THE NEW SCHOOL RETIREMENT EQUITY LAB

STATUS OF OLDER WORKERS

August, 2020

Over Half of Unemployed Older Workers at Risk of Involuntary Retirement

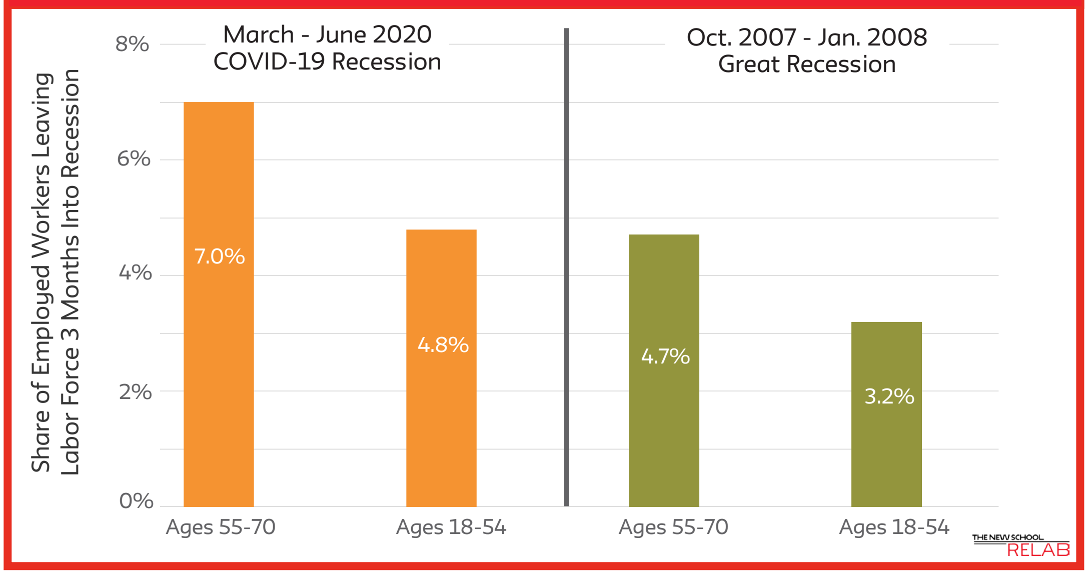
By Michael Papadopoulos, Bridget Fisher, Teresa Ghilarducci, and Siavash Radpour

- **Millions Pushed Out of the Workforce:** 2.9 million older workers left the labor force since March. These workers are at risk of having to retire involuntarily due to increased health risks coupled with decreased job prospects.
- **More Involuntary Retirements to Come:** If the rate of labor force exits continues over the next three months, we expect an additional 1.1 million older workers to leave the labor force, adding to the 2.9 million who already left. A total of 4 million people potentially pushed into retirement before they are ready will increase old-age poverty and exacerbate the recession.
- **Policy Recommendations:** Congress should increase and extend unemployment benefits for older workers, discourage withdrawals from 401(k)s and IRAs, lower Medicare eligibility to 50, and create a Federal Older Workers Bureau.

2.9 Million Older Workers Left the Labor Force Since March

Since March 2020, 2.9 million workers ages 55-70 left the labor force, 50% more than the 1.9 million older workers who left the labor force three months after the Great Recession began in 2007. In percentage terms, 7% of older workers left the labor force in recent months, compared with 4.7% of older workers in the Great Recession.[1]

Figure 1: COVID-19 Recession Pushes More Older Workers Out Of The Labor Force Than The Great Recession



Source: Author's calculations using the Current Population Survey Oct. 2007- Jan. 2008 and Mar-Jun 2020. Notes: See Technical Appendix.

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Of the 2.9 million older workers who left the labor market:

500,000 Were Already Unemployed in March

Of the 1.3 million older workers who were unemployed in March, 500,000 gave up looking by June and left the labor force. During this period, 38% of older unemployed workers left the labor force compared to 32% of younger unemployed workers.

2.4 Million Lost Their Jobs Between March and June

Nearly 5 million older workers lost their jobs during these months. Of these, 2.4 million left the labor force entirely, or 7.0% of all workers ages 55-70, compared to 4.8% of younger workers ages 25-54 (see Figure 1).

