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Chartbook: Retirement Insecurity And Falling Bargaining Power Among Older Workers

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Introduction

The COVID-19 economic crisis exposes the flaws and fault lines in the U.S. retirement system. Millions of older workers forced out of work not only stopped contributing to retirement plans, but had to raid their retirement savings to make ends meet. For those who kept their jobs, many saw their employers halt matching 401(k) contributions. Millions of those deemed essential workers continue laboring without any retirement plans at all.

If we do nothing to fix our retirement system, 43 million people now in their fifties and early sixties will be poor or near-poor elders, owing to both the recession and to inadequate retirement plans.[1] Widespread retirement insecurity weakens older workers' bargaining power. Without a solid fallback plan, older workers must accept whatever wages are offered.

The retirement crisis did not begin with the COVID-19 pandemic. Even in normal times, millions of older workers face a choice between earning insufficient wages under bad working conditions or retiring without adequate income. Since half of workers fall into retirement involuntarily (Chart 6), retiring without adequate savings is not their choice.

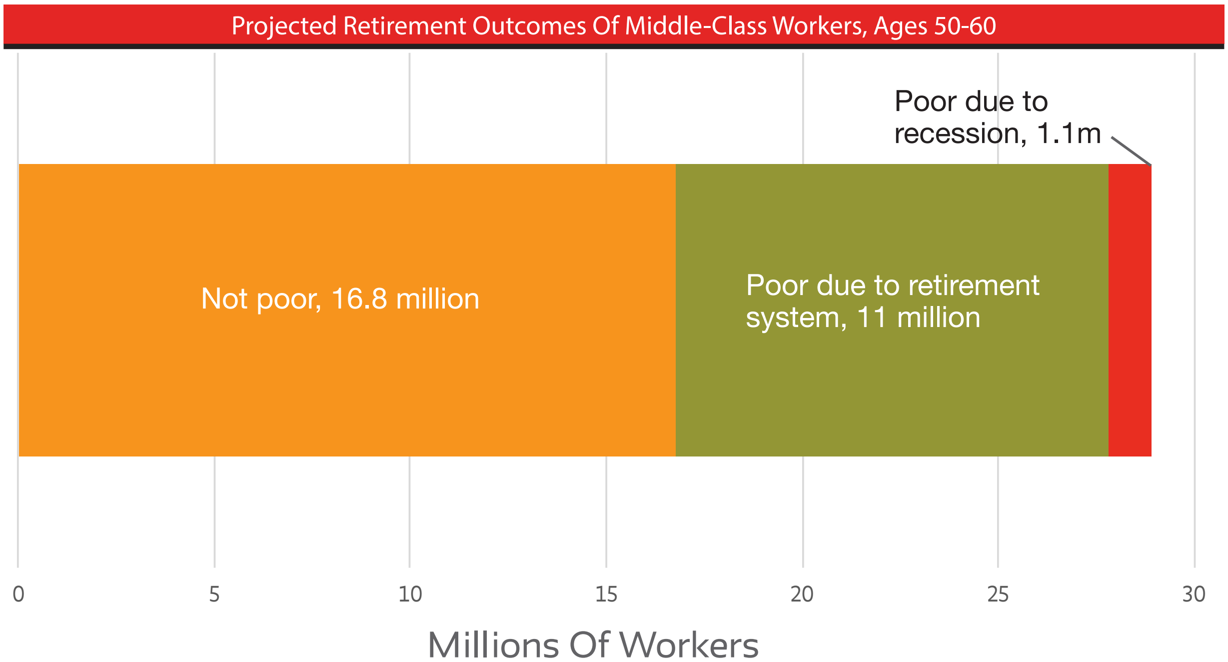
The reality is that employers and market conditions often determine the desirability of older workers. This differs from the idealized vision of work at older ages, which includes seniority in the workplace, control over hours and pace of work, and a dignified retirement. These are benefits available only to a privileged upper class of older workers.

This chartbook is a resource for workers, employers, media, policymakers, scholars, and the broader public, to answer questions about the state of older working America and retirement income security. Like the Economic Policy Institute's (EPI) 2019 publication "The State of American Retirement Savings," we delve into the insufficiency and inequality in retirement savings. This chartbook complements EPI's analysis by additionally exploring older workers' challenges in the labor market. It also provides insights into older workers' economic vulnerability, such as their increasingly fragile finances (Chart 4).

This chartbook connects retirement insecurity to older workers' basic labor market realities, revealing a central point: secure retirement income boosts older workers' bargaining power, which leads to better wages, hours, and working conditions. Access to quality retirement savings plans improves older workers' jobs.

The retirement crisis reflects systemic problems that require systemic solutions. Assigning blame to individuals for saving too little ignores the reality that many older workers are vulnerable because of flaws in the retirement system and imbalances in bargaining power between workers and employers. Addressing the retirement crisis means acknowledging these underlying realities.

1. 12 Million Of The 29 Million Middle-Class Older Workers Will Be Downwardly Mobile In Retirement

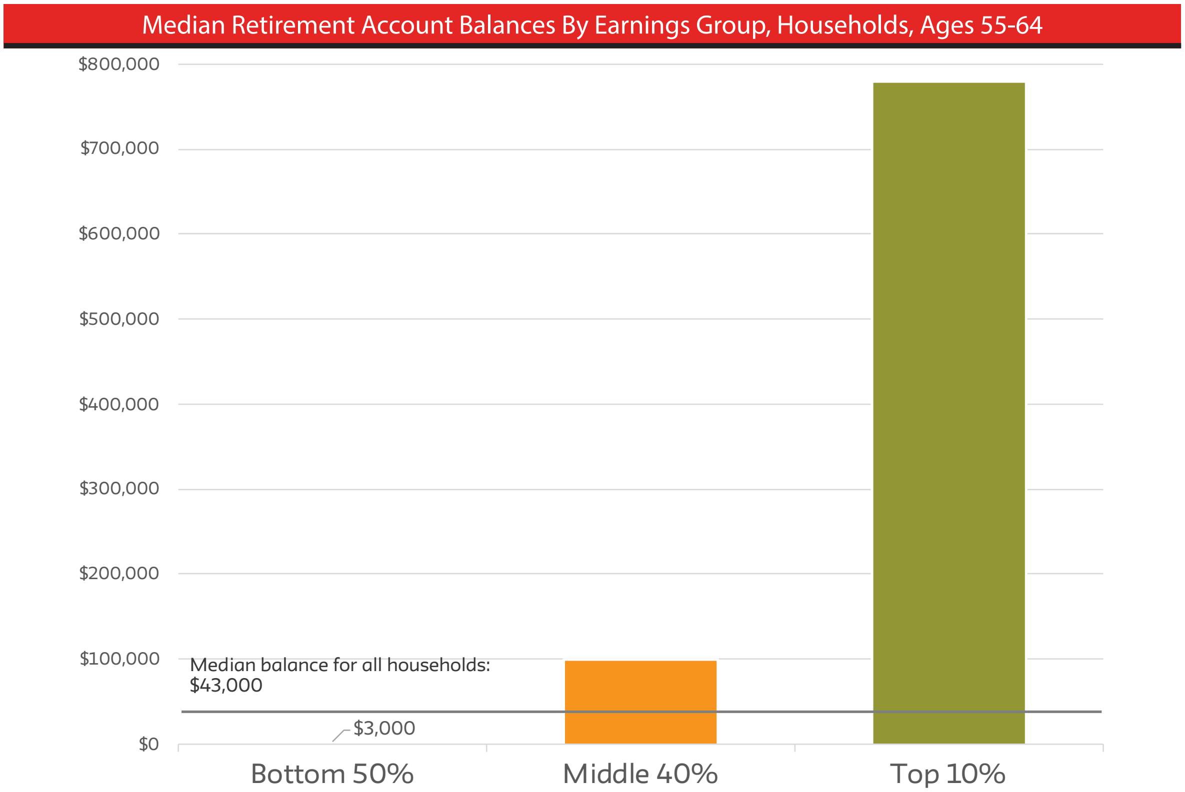


Source: Papadopoulos, M., Fisher, B., Ghilarducci, T., and Radpour, S. Retirement Equity Lab. (2020). "Recession Increases Downward Mobility in Retirement: Middle Earners Hit From Both Sides." Status of Older Workers Report Series. New York, NY. Schwartz Center for Economic Policy Analysis at The New School for Social Research.

