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THE EFFECTS OF THE GREAT RECESSION ON THE RETIREMENT SECURITY OF OLDER WORKERS

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Abstract

The Great Recession had a profound effect on the retirement security of older Americans, and the slow recovery from the downturn will have a lasting impact on their quality of life. The nature of today's retirement system left older households exposed to the collapse in the equity and housing markets, and induced many to plan for a later retirement. Instead, more late-career workers experienced job loss than in previous recessions, often with long jobless spells, encouraging record numbers of early Social Security retirement claims and disability applications. Going forward, workers who lost a job can expect lower earnings and more instability, and potentially poorer health. Even households that avoided job loss will have less money available for spending in retirement due to low interest rates and reduced home values. These findings emphasize the importance of Social Security as income insurance and the need for a more robust retirement income system.

Key words: Older workers, retirement security, Social Security, labor force participation, pensions, interest rates, home equity

I. Introduction

The Great Recession had a two-pronged impact on older workers. On the one hand, the loss of financial assets and home equity inspired many to say that they planned to work longer. On the other hand, a weak labor market with high unemployment made working longer very difficult. In the end, the proportion of older individuals working declined slightly, a marked departure from the general trend towards working longer that has been evident since the mid-1980s. It is unclear whether the stunted employment growth was due to the weakness of the labor market or to the fact that many were insulated in one way or another from the collapse in the financial markets. That question is the focus of this paper, together with an assessment of the enduring impact of the financial crisis and ensuing recession on the retirement security of older workers and retirees.

The discussion is organized as follows. Section II focuses on the impact of the financial crisis and Great Recession on the wealth and income of older workers. The impact must be understood against the background of today's contracting retirement income system, where retirement needs are likely to outstrip available retirement income. The assessment also requires considering not only the collapse – and recovery – of equity prices but also the sharp decline in interest rates. Further, the bursting of the housing bubble must be included because hard-pressed future retirees are going to need to tap their home equity to maintain their consumption once they stop working. Taken together, the financial collapse and ensuing weak recovery undermined the resources that older workers had available to support themselves in retirement.

Given the decline in resources, older workers had only three options: save more, work longer, or live on less in retirement. For older workers, it is difficult to increase saving enough to make a meaningful difference. Thus, some combination of working longer and living on less were the realistic alternatives. Section III explores the extent to which older workers succeeded in extending their worklives. While survey after survey suggested that workers planned to postpone retirement, in the end employment for older workers did not increase. More older workers were laid off than in previous recessions, and when they tried to find new employment the jobs were not there. When new jobs failed to materialize, those eligible for Social Security accelerated their claiming and a good portion of those not eligible for Social Security applied for Disability Insurance.

Section IV concludes that the financial crisis and recession had a major negative impact on the well-being of older workers. Older workers tried to respond to the reduction in their wealth by working longer but found the job market inhospitable. As a result, many older workers will live on less in retirement than they would have otherwise.

II. The Impact on Retirement Wealth and Income

This section explores whether the decline in asset prices – especially when combined with the collapse in interest rates – was a big deal for the majority of households and assesses the overall outlook once the decline in housing prices is included in the calculations. To evaluate the severity of the impact requires not only identifying who was hurt and by how much but also understanding the nature of the retirement income system against which the losses occurred. If pre-retirees were flush, the decline is relatively inconsequential; if they were already pressed, any loss creates real hardship.

Today's Retirement Savings System

The retirement income landscape is changing dramatically. Retirement needs are increasing as longer life expectancy has lengthened the retirement period and people face the specter of rapidly rising health care costs. At the same time, as discussed below, all three components of the system – Social Security, employer-sponsored plans, and individual saving – will produce less income relative to pre-retirement income in the future than they have in the past.

Social Security is the backbone of the U.S. retirement system. But Social Security will provide less in the future than it does today for three reasons. The Full Retirement Age – the age at which the worker is entitled to full benefits – is moving from 65 to 67. As a result, those who continue to retire at, say, 62 or 65 will see a cut in their monthly benefit relative to pre-retirement earnings. Second, Medicare premiums, which are deducted up front, are scheduled to increase sharply, so the net benefit will decline. Finally, more households will see their Social Security benefits taxed under the personal income tax since the thresholds above which benefits are taxable are not indexed to inflation or wage growth. These three factors will reduce the net replacement rate for the median worker claiming at age 65 from 39 percent in 2002 to 31 percent in 2030 (U.S. Social Security Administration 2012). On the one hand, this decline may be mitigated to the extent that future workers respond by working longer; on the other hand, the figure does not include any additional benefit cuts that might be enacted to address the solvency of the Social Security program.

With Social Security replacing a declining share of pre-retirement income, employer-sponsored retirement plans become increasingly important. Unfortunately, a snapshot of the labor force shows that less than half of private sector workers are participating in any form of plan, and this share has remained relatively constant over the last 30 years. In addition, most jobs do not last long, so many workers will move in and out of coverage.[1] As a result, while two-thirds of households will end up with some pension accumulations at retirement, those with intermittent coverage will often have only small balances. And the one-third of households that have no 401(k) assets will be forced to rely only on Social Security.

