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COVID-19 and retirement: Impact and policy responses

Martin Neil Baily
Senior Fellow, Economic Studies, The Brookings Institution

Benjamin H. Harris
Executive Director, Kellogg Public- Private Interface, Kellogg School of Management

Siddhi Doshi
Senior Research Assistant, Economic Studies, The Brookings Institution

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ABOUT THE AUTHORS

Martin Neil Baily is the Bernard L. Schwartz Chair in Economic Policy Development and a Senior Fellow in Economic Studies at The Brookings Institution.

Benjamin H. Harris is the Executive Director of the Kellogg Public-Private Interface at the Kellogg School of Management at Northwestern University.

Siddhi Doshi is a Senior Research Assistant for The Center on Regulation and Markets at The Brookings Institution.

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Introduction

COVID-19 has shaken America and the world, causing widespread social and economic upheaval. The most obvious and distressing cost is the tens of thousands of lives lost to the pandemic, but attendant costs range from shuttered businesses to an unprecedented hole in the federal budget. As policymakers and others continue to grapple with controlling the pandemic, the permanent scars from this episode have yet to become clear.

Indeed, the economic downturn is unlike anything the economy has ever experienced. Over the first three months of the pandemic, tens of millions of workers applied for unemployment insurance as employment fell 21 percent through late April.[1] As many as 20 percent of small businesses closed and bankruptcies skyrocketed. Housing construction fell by 19 percent relative to a year earlier before eventually rebounding, while the stock market fell by about one-third over five weeks.

As painful as this episode has been for all Americans, it has also been especially trying for older individuals. While seniors benefitted from the critical support provided through Social Security and Medicare, and to a lesser extent Medicaid, the nature of the COVID-19 pandemic introduced special challenges for this group. The most obvious and painful element has been the drastically higher fatality risks for retirement-age Americans, including in particular those in institutional settings. But older workers have also been disproportionately impacted: one recent study estimated that unemployment rate in April 2020 was 15.4 percent for workers aged 65 and older, compared to 13.0 percent for those aged 25 to 44.[2] And sadly, economists expect that a devastatingly high proportion of these jobs are lost for good.

Why have older workers faced higher rates of displacement in this recession? The evidence is not yet in but is likely linked to disparate health impacts of COVID-19 by age and the nature of employment for older workers. Many older workers remain in the workforce by taking "bridge jobs" to retirement. These bridge jobs, especially those held by women, are more likely to involve face-to-face contact and are less likely to be performed using remote technology—heightening the health risks from work. These employees may also face heightened discrimination if employers are concerned they are more likely to catch the virus and more likely to become seriously ill if they do catch it.[3]

On the health side, the impact is even more severe and likely longer lasting. As of July 2020, over 142,000 people have lost their lives, making COVID-19 one of the leading causes of death in the United States, with elevated fatality rates for older households. Hundreds of

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1. Cajner, Tomaz, Leland D. Crane, Ryan A. Decker, John Grigsby, Adrian Hamins-Puertolas, Erik Hurst, Christopher Kurz, and Ahu Yildirmaz. 2020. "The U.S. Labor Market During the Beginning of the Pandemic Recession." Becker Friedman Institute Working Paper 2020-58, University of Chicago. https://bfi.uchicago.edu/wp-content/uploads/BFI_WP_202058-1.pdf.
2. Bui, Truc Thi Mai, Patrick Button, and Elyce G. Picciotti. 2020. "Early Evidence on the Impact of COVID-19 and the Recession on Older Workers." NBER Working Paper 27448, National Bureau of Economic Research. https://www.nber.org/papers/w27448.
3. Ibid.

thousands of older Americans have become ill from the virus, with long-term consequences still unknown. Higher consequences for transmission have made shelter-in-place orders especially necessary for retirement-age individuals, likely exacerbating the loneliness epidemic that inflicts many older people. Nursing homes, which housed about 1.3 million mostly older Americans in 2016,[4] have become hotbeds for transmission, inflicting sharply higher death rates on residents. With our nation already facing a crisis in long-term care, the devastating impact of COVID-19 on people over 60 has called into question the very safety of a system which has disproportionately relied on institutional settings for much of the formal care.

