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Forecasting Retirement Needs and Retirement Wealth

Edited by Olivia S. Mitchell,
P. Brett Hammond, and Anna M. Rappaport

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Chapter 9

Early Retirement Windows

Charles Brown

Despite legal prohibitions on mandatory retirement rules in the United States, American firms still have a number of tools for influencing the retirement decisions of their workers. Pension plans, particularly those with early-retirement provisions, have received a good deal of attention from economists, as have wages (and wage-rate increases) in the pre-retirement years. Less studied are special early retirement windows, which offer for a limited time additional incentives for workers to retire. These are often called “window” offers.

Such windows are worth studying for at least three reasons. First, they are generally thought to have become more frequent, as firms attempt to downsize and the cuts are felt at management levels where firms have traditionally been reluctant to adopt permanent layoffs. Second, they represent an interesting response to age-discrimination legislation that has outlawed mandatory retirement and somewhat restricted the use of regular pension plans to achieve the same goal. Moreover, such offers are sometimes argued to themselves be discriminatory, since they tend to focus on older workers and are said to be seen by some older workers as only slightly subtler than a dead fish on the desk as a signal that it's time to move on. Third, such offers are often unanticipated by workers, certainly as of the time when they initially accepted employment with the firm and often even shortly before the window is opened. Consequently, if one worries that generous regular retirement plans have attracted workers who planned to retire early anyway (and so discount evidence that generous retirement plans *encourage* retirement), the unanticipated nature of special early-retirement windows makes them a particularly attractive quasi-experiment (Gustman, Mitchell, and Steinmeier 1994).¹

Systematic evidence regarding the effect of such windows is limited. Most previous work has focused on responses to early retirement windows offered by a single employer.² In addition to worries about representatives of the

employers studied, one can't observe in employer-based data whether workers subsequently work for other firms, and if so whether their earnings are substantial. The Health and Retirement Study (HRS) therefore included a series of questions about such special early retirement windows. The analysis in this chapter is based on the first two waves of the HRS, conducted in 1992 and 1994.

We begin by outlining the economic theory underlying the firm's decision to offer a window and the worker's decision whether to accept. Then the characteristics of window offers and the workers who receive them are analyzed. Next, work and retirement outcomes for workers who received window offers are compared to those who did not. Finally, multivariate analyses of receiving a window offer and the decision to accept it are summarized, and conclusions are offered.

Window Theory

Employers decide whether to offer an early-out window and, if so, the terms of the offer; workers decide whether to accept such offers. While the worker's decision has been considered in some detail in the retirement literature, modeling the employer's decision requires pulling together themes from several different literatures.

Offering a Window

An employer may be thought of as offering an early-out window when a reduction in employment is desirable, and an early-out window is an efficient way of achieving that reduction. Unlike the regular early retirement provisions of pension plans that are driven by steady-state considerations, a *special* early-retirement *window* presumably reflects a change in the firm's preferred level or skill-pattern of employment.

Reductions in a firm's overall demand for labor may be temporary or permanent. If temporary, the firm will want to reduce employment of those workers in whom it has invested the least; those with greater levels of firm-specific skills will remain employed so that they will be available (without new hiring and training costs) when demand recovers (Oi 1962; Becker 1993). Permanent reductions in demand for labor should lead to roughly proportional cuts at all skill levels, unless the production function is non-homothetic. Changes in product technology or in the composition of product demand can lead to changes in the employer's desired skill mix and lead to reductions in demand for those whose skills have become obsolete. Given a desire to reduce employment of some or all groups of workers, why would a firm *pay* workers to leave, rather than unilaterally severing their employment? One answer is that layoffs have their own cost—such workers can

claim unemployment insurance, and at least part of the cost of the incremental benefits is reflected in the firm's payroll taxes for the UI program (Brechtling 1977; Topel 1983; Anderson and Meyer 1993). By inducing quits and therefore reducing layoffs, early-out windows might reduce the firm's UI liability.

On closer analysis, however, early-out windows prove to be a relatively expensive way of cutting UI liabilities. Laid-off workers typically qualify for six months of unemployment benefits, at up to half their previous earnings. Each state has a maximum benefit, however, and workers with above-average earnings receive less than half their previous earnings in UI benefits. So in a worst case, where all workers file for benefits, receive benefits equal to half of their previous pay, and fully exhaust benefits before finding new work, and the benefits are fully experience rated, a layoff will cost the firm three months pay. For highly paid workers, the UI tax is much less than that.

By contrast, as we shall see, early-out windows are often worth at least three months pay, and are typically offered to well-paid workers. This suggests that some other "cost" of layoffs must account for the employer's offering early-out windows.

The key to understanding this cost is recognizing that, in normal times, both workers and employers benefit from long-term employment relationships. Workers' willingness to share the cost of acquiring employer-specific skills depends on a belief that the employment relationship will continue and promised wage premiums will be received. Both firms and workers gain from deferred-compensation contracts in which workers are motivated to work hard when they are young by the promise of above-market pay when they are older (Lazear 1979). Indeed, the typical merit grid rewards superior performance in one period with an increase in base pay; the value of that increase is clearly contingent on the worker's expectation of continued employment. Finally, long-term employment contracts can be seen as a type of insurance that risk-averse workers purchase from risk-neutral firms. Early-out windows are then offered when the firm decides that continuing the employment relationship on the implicitly agreed-on terms is no longer desirable.