Notes: Sample includes workers ages 44-54 in 2014 (ages 50-60 in 2020) and their spouses of any age. Poverty is defined as 200 percent of the 2020 Federal Poverty Level. Middle class is defined as those in the top 50 percent of the earnings distribution but below the Social Security income tax cutoff of $137,700 a year.

The COVID-19 recession exacerbates an already-precarious situation for middle-class older workers. Inadequate retirement account balances will cause 11 million middle-class older workers and their spouses to be downwardly mobile, falling into de facto poverty when they retire at age 65. Due to the COVID-19 economic shock, an additional 1.1 million are projected to be poor when they retire. Altogether, 42 percent of older, working households in the middle class will fall into de facto poverty. Without expanding Social Security or instituting reliable retirement options for all, retirement will cause downward mobility for millions of middle-class households.

2. A Typical Older Worker Household Has $43,000 In Retirement Savings

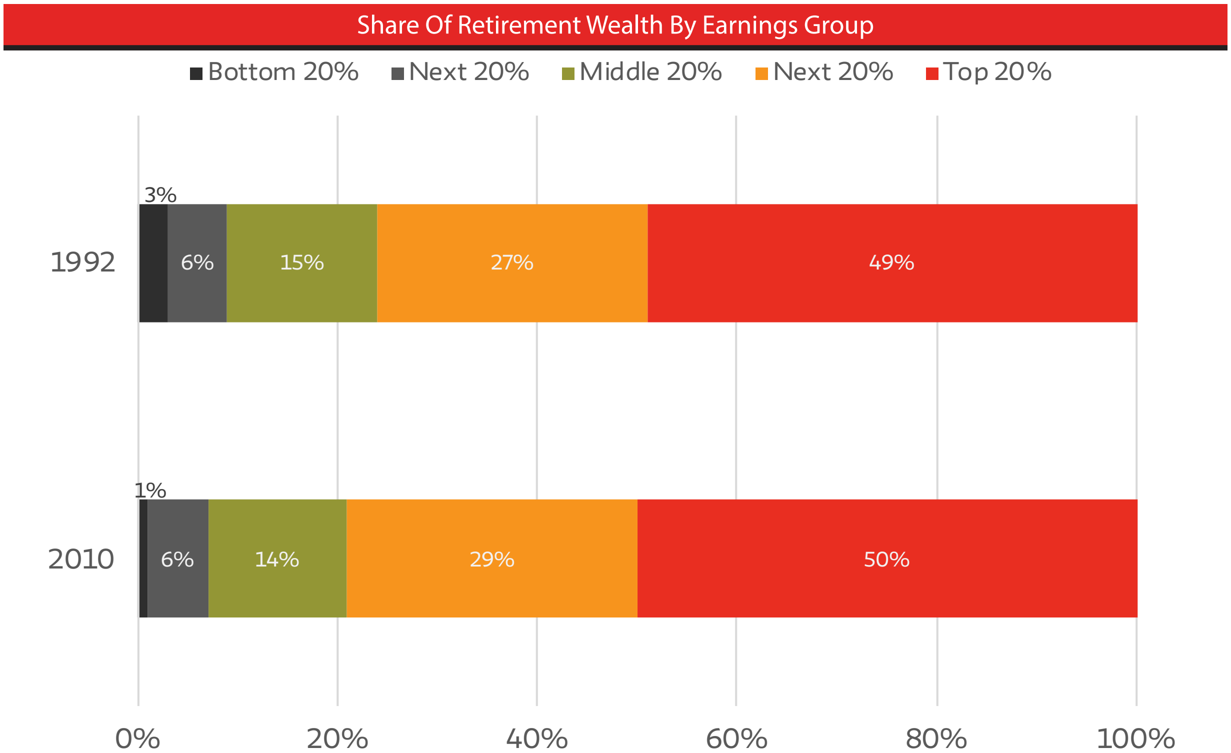


Source: Authors' calculations based on Survey of Consumer Finances, 2016.

Note: Retirement account balances include savings in IRA and defined-contribution accounts, and do not include defined-benefit wealth. Earnings groups are defined by household earnings, with married or partnered total earnings divided by 1.7. Sample is limited to heads of household ages 55-64.

For the typical older worker, household retirement savings fall far short of adequate. Looking at 401(k)s and individual retirement accounts—which have become the dominant retirement savings vehicles outside of Social Security for most workers—the median working household aged 55-64 has retirement savings of $43,000. In the bottom 50 percent of the earnings distribution, the typical household's retirement savings is just $3,000. Even for relatively better-off workers, median balances are lower than they should be if living standards are to be maintained in retirement.

3. Retirement Wealth Inequality Is High And Growing Due To The Faulty Design Of Retirement System



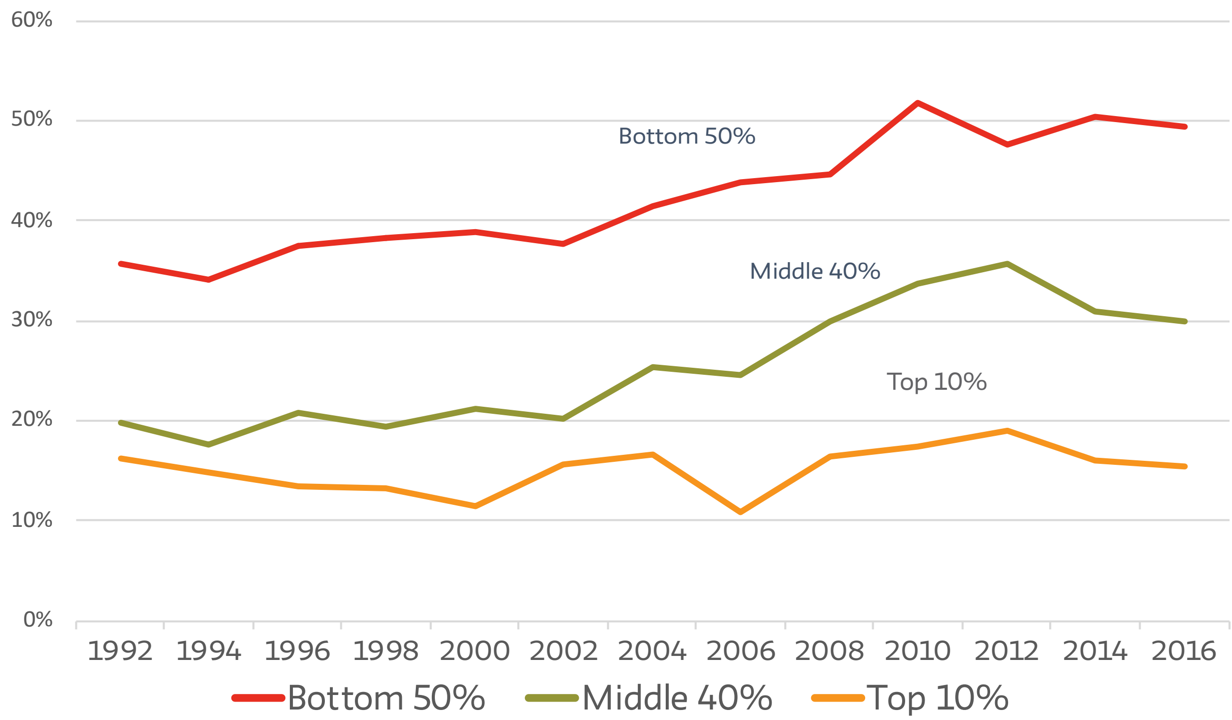
Source: Ghilarducci, T., Radpour, S., Davis, O., and Webb, A. (2019). "Extreme Retirement Wealth Inequality Persists, Even Among Those With Similar Earnings." Schwartz Center for Economic Policy Analysis and Department of Economics, The New School for Social Research, Policy Note Series.