For those lucky enough to work for an employer providing a pension, the nature of employer-sponsored plans has changed dramatically over the last 30 years. Whereas, in the early 1980s, most workers were covered by a defined benefit plan, today most workers have a 401(k) as their primary or only plan (see Figure 1).[2] In theory, workers should be able to accumulate substantial balances in 401(k)s, but many workers fail to sign up for their 401(k) and many of those who do participate contribute only small amounts, fail to diversify, and cash out balances when they change jobs. In 2007, with the stock market at its peak, 401(k)/IRA balances for the typical household approaching retirement (age 55-64) amounted to only $118,000, according to the Federal Reserve's *Survey of Consumer Finances* (SCF). IRAs are included because their balances consist largely of rollovers from employer-sponsored plans.

The third component of the retirement income system, at least in theory, is individual saving – saving over and above that done through the workplace. But, in fact, virtually all of workers' saving occurs in pension plans. In 2007 – a good year – the typical household approaching retirement had only $29,600 of financial assets outside of retirement saving (Munnell 2012; Munnell, Muldoon, and Golub-Sass 2009).

Another indicator that the retirement income picture is worsening over time is the stability in the relationship between wealth-to-income ratios and age (see Figure 2). This stability over the ten SCF surveys since 1983 has always been a source of concern, given that the world has changed in four important ways: longevity increased, health care costs rose, interest rates plummeted, and employer-sponsored plans shifted from defined benefit, where accrued benefits are not measured in the SCF, to 401(k)s, where plan assets are included. Each of these changes would have been expected to lead to higher wealth-to-income ratios if people were aiming to preserve their standard of living in retirement. Instead, the pattern of wealth accumulation has remained virtually unchanged.

In short, before the financial crisis older Americans were already in a squeeze. Then, the financial crisis hit.

The Impact of the Collapse in Equity Prices on Retirement Plans

The financial crisis had a large and immediate impact on retirement plans. Between the peak of the stock market on October 9, 2007 and March 2009, equity prices fell 50 percent. In private sector defined benefit plans, participants were sheltered from the impact of losses; plan sponsors faced large increases in contributions.[3] In the public sector, where defined benefit plans dominate, the use of a five-year moving average for valuing assets meant that required increases were phased in gradually.

In the case of 401(k) plans, participants took a direct hit. Individuals saw the value of equities in their 401(k) plans or IRAs decline by $2.8 trillion. In 2010 (the last year for which SCF data are available), despite a partial recovery in the stock market, combined 401(k)/IRA balances of households approaching retirement (55-64) were only $120,000. This amount was virtually unchanged from 2007 despite the likelihood those 55-64 have spent more of their working life covered by a 401(k) plan than previous cohorts.

By 2013 – the date of this writing – the stock market had returned to its previous peaks. This development will certainly increase 401(k) balances. But as shown in Figure 3, older workers have essentially experienced six years (2007-2013) of no return on their equity investments.

Interest Rates Also Plummeted

Focusing solely on 401(k) balances fails to account for the decline in interest rates that accompanied the Great Recession as investors bid up the prices of safe assets and the Federal Reserve undertook stimulative monetary policy. Real interest rates – measured by the ten-year Treasury bond rate minus anticipated ten-year inflation for 1990-2004 and, thereafter, the ten-year rate for Treasury Inflation Protected Securities (TIPS) – declined from about 2.5 percent in 2006 to below 1 percent in 2010 and now may be negative.

Of course, bond prices rise when interest rates fall, which benefits those who sell and consume the proceeds, but this phenomenon does not benefit investors. If they hold their bonds to maturity, they will not benefit from the price change and will be forced to reinvest the proceeds at a lower interest rate. If they sell bonds prior to maturity, the capital gain is precisely offset by a reduction in the interest they will earn on any replacement bonds.

A study by Kopcke and Webb (2012) looked at the combined impact of the decline in equity prices and the fall in interest rates on the financial wealth, current income, and lifetime consumption of older households. The analysis consisted of three parts: the impact on wealth, the effect of interest rate decline, and an assessment of the overall impact including Social Security and defined benefit pensions.

Financial wealth is highly unequally distributed. Households in the bottom two quintiles held almost no stock investments and few financial assets, so they were largely unscathed by the market meltdown. Those in the top three quintiles lost 5, 7, and 9 percent of their wealth, respectively, from October 2007 through September 2011. Although these declines appear relatively modest, they reflect a substantial shortfall relative to expectations of a continued increase in stock prices.

In addition, investment income declined as interest rates on short-term deposits fell close to zero and workers were forced to reinvest money from maturing bonds at lower rates. Households in the middle of the wealth distribution – who typically hold more of their assets in short-term deposits – saw large declines in interest income and significant declines in total income. The wealthy were somewhat protected because they held much of their assets in stocks, and dividends were relatively unaffected.

Adding Social Security benefits and income from defined benefit plans to project lifetime consumption shows that, under alternative scenarios of future returns and possible responses on the part of households, the bottom 40 percent (because they had little financial wealth) and the top 5 percent (because they could live off dividend income and wait for equity values to rebound) were relatively unaffected. In contrast, the financial crisis had a significant effect on two types of older households: those life-cycle savers who had planned to decumulate equity holdings to support themselves in retirement and those households that had planned to use the income from short-term deposits to supplement Social Security.

The main point of this study for the broader discussion is that the decline in interest rates – as well as the decline in equity values – had an important negative effect on the retirement income of a number of households.