This perspective suggests that early-out windows should be offered to those workers who have relatively stable, long-term employment relationships. To the extent that such arrangements are more common for those who work for large or unionized firms,³ and among skilled rather than unskilled workers, we should expect early-out windows to be most common for these workers, too.

The hypothesis that early-out windows will be offered to stably-employed "advantaged" workers is strengthened by consideration of another alternative for the firm—waiting for workers to quit voluntarily. In markets where turnover rates are high, it is cheaper to wait than to pay.

Accepting a Window Offer

The worker's decision to accept or reject a window offer has been studied in the retirement literature, most notably by Lumsdaine, Stock, and Wise (1990). They carefully model a worker's decision to leave the firm now, relative to later retirement dates. Implicitly, the alternative to working with the current firm in their model is withdrawing from the labor force, because alternative employment is not explicitly considered. Gustman and Steinmeier (1986) suggest that "partial retirement," moving to a new job that usually pays less but allows a shorter workweek, is an empirically important alternative to retiring altogether, though its importance for workers covered by special early-out options has not been addressed.

Of course, these models predict—and Lumsdaine, Stock, and Wise confirm—that workers are more likely to accept offers that are more generous. Another important implication is that a given offer is more attractive to a worker who would have retired soon anyway. Moreover, early-out windows should be accepted by those who are pessimistic about their prospects with the firm, and value their alternatives—either withdrawing from the labor force or working elsewhere—most favorably. A subtler implication is that window offers may be accepted precisely because they are a sign that employment stability and traditional wage increases are less certain if one remains with the firm.

Working Backward

The process by which workers decide whether to accept window offers relates back to the firm's decision to offer them in two ways. First, worker decisions about whether to accept determine how generous offers must be in order to achieve a given number of departures. Second, worker decisions determine whether the employer is losing the "right" workers. Layoffs, perhaps with severance payments, can be targeted directly to those workers whose net value to the firm is smallest. Early-out windows introduce self-selection by workers. To the extent that the offers are accepted by workers who are relatively unproductive, they provide a relatively efficient way for the firm to reduce employment while maintaining the promise of stable employment. But if departures are motivated by good outside prospects, those who accept window offers may be those the firm would least want to lose.

Window Offers and Those Who Receive Them

The data analyzed in this chapter relate to those age-eligible members of the HRS sample who were interviewed in both of the first two waves (1992 and 1994). In Wave 1, all respondents who were currently employed or who had ever worked for pay for "more than a few months" and had last worked in

1972 or later—i.e., virtually all those who had worked in the last twenty years—were asked a sequence of questions on any window offers they had ever received. In Wave 2, those who worked at all between Wave 1 and Wave 2 were asked about window offers received since Wave 1. Early retirement windows are defined as special offers available only at a particular time, and so do not include the normal “early retirement” features of many pension plans. The placement of this sequence in the survey—after detailed pension questions about current and past jobs have already been asked—should have reinforced this distinction.

Among our 8,933 age-eligible respondents, 679 respondents (7.6 percent of the sample) reported that they had received one or more such window offers. Using sampling weights increases this proportion to 8.8 percent. Nearly 30 percent of those who received such an offer received more than one, almost always from the same employer.

Of those receiving special early retirement offers, 42 percent accepted the first offer they received; of those receiving more than one, a similar fraction (36 percent) accepted the most recent offer. Overall, counting offers between the first and last for those receiving more than two, about 34 percent of all offers were accepted.⁴ This is not very different from the estimates based on surveys by private consulting companies—30 percent by Hewitt Associates (Shalowitz 1993) and 33 percent by Charles D. Spencer and Associates 1992)—or the 30 percent acceptance rate in Hogarth’s (1988) New York State data. Of all individuals who received an offer (or more than one), just over half had accepted.

Window Offers by Age and Year

While a great deal is known about the early retirement options that are standard features of many pension plans, less is known about the ages at which individuals typically receive special early-retirement-window offers. Two related questions are whether the incidence of such windows has been increasing over time, and the extent to which windows are under-reported in the HRS. Table 1 addresses these questions, by presenting the number of windows offered by year and birth cohort.⁵ Reading down the columns, we see the number of offers for HRS respondents from different birth cohorts (and hence different current ages) in any one year; reading across a row shows the history of offers for any one cohort; reading down the highlighted diagonal block shows the number of offers received in each year by those age 53–58 in that year.

