



## WHY NOT RETIRE? THE TIME AND TIMING COSTS OF MARKET WORK

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**WAGE INCREASES MAY NOT BE ENOUGH TO INDUCE OLDER WORKERS TO CONTINUE WORKING. INSTEAD, WORK OPPORTUNITIES MAY NEED TO BE RE-STRUCTURED TO MEET OLDER AMERICANS' DESIRE TO HAVE THEIR FREE TIME AS UNCONSTRAINED AS POSSIBLE, BOTH IN TERMS OF WHAT IS DONE AND WHEN IT IS ACCOMPLISHED. THE FINDINGS OF THIS STUDY UNDERSCORE THE IMPORTANT ROLE THAT INCREASED WORKING-TIME FLEXIBILITY CAN PLAY IN CONTRIBUTING TO RAISING EMPLOYMENT RATES AMONG OLDER AMERICANS.**

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One of the most important problems facing the United States over the next few decades is the declining supply of skilled and experienced workers. Retirement ages have not increased, despite rapid increases in longevity even among older Americans. Indeed, the labor-force participation rate of males 65 and older fell from 33.1 percent in 1960 to 16.3 percent in 1990. Even in 2004 the rate was only 19.0 percent, despite the recent rise in the age of eligibility for full OASI benefits. With the baby-boom generation approaching retirement, the problem will be substantially exacerbated.

The evidence from studies of older workers' labor supply suggests that wage increases are not enough to induce them to continue working. To encourage that supply, work opportunities may need to be re-structured to meet older Americans' desire to have their free time as unconstrained as possible, both in terms of what is done and when it is accomplished. Prior studies of time-use have only distinguished between labor market and all other activities. Activities

such as eating, washing, or sleeping likely do not yield the same average satisfaction as leisure. In order to understand the true opportunity costs of market work for older Americans in terms of time, we first need to understand exactly how they spend their time.

This research brief summarizes a study that examines several aspects of time use among older Americans. The primary focus is on how the amount of time devoted to market work and its timing affects older workers' ability to use their leisure time as they choose. First, it presents information on how older Americans use their time, how that differs from the way younger people spend their time, and what determines these differences. Thus, the first part of the study looks at how the decision to work in the market changes how people spend their time while not at work.

The second part of this study concentrates on discovering when older people perform different activities and examining the determinants of this timing. Given the likely importance of

scheduling in employers' demand for labor and the constraints this may impose on people's schedules outside the labor market, discovering what scheduling looks like when the constraint of market work is no longer relevant would seem crucial for understanding how this may induce retirement.

#### Data

This study uses data from the American Time Use Survey (ATUS) of 2003. This data set provides time diaries from 1800 individuals each month, one person per household, for a total of nearly 21,000 in 2003. Of the respondents 4,679 are age 60 or over, so that the ATUS provides by far the largest number of time diaries ever completed by older Americans. The 406 activities recorded are aggregated into four major categories: 1) market work; 2) secondary activities, or those for which the individual might purchase market substitutes, such as housekeeping; 3) tertiary activities, those that one must perform for oneself and that are essentially personal maintenance, such as taking a shower; and 4) leisure. For

some analyses, secondary activities are also broken down into household work and shopping, and child and other care, including volunteering. Tertiary activities are broken down into sleeping, eating and drinking, and personal care.

## How Older People Spend Their Time

- The biggest change with age is the decline in market activity with the major declines begin at age 60.
- Roughly 180 minutes is freed up among 65-69 year-olds compared to 55-59 year-olds on a typical day, but there is no change in the time devoted to personal care. Household production increases by 30 minutes, sleeping increases by 25 minutes, and time devoted to eating and drinking increases by 10 minutes across this time year age difference.
- Of the three extra hours, about two of those hours are devoted to leisure.
- Clearly, among the activities that might be crowded out by market work, leisure is the main one.

## TA Model of the Fixed Time Costs of Market Work

Why does an increase in leisure time represent the overwhelming use of the time that is freed up as older people reduce their hours of market? That is, why do those who are active in the labor market apparently wish to expand leisure time so much more than other non-market activities as soon as they have the opportunity? Are there time costs of market work that have differential impacts on the amounts of time devoted to other activities, impacts whose effects are removed when an individual ceases market work?

This study examines the hypothesis that participation in the labor market, even for a short while, alters both the distribution of non-market activities and their timing.

## Results

- The impact of beginning market work is not neutral across secondary activities, tertiary activities and leisure.
- There is a substantial negative effect on leisure activities and smaller positive effects on secondary and tertiary activities.
- The fact of working reduces a person's flexibility in switching among non-work activities.
- Being in the labor force alters the mix of non-market activities, reducing leisure time and mostly increasing time devoted to household production.
- A higher income moderates the effect of market work, allowing the individual to avoid giving up leisure and adding secondary or tertiary activities when he/she enters the labor market.

## Conclusion

The mere fact of participation in the labor market, even for a short while, alters both the distribution of non-market activities and their timing. Neither the move to participation nor marginal increases in hours of work are neutral with respect to the kinds of activities undertaken outside the market, even when we confine the analysis to the three broad categories of secondary activities, tertiary activities and leisure. Working in the market increases the amount of secondary activities performed relative to the amount of leisure consumed; and the day-to-day distributions of these three major categories are altered on working days when a person enters the labor market and when he or she increases hours of market work. Income moderates these effects. Indeed, having a household income above \$50,000 completely overcomes the effect that market work generates a shift of non-market time from leisure toward secondary activities, such as housekeeping.

Overall, the results suggest that market work imposes significant constraints on those who choose it, constraints that increase the incentives for complete retirement rather than a gradual reduction in market hours as people become eligible for public and/or private pensions. These findings underscore the important role that increased working-time flexibility can play in contributing to raising employment rates among older Americans.

## About the Researchers

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## About the MRRRC

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