

WORKING PAPER

Executive Summary

DECEMBER 2002, WP # 2002-10

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RETIREMENT
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AT BOSTON COLLEGE

JOB SEARCH BEHAVIOR AT THE END OF THE LIFE CYCLE

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This research analyzes the job search behavior of older Americans, presenting one of the first formal dynamic models of job search by older individuals. This paper also presents empirical evidence of the importance of job search among older Americans using data from the Health and Retirement Study (HRS). This behavior, although mentioned in the literature for almost two decades, has been less formally modeled than, for example, retirement incentives and their policy implications.

Prior research done by Sandell (1987), and also by Borus et al. (1988) focused primarily on the problems that older workers face and was able to identify four aspects that would help improve the situation of older individuals in the labor force: improve economic conditions; increase labor market flexibility; increase investment in training and retraining; and improve job search in the labor market. Current economic conditions are quite good for both younger and older workers, and labor market flexibility has increased substantially among older workers if we consider the increasing trend towards part-time work and self-employment among older individuals. However, there has been relatively little improvement in the understanding of the processes that lead to and foster job search behavior and human capital accumulation at the end of the life cycle.

This paper presents a dynamic model of job search behavior at the end of the life cycle under uncertainty. Searching is costly in terms of leisure and in terms of monetary resources, but it is also productive because it has a positive effect on the wage individuals expect to face in the subsequent periods. This model represents one of the first efforts to integrate the job search decision in a utility maximizing framework where individuals are making consumption, saving, and employment decisions under uncertainty. The model proposed extends the seminal work of Seater (1977) to account for uncertainty and public pensions. The model also provides a deeper discussion of the implications for consumption, saving, and labor supply of integrating the traditional consumption/saving literature with the search literature.

The theoretical model is complemented with an empirical analysis of job search behavior at the end of the life cycle using data from all available waves of the HRS. The estimation results using cross-section and panel data models show the importance of age, marital status, education, and especially previous work attachment and health limitations in the decision to search for a new job. The author observes clear differences depending on whether the individual is employed or non-employed, and significant differences are also observed between males and females with respect to the importance of the driving forces behind job search decisions.

Moreover, the dynamic programming model shows that search declines over the life cycle, doing it more sharply after age 50. This paper also shows the effect of the cost of search in terms of leisure and monetary resources, and the effect of different wage rewards in the behavior of individuals. Furthermore, the author introduces a simplified Social Security system was in the model and observes that a sharp effect on job search behavior is consistent with the relevance of social insurance in the empirical model.

The model suggests that workers at all ages are responsive both to the cost of job searching (or human capital investment) and the rewards resulting from that investment of time and tangible resources. Therefore, public policies that can affect the possible costs of job search, or the rewards from it (for example policies that facilitate adult education to allow older individuals to keep up with technological change) will make it easier for older workers to be more active in the labor market and eventually work longer in an economy that will need those workers to ease the labor shortage.

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