One clear message from Table 1 is that early-out windows are apparently received throughout the 51–63 age range. Age 51 is not “too young” to get such an offer, and 63 is not near enough to “normal” retirement to discourage special efforts by employers. There is also a sharp increase in the number of offers in 1991–92 over earlier years. One can see the same pat-

TABLE 1: Proportion of the Population Receiving an Early-Retirement Window Offer, by Birth Cohort and Year

<i>Birth Cohort</i>	<i>1994</i>	<i>1993</i>	<i>1992</i>	<i>1991</i>	<i>1990</i>	<i>1989</i>
1931	1.33%	1.62%	2.64%	2.99%	1.27%	0.69%
1932	2.02	1.50	2.15	1.05	1.08	1.10
1933	0.87	1.80	2.75	2.10	0.95	1.08
1934	0.91	2.81	1.82	2.11	0.50	0.83
1935	2.09	2.00	2.41	2.04	1.25	0.15
1936	2.06	2.53	2.86	1.72	1.54	0.61
1937	1.66	1.94	2.14	0.84	0.58	0.62
1938	1.52	2.25	2.42	1.14	1.36	0.36
1939	1.89	1.62	1.75	0.36	0.60	0.08
1940	2.78	2.25	1.99	1.21	0.37	0.36
1941	2.26	1.72	2.24	1.67	0.31	0.15
1931–41	1.75	2.06	2.27	1.54	0.84	0.54
<i>Accepted offered</i>	.25	.35	.35	.37	.37	.36

Source: Author's calculations using HRS data.

Note: 1994 data are for months prior to Wave 2 interview, which was centered on July.

tern along the highlighted diagonal block: those who were age 53–58 in 1991–92 were more likely to receive window offers than those who were 53–58 in earlier years. The table hides a substantial increase in offers between 1993 and 1994: because the period prior to the Wave 2 interview includes all of 1993 but on average 7 months of the following year, offers for all of 1994 were probably more than half again as numerous as reported in Table 1.⁶

The sharp increase in window offers over time is consistent with two quite different interpretations: that such offers have increased dramatically in recent years, or that people tend to forget such offers over time. There are, unfortunately, no other consistently collected data on early-retirement windows that could serve as a benchmark for Table 1.⁷ One plausible conjecture is that, if respondents are under-reporting window offers received in earlier years, such under-reporting is more likely for offers that were not accepted. Accepted offers generate significant changes—a change of employer and often a cash bonus or significant change in one's pension entitlement (more on that below)—and so should be salient enough to be recalled and reported. In response to this conjecture, the last line of Table 1 presents the fraction of offers *accepted* by age-eligible respondents in each year. With the exception of 1994 (where there seem to be “too few” accepted offers), the pattern for accepted offers is very much like that for all offers, and the fraction of offers accepted does not diverge in any consistent way from the 36 percent rate for the entire 1989–93 period. This admittedly indirect test suggests that much of the reported increase in window offers over time reflects a genuine increase, and not partial recall of more distant offers.⁸

Whatever one makes of the reported increase in windows in recent years, accepted early-out windows are now a significant component of total turnover for workers in this age range. Between Waves 1 and 2, 26 percent of those who were initially wage and salary workers left their Wave-1 employers; accepted window offers account for 10 percent of these departures.

What Incentives Are Offered?

For those who receive window offers, HRS obtains relatively detailed information about the characteristics of the offers. These include whether the special retirement incentive offered took the form of a cash bonus, temporary cash payments, better pension benefits, and/or other benefits. Both the forms of the benefit and the amount were recorded. Table 2 describes these offers, separately for those who reject (all) offers and those who accept an (any) offer. For simplicity, I focus on the first offer received for the 30 percent of the sample who received more than one.⁹ Dollar amounts are converted to constant 1992 dollars using the CPI.

Cash bonuses are slightly more common among rejected window offers, but the conditional mean bonus is higher for the accepted offers. The median and the unconditional means (i.e., treating those who were not offered a cash bonus as zero) are only slightly higher for accepted offers. Temporary cash payments (typically, until age 62) are much less common than simple cash bonuses, but are a bit more likely to be part of accepted offers than rejected ones.

Offers of additional pension benefits are both more common and more generous for accepted window offers than for those that were rejected. The same goes for pension plan credits for extra years of service. Accepted offers are more likely to include medical insurance, but they are less likely to include "other" incentives. Overall, while not all the differences are statistically significant, accepted offers are "better" than rejected ones.¹⁰ Given that those who accepted offers had similar earnings to those who rejected them,¹¹ the generally better terms among the accepted offers is quite in line with an economic model of the decision to accept such offers.

Table 2 is constructed to highlight differences between accepted and rejected offers. But it is also important to note that amounts on offer in either column are impressive. Even for rejected offers, cash offers amounted to \$23,000, while improved pensions averaged \$4,000 *per year*. An extra pension credit of 3.6 years represents about a 15 percent increase (given average tenure of 23 years). Typically, an offer would be *either* cash or improved pension benefits, rather than both.¹²

Given the serious sums at stake, it is perhaps not surprising that three-fourths of those who accept the window offer describe it as important to their decision to retire at that time (rather than something they would do anyway). Those who reject the window offer are asked whether doubling the

TABLE 2: Window Offers: What Is Being Offered?

