WORKING PAPER 2013-3

New Policies for an Older Unemployed Population

Joelle Saad-Lessler and
Teresa Ghilarducci

Schwartz Center for Economic Policy Analysis
Department of Economics
The New School for Social Research
6 East 16th Street, New York, NY 10003
www.economicpolicyresearch.org

JUNE
2013

Support for this research provided by The Borchard Foundation Center on Law & Aging
and The W.E. UpJohn Institute for Employment Research
Suggested Citation: Saad-Lessler, Joelle and Ghilarducci, Teresa. (2013) "New Policies for an
Older Unemployed Population" Schwartz Center for Economic Policy Analysis and Department of
Economics, The New School for Social Research, Working Paper Series

Introduction

The U.S. labor force is aging and so are the people who are unemployed. In 1990 12% of the unemployed were above 50; by 2012, 25% of the unemployed were over 50. In the four month period ending in March 2012, 5.6% of people ages 55-64 were unemployed in the SIPP survey¹. When discouraged² workers are counted among the unemployed, 6.6% of older³ Americans were jobless but willing to work. The official CPS rates for the same time period are very similar at 6.6% for the official unemployment rate and 7.1% when including discouraged workers.

One of the three major facts we know about older unemployed workers during and after the Great Recession of 2007 is that their unemployment rates, especially the long term rates, have been steadily increasing relative to those of younger people (and Johnson and Park 2012), and when older people lose their jobs they are more likely to withdraw permanently from the labor force (Chan and Stevens 2004). Second, older workers who retire involuntarily earlier than they expected are less likely to have positive pension income or meaningful household wealth (Munnell and Sass 2008). And, third, compared with those who retire voluntarily, involuntarily unemployed older Americans face higher rates of depression and anxiety (Bender and Jivan, 2005; Bonsang and Klein, 2011) and, in general, have higher than average needs for medical care (Zenger, Brahler, Berth and Stobel-Richter 2011; Bender and Theossoiu 2009; Gould and

¹ Authors' calculations using data from the SIPP 2008 panel, wave 11. The waves collect data for four months. Not working includes unemployed persons as well as those who are not in the labor force.

² Discouraged workers are a subset of persons marginally attached to the labor force, who want to and are available for work, and who have looked for a job sometime in the prior 12 months, but were not counted as unemployed because they had not searched for work in the 4 weeks preceding the survey. Among the marginally attached, discouraged workers were not currently looking for work specifically because they believed no jobs were available for them or there were none for which they would qualify <http://www.bls.gov/cps/lfcharacteristics.htm>. In the SIPP data, we count discouraged workers as those who are not working and are not looking for a job, and their main reason for not having a job is that they are "unable to find work". In the CPS data, the discouraged were those who were not in the labor force, but wanted a job and had looked for work or spent time on layoff at least one week in the last twelve months.

³ In this paper, older refers to individuals ages 55-64.

Hertel–Fernandez 2009). Older unemployed workers are also more likely to lose their health insurance and remain uninsured until they reach Medicare eligibility age at 65 (Tu and Liebhaber, 2009).

This study updates what we know about the Great Recession’s impact on older unemployed Americans’ health and pre-retirement life by focusing on their wealth and income sources, health insurance access, poverty rates, unemployment duration, labor force drop-out rates, and Social Security claiming from 2009 through 2012 using the Survey of Income and Program Participation (SIPP) and the Current Population survey (CPS) (Sum, Ishwar and Trubskyy. 2011, Rix 2011 and Van Horn, Corre and Heidkamp 2011). A unique contribution is an in-depth description of unemployed older Americans’ asset levels using recent cross-sectional and longitudinal data that tracks individuals over time to evaluate how their assets changed because of unemployment. All this information helps evaluate how unemployed older Americans have weathered the Great Recession of 2007, five years later.

Income for older unemployed Americans has fallen by 17% from the four months periods ending July 2009 to July 2012, mostly because unemployment benefits ran out and transfer income did not rise to make up the difference. As a result, 63% of unemployed Americans ages 55-64 were living at or less than the federal poverty level as of July 2012 (up from 56% in July 2009), and an additional 11% of unemployed older Americans were living in near poverty (their total income was less than 1.5 times the poverty threshold). Of those living in poverty, 45% were living in poor households, so that 28% of unemployed older workers lived in poor households.

Moreover, 30% of households with an unemployed older worker were poor as of July 2012, and 60% of those households were in extreme poverty⁴.

During the recovery, unemployed older Americans experienced a decline in total assets and a change in the composition of their assets⁵; from November 2009 to November 2011, their real estate and home equity values fell, at the same time as their debt levels fell and their retirement savings increased in value (the stock market had recovered some).

In addition, since 2009, health insurance coverage rates for unemployed older Americans declined -- falling from 58% to 51% between 2009 and 2012 -- while the fraction of unemployed Americans covered by Medicaid or Medicare⁶ remained stable, and those covered by private health insurance dropped from 49% to 42%.

Older unemployed Americans are living with low incomes and without health insurance for longer periods of time because their unemployment duration has increased. Older unemployed workers, like all unemployed workers, suffer short spells of unemployment lasting between 4-8 months; yet, 5.1% of older workers are in a spell that has lasted 40 months and counting. Moreover, of those who were unemployed by July 2009, 13% were still unemployed and 50% had dropped out of the labor force by July 2012. And while the dropout rate did not change for older workers between 2009 and 2012, the fraction of unemployed older Americans claiming Social Security benefits early rose from 34% to 50%.