A Broader Definition of Retirement Assets

The 401(k)/financial asset story – even recognizing the impact of lower rates – does not provide a full picture of how the financial crisis and recession affected the retirement prospects for older workers, because households have other forms of wealth available for support in retirement. In the Kopcke-Webb study discussed above, Social Security and defined benefit plans moderated the declines in lifetime consumption. Housing is also available, although to date most households have tended not to draw down housing equity until very late in life, and many leave the house as a bequest.[4]

The *Health and Retirement Study* (HRS) follows households over time, making it possible to look at the total wealth of the same households before the financial crisis (2006) and after (2010). Between the 2006 and the 2010 HRS, average total wealth of the Early Boomer households declined by 2.8 percent in inflation-adjusted terms (Gustman, Steinmeier, and Tabatabai 2011) (see Table 1). Financial assets both in defined contribution plans and IRAs and outside retirement accounts were higher in 2010 than in 2006, housing and other property wealth were down about 20 percent, and the present discounted value of promised benefits under Social Security and other defined benefit plans was roughly unchanged.

Gustman, Steinmeier, and Tabatabai (2011) characterize the 2.8 percent decline in total assets as modest. While 2.8 percent indeed sounds like a modest amount, the decline needs to be considered against a counterfactual. That is, what would have happened to wealth in the absence of the financial crisis? The Gustman et al. benchmark is the amount that members of older cohorts accumulated over the same age span. The average wealth of the original HRS cohort increased by 7.4 percent between 1994 and 1998 and that of the War Babies increased by 3.2 percent between 2000 and 2004. So in the absence of the financial crisis wealth might have gone up about 5.4 percent, and was instead down by 2.8 percent – an 8.2 percentage point difference. Moreover, the difference between actual and expected 401(k) balances was larger. And, as discussed above, focusing solely on wealth ignores the effects of lower interest rates.

A Comprehensive Measure of the Impact of the Financial Crisis on Retirement Security

A full assessment of the impact of the financial crisis and ensuing recession on retirement security requires a comprehensive measure of wealth and income. The Center for Retirement Research has constructed a National Retirement Risk Index (NRRI), which shows the share of working households who are "at risk" of being unable to maintain their pre-retirement standard of living in retirement. The Index compares projected replacement rates – retirement income as a percent of pre-retirement income – for today's working households with target rates that would allow them to maintain their living standard and calculates the percent at risk of falling short. The calculations assume that workers retire at 65 and annuitize all their wealth including the proceeds of a reverse mortgage on their house.[5] The NRRI is constructed using the Federal Reserve's *Survey of Consumer Finances* (SCF).

As noted above, despite the importance of the house, to date it has rarely been considered a source of income in retirement. The rationale for excluding housing equity is that, in the absence of a precipitating event such as the death of a spouse or entry of a family member into a nursing home, most households continue to own their own home well into their eighties. Even when a shock occurs, selling the house is still a rare event. But the future might be quite different; housing equity is likely to become an increasingly important source of support as retirement needs rise and the retirement income system contracts. Thus, while changes in house prices are not relevant if people are buying and selling, they are relevant if home equity is to be an important component of retirement income. This assessment differs significantly from that offered by Gustman, Steinmeier, and Tabatabai (2011), who assert that the housing collapse was not a serious concern since few older households were underwater and in danger of foreclosure.

The Results. Between 2007 and 2010, the NRRI rose from 44 percent to 53 percent (see Table 2). Those in the bottom third experienced the smallest increase, mainly because they rarely hold equities and rely primarily on Social Security benefits, which were unaffected by the financial collapse.

In short, the NRRI suggests that the financial crisis, the decline in housing values, and the decline in interest rates that occurred as a result of the crisis led to a significant increase in the percent of today's working families that are at risk of not being able to maintain their pre-retirement consumption once they stop working. The NRRI, however, is based on 2010 data, and by 2013 – the date of the next SCF – the stock market had fully recovered. Thus, the next update will show an improved picture, but households who held a portfolio of equities between

2007 and 2013 had earned zero returns. It will take considerable gains in the future to make up for these foregone earnings.

Conclusion

The impact of the financial crisis on wealth depends very much on the definition adopted. On the one hand, the HRS shows that the real value of wealth, defined broadly, dropped by only 2.8 percent between 2006 and 2010. On the other hand, some people right after the crash likened its impact to 9/11 (Munnell, Coe, Haverstick, and Sass 2012). The actual impact clearly falls between these two extremes. Any decline must be compared to a counterfactual – what did pre-retirees have a right to expect before the crisis? Previous cohorts saw their wealth increase by an average of 5.4 percent, leaving wealth more than 8 percent below where it might have been. At the same time, interest rates plummeted so that returns on short-term deposits are close to zero and bond holders forced to reinvest money from maturing bonds face very low rates. If people buy annuities, they get much less for their money. Housing prices also collapsed, reducing a safety valve that many may need going forward. The good news is that Social Security and defined benefit plans cushioned the blow. Nevertheless, the increase in the NRRI from 44 percent in 2007 to 53 percent in 2010 suggests that the financial crisis seriously increased an already high level of risk among today's working families.

III. Labor Market Activity of Older Workers

The previous section argues that older workers experienced a significant decline in retirement resources as a result of the financial collapse and ensuing recession. Given that decline, older workers had only three options: save more, work longer, or live on less in retirement. For the many Americans under-prepared for retirement even before the Great Recession, the most common response was to work longer.

