THE NEW SCHOOL RETIREMENT EQUITY LAB

STATUS OF OLDER WORKERS

November, 2019

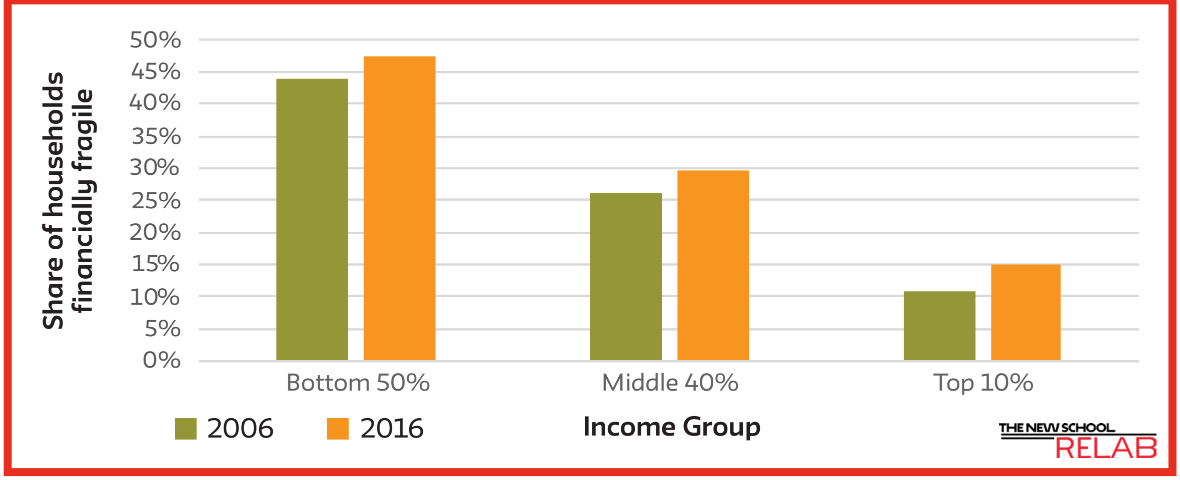
Older Workers Will Be More Vulnerable In The Next Recession

- **Financial Fragility:** Older workers have higher levels of financial fragility than in 2006, before the Great Recession.
- **Scars from the Great Recession:** Millions of workers who are now nearing retirement lost jobs in the 2008-09 recession, saw their wages fall, and now face increased risk of repeated job loss.
- **Policy Recommendations:** Boost financial security for older people by strengthening Social Security, creating Guaranteed Retirement Accounts, bolstering unemployment insurance, and creating a federal Older Workers Bureau to protect this growing population in the labor market.

Rising Financial Fragility

The prospect of a recession carries substantial risks for older workers. Job loss means not only a loss of income, but also the risk of having to dip into retirement savings prematurely. Recession protection includes having a financial cushion besides retirement accounts. People without emergency savings are often blamed for not saving in good times and spending down retirement accounts if they lose a job. But reality is more complicated than suggested by these standard attacks on imprudent individual behavior. Stagnant wages, rising medical expenses,[1] and the aggressive marketing of debt—mortgages, credit cards, and student and car loans—have contributed to a decades-long increase in debt among older Americans.[2] This raises grave concern for older workers in the next recession.

Financial Fragility Increased at All Income Levels



Source: SCEPA Calculations using the Health and Retirement Study (HRS).
Note: Sample includes households with at least one worker aged 55 to 64. Earnings quantiles are calculated using household income. See appendix for calculation of fragility scores..

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Households ages 55 to 64 at every income level are more financially fragile in 2016 than those approaching retirement in 2006, with the overall rate of financial fragility rising to 35% from 31%. (2016 is the year for which most recent data is available; see appendix for methodology.) For older workers in the lower half of the income distribution, the share of those considered financial fragile rose to 46% from 42%.

