

Retirements, Vacancy Chains, and the Secular Decline in Worker Reallocation

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Full Draft Available Soon

Abstract

The pace of worker reallocation in the U.S., measured by employer-to-employer (EE) transitions, has been declining since the early 1990's. This paper explores the impact of older workers' decisions to delay their retirement from the labor force on the pace of worker reallocation. Using variation in the age composition of firms' workforces and shifts in workers' retirement rates caused by two Social Security rule changes, I measure the effect of a worker's voluntary separation on a firm's replacement hiring rate. After documenting that the average worker retires almost two years later for cohorts reaching early retirement age in 2008 versus 1990, I use a vacancy chain framework to evaluate the effect of workers' delayed retirements on the overall pace of worker reallocation. A retiring worker may generate a chain of vacancies (and EE transitions) if the employer replaces the retiring worker with an already employed worker. This new hire must then quit their old job, thus creating a new vacancies and perpetuating the vacancy chain. I find that approximately 30% of the secular decline in the rate of EE transitions from 1990 to 2015 can be explained by the delaying of retirement by older workers.

Disclaimer: The opinions expressed herein are those of the author alone and do not necessarily reflect the view of the U.S. Census Bureau. All results have been reviewed to ensure that no confidential data are disclosed.