Before the Great Recession

Over most of the twentieth century, the working career of the average American man grew progressively shorter (Munnell 2011). The proportion of American men working past age 55 fell steadily, particularly after the introduction of Social Security retirement benefits in 1940 and Medicare health insurance coverage in 1965. But this downward trajectory slowed around the mid-1980s, before gradually increasing in the last decade; the labor force participation rate for 55-plus men increased from a low of 65.7 percent in 2000 to 70.5 percent in 2008. Meanwhile, as the women who spent increasing amounts of their primes in the labor force grew older, they became increasingly likely to work at older ages as well: the labor force participation increased from 41.6 percent in 1980 to 59.5 percent in 2008. As a result, the average retirement age increased from 62 in 1985 to 64 in 2008 for men, and from 57 in 1985 to 62 in 2008 for women.

Why did the proportion of Americans working longer increase? Munnell (2011) suggests that Social Security policy changes that made work more attractive, most notably the increase in the Full Retirement Age, were partly responsible. The nature of the employer-employee relationship also changed. Jobs became less physically demanding and more accommodating to alternative scheduling. Meanwhile, retiree health insurance became less common and pensions shifted from defined benefit to defined contribution, which left workers more at risk and inclined to keep working. In addition, recent cohorts of older workers are better educated, healthier, expect to live longer, and are more likely to have to coordinate retirement with a working spouse than previous cohorts, all factors associated with working longer.

Not surprisingly, the increase in labor force participation at older ages is also associated with delays in claiming Social Security retirement benefits. The proportion that claimed Social Security benefits at earliest eligibility – age 62 – declined from 51 percent in 1995 to 38 percent in 2007 (Rutledge and Coe 2012).

The Financial Collapse and Retirement Intentions

The bursting of the housing bubble and the ensuing financial collapse diminished the funds available to support one's lifestyle in retirement. To compensate, savings would need to increase, retirement consumption would need to decline, or careers would have to lengthen. Initial surveys indicated the latter option was most attractive to older households. The Employee Benefits Research Institute (EBRI) reported that between 2006 and 2011, the proportion expecting to retire before age 65 decreased from 33 percent to 23 percent (Helman, Copeland, and VanDerhei 2011). Another survey by the Center for Retirement Research at Boston College found that 40 percent of workers age 45-59 with substantial retirement assets planned to work longer (Coe and Haverstick 2010).

Estimates from previous recessions, however, found that retirement ages increase only modestly, and often not at all (Gustman and Steinmeier 2002). But the first academic studies to examine retirement responses to the Great Recession find stronger correlations between financial markets and expected retirement age than in previous downturns. These studies suggest that retirement intentions are responding not to the stock market decline *per se*; instead, both the increase in planned retirement ages and the stock market decline reflect pessimism about the economy (Goda, Shoven, and Slavov 2011; McFall 2011).

But planned increases in the age at which people retire have not resulted in actual increases in the average age at retirement. In fact, that same EBRI study points out that many people retired *earlier* than they had planned.

Joblessness After Age 55

Why didn't intentions to work longer become reality? Many individuals who feared having to retire later encountered an even more acute reality: job loss. In previous recessions, older workers were largely shielded from job loss, because firms were reluctant to lay off long-tenured workers in whom they were heavily invested. As a result, the unemployment rate increase for workers 55 and older was much less than for prime-age workers in the recessions of the 1970s and 1980s (Figure 4). But declining tenure, together with increasing layoff risk for higher-educated or unionized employees, have led to increased rates of job loss for older workers in more recent recessions (Munnell, Muldoon, and Sass 2009).

Accordingly, the unemployment rate among older workers reached levels not seen in previous recessions. In the 1990-91 recession, the unemployment rate among those 55 and older peaked at 5.0 percent. In the 2001-03 recession, the 55-plus unemployment rate never exceeded 4.3 percent. Between mid-2008 and the end of 2009, however, the 55-plus unemployment rate soared from 3.2 percent to 7.1 percent. A record 14 percent of workers over 50 experienced a job loss at some point between 2007 and 2009; the previous high (since 1983) was just over 10 percent (Farber 2011).

The duration of jobless spells is also without precedent. At the onset of the recession, the median duration of unemployment for workers of all ages was 8.3 weeks; by March 2012, the median spell had increased to 22.3 weeks (U.S. Bureau of Labor Statistics 2012b). Workers age 55 to 64 have more difficulty finding re-employment under normal circumstances, especially after losing a long-tenured job (Valetta 1991; Johnson and Mommaerts 2011), so their median duration was 10.8 weeks in December 2007. But their median duration increased far more than any other age group, peaking at 38.4 weeks. The increase in jobless duration mirrors the difficulty that older workers had finding re-employment relative to their prime-age counterparts. Johnson and Butrica (2012) find that younger workers found a new job much quicker than older workers: 18 months after job loss, better than three-quarters of those under 50 were re-employed, compared to only 65 percent of those age 50 to 61 and 41 percent of those age 62 or older.

Though job prospects were poor, older people held fast; in fact, the labor force participation rate actually increased by more than a percentage point for both men and women 55 and older.[6] This differs from pre-2000 recessions, when this rate invariably fell (Figure 5). Lacking the ability to fall back on defined benefit pensions, today's out-of-work older individual does not have the luxury of retiring early in a weak labor market.

Falling Back on Social Security Programs

But some individuals had an escape hatch: Social Security benefits. A record 3.2 million beneficiaries began receiving Social Security retirement benefits in 2009; though some of this was due to the first cohorts of Baby Boomers reaching their eligibility age, the take-up rate among 62-year-olds was up four percentage points from just two years earlier (Johnson and Mommaerts 2010).