Financial fragility improved for older workers since the depths of the Great Recession in 2010, after which household debt fell. This improvement likely continued after 2016, but the trend up to 2016 was limited to higher-income groups. For the bottom half, too few older workers built up enough assets to pay their debts in the case of lost income, and fragility remained high.

Scars from the Last Recession

When unemployment spikes during recessions, longer job tenure protects many older workers from job loss. For older workers who lose their jobs, however, the effects are more severe than for younger workers. The time the typical unemployed older worker took to find a new job peaked at 43 weeks following the Great Recession, compared to 29 weeks for workers aged 35 to 44.

When they did find new jobs, older workers took a larger pay cut relative to younger workers. For men aged 50 to 61 who found new jobs, hourly wages were 20% lower on average. For those 62 and older, wages fell 36%. This compares to a pay cut of just 1.5% for men aged 25 to 34.[3]

Unemployment also scars workers, since job loss during recessions is associated with depressed future earnings and higher risk of subsequent layoffs for years and even decades to come.[4] Scarring is a risk for a significant share of workers who were between ages 45 and 54 during the Great Recession and are now nearing retirement. Between 2007 and 2009, about 13% of workers in this group—or 4.4 million workers—lost their jobs, a higher share than in any other recession since 1984.[5] For these workers, job loss led to an average fall in subsequent earnings of 25%.[6] As this same group, now in their late 50s and 60s, faces the prospect of another recession, the effects of the previous recession means they are more vulnerable to job loss and depressed income.

Retirement Security

Job loss often forces older workers into low-paying work or early and involuntary retirement.[7] But having the option to retire allows workers to hold out for higher paying work or, if early retirement is unavoidable, mitigate a drop in living standards as a result of tapping retirement savings earlier than planned. For the latest generation of near-retirees, however, retirement prospects have eroded.

The past 15 years have seen a continuation of the decline in traditional pensions and the rise of less-secure 401(k)-type retirement savings plans. The share of older workers covered by defined-benefit (DB) pensions fell 7 percentage points between 2006 and 2016, from 27% to 20%, according to HRS data. The decline in traditional pensions was balanced out by a rise in defined-contribution (DC) plans, such as 401(k)s.

Unlike DB plans, DC plans are vulnerable to leakages that reduce economic wellbeing in retirement. When households experience economic shocks such as job loss, divorce, or the onset of ill health, they often reach for their 401(k)-type or IRA holdings because they lack an emergency fund—especially if they have to make debt payments. About a fifth of all retirement savings withdrawals are related to such shocks, and these drawdowns are concentrated among lower-income households least able to afford sacrificing retirement wealth.[8]

Policy Recommendations

Create a Federal Older Workers Bureau

The rising share of older workers in the U.S. calls for the establishment of an Older Workers Bureau—similar to the Women's Bureau established in 1920—to focus on older workers' issues and devise policies to address them.

Increase Unemployment Insurance

Older workers rely on unemployment insurance more than younger workers. Unemployment insurance gives older workers the bargaining power necessary for maintaining their wages and working conditions, and helps unemployed older workers avoid drawing down their retirement assets.

Create Emergency Savings Program

One key factor behind deficient retirement savings is that people are often forced to use their retirement savings for emergencies. Lawmakers should respond by implementing an emergency savings program, modeled on the Obama administration's MyIRA program, to automatically enroll workers into emergency savings plans funded by payroll deductions.

Ensure Quality Retirement as an Option

Older workers who lose their jobs face downward mobility. Instead of increasing the retirement age, which is equivalent to a cut in benefits, lawmakers should strengthen and expand Social Security, ensuring a reliable fallback option when working longer is not possible. Guaranteed Retirement Accounts (GRAs) would give workers access to a secure and accessible way to save for their retirement and supplement their Social Security benefits. GRAs are a proposal for universal individual accounts funded by employer and employee contributions throughout a worker's career and a refundable tax credit.

