

DOES LATE-CAREER NONTRADITIONAL WORK IMPROVE RETIREMENT SECURITY?

BY MATTHEW S. RUTLEDGE AND GAL WETTSTEIN*

Introduction

Policymakers and the media have expressed concern that nontraditional jobs lack stability and financial security. Indeed, having a nontraditional job – defined here as a job without employer health and retirement benefits – during the prime saving years of ages 50-61 is associated with less retirement security.¹ But nontraditional jobs need not be “bad jobs” for all workers. Compared to traditional work, they may be a better fit for those in their 60s looking to prolong their careers by offering less stress and more flexibility.²

This *brief*, based on a recent study, examines how workers use nontraditional jobs after age 62, relying on data from the *Health and Retirement Study* linked to administrative earnings.³ It explores two questions. First, are workers in their early 60s who are underprepared for retirement more likely to use nontraditional jobs? Second, are such jobs a useful alternative to traditional work for those seeking to enhance their retirement security?

The discussion proceeds as follows. The first section introduces the data and the sample. The second section describes the analytic approach, which follows three groups of workers with different employment patterns in their 60s. The third section compares the retirement security of these three

groups at ages 61-62 and examines the changes they experience in retirement security by ages 67-68. The final section concludes that the workers who start out less prepared for retirement are not more likely to switch to nontraditional work in their mid-60s. But underprepared workers who do switch improve their retirement security as much as those who stay in traditional work. These results suggest that extended careers are financially beneficial, even in jobs without health and retirement benefits.⁴

Nontraditional Jobs and Late-Career Workers

Researchers define nontraditional jobs in various ways, including gig-economy jobs, on-call work, temporary positions, part-time slots, and/or self-employment.⁵ Most of these definitions focus on the worker’s relationship to the employer. This *brief*, like previous CRR *briefs* in this series, instead looks at the characteristics of the jobs, defining nontraditional jobs simply as those with neither employer-provided health insurance nor a retirement savings plan.⁶

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The analysis uses the *Health and Retirement Study* (HRS) – a longitudinal survey of households ages 50 and older – from 2002-2016 to study workers at ages 61-68. The sample consists of those who are in traditional jobs at ages 61-62. The question of interest is whether workers can gain from transitioning to nontraditional jobs to prolong their career, or whether a secure retirement depends on staying in traditional work.⁷ For this purpose, the sample is divided into three groups by “post-62 work status” – those who, at ages 63-68, engage in: 1) nontraditional work; 2) traditional work; or 3) no further work (i.e. they retire at 62).

All three groups are similar in terms of gender, race/ethnicity, and marital status (see Table 1). The two groups who stay in the labor force are better educated and healthier than those who retire. While the workers with nontraditional jobs have the lowest current earnings of all three groups, they also have the highest household income from other sources,

which suggests that many are secondary earners or have substantial outside income. Moreover, they have a high share of self-employment, so they may derive income from business profits.⁸

Examining Changes in Retirement Security

To determine whether the use of nontraditional work in late career relates to retirement security, we look at the workers at two periods. The first is ages 61-62, when Social Security benefits are first available, to establish workers’ baseline level of retirement security. The second is ages 67-68, which provides a chance to assess how working longer affects their retirement security.

The key ingredient for measuring retirement preparedness is the replacement rate: the ratio of a worker’s retirement income to their pre-retirement income. Retirement income includes Social Security and defined benefit pensions; capital income (e.g. rental income and business dividends); and the annuitized value of 401(k)s and IRAs (defined contribution plans). Pre-retirement income includes average career earnings, as well as capital and spousal income. The replacement rate assumes that individuals retire at 62 to capture the extent to which they would be financially prepared if they retired immediately. The replacement rate is then compared to a target replacement rate to calculate the retirement security gap – the extent to which each worker falls short of their target.

To test whether underprepared workers – those with a gap – are more likely to switch to nontraditional work to extend their careers, we first compare replacement rates by work status group. If the hypothesized relationship exists, those engaging in nontraditional work would be expected to have lower replacement rates at age 62. We also estimate a multinomial logit regression where the dependent variables are indicators for each group, with controls for socioeconomic differences across the groups. The independent variable of interest is the retirement security gap.

The analysis then shifts focus to ages 67-68 to answer whether working in nontraditional jobs is associated with a smaller retirement security gap, relative to not working or working in traditional jobs. The analysis estimates a different regression, where

TABLE 1. SELECTED SOCIOECONOMIC CHARACTERISTICS BY WORK STATUS AFTER AGE 62, 2002-2016

Characteristics as of ages 61-62	Work status after age 62		
	Any non-traditional work	Only traditional work	No further work
Male	54%	52%	54%
Black	7	6	8
Hispanic	5	5	5
Married	75	70	73
College graduate	40	39	24
Poor health	1	0*	6
Self-employed	20	6	3
Personal earnings	\$49,710	\$67,859	\$50,364
Other household income	\$67,692	\$58,100	\$49,296
Number of observations	365	1,105	240

* This figure is 0.44 percent.