Notes: Sample comprises employees ages 51-56 in 1992 and 2010 and is sorted into earnings quintiles based on lifetime labor market earnings. Retirement wealth includes balances in IRA and defined contribution plans (including profit sharing and stock purchase plans) and defined benefit plans, from current and past jobs.

Between 1992 and 2010, the top fifth of earners held around half of all retirement assets. Meanwhile, the lowest-earning quintile held only 1 percent of retirement wealth in 2010. Retirement inequality does not reflect the outsize accumulations of the few, but the common plight of low to moderate earners caused by the lack of retirement plan coverage. Among workers in the bottom fifth of the earnings distribution, the share of those with no retirement wealth increased from 45% to 51% between 1992 and 2010. Measures to address retirement inequality should focus on those who are most disadvantaged by the shortcomings of the individualized, do-it-yourself U.S. retirement system.

4. Financial Fragility Increased For Older Workers

Share Of Older Households Financially Fragile



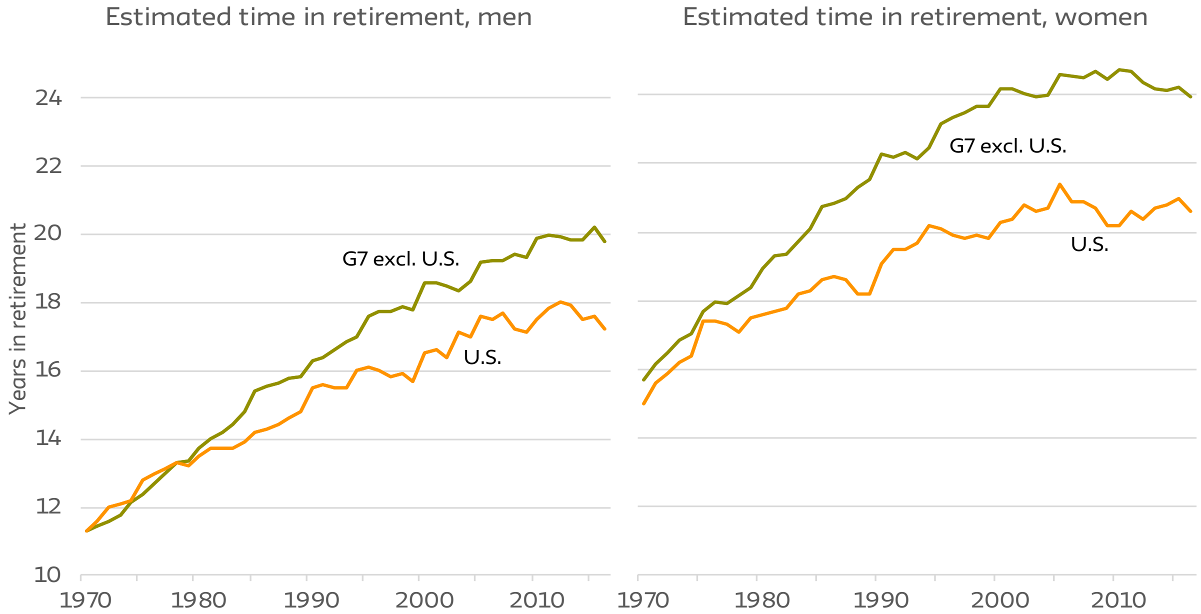
Source: Authors' calculations based on RAND HRS 1992-2016.

Note: A household is deemed financially fragile if it exceeds at least one of four thresholds: mortgage-to-house value above 0.8; non-housing-debt-to-liquid-assets above 0.5; liquid assets equal to less than 3 months of income; or rent exceeding 30 percent of income.[2] Sample includes households with at least one member aged 55-64 in the labor force. Income quantiles are based on total household income; income is divided by 1.7 for married and partnered households.

The rise in indebtedness over the past three decades has diminished the financial health of older working households, reducing their capacity to save for retirement and to protect their retirement savings when shocks arise. This rise in financial fragility reflects in part the mortgage boom of the 1990s and early 2000s, but this is just part of the story. Rising levels of credit card balances, auto loans and student debt also hurt older households' finances. Since the Great Recession, wealthier older households have enjoyed improved finances, even though a substantial share are financially fragile. Those in the middle class and bottom half of the income distribution remain at historically high rates of financial fragility. This means that when shocks like the COVID-19 pandemic hit, these older households have less financial cushion to soften the blow, and face a higher risk of drawing down retirement assets to make ends meet.

5. Americans Work Longer And Die Earlier Than Elders In Other Advanced Countries

Estimated Time In Retirement For G7 Nations



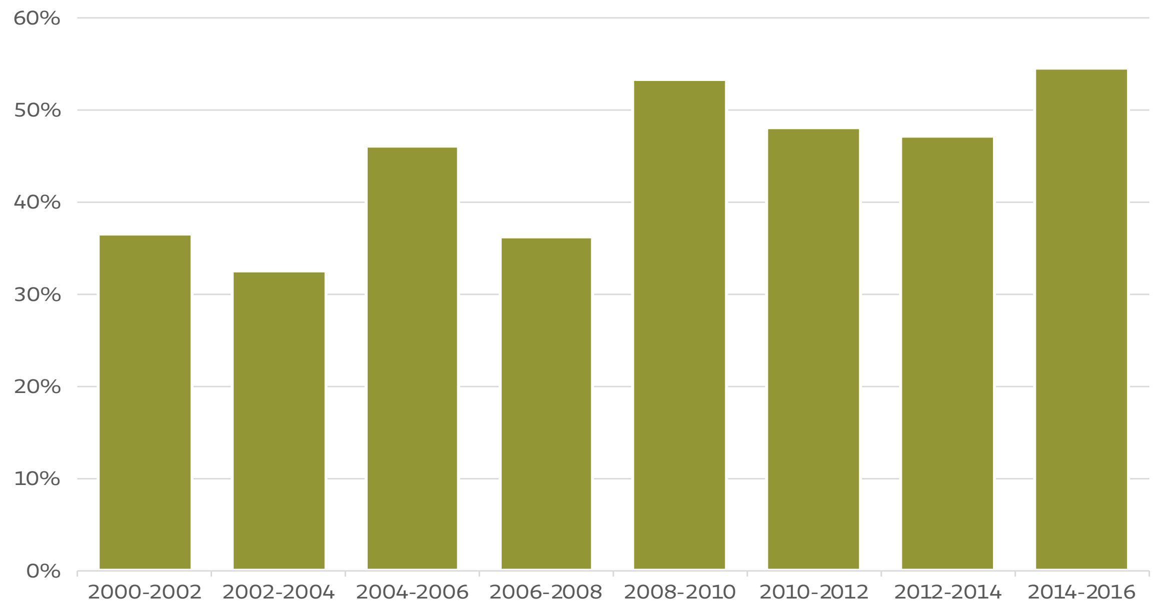
Source: Authors' calculations based on Organization for Economic Cooperation and Development (OECD) data.

