

# **Earnings Losses of Displaced Older Workers: Accounting for the Retirement Option**

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## **Abstract**

In this paper I estimate the magnitude of earnings losses faced by workers who are displaced when over the age of 50. This is potentially complicated by the self-selection of older individuals out of the labour force and into activities such as retirement, preventing observation of their potential earnings losses. Using data from the Survey of Labour and Income Dynamics (1993-2004), I use a Heckman selection model that accounts for individuals' departure from the labour force following displacement. Results indicate that self-selection is an important factor to consider when studying the earnings of older workers but does not bias estimates of earnings losses due to displacement. Further, the results suggest that workers over 50 do not face larger earnings losses upon displacement than 35-49 year olds. Losses are only slightly larger than that experienced by 25-34 year olds. Consistent with the existing literature, those workers displaced over 50 with high tenure on the lost job experience the largest earnings losses.

*JEL Code:* J63, J31, J26

*Keywords:* Layoffs, Wage level, Wage Structure, Retirement, Retirement Policies

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