Source: Rutledge and Wettstein (2020).

the dependent variable is the gap at 67-68, and the model controls for the initial gap at 61-62, as well as socioeconomic characteristics. The key independent variables are indicators for whether the individual worked in any nontraditional jobs or only traditional jobs during ages 63-68. The empirical question is whether the coefficient on nontraditional jobs is less than the one for traditional jobs, which would imply that switching to nontraditional work is associated with less improvement in retirement security than remaining in a traditional job.

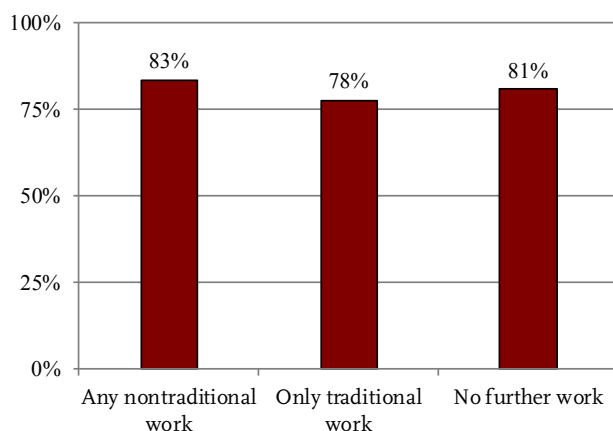
Results

As detailed below, the results do not support the hypothesis that underprepared workers are more likely to use nontraditional jobs in late career. However, they do suggest that underprepared workers who switch to such jobs see a substantial improvement in their retirement security.

Do Underprepared Workers Use Nontraditional Work More?

Contrary to initial expectations, the replacement rate for workers who switch from traditional to nontraditional work after age 62 is slightly *higher* than the replacement rates for those who stay in traditional work or retire at age 62 (see Figure 1). The reason for this pattern is that while those who work in nontraditional jobs do indeed have lower labor earnings and less

FIGURE 1. AVERAGE REPLACEMENT RATES AS OF AGE 62, BY WORK STATUS AFTER 62

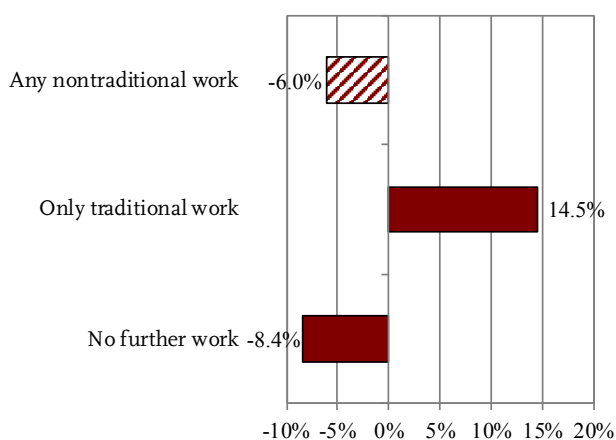


Source: Rutledge and Wettstein (2020).

potential Social Security, defined benefit, and defined contribution income, they more than make up for it with greater capital income. This result suggests that those switching to nontraditional work are not influenced by their level of retirement preparedness.

Not surprisingly, given these results, the regression estimates indicate that moving into nontraditional work after 62 is not associated with having a larger retirement gap at 62 (see Figure 2).

FIGURE 2. ESTIMATED MARGINAL EFFECT OF THE RETIREMENT SECURITY GAP ON WORK STATUS AFTER AGE 62



Notes: Solid bars are statistically significant at the 5-percent level. The retirement security gap is the percentage-point difference between the target and actual replacement rates. Source: Rutledge and Wettstein (2020).

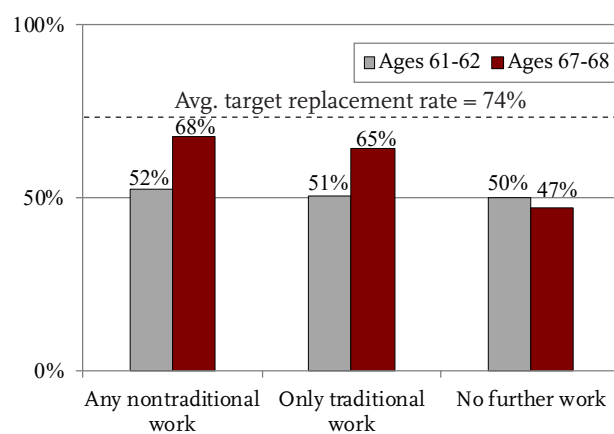
How Much Does Nontraditional Work Boost Retirement Security?

While the results above indicate that underprepared workers are not more likely than prepared workers to engage in nontraditional work to prolong their careers, doing so might still help the workers most at risk shore up their retirement security.

Indeed, the results show that underprepared workers who continue to work past 62 see a clear improvement in their retirement readiness by ages 67-68, as shown by the increase in their replacement rates (see Figure 3 on the next page). What's surprising, though, is that the gain for those who switch from traditional to nontraditional work is actually slightly *greater* than the increase for those who stay in traditional work, albeit not by a large amount. For both

groups, the increases close most of the retirement security gap that each had at ages 61-62 (as indicated by the dashed line showing the target replacement rate in Figure 3). The final step is to see if this finding holds up in the regression analysis, when controlling for socioeconomic factors.