We conclude that older Americans face structural unemployment that is immune to many of the benefits of a general economic recovery. Therefore, significant changes are needed in job

⁴ A household is determined to be extremely poor if total household income is less than half of the household poverty threshold calculated in the SIPP data set.

⁵ The most recent asset levels are for November 2011 because the assets module was last fielded in wave 10 of the SIPP 2008 panel.

⁶ Americans age 15+ may be eligible for Medicare coverage if they are disabled and receive Social Security, or railroad retirement pay.

retraining programs and tax incentive plans to find jobs for unemployed older people or keep older workers in their jobs. Workforce development and unemployment insurance policies must adjust to the aging of the unemployed. Bold experiments in tax incentives and work-sharing arrangements aimed at keeping older workers in the labor force may prevent more hardship.

The rest of the paper is organized as follows: section 1 looks at whether certain groups are more likely to become unemployed at ages 55-64, while section 2 evaluates the duration of unemployment for older Americans and whether it differs from younger workers; it also analyzes the dropout rate among this population subsequent to the Great Recession. Section 3 evaluates income sources for unemployed older Americans, section 4 discusses their asset distribution and how it changed from 2009-2011, and section 5 looks at their health insurance coverage rates. Section 6 calculates the direct cost to the government of sustaining unemployed older workers, section 7 analyzes whether the unemployment spells are structural in nature, section 8 offers some solutions to this problem and section 9 concludes.

1. Who are the unemployed older workers?

The 2008 SIPP panel comprises 13 waves, with each wave covering four calendar months. We use data from wave 3 through wave 12, which were collected from April 2009 through July 2012.

An initial tabulation exercise shows that citizens, married people, the non-poor and Whites are less likely to be unemployed than immigrants, singles, poor persons and non-Whites in April – July 2012; for example, Whites make up 74% of the employed and 67% of the unemployed. In addition, though 31% of unemployed older workers live in the West, only 22% of workers do. Notably, there are no significant differences between the employed and the

unemployed with respect to their education levels; higher education did not seem to protect against the likelihood of being unemployed in April – July 2012.

However, this tabulation exercise does not control for other factors that may affect the unemployment rate among different demographic groups, like occupation and industry of employment. To address this, we conduct a probit analysis of the probability of being unemployed (as opposed to being employed), controlling for a respondent's geographic region, metropolitan area residence status, gender, race, citizenship, education, marital status and whether the respondent is self employed, works for government or is a wage and salary employee in the private sector, using data from the CPS March supplement from 2008-2012⁷. Controlling for all these dimensions, the likelihood of being unemployed at ages 55-64 is higher for males, Blacks, Hispanics, non-citizens, and unmarried individuals living outside of metropolitan areas. Contrary to the findings of the tabulation exercise, the probit analysis suggests that education does protect against the likelihood of becoming unemployed, especially at higher levels. These results – because education is controlled for in the probit⁸ -- hint that Blacks, Hispanics and non-citizens may be suffering from workplace discrimination in the labor market, implying that anti-discrimination laws needs to be strengthened to protect these vulnerable groups. The results also point to a possible pathway for avoiding older age unemployment by increasing educational attainment.

⁷ All four years are pooled. Results are similar when each year is done separately.

⁸ Results are available upon request.

2. Duration of unemployment is increasing

We use data from the March supplement of the CPS to analyze what happened to the duration of unemployment over time, for all workers, and for older unemployed workers specifically. Results are in figure 1, and they show that the duration of unemployment increased significantly with the Great Recession. Moreover, the duration of unemployment is significantly higher for older workers than younger ones for all years in the sample, and the rise in unemployment duration was more pronounced for older workers than for younger ones. Because the CPS analysis is cross sectional, it cannot rule out that the changes in unemployment duration are a reflection of changes in the underlying cohort of respondents.

To address this concern, we use the longitudinal element of the SIPP data -- people interviewed in all waves from wave 3 through wave 12⁹ -- to analyze the length of unemployment spells for workers ages 55-64 relative to that of workers ages 25-54. Older Americans had fewer short spells of unemployment than younger workers; only 18% percent of older American workers reported an unemployment spell lasting 4 months, while a full 29% of younger workers had unemployment lasting 4 months or less, and only 14% of older unemployed workers experienced a spell lasting between 4 and 16 months, while a much larger share of young workers (23%) ended their unemployment between 4 and 16 months. Nonetheless, a substantial share of older unemployed Americans (5.1%), compared to 3% of young unemployed people were still unemployed after three years¹⁰ (this difference was not

⁹ There is attrition of the sample as we merge the waves together. We evaluate whether the attrition is biased to a particular demographic and we find that the respondents in wave 12 were more likely to be out of the labor force, female, white, and with a college degree. However, we use wave 12 weights in the analysis, which corrects for the demographic changes in the sample.

¹⁰ They were still unemployed as of wave 12.

statistically significant: see Table 1). This confirms similar results in Johnson and Mommaerts (2011).

[Insert Table 1]

By July 2012, 13% of older workers who were unemployed in July 2009 were still unemployed and 50% had dropped out of the labor force; only 36% were employed. Calculating the labor force drop-out rate we find that the dropout rate is higher for workers older than 62 relative to younger workers, but it did not change since 2009. In other words, the Great Recession did not increase the dropout rate for older Americans. This goes against Chan and Stevens' 2004 finding that older unemployed workers withdraw from the labor force when faced with hardship in finding a job but it is consistent with Coile and Levine's (2007) results.