While we are still in the midst of the pandemic and its full effects are not yet known, it appears the impact will transform retirement for years, if not decades. On the economic side, prolonged weakness in the stock market, if it occurs, would eat into retirees' income and savers' expected returns, causing both lower spending during retirement and the need for more saving during working lives. An extended labor market slump may disproportionately impact workers near retirement age, in part because older workers often face acute re-employment challenges during downturns and in part because older workers' health is especially at-risk in many work environments. If the economic impacts bleed into the housing market, retirees could lose trillions in home equity. And the massive Federal Reserve (Fed) response may keep interest rates low for years, undermining savers' efforts to build up nest eggs.

Some of the impacts of COVID-19 will mostly affect today's retirees, such as the safety of elderly institutions, while low interest rates will impact both today's retirees and those who have yet to leave the labor market. Naturally, the future impacts are generally less certain than those experienced today.

This brief discusses the ways these social and economic impacts may transform retirement. Because this pandemic is unique in modern times, there is massive uncertainty about the future, but we will make arguments based on empirical evidence as much as possible. Our central conclusion is that the pandemic will threaten the quality of retirement for today's retirees and near retirees by undercutting resources for retirement, imposing steep (but necessary) social restrictions, and calling into question the safety of institutional care. The impact on future retirees is less certain, but could include weakened public entitlement programs, the need for higher rates of saving, and a heightened focus on community-based care.

In the final section of this brief we lay out steps that can be taken to mitigate the impact of COVID-19 on the economy, with a particular emphasis on helping older workers and retirees.

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4. Centers for Disease Control and Prevention Nursing Home Care data: https://www.cdc.gov/nchs/fastats/nursing-home-care.htm.

How the downturn could impact retirement

The various impacts of the COVID-19 pandemic on retirement can be characterized into three broad buckets: financial impacts on current retirees, financial impacts on future retirees, and health impacts affecting retirees today and potentially in the future.

Financial impact on today's retirees

The impact of COVID-19 on today's retirees has been tragic from a health perspective, but generally much less severe on their finances. To start, the steadying presence of Social Security is especially important in periods of marked economic volatility, as the 54 million old-age and survivors insurance beneficiaries were able to depend on their promised benefits as a reliable source of income. Medicare, too, played a critical stabilizing role, providing necessary health coverage for care related and unrelated to COVID-19.

Retirees also received generous financial support through the Coronavirus Aid, Relief, and the Economic Security Act (CARES Act)—the signature $1.8 trillion relief package passed in March of this year. One of the more notable aspects of the CARES Act was stimulus checks—up to $1,200 per person—distributed to taxpayers based on prior-year income. By basing the eligibility on household income, rather than wages, the CARES Act extended eligibility for stimulus checks to older households.[5]

The resiliency of the stock market, which we continue to find somewhat puzzling, has also benefited savers who depend on income from retirement accounts. As of July 2020, the stock market has largely, although not entirely, recovered from the steep declines experienced in the initial onset of COVID-19. Between the third week in February and the second week in March the S&P 500 fell by roughly 33 percent. It then rebounded over the following seven weeks and is only a few percentage points below its value before the pandemic. This quick recovery is in stark contrast to the 2009 experience, in which the market fell by about half over eight months and did not regain its peak value until about five years later. For those retirees who were able to be patient and who did not panic at the market's decline, even the impact of 2009 on retirement portfolios was modest. So far, the impact of the pandemic on investors has been even smaller.