Claiming Social Security benefits plugs a hole in a family's budget, but an actuarial adjustment reduces benefits the earlier one claims. Rutledge and Coe (2012) find that early claiming induced by the Great Recession cost beneficiaries $56 per month, about five percent of their monthly benefit. Though this hit to a retiree's fixed income can be painful, the good news is that more vulnerable groups – racial and ethnic minorities, or those with low income, low wealth, or less than a college degree – were no more likely to move up their Social Security claiming than the less vulnerable.

In addition, nearly 3 million applications to Social Security Disability Insurance were filed in 2010, an all-time high. Applications to disability programs typically increase with the unemployment rate (Rupp and Stapleton 1995). If the jobless were able to get new jobs quickly, then waiting for a disability application would carry a substantial opportunity cost; instead, because jobless spells were interminably long, many younger, higher income workers applied because they had no better option (Coe and Rutledge 2013).

After the Great Recession

Those who successfully obtain Social Security benefits have locked in their income level, albeit a low one. Jobless individuals who stay in the labor force have a chance to compensate for their losses, but only if they can withstand the "scarring" effects of job loss. Earnings in a new job tend to be lower than the pre-displacement job, even five years after job loss (Couch and Placzek 2010). The wounds from a job loss are even deeper for older workers: men over 50 earn as much as 50 percent less than their pre-displacement earnings in their first year at a new job, and even six years later, their earnings remain one-quarter below their previous level (Chan and Stevens 1999, 2004). Initial estimates from this recession indicate that the recently re-employed face more pronounced earnings losses – 17 to 23 percent – than history would indicate (Farber 2011; Johnson and Butrica 2012). In addition, new jobs are less likely to offer employer-sponsored pension and health benefits (Johnson and Kawachi 2007). These losses likely will result in less saving, more exposure to risk, and lower incomes in retirement (Coile and Levine 2011; Butrica, Johnson, and Smith 2011).

Looking longer term, historical estimates suggest that displaced workers' earnings and job stability will never fully recover: those who experienced layoffs during the early 1980s recession had 20 percent lower earnings two decades later (Von Wachter, Song, and Manchester 2009). Much of the persistence of earnings losses can be explained by multiple job losses: once a worker loses his job, subsequent job losses become more likely (Stevens 1997).

Another concern for aging workers is that the stress of job insecurity and financial losses could worsen health. A number of studies find that, perhaps counterinuitively, recessions lead to decreasing mortality in the short run, due primarily to better nursing home staffing (Ruhm 2000; Stevens et al. 2011). But over the long run, late-career displacement and higher unemployment rates in one's 50s are both associated with higher mortality rates decades later (Sullivan and von Wachter 2009; Coile, Levine, and McKnight 2012). Additionally, because of widespread loss of health insurance coverage, unmet health needs may accumulate and make health problems worse, especially for those with chronic conditions (Cawley, Moriya, and Simon 2011).

Conclusion

In most respects, younger cohorts have fared worse than older people in the Great Recession. As in all previous recessions, younger workers have been more likely than older workers to experience jobless spells. Because they are less experienced, they also face more uncertainty about income sources: a lower likelihood of qualifying for unemployment insurance or Social Security Disability Insurance, and less available in pension and savings account to bridge the gap between jobs. What has made recent experience unique is the degree to which older cohorts have shared in the suffering. Once protected by long tenures, instead older workers saw unprecedented layoffs. Needing to stay in the workforce to counter insufficient retirement income prospects, especially after the financial crash, older workers were less likely to give up the job search. Factoring in the disadvantage older job seekers have always had in finding re-employment, as well as the increasing cost to supplying health insurance to workers short of Medicare eligibility, the result has been record unemployment rates and interminable jobless spells. When new jobs failed to materialize, those eligible for Social Security accelerated their claiming, while others applied for disability benefits, locking in relatively low income. But those who lost their jobs and remain in the labor force also face persistent earnings losses, which will make it more difficult to save for retirement.

V. Conclusion

The Great Recession has had a profound effect on the retirement security of older Americans, and the slow recovery from the downturn – among older workers in particular – will likely have a lasting impact on their quality of life. At a time when older households should have been insulated from the negative effects of the downturn, the nature of today's retirement system left them exposed to declines in the value of equities and real estate. The asset market collapse led many workers to plan for a later retirement, only to find that the labor market did not accommodate these plans. Many more late-career workers experienced job loss than in previous downturns, and those jobless spells lasted longer than ever before, encouraging record numbers to lock in low incomes from early Social Security claims or disability benefits.

The long-term prognosis is even more of a concern. Those who lost a job face the possibility of permanently lower earnings, less generous retirement and health benefits in a new job, and a higher probability of another layoff should the recovery take a turn for the worse. Even those who retained their jobs or retired on their own terms will be hurt; persistently low interest rates make living off one's savings difficult, and the collapse of home values mean that less equity will be available to make up for shortfalls in retirement accounts. And economy-related stress, as well as inconsistent health insurance coverage, may shorten lives.