GLOSSARY
LABOR FORCE STATUS

EMPLOYED

Currently working for pay, including those on temporary leave

UNEMPLOYED

Not working for pay, but actively searching for work

NOT IN THE LABOR FORCE/
LEFT THE LABOR FORCE

Not working for pay and not actively searching for a job

RETIRED

A subset of those not in the labor force who cite retirement as the reason they are not searching for a job (see Technical Appendix)

Involuntary Retirement Expected to Increase

The longer the economy takes to recover, the more likely it is older workers will give up actively looking for work. As the recession continues, some workers may re-enter and leave the labor market. However, there is wide consensus among economists that we will not return to pre-recession levels of employment and output in the next year.[2]

Between March and June of 2020, 38% of unemployed older Americans gave up looking for work and left the labor force. If the rate of labor force exits continues over the next three months, we expect an additional 1.1 million older workers to leave the labor force, adding to the 2.9 million who already left. A total of 4.0 million people potentially pushed into retirement before they are ready can increase old-age poverty and decrease purchasing power, which can exacerbate an already sharp recession.[3]

Older Workers Who Left the Workforce Are Unlikely to Return

Several indicators show 2.9 million older workers who exited the labor force are unlikely to return. First, 42% of the 2.9 million older workers who left the labor force report retiring, compared to the 28% at the start of the Great Recession. It is unlikely that the rapid increase in self-reported retirements during the COVID-19 recession reflects an increase in planned retirements. Second, 51% of older workers who went from employed to out of the labor force reported they first tried to find a job but gave up.

Third, whereas labor force participation rebounded for younger workers in May and June, participation for older workers remains low, indicating that older workers did not re-enter the workforce even as many states relaxed restrictions on work and travel. Given the health risks older workers face by working, it is likely they are making the difficult choice between protecting their health and the decreased living standards that often come with involuntary retirement.

Pandemic Increases Older Workers' Vulnerability to Involuntary Retirement

Under normal economic conditions, older workers who leave the labor force due to layoff are unlikely to re-enter the job market and face having to retire earlier than planned. For example, ReLab found that between 2008 and 2014, at least 52% of retirees over 55 left their last job involuntarily, the result of job loss or a deterioration in health.[4] Additionally, older workers who lose their job take nearly twice as long to find a new job compared to young workers.[5] Even if jobless older workers find a new job, they can expect their new wages to be 23-41% less than their previous earnings.[6]

Health risks are likely discouraging many older workers from looking for work. The risks associated with COVID-19 infection increase with age, and the Centers for Disease Control and Prevention report that over 90% of hospitalizations and deaths due to COVID-19 come from people ages 50 and older.[7] Some older workers who lost their jobs may have decided to stay out of the labor force to lower their risk of infection. However, given the difficulty older jobseekers face and the expectations of a deep and persistent recession, many who give up looking for work are likely to get pushed into retirement earlier than planned.

Women and Nonwhite Older Workers Especially Vulnerable to Involuntary Retirement

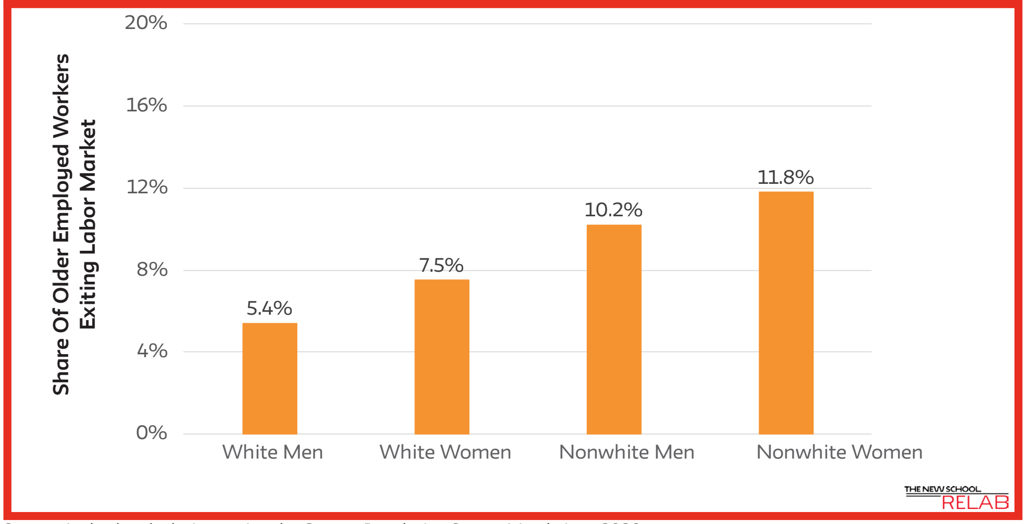
Occupations hardest hit by shutdown orders, including manufacturing and low-paying service jobs (in entertainment and food services), employ a greater share of older nonwhite and female workers. Meanwhile high-paying service jobs that disproportionately employ older white men (finance and utilities) did not shut down because they are more amenable to working from home.[8]