Higher-income savers were also provided a modest break in the form of "required minimum distribution" relief. As background, retirement-age savers (over age 72) are required

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5. For example, the Recovery Act of 2009 offered stimulus payments in the form of the Making Work Pay Tax Credit, which served as a supplement to prior-year earnings. Retirees who had not worked the prior year were not eligible—although the legislation granted Social Security recipients a supplemental $250 payment, which partly offset the impact of basing benefits on wages, rather than income. By contrast, the CARES Act provided a full payment to married taxpayers with less than $150,000 in income and partial benefits for married taxpayers with between $150,000 and $198,000 in income; single taxpayers with more than $75,000 in income received the full check, with a partial check going to those with between $75,000 and $99,000 in income.

to take a portion of their account as a minimum distribution each year or face steep penalties. These minimum distributions were put in place to ensure that retirement saving accounts, like 401(k)s, were used to provide retirement security—rather than serving as tax shelters. The CARES Act provided a temporary moratorium on distribution requirements, with the IRS later issuing guidance that anyone who took distributions in 2020 could return them without penalty. At the same time, the CARES Act allowed pre-retirement age savers to take up to $100,000 from their retirement accounts without the normal 10 percent penalty (distributions are still subject to income tax).

Unlike those managing their own retirement portfolios, those depending on state pensions have heightened reason to be concerned. Many of these pension funds entered the pandemic already in precarious shape; only 69 percent of state pension liabilities were funded in 2017.[6] The COVID-19-related pressures on pension funds are two-fold. One, declining market returns, even if moderate, will put heightened pressures on funds that were depending on robust positive returns to stay solvent. Two, state and local governments are under extreme funding pressure—due to declining income and sales tax revenue plus additional spending related to COVID-19—potentially endangering their ability to fund pensions at current levels. While federal support for states and localities may come later this year, as of July 2020 the support to date from the federal government to the states and localities has been wholly inadequate to meet their needs.

The combined impact of a depressed stock market, should it materialize, and legacy underfunding is a historic gap in state pension funding. As summarized by a Pew Charitable Trusts brief:[7]

> *Nationwide, state pensions hold 75% of their assets in stocks and alternative investments, the vehicles most correlated with swings in the financial markets. As a result of the stock market's recent decline and economic conditions more generally, most public pension funds are on pace for their first fiscal year loss since 2009. In the aggregate, they are currently short of annual return targets by 10 to 15 percent. Absent positive returns in the next three months, overall state pension debt, currently $1.2 trillion, could increase by $500 billion, reaching an all-time high.*

Housing values, like stocks, have yet to change appreciably. While the volume of housing sales has fallen sharply—dropping by 27 percent in May and 11 percent in June relative to one year earlier—this decline in housing sales has not yet translated into a steep decrease in values. In fact, a Pulsenomics survey of housing experts in the second quarter of 2020 showed that, on average, experts projected housing values to fall by just 0.3 percent over

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6. Pew Charitable Trusts. 2019. *The State Pension Funding Gap: 2017*. https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2019/06/the-state-pension-funding-gap-2017.

7. Greg Mennis. 2020. "How the Market Downturn Could Affect Public Pension Funds." Pew Charitable Trusts. https://www.pewtrusts.org/en/research-and-analysis/articles/2020/04/23/how-the-market-downturn-could-affect-public-pension-funds.

the year and then rebound by 0.9 percent in 2021.[8] This is in stark contrast to the 2009 recession, in which the housing market was the epicenter of the downturn and values subsequently fell by roughly 25 percent between 2007 and 2012. Today's housing value buoyancy is generally good news for retirees, given that between 28 percent and 44 percent of their wealth is tied up in home equity.[9]

While housing wealth and financial investment income have thus far been mostly unscathed, and Social Security has provided a reliable source of income, older Americans who depend on labor income are much more likely to be harmed by the crisis. According to a late-May Census Bureau survey, approximately 40 percent of households with people in their 60s reported losing wages during the pandemic.[10] Research suggests that many of these jobs are not coming back, with one study projecting that 32 percent to 42 percent of COVID-19 layoffs will be permanent.[11] And if prior experience is any guide, older workers will have a disproportionately hard time regaining their lost jobs and incomes. For example, laid-off men over 62 are over 50 percent less likely to find a job than a younger worker and typically experience steep pay cuts when they do.[12] In sum, while the labor market impact of COVID-19 is still evolving, initial evidence and prior experience suggests that millions of older households will see drops in earnings and may have a disproportionately difficult time getting rehired. These unanticipated declines in earnings may haunt retirees who expected to depend on a part-time job or full-time workers who were building up their nest egg prior to retirement.