This depressing assessment suggests two things. First, policymakers should be very careful about cutting back on Social Security. Social Security retirement benefits not only muted the impact of collapsing asset prices and interest rates on retirement consumption but also served as an escape valve for older workers who could not find jobs, and Social Security disability benefits acted as a backstop for impaired workers forced out of the labor force. Second, this country needs a bigger and more robust retirement income system. With declining Social Security replacement rates, inadequate and vulnerable 401(k) balances, and little saving outside employer-sponsored plans, the retirement security of older workers was in danger even before the financial collapse and onset of the Great Recession. These events merely highlighted the fragility of current arrangements. In other words, the blow to retirement security was an accident waiting to happen.

[1] Median job tenure for those 25 and older is only 5 years (U.S. Bureau of Labor Statistics 2012a).
[2] When 401(k) plans began to spread rapidly in the 1980s, they were viewed mainly as supplements to employer-funded pension and profit-sharing plans. Since 401(k) participants were presumed to have their basic retirement income needs covered by an employer-funded defined benefit plans and Social Security, they were given substantial discretion over 401(k) choices.
[3] Congress relieved some of the pressure in December 2008, by easing the transition rules for plans that fail to meet their funding targets.
[4] Venti and Wise (2004) have carefully documented the pattern of housing equity as households age using the *Health and Retirement Study*.
[5] Under a reverse mortgage, a homeowner borrows against the equity in his house and receives money from a lender. Unlike a home equity loan, no loan payments or interest are due until the individual dies, moves out, or sells the house. The one form of potential income that is not included in the Index is income from work, since labor force participation declines rapidly as people age.
[6] This increase was concentrated among workers not yet eligible for Social Security retirement benefits, as half of the unemployed after age 62 between 2008 and 2011 left the labor force in the first nine months after job loss (Johnson and Butrica 2012).

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Table 1. *Wealth in 2006 and 2010 for Early Boomers, 2010 dollars*

Asset	2006	2010	Ratio 2010/2006
Financial assets			
DC	$ 70	$ 77	1.10
IRA	58	87	1.50
Financial assets	78	84	1.08
Real assets			
Net house value	167	128	0.77
Real estate	35	26	0.74
Business assets	38	31	0.82
Net value of vehicles	20	17	0.85
Defined benefit assets			
DB pensions	150	141	0.94
Social Security	256	256	1.00
Total	$ 871	$ 847	0.97

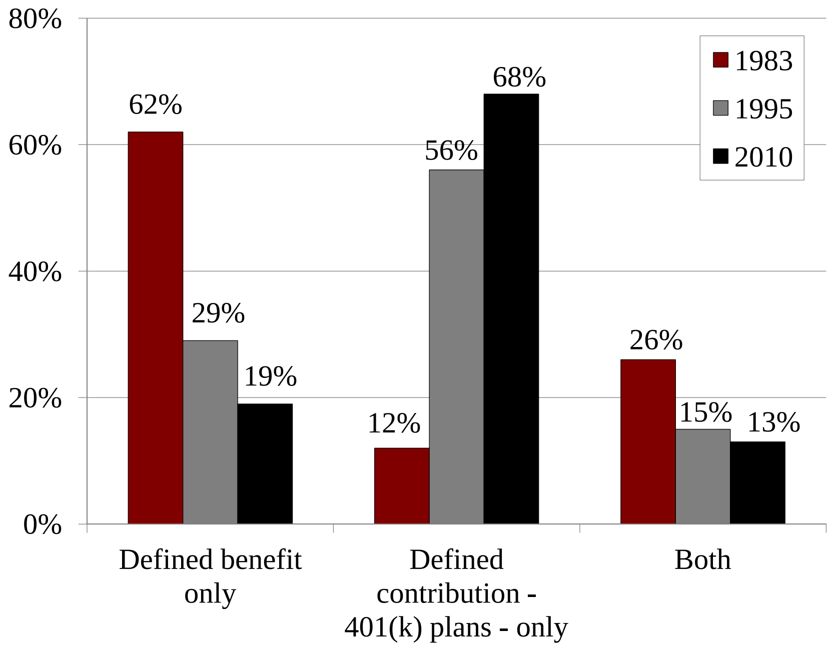
Source: Gustman, Steinmeier, and Tabatabai (2011)

Table 2. *Percentage of Households "At Risk" at Age 65 by Age and Income Groups, 2007 and 2010*

	2007	2010
Age group		
All	44 %	53 %
30-39	53	62
40-49	47	55
50-59	32	44
Income group		
All	44 %	53 %
Low income	54	61
Middle income	43	54
High income	35	44

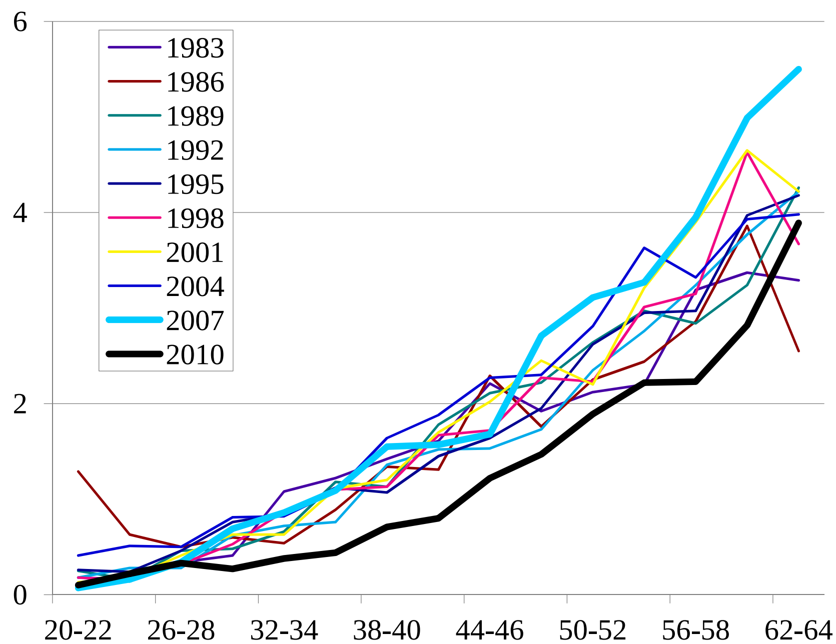
Source: Munnell, Webb, and Golub-Sass (2012).