	(All) Offers Rejected (N=327)	Offer Accepted (N=352)
Cash bonus: Yes=1	.57	.51
Cash bonus: mean (\$000)	22.99 (18.60)	31.65* (37.40)
median (\$000)	22.40	24.00
Cash bonus/annual earnings	.54 (.41)	.64* (.44)
Temporary cash: Yes=1	.04	.06
Extra pension: Yes=1	.26	.33*
Extra pension: mean/year (\$000)	3.99 (5.43)	6.16 (8.57)
median/year (\$000)	2.00	3.60
Extra pension/earnings	.10 (.13)	.14 (.16)
Pension credit: Yes=1	.13	.17
Pension credit: years	3.58 (2.21)	4.47 (2.28)
Perm. medical insurance: Yes=1	.02	.07*
Temp. medical insurance: Yes=1	.02	.03
Other incentive: Yes=1	.08	.05

Source: Author's calculations using HRS data.

Notes: For continuous variables, standard deviations are in parentheses below means. Means, medians and standard deviations of continuous variables are conditional — i.e., zeros are excluded. Results based on weighted data. * = significantly different ($t \geq 1.96$) from the mean for "all offers rejected."

offer would change their decision. Only a third reported that it would, which I find more surprising.

Who Receives Early Retirement Window Offers? Who Accepts Them?

Characteristics of HRS workers who received window offers are summarized in Table 3, for those who accepted their (first) offer and those who declined it. (With nearly equal numbers of workers in the "accept" and "reject" groups, the characteristics of all window recipients are a simple average of those two columns.) Also presented for comparison are characteristics of age-eligible individuals who did not receive such offers (but were employed or had worked at some time since 1972 and so could have reported receiving one).

Those receiving window offers are more advantaged economically than

TABLE 3: Characteristics of Workers by Window Status

<i>Worker Characteristic</i>	<i>Never Offered Window N=7591</i>	<i>(All) Offer(s) Rejected (N=327)</i>	<i>Offer Accepted (N=352)</i>
Male	.49*	.69	.69
Black	.10	.09	.08
Hispanic	.05*	.04	.02
Never married	.04	.04	.03
Married now	.73*	.78	.76
Married, spouse works	.48	.56	.44*
Years of schooling	12.42** (2.92)	13.81 (2.68)	13.86 (2.66)
Physical health $\geq$ good	.81**	.92	.90
Emotional health $\geq$ good	.83**	.90	.89
Health limits work	.20**	.08	.13
Will live to 75 (0-10)	6.46 (2.93)	6.70 (2.83)	6.53 (2.86)
Will live to 85 (0-10)	4.28 (3.17)	4.38 (3.14)	4.34 (3.26)
Financial horizon $\geq$ 5 yrs	.39	.40	.42
Accept financial risk	.23**	.16	.23*
Wealth mean (\$000)	255.34 (546.15)	225.12 (411.34)	327.01* (546.43)
median (\$000)	114	137	208
Year of birth	1936.19** (3.17)	1936.33 (3.33)	1934.80* (3.09)

Source: Author's calculations using HRS data.

Notes: See Table 2. ** significantly different from the mean for all those receiving an offer (last two columns combined).

those who did not: they are more likely to be married males, they have on average a year and a half more schooling, they are healthier (though their estimates of their probabilities to living to age 75 or 85 are no higher), and they are wealthier. They are marginally more willing to accept a hypothetical job that offers a 50-50 chance of doubling or reducing family income by one third, but there is no significant difference in their financial planning horizons.

Differences between those who accept and those who reject offers are less marked, but nonetheless interesting. Those who accept offers are less likely to have a working spouse than are those who reject the offer. They are more likely to report that a health condition limits their work, though they are very similar on the other health measures. Those who accept offers are more likely to report that they would accept the hypothetical risky alternative job. It is not clear whether this finding should have been expected. On the one hand, as we will see later, a significant fraction of those who accept windows

TABLE 4: Job Characteristics of Workers by Window Status

<i>Job Characteristic</i>	<i>Never Offered Window N=7509**</i>	<i>(All) Offer(s) Rejected N=327</i>	<i>Offer Accepted N=352</i>
In (wage/hour)	2.38 (.59)	2.90 (.47)	2.98* (.50)
Usual hours/week	40.61 (13.45)	42.10 (7.66)	43.25 (8.91)
Durable Mfg.	.11	.18	.22
Trans & Pub Utilities	.06	.19	.25
Public Administration	.04	.11	.09
Manager	.15	.16	.23*
Professional	.14	.34	.27
Mech & Repair	.03	.08	.09
Tenure (years)	12.48 (10.90)	23.18 (8.81)	25.52* (8.93)
Union contract	.20	.56	.52*
Company size ≥ 500	.50	.82	.85*
Pension: DB	.22	.50	.67*
Pension: DC	.16	.08	.08
Pension: DB + DC	.11	.38	.23*

Source: Author's calculations using HRS data.

Notes: * = significantly different ($t \geq 1.96$) from the mean for "all offers rejected." ** = significantly different from the mean for all those receiving an offer. For those who rejected or accepted window offers, job characteristics are from the employer who first offered a window; for those who never received a window offer, job characteristics are from current/last employer at wave 1. Union status and employer size are missing if window offer is from employer before current/last employer at wave 1.

later work with another employer. On the other hand, rejecting a window offered by a downsizing firm involves the risk of subsequent layoff. Those who accept window offers are wealthier than those who reject them (and it will turn out that the difference is larger than can be accounted for by the window payments themselves).

