Is retirement encouraged by the employer? Retirements and the human capital and age structure at the company level

Daniel Hallberg

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SHORT ABSTRACT
Employer characteristics and measures of labor demand are less often taken into account in the study of retirement. It is nevertheless plausible that the decision to retire is a joint decision on the parts of the employee and the employer, and that it is sometimes encouraged by the employer. Among the driving factors that may push old out of the labor market are their high labor costs relative younger personnel. Using a large longitudinal employer-employee matched dataset, the objective in the present paper is to study how the age and education composition at the company level affect early retirement choices in Sweden. We also take into account measures of the economic situation of the company.

EXTENDED ABSTRACT
The well-known demographic development in most Western nations, i.e., increased life expectancy but also reduced fertility will in the near future put serious financial pressures on the possibilities to supply welfare services. Reinforcing this is the prolonged period of gradual reduction in labor force participation rates among elderly (male) workers (cf. Gruber and Wise, 2004). Likely reasons for this may be found in a gradual expansion of social security systems, an increase in real incomes, and maybe also a change in preferences for work.

However, not least in the case of Sweden there has also been substantial short-run fluctuation in addition to the long-run trend, which quite possibly is due to the business cycle. Using a large longitudinal employer-employee matched dataset, the objective in the present paper is to study how the age and education composition at the company level, as well as measures of the company's economic performance affect early retirement.

Economic studies of retirement typically focus on the retirement choice of the individual hence putting the focus on the effects of changes in the individual's pension wealth, health status and earnings (see e.g. Gruber and Wise, 2004, Hurd, 1990, and the references therein). The view that employer characteristics have a significant impact on retirement is not often considered. It is nevertheless plausible that the decision about retirement in fact is a joint decision on the part of the employee and the employer.

Firms' decisions to hire and lay off, or offer early retirement to older workers have received less attention until recently. Feldstein (1976, 1978), Topel (1984) and Hutchens (1999) are often mentioned as pioneers in introducing the concept of the employer's influence on the individual employee's retirement decision. In these studies the employee acts as in a labor supply model, and decides whether to retire based on the attributes of the alternatives. To some extent, the employer can determine the alternatives' attributes. Some new papers (cf. Behaghel et al., 2005, Acemoglu and Angrist, 2001, and Hakola and Uusitalo, 2005) study how redundancy costs or hiring cutbacks targeted at specific groups (e.g. older workers) affect labor demand, and find evidence that changes in costs or regulations for certain kinds of labor affect the demand for such employees. Dorn and Sousa-Poza (2005, 2007) use survey data from several countries to examine involuntary early retirement. In close connection to the

Hutchens (1999) model, they find empirical support that generous early retirement provisions not only make voluntary early retirement more attractive for individuals, but also make employers encourage more employees to retire early. Firms seem to use early retirement as a way to reduce the work force during economic downturns and as a mean to circumvent employment protection legislation. The view that retirement is a voluntary choice of the individual may hence give the wrong policy implications. Coile and Levine (2007) examine how local unemployment affects retirement. They find that retirements only increase in response to an economic downturn when workers become eligible for social security, suggesting that retirement benefits might function as a sort of unemployment insurance.

In Sweden, employees with high seniority are protected by labor market legislation from being laid off in the event of redundancy (the "first-in last-out" rule). Therefore in order to persuade older employees to quit "voluntarily" the employer and employee can agree upon a special early retirement pension (a "buy-out"). The results in Hallberg (2008) indicated that downturns (upturns) in aggregated industry employment increased (decreased) the probability of early retirement, and also that the replacement levels immediately after early retirement were higher during declining and expanding industry employment. One interpretation is that employers and employees agree on special early retirement pensions and that these are used in order to persuade older employees to quit voluntarily, but also that they function as rewards to older employees.

However, the level of detail in the economic fluctuation measure in the latter study is low. In particular, there may be several circumstances at the company level that are crucial for granting early retirement to older workers. One driving factor that pushes old out of the labor market might be that this category of employees often is associated with higher labor costs in relation to younger personnel relative to their productivity. In particular, older workers have high wages and sometimes also higher social costs in terms of higher pension premiums.

Using a large longitudinal employer-employee matched dataset, the objective in the present paper is to study how the age and education composition at the company level, as well as measures of the company's economic performance affects early retirement.

In an economic downturn, the employer might thus see a chance to restructure the firm's labor force by getting rid of older workers, and thus minimizing labor costs. The employer might also see long-run benefits in the restructuring of the age profile of the work force independently of current economic turbulence. Early retirement may furthermore permit continued employment of younger staff members. The individual might, moreover, feel forced by social norms to make room for younger workers. In addition, this kind of settlement may also be more socially acceptable than a downright dismissal of an older employee. In the present paper we will focus on the work force costs which are often seen as the main disadvantage of the older workers (Munnell et al, 2006; references cited in Skirbekk, 2008).

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