How Does Human Capital Affect the Decision to Work in Later Life?

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Abstract

Life expectancy for 65 year olds could reach 90 years by the end of the century and the average American will spend fully one-third of his/her life in retirement (Clark, Burkhauser, Moon, Quinn and Smeeding, 2004). With this increased longevity, retirees will need more money to finance that longer life. One way to solve reductions in retirement income is to work longer. The continued working of older individuals will likely help stem the decline in labor force growth resulting in shortages or skill gaps that inhibit economic progress (Nyce and Schieber, 2001). Butricia, Johnson, Smith, and Steuerle (2005) estimated that many people could increase their annual consumption at older ages by more than 25 percent by simply working until age 67 instead of leaving labor force participation at age 62. Working entails using human capital. Most important types of human capital are formal education, work experience, job skills, and health (Bryant & Zick, 2006). Then, the basic inquiry of this study is to understand what role does human capital such as education, health, and work experience play in the labor force participation decision of older persons? Does having higher levels of human capital contribute to the decision to stay in the labor force? What socio-economic factors affect the decision to work in later life?

Using data from the 2004 Health and Retirement Study (HRS), this study explored a profile of older individuals in the work force, examined the effect of human capital on the labor force participation decision among older individuals, and investigated socioeconomic factors associated with older individuals’ labor force participation. In multivariate logistic regression analyses, a binary variable (1 if working full time or part time, or if unemployed or if partially retired; 0 if retired) was created as a dependent variable. To identify factors associated with the likelihood of working full time or part time in later life, education, job tenure at longest job held, self-reported health, mental health, age, gender, marital status, race, income, and wealth were included as independent variables.

The results of descriptive statistics showed that the average annual household income was $36,289, while the median annual household income was $23,924. The average age of the elderly household heads was 75. There were more female-headed households (59.0%) than male-headed households (41.0%) in the sample. The largest portion of the sample (57.7%) was married and the majority of the sample (84.3%) was White, and about 67% of the sample perceived their health as good, very good, or excellent. Older individuals, who worked past age 65, tended to be younger, males, non-married, Hispanics/Asians, and wealthy.

The results of logistic regression analysis indicated that all four human capital factors-- formal education, work experience, mental health, and physical health-- were significant predictors of the likelihood of working full time or part time past age 65. The results suggested that older individuals with higher levels of formal education, work experience, and good mental and physical health were more likely to work past age 65. The findings also indicated that having higher levels of household income and wealth positively affected the likelihood of being in the labor force past age 65, whereas having pension income negatively influenced the likelihood of working in later life. Among socio-demographic characteristics, males, divorced, widowed, never married, and Whites positively affected the decision to work in later life.

This study sought to understand how human capital affected the decision to work in later life. Human capital enhances worker’s productivity in the labor market. Based on the findings of this study, it concludes that human capital plays an important role in the labor force participation decision among older individuals. Older individuals with higher levels of human capital were more likely to continue to work past age 65. Working longer can be an important option for improving retirement income security since it allows defined contribution plans to grow, avoids the actuarial reduction in social security benefits, delays the start of the drawdown on retirement assets, and decreases the amount of years spent in retirement and thus decreases the amount of years retirement income is needed (Butricia, et al., 2005).
References


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