Table 4 presents differences in *job* characteristics of those who did and did not receive window offers. For those who received an offer, the job characteristics are those of the job that was held at the time of the offer; for those who did not receive an offer, I focused on their current/last job. Broadly, the finding from Table 3 that those who receive window offers are relatively advantaged workers is if anything stronger in Table 4: they are more likely to be employed in high-wage industries, to report their occupation is (or was) managerial or professional, they worked for their employer about twice as long, and they are more likely to be covered by union contracts and to work for large firms.¹³ It therefore is no surprise that those who receive window offers earn more than those who do not, though the magnitude of the

TABLE 5: Job-related Expectations at Wave 1 and Real Wage Growth on Wave-1 Job by Window Status Between Waves 1 and 2

	<i>No Window Offered N=4591</i>	<i>(All) Offers Rejected N=208</i>	<i>Offer Accepted N=128</i>
How likely is layoff in next year (0-10)	1.76 (2.57)	1.30 (2.28)	1.91* (2.92)
Expect real earnings change (+1,0,-1)	.48 (.64)	.51 (.61)	.27* (.77)
Chances of finding equal job (0-10)	4.53** (3.73)	3.50 (3.69)	3.03 (3.40)
Chances of working past age 62 (0-10)	4.70** (3.92)	3.93 (3.79)	2.89* (3.58)

Notes: See Table 4.

difference (those who received offers earned about 40 percent more per hour than those who didn't) may be.¹⁴ Finally, those who received window offers are almost always covered by a defined benefit pension plan: windows are offered to workers who have an expectation of quasi-permanent employment, and such pensions contribute to and perhaps symbolize that stability. Among those who receive window offers, differences between those who accept and those who reject them are once again strikingly small, and conform to no simple pattern.

Workers' expectations about the future with their current employers, the difficulty of finding new jobs, and plans for future labor force participation potentially influence the decision to accept window offers. These variables were measured in Wave 1, for those who were working at that time. This means we cannot relate these variables to window outcomes prior to Wave 1, but we can compare Wave-1 values of those who accepted, rejected, or did not receive window offers between Wave 1 and Wave 2 (Table 5).

Those who receive window offers between Wave 1 and Wave 2 do not (at Wave 1) view their chances of being laid off any differently from those who did not receive a window offer. Furthermore, they have similar expectations about real wage growth on their job over the next several years. Those who receive window offers do think it would be harder to find a comparable job in the same line of work if they were to lose their current job. This is consistent with earlier evidence that windows are offered to workers with long-term attachment to their employers. Those who receive offers believe (at Wave 1, prior to receiving the offer) they are less likely to work past age 62 or 65. As Lazear (1979) emphasized, employment contracts that lead workers to remain with the firm often have features (once mandatory retirement; now subtle pension incentives) that discourage workers from staying *too*

long. Viewed from this perspective, those who do not expect to be working past age 62 are also likely to be workers with strong attachment to their employers.

Several differences between those who reject window offers and those who accept them are apparent. Those who accept window offers see layoffs as more likely, and wage growth less favorable, than those who reject them; and they see themselves as less likely to work beyond age 62. These differences are all in the expected direction: windows are accepted by workers who see the option of remaining with their employer as less valuable.

For those employed at Wave 1, HRS asked about their wage when they began working for their Wave 1 employers. Real wage growth per year with the Wave 1 employer is positively correlated with workers' expectation of future real wage growth, but is not related to either receiving or accepting a window offer. The wage-growth variable depends on respondents' recollection of their pay more than a decade ago, and so no doubt is not well measured. A verdict on the relationship between past wage growth and windows must wait for a more reliable measure of such growth.

Life Beyond the Window

Most previous analyses of early-out windows are based on payroll records of the employer offering the window. This means that little is known about what happens to workers who accept windows. Do they stop working altogether or take jobs with other employers? Do those who take new jobs work full time and earn about as much as on the job they left? Or do they move to "partial retirement" jobs with shorter hours and significantly lower pay? How do those who accept windows and "retire" characterize their retirement? These questions are important to employers interested in designing these programs.

To start answering these questions, Table 6 characterizes employment and retirement status at Wave 2 for those who accepted, rejected, or never received a window offer. Nearly half (45 percent) of those who accepted a window offer are employed at Wave 2. A significant fraction (13 percent of all those who accept windows, or nearly a third of those who are working) are self-employed. Half of those who accept windows characterize themselves as completely retired, while 28 percent say they are partially retired. As one would expect, those who accept window offers are less likely to be employed, and more likely to report themselves retired, than those never received such offers and those who rejected all early-out offers.

