

# I'm Retiring ... Well, Sort of

I'm 45 years old  
and I'm retiring ...  
from writing regular  
columns for *workspan*.  
And that has me thinking  
about retirement and  
incentives as part of a  
total rewards system.



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This marks the 50<sup>th</sup> consecutive monthly column I have written for *workspan*. Although I doubt it is my last column, it is the last regular monthly one, for now. Who knows, I may come out of retirement someday. In the coming months, this space will continue with “Research for the Real World” columns, but they will be written by others. I hope and expect you will enjoy what these smart and interesting folks have to say.

But the thought of retirement (even if it isn't really retirement) has me thinking about a few articles on retirement from the academic literature and what they may have to say about the practice of compensation design.

## Retirement and the Great Recession

The Great Recession sparked a series of interesting papers on retirement. It isn't immediately obvious what we might expect. On one hand, retirement savings took a big hit, which could lead to individuals preferring to delay retirement. But the hit to savings didn't necessarily last; the market has grown quite substantially. On the other hand, relatively high unemployment coming out of the Great Recession may have meant that some older workers just gave up looking for work and retired earlier than they would have otherwise. Add to this that older workers have, on average, less time to get back (from any future earnings growth) any investment in their own human capital. For example, it makes more

sense for my 16-year-old son to invest in further education now than my 71-year-old parents.

An interesting May 2011 article by Courtney Coile and Phillip Levine, “Recessions, Retirement and Social Security,” published in *The American Economic Review*, investigates precisely these issues using more than 30 years of U.S. Census Bureau data covering between 100,000 and 200,000 individuals per year. The authors find that workers are more likely to leave the workforce, more likely to start taking Social Security earlier and to have lower Social Security income later in life when they confront a recession around the time of retirement.

### Pension Design and Retirement Decisions

It would seem strange to me to have a column on retirement and not mention the dramatic shift away from defined benefit (DB) plans toward defined contribution (DC) plans. In fact, just one generation ago, 1980, some 60 percent of U.S. private-sector employees with a retirement plan had a DB plan. That number is now approximately 7 percent according to “FAQs about Benefits” from the Employee Benefit Research Institute. One reason for this dramatic change is that DB plans can be expensive to the employer. From the employee perspective, however, DB plans can provide more certainty of payout for employees in times of economic recession (as long as the pension system remains solvent).

DB plans also create an incentive to retire that is quite different than DC plans. For example, a long-tenured employee under a DB plan typically can “max out” at a certain point in his/her employment for a given employer. DC plans have no such “cliff” operating as an encouragement to retire.

### Who Leaves With Early Retirement Incentives?

Many organizations shed workers as business needs change. Some prefer a downsizing strategy that offers employees more choice, specifically, “early retirement incentives.” Of course, there are several costs with this sort of option. The organization may end up paying extra to those who would have retired anyway, which is very hard to study. And it may encourage highly productive individuals to take up the offer and actually leave, which can be studied.

I worked on a project with three colleagues, Ken Whelan, Ronald Ehrenberg and Ron Seeber, a few years back where we studied a large university that offered an early retirement incentive following the financial crisis that began in 2008 (on the order of one-year of salary) to non-faculty staff. The article, “Adverse Selection and Incentives in an Early

Retirement Program,” was published in *Research in Labor Economics* in 2012. We wondered if employees who had seen budgetary pressure in their units might be more likely to take early retirement, perhaps avoiding a layoff later or responding to worsening work conditions driven by tighter budgets. We did, in fact, find evidence of employees in these units being more likely to take the early retirement option, separating out the effects of other characteristics such as age. We also investigated whether more “productive” employees were more likely to take up the incentive since they could presumably find jobs relatively more easily outside of the university. But we found no evidence of this productivity issue.

### Thanking Folks at My Retirement

In my last few words, I want to thank a few folks for their help with the columns. First, WorldatWork CEO and President Anne Ruddy, who was willing to take a chance on having an academic write for practitioners, and I am very glad she did. I have really enjoyed working on these 50 columns. Second, I want to thank those at WorldatWork who shepherded these through each month, especially Jean Christofferson and Michelle Kowalski. They were always patient and kind, even when I was late. Darrie O’Connell and Katherine Solis in the Institute for Compensation Studies keep the trains on time and are an important part of what I like so much about Cornell University.

Finally, the columns change remarkably (and always for the better) between when I first write them and when you get to read them. This is due to the extraordinary efforts of the executive director of the Institute for Compensation Studies, who gambled on me five years ago when I proposed she join me in a start-up called the Institute for Compensation Studies at Cornell University. Everything the Institute does (including this column) is better because of her, and I want her name to be the last thing I type as part of my regular column: Linda Barrington. **WR**

**Editor’s Note** Don’t miss the photos and story of Kevin Hallock’s career and life, starting on page 74 of this issue of *workspan*.



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