Older Workers at a Glance

2.6% ↓
U-3 Headline Unemployment

5.5% ↓
ReLab's U-7 Inclusive Unemployment

$872 ↑
Full-Time Workers' Median Weekly Earnings

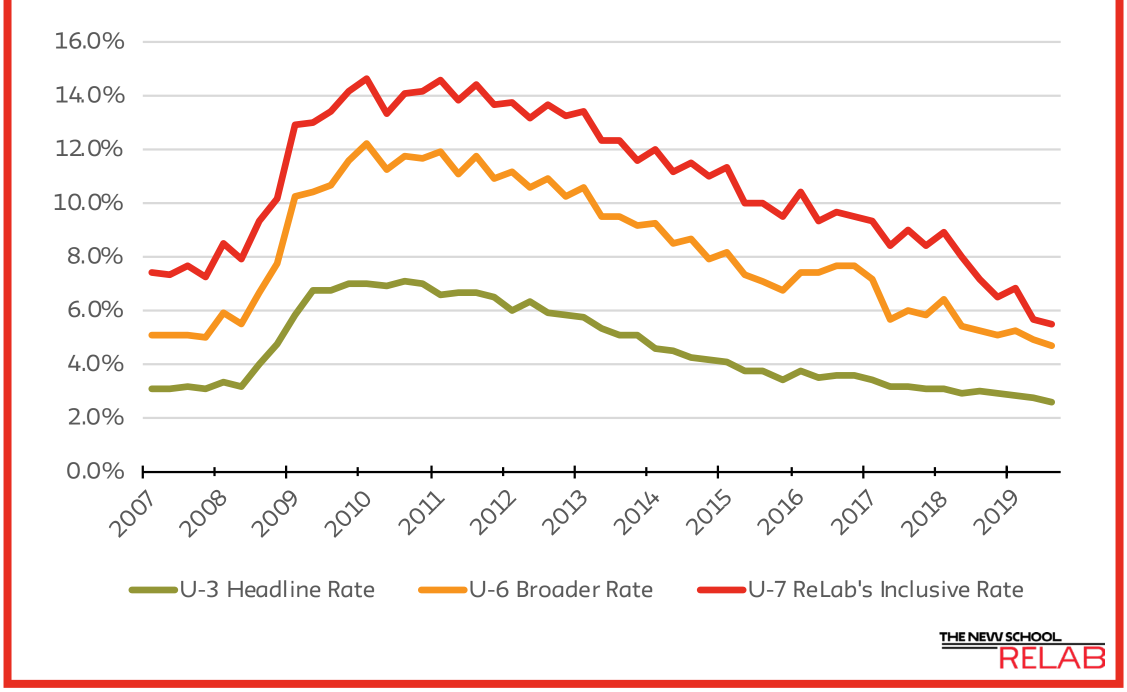
41% ↓
Workplace Retirement Coverage

*Arrows next to "Older Workers at a Glance" statistics reflect the change from the previous quarter's data.

1. Unemployment Rates

The headline unemployment rate (U-3) for workers ages 55 and up is 2.6% this quarter (from July to September), which represents a 0.2% decline from last quarter. 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 in over a year). U-7 decreased from 5.7% to 5.5% in the last three months. The share of jobless older workers who reported spending more than 27 weeks looking for work was 33%, down from 38% last quarter.