Finally, we also confirm findings of other studies that unemployed older Americans are more likely than their employed counterparts to claim Social Security benefits as soon as they are eligible for them at age 62 (see Figure 2); between 2009 and 2012 -- comparing wave 3 with wave 12 -- the fraction of unemployed older Americans claiming Social Security benefits early increased from 34% to 50%, but this increase was not statistically significant change given the small sample size. This corroborates similar findings in Coile and Levine (2007) that the Social Security system acts as a lifeline of last resort for older Americans who face unemployment past age 62. While the fraction of employed workers who claimed Social Security benefits early did not fluctuate much, there were large, but insignificant swings in early claiming rates for unemployed workers since 2009.

3. How are unemployed older Americans living?

Average total income of unemployed older Americans has dropped significantly in three years -- for the four-month period ending July 2009, average total personal income for unemployed Americans ages 55-64 was \$1,022 per month and by July 2012 income dropped 17% to \$847 per month. Median total personal income was much lower at approximately \$187 per month from \$802 in 2009 (a 76% drop).¹¹

Total personal income equals earned income, property income¹², government transfer income¹³ and other income, comprising mostly of unemployment and Social Security income¹⁴. Figure 3 displays the relative importance of these income sources and their evolution over time. We see in this figure that the most important income source for unemployed older Americans is ‘other income’, which dropped by 21% over the time period. Unemployment benefits are the largest source of other income and they dropped by 39% between the 4 months ending July 2009 and July 2012, as workers’ benefits ran out.

[Insert Table 2]

It is interesting to note that while total personal income has fallen for unemployed older Americans, government transfer income did not rise significantly to make up the difference. As a result, 63% of unemployed Americans ages 55-64 were living at or less than the federal poverty level as of July 2012 (up from 56% in July 2009), and an additional 11% of unemployed older Americans were living in near poverty (their total income was less than 1.5 times the poverty

¹¹ Numbers are in current dollars for April-July 2009.

¹² Property income derives from dividend income, interest income and property/rental income.

¹³ Government transfer income includes all means tested cash transfers, such as Federal and State SSI, AFDC/TANF as well as Food, clothing and other short term cash assistance.

¹⁴ Other income includes Social Security, unemployment compensation, retirement income, alimony, child support, sickness/disability payments, money from friends/relatives, charity aid, and other cash income.

threshold). Of those living in poverty, 45% were living in poor households, so that 28% of unemployed older workers lived in poor households. Moreover, 30% of households with an unemployed older worker were poor as of July 2012, and 60% of those households were in extreme poverty¹⁵.

Figure 4 displays the trends in poverty levels over time for older unemployed workers, and it shows that the fraction living in extreme poverty increased significantly from 41% in April-July 2009 to 54% by April-July 2012 (a 32% increase). In other words, this population is often in a chronic state of want, and their deprivation is getting worse over time.

4. Taking assets into account

Assets can help people be resilient during unemployed spells; but unemployed older Americans have few.¹⁶ In the four month period ending November 2011 (the most recent data available) 53% of unemployed older Americans had no assets, or assets worth less than \$1,000. In addition, 66% of unemployed older Americans had no retirement savings, while 10% had less than \$20,000 in retirement accounts. 43% of unemployed older Americans had no home equity or were underwater with negative equity. Finally, 38% of unemployed older Americans had debt totaling up to \$20,000, and 3% owed more than \$20,000.

Unemployed older Americans in 2011 had lower valued assets, fewer investments and less real estate and home equity than unemployed older Americans in 2009. However, the 2011

¹⁵ A household is determined to be extremely poor if total household income is less than half of the household poverty threshold calculated in the SIPP data set.

¹⁶ Assets include investments, real estate holdings (excluding home equity) and business equity.

group had more retirement savings and their debt levels were lower.¹⁷ The declining trend in asset values and debts was similar for employed older Americans over the same time period, but unemployed Americans were significantly worse off than their employed counterparts in every aspect of their asset holdings, except that the unemployed have lighter debt loads (see Table 3).

[Insert Table 3]

Since unemployed older cohorts in 2009 and 2011 are not the same people, the comparisons above describe what it is like to be unemployed for older Americans in 2011 relative to what it was like in 2009. We construct a panel using the SIPP survey¹⁸ and compare the situation of the same individuals interviewed in both wave 4 and wave 10. For all those who were unemployed in 2009, their home equity values fell, business equity increased, and debt fell by 2011. Yet, average changes hide the diversity of wealth experience between those who found work, retired, remained jobless, or were in a poor household¹⁹; only unemployed older people in 2009 who lived in non-poor households and who were employed in 2011 experienced an increase in business equity. The decline in debt loads was also limited to individuals who were from non-poor households and who retired; these workers may have relied on household income to pay down debt and choose to retire. Finally, the drop in home equity was felt primarily by individuals from poor households who left the labor force. In other words, the outlook

¹⁷ Unfortunately, due to the small sample sizes involved (446 people in 2009 and 297 in 2011), none of these differences are significant, except for the drop in debt.

¹⁸ Only 75% of the unemployed older Americans who were interviewed in wave 4 were also interviewed in wave 10. We look at a demographic comparison of the sample in wave 4 and what was left of it in wave 10 and we find that the two samples did not have any significant difference in their gender, race, citizenship, education or household type. However, those who remained in the sample in 2011 were more likely to come from non-poor households. In other words, unemployed older Americans who lived in poor households in 2009 were more likely to drop out of the SIPP data sample.

¹⁹ An individual is defined as belonging to a poor household if their household income is less than the SIPP specified household poverty level.

unequivocally worsened for those who were unemployed in 2009 and were from poor households.

