Baby Boomers, the Financial Crisis, and the Recession

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AARP Public Policy Institute Looks at Boomers and the Recession

• How did boomer workers fare during and shortly after the Great Recession?

• What were boomers’ experiences with unemployment and reemployment?

• What hardships did they suffer?

• How did they respond to financial difficulties?

• How do they see their retirement prospects?

• What is the role for public policy?
Study of Boomers and the Recession

- Boomers 50-64 who were in the labor force or who had been at some point since start of Great Recession
- National random sample of 3,950 men and women in 10/2010
- Subsample re-interviewed in 8/2011
- 59% steadily employed throughout recession and up to survey date
- 13% of employed had been involuntarily unemployed before finding a new job
- 17% unemployed
- Rest were out of the labor force
Recession Alters Boomers’ Retirement Plans and Expectations

- More than a doubling of unemployment rate during downturn and slow recovery
- Soaring duration of unemployment
- Reemployment often at lower wages/benefits
- Cut back on saving, including retirement saving
- Tapped into and often exhausted savings
- Delayed getting medical/dental care
- Not much time to recover
Recession Alters Retirement Plans--2

• Majority of boomers lack confidence that they will have adequate nest egg for retirement.

• Women are more concerned than men.

• Boomers are taking steps to prepare for secure retirement.

• Some may be willing to accept lower standard of living in retirement.
Income Sources of Older Households: Earnings and Social Security Dominate

Percent Aged 55–61 and 65+ Receiving Income from Source

- Earnings: 79%
- Social Security: 86%
- Other public pension: 6%
- Private pension/annuity: 7%
- Interest: 48%
- Dividends: 21%
- Rent/royalties: 8%

Retirees Depend on Social Security
Social Security as Percent of Income, 2010

<table>
<thead>
<tr>
<th>Category</th>
<th>100%</th>
<th>90% or more</th>
<th>50% or more</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total, 65+</td>
<td>21%</td>
<td>32%</td>
<td>58%</td>
</tr>
<tr>
<td>80+</td>
<td>27%</td>
<td>43%</td>
<td>72%</td>
</tr>
<tr>
<td>Married couples, 65+</td>
<td>11%</td>
<td>20%</td>
<td>47%</td>
</tr>
<tr>
<td>Nonmarried, 65+</td>
<td>28%</td>
<td>41%</td>
<td>66%</td>
</tr>
</tbody>
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Social Security Will Remain a Critical Income Source in the Future

Projected Share of Total Median Income at Age 70 from Source for Middle-Income Americans Ages 25–54 in 2012

- Social Security: 51.0%
- Retirement account: 13.3%
- Earnings: 11.0%
- Spouse earnings: 9.3%
- DB pension: 7.8%
- Interest: 4.3%
- Dividends: 2.0%
- Rental income: 1.2%

Earnings Go to a Growing Percentage of Older Americans

Percent Reporting Earnings

<table>
<thead>
<tr>
<th>Year</th>
<th>65+</th>
<th>65-69</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>23%</td>
<td>NA</td>
</tr>
<tr>
<td>1990</td>
<td>22%</td>
<td>40%</td>
</tr>
<tr>
<td>2000</td>
<td>22%</td>
<td>44%</td>
</tr>
<tr>
<td>2010</td>
<td>26%</td>
<td>49%</td>
</tr>
</tbody>
</table>

Source: Social Security Administration, *Income of the Population 55 and Older, 1980* (Table 1); Table 1.1 in *Income of the Population 55 or Older* 1990, 2000, and 2010.
Men Were the Cause of Post-War Drop in Older (55+) Labor Force Participation

Boomer Men Far Less Likely to Be in Labor Force Today than Peers in Past

Participation Rates of Persons Aged 55–64

Older Americans Push Back Date of Labor Force Exit

Actual and Projected Labor Force Participation Rates*

*Both sexes.

Boomers Expect a Working Retirement

Percent Expecting or Planning to Work in Retirement

- 1998: 80%
- 2003: 79%
- 2007*: 70%
- 2011: 80%

*Wording for this survey differed somewhat from the other surveys.

Source: AARP, Baby boomer surveys conducted in 1998, 2003, and 2011; Staying Ahead of the Curve 2007: The AARP Work and Career Study (respondents were aged 45–54; 2007 figure refers to boomers only).
But the Best Laid Plans Often Go Awry

Expected vs. Actual Retirement Age

*When workers expect to retire and when retirees did retire.

And Boomers Don’t All Want to Work

Percent Agreeing that Statement Applies to Them

Won't want to stop working

Can't wait to retire

Investment Advice—
It Pays to Work Longer

• If you expect to work in retirement, don’t retire until you have a job in hand. It is easier to keep a job than get one.

• Think later retirement—even by one year

• Hold off collecting Social Security. Each year of postponement returns 7–8 percent in benefit increases.