Heath impact on today's retirees

While an estimated 27 million working-age Americans and their dependents lost insurance coverage along with their jobs,[13] the near-universal nature of Medicare absolved virtually all retirees aged 65 and over of that hardship. Like Social Security, Medicare was a proven

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8. Olsen, Skylar. 2020. "Experts: Spring's Missing Home Sales Will be Added to Coming Years." Zillow Research. https://www.zillow.com/research/zhpe-missing-home-sales-27209/.
9. Nakajima, Makuto and Irina Telyukova. 2019. "Home Equity in Retirement." Federal Reserve Bank of Philadelphia Working Paper 19-50. https://philadelphiafed.org/-/media/research-and-data/publications/working-papers/2019/wp19-50.pdf.
10. Authors' calculations using the Census Household Pulse Survey data: https://www.census.gov/programs-surveys/household-pulse-survey/datasets.html.
11. Barrerro, José María, Nick Bloom, and Steven Davis. 2020. "COVID-19 is also a Reallocation Shock." Brookings Papers on Economic Activity Conference Draft, Summer 2020. https://www.brookings.edu/bpea-articles/covid-19-is-also-a-reallocation-shock/.
12. Johnson, Richard W., and Corina Mommaerts. 2011. "Age Differences in Job Loss, Job Search, and Reemployment." Retirement Policy Discussion Paper Series 11-01, Urban Institute. https://www.urban.org/research/publication/age-differences-job-loss-job-search-and-reemployment.
13. Estimate as of May 2nd 2020; Garfield, Rachel, Gary Claxton, Anthony Damico, and Larry Levitt. 2020. "Eligibility for ACA Health Coverage Following Job Loss." Kaiser Family Foundation. https://www.kff.org/coronavirus-covid-19/issue-brief/eligibility-for-aca-health-coverage-following-job-loss/.

bedrock during the crisis—providing retirees assurance that their basic health needs will be met.

A broader concern for Medicare beneficiaries is access to care. Prior to the pandemic, access to care was a prominent concern for many older Americans, especially those in rural areas with limited access to health facilities and providers. This challenge intensified during the pandemic, with many facilities temporarily prohibiting "elective" procedures in order to enable providers to focus on treating those stricken with COVID-19. On March 13th, 2020, the American College of Surgeons issued guidance recommending that facilities temporarily "minimize, postpone, or cancel electively scheduled operations, endoscopies, or other invasive procedures" in anticipation of COVID-19 requirements.[14] Not only did this temporarily limit access to health care, in some circumstances the decline in revenue may have been sufficient to push providers to close a facility. While the CARES Act did include substantial financial support for providers—including a 20 percent increase in the Medicare billing rate for COVID-19-related treatment and a $175 billion fund for hospitals—we may well discover that an enduring scar from the pandemic is more limited access to health care.

Of course, the most acute challenge for older Americans was the tragically high rates of both fatalities and transmission—especially in elderly institutions. As of July 2020, approximately 57,000 nursing home and long-term care facility residents and workers have died as a result of COVID-19, with some experts believing this to be an underestimate. These institutional deaths comprise a shocking 42 percent of all US deaths due to the pandemic, underscoring the extent to which the pandemic was simply a more severe threat to older Americans living in institutional settings.[15] And the death toll has been especially acute for older Black and Hispanic Americans, with fatality rates three times and two times respectively higher for these groups relative to older white Americans.[16]

The elevated fatality rate for older Americans calls into question two attendant retirement concerns for these individuals. The first relates to quality of life and the impacts of social isolation. In the wake of the pandemic, many nursing home and long-term care facilities obeyed public "shelter in place" orders that restricted social access for residents—including visitors and trips outside the facility. These necessary actions likely saved lives and, in our non-medical opinion, appear extremely prudent and responsible. Yet, prolonged quarantines also risk exacerbating the loneliness epidemic afflicting many older individuals—with 35 percent of Americans aged 45 and older reporting feelings of loneliness.[17] While it is too

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14. American College of Surgeons. 2020. *COVID-19: Recommendations for Management of Elective Surgical Procedures*. https://www.facs.org/-/media/files/covid19/recommendations_for_management_of_elective_surgical_procedures.ashx.

