1 Introduction

The current economic crisis is arguably the most severe the United States has experienced since the Great Depression. Economic activity began falling in the first quarter of 2008 and, with the exception of slow growth in a single quarter in that year, continued to contract through the second quarter of 2009. The unemployment rate surpassed 10 percent in October 2009, having risen more than 5 points since late 2007. These sobering statistics suggest that of the eleven recessions since World War II, this crisis is certainly among the worst. In its wake, millions of Americans have experienced significant economic disruption of their daily lives.

Of the many repercussions of the current crisis, the effects on older workers and their retirement plans have received considerable attention. The steep drop in the stock market decimated 401(k)s and other retirement savings accounts, reducing expected income in retirement. With the collapse of the housing market, older workers have seen their home values plummet as well, further reducing their potential retirement income. The growing unease regarding well-being in retirement, the thinking goes, will prevent people from retiring.

The newspaper articles quoted in the prologue are but a few of the many that have made these points since the crisis began. These articles typically identify individuals—in the ones here, a career naval officer, a credit counselor, and a dialysis nurse—who feel that they may need to keep their jobs even though they had been planning to retire. Falling home prices and lost retirement savings are the culprits. These individuals had been planning a comfortable retirement drawing down funds from a sizable 401(k) account or using the proceeds from downsizing their homes but scrapped these plans when the stock and housing markets crumbled. Now they will continue working.

Television and radio coverage has struck a similar chord. In the spring of 2009, CBS aired "Retirement Dreams Disappear with 401(k)s" on *60 Minutes,* and National Public Radio presented a week-long series entitled "Rethinking Retirement" on *All Things Considered*.[1] News magazines have joined in as well. A *Business Week* cover story, also entitled "Rethinking Retirement," focused on workers' growing concerns about funding their retirement, while *The Economist* suggested "Smaller Nest Eggs Enhance a Long-Term Trend to Later Retirement."[2] Such concerns are far from new, of course. Similar stories surfaced in all the media outlets after the "dot.com" bubble burst and the stock market crashed in the early 2000s, as in *Time* magazine's cover story "Will You Ever Be Able to Retire?" of July 2002.

Recent public opinion polls also seem to suggest that workers will now be delaying retirement. In a Roper survey conducted during the 2008 election season, 53 percent of likely voters felt that the current financial crisis would require them to work longer (GFK Roper Public Affairs and Media, 2008). Pew Research has found almost two-thirds of workers between the ages of fifty and sixty-one expressing the same sentiment (Taylor and others, 2009).

Despite the various reports of public concern, evidence that the economic crisis will delay retirement is far from clear. The number of indi-

1. See www.cbsnews.com/stories/2009/04/17/60minutes/main4951968.shtml and www.npr.org/templates/story/story.php?storyId=104355193 (September 8, 2009). The similar title of our book had been selected before the airing of this story.

2. The *Business Week* article ran on July 2, 2009, and *The Economist*'s on September 10, 2009.

viduals filing Social Security retirement claims in the spring of 2009 was considerably higher than the figure for 2008, according to the Social Security Administration (SSA).[3] An update later that year confirmed this point: between 2008 and 2009, the number of workers claiming Social Security retirement benefits rose by 23 percent, well beyond the increase expected simply because of the greater numbers of baby boomers.[4] Both times this information appeared in the press, it received one-day coverage and was quickly replaced by more stories like those in the prologue.

The rising number of Social Security claims suggests there may be more going on here than the media are reporting. If retirements are indeed increasing rather than decreasing in the midst of the worst economic crisis in decades, what could explain this trend? One hint comes from the news coverage itself. For the dialysis nurse in the *New York Times* article, another factor pushing her to delay retirement is that her sixty-one-year-old husband is unable to find work. If his poor luck continues, he may end up claiming Social Security benefits when he hits age sixty-two, providing income support for the family but withdrawing from the labor force at the same time. The weak labor market may force him and other workers like him into early retirement.

In other words, it is difficult to know what impact the current economic crisis may have on retirement behavior. Decreases in retirement savings account balances and home equity reduce available income in retirement and may indeed lead some to stay in the workforce longer. At the same time, a weak labor market may lead to job losses and limit opportunities for older workers who are seeking jobs. Their only option may be to retire. Both delayed retirement for some and earlier retirement for others may result.

3. For an example of the stories covering this announcement, see Mike Dorning, "Early Retirement Claims Increase Dramatically," *Los Angeles Times*, May 24, 2009.

4. Stephen Ohlenmacher, "Job Losses, Early Retirements Hurt Social Security" (http://abcnews.go.com/Politics/wireStory?id=8683983).

Perhaps more important, different socioeconomic groups may respond differently to the crisis. Those who choose to work longer because of lost retirement savings or home equity would need to have had substantial holdings to be affected in any meaningful way; more highly educated workers are more likely to be in this position. On the other hand, those unable to find work are likely to be in the less-skilled group, as it tends to struggle the most when the labor market is weak.