Note: The trend for G7 countries excluding the U.S. is calculated as a raw average of retirement times for Germany, France, U.K., Canada, Japan and Italy. The OECD estimates retirement time using life expectancy at pensionable age, which is defined as the age at which people can draw full benefits without reduction for early retirement.

In the U.S., retirement time has failed to keep up with our peer nations. For countries in the G7 group excluding the U.S. (Germany, France, U.K., Canada, Japan and Italy), estimated time between retirement and death for men rose about 75 percent, compared to roughly 50 percent for male elders in the United States. For women, the disparity is greater in absolute terms, with a four-year gap in retirement time opening up since the early 2000s.

6. Half Of Retirees Are Pushed Into Retirement

Involuntary Retirements As A Share Of All Retirements, Workers Ages 55-64

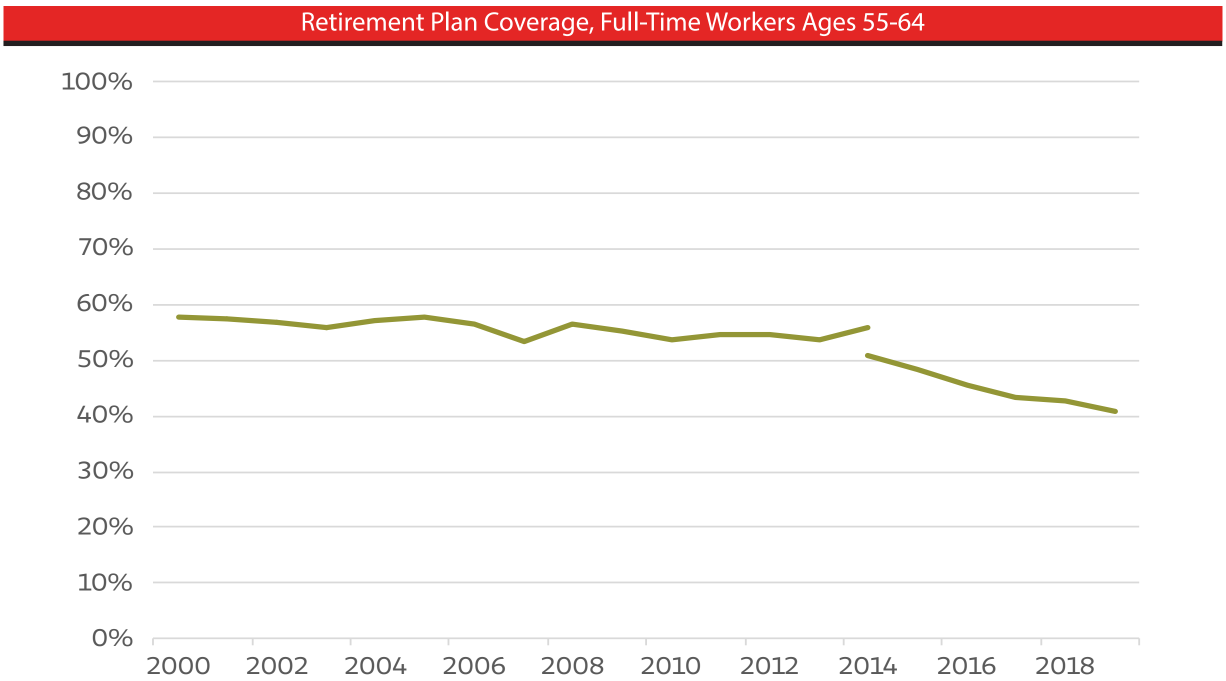


Source: Authors' calculations based on RAND HRS.

Note: Sample includes individuals 55-64 who reported being retired in the current-year survey but working in the previous wave. Involuntary separations to retirement are defined as those for which the respondent listed the following reasons: laid off, onset of ill health, family care responsibilities, conflicts with managers, and business closure.

For many older Americans, early retirement is not of their choosing. Roughly half of those who retired between 2010 and 2016 left their jobs due to circumstances outside their control. As Americans work longer—the result of insufficient retirement savings and the rising Social Security full retirement age—the share of involuntary retirements is rising. Ill health, family responsibilities, layoffs, business closures and conflicts at work are among the stated reasons why workers ages 55-64 find themselves retiring involuntarily. Unemployed older workers spend much longer looking for jobs than younger workers, and when they find new jobs, the typical re-employed older worker earns 20 percent less than before.[3]