15. *The New York Times*. 2020. "More Than 40% of U.S. Coronavirus Deaths Are Linked to Nursing Homes." https://www.nytimes.com/interactive/2020/us/coronavirus-nursing-homes.html.

16. Authors' calculations based on Centers for Disease Control and Prevention data and Census population estimates: https://www.cdc.gov/nchs/nvss/vsrr/covid_weekly/index.htm#Race_Hispanic.

17. American Association of Retired Persons. 2018. *Loneliness and Social Connections.* https://www.aarp.org/content/dam/aarp/research/surveys_statistics/life-leisure/2018/loneliness-social-connections-2018.doi.10.26419-2Fres.00246.001.pdf.

early to decisively comment on the long-term impacts of social isolation, we raise this as a potential cost of the pandemic on the quality of retirement.

The second related impact is whether institutional facilities like nursing homes will be considered safe in the near future. A 2010 study by the Congressional Budget Office (CBO) found that 3.8 million people aged 65 and older resided in an institution (including nursing homes and residential care facilities), with rates increasing sharply with age: about 1 percent of people aged 65 to 74 lived in an institution compared with 13 percent of people aged 85 and older.[18] And these point-in-time estimates understate the share of people who will live in a facility at some point, with an estimated 37 percent of people turning 65 expected to live in an institution for an average of one year.[19]

Will the elevated mortality of older people in institutions dissuade demand for this type of housing? It's difficult to say, but our suspicion is yes. There has been a long-term trend away from the share of formal long-term care provided in institutions as compared to in home or community settings. For example, between 1995 and 2016 the share of Medicaid long-term services and supports spending devoted to home and community-based care rose from 18 percent to 57 percent.[20]

The extent to which the high fatality rates for institutional patients shifts demand for long-term care away from group settings remains to be seen. But if the threat to older American causes demand to fall, we would likely see an uptick in consumer views towards private long-term care insurance—which typically allows for policyholders to receive care in their homes. Yet, popularity of long-term care insurance has been declining steadily for the past decade, with just 11 percent of people over age 65 holding an active long-term care insurace policy in 2014.[21] With the average annual long-term care insurance premium for a 65 year-old couple amounting to $3,050,[22] this could represent a new expense for many retirees—many of whom are already living on tight budgets with limited discretionary spending.

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18. Congressional Budget Office. 2013. *Rising Demand for Long-Term Services and Supports for Elderly People.* https://www.cbo.gov/sites/default/files/cbofiles/attachments/44363-LTC.pdf.

19. LongTermCare.gov. 2017. *How Much Care Will You Need?* Accessed July 22, 2020. https://longtermcare.acl.gov/the-basics/how-much-care-will-you-need.html.

20. Watts, Molly O'Malley, MaryBeth Musumeci, and Priya Chidambaram. 2020. "Medicaid Home and Community-Based Services Enrollment and Spending." Kaiser Family Foundation. https://www.kff.org/report-section/medicaid-home-and-community-based-services-enrollment-and-spending-issue-brief/.

21. Johnson, Richard W. 2016. "Who Is Covered by Private Long-Term Care Insurance?" Program on Retirement Policy, Urban Institute. https://www.urban.org/sites/default/files/publication/83146/2000881-Who-Is-Covered-by-Private-Long-Term-Care-Insurance.pdf.

22. American Association for Long Term Care Insurance. 2019. *Long-Term Care Insurance Facts - Data - Statistics - 2019 Report*. https://www.aaltci.org/long-term-care-insurance/learning-center/ltcfacts-2019.php#2019costs.