• Workers have some control over when to retire.
It Pays to Work Longer--2

Each year of working is

- Another year to save
- Another year to contribute to a 401(k) and get employer match if offered
- Possibly a year of higher earnings to replace a lower earnings year in the Social Security benefit calculation
- Replacement of a year of zero earnings for workers without 35 years of coverage in the Social Security benefit calculation
- One year less of retirement to finance
Many Boomers Faced Setbacks in Great Recession

Hardships boomers or families experienced in recession.
Boomers Saw Income Decline in Recession

*Inflation adjusted median household money income by age of householder, 2007–2010.*
Who Experienced Hardship/Setbacks?*

<table>
<thead>
<tr>
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<tr>
<td>Employed, no recent unemployment</td>
<td>49%</td>
</tr>
<tr>
<td>Out of the labor force</td>
<td>58%</td>
</tr>
<tr>
<td>Retirees returning to labor force</td>
<td>64%</td>
</tr>
<tr>
<td>Employed but recently unemployed</td>
<td>75%</td>
</tr>
<tr>
<td>Currently unemployed</td>
<td>83%</td>
</tr>
</tbody>
</table>

*Base: Boomers who experienced hardship during the Great Recession.
Setbacks Even for the Steadily Employed, but Job Losers Worst Off*

*Base: Boomers who experienced hardship during the Great Recession.
Boomers Who Have Taken Steps to Prepare for Retirement*

- Retirees returning to labor force: 75%
- Employed, no recent unemployment: 60%
- Out of the labor force: 56%
- Employed but recently unemployed: 47%
- Currently unemployed: 38%

*“Have you (or your spouse/partner) taken any steps to prepare for a more secure retirement/make sure you can retire when you want to/make sure your retirement resources will be adequate?”
Steps Boomers Have Taken to Prepare for a Secure Retirement*

- Will likely work in retirement: 43%
- Pay down non-mortgage debt: 40%
- Save more for retirement: 39%
- Put off retirement date: 36%
- Moved to less risky assets/savings: 34%
- Changed where savings invested: 25%
- Spouse/part. will likely work in retirement: 24%
- Decided to pay off mortgage: 23%

*Eight most frequent actions. Base: The 54 percent of all boomers who had taken steps to prepare for more secure retirement/retire when they want to.

Who Changed Their Expected Retirement Date?*

- Employed, no recent unemployment: 38%
- Out of the labor force: 37%
- Retirees returning to labor force: 43%
- Employed but recently unemployed: 52%
- Unemployed: 52%

*Base: Boomers who reported that the age at which they expected to be fully retired had changed in the previous 3 years. Source: AARP, *Boomers and the Great Recession*, 2012.
It Is Almost Always a Later Retirement Age*

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<tr>
<td>Retirees returning to labor force</td>
<td>72%</td>
</tr>
<tr>
<td>Unemployed</td>
<td>81%</td>
</tr>
<tr>
<td>Employed, no recent unemployment</td>
<td>86%</td>
</tr>
<tr>
<td>Employed but recently unemployed</td>
<td>87%</td>
</tr>
</tbody>
</table>

*Base: Boomers who changed their expected retirement age in the previous 3 years: “I expect to retire later (at an older age) than I previously planned.”

**Boomers Express Concerns about Retirement**

- **Income not keeping up with inflation**
  - Very concerned
  - Somewhat concerned
  - Not too/not at all concerned

- **Having enough money for LTC**
  - Very concerned
  - Somewhat concerned
  - Not too/not at all concerned

- **Having enough money for health care**
  - Very concerned
  - Somewhat concerned
  - Not too/not at all concerned

- **Depleting all savings**
  - Very concerned
  - Somewhat concerned
  - Not too/not at all concerned

- **Maintaining reasonable living standard**
  - Very concerned
  - Somewhat concerned
  - Not too/not at all concerned

- **Being able to stay in home**
  - Very concerned
  - Somewhat concerned
  - Not too/not at all concerned

- **Leaving $ to kids**
  - Very concerned
  - Somewhat concerned
  - Not too/not at all concerned

*Concern about having enough money for a long period of long-term care.
Source: AARP *Boomers and the Great Recession*, 2012.
Boomers Should Be Concerned: Many Will Not Have Enough
Projected Income Replacement Rate =10% Below Target

53%
61%
54%
44%

All income levels Low income Middle income High income

Boomers Don’t Expect What Their Parents Had*

Anticipated Retirement Living Standard Compared to Parents

- Much better: 7%
- Somewhat better: 15%
- About the same: 23%
- Somewhat worse: 30%
- Much worse: 18%

*Compared to your parents or people in your parents’ generation, do you think your standard of living in retirement will be much better, somewhat better, about the same, somewhat worse or much worse than theirs?"  
Boomers Anticipate Less Retirement Security than Parents Had*

*“Thinking about your own retirement and the retirement security of people in your parents’ generation, do you expect to have a more or less economically secure retirement than your parents had (or have)?”
Eyeing the Future

- Boomers’ confidence about managing financially in retirement has been shaken.

- Even boomers who remained employed throughout the recession were concerned about maintaining a reasonable standard of living in retirement, having enough money to pay for adequate health care, or depleting their savings.

- Uncertainty about job security, investments, and savings adequacy among boomers will likely mean longer worklives for those who can work and possible reductions in living standards for those who cannot.
Options to Promote Well-being in Retirement

• Training, training, training

• Job-search assistance

• Encouraging saving

• Better monitoring and enforcement of age discrimination laws
Options to Promote Well-Being--2

- More flexible work arrangements
- Advice on and, where appropriate, support for entrepreneurship
- Protect Social Security