Among those who describe themselves as "completely retired" at Wave 2, those who accepted window offers report having a much more satisfactory retirement experience. Compared to those not offered windows, those who accept a window offer are much more likely to say they wanted to retire (rather than being forced to do so), that they are satisfied with their retire-

TABLE 6: Employment Status and Retirement Status at Wave 2 by Window Status

	<i>Never Offered Window</i>	<i>(All) Offers Rejected</i>	<i>Offer Accepted</i>
Employed	.69	.89	.45
Self-employed	.14	.01	.13
Completely retired	.18	.09	.51
Partially retired	.10	.03	.28
<i>Among completely retired</i>			
Wanted to retire	.46		.67
Forced to retire	.47		.19
Very satisfied w/ retirement	.48		.70
Not at all satisfied w/ retirement	.18		.03
Better than before	.44		.57
Worse than before	.27		.11
<i>Among completely retired with no health limitations</i>			
Wanted to retire	.75		.77
Forced to retire	.15		.11
Very satisfied w/ retirement	.74		.75
Not at all satisfied w/ retirement	.03		.00
Better than before	.65		.62
Worse than before	.05		.06

Source: Author's calculations using HRS data.

ment, and that they are better off than before retiring. However, the bottom panel of Table 6 reveals that this difference vanishes if we restrict our analysis to those with no health problem that limits their work. The negative overall descriptions of retirement among those who have never been offered a window is due to the fact that those who are in poor health fare less well in retirement, and that, in this age range (53–63, at Wave 2) those who retire without a window offer are likely to be in poorer health. Nonetheless, the lack of significant differences between healthy retirees who did and did not take window offers is hard to square with the “defenestration” view that workers who accept window offers often feel they have little choice in the matter and so are pushed through the window.

Table 7 compares the workweek and wages of those who are employed after accepting a window offer (from another employer) to those who rejected window offers. For those who reject a window offer, hours per week and inflation-adjusted hourly wages are (on average) just what they were when the window was offered. Among those who accept offers, however, those who return to work do so for somewhat shorter work weeks (11 hours per week) and substantially lower wages. While it is tempting to link the wage losses of those who accept window offers and then work elsewhere to

TABLE 7: Hours Worked and Wages, Before and After Window Offer

	(All) Offers Rejected	Offer Accepted
<i>Window job</i>		
Hours/week	42.10 (7.66)	43.25 (8.91)
Weeks/year	49.89 (5.55)	49.57 (6.87)
ln(wage/hour) mean	2.90 (.47)	2.98* (.50)
median	2.85	2.97
N	320	343
<i>Wave 2 Job</i>		
Hours/week	42.17 (8.62)	33.04* (15.50)
Weeks/year	49.92 (5.44)	45.72* (12.03)
ln(wage/hour) mean	2.90 (.45)	2.45* (.72)
median	2.88	2.25
N	266	124
<i>Wave 2 window</i>		
Hours/week	0.09 (7.90)	-10.99* (16.82)
Weeks/year	0.03 (5.00)	-4.03* (11.39)
ln(wage/hour) mean	-.02 (.37)	-.53* (.69)
median	-.00	-.50
N	262	124

Source: Author's calculations using HRS data.

Sample sizes are for ln(wage/hour); means of hours/week and weeks/year are based on slightly larger samples. * = significantly different ($t \geq 1.96$) from the mean for "all offers rejected."

the tendency of window acceptors to become self-employed, we obtain almost the same wage loss when analysis is restricted to those whose Wave-2 job is working for someone else.

Multivariate Analyses

Three questions remain that are best answered with multivariate analyses.

(1) Does the tendency for windows to be offered to advantaged workers with

strong "permanent" attachment to the firm hold when various measures of advantage and attachment are considered simultaneously? (2) How important are the details of the window offer and the worker's expectations about where his/her current job is heading in explaining the decision of workers to accept the offer, once the characteristics of the jobs and workers are held constant? (3) How different are offer and acceptance rates for those who have already turned down one or more such offers?

The analyses here focus on windows offered between Wave 1 and Wave 2, and workers' responses to these offers. Above we noted that workers' expectations about layoffs, wage growth, and alternative jobs were strongly related to workers' decisions to accept window offers. These variables are first measured at Wave 1. Employer size and union status are not known for some employers.¹⁵ These gaps and subtler problems with continuously measuring other time-varying variables make it difficult to include windows offered prior to Wave 1 in a formal analysis.

The first column of Table 8 shows the effect of worker and job characteristics on the probability of receiving a window offer between Wave 1 and Wave 2. As was true in the analysis of those who had *ever* received a window offer, the probability of receiving an offer over the two-year period between Wave 1 and Wave 2 is higher for males, for those with longer employer tenure, higher wages, and defined benefit pensions, and for unionized workers and (marginally) for those who work for larger firms.¹⁶ What we learn from Table 8, then, is that these indicators of job attachment contribute individually to the probability of obtaining a window even when other factors are held constant.

Adding the number of window offers received *prior* to Wave 1 to this specification does not change the coefficients in Table 8 significantly, but its coefficient is strongly and significantly positive. As windows have become more common, so too has receiving several such offers ("refenestrations"). As workers become aware of the possibility that windows may not be a once-in-a-lifetime opportunity, structural modeling of the worker's decision becomes even more complicated.