7. Retirement Plan Coverage Is Declining Among Older Workers

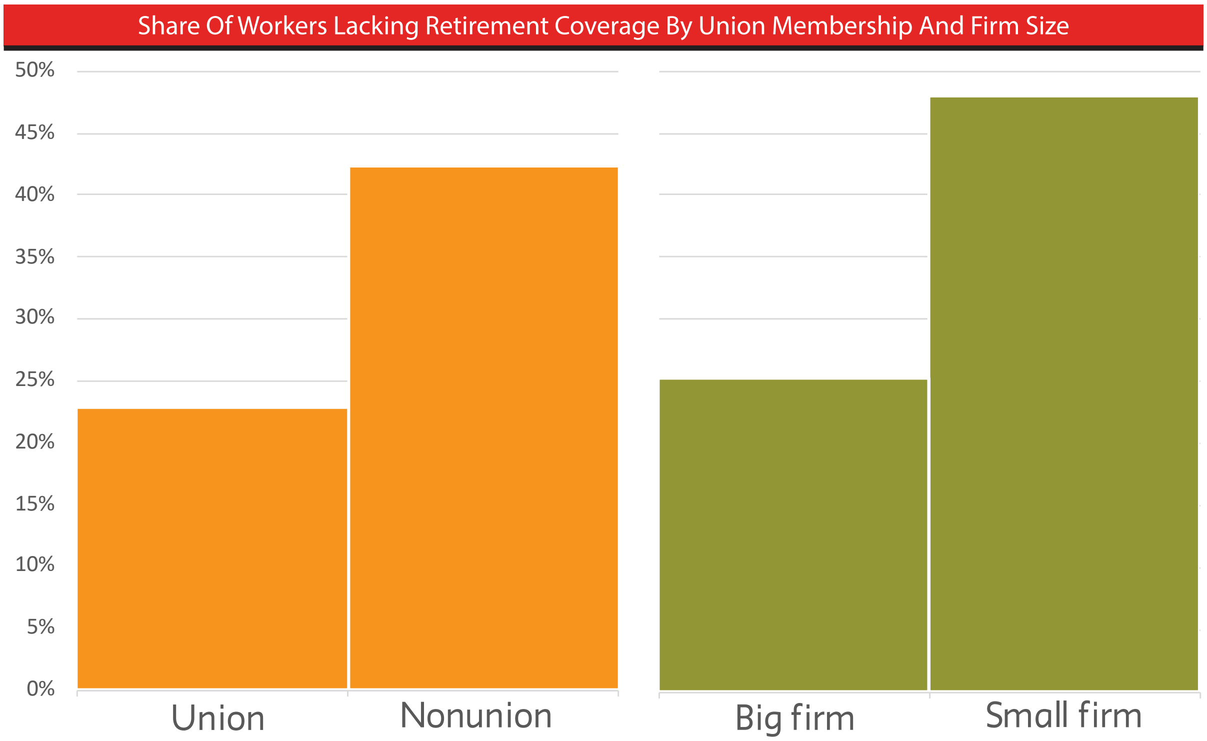


Data: Authors' calculations based on Current Population Survey Annual Social and Economic Supplement (CPS ASEC).

Note: Share of workers with a retirement plan from their current workplace. Sample includes workers who reported working 30 hours or more per week in the previous year. Starting in 2014 the CPS changed the sequencing of questions related to sources of income and plan coverage. The question text pertaining to pension coverage was not changed. In 2014, the CPS fielded the old survey to part of the sample and the new survey to the rest. We present results for the old and new survey as separate lines.

The failure of our current system stems from relying on employers to voluntarily provide coverage. In the crucial years before retirement, older workers have their last chance to shore up retirement savings before exiting the labor force. However, many employers choose not to offer a retirement plan. The share of full-time workers aged 55 to 64 who have retirement coverage has declined in recent years. Although a change in CPS survey methodology created an artificial one-time drop in the rate of coverage in 2014, indicated by the break in the series charted above, the decline since has been consistent and is present in other surveys.

8. Workers At Nonunion And Small Firms Lack Retirement Coverage

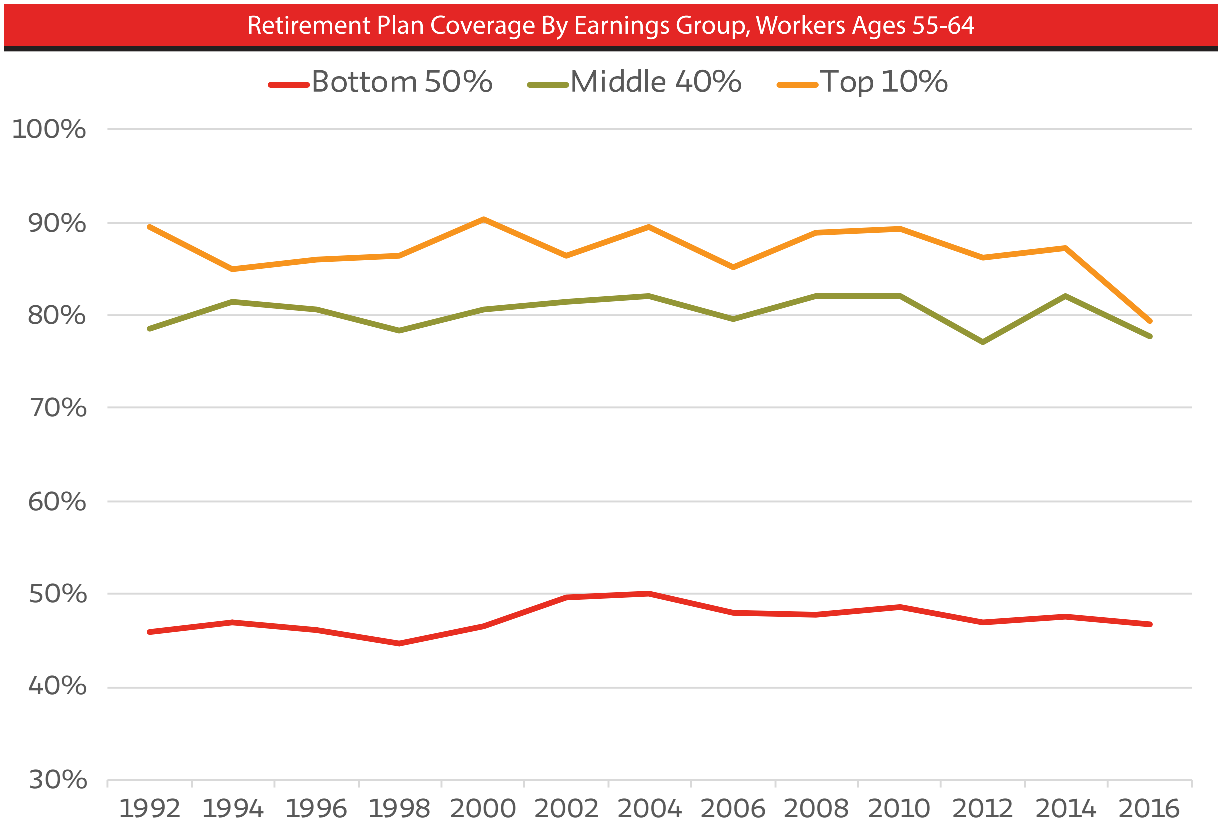


Source: Authors' calculations based on RAND HRS 2016.

Note: Sample includes employees ages 55-64. Coverage is defined as having workplace access to a defined-contribution plan, a defined-benefit plan, or both. Large firms are those with 100 workers or more.

Retirement coverage varies widely across the labor market. Among the groups that are more likely to lack retirement plans at work are employees at small firms—defined here as those employing fewer than 100 workers—as well as those who are not covered by union contracts. The share of workers lacking retirement coverage is nearly twice as high for nonunion workers compared to workers who belong to unions, a disparity that also holds for workers at small firms relative to those at large employers.