5. Health care coverage

In April through July 2009, 42% of unemployed older Americans had no health care coverage; by July 2012, that fraction increased significantly to 49%²⁰. At the same time, the fraction of unemployed Americans who had private health coverage dropped significantly from 49% to 42%, while the fraction who received health coverage through the Medicaid program or through Medicare²¹ remained approximately the same. This suggests that unemployed older Americans who lose health insurance coverage remain without coverage.

Moreover, unemployed older Americans who do not have health coverage are living without health insurance for longer periods of time; in April through July 2009, 60% of unemployed older Americans without health care coverage had been without coverage for 1-3 years, and 33.5% had lived without health coverage for more than 3 years; by April –July 2012, the fraction of unemployed older Americans without health insurance for 1-3 years dropped to 49%, while those without health insurance for more than 3 years rose to 45%. This uninsured population will likely prove expensive when they reach eligibility age for Medicare because they lived without health care for long periods of time (McWilliams, J. Michael, et al. 2004, Institute of Medicine 2003).

²⁰ The change in the fraction without health coverage is not statistically significant.

²¹ Americans age 15+ may be eligible for Medicare coverage if they are disabled, receive Social Security, or railroad retirement pay.

6. Cost to the Government

The direct cost to the government of supporting the unemployed older population is the sum spent on unemployment compensation and on transfer payments, as well as on Medicaid²² (see Pew Economic Policy Institute 2010). These direct costs dropped from \$802 million per month in April-July 2009 to \$404 million per month by April-July 2012; annualized, the cost to federal, state, and local government of unemployment among older Americans went from \$9.6 billion in 2009 to \$4.8 billion by July 2012. This drop was driven by a 52% fall in unemployment compensation as eligibility expired, and a 50% drop in transfer payments over the same period.

The costs of unemployment among older Americans are not equally distributed across states. Because the persistence and magnitude of unemployment among older people and the generosity of unemployment benefits and transfer payments differ greatly by state, some states bear a heavier burden than others (see Table 4). In Florida, the cost of an older worker being unemployed is only \$4 per year for every Florida worker. But in Connecticut, the cost is \$158 per year. [Insert Table 4]. The generosity towards unemployed workers has changed considerably with a great deal of variation. Six states lowered benefits between 1991 and 2008, including Alabama which lowered their average annual unemployment benefit from \$5,985 in 1991 to \$5,721 in 2008, while most states increased the benefit: Massachusetts raised theirs from \$20,441 in 1991 to \$25,282 in 2008.

Presumably the urgency to mitigate older worker unemployment should be higher in states where the situation costs the most. Further research should investigate the link between the

²² We only tally the costs of unemployment compensation and transfer payments because these are the costs that are tracked in the SIPP data.

intensity of a state's retraining efforts and the cost of unemployment to each worker²³. Also, the lack of a concerted federal effort to reduce the incidence and effect of older worker unemployment could be due to losers being concentrated in just a few states.

7. What kind of unemployment do older workers face?

The success of any particular policy solution to unemployment among older Americans depends on the root causes; mainly, is unemployment structural or cyclical. If there has been a structural shift away from hiring older workers in growing sectors of the economy, then activist labor market policies to retrain older workers may do best to reduce unemployment. In a straightforward exercise we discern whether older worker unemployment is structural or cyclical by examining *where* older workers were laid-off and hired and, using job vacancies data, measure labor demand in those same sectors. (see Diamond 2013 for a full exposition of Beveridge curve analysis to discern structural and cyclical unemployment).

We calculate two numbers for each industry: the share of the *unemployed* older workforce that comes from an industry and the share of the *employed* older workforce in that industry. The difference between the former and the latter is called the 'shrink factor'. When the shrink factor is positive, the sector is disproportionately represented in the unemployed and the industry is shedding workers. When the shrink factor is negative the sector is underrepresented in the unemployed and the industry is hiring workers.

We calculate the shrink factor for old and young workers for 2012 to reveal which sectors are hiring or retaining older workers *relative* to younger workers. We find that the shrink factor

²³ Political scientists have found a link between the variation in effects and the intensity of political mobilization (Rehm, Hacker, and Schlesinger 2012).

is higher for older unemployed workers in finance and insurance, manufacturing, professional, scientific and technical services, information, wholesale trade, real estate, rental and leasing, retail trade and accommodation and food services, which indicates a bias towards hiring younger workers in these sectors. On the other hand, the shrink factor is lower for older unemployed workers in education services, health care and social assistance, government, transport and warehousing, utilities, other services, mining, agriculture, forestry, fishing and hunting, arts, recreation and entertainment, management, administration and waste management services, and construction, which signals that these sectors are more likely to hire older workers (see table 5).

[Insert Table 5]

The numbers in the table above reveal that some industrial sectors' workforces are more amenable to hiring older workers. This supports the assertion that much of the unemployment faced by older workers is structural.

But should unemployed older workers train or be subsidized to work for these sectors? To answer that question, we examine job vacancy rates in the sectors where it seems employers are hiring. The JOLTS survey, conducted by the Bureau of Labor Statistics reveals how many job openings there are in each industry. We compare the number of job openings with the number of unemployed workers ages 25-54 and 55-64, and calculate a measure of competition for those jobs by dividing the number of unemployed workers by the number of openings. The lower the calculated number, the less difficult it would be to find a job in that industry. Those numbers are in Table 6, and they show that the education and health services sectors have a relatively lower degree of competition for jobs than the other sectors listed, but there are still two workers for each job opening.

[Insert Table 6]

This suggests the positive effects of retraining programs and tax incentives may be small until there is an economic expansion. However, even after an expansion, structural barriers may keep older worker unemployment relatively high.