The second column of Table 8 attempts to explain the decision to accept or reject windows offered between Wave 1 and Wave 2. Given the much smaller sample size, and the few differences between those who accept and reject offers in the earlier tables, one should approach this analysis with limited expectations. A few of the stronger results of the earlier tables are reversed, given Table 8's smaller sample and many control variables: those whose health limits their work are less likely to accept (though those in good health are less likely to do so, which makes sense); and those willing to accept risky jobs are less likely (in Table 8) to accept the window offer. On the other hand, those who expected at Wave 1 that their wages would increase in real terms were again less likely to accept the window offer, as were those who expected to work past age 62. The influence of the details of the

TABLE 8: Window Offers and Acceptances

<i>Explanatory variable</i>	<i>Get Window Offer</i>	<i>Accept Window Offer</i>
Male	.03 (.01)	-.12 (.08)
Never married	-.04 (.02)	-.08 (.16)
Married now	-.02 (.01)	-.07 (.09)
Married, spouse working	.001 (.01)	-.08 (.07)
Physical health $\geq$ good	.01 (.01)	-.31 (.12)
Emotional health $\geq$ good	-.02 (.01)	-.03 (.09)
Health limits work	-.004 (.01)	-.26 (.13)
Years of schooling	.003 (.002)	-.01 (.02)
Tenure (years)	.004 (.00)	.004 (.004)
ln (wage/hour)	.05 (.01)	.11 (.10)
Pension: DB	.02 (.01)	.08 (.15)
Pension: DC	-.02 (.01)	.03 (.18)
Pension: DB+DC	.04 (.01)	.01 (.16)
Union contract	.03 (.01)	.01 (.07)
Firm size $\geq$ 500	.01 (.01)	-.05 (.08)
Financial horizon $\geq$ 5 Yrs	-.02 (.01)	-.05 (.06)
Take risky job	.01 (.01)	-.13 (.07)
How likely is layoff in next year (0-10)	.002 (.002)	.01 (.01)
Expect real wage increase (+1,0,-1)	-.001 (.01)	-.09 (.04)
Chances of finding equally good job (0-10)	-.00 (.001)	-.01 (.01)
Chances of working past age 62 (0-10)	-.002 (.001)	-.02 (.01)
Cash bonus/earnings		-.03 (.09)
Temporary cash/earnings		-.40 (.25)
Extra pension benefits/earnings		1.22 (.53)

TABLE 8: *Continued*

<i>Explanatory variable</i>	<i>Get Window Offer</i>	<i>Accept Window Offer</i>
Pension credit: years		.02 (.02)
Other incentives/earnings		.10 (.13)
Temporary medical insurance		-.01 (.16)
Permanent medical insurance		-.03 (.13)
N	4324	307

Source: Author's calculations using HRS data.

Note: Also included in the regressions are variables whose coefficients are not reported in the table: race/ethnicity (2), wealth quartile (3), hours worked per week, weeks worked per year, industry (12), occupation (16).

offer seem less influential in this smaller sample, except for improved pension benefits.

When a variable which identifies those who had received and rejected window offers prior to Wave 1 is introduced, its coefficient was negative and moderately significant ($-.142$ (.073)). However, among those who had rejected an offer prior to Wave 1 but claimed they would have accepted a doubly generous one, there is no significant difference in accepting the offer between waves.

Conclusions

Early retirement windows offer, for a limited time, additional incentives (beyond those that might be included in a firm's pension plan) to retire. Their use has grown over time, and the size of the typical incentive is substantial. The Health and Retirement Study provides the first opportunity to study these early retirement windows with a representative sample of workers in the relevant age range. We confirm some important findings from earlier studies based on individual firms, and suggest several new conclusions:

1. Employers appear to be offering early-out windows more frequently in recent years. Receiving more than one offer has become fairly common, and workers who have received and rejected one such offer are more likely to get another, but less likely to accept it, than otherwise similar workers.

2. Roughly two-thirds of window offers are rejected. If windows not taken are less likely to be remembered than offers that actually triggered a departure, this two-thirds would be a lower bound for the true figure. The fact that most offers are rejected has two implications: (1) Workers may some-

times feel they have little choice but to accept an early-out offer, but this cannot be true of most offers; (2) Employers must make significantly more offers than they can expect to be accepted, raising the possibility that offers will be accepted by some workers the firm would rather keep, and be rejected by some that the firm would prefer had accepted.

3. Early-out windows tend to be offered to relatively advantaged workers who would otherwise have relatively permanent attachment to their firms.

4. The decision to accept windows is only weakly explained by the "usual suspects" — schooling, age, race, sex, industry, occupation — since they differ little between those who accept and those who reject offers. This should not be too surprising. Workers with more education have brighter alternatives than workers with less education if they accept the window (more pension benefits, higher wages if they work elsewhere) and also if they reject it (higher salary with current employer). Thus, such variables may have little influence on the decision to accept the window offer or remain with one's current employer.

5. The financial details of the offers do seem to influence workers' decisions to accept them. Those who accepted offers and those who rejected them had similar hourly wages but the accepted offers were more generous.

6. The amounts offered are substantial, even taking account of the fact that window recipients are relatively well paid. Those who rejected cash bonuses were on average rejecting offers of about \$23,000, while rejected pension improvements averaged \$4,000 per year. Accepted offers were higher still. Thus, if one sees early-retirement windows as unanticipated exogenous changes in the incentive to remain with an employer, and therefore as a particularly helpful experiment for assessing the impact of such incentives, the generosity of the offers reported by HRS respondents is encouraging: these amounts are large enough to be worth studying. On the other hand, half of the workers who reject one offer received another offer subsequently, so that offers after the first may not be strictly exogenous.