9. Retirement Plan Coverage Is Highly Unequal

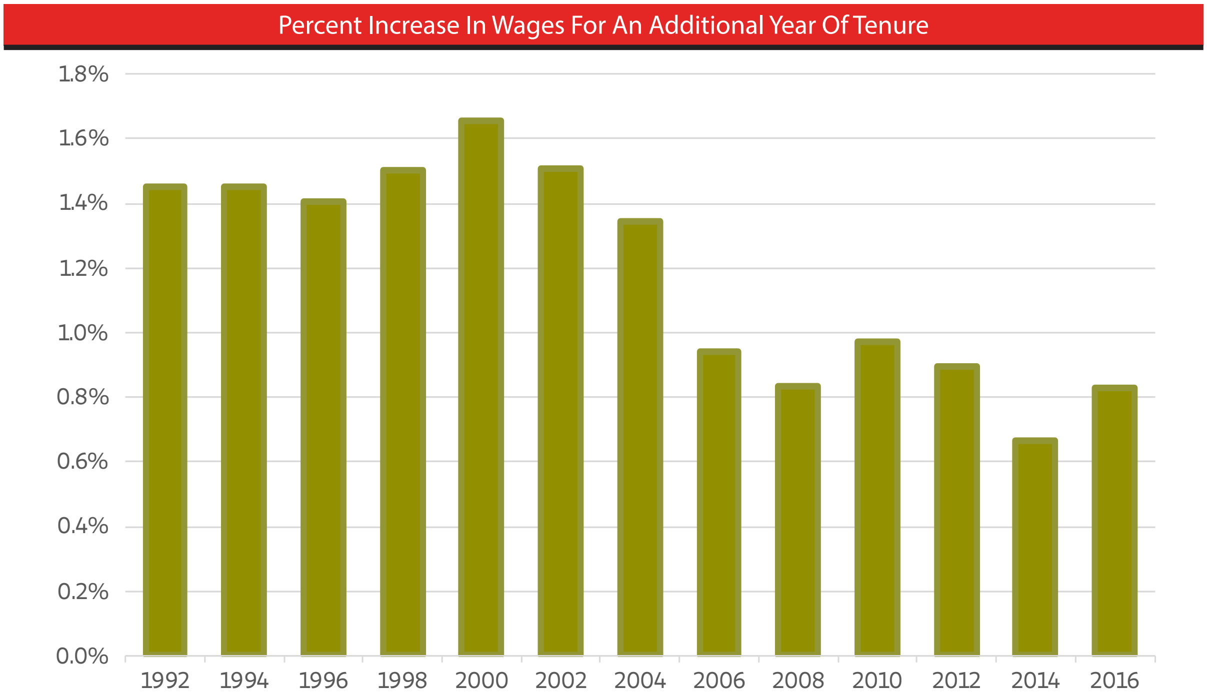


Source: Authors' calculations based on RAND HRS 1992-2016.

Note: Sample includes employees ages 55-64. Coverage is defined as being included in an employer-sponsored defined-contribution plan, a defined-benefit plan, or both.

The individualized, do-it-yourself American retirement system doubly disadvantages lower-income workers. Not only are they unable to accumulate as much retirement savings as higher income workers, they also face far lower rates of employer-based coverage at the job. Since the mid-2000s, older workers below the median wage have seen their rate of retirement coverage steadily fall, from 50% in 2002 to 47% as of the most recent data in 2016. Middle-class and higher-income workers have also experienced declining coverage in recent years.

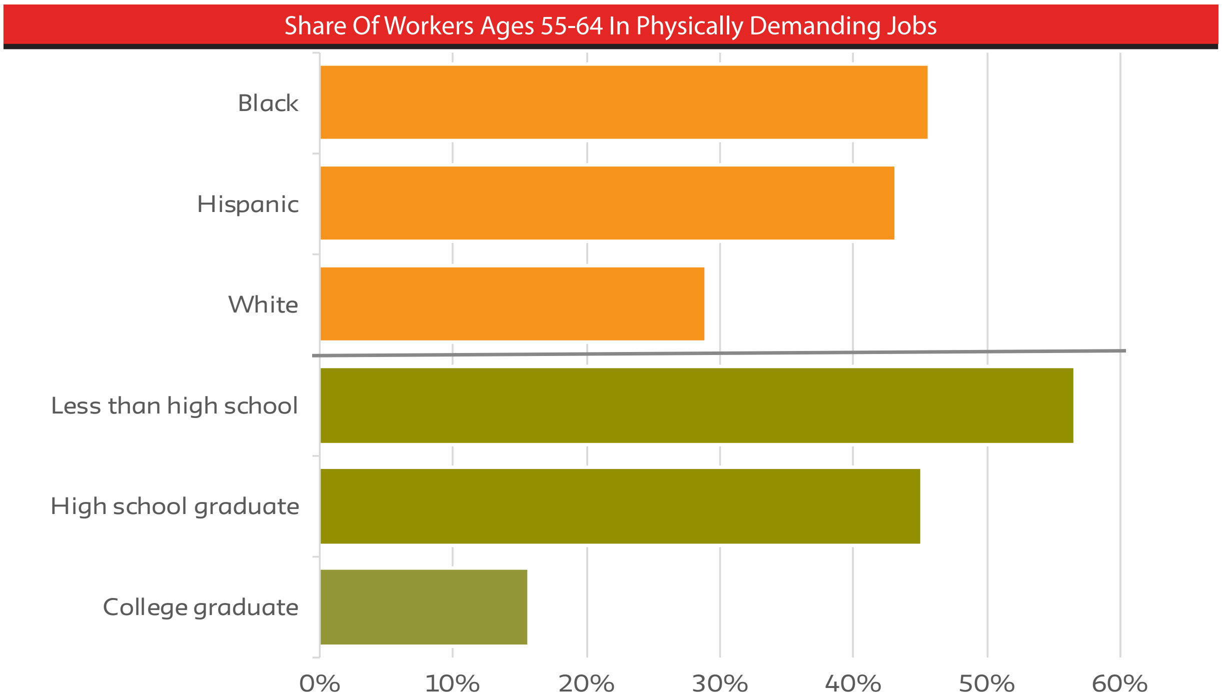
10. Older Workers Are Getting Paid Less For Their Experience



Source: Authors' calculations based on RAND HRS 1992-2016.

Note: Sample is restricted to full- and part-time wage and salary workers ages 55 to 64. Returns to tenure are calculated as coefficients on a linear regression of log wages on tenure. Control variables include age, age squared, gender, race, sex, industry, occupation, and union status. For detailed methodology see Johnson, R. W. (2019). "Older Workers and the Declining Rate of Return to Worker Experience." Generations, 43(3), 63-70.