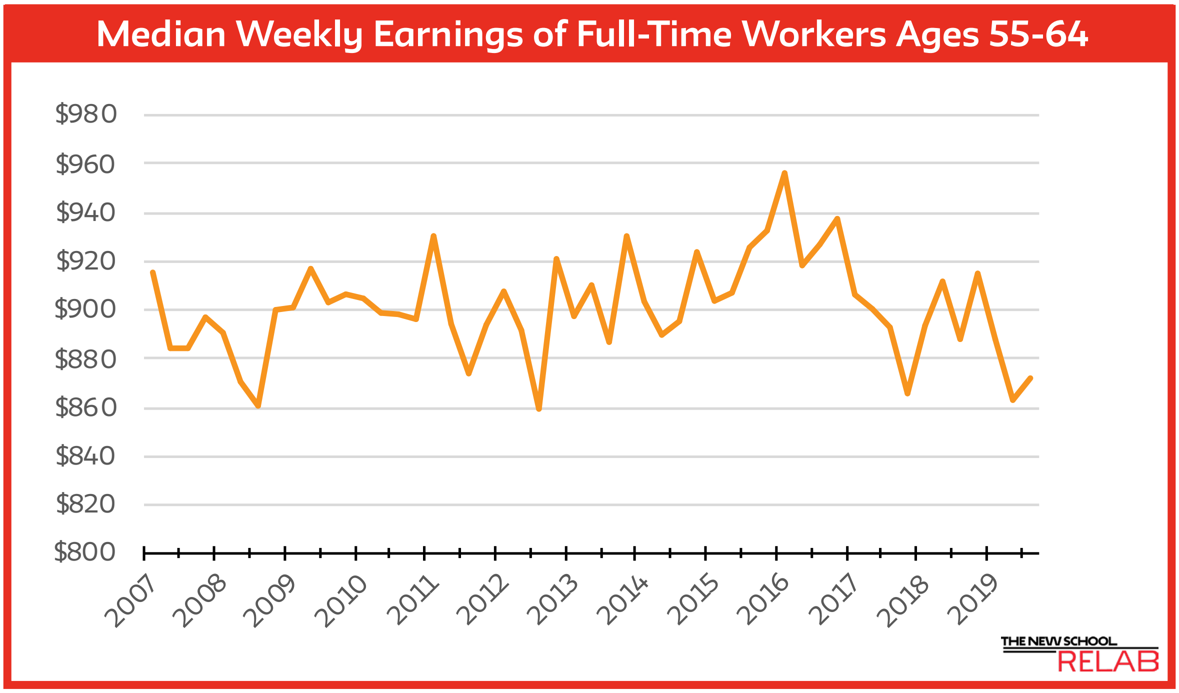
Headline and Total Unemployment Rates for Workers Over 55



Source: Bureau of Labor Statistics (BLS) and SCEPA calculations based on Current Population Survey (CPS) data.
Notes: U-3 is sourced from BLS' Employment Situation report, and is defined as the share of the labor force that is unemployed. U-6 and U-7 are SCEPA calculations. U-6 is the share of the labor force and marginally attached members that are unemployed or working part-time for economic reasons. U-7 is the share of all people saying they want and are available for a job that are not working or working part-time for economic reasons. Quarterly unemployment rates are the average of the unemployment rates for each month in the quarter.

2. Stagnant Wages

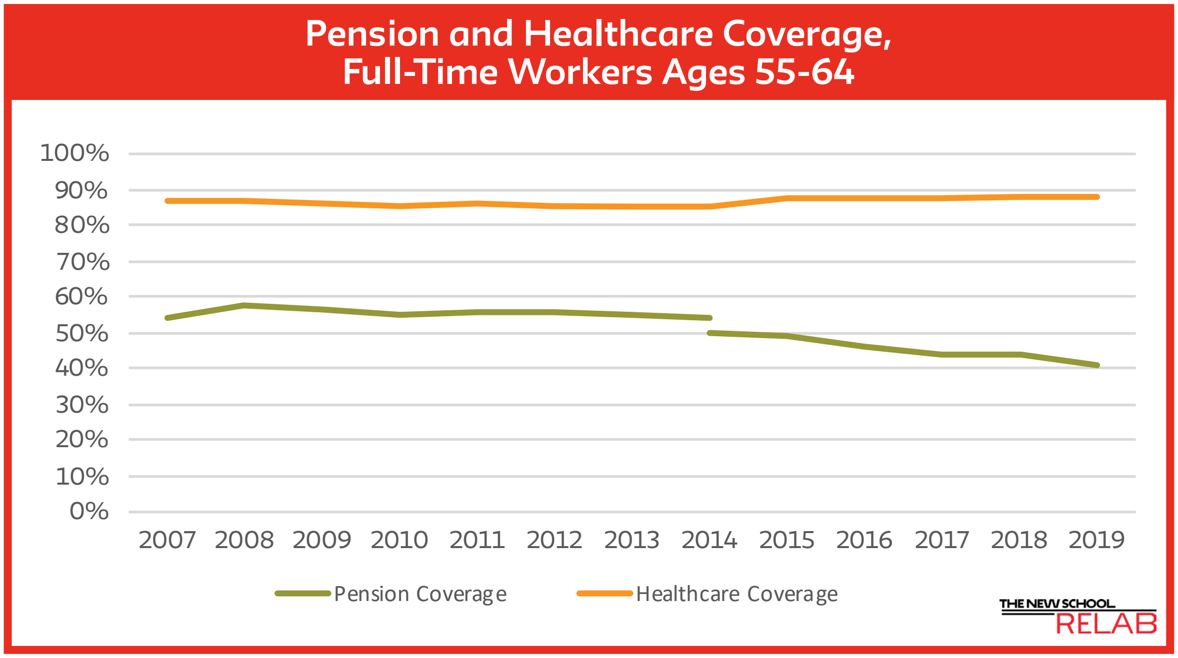
The inability of lower-paid older workers to improve their finances has coincided with wage stagnation and the spread of low-paying jobs among older workers. Despite a strong job market, median real weekly earnings for older workers are lower than before the Great Recession. To escape financial fragility, older workers need to build up assets and pay off debts. It is hard to do so when wages are failing to keep pace with inflation.