7. Roughly half the workers who accept early retirement windows do not retire altogether from the labor force. Moreover, the average "post-retirement" job represents substantial employment — on average, 30 hours per week — though hourly wages are significantly lower. These post-retirement jobs have important implications for modeling responses to such offers: the alternative to remaining with the firm is often to accept the early-retirement incentive and work elsewhere, so the fact that HRS allows the analyst to track such jobs gives it an advantage over data from individual firms' personnel files (which have better information on the window offer but no data on subsequent employment). For employers, the fact that those who accept window offers often work elsewhere raises the possibility that those who leave are those with the best alternative prospects, not those who are least productive on their current job.

The first two waves of the HRS give us a reasonably detailed picture of who

receives window offers, but relatively limited samples for analyzing the decision to accept the offers, and for learning what happens thereafter to workers who accept them. As the fraction of the sample that received such offers grows over time, more detailed analyses of these issues will be possible.

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Notes

1. One might still be concerned about how *firms* decide how generous the window offered to each worker should be. Moreover, in situations where firms make further offers to those who initially decline the offer, more generous offers might be correlated with characteristics that make workers unwilling to accept initial offers.

2. Lumsdaine, Stock, and Wise (1990) studied an unnamed Fortune 500 firm; Hogarth (1988) studied New York State employees; Mehay and Hogan (1998) studied responses of Navy and Air Force personnel.

3. For evidence on whether workers at larger firms have longer tenure with their employers, see Brown, Medoff, and Hamilton (1990); for evidence on unionization and tenure, see Freeman and Medoff (1984).

4. As a rule, offers other than the last have been rejected, because the offers come from the same employer, and accepting an offer leads to terminating one's employment. For respondents who received more than two offers prior to Wave 1, the outcome of the first and last offer was obtained from respondents, and I assume any offers between these were rejected. Similarly, for respondents who received more than two offers between Waves 1 and 2 I assume that offers between the first and last were rejected. Only 9 percent of all offers were inferred in this way to have been rejected.

5. For those reporting more than two offers at either wave, respondents were asked to date only the first and last. In constructing Table 1, I assumed that the year of any other offers was uniformly distributed between the known endpoints. Again, only 9 percent of the offers are affected by this assumption.

6. Offers received in 1992 could be reported either in Wave 1 or Wave 2, depending on whether they occurred before or after the Wave 1 interview. While respondents were reminded when the Wave 1 interview had occurred and asked in Wave 2 about offers since that interview, errors in recalling exactly when an offer occurred could lead to an offer received shortly after Wave 1 not being reported in Wave 2, or an offer shortly before Wave 1 being reported twice. In Wave 1, respondents were asked the year of the offer, while in Wave 2 month and year were obtained. Eleven respondents reported at both Wave 1 and Wave 2 accepting a window in the year of the Wave 1 interview (and for nine of these, they gave the *month* of the Wave 1 interview at Wave 2); six reported at Wave 1 that they had rejected a window that year, and reported at Wave 2 they had rejected an offer in the *month* of the Wave 1 interview. We deleted the Wave 2 reports of these windows, on the grounds that they very likely were re-reports of the same offer.

7. A survey by Hewitt Associates (Shalowitz 1992) does show a sharp increase in the number of *firms* offering windows in 1991–92 compared to the three preceding years, which is consistent with the message of Table 1.

8. Tabulations for earlier years suggest offers became more common during the late 1980s, too. However, reported acceptance rates are higher (averaging 43 percent, with no clear pattern) in 1985–88. This is consistent with poorer reporting of rejected offers in those years, so I am less confident that the apparent upward trend of offers in those years is real.

9. A few bonus amounts greater than two years salary were deleted as they appear to be outliers.

10. Amounts are missing for about 30 percent of those receiving these incentives, usually because respondents did not know the amount. Perhaps surprisingly, amounts were only slightly more likely to be missing for rejected offers (31 vs. 27 percent).

11. Earnings (measured at the end of job for jobs that ended before Wave 1, and at Wave 1 for ongoing jobs) were 8 percent higher for those who accepted windows than for those that rejected them.

12. For cash bonuses, the amounts relative to annual earnings are in line with the 3 to 12 months salary offered to those in the firm studied by Lumsdaine, Stock, and Wise (1990).

13. The firm size variable is available for those who are currently employed and received a window offer from their current employer, and for those who are not working but received an offer from their most recent employer. Size of employer was not asked in the sequence that deals with the employer before the current/last one.

14. For current hourly wages, I rejected values of $\ln(\text{wage})$ less than 1 or greater than 6. A similar procedure was applied to wages on previous jobs, after inflating to \$1992 using the CPI.

15. These variables were obtained for the current job of those working at Wave 1, and the last job of those who were not working, but not for previous jobs.

16. Birth cohort variables, not shown in Table 8, suggest a weak tendency for window offers to increase with age. Coefficients of occupation dummies showed no strong relationship to skill level.

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