



## Full length article

Specific measures for older employees and late career employment<sup>☆</sup>Bernhard Boockmann<sup>a,b,\*</sup>, Jan Fries<sup>c</sup>, Christian Göbel<sup>d,e</sup><sup>a</sup> Institute for Applied Economic Research (IAW), Ob dem Himmelreich 1, D-72074 Tübingen, Germany<sup>b</sup> University of Tübingen and IZA Bonn, Germany<sup>c</sup> German Council of Economic Experts, Gustav-Stresemann-Ring 11, D-65189 Wiesbaden, Germany<sup>d</sup> University of Applied Labour Studies of the Federal Employment Agency (HdBA), Seckenheimer Landstr. 16, D-68163 Mannheim, Germany<sup>e</sup> ZEW Mannheim, Germany

## ARTICLE INFO

## JEL classification:

J14

J21

J26

## Keywords:

Older workers

Human resources policies

SMOE

Employment duration

Linked employer-employee data

Age

## ABSTRACT

We analyse the relationship between the application of specific measures for older employees (SMOE) and job duration of workers aged 40 and above. Using longitudinal employer-employee data for German establishments, we account for worker and establishment heterogeneity and correct for stock-sampling. We find a positive relation of mixed-aged team work to job duration and a negative relation of specific part-time addressed at older workers. Job duration does not appear to be related to other SMOE, such as training and specific equipment of workplaces. Our findings suggest that only certain specific measures for older employees alter employee retention.

## 1. Introduction

Against the background of demographic change and potential skills shortages, raising the employment rate of older workers is a crucial issue in many countries. In the OECD, the average employment rate of workers aged 50 to 64 has increased from 36% to 43% from 2001 to 2010. Yet the evolution differs substantially between countries, ranging from an increase of 23 percentage points in Germany and the Netherlands to a decrease of 7 percentage points in Portugal and Iceland during that period (OECD, 2011).

Given that hiring rates of older workers are substantially below those for other groups, retaining workers longer in their jobs is crucial to raising employment rates. In the literature, the institutional framework regarding early retirement (Blau, 1994; Börsch-Supan, 2000), incapacity benefits (Autor and Duggan, 2003) and unemployment insurance (Fitzenberger and Wilke, 2010) has been identified as an important determinant of labour market transitions of older workers. Far less attention has been given to incentives and policies that aim to retain older workers longer in their job.

While some firms have actively promoted early retirement in the

past, recently there has been an increasing awareness that many firms rely on their existing workforces. A substantial share of firms is currently developing strategies to preserve the potential of older employees and to induce them to stay longer in their jobs (Harper et al., 2006).

In order to deal with the specific requirements of older workers, firms use a variety of different human resources policies specifically targeted at this group. These policies typically entail the age-specific equipment of workplaces, part-time schemes for older workers, reduced work load, reorganisation, or specific training measures. We refer to these human resources measures as *specific measures for older employees* (SMOE).

Some of these measures have been previously analysed. Using data for different countries, a number of papers address the effects of training for older workers on employment (Behaghel et al., 2014), exit to nonemployment (Picchio and van Ours, 2013), earnings (Stenberg et al., 2014) and productivity (Dostie and Léger, 2014). Yet the effects of SMOEs on job duration have not been examined, and there are no papers that compare the effects of different SMOEs. In the meantime availability of data on SMOE has improved. We are now able to

<sup>☆</sup> We wish to thank Bernd Fitzenberger, Verena Niepel, Susanne Steffes and Thomas Zwick for helpful comments and discussions, as well as participants at ESPE Essen, EEA Glasgow, CAED London, EALE Pafos, and at workshops in Freiburg, Mannheim, Nürnberg, Rome, St. Gallen, and Trier. We acknowledge the insightful comments and suggestions that we received from two anonymous referees. We also thank the Research Data Centre of the Federal Employment Agency at the Institute for Employment Research (IAB) for their support with the analysis of the data. Funding by the German research foundation (DFG) is gratefully acknowledged. We are grateful to Denitsa Angelova for research assistance.

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examine six measures in a German linked employer-employee data set. In this paper, we analyse the question if the application of SMOE is associated with longer job duration of older workers in their establishments.

The question whether job duration can be altered through SMOE is relevant for different economic fields. For example, this is relevant from the perspective of human resource management and industrial relations. As argued above, especially in industrialised countries, many firms already suffer from skills shortages and are searching for measures in order to enhance employment retention. The topic is also relevant for public and labour policy, since it provides information on the possibility to enhance employment rates of older workers through SMOE. Since older workers are characterised by low mobility (Chan and Stevens, 2001; Ichino et al., 2017), in many cases enhanced job duration of old workers implies that they transit to retirement later. Finally, as mentioned above, the employment rates of older workers have increased during the last decade. This paper tries to explore if the widespread application of SMOE has the potential to explain this finding.