FIGURE 3. AVERAGE REPLACEMENT RATES AT AGES 61-62 AND 67-68 FOR UNDERPREPARED WORKERS, BY WORK STATUS AFTER AGE 62



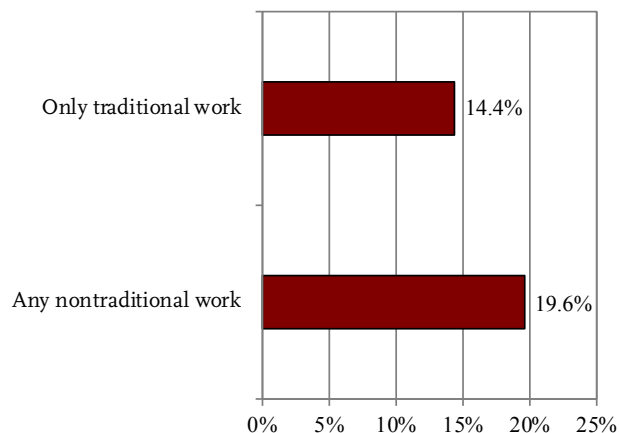
Note: The target replacement rate varies between 73 percent and 75 percent.

Source: Rutledge and Wettstein (2020).

The regression results do confirm the pattern. Traditional and nontraditional work boost financial preparedness by about the same amount (i.e., the difference between them is not statistically significant), relative to not working after age 62 (see Figure 4).

One caveat is that these results are estimated on the workers who did opt to work after 62 in nontraditional or traditional jobs, and these workers may have had the most to gain from continued work – for example, they may have been healthier than those who did not work, and thus were better able to improve their retirement prospects.⁹

FIGURE 4. ESTIMATED MARGINAL EFFECT OF WORK STATUS AFTER AGE 62 ON THE RETIREMENT SECURITY GAP AT AGES 67-68



Notes: The results above change the coefficients' signs so that a positive change is an improvement in retirement security. Both bars are statistically significant at the 5-percent level. The difference *between* the two bars is not significant. Source: Rutledge and Wettstein (2020).

Conclusion

This study examines the use of nontraditional work as a means to extend one's career. The analysis finds no evidence that those who approach retirement relatively underprepared are more likely to switch from traditional to nontraditional work late in their careers. But underprepared workers who do engage in nontraditional work after age 62 are able to close much of the gap in their retirement security by ages 67-68.

These results provide further evidence that working longer is financially beneficial to those who are healthy enough to do so. The novel finding is that even jobs that do not offer health and retirement benefits can help substantially in closing the retirement security gap. Workers who do not feel capable of maintaining their career job, or who desire more flexibility and autonomy, can take heart that even a nontraditional job can bring them closer to their retirement goals.

Endnotes

- 1 Jackson, Looney, and Ramnath (2017); Rutledge (2020a); and Munnell, Sanzenbacher, and Walters (2019).
- 2 See Hutchens and Chen (2007) and Cahill, Giandrea, and Quinn (2011) for research on “bridge jobs” that facilitate gradual retirement.
- 3 Rutledge and Wettstein (2020).
- 4 These results echo a vast literature finding substantial positive effects of working longer on retirement security; see Bronshtein et al. (2018) and Munnell, Hou, and Sanzenbacher (2019) for recent examples.
- 5 Not surprisingly, given the range of definitions, estimates of the prevalence of such jobs vary from 2 percent to 40 percent of the total U.S. workforce. Research on nontraditional work dates back decades (see, for example, Barker and Christensen 1998), but this topic has become increasingly prominent in recent years; see Collins et al. (2019); Katz and Krueger (2016, 2019); Robles and McGee (2016); Farrell and Greig (2016); Jackson, Looney, and Ramnath (2017); Abraham et al. (2018); and U.S. Government Accountability Office (2015).
- 6 For more details on the different definitions of nontraditional work, see Munnell, Sanzenbacher, and Walters (2019); Rutledge, Wettstein, and King (2019); and Rutledge (2020b).
- 7 Munnell, Sanzenbacher, and Walters (2019) find that workers who already engage in nontraditional jobs at ages 50-62 are fundamentally different than those who remain in traditional work throughout those ages, so this study’s sample excludes workers already engaged in nontraditional work before 62, as well as those who have already retired.
- 8 The sample workers are in the upper portion of the income distribution for two reasons: 1) they are older, so they tend to have higher wages; and 2) they are working full-time in their early 60s in jobs with health and retirement benefits, which suggests they are more likely to be white-collar professionals. But any conclusion that emerges from the analysis is not necessarily limited to the sample.

9 Furthermore, the last set of results is based on a small sample size, but at least suggests that working in nontraditional work helps improve retirement security. The full sample of those who were present in the HRS and had classifiable job statuses at both ages 61-62 and 67-68 consists of 836 workers; the at-risk sample includes 302 workers.

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