

# WORKING PAPER

## *Executive Summary*

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## WHAT MAKES RETIREES HAPPIER: A GRADUAL OR ‘COLD TURKEY’ RETIREMENT?

BY ESTEBAN CALVO, KELLY HAVERSTICK, AND STEVEN A. SASS

Workers approaching retirement often say they want to retire gradually, rather than going straight from full-time employment to complete retirement. It is understandable that many older workers say they prefer to retire gradually. These workers have spent thirty or more years in the labor force, and retirement represents a sharp social, psychological, and economic break with life as they know it. So it is not surprising that workers prefer to negotiate the transition in stages. A smooth transition allows older workers to continue daily activities similar to those performed in middle-age. Gradual retirement also could enhance opportunities to remain active and socially engaged. Evidence suggests that remaining active and socially engaged has a strong positive impact on health and well-being in retirement.

It is not clear, however, that retirees are indeed better-off if they retire gradually as opposed to ‘cold turkey.’ Workers who want to retire gradually are not basing their preference on their own personal experience. They have not retired both ways — cold-turkey and in stages — and concluded that they are happier in retirement after a gradual transition. Our study seeks to learn whether individuals are indeed better off if their transition out of the labor force is gradual as opposed to abrupt. We use happiness as the yardstick for evaluating the work-retirement transition.

This study uses data from the *Health and Retirement Study* (HRS), a nationally representative, biennial, panel survey of older Americans and their spouses. The panel nature of the HRS is extremely valuable for a study on the effect of the work-retirement transition on happiness in retirement. Most of the research on happiness in retirement uses cross-sectional studies, which can raise serious concerns about the direction of causation. This study takes advantage of the longitudinal nature of the HRS to test whether the type of transition out of employment affects an individual’s happiness in retirement.

For each individual in the HRS who makes the transition from work to retirement, we measure the change in each of these five happiness indicators (feelings of happiness, enjoyment of life, loneliness, depression, and sadness). To do this, we take the baseline measure of each indicator in the last wave in which the individual was fully employed and record the change in the first wave in which the individual is fully retired. To identify individuals in the HRS who made the transition from work to retirement we use two criteria, their usual hours of work per week and self-reported retirement status. Once the relevant sample of individuals observed transitioning from full employment to full retirement is selected, we classify individuals into type of transition using the self-reported retirement status.

To identify the effect of gradual as opposed to abrupt transition into retirement, controlling for factors that independently affect happiness, we use three regression specifications. The first set of regressions uses the change in each of the five HRS variables (happy, enjoy life, lonely, depressed, sad) from the wave when the individual was last fully employed to the first wave when the individual was completely retired, as the dependent variables. Individuals answer “yes” or “no” to whether or not they agree with statements about these feelings. As the changes in these feelings can take on three possible values: (-1, 0, or 1), we use an ordered logit regression. The second regression uses the change in the latent “Affect” variable, constructed using factor analysis, as the dependent variable. As this change is measured along a continuous scale, we use an ordinary least squares regression. Finally, we divide our sample, for each of the five HRS variables, into those that are initially “happy” and those that are initially “unhappy” and use the change when retired as the dependent variable. Logit regressions on each sample show the likelihood of the various factors in our analysis causing an increase in happiness (a change in the “negative sample” from an “unhappy” to a “happy” response) or a decrease in happiness (a change in the “positive sample” from a “happy” to an “unhappy” response).

Our study finds that the nature of our transition — gradual or abrupt — has no effect on our happiness in retirement. But we do find that the sense of control workers have over the transition does have a significant effect. So the *ability* to retire gradually if we want to — not the effect of the gradual transition per se — should make us happier in retirement. Giving workers a sense of control over their retirement, not necessarily creating gradual retirement paths, should be the item on the policy agenda.

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CENTER FOR RETIREMENT RESEARCH AT BOSTON COLLEGE

Hovey House, 140 Commonwealth Avenue, Chestnut Hill, MA 02467-3808  
phone 617.552.1762 fax 617.552.0191 [crr@bc.edu](mailto:crr@bc.edu) [www.bc.edu/crr](http://www.bc.edu/crr)