8. Potential solutions

Tax incentives for employers

When workers get rehired after a spell of unemployment, they typically suffer a drop in their earnings of \$9,905 (See table 7). The reason for this drop is not straightforward. Workers may lose the premium for industry and occupation specific skills when moving across sectors and employers are unwilling to pay the training costs for an older employee whose job tenure is shorter. When employers train they may shift the costs to the employee in the form of a lower wage. As a result, older workers who find a job in a different industry and/or occupation earn less money. Finally, employers may pass on higher health insurance costs to the older worker in the form of a lower wage.

[Table 7]

Search theory posits that workers set their reservation wage to the earnings they had at their lost job and are unwilling to accept a job offer at a lower wage. Moreover, even when older workers are willing to take a lower wage, employers may be unwilling to hire them at the lower salaries, because they fear that the workers will be unproductive because they are getting paid less than they believe they are worth. Finally, employers worry that if they pay older workers the reduced earnings, the workers will jump ship as soon as a better opportunity comes along. The end result is that employers do not hire enough from the pool of unemployed older workers.

To remedy this situation, the government can lower the cost of hiring older workers by extending tax credits to employers who hire older workers into new jobs - this tax incentive may provide enough of a benefit to offset the risks involved in hiring older workers. Alternatively, Katz (2010) proposes wage loss insurance (also called wage insurance) which temporarily helps close the gap between what workers earned in their old job with the lower wage in the new job. Wage-loss insurance may help people adjust to changing labor market conditions and take lower paying jobs sooner (more quickly) than they otherwise might.

What about job training?

Federal spending on workforce training has fallen from \$17 billion in the 1970s to \$8 billion in 2008 (Macguire et al. 2009). Spending on workforce development for seniors (TAA, Senior CCSEP) would have to increase by 48% to meet the levels of spending per adult in place in the late 1990s (Abraham and Houseman, 2008; GAO, 2003).

Moreover, older workers have not been a major focus of federal job training programs. One reason for the lack of enthusiasm for targeting older workers in federal job training programs is that older workers often have lower than average rehire rates, lower than average income replacement rates, and lower than average continuous employment rates -- a shorter time period under which the costs of training are amortized. These low scores make sense because older workers are less likely to be rehired, and more likely to leave the labor market for retirement and disability; moreover, older workers have a higher probability of layoff due to plant closings and sector declines, which means that they have a higher probability of being displaced from jobs in highly-paid, mature industries and rehired in lower paying jobs. Since job training programs are judged based on their participants' experience in finding a job that paid as

well as their previous job, job training programs do not focus on helping older workers. This explains part of why retraining programs that are currently in place do not serve older unemployed workers well.

Another reason job training programs may not work well for older unemployed workers is because they focus on the supply side problems faced by many young unemployed people – lack of productive skills and lack of job search skills. The programs aim to improve workers' information about available jobs, improve their resume and job search techniques, and retrain them for jobs in expanding occupations and industries. In contrast, Abraham and Houseman (2008) argue that older people wanting to continue working into their late fifties and sixties face greater demand side problems²⁴ stemming from the rise in job instability and a corresponding rise in worker dislocation since the 1980s. In addition there are persistent barriers to employment, including workplace discrimination, against older workers. Workplace discrimination against older workers stems, in part, from the misperception that older workers can't learn computers or keyboarding skills as well as young workers and the belief that older workers are more expensive than young workers because their wage requirements and employer – provided health care insurance premiums are higher (Abraham and Houseman, 2008). Ignoring the realities on the labor demand side will result in older workers having a difficult time finding and keeping a paid job.

To improve the performance of job training programs for older Americans, government needs to increase spending on these programs, and fine tune job training centers so that vendors who do training for federal and state programs are tailored to serving seniors and link up with

²⁴ Though older workers may also suffer from supply side issues, the effectiveness of the job training programs is reduced because they do not deal with the demand side issues that older workers face.

employers with job openings; for example, job training programs can operate out of senior centers rather than high schools, and should modify performance standards for older worker initiatives to adjust for the probability that older workers are more likely to be rehired in new jobs with lower pay and fewer hours.

9. Conclusion

This study updated what we know about the Great Recession's impact on older unemployed Americans' health and pre-retirement life by focusing on their wealth and income sources, health insurance access, poverty rates, unemployment duration, labor force drop-out rates, and Social Security claiming from 2009 through 2012 using the Survey of Income and Program Participation (SIPP) and the Current Population survey (CPS). All results in the paper rely on the accuracy of these data. To the extent that new data are continuously being replenished, the findings are suggestive and warrant more research.

We found that total income for older unemployed Americans fell by 17% from April-July 2009 through April-July 2012, because unemployment compensation benefits ran out. At the same time, transfer income did not rise to make up the difference so that 28% of older unemployed person had incomes at or less than the federal poverty level²⁵ and lived in poor households as of July 2012, and the fraction of unemployed older people living in extreme poverty increased significantly from 41% in April-July 2009 to 54% by April-July 2012 (a 32% increase).

We learned that unemployed older Americans have significantly less assets than employed counterparts and fewer assets in 2011 than in 2009. Real estate and home equity values were less

²⁵ We also adjust the year specific poverty thresholds such that they are also in current dollars for April-July 2009.

in 2011 than in 2009, while retirement savings accounts values increased and debt decreased, but only for members of non-poor households. The losses in property and home equity values were larger than the overall gain in retirement assets and the fall in debt.

Moreover, the fraction of unemployed older Americans without any health insurance access rose from 42% to 49% between 2009 and 2012, while the fraction of unemployed Americans who received health coverage through the Medicaid program or through Medicare²⁶ remained stable. Unemployed older Americans who lost health coverage continued to live without coverage, and those living without health insurance did so for longer periods of time and will prove expensive to treat when they reach the Medicare eligibility age.