Our interest in the effects of the economic crisis on retirement is motivated not only by an interest in retirement itself but also by a broader concern about the well-being of older individuals. In nonmonetary respects, working can provide individuals with a sense of purpose, a place to go in the morning, a means to connect with co-workers who may also be friends, and the like. Retirement may be difficult because of the loss of these things. On the other hand, retirement may also mean the end of dealing with a difficult boss, physical pain from the strain of the work, or mental anguish from the pressure to perform. Hence retirement can be associated with positive or negative changes in a worker's well-being.

But the main reason that most individuals work is to put food on the table, pay the mortgage, and cover the car payments, so the most important implications of retirement are those for the worker's financial well-being. As long as the individual keeps working, the flow of labor earnings keeps coming. Once the worker retires, consumption has to be financed out of whatever resources have been accumulated up to that point.

For most older individuals, the main sources of income in retirement are Social Security, private pensions, and savings. The earlier a worker taps into these resources, the smaller his or her income will be. Social Security benefits are available starting at age sixty-two, and the amount depends on the age at which benefits are claimed. The sooner benefits begin, the smaller the monthly check will be, and it will remain the same (not counting inflation adjustments) for the rest of the claimant's life. Private pensions paid out monthly work in much the same way. For any account-based pension or private savings, retiring earlier will mean a longer period of retirement to finance, so there will necessarily be less money available from these sources in any given year.

If workers retire earlier or later than expected in response to the economic crisis, this may have important implications for their well-being far beyond the initial retirement decision. A worker who is laid off, unable to find new work, and forced to start collecting Social Security benefits to make ends meet now will find those benefits permanently reduced. A worker who loses a large portion of a 401(k) fund or other investments and chooses to work a few more years to conserve assets and replace some of the lost savings may contain the damage to that short period of time if retirement is delayed sufficiently. If not, less money will be available throughout retirement.

The implications of the crisis for retiree well-being, as for retirement, may vary with the type of worker. Less-skilled older workers, who are most likely to be affected by the weak labor market, may have fewer resources other than Social Security to provide income during retirement. For them, the decrease in the monthly benefit amount resulting from claiming early may represent a sizable reduction in their total retirement income. More-skilled, higher-earning older workers may experience meaningful losses of retirement income when the stock market falls. But, these workers tend to have more stable jobs and may have the option to work a few extra years to help make up for their losses. Even if they are unable to continue working, their lost retirement income may be a smaller share of their total income and thus be easier to absorb. The impact of the crisis on their well-being in retirement may be much smaller than it is for the less-skilled workers.

Given that the depth of the current crisis motivates our analysis, does this suggest that our findings will become less relevant as the economy improves? The answer is clearly no.

First, as of this writing, the economic recovery still has a long way to go. While the stock market is up significantly from its low in the spring of 2009, it has thus far only made up about half of the losses incurred over the previous eighteen months. Moreover, the labor market remains very weak. The unemployment rate is still close to 10 percent, up more than 5 points from its 2007 value, and has declined only very slightly since the peak of the crisis. It is likely to take many years for the economy to add enough jobs to bring the unemployment rate down substantially.

Second, as already discussed, economic crises may have long-term effects on well-being. Even as market conditions improve, the negative consequences of the bust may persist, so it continues to be important to understand these effects. Most important, even with a period of expansion in the labor market and a bull market on Wall Street, the next recession and bear market can only be so far away. It is the nature of markets to cycle up and down. Lessons learned from the current boom-and-bust cycle may help older workers and policymakers to prepare for the next downturn and avoid the worst of its effects.

So far we have put forth a number of hypotheses regarding the impact of the current economic crisis on retirement patterns and the well-being of retirees:

—Falling stock and home prices may lead some older workers to delay retirement.

—Weak labor markets may lead some older workers to retire sooner than expected.

—Retirement responses may differ for more- and less-skilled workers.

—Weak stock, housing, and labor markets may have long-lasting effects on retirement income.

—The crisis may do more harm to the well-being of less-skilled or lower-income retirees.

Only the first point has received significant attention from the public. To the best of our knowledge, there is relatively little empirical evidence to strongly support this proposition. And in spite of all the interest in how the current economic crisis will affect retirement, the remaining hypotheses have by and large gone unnoticed, both by academics studying retirement and by the public at large.

The purpose of this book is to address these issues. How will the current economic crisis affect older workers' decisions to retire? Will they be less likely to retire now that their retirement savings have been depleted? Will their falling home prices similarly encourage them to delay retirement? Or will they find themselves without work and any alternative other than to retire? How will the effects differ for rich and poor workers? How will all of this affect these workers' well-being in retirement?

When we explore these questions, we find support for many of our hypotheses. Much of our analysis concentrates on the retirement decision, separately examining the impact of stock, housing, and labor markets on the transition into retirement. We find evidence indicating that a declining stock market will lead certain workers to delay retirement: namely, the more-skilled ones who are responding to long-term fluctuations in stock prices. Furthermore, weak labor markets appear to increase the likelihood that an individual will withdraw from the labor force earlier, particularly starting at age sixty-two, when Social Security benefits become available. This is primarily the case for less-skilled workers. There is little evidence to indicate that falling home prices matter. Individuals do not seem to alter their retirement behavior in a meaningful way when home prices fall.