As a result, older nonwhite workers and older women sustained higher levels of job loss. Nearly 2 in 10 nonwhite older workers lost their jobs, and unlike older white workers, most of them left the labor force entirely. Among older workers, nonwhite women were hit hardest, with 19.5% losing their jobs (7.7% became unemployed and 11.8% left the labor force). The share of nonwhite older men losing their job was 19% (8.8% became unemployed and 10.2% left the labor force).

Reflecting their disproportionate share of "safe" jobs, older white workers were the least affected by job loss.[9] Less than 11% of older white men working in March reported being jobless in June (5.3% became unemployed and 5.4% left the labor force). Over 15% of white women lost their jobs since March, with 7.8% becoming unemployed and 7.5% leaving the labor force.

The racial wealth gap and labor market stratification between Blacks and whites means workers of color are likely to have smaller or no retirement accounts.[10] As such, people of color are at greater risk of poverty in retirement in general, but more so when they are forced to retire involuntarily.

Figure 2: Racial And Gender Gaps In Post-COVID Labor Market Exit After Job Loss



Source: Author's calculations using the Current Population Survey March-June 2020.
Notes: See Technical Appendix.

Involuntary Retirement Often Decreases Living Standards

People who retire earlier than planned often claim Social Security benefits earlier, leaving them with lower monthly benefits for the rest of their life. They are also likely to have to begin drawing down their retirement assets in years when workers are often advised to, and plan on, maximizing their savings toward 401(k)s and IRAs. Finally, unplanned retirements mean assets must last more years than originally planned, increasing the risk of outliving one's assets. All three factors put involuntary retirees at risk of poverty in retirement.

Policy Recommendations

Extend and Increase Unemployment Benefits

Older workers who are laid off experience longer spells of unemployment, which contributes to why many give up looking for work and retire earlier than planned. Increased unemployment benefits—even more than the $600 a week which expired July 31—can help older workers by allowing them to preserve retirement assets and put off claiming Social Security early, protecting their monthly benefits from the early retirement penalty. Moreover, Congress should suspend the job search requirement for older workers and their caretakers to be eligible for unemployment benefits.[11] Older workers should not be forced to look for work at a time when work puts them at risk of severe illness or death.

Discourage Early Withdrawals

Congress should reinstate the 10% penalty fee for early withdrawals from tax-advantaged retirement accounts removed by recent passage of the CARES Act. A May survey showed 3 in 10 workers have withdrawn from their retirement accounts to make ends meet during the pandemic.[12] Removing the fee encourages individuals to sacrifice their future needs for short-term spending. Rather, Congress should enact measures to ensure the income needs and health insurance needs of those who lost jobs in the COVID-19 recession.

Lower Medicare Eligibility Age to 50 and Make Medicare First-Payer

Lowering the Medicare age to 50 would ensure older laid-off workers get the care they need.[13] Moreover, making Medicare first-payer, meaning it would cover medical expenses before private insurance, would lower firms' costs associated with providing health insurance to older workers. Easing the burden of hiring older workers in this fashion would help prevent involuntary retirements while increasing older workers' health coverage.

Expand Social Security

Increasing Social Security and instituting a minimum benefit will soften the blow for workers who are forced to retire before they are ready and prevent many from falling into poverty. Congress should expand Social Security benefits by $200 per month and increase the Special Minimum Benefit up to 125% of poverty.[14]

Create A Federal Older Workers Bureau

An Older Workers Bureau at the U.S. Department of Labor would formulate standards and policies to promote the welfare of older workers, improve their working conditions, and advance their opportunities for profitable employment.