Most workers suffered short spells of unemployment lasting between 4-8 months, and older workers suffered shorter spells than younger workers; yet, 5.1% of older workers are in a spell that has lasted at least three years, while the fraction of younger workers in such a long spell is only 3%. Moreover, of those who were unemployed in April-July 2009, 13% were still unemployed and 50% had dropped out of the labor force by July 2012; only 36% were employed. And while the dropout rate did not change for older workers between 2009 and 2012, the fraction of unemployed older Americans claiming Social Security benefits early rose from 34% to 50%.

We calculated the direct cost of older worker unemployment fell from \$9.6 billion in 2009 to \$4.8 billion per year by July 2012 as unemployment benefits ran out, and the burden of older worker unemployment is unevenly distributed across states.

Finally, we concluded that older workers face structural unemployment – as the economy recovers older worker employment is slower to recover than for younger people. Expanding

²⁶ Americans age 15+ may be eligible for Medicare coverage if they are disabled, receive Social Security, or railroad retirement pay.

retraining programs and reforming them to better accommodate the needs of older workers may help (Gonyea. and Hudson. 2011 and Fogg, and Harrington. 2011). Tax incentives aimed at encouraging the hiring of older workers in sectors that are more amenable to hiring older workers may also be promising.

References

Abraham, K. G. & Houseman, S. N. (2008). Removing Barriers to Work for Older Americans. In Timothy J. Bartik, and Susan N. Houseman (Eds), *A Future of Good Jobs? : America's Challenge in the Global Economy* (pp. 161-202). Kalamazoo, MI: W.E. Upjohn Institute.

Bender, K. & Jivan, N.A. (2005). What Makes *Retirees* Happy?. *Issues in Brief, Center for Retirement Research*.

Bonsang, E. & Klein, T.J. (2011). Retirement and Subjective Well-Being. Research Memoranda, Maastricht. *METEOR, Maastricht Research School of Economics of Technology and Organization*, 028.

Bender, Keith A. Ioannis Theodossiou. 2009. "Controlling for Endogeneity in the Health-socioeconomic Status Relationship of the Near Retired. *The Journal of Socio-Economics*, Volume 38, Issue 6, December 2009, Pages 977-987, ISSN <http://www.sciencedirect.com/science/article/pii/S105353570900095X>)accessed May 5, 2013.

Chan, Sewin and Ann Huff Stevens. 2004. "How Does Job Loss Affect the Timing of Retirement?" *Contributions to Economic Analysis & Policy* 3 (1): Article 5.

Coile, C. C. and Levine, P. B. (2007). Labor Market Shocks and Retirement: Do Government Programs Matter? *Journal of Public Economics* 91, 1902-1919.

Diamond, Peter A. 2013. "Cyclical Unemployment, Structural Unemployment." National Bureau of Economic Research Working Paper Series. No. 18761 February 2013,
<http://www.nber.org/papers/w18761>

Fogg, Neeta P. and Paul E. Harrington. 2011. "Rising Demand for Older Workers Despite the Economic Recession: Accommodation and Universal Design for the New American Workforce" *Public Policy & Aging Report* Volume 21, No. 1 pp 11 -17

General Accounting Office (2003). Older Workers: Employment Assistance Focuses on Subsidized Jobs and Job Search, but Revised Performance Measures Could Improve Access to Other Services. *Report to the Ranking Minority Member, Subcommittee on Employer-Employee Relations, Committee on Education and the Workforce, House of Representatives*. GAO-03-350. Washington, DC: U.S. General Accounting Office.

Gonyea, Judith G. and Robert B. Hudson. 2011. "Promoting Employment and Community Service among Low-Income Seniors: The Successes and Challenges of the Senior Community Service Employment Program" *Public Policy & Aging Report* Volume 21, No. 1 Pp 40 -44

Gould, Elise; Hertel-Fernandez, Alexander 2009. "Early Retiree and Near-Elderly Health Insurance in Recession." *Journal of Aging & Social Policy*, Apr-Jun 2010, Vol. 22 Issue 2, p172-187. (See table 4. Self-Reported Health Status and Ratio of Household Income to the Federal Poverty Line for 55- to 64-Year-Olds, 2008 page 178.)

Institute of Medicine. Committee on the Consequences of Uninsurance. *Hidden Costs, Value Lost: Uninsurance in America*. National Academies Press, 2003.

Johnson, R.W. & Park, J. (2012). *Labor Force Statistics on Older Americans*. Washington, DC: The Urban Institute.

Johnson, R.W., & Mommaerts, C. (2011). *Age Differences in Job Loss, Job Search, and Reemployment*. Washington, DC: The Urban Institute.

Katz, L.F. (2010). Long Term Unemployment in the Great Recession, *Hearing on "Long-Term Unemployment: Causes, Consequences and Solutions"*. (Testimony to Joint Economic Committee), US Congress, Canon House Building room 210, April 29. Retrieved from http://www.jec.senate.gov/public/index.cfm?a=Files.Serve&File_id=e1cc2c23-dc6f-4871-a26a-fda9bd32fb7e.%2520

King, M., Ruggles, S.J., Alexander, T., Flood, S., Genadek, K., Schroeder, M.B., Trampe, B. & Vick, R. (2010). *Integrated Public Use Microdata Series, Current Population Survey: Version 3.0*. [Machine-readable database]. Minneapolis: University of Minnesota. Retrieved from <http://cps.ipums.org/cps/>

Macguire, S., Freely J., Clymer C., & Conway M. (2009). *Job Training that Works: Findings from the Sectoral Employment Impact Study*. P/PV : Public/Private Ventures,

Issue7. Retrieved from

http://ppv.issuelab.org/resource/job_training_that_works_findings_from_the_sectoral_employment_impact_study.