Figure 1. Workers with Pension Coverage by Type of Plan, 1983, 1995, and 2010



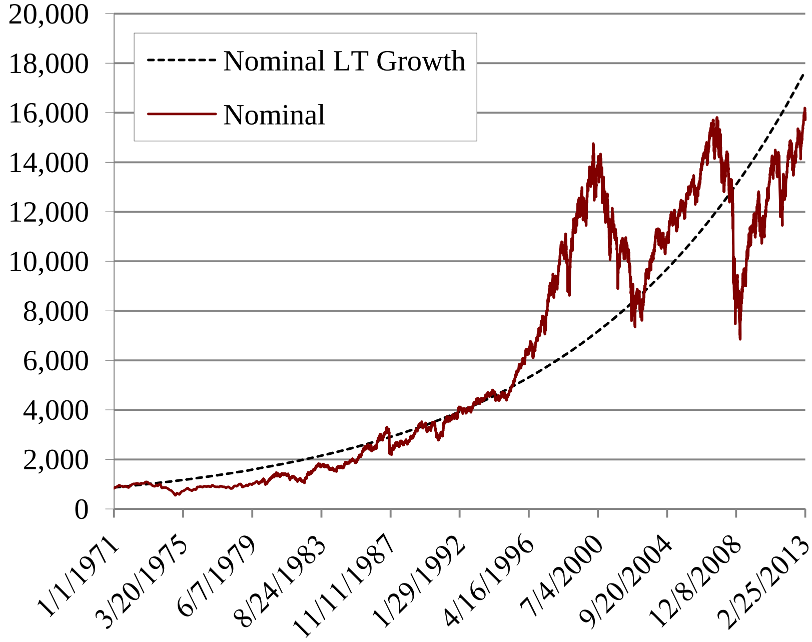
Source: Munnell (2012).

Figure 2. *Ratio of Wealth to Income by Age from the Surveys of Consumer Finances, 1983-2010*



Source: Munnell, Webb, and Golub-Sass (2012).

Figure 3. *Dow Jones Wilshire 5000 Index vs. Long Run Expected Returns, 1971-Present*



Sources: Morningstar Inc.; Wilshire Associates; and U.S. Bureau of Labor Statistics Consumer Price Index.

Figure 4a. *Change in Unemployment Rate in Recent Recessions, Men Aged 25-54 and 55 and Older*

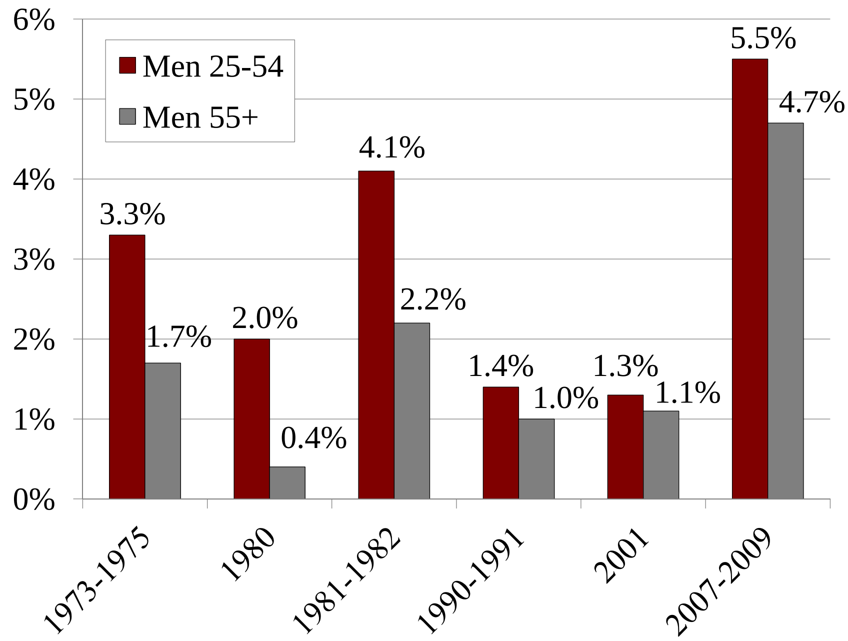
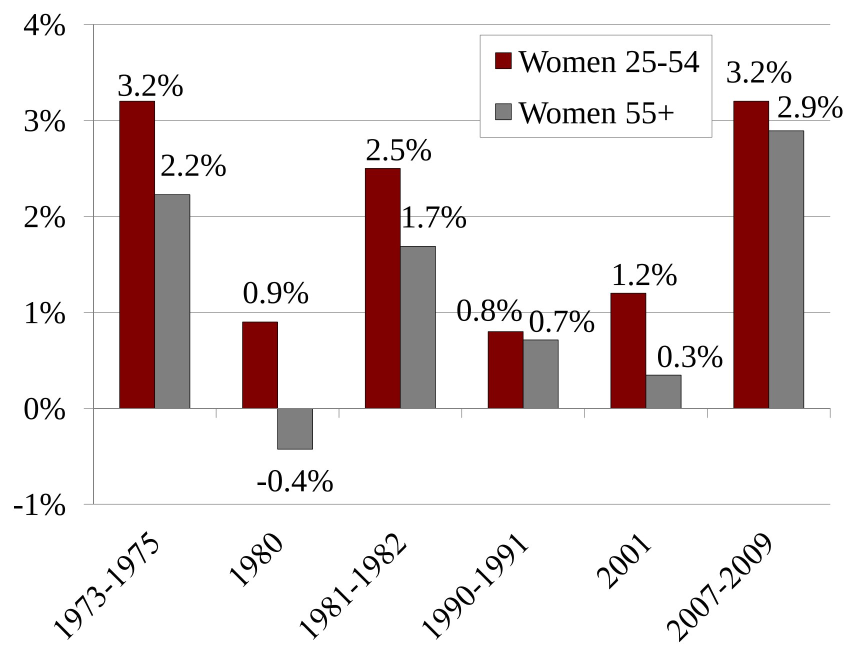