The Bureau would be tasked with three goals. First, provide resources to identify, research and analyze topics of concern for older workers. Second, create innovative policies to advance quality employment opportunities for this increasingly vulnerable population. Last, the bureau would be responsible for outreach and education. This would include efforts to share and promote policies identified and created by the bureau, but also to raise awareness of the economic and societal benefits of promoting quality work for older workers.

Older Workers at a Glance

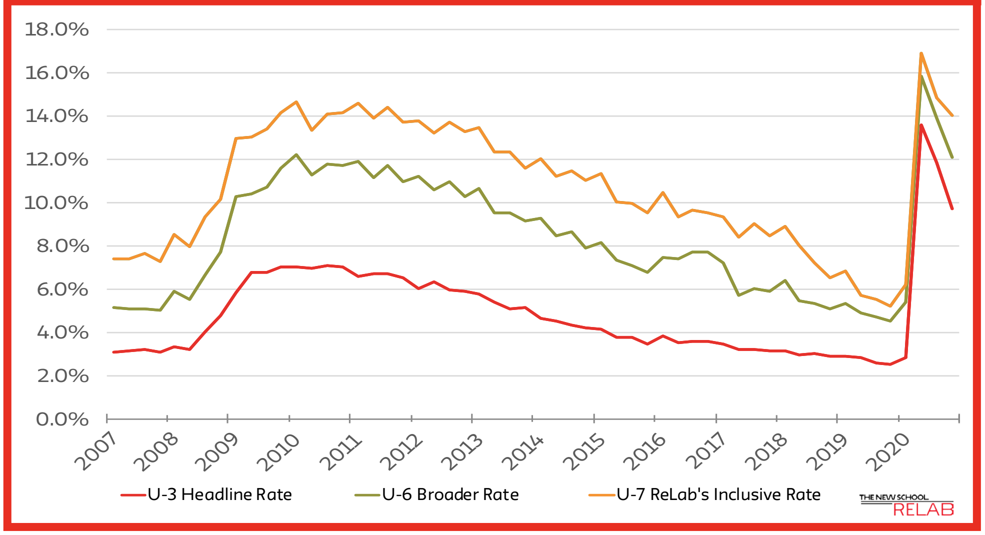
11.8% ↓ U-3 Headline Unemployment	**14%** ↓ U-7 Unemployment Rate
64.4% ↑ Labor Force Participation	**3.1 M** Downwardly Mobile Due To COVID

*Arrows reflect the change from the previous quarter's data. Author's calculation using data from the Survey of Income and Program Participation. See our previous Status of Older Workers brief for methodological details. Papadopoulos, M., Fisher, B., Ghilarducci, T., & Radpour, S. (2020). "Recession Increases Downward Mobility in Retirement: Middle Earners Hit from Both Sides." Status of Older Workers Report Series.

1. Unemployment Rates

The headline unemployment rate (U-3) for workers ages 55 and older was 9.7% in June. While this is lower than the 13.6% rate reported in April, the unemployment rate remains 2.6 percentage points higher than the worst point of the Great Recession. ReLab's U-7 figure includes everyone in headline unemployment, plus marginally attached and discouraged workers, involuntary part-time workers, and the involuntarily retired (those who say they want a job but have not looked for over a year). U-7 decreased from a high of 16.9% to 14.0%, a smaller decrease than in the headline unemployment rate. The widening gap between U-7 and U-3 reflects more older workers being discouraged by the state of the job market and choosing to not look for work, which, as discussed above, puts them at risk of an early, unplanned retirement.