McWilliams, J. Michael, et al. "Health insurance coverage and mortality among the near-elderly." *Health Affairs* 23.4 (2004): 223-233.

Munnell, A. & Sass, S. (2008). Working Longer: The Solution to the Retirement Income Challenge. *Brookings Institution Press*.

Pew Economic Policy Institute. 2010. "A Year of More: The High Costs of Long-Term Unemployment", Fiscal Policy Initiative

Rehm, Phillip and Jacob Hacker, Mark Schlesinger. 2012. "Insecure Alliances: Risk, Inequality, and Support for the Welfare State." *American Political Science Review* Vol. 106, No. 2 May.

Rix, Sara E. 2011. "Boomers Sail into Retirement—or Do They?" *Public Policy & Aging Report* Volume 21, No. 1 pp 34 -39

Sum, Andrew, Ishwar Khatiwada, and Mykhaylo Trubskyy. 2011. "The Labor Market Experiences and Problems of America's Low Income Older Workers in Recent Years" *Public Policy & Aging Report* Volume 21, No. 1 pp 12 -17

Tu, H.T. & Liebhaber, A.B. (2009). Rough Passage: Affordable Health Coverage for Near Elderly Americans, *Health System Change Policy Analysis*, 2.

US Census Bureau. (2012). *Survey of Income and Program Participation*. 2008 panel, wave 4. Authors' calculations. Retrieved from <http://www.census.gov/sipp/access.html>

US Census Bureau. (2010) *Current Population Survey Displaced Workers/Job Tenure Supplement Public Use File*, January.

Van Horn, Carl E. • Nicole Corre • Maria Heidkamp. 2011. "Older Workers, The Great Recession, and The Impact of Long-Term Unemployment *Public Policy & Aging Report* Volume 21, No. 1 pp. 29 – 33

Zenger, M., Brahler, E., Berth, H., & Stobel-Richter, Y. 2011. "Unemployment during working life and mental health of retirees: Results of a representative survey." *Aging & Mental Health*, 15(2), 178-185. doi:10.1080/13607863.2010.508775

Figure 1: Trend in the duration of unemployment, by age

Figure 2: Early Social Security Claiming Behavior by Employment Status Among 62 Year Old Americans

**Figure 3: Mean Income Sources Over Time:
Unemployed Americans Ages 55-64**

Figure 4: Population Distribution of Income to Poverty Measures Over Time: Unemployed Americans Ages 55-64

Table 1: Fraction of the Workforce Suffering Unemployment Spells of Various Durations

Length of Unemployment Spell	55-64	25-54	
4 Months	17.8%	29.0%	***
8 Months	7.4%	12.3%	***
12 Months	3.7%	6.3%	***
16 Months	3.2%	4.2%	
20 Months	1.7%	3.5%	***
24 Months	1.5%	1.9%	
28 Months	0.2%	0.8%	*
32 Months	0.0%	1.2%	***
Still Unemployed	5.1%	3.0%	

Source: Authors' calculation using data from SIPP 2008 panel, Waves 3-12. Sample is limited to individuals who were age 25-54 or 55-64 in wave 3 of the SIPP, and who stayed in the sample through wave 12. For the 4 months result, sample is limited to workers who suffered an unemployment spell some time in wave 3-wave 11. For the 8 months result, sample is limited to workers who were unemployed at one time during wave 3-wave 10. For the 12 months result, sample is limited to workers who were unemployed at one time during wave 3-wave 9. For the 16 months result, sample is limited to workers who were unemployed at one time during wave 3-wave 8. For the 20 months result, sample is limited to workers who were unemployed at one time during wave 3-wave 7. For the 24 months result, sample is limited to workers who were unemployed at one time during wave 3-wave 6. For the 28 months result, sample is limited to workers who were unemployed at one time during wave 3-wave 5. For the 32 months result, sample is limited to workers who were unemployed at one time during wave 3-wave 4. For the still unemployed, sample is limited to workers who were unemployed in wave 3 and were still unemployed by wave 12.

Table 2: Components of Other Income Sources, Waves 3, 12

	2009	2012
Amount of State Unemployment Compensation	\$604	\$368
Amount of Supplemental Unemployment Benefits	\$12	\$3
Amount of Social Security - Adult	\$114	\$117
Amount of severance pay	\$16	\$91
Amount of pension from a company or union	\$57	\$84
Amount of State government pension	\$5	\$41
Amount of Federal Civil Service pension	\$0	\$23
Amount of workers' compensation	\$6	\$15
Amount of income from paid-up life insurance policy	\$0	\$14
Amt. from other retirement, disability or survivor	\$15	\$9
Amount of Veterans compensation or pension	\$6	\$9
Amount of U.S. Military retirement pay	\$5	\$8
Amount of Railroad Retirement	\$0	\$7
Amount of local government pension	\$2	\$5
Amount of incidental or casual earnings	..	\$2
Amount of employer disability payments	\$5	\$0
Amount of child support payments	\$2	\$0
Amount of alimony payments	\$15	\$0
Amount of pension/retirement lump sums	\$3	\$0
Amount of money from relatives or friends	\$31	\$0
Amount of miscellaneous cash income	\$2	\$0

Source: Authors' tabulation using data from the SIPP 2008 panel waves 3 and 12. Table only shows categories of Other Income with positive, non-missing values.