SCEPA calculations using Current Population Survey (CPS) data.
Notes: Sample includes those reporting working 30+ hours in the last week. Real wages ares CPI-adjusted to 2018 levels.

3. Retirement Coverage

Workplace retirement plan coverage fell in 2019 to 41%. Low retirement plan coverage increases retirement insecurity for workers and weakens their bargaining position.



Source: SCEPA calculations using Current Population Survey—Annual Social and Economic Supplement data.
Notes: 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 with 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.

Endnotes

1. R Kim et al, 2012
2. Lusardi et al, 2018
3. Johnson and Mommaerts 2011
4. Rutledge, Orlova and Webb, 2013
5. For comparison, the typical three-year job loss rate outside of recessions is 6-8%, roughly half of the rate of job loss reached in the Great Recession (see appendix for methodology.)
6. Couch et al, 2018
7. Schwartz Center for Economic Policy Analysis, 2018
8. Ghilarducci, Radpour and Webb, 2018

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Appendix

To measure financial fragility, we constructed a binary indicator using data from the nationally representative Health and Retirement Study (HRS). The indicator relies on three measures of fragility: the ratio of mortgage to home value, the ratio of non-mortgage debt to non-housing assets, and the possession of non-retirement assets in excess of three months income. If a household exceeds certain limits on either of the ratios, or falls under the asset threshold, it is deemed fragile.

The threshold for housing debt to home value ratio is 0.8, since a household whose mortgage falls below 80% of its home value can more easily sell its house in case of job loss. For the ratio of non-housing debt to other assets, the threshold is a more stringent 0.5, since this kind of debt tends to be shorter-term and have higher interest rates. The asset threshold reflects the fact that households with more than three months income are in a better position to make ends meet between jobs. Retirement funds are excluded from the asset side of the measure because we are interested in households' ability to withstand recessions without endangering retirement prospects. For a similar methodology, see Lusardi, Mitchell and Oggero (2018).

Job loss rates are authors' calculations using the Current Population Survey Displaced Workers Supplement, following the methodology of Farber (2015) and Farber (1998). Reasons for job loss include plant closure, layoffs and elimination of positions. Workers who lost their jobs due to seasonal job completion are not included. Only 25% of workers whose reason for job loss is listed as "other" are included in the job loss totals, again following the methodology of Farber (1998), whose examination of survey responses found that roughly a quarter of workers listed as "other" lost their jobs involuntarily.

Pension coverage is presented for workers aged 55-64 in the HRS, calculated only for those currently working. The DB rates include those who report having DB pensions only and those with both DB and DC plans in their current job.

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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