We conclude that the current economic crisis will lead both more workers to retire because the labor market is weak and fewer workers to retire because the stock market is weak: according to our estimates, 378,000 workers will be forced to retire because of the weak job market, and 258,000 workers will choose to delay retirement because of the weak stock market. In other words, the increase in retirements associated with higher unemployment is almost 50 percent greater than the decrease (or delay) in retirements associated with lower stock prices. The fact that the two groups of affected workers are very different—those retiring early tend to be less skilled and those retiring late tend to be more skilled—only serves to emphasize the significance of these findings.

Turning to the impact of these decisions on retirees' economic well-being, we find that weak labor markets have important effects here as well. Workers who experienced high unemployment around the time of retirement have lower incomes a decade or so later, largely because of reduced Social Security income. The magnitude of the effect is roughly consistent with the benefit reduction a Social Security recipient would face if claiming benefits at age sixty-two rather than sixty-five. This effect is strongest among lower-income individuals, who have little income beyond Social Security, and represents a substantial income loss for them. Higher-income retirees who experience poor stock market returns around the time of retirement are less likely to receive investment income in retirement or may receive lower levels of investment income. However, these losses represent a relatively small share of their total income.

Taken as a whole, then, retirement problems related to a weak labor market appear to exceed those associated with falling stock prices. Workers affected by weak labor markets are more numerous than those affected by poor stock market returns, are more likely to have low socioeconomic status, and have a more substantially reduced income for the rest of their lives. The public needs to focus considerably more attention on the needs of older workers in lower socioeconomic groups who potentially face years of lower income if a recession occurs near the time of retirement. Though also likely to suffer, the smaller number of workers in higher socioeconomic groups who delay retirement in response to declining stock prices and receive less investment income in retirement will be of somewhat less concern.

Our conclusions emerge from a comprehensive empirical analysis that relies on appropriate statistical tools and the best available data on the employment patterns and income receipt of older individuals. Drawing on large-scale national databases, we use three decades of relevant information on hundreds of thousands of older individuals to examine the impact of changing conditions over time in stock, housing, and labor markets. Data on location of residence are of additional value in that labor market and housing market conditions differ by geography. We also use this variation to shed light on the impact of market conditions on retirement and retiree well-being.

If weak labor markets lead workers to retire earlier and have a negative impact on their subsequent well-being in retirement, what policies might help to alleviate these problems for older workers? First, we support extending unemployment insurance (UI) benefits to age sixty-two during recessions for those workers who lose their jobs at or after age fifty-eight. Many laid-off older workers struggle to find adequate sources of income support until they become eligible for Social Security benefits; these workers are, in essence, crawling across the finish line. The extension of UI until age sixty-two during recessions would provide a needed bridge to Social Security.

Second, we endorse changing the calculation of Social Security benefits for older individuals to include a credit for a period of late-career unemployment. As we explain in more detail in chapter 8, doing so would provide a modest boost to workers' monthly Social Security benefits, thereby improving their financial well-being for the rest of their lives.

Third, we recommend communicating to workers the option of stopping and starting their Social Security benefits. This policy would encourage laid-off older workers to keep looking for work even at or after age sixty-two and thus reduce the financial consequences of a late-career layoff for those who ultimately found work. The cost of all of these policies would be relatively modest, and the risk that they would induce workers to voluntarily become or stay unemployed would be acceptably low.

We present some baseline facts in chapter 2, in preparation for the more sophisticated statistical results that follow. These facts relate to questions of interest in the book. How have retirement patterns been changing over time? How do retirement patterns typically change year by year as workers age? What are the sources of income received by retirees, and how do the amounts differ by socioeconomic status? What aspects of Social Security and pension rules are important for retirement decisions and retiree well-being?

Further details regarding the data and our specific methods of analysis are presented in chapter 3. Briefly, we compare retirement behavior and subsequent retiree well-being for workers who approach retirement age in similar circumstances but face different market conditions. For instance, we explore whether workers in their early sixties who live in areas or periods of high unemployment retire earlier than others of the same age who live at a time and in a place where the labor market is strong.

Chapters 4, 5, and 6 present the core of our analysis regarding the impact of fluctuating market conditions on retirement behavior. These chapters focus on the stock, housing, and labor markets, respectively, but the data and methods used in each are very similar.

In chapter 7, we explore the impact of market conditions on retiree well-being after retirement, focusing on the role of stock and labor markets. We omit the housing market because we are unable to find any evidence of an impact of this market on retirement decisions in chapter 5.

We review our findings in chapter 8 and discuss their policy implications. This discussion makes clear that the public has been somewhat misguided in its extensive attention to the impact of declining stock prices on retirement. Public policy needs to focus more on the role that skyrocketing unemployment will play in determining retirement behavior and subsequent well-being.