11. Older Workers Face Inequities In Job Quality By Race and Education

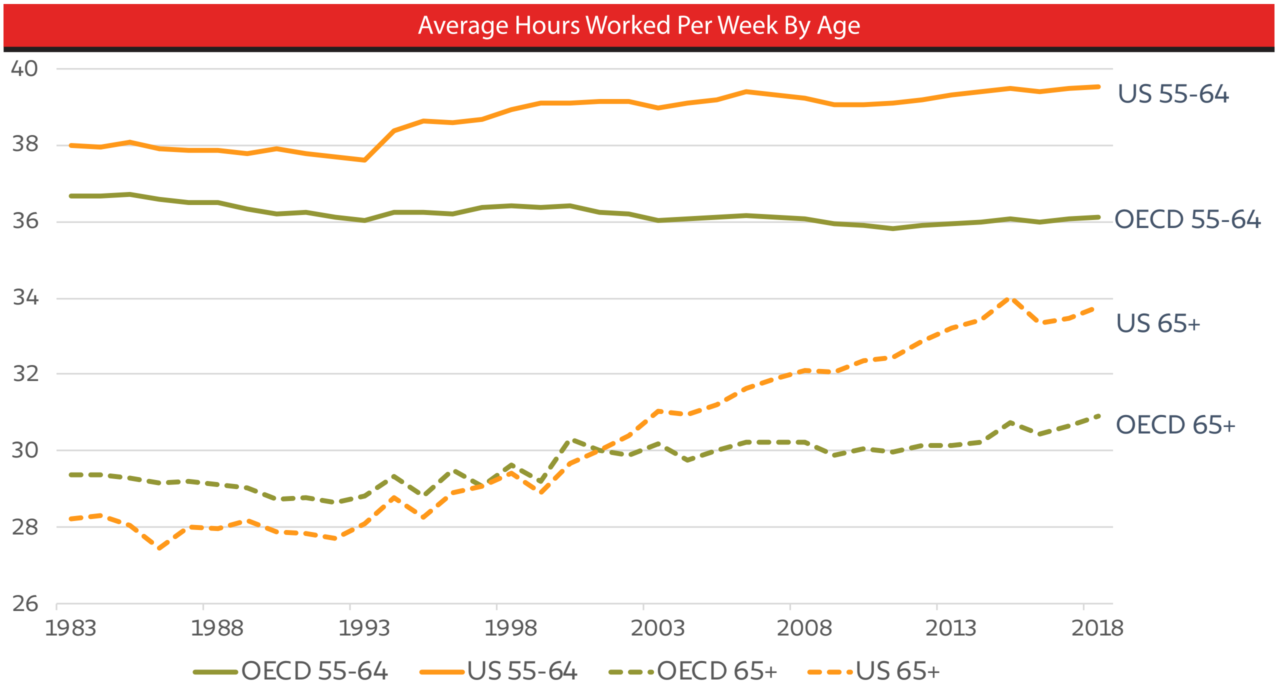


Source: Authors' calculations based on RAND HRS 2016.

Note: Sample includes full- and part-time workers 55 to 64. The survey question asks the extent to which a respondent's job requires "lots of physical effort." Those whose jobs require physical effort "all" or "most" of the time are deemed to be in physically demanding jobs.

Older workers perform more physically taxing work than might be expected. On the whole, nearly 30 percent of workers 55 to 64 are in jobs that require "lots of physical effort" most or all of the time. That physically demanding work is not distributed equally. More than 40 percent of Black and Hispanic workers toil in physically demanding jobs, compared to less than 30 percent of white workers. Workers without more than a high school degree are more than three times as likely as college graduates to find their jobs strenuous on the body.

12. Elders In The U.S. Work Longer Hours Than In Most Other Developed Countries

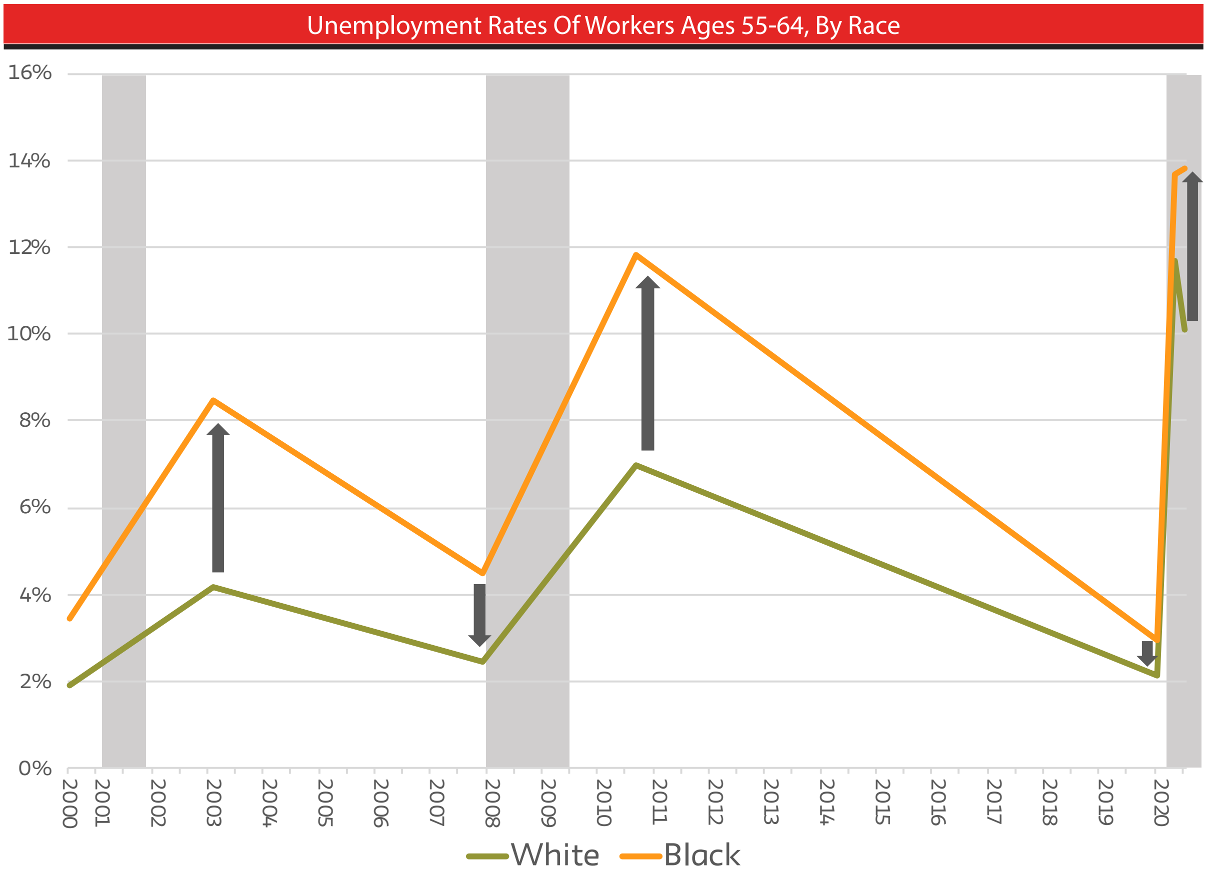


Source: Authors' calculations based on OECD data.

Note: Sample includes both part-time and full-time workers.

Not only do American elders enjoy less time in retirement relative to similar nations (see Chart 5), but they also work longer hours before retiring. Beginning in the 1990s, a large gap opened up between the U.S. and nations in the OECD in average hours worked by those 55 and older. For those between 55 and 64 years old, Americans now work close to 40 hours a week, more than 10 percent more hours than elders in the OECD group of large economies. A major part of this divergence stems from retirement policy: Americans work longer and harder in order to scrape together savings in a retirement system that is stacked against them.