In order to assess the relationship between the application of SMOE and job duration, we estimate job exit rates for employees between the ages of 40 and 65. For our analysis, we use large longitudinal employer-employee data for Germany that combine register data on employees with survey data on establishments. This data provides information on the application of SMOE at the establishment level and the duration of job spells of individual employees. The data allows to distinguish between the following specific measures for old employees: age-specific part-time work, age-specific equipment of workplaces, reduced work requirements, mixed-age work teams, standard training that is also offered to older employees, and specific training for older employees. Our data shows that the application of SMOE by firms is a widespread phenomenon. In 2002, almost 30% of German establishments that employ older workers apply at least one specific measure for older employees.<sup>1</sup>

Our study is related to existing research on the determinants of job or employment duration (Abowd et al., 2006; Boockmann and Steffes, 2010; Bronars and Famulari, 1997; Dohmen and Pfann, 2004; Mumford and Smith, 2004). Since we focus on older workers in our study, we have to specify the effects of age as well as the effects of tenure in a flexible way. Moreover, we have to consider differences in worker- and establishment-characteristics. We disentangle the effects of age and tenure in a transition model with time-varying age effects, where the survival function depends on both elapsed duration and elapsed age of workers. This approach was inspired by a study by Imbens (1994), who models duration and calendar time effects simultaneously (see also van den Berg and van der Klaauw, 2001; Dohmen and Pfann, 2004). This model has not been applied previously to the joint estimation of duration and age effects. Recent studies emphasized that there is substantial heterogeneity between firms with respect to job duration (e.g. Abowd et al., 2006). In order to fully account for firm heterogeneity we include establishment dummies in our transition model.

Based on a large sample of workers between 40 and 65 years old, our estimation results show that jobs of older workers lasts longer in firms applying mixed-age work teams as a measure for older employees. The transition profile with the measure is significantly higher than without the measure for workers between age 52 and 64. By contrast, we find that jobs are shorter in firms that participate in a part-time scheme for older workers. Job duration does not appear to be related to other SMOE, such as specific training and specific equipment of workplaces. This is first evidence on the effects of SMOE on older

workers' labour market transitions.

This paper is structured as follows. In the next section, we briefly review previous research on job duration of older employees. In Section 3, we discuss specific human resources measures for older employees. Section 4 presents the empirical approach. We introduce the data set in Section 5 and show estimation results in Section 6. Section 7 concludes.

## 2. Employment of older workers

Ageing of the workforce is partly due to increasing employment rates of older workers. In Germany, the ratio of employees to the population aged 60 to 64 has risen from 33% to 53% between 2000 and 2010 (Federal Employment Agency, 2011).

There is a large empirical literature on the determinants of job exit among older workers and one branch of this literature is interested in retirement decisions and early retirement. In our analysis, however, we are solely interested in the relationship between specific human resource measures and job exit. Since profit maximizing firms are more likely to focus on job duration than on the fate of workers that leave the firm, our analysis focuses on job duration, independent of the target state. Nevertheless, there is a close link between job exit of older workers and the transition to retirement, as both decisions often coincide. This is particularly true for countries such as Germany, where “bridge jobs”, i.e. short-term jobs between full-time work and retirement, (Ruhm, 1990; Macunovich, 2012) are not frequently used. Even where bridge jobs exist, it has often been observed that older workers faced with choosing between the alternatives of retiring early or changing jobs in order to cut back in terms of working time or job requirements mostly choose the first option (Hurd, 1996; Abraham and Houseman, 2004).

Early retirement decisions have been studied frequently, for instance by Börsch-Supan (2000) and Gruber and Wise (2004). In this literature, sometimes structural models are derived, based on the assumption of voluntary retirement transitions (Blau, 1994; Gustman and Steinmeier, 2004). However, transitions out of employment cannot always be considered a voluntary decision of the employee, particularly in countries in which strong institutional rules exist for the transition to retirement.

The institutional setting may either be related to the company or to government regulations. In our study, we consider the companies' policies. A number of determinants have been singled out as institutional reasons for job exit of older workers. Blau and Shvydko (2011) estimate the impact of company characteristics and (a lack of) flexibility on the job separation probability. They suggest that a lack of part-time and flexible-hours work schemes as well as lack of training and promotion opportunities for older workers may be responsible for the abrupt (and permanent) change from full time employment into complete retirement.

Hurd and McGarry (1993) study the effects of job characteristics on retirement for US workers. Among job characteristics, they look at physical and mental requirements and job flexibility. They find that physical and mental job requirements only have little influence on prospective retirement. By contrast, employer policies and job flexibility have a large stabilizing effect on employment and delay the transition to retirement. Related to the subject of our paper, the study by Cottini et al. (2011) for Denmark addresses the question of whether voluntary turnover is influenced by adverse workplace conditions and human resources measures. In particular, they look at the influence of High-Involvement Work Practices on employee turnover. The authors define these practices as “a cluster of complementary human resources management practices designed to promote employee involvement” (p. 872). More precisely, they look at whether the worker has influence on decisions concerning his/her work, whether the worker is informed of the decisions affecting his/her workplace, and whether the worker has participated in courses or on-the-job-training at his/her present workplace. They find that the first of these variables indeed reduces the

<sup>1</sup> It is possible to compute representative shares for all German establishment, based on the IAB-Establishment Panel. Using the cross-sectional weights reveals that 27,8% of all German establishments that employ older workers applied at least one SMOE in 2002. In our sample 50% of establishments apply at least one SMOE.

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