research for
the real world

Age, Total Rewards and Job Change

Why Older Workers' Pay Declines After Changing Jobs

Routine is good, and often makes hectic lives manageable. But for me, it seems like it's the times when I'm out of my routine that I notice things with fresher eyes.

This happened on a recent trip when I ended up stuck in an airport for hours because of a delayed flight. Wandering the terminal to pass the time, I began to notice how many employees in the shops, restaurants and airline and airport operations appeared to be "late career" — I guessed mid-50s and older. About to enter the mid-50 range myself, I grew up and reached midcareer in a U.S. workforce where 16- to 24 year-olds outnumbered those 55 and older. This balance flipped less than 15 years ago, and by 2020, workers aged 55 and older are forecast to outnumber those aged 16 to 24 by more than 2-to-1 (U.S. Bureau of Labor Statistics, www.bls.gov/opub/mlr/2012/01/art3full.pdf).

While I was vaguely aware of this demographic flip-flop, it was my unplanned airport walkabout that made this statistic pop before my eyes. And then I started thinking: Had the career path of these older employees always been in these types of jobs? Maybe even with the same airline or in the same airport? Or, with the so many different jobs impacted by the efficiency-creating effects of new technologies, had these employees been displaced from a different kind of work altogether, making a later-in-life career switch? And, what would the answer say about their lifetime compensation and total rewards expectations versus actual trajectories?

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Pay Change After Job Change

My colleague, Hassan Enayati, and I have started to explore how changing jobs might play out differently in terms of

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pay for older versus younger workers. We started by looking just at employees who had to change jobs because of a layoff or business closing — officially termed "displaced workers." Using the most recent data available from the U.S. Census Bureau survey of these workers (Current Population Survey - Displaced Worker Supplement, 2000 - 2012), we observe that following re-employment, older displaced workers tended to lose more in terms of both level and percentage of pay than younger displaced workers. For example, in 2012 the median (or typical) 55- to 64-year-old who was displaced from his/her job and then found new employment experienced a 5 percent drop in pay (per hour). For those under 35, the median decline was just 2 percent.

Why Would Older Workers Face a Larger Pay Cut?

What could explain the larger pay penalty when older workers change jobs? As mentioned already, we know that the current technological revolution is rocking the world of work. Many jobs are going away and new types of employment are emerging. A "hollowing out" of middle-skilled jobs is well documented by David Autor and others. (See, for example, Autor, David H., Lawrence F. Katz, and Melissa S. Kearney. "The Polarization of the U.S. Labor Market," *American Economic Review*, 2006, v 96, no 2.) If older workers displaced from the hollowed-out middle face greater challenges moving into newly created higher-skilled jobs (such as software development or solar panel installation), then they would disproportionately end up finding new employment in lower-skilled (and likely lower-paying) jobs.

Another possible reason why the pay of older workers is hit harder on average by job change is that older workers may have been being rewarded for experience and knowledge built up over many years within one organization. This expertise, however, may not be as valuable to a different organization. Moving from one organization to another could result in a larger drop in pay for older workers if the value of unique (organization-specific) expertise doesn't transfer fully to a new organization and older workers may have amassed more of this kind of value.

A related explanation for workers with longer tenure has to do with whether or

Figure 1 **Change in Hourly Pay Change of Workers Finding New Employment in 2012 Following Job Loss Due to Layoff or Business Closing**

+ Percent change in the pay per hour of the middle (50th percentile) individual when new employment is found.

Age Grouping	Median Percent Change+
20-24	-2.0 %
25-34	-2.0 %
35-44	-5.0 %
45-54	-6.6 %
55-64	-5.0 %
65+	-14.5%

Source: Authors' calculations from CPS – Displaced Workers Special Supplement, 2000-2012.

> "Edward Lazear wrote about how pay could be transferred, if you will, from one's early years with a company to later years as an incentive for good performance and retention."

Figure 2 | **Prevalence of Mandatory Retirement**

In 1971, percent reporting mandatory retirement practices at their workplace.

