



Full Length Article

Post-retirement labour supply in England



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ABSTRACT

This paper uses data from the English Longitudinal Study of Ageing to investigate the determinants of post retirement labour supply behaviour amongst retired men in England. I find the hazard of unretirement is highest when an individual is in their mid-late 60s. Evidence suggests unretirement is more likely amongst individuals with a higher level of educational attainment, who have a spouse in the labour market and are in better health. I investigate the nature of unretirement jobs and find they tend to be part time and provide a non-trivial source of income.

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Introduction

Individuals are living longer. A recent ONS report estimated a male aged 65 in the UK in 2002 was estimated to live for 16 additional years i.e. to die at 81, whereas a male aged 65 in 2010 was estimated to live until the age of 83 (ONS, 2011). Increasing life expectancy has a number of implications for society. Given that many individuals retire at or before retirement age in the UK (Banks and Smith, 2006), central government is primarily focused on reducing the detrimental effects population ageing can have on fiscal expenditure. One route by which this can be achieved is through higher rates of labour supply, in particular at older ages. Therefore research which investigates this topic is of vital importance. In a standard lifecycle framework one would expect male labour supply to be an inverse U shape over an individual's life-course, in particular one would expect to see a gradual (phased) decline from work to retirement. The social norm associated with retirement in the UK is the cessation of a career job, which is reflected in a sharp reduction in hours worked (Kohli et al., 1991; Banks and Smith, 2006). However, over the last thirty years empirical research (largely coming from the US) has shown a growing heterogeneity in labour supply at older ages (Hanoch and Honig, 1985; Rust, 1989; Ruhm, 1990; Blau, 1994; Gustman and Steinmeier, 2002 and Mastrogiacomo, 2003). These papers have documented the rise of early retirement, which is also relatively common in the UK and partial retirement which is less common in the UK relative to the US and selected European economies (Gielen, 2009; Jones et al., 2010; Kantarci and Van-Soest, 2008). However many studies either assume retirement is an absorbing state or note that a proportion of individuals returns to the labour

market (and whose flows are non-trivial in magnitude) but choose not to investigate them. One exception here is the early study by Parker (1980) who explicitly considers retirement preferences amongst a group of retired British individuals and explicitly asks respondents about their attitudes towards working in retirement. Other notable exceptions include Gustman and Steinmeier (2002) and more recently, Congdon-Hohman (2009), Maestas (2010), Cahill et al. (2010) and Kutlu-Koc (2014) who investigate various aspects of unretirement in the US.

The focus of this paper is to understand the determinants of unretirement behaviour in England. To do this I use the English Longitudinal Survey of Ageing (ELSA) and restrict my attention to men who are initially observed to be in retirement.¹ This marks a departure from the majority of existing studies which have tended to focus on unretirement behaviour amongst individuals who are initially employed. Few studies have focused on post retirement labour supply conditional on initially being in retirement. Recent exceptions include Larsen and Pedersen (2013) who use Danish administrative register data to show that the probability of being in paid work post (normal) retirement age is higher for: Males who own their own home, have made higher pension contributions during their lifetime and are better educated. Pettersson (2011) investigates unretirement behaviour in Sweden using register data and estimates an unretirement rate in the region of 6–14 per cent depending on the definition of unretirement. Pettersson (2011) found unretirement was more common amongst: The higher educated, early retirees, males and individuals with a spouse in the labour force. These studies suggest unretirement is a lifestyle decision and not in general a response to negative financial shocks.

¹ Preliminary analysis indicated the flows from retirement back into paid work amongst females in this cohort were too low for any substantive analysis to be undertaken.

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The most recent Census estimated 16.4 per cent of the population in England was aged 65 and over in 2011, of which a significant proportion were in retirement (ONS, 2012). Therefore this group represents a sizeable pool of untapped economic capacity in England. Therefore the first question I pose in this study is: conditional on being in retirement is there duration dependence in the hazard of unretirement? Understanding this has implications for policymakers; for example current policies aim to delay entry into retirement, such policies (which have been effective) are explicitly targeting individuals currently in employment. However policymakers should also think about policies which would boost employment amongst individuals who are already in retirement. Related to this point, is unretirement a realistic labour supply path available to all individuals? If not, then it is important to understand the characteristics that might prevent or hinder an individual returning to work.

Analysis of ELSA suggests there is evidence of duration dependence in unretirement. The pattern and direction indicate the hazard of unretirement is highest for individuals in their mid-late 60s. I also find unretirement is more likely to occur amongst particular sub-groups of the retired population. Characteristics which are associated with raising the hazard of unretirement include: Being highly educated, in good health, having a spouse in employment, having always been single and prior to initial retirement occupied a relatively highly paid job. My results suggest unretirement in England is a lifestyle choice rather than due to credit constraints. These findings support existing research investigating the characteristics of individuals who work in retirement (Maestas, 2010; Pettersson, 2011; Larsen and Pedersen, 2013).

