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Executive Summary

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HAS THE DISPLACEMENT OF OLDER WORKERS INCREASED?

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The employment of older workers into their mid-60s will be critical to their ability to ensure a secure retirement. Continued employment provides current income while working, avoids the actuarial reduction in Social Security benefits, allows 401(k) accumulations to increase, and shortens the period over which retirement assets must provide support. One of the risks threatening the ability to work to older ages is being “displaced,” with displacement defined as the elimination of the worker’s job due to a shift in the demand for labor. Displacement can easily throw 50-year-old workers off course, disrupt their retirement saving plans, and lead to premature retirement.

This paper explores the relationship between job loss and age over the period 1984-2004 using the biennial Displaced Worker Supplement to the Current Population Survey. Several factors have changed over this period that would be expected to affect this relationship. First, the educational attainment of older workers has improved significantly. As education has been shown to be a protection against displacement, this could be expected to reduce the likelihood of displacement of older workers. Second, the pension environment has moved from a defined benefit to a defined contribution world. As the cost of defined benefit pensions rises rapidly as workers age, the shift to defined contribution plans would reduce the relative cost of older workers and therefore make them more desirable. On the other hand, the pension shift also signals a breakdown in traditional lifetime employment relationships suggesting more displacement among older workers. This shift has been accompanied by a noticeable decline in job tenure for older workers.

This paper analyzes the effect of such changes on the displacement of older workers and the effects of such displacement. The major findings of this study are as follows. No major trends in the displacement of older workers have occurred over the 11 Displaced Worker Surveys conducted during the 1984-2004 period. Re-employment rates for older workers appear to have improved, perhaps because of the move away from defined benefit plans and all they imply in terms of costs, hierarchical structures, and career employment. The earnings loss associated with the displacement of older workers has not changed significantly. In short, things are not getting worse, and maybe even a little better.

The other really interesting findings relate to tenure and education. First, the historical protection that older workers appeared to have against displacement was due to tenure not to age *per se*. Controlling for tenure, the probability of displacement increases with age. This finding means that older workers who lose their jobs are particularly vulnerable. Second, college education is no longer a source of significant protection in the world of displacement, and its importance has declined sharply for re-employment. Thus, while older workers are significantly more educated than in the past, this improvement most likely has no effect on the probability of displacement.

The conclusion that displacement is not getting worse is not to say that it is not a significant problem for workers in their fifties and early sixties. If people are going to have to keep working on a full-time basis until age 65 to have a secure retirement income, it may make sense to develop more of a support network to help workers rebound from such a severe shock to their work and economic life.

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