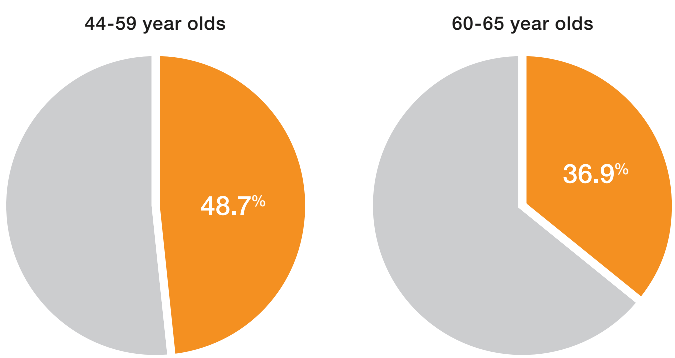
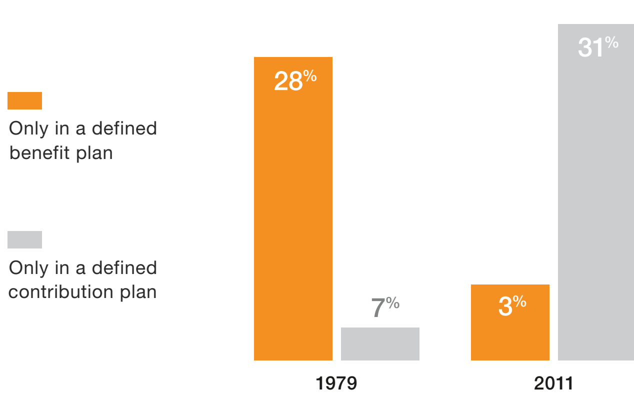


Figure 3 | **DB vs. DC Plans**

Percent participating in which type of retirement plan.



not older workers have been caught in a larger regime change in compensation structure. Back in the 1970s, when mandatory retirement was still allowable after age 70, Edward Lazear wrote about how pay could be transferred, if you will, from one's early years with a company to later years as an incentive for good performance and retention (Lazear, Edward. "Why is There Mandatory Retirement?" *The Journal of Political Economy*, 1979, v 87, no 6). Such a scheme is characterized by paying younger employees less than their value and holding the difference as an implicit kind of bond that is paid back by eventually paying the employee more than his/her value as the employee's tenure increases. Defined benefit pensions and mandatory retirement are important characteristics of the Lazear-style deferred compensation structure. (It was the 1967 Age Discrimination in Employment Act (ADEA), which itself turns 50 next year, that first limited mandatory retirement to those over age 65 and then age 70 via amendment in 1978. Later amendments ultimately banned mandatory retirement all together except for very limited exceptions.)

Much has changed in the world of total rewards during the work lives of today's Baby Boomers, whose ages now range from 52 to 70. In 1971, almost half (48.7 percent) of male employees aged 44-59, and more than one-third (36.9 percent) of all employees aged 60-65 reported mandatory retirement provisions at work (Barker, David T. and Robert L. Clark. "Mandatory Retirement and Labor-Force Participation of Respondents in the Retirement History Study," *Social Security Bulletin*, 1980, v 43, no 11, Table 1).

And since the youngest of the Baby Boomers have come of working age, the share of private-sector employees participating in only a defined benefit (DB) versus defined contribution (DC) retirement plan has gone through an almost perfect reversal. In 1979, 28 percent of U.S. private-sector employees participated only in a DB retirement plan and 7 percent only in a DC plan. By 2011, 3 percent participated only in a DB retirement plan and 31 percent only in a DC plan (Employee Benefit Research Institute. "FAQs About Benefits—Retirement Issues."

Today, it is far more likely that an organization's compensation structure would be described as pay for performance than as Lazear-style deferred compensation. If an older worker had worked for many years in a single organization with some Lazear-style back-loaded compensation "grandfathered" into his/her pay, then moving to a new job in a new organization could result in losing the payback of deferred compensation in later years.

Finally, ageism cannot be excluded as a possible explanation for why older displaced workers experience a larger pay penalty. Bias can happen if there's not complete information about an individual's productive value and stereotypes and prejudices are then used to fill in the blanks. A potential employer usually has incomplete information about how candidates will actually perform on the job. While illegal, if employers unwittingly fill in the blanks in a biased way against older job applicants, the result could be that older job applicants are offered lower starting pay, if hired at all. (Barrington, Linda. "Ageism and Bias in the American Workplace," *Generations: the Journal of the American Society on Aging*, 2015, October).

Further Research

The explanation of why older workers experience a greater decline in pay when changing jobs after layoff or business closure is most likely a combination of many factors and there are many questions yet to answer. With the number of Baby Boomers increasing in workplaces across the country, this employee population is an important focus for further research. ws

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got a question

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