also find no evidence that the civil service workers in our sample retire disproportionately at ages 62 or 65, which undermines the conclusion that there exists societal-wide norms influencing the retirement decision.

## 2. The Civil Service Retirement System (CSRS)

The federal civil service is one of the largest employers in the United States, representing over 3% of total civilian wage and salary disbursements in 1996.<sup>4</sup> Until 1987, the primary retirement system covering these workers was the CSRS.<sup>5</sup> Workers

<sup>2</sup> Two studies that rely on more sophisticated models of retirement suggest that there is no evidence of excess retirement ([Gustman and Steinmeier, 1986](#); [Rust and Phelan, 1997](#)).

<sup>3</sup> Health insurance premiums are highly subsidized with the employer paying approximately 70% of the cost. The premiums are the same for retirees.

<sup>4</sup> This percent is based on Table 3.B2 of [Social Security Administration \(1999\)](#).

<sup>5</sup> Beginning in 1987, a new retirement system, the Federal Employees Retirement System (FERS), was implemented that includes Social Security coverage. In 1987, 1988, and 1998, those under CSRS with more than 5 years of service were permitted to switch coverage and participate in FERS. [Asch and Warner \(1999\)](#) find that few individuals have an incentive to switch, and thus we ignore this issue throughout the paper.

متن کامل مقاله

دریافت فوری ←

**ISI**Articles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات