

Making Downward Mobility Worse: Covid-19 and Older Workers' Employment and Retirement Security

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Using data from 2020 wave of the Health and Retirement Study (HRS) and the Current Population Survey (CPS), this study explores the effects of Covid-19 pandemic and recession on older workers' employment, retirement readiness, and risk of downward mobility in retirement.

I use the monthly CPS data on employment and retirement of older workers; and the panel structure of the HRS with its rich data on wealth and employment; and the special Covid-19 related questions included in 2020 HRS (Wave 15) to answer three key questions about the possible effects of the Covid-19 pandemic and recession on older workers and near-retirees. They are: 1) Did older workers left the labor force as a part of "the great resignation"? I show that very few workers quit their jobs voluntarily, and most job separations during the pandemic were in fact involuntary; 2) Did older workers who experienced job loss during the pandemic retire because they were financially prepared for retirement? I show they did not. Early retirement due to the unfavorable labor market and health risks at the time put these workers at high risks of downward mobility, living a significantly lower incomes for the rest of their lives; 3) Did older worker who quit their jobs, did so because they had enough to live comfortably in retirement? I find that workers who quit did not have adequate retirement assets and their decision is more likely to be based on their health status and vulnerability during the pandemic.

My research complements the research after the 2008 Financial Crisis and the Great Recession, that showed job loss and asset price fluctuations significantly harmed older workers' employment and retirement savings (Munnell and Rutledge 2013, Butrica, Johnson and Smith 2011, Gustman, Steinmeier and Tabatabai 2011).

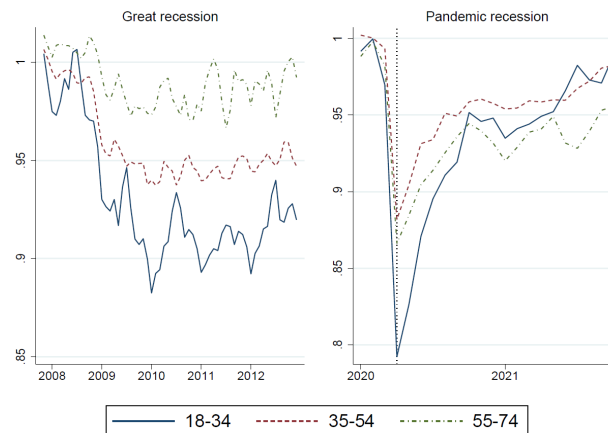
Over the past 25 years, the share of older workers in the labor force has increased from 12% in 1996 to 24% in 2021.¹ Three factors contributed to the aging of the labor force: demographic change and aging of Baby-boomers, gains in longevity that allow for a longer and healthier working life, and a systemic lack of retirement preparedness (Davis, Radpour and Ghilarducci 2020). One of the main policy responses to the aging workforce and lack of retirement assets has been increasing workers' retirement age, which is claimed to be an effective solution to these workers' lack of retirement readiness (Bronschtein, et al. 2019, Munnell and Sass 2008). Postponing retirement and working longer can, in theory, provide older workers with income and more opportunities to save for retirement and prevent the labor force from shrinking because of the population aging and retirement.

The optimistic outcome is limited by the reality of the labor market because many older workers who want or need to work longer lose their jobs and leave the labor force because of factors beyond their control (Davis, Radpour and Ghilarducci 2020, Johnson and Gosselin 2018, Munnell, Sanzenbacher and Rutledge 2018, Coile and Levine 2007). Low-income workers, who are less likely have access to retirement plans at work and suffer from lack of retirement assets, are also more exposed to employment and health shocks (Ghilarducci, Radpour and Webb 2019). As a result, increasing retirement age has exacerbated existing inequalities in retirement. (Quinby and Wettstein 2021). Displaced older workers spend more time

¹ U.S. Bureau of Labor Statistics, Employment Level [CE16OV], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/CE16OV>, January 19, 2022.

unemployed than their younger counterparts and experience greater wage losses when they become reemployed (Johnson and Mommaerts 2011, Munnell, Sass, et al. 2006). Households that experience loss of earnings and increased number of years in retirement experience significant drops in consumption in retirement (Ozturk and Gallo 2013, Hurst 2008, Haider and Stephens 2007, Hurd and Rohwedder 2006).

Figure 1: Effects of Great Recession and Covid-19 Pandemic on employment rates by age groups



Note: Employment-population ratios for each age group and time period are indexed to their full-year average for the calendar year prior to the recession (2007 and 2019 for Great Recession and Covid-19 recession, respectively). Not seasonally adjusted.

Source: (Davis 2021)

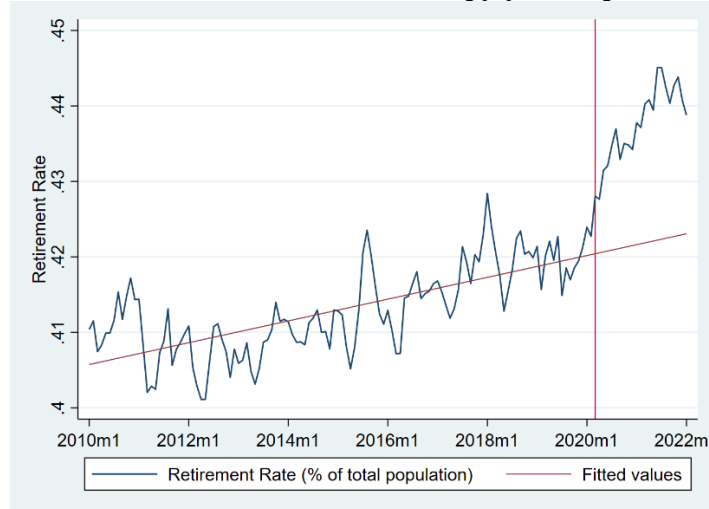
Retirement trends before and after the pandemic and the estimations of pandemic excess retirement

The Covid-19 pandemic had a devastating effect on peoples' lives and livelihoods. but disproportionately affected older Americans. Older workers ages 55 and over, who were typically protected by their seniority against previous labor market fluctuations, experienced a larger surge in unemployment compared to mid-career workers ages 35 to 54 (Davis, Ghilarducci, et al. 2020). After the initial shock of the pandemic and re-opening of the economy, older workers experienced a slower recovery compared to younger and mid-career workers, with employment levels well below the pracademic peak (Figure 1).

Starting from May 2020, the retirement rate among older workers increased significantly compared to the pre-pandemic rates (Figure 2). Comparing the current retirement rates with a simple extrapolation of

the 2010-2019 trend puts the number of pandemic-induced excess retirement for older workers ages 55 to 79 at about 1.35 million people in January 2022.

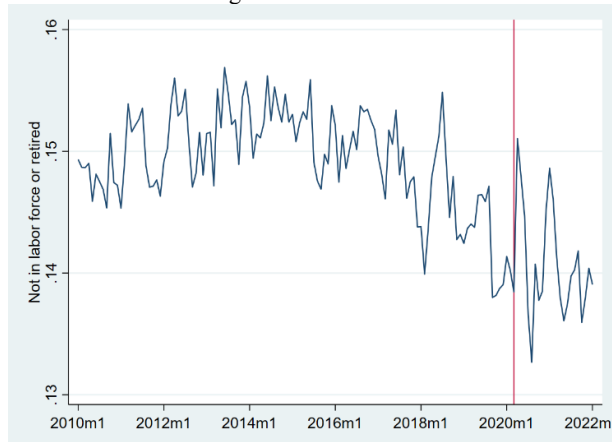
Figure 2: Retirement rates between 2010-2022 among population ages 55-79



Source: Author’s calculations based on the CPS data.

The upward trend in retirement rate is a product of several opposing factors: population aging, increases in longevity and Social Security’s Full Retirement Age (FRA), continuous economic recovery after the Great Recession, and increase in women’s labor force participation that led to a decline in “homemakers” and an increase in “retirees” during this period (Figure 3).

Figure 3. Share of older women ages 55-79 who are not in the labor force or retired.



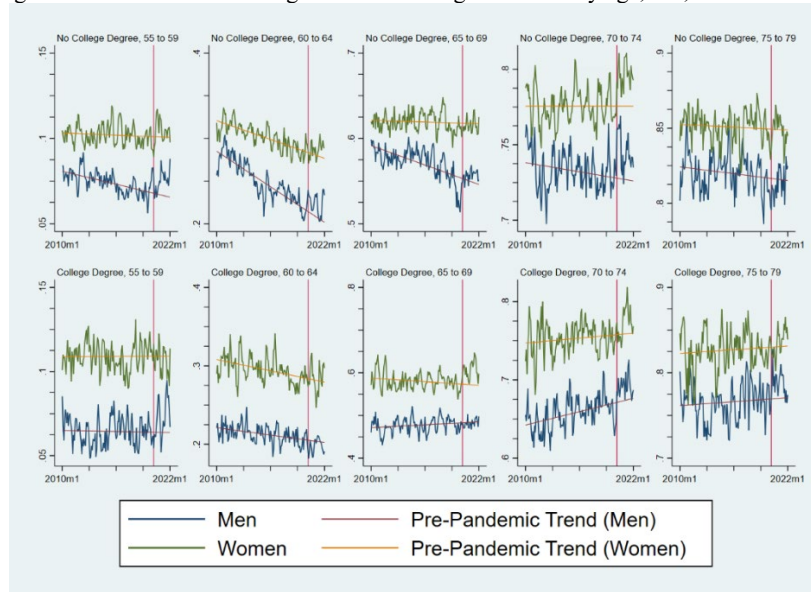
Source: Author’s calculations based on CPS data.

As a result, the simple linear trend during 2010-2019 period masks some of the movements in retirement rates among older workers. The retirement rate, in fact, slightly decreased between 2010 and

2014, likely because of the initial recovery from the Great Recession. Starting from 2014, the retirement rate increased due to aging Baby Boomers reaching the retirement age and changing the overall demographic of the 55-79 population. However, despite the continuation of the aging trend, the increase in retirement rate slowed down during 2019, possibly because of the strong job market and raising wages that brought some older workers back from retirement to the labor force and delayed retirements.

Due to changes in retirement-rate trends prior to the pandemic, the choice of the period affects the slope of the projected trend and, therefore the choice of the period results in different estimations of excess retirements among older workers. For example, calculating the pre-pandemic trend from 2015 to 2019 reduces the projected excess retirement in January 2022 from about 1.35 million people to about 1.12 million. However, since many factors affect the overall retirement (demographic change, Social Security FRA, etc.) choosing the “correct” period for calculating the trend is arbitrary, especially since retirement factors affect different groups at different times.

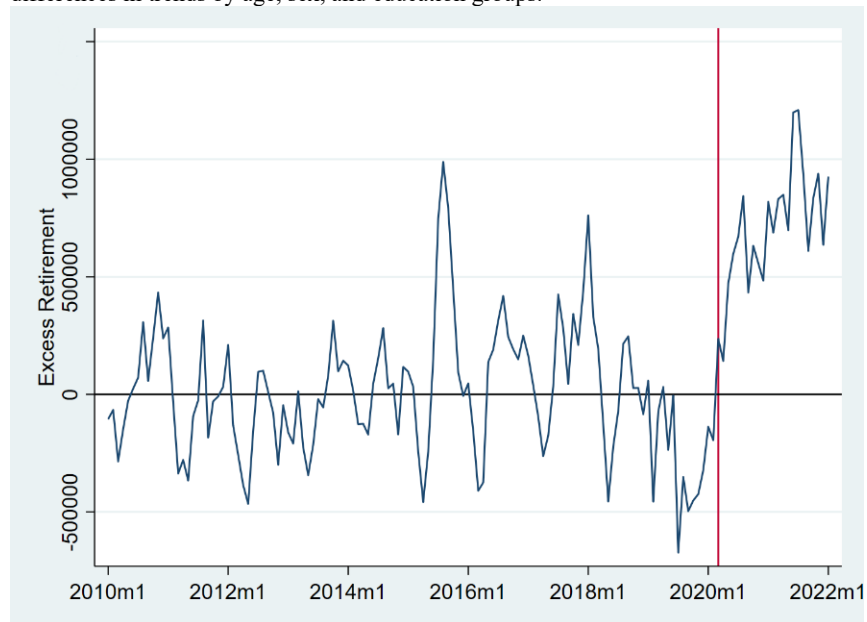
Figure 4. Changes in retirement rates among older workers ages 55 to 79 by age, sex, and education groups.



Source: Author’s calculations based on CPS data.

Figure 4 shows the trends in retirement rate among different subgroups of older workers by age, sex, and having a bachelor's degree (college degree). By controlling for the overall aging of older workers by breaking down the population ages 55-79 to smaller subgroups, the figure shows that the retirement rate for older workers was mostly trending downwards as workers increased their retirement ages. However, most of the increase in retirement age is happening among workers without a bachelor's degree, and college educated workers ages 60 to 64. Increases in the Social Security FRA is likely to be the main reason for this pattern among the groups that are most reliant on Social Security benefits in retirement. The graph also shows that retirement rates did not decrease for most older workers with a college degree, and even increased for college educated men ages 65 and over and college educated women ages 70 and over. Taking the differences in retirement rate trend shown in figure 4 in the estimation of Covid-19 pandemic excess retirement reduces the estimated number of pandemic induced retirement to 0.9 million workers (Figure 6).

Figure 5. Excess retirement among older workers ages 55 to 79 after controlling for differences in trends by age, sex, and education groups.

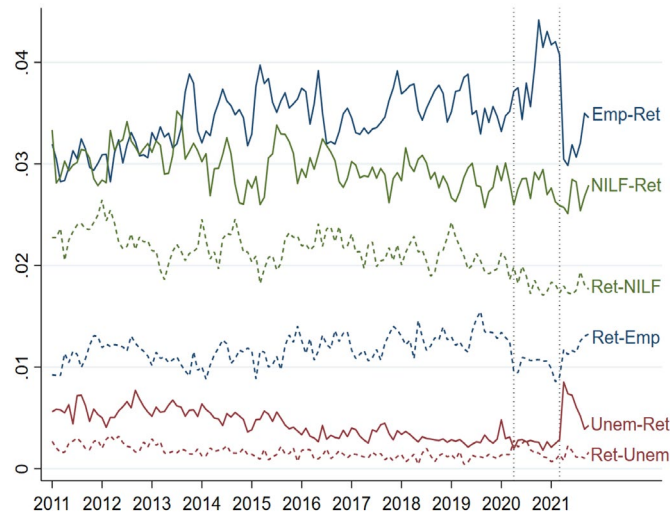


Source: Author's calculations based on CPS data.

What caused the pandemic retirement surge?

Regardless of the methods used estimating pandemic-induced excess retirement, the evidence points at significant increases in retirement during the pandemic. To understand the consequences of excess retirements, it is necessary to understand the reasons behind the increase in excess retirements. If older workers chose to retire because of sudden increases in their retirement assets and other sources of non-labor income, including higher unemployment benefits and stimulus payments, we would not expect any negative impact on their living standards in retirement. The drop in labor supply could be adverse, however, by contributing to a labor shortage. If the excess retirements were caused mostly by layoffs, long-term unemployment, and a drop in the labor demand for older workers, the effect on older workers would be adverse—they would be at higher risk of downward mobility caused by involuntary retirement but the effect on the labor force would be minimal. A third potential cause for excess retirement is health concerns that caused older workers and their employers to choose between health risks and financial risks. Older workers would reduce their labor supply and employers would increase wages to induce them to work.

Figure 6: Year-to-year retirement flows as a share of the 55+ population



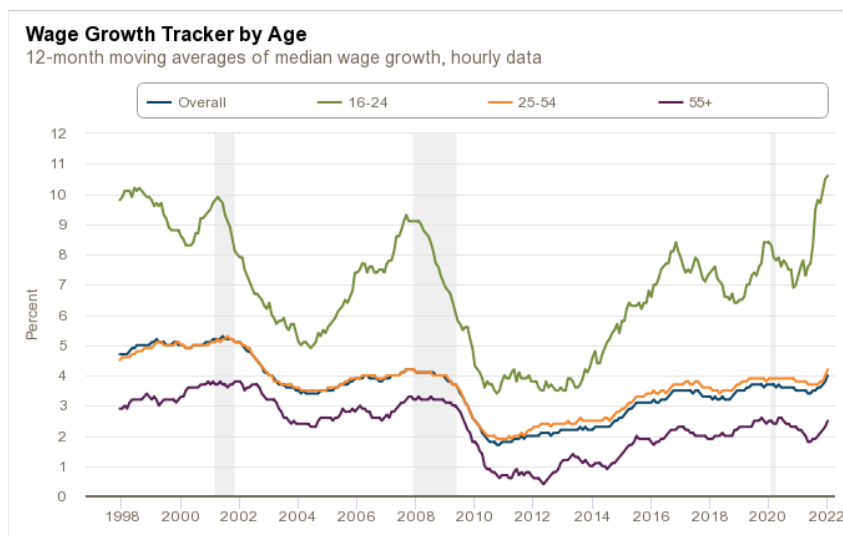
Note: Series show the share of the 55 and older population that undergoes the listed labor force transition between the reference month and the month one year prior. NILF refers to not in the labor force, not retired. Dotted lines are at April 2020 and March 2021.

Source: Davis and Radpour (2022)

Of course, the pandemic retirement surge is likely caused by three factors mentioned above as well as other reasons, including increases in caregiving responsibilities, sickness and poor health, changes in work environment such as increase in remote work and reliance on new technologies. Earlier studies suggest the main causes of excess retirement during the pandemic were high rates of job loss among older workers at the onset of the pandemic and low demand for their return to work. Davis and Radpour (2022) show that the large flows from unemployment to retirement during the pandemic were the main contributors to the excess retirement. The sharp increase in the share of population transiting to retirement in April 2022 from unemployment exactly a year before (April 2020) (shown by the solid red line in Figure 6) represent the growing lack of demand for older workers. In comparison, the percentage of population who transitioned to retirement in April 2021 from employment in April 2020 but retired during the year after that—people who remained employed during the peak unemployment in April 2020 but retired later—remains below the pre-pandemic rate (see the solid blue line in figure 6). Of course, the decline in retirement from employment does not mean that no one retired because of the pandemic, it suggests a larger share of workers decided to postpone their retirement compared to those who decided to retire earlier.

Another important piece of evidence pointing to the relatively weaker demand for older workers is the lack of wage growth among older workers and older mid-career workers who are their closest substitutions. Despite historically high inflation and strong wage growth for most worker (especially low-wage younger workers), wage growth for older workers remained below the pre-pandemic rates (see Figure 7). Note the lack of demand for older workers does not only mean that employers do not want to hire older workers likely due to age bias and a hesitancy to invest in training for them. The lack of demand for older workers also implies employers are not as interested in paying for older workers' skills, knowledge, and experience, which cannot be separated from demand for older workers.

Figure 7. Trends in wage growth among workers by age group



Source: Wage Growth Tracker, Federal Reserve Bank of Atlanta, Using data from CPS.

Who among older workers were affected by Covid-19 pandemic and recession how?

Previous studies using the CPS show higher pandemic unemployment rates among part-time workers (Bahn and Cumming 2020, Davis 2021). Similarly, most of the excess retirement during the pandemic is also caused by the early retirement of part-time workers, especially those working at low-wage jobs (Davis 2021). Part-time workers are much less likely to have access to retirement plans throughout their careers, and often have little to no retirement savings. A lack of data prevented previous studies to investigate the retirement preparedness of part-time workers and to discern if they chose to retire voluntarily or were involuntarily retired. In advancing the literature on involuntary retirement risk, I use panel data from two consecutive waves of the Health and Retirement Study (HRS) collected in 2018, and 2020. The 2018 HRS data provide the necessary information about older workers' retirement preparedness prior to the pandemic. Between May 2020 and May 2021, the 2020 HRS Covid-19 Project collected data of the effects of pandemic on a subset of the HRS respondents' health and employment. Since the sampling weights for the 2018 and 2020 waves of the HRS are not yet available, I further restrict the sample to those

respondents who were included in 2016, 2018, and 2020 waves, and responded to the pandemic related questions in the 2020 wave.

Table 1. How Covid-19 Pandemic affected older workers employment

Not affected	31.5%
Permanently laid off	2.1%
Temporarily laid off	18.3%
Quit job	0.5%
Other effects	47.6%
Had to change work days or hours (26.3%)	
Work became more risky or dangerous (18.7%)	
Work became harder (23.3%)	
Switched to working from home or working remotely (55.9%)	
Other changes (31.6%)	

Source: HRS 2020

Note: sample is restricted to older workers ages 55 to 75 who were employed at any point in the 12 months prior to the interview and said they were employed at the onset of the covid-19 pandemic.

Table 1 shows how older workers ages 55 to 75 who were employed at any point during the last 12 months prior to their interview and worked at the onset of the pandemic, answered the question about how their jobs were affected by the pandemic. Only less than a third of older workers said that their jobs were not affected by the pandemic. 20.9% of older workers reported that they had to completely stop working because of the pandemic. The majority of those who stopped working reported being temporarily laid off (18.3% of older workers), while only 2.1% lost their jobs permanently. Note that since the interviews including the Covid-19 related questions happened during the May 2020 to May 2021 period, some respondents answered the questions in the very early stages of the pandemic and recession, while some others answered the questions after the initial recovery and even the beginning of vaccination. Many of those who reported being temporarily laid off were never called back to their previous jobs during the recovery. The HRS numbers thus is reporting some job loss that became permanent, even before the final waves of interviews in 2021, as temporary job loss. Compared to the share of older workers who stopped working due to temporary or permanent job loss, a very small share of workers, less than 0.5 percent, quit

their jobs because of the pandemic. The overall impact of these quits on older workers and the labore force is rather small compared to job loss.

To identify the risk of downward mobility among older workers affected by the pandemic, I calculate household’s projected retirement income replacement, assuming that both spouses retire and claim Social Security at age 65. For workers older than 65, I calculate retirement income assuming their immediate retirement. For all households, I keep all income from non-labor sources except IRA withdrawals constant during the retirement. I use household Federal Poverty Levels (FPL) reported in RAND HRS longitudinal files, imputed based on respondents’ household structure, to calculate older workers 2018 poverty and near poverty status—if they live in households with incomes lower than 200% of FPL. I use Federal Poverty Levels for households only composed of one or two people ages 65 or over for calculating older workers future near poverty or poverty status in retirement.

Table 2 shows how the families of older workers whose job were affected (or not affected) during the pandemic, were fairing before the pandemic in 2018, as well as their risk of downward mobility in retirement at age 65. Compared to older workers who were laid off or quit their jobs, older workers who were no affected by the pandemic and those who were affected by did not stop working had higher median household incomes in 2018, were less likely to live in poverty or near poverty in 2018, and were less likely to have projected retirement income under 200% of FPL at age 65.

Table 2. Median income, near poverty status, and retirement poverty status of older workers in 2018 by their experienced pandemic employment effects

	Median household income (2018)	Share living in households in near poverty in 2018	Projected share in near poverty in retirement (2018 data)
Not affected	90,000	13%	28%
Temporarily laid off	75,300	16%	32%
Permanently laid off	88,600	13%	29%
Quit job	88,200	23%	39%
Other effects	111,600	6%	17%
All older workers	98,200	10%	24%

All groups of older workers faced significant risk of downward mobility into poverty or near poverty in retirement. Just under a quarter of older workers were projected to live in poverty or near poverty after retiring at age 65, an increase of 14 percentage points from the share of older workers living in poverty or near poverty in 2018. The workers without adequate retirement readiness had to rely on working longer, potentially beyond age 65, to make up for that. For these workers, job loss and involuntary retirement due to pandemic means even higher risks of downward mobility in retirement. In fact, older workers who were the least prepared for retirement were more likely to experience job loss during the pandemic.

Older workers who reported being temporarily laid off had the lowest median household income in 2018, the highest likelihood of living in poverty or near poverty in 2018, and the highest likelihood of living in poverty or near poverty in retirement. It is likely that these workers were working in industries with more insecure part-time and temporary jobs that are more often exposed to temporary layoffs during “normal” years. While older workers who experienced permanent job loss were slightly better off in terms of pre-pandemic household income and projected rates of near poverty, they had lower pre-pandemic household incomes and higher pre-pandemic near poverty rates and projected near poverty rates in retirement when compared to those who did not stop working during the pandemic.

Maybe the most surprising results are the pre-retirement household income, near poverty rate, and projected near poverty rate in retirement for older workers who quit their job because of the pandemic. Unlike the popular narrative of affluent older workers choosing a comfortable retirement after significant gains in asset values in 2020 and 2021, the majority among the small group of workers who quit their jobs were low-income workers with little to no retirement assets. Table 3 shows the average age and self-reported health status of older workers grouped by employment effects of the pandemic.

Older workers who quit their jobs were on average older than the rest and more likely to have poor health. The health risk of Covid-19 increased significantly by age and pre-existing condition. These quits do not reflect the effects of hire assets prices. They are more show how the increased health risks due to the

pandemic left the low-income older workers with insufficient retirement assets who are more likely to be in poor health with no good options. For workers who faced the high mortality risks of Covid-19 due to old age and poor health, quitting jobs that put them at risk and accepting to live with lower income in retirement, even in poverty or near poverty, is not a matter of choice.

Table 3. Average age and pre-pandemic self-reported health status of older workers ages 55 to 75, by their experienced pandemic employment effects

	Average Age	Average Self-Reported Health Score
Not affected	60.9	2.5
Temporarily laid off	61.4	2.7
Permanently laid off	60.1	2.5
Quit job	64.6	3.0
Other effects	61.2	2.4
All older workers	61.2	2.5

Note: The HRS defines self-reported health scores as 1.excellent, 2.very good, 3.good, 4.fair, 5.poor. Higher average health scores imply worse health conditions.

Discussion

The results show that older workers are exposed to downward mobility in retirement were more exposed to job loss during the pandemic. It shows the importance of enhanced unemployment insurance during the pandemic for older workers. The results also suggest that the excess retirement among older workers is mostly due to involuntary retirement of older workers with insufficient retirement preparedness due to job loss and unfriendly labor market and increased health risks. For these workers, the adverse effects of the Covid-19 pandemic are far from over, while the supportive measures including extended and enhanced unemployment insurance benefit have long ended. The results emphasize the importance of Social Security benefits as the main source of income or these workers, necessity of a stronger social safety net, and the crucial role of efficient workplace health and safety standards that could work possible for older workers more exposed to the health risks of Covid-19.

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