Figure 4b. *Change in Unemployment Rate in Recent Recessions, Women Aged 25-54 and 55 and Older*



Source: U.S. Bureau of Labor Statistics

Figure 5a. *Change in Labor Force Participation Rate in Recent Recessions, Men Aged 25-54 and 55 and Older*

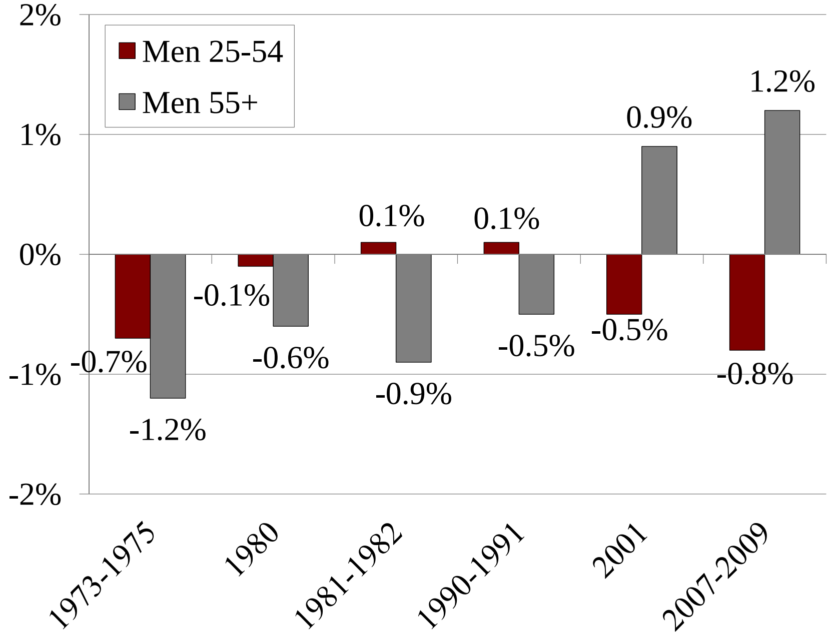
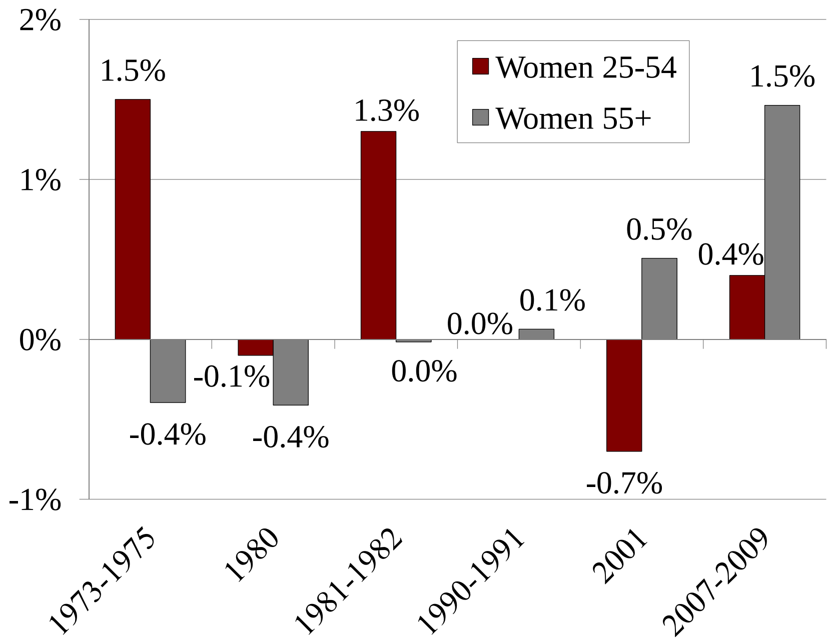


Figure 5b. *Change in Labor Force Participation Rate in Recent Recessions, Women Aged 25-54 and 55 and Older*



Source: U.S. Bureau of Labor Statistics