13. Recessions Hit Older Black Workers Harder

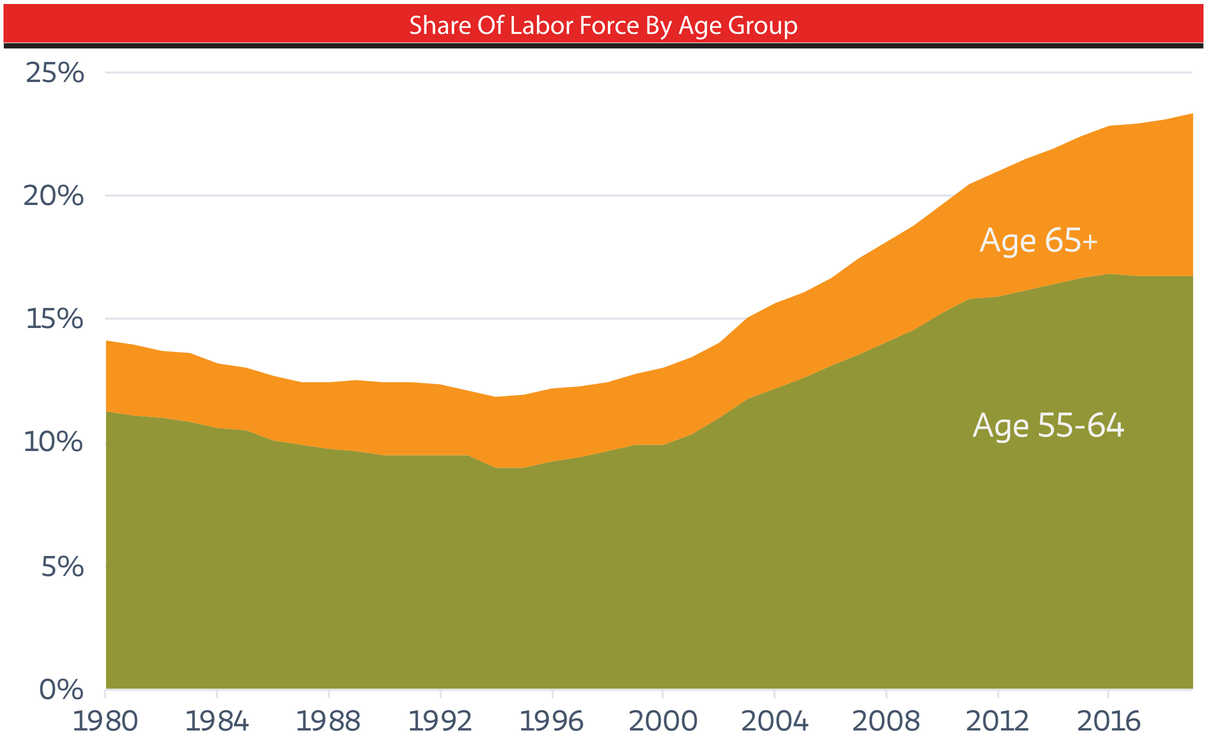


Source: Authors' calculations based on CPS ASEC.

Note: Unemployment rates for workers 55-64. Data points are the peaks and troughs of unemployment rates for all workers 55-64. Due to the unprecedented nature of the COVID-19 recession, both April and May 2020 are included. Shaded areas denote recessions.

Unemployment is generally lower for older workers than for younger workers. But significant inequalities in unemployment persist between white and black older workers. The racial gap in unemployment rates is widest at the depth of a recession and narrowest when the economy is at its peak, which suggests that black workers are the first fired and last hired over the business cycle. Unemployment data through May 2020 indicate that the COVID-19 recession is again expanding older workers' racial unemployment gap. Although white older workers' unemployment rate fell between April and May, the rate of joblessness actually rose for black older workers. Between December 2019 and May 2020, the racial unemployment gap for older workers more than quadrupled, expanding from 0.8 percent to 3.7 percent.

14. The U.S. Population And Workforce Is Aging

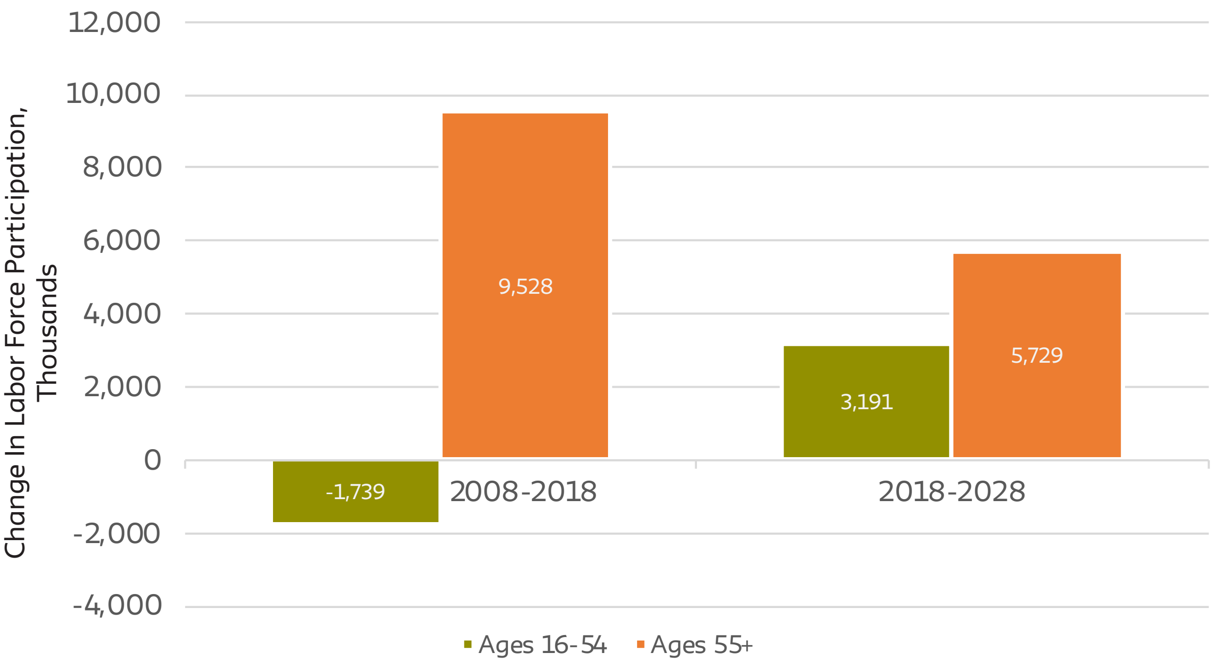


Source: Authors' calculations based on CPS ASEC.

Older workers are becoming a substantial share of the American labor market. In the 1990s, around 13 percent of those working or looking for work were aged 55 to 64. Today, that share is more than 23 percent. Part of this trend is demographic: the 75 million-strong Baby Boomer generation began turning 55 in 1999, leading to a rapid rise in the share of older workers. But as Boomers retire, the median age of the labor force is expected to stay elevated as workers push back retirement. Older people are working longer because they have to—their retirement income is less secure, which weakens their fallback position in negotiating wages, hours, and working conditions.

15. Older Workers Will Drive Labor Force Growth Over The Next Decade

Past And Projected Growth In Labor Force Participation By Age Group



Source: Bureau of Labor Statistics, U.S. Department of Labor (2019). "Civilian labor force, by age, sex, race, and ethnicity." Available at bls.gov/emp/tables/civilian-labor-force-summary.htm. Accessed May 26, 2020.

Over the past decade, the net growth in the U.S. labor force came entirely from rising numbers of older workers. Employment projections from the Bureau of Labor Statistics predict that in the 2020s workers 55 and over will continue to represent the majority of labor force growth. Increasingly, the working conditions of older Americans will be the working conditions of all Americans.

Endnotes

1. Papadopoulos, M., Fisher, B., Ghilarducci, T., and Radpour, S. Retirement Equity Lab. (2020). "Recession Increases Downward Mobility in Retirement: Middle Earners Hit From Both Sides." Status of Older Workers Report Series. New York, NY. Schwartz Center for Economic Policy Analysis at The New School for Social Research.

2. Housing debt includes all mortgages on the primary residence as well as other loans against the primary residence. Liquid assets include stocks, bonds, checking and savings accounts, and other reported non-housing assets. Retirement savings are excluded from liquid assets. For a similar methodology, see Lusardi, A., O. Mitchell, and N. Oggero (2018). "The Changing Face of Debt and Financial Fragility at Older Ages." AEA Papers and Proceedings, 108: 407–411.

3. Johnson, R. W., & Mommaerts, C. (2011). "Age differences in job loss, job search, and reemployment." Washington, DC: The Urban Institute.