Figure 3: Headline and Total Unemployment Rates, Workers 55+



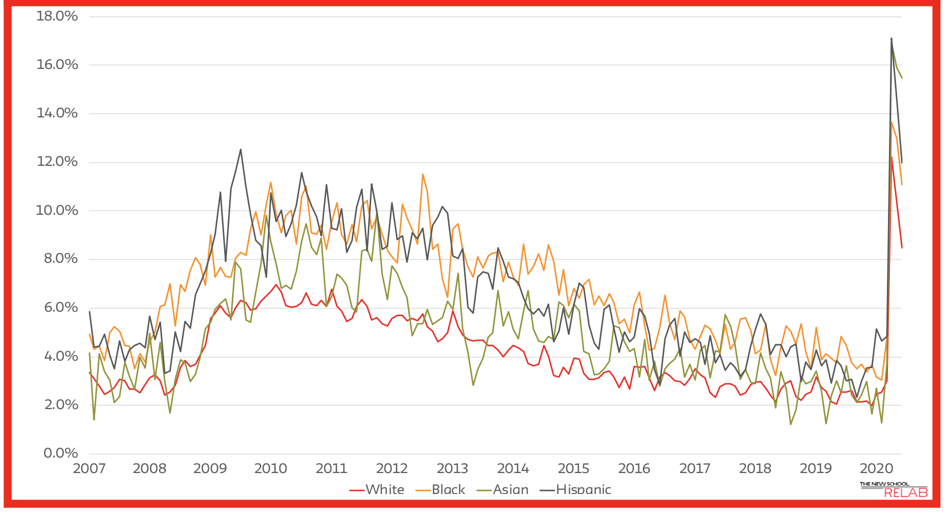
Source: Bureau of Labor Statistics (BLS) and SCEPA calculations based on Current Population Survey (CPS) data.
Notes: Quarterly unemployment rates are the average of the unemployment rates for each month in the quarter.

2. Unemployment By Race

Unemployment rates vary widely by race. The unemployment rate for white older workers (55+) was 8.5% in June, down 3.7 percentage points from April. However, for other groups unemployment rates are higher and have been slower to rebound. The unemployment rate was 11.1% in June for Black older workers (down 2.6 percentage points), 12.0% for Hispanic older workers (down 5.1) and 15.5% for Asian older workers (down 1.5).

When considering a rate which includes people who should be counted as unemployed but are not, ReLab's inclusive unemployment rate, we call "U-7," which includes discouraged and marginally attached workers, involuntary part-time workers, and the involuntarily retired, racial unemployment gaps are even larger. The U-7 rate for white older wokers was 11.4% in June, compared to 16.1% for Black older workers, 16.4% for Hispanic olders workers, and 22.6% for Asian older workers.

Figure 4: Racial Gaps in Unemployment Rates, Workers 55+

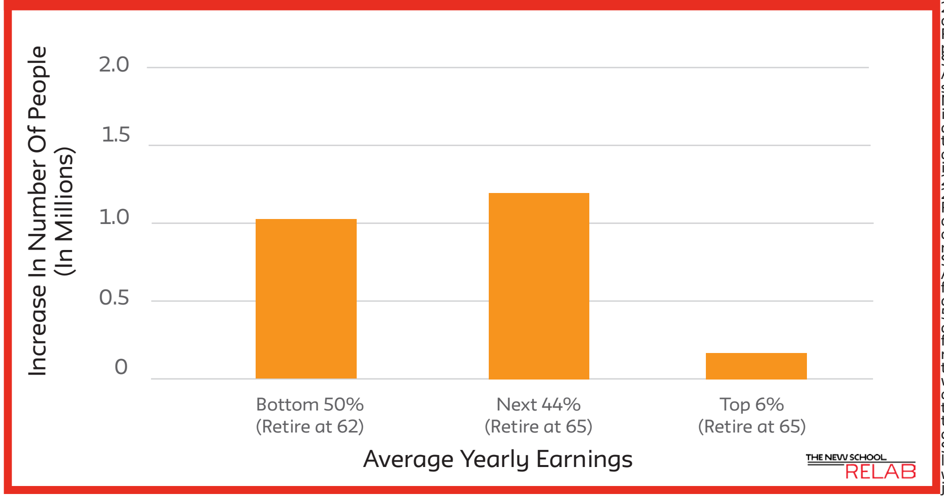


Source: Bureau of Labor Statistics (BLS) and SCEPA calculations based on Current Population Survey (CPS) data.
Notes: Quarterly unemployment rates are the average of the unemployment rates for each month in the quarter.

3. Increase in Downward Mobility in COVID-19

The COVID-19 recession will force 3.1 million older workers and their spouses into de facto poverty when they retire, which represents a 4 percentage point increase in near retirees expected to experience de facto poverty in retirement.[15] The recession affects all 67 million people in near-retirement households by decreasing their financial preparedness for retirement, measured by the share of pre-retirement earnings replaced with retirement income. While a replacement rate of around 70% is recommended,[16] the median replacement rate for older workers will drop 7 to 9 percentage points (from 55% to 48% if they retire at age 62, or from 69% to 60% if they retire at 65).[17]

Figure 5: Increase in Donward Mobility in COVID-19



Source: Author's calculation using Wave 1 of the 2014 Survey of Income and Program Participation, including Social Security Administration supplement. Notes: Sample includes workers ages 46-56 and their spouses of any age. Poverty is defined as 200% of the 2020 Federal Poverty Level, and varies based on projected retirement year. See Technical Appendix for more details.*Bottom 50% retiring at 65, this finding (2.0M) reflects the extra three years of withdrawals and debt accumulation outweighing the benefits of claiming Social Security benefits later for those who lose their jobs.