Table 3: Asset Profiles of Employed and Unemployed Workers Ages 55-64 in 2009 and 2011

	Unemployed Americans Ages 55-64			Employed Americans Ages 55-64		
	2009	2011	Difference	2009	2011	Difference
Assets	\$49,110	\$41,512		\$147,762	\$144,013	
Investments	\$39,496	\$33,676		\$94,897	\$88,655	**
Business Equity	\$0	\$0		\$22,640	\$25,372	
Real Estate Holdings	\$9,614	\$7,836		\$30,224	\$29,986	
Home Equity	\$55,885	\$47,357		\$79,804	\$70,846	***
Retirement Balances	\$29,361	\$37,009		\$54,985	\$61,879	***
IRA accounts	\$15,744	\$22,842		\$21,257	\$25,068	***
Keogh account	\$408	\$0		\$1,165	\$518	***
401K, 403b, or thrift plan account	\$13,209	\$14,167		\$32,563	\$36,294	***
Debt	\$5,392	\$2,901	***	\$6,637	\$3,909	***

** denotes significance at the 5% level, *** denotes significance at the 1% level. Difference looks at the change from 2009-2001 and checks whether the change is statistically significant. Source: Authors' calculations using SIPP data from the 2008 panel, waves 4 and 10.

Table 4: Burden of Unemployed Older Workers by State		
	Total Cost per Year	Total Cost per Worker per Year
<i>Top Five</i>		
Connecticut	\$ 303,834,360.00	\$ 158.06
New Jersey	\$ 482,313,255.48	\$ 105.33
Hawaii	\$ 83,488,300.56	\$ 101.81
North Carolina	\$ 382,315,560.00	\$ 76.44
California	\$ 1,379,026,800.00	\$ 71.82
<i>Bottom Five</i>		
Ohio	\$ 54,081,394.92	\$ 9.15
Texas	\$ 114,358,320.00	\$ 9.08
Alabama	\$ 18,654,981.24	\$ 7.57
Pennsylvania	\$ 25,755,119.35	\$ 4.04
Florida	\$ 39,448,575.18	\$ 3.95

Source: Authors' tabulation using data from the SIPP 2008 panel, wave 12. costs to the government consist of transfer payments and unemployment compensation payments to unemployed workers ages 55-64. Total costs per worker are the total cost of sustaining the older unemployed population divided by the labor force,

Table 5: Shrink Factors across industry, 2012

2012	Shrink factor		Gap	Is this industry older worker friendly?
	55-64	25-54		
Education Services	-6.87	-5.7	-1.17	YES
Health Care & Social Assistance	-4.38	-4.32	-0.06	YES
Public Admin. & Military	-3.48	-2.79	-0.69	YES
Finance & insurance	-1.15	-2.17	1.02	NO
Transport & Warehousing	-0.94	-0.88	-0.06	YES
Utilities	-0.85	-0.52	-0.33	YES
Other Services	-0.35	-0.02	-0.33	YES
Manufacturing	-0.26	-0.79	0.53	NO
Mining	-0.24	-0.14	-0.1	YES
Agriculture, Forestry, Fish, Hunting	-0.04	1.09	-1.13	YES
Professional, Scientific & technical Services	-0.01	-3.07	3.06	NO
Arts, Entertainment & Recreation	0.28	0.56	-0.28	YES
Information	0.9	-0.18	1.08	NO
Wholesale Trade	1.04	-0.5	1.54	NO
Real Estate, Rental & leasing	1.2	-0.47	1.67	NO
Retail Trade	1.68	1.07	0.61	NO
Accommodation & Food Services	2.78	2.73	0.05	NO
Management, Admin. Support, waste management services	3.92	4.71	-0.79	YES
Construction	6.8	8.32	-1.52	YES

Source: Authors' tabulations using data from the CPS March supplement 2012.

Table 6: Degree of competition for jobs, by industry in March 2012						
JOLTS industry list	CPS industry list	Unemployed			Job Openings	Degree of competition
		25-54	55-64	Total (25-64)		
Trade, transportation and utilities	Transport &	270,204	65,472			
	Utilities	28,794	4,172			
	Wholesale Trade	172,696	57,902	1,627,688	598,000	2.7
	Retail Trade	854,719	173,729			
Construction	Construction	1,172,003	193,780	1,365,783	92,000	14.8
Manufacturing	Manufacturing	790,084	183,298	973,382	308,000	3.2
Professional and business services	Professional, Scientific & technical Services	340,400	115,145			
	Management, Admin. Support, waste management services			1,317,281	787,000	1.7
		733,798	127,938			
Education and health services	Education Services	273,173	65,682			
	Health Care & Social Assistance	742,282	177,062	1,258,199	670,000	1.9
Leisure and accomodation	Arts, Entertainment	175,756	32,445			
	Accomodation &	657,459	93,824	959,484	432,000	2.2

Source: Authors' tabulations using data from the CPS March supplement 2012 and the JOLTS survey results for March 2012

Table 7: Drop in Earnings after a switch in industry/occupation

	Same industry/ Same occupation	Different industry / Same occupation	Same industry / Different occupation	Different industry / Different occupation
Fraction of workers who found a job in:	21%	21%	10%	48%
Average earnings on lost job	\$ 66,629	\$ 77,090	\$ 66,617	\$ 59,099
Average earnings at current job	\$ 66,199	\$ 63,115	\$ 61,159	\$ 45,890
Drop in average earnings	\$ (429)	\$ (13,975)	\$ (5,458)	\$ (13,209)
earnings:	\$ (9,905.02)			

Source: Authors' tabulations using data from the CPS Displaced worker supplement Jan 2010 and Jan 2012.