I estimate that an unretirement job involves working on average 12 hours per week and weekly gross earnings from such employment amount to £128. Putting this into context, in the financial calendar year 2014–2015 the maximum weekly state pension an individual could receive is £113. The Department for Work and Pensions, which is responsible for social security payments in the UK recently estimated nearly 1 in 5 retired individuals relied solely on their state pension and benefit income as sources of income in retirement (DWP, 2011). Therefore an unretirement job can provide a non-trivial source of additional retirement income, assuming the opportunity to secure employment is equal across all individuals.

The rest of this paper is set out as follows. Section 'Data' describes ELSA the longitudinal panel dataset used in this paper. Section 'Unretirement in a theoretical framework' considers the main developments in modelling labour supply at older ages and how unretirement behaviour can be explained in such frameworks. Section 'Specification and modelling approach' discusses the modelling approach. Section 'Estimation results' presents estimation results. Section 'Characteristics of unretirement jobs' analyses the characteristics of unretirement jobs. Section 'Conclusion and policy implications' concludes and considers policy implications.

Data

Sample

The sample used in this study is drawn from ELSA. ELSA is a biennial longitudinal survey specifically aimed at investigating the lives of individuals aged 50 and over in England. The survey is a joint collaboration between the Institute for Fiscal Studies (IFS), University College London (UCL), National Centre for Social Research (NCSR) and The University of Manchester. The survey sample was drawn from the Health Survey for England (HSE), with individuals and their spouses being eligible to take part in the survey if they live in private households in England and were aged 50 and above on 1st March 2002. The initial sample consisted of 11,391 core members, for a detailed description of the data see Appendix A.

I follow individuals between wave 1 and wave 6 of the study which corresponds to the time period 2002–2013. The stock sample is restricted to individuals who report being in retirement in the first wave of observation (wave 1) and are between 50 and 75 years of age at the time of their wave 1 interview.² The median age of sample members in wave 1 is 68 and the median age at which they retired is 60. Sample distributions of these characteristics can be found in Fig. A1 in Appendix A. These figures highlight the extent of early retirement in England, which has been well documented in the literature (Jones et al., 2010; Banks and Smith, 2006). Appendix B also highlights that a large number of retirement episodes occur at ages 59/60 and 65; this coincides with the age at which females and males are eligible to claim their state pension age, this finding mirrors existing studies using British longitudinal panel data to analyse retirement from the labour market (Jones et al., 2010; Banks and Smith, 2006).

After placing the sample restrictions and cleaning the data I am left with an unbalanced panel of 941 individuals. I do not allow for re-entry after an individual has attrited from the survey.

Definition of unretirement

My definition of unretirement relies on observing: (1) the re-entry date to the labour market or (2) a change in a respondent's economic status between any two consecutive waves of the survey. Consider (1) first, at wave one individuals who reported themselves as retired were asked to provide the month and year in which they retired. At each wave of ELSA respondents are asked whether they consider themselves to be in paid work. If a respondent answers yes then they are asked the month and year they started working. This allows me to derive information regarding the number of years spent in retirement prior returning to work. One important consideration is how to account for unretirement episodes which occurred before the sample period but after initial retirement; this would lead to an underestimation of the true extent of unretirement. This is commonly referred to as 'delayed entry' or 'left truncation'. In Section 'Discrete time hazard model' I discuss how the modelling approach deals with this problem to ensure my estimates are not downward biased.

The second way an individual can be classified as unretired is if they report a change in their economic status, for example if an individual makes the transition from retirement to employment across any two consecutive waves of the survey (this approach has been used in previous studies of unretirement see inter alia Maestas, 2010). I cross check both definitions to ensure I do not double count unretirement episodes and also to ensure I only investigate the first episode of unretirement. Individuals who unretire under definition (2) and are not captured under definition (1) are assumed to have returned to the labour market at the midpoint between the two (survey) waves in question.

Under my definition of unretirement 5.31 per cent of the sample exhibit such behaviour. An alternative definition of unretirement could be based on the number of hours reported working in paid employment. The aim of this paper is to focus on the pattern and direction of duration dependence of unretirement and therefore I choose a definition of unretirement which captures this. Moreover, I would argue it is preferable to use a combination of measures that captures an individual's own perception of their attachment to the labour market, given the existence of social norms in retirement. For example, an individual may not consider himself being in employment even if he is engaged in paid work post retirement (Kohli et al., 1991).

² I also estimate a version of our model including those aged up to 89 in wave 1 but our results do not change. Moreover many of these individuals die over the sample period and given their life stage do not exhibit unretirement behaviour.

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