Endnotes

1. Munnell (2020) tracks labor force status for workers in a panel between April 2019 to April 2020 and finds a spike in retirements due to the pandemic. Furthermore, she speculates the prior trend of increasing ages of retirement would continue once the pandemic ends. See Munnell, A.H. (2020). Will COVID-19 force older workers to retire? Marketwatch. Retrieved from https://www.marketwatch.com/story/will-covid-19-force-older-workers-to-retire-2020-07-08?mod=alicia-h-munnell

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15. Our poverty thresholds are twice the Federal Poverty Line ($25,520 for individuals and $34,480 for couples). Our thresholds are slightly lower than The Elder Economic Security Standard™ Index (Elder Index) threshold for elderly with good health. See Center for Social and Demographic Research on Aging (2017).

16. The appropriate target replacement rate is a matter of significant debate, and varies based on lifetime earnings, health, birth year, and household composition, but most experts advocate targeting a 60% to 100% replacement rate. While the recommended replacement rate for high earners is often between 60% to 70%, low earners require higher replacement rates, and those with incomes below or near poverty need replacement rates of more than 100%.

17. Low earners are more likely to claim benefits at 62, while middle and high earners typically postpone retirement and claim Social Scurity benefits at age 65 or older. While workers can increase their retirement income by claiming at older ages, many low earners—who are less likely to find adequate employment and have little savings—cannot afford to postpone claiming. In the COVID-19 recession, even more workers who lose their jobs will claim their Social Security benefits at 62. However, we do not include the possible change in claim age nor the earnings gradient in our model. See Ghilarducci and Webb (2018) for how retirement ages vary by class.

Technical Appendix

This study tracks respondents in the panel using the Current Population Survey for March and June 2020. The March survey was conducted the week of March 9-13, which precedes most but not all state and federal stay-at-home orders and other work-related responses to the pandemic. The sample includes 9,147 respondents, of which 5,873 were ages 18 to 54 in March 2020 ("younger") and 3,274 were ages 55 to 70 ("older"). In each month, workers are split into one of three labor force classifications: employed, unemployed, and out of the labor force. CPS sample weights – specifically those for the outgoing rotation group in June – are used for all figures in this report.

Our study does not distinguish between workers leaving the labor force due to retirement, disability, or other reasons. We find that the number of people providing each of these reasons has increased between March and June 2020, indicating those leaving the labor force due to market conditions or health risks may vary in the reason they provide surveyors.

Our projection of future labor force exits presumes the share of unemployed workers leaving the labor force over the next three months is equal to the share in the prior 3 months (38%). There were 2.9 million unemployed older workers in June, and 38% of 2.9 million is 1.1 million.

Figure A1: Transitions from Employment by Gender and Race, Ages 55-70 (Millions of Workers)

Employment Status	Full Sample	White Men	White Women	Nonwhite Men	Nonwhite Women
Total Employed in March	34.57	15.23	13.79	2.83	2.72
Unemployed in June	2.34	0.8	1.08	0.25	0.21
Not in Labor Force in June	2.41	0.82	1.03	0.29	0.32
Total Job Losses	4.75	1.62	2.11	0.54	0.53

Source: Author's calculations using the Current Population Survey March-June 2020.
Notes: See Technical Appendix for methodology.

WHY FOCUS ON OLDER WORKERS?

With 10,000 baby boomers turning 65 every day, the American labor force is transforming. Out of the 11.4 million jobs expected to be added to the U.S. economy by 2026, 6.4 million will be filled by workers over 55.* Moreover, all of the net increase in employment since 2000—about 17 million jobs—was among workers ages 55 and older.

The aging American workforce and these workers' lack of retirement readiness will shape employment patterns, the direction of public policy, and the strength of bargaining power for all American workers, old and young.

*Authors' calculations from Bureau of Labor Statistics Data

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