Impact on future retirees' finances

The impact of COVID-19 on future retirees is far from certain, but there are five potential areas we judge could be affected by the current pandemic and associated economic downturn.

The first is the loss of earnings and retirement assets associated with the massive labor market dislocation. This can occur through several channels, including reduced Social Security benefits, eroded retirement wealth owing to hardship loans and emergency withdrawals, lower lifetime earnings due to prolonged unemployment, and lessened retirement contributions from employers, to name a few. The extent of these factors will depend critically on the depth and duration of the current downturn. Unfortunately, as of this writing, with unemployment still above 10 percent and likely remaining elevated for the foreseeable future, we suspect millions of workers will see their expected standard of living in retirement deteriorate as a result of COVID-19.

The second is a marked shift in preferences to home- and community-based care for recipients of long-term care. As we summarized above, there has been a long-term shift away from institutional care like nursing homes and other long-term care facilities. If this shift accelerates, it could change the nature of retirement for many retirees—especially those at advanced ages. This shift could precipitate a renewed interest in long-term insurance policies that also cover care outside group living arrangements. If these shifts results in higher costs for retirees, some current workers may need to either remain in the labor force longer to pay for increased premiums or care costs or up their level of saving.

A third potential impact on the finances of future retirees relates to funding for public retirement programs—namely Social Security, Medicare, and Medicaid (which has substantial outlays for long-term care). Prior to the crisis, the aging of the U.S. population, rising medical costs, and low levels of tax collections had put America's budget in a precarious position: in June 2019 CBO projected that if federal policymakers stick to their current path, the public debt as a share of our GDP will rise to 144 percent by 2049.[23] Since then, with the economic downturn and trillions in relief, the U.S. fiscal position has deteriorated substantially—with CBO projecting that the debt to GDP ratio will rise by 17 percentage points over the next decade alone.[24] And more federal stimulus and relief support is likely.

It is impossible to predict exactly how future Congresses will respond to these challenges, and whether higher levels of public debt will be considered a problem. (We suspect they will, eventually.) If and when future policymakers take on our country's high levels of debt as an issue, it is plausible that major entitlement programs would be considered an appealing choice for lowering federal spending. If this happens, tomorrow's retirees may need to wait longer to receive Social Security or Medicare benefits, have less access to Medicaid as

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23. Congressional Budget Office. 2019. *The 2019 Long-Term Budget Outlook.* https://www.cbo.gov/system/files/2019-06/55331-LTBO-2.pdf.
24. Congressional Budget Office. 2020. *The Budget and Economic Outlook: 2020 to 2030.* https://www.cbo.gov/publication/56073.

a payer of long-term care for low-income households, or perhaps see their benefits taxed to a greater degree.

A fourth potential impact is diminished small business wealth. The share of wealth held in small businesses in the economy is small relative to housing equity and financial assets, but can be a large share of wealth for small business owners—who tend to be older on average, with 50.8 percent of U.S. small business owners being at least 55 years old, and 20.1 percent being at least 65 years old.[25] And while small business ownership and self-employment correlates with higher levels of retirement saving,[26] declines in small business activity can have marked impact on owners who lose both income and wealth when their business suffers. For example, James Ang, James Lin, and Floyd Tyler found a lack of separation between business and personal risk among small business owners: of a sample of 692 small businesses that they studied, 69 percent had pledged some form of a personal commitment for a loan.[27]

Indeed, an unfortunate trend during the current downturn has been especially dire outcomes for small businesses. Data provided by Opportunity Insights indicates that, as of mid-July, small business revenue declined by 17.6 percent relative to January 2020 and that the number of small businesses open declined by 15.2 percent[28]—a frightening statistic given that well-over half a trillion dollars had been allocated by Congress to keep small businesses open through the summer. Widespread small business closures—and it appears as though there will be many in the upcoming months—could spell declining retirement prospects for entrepreneurs who depended on these businesses for income and wealth.

A fifth and final impact is persistently lower interest rates. As the economic fallout from the pandemic came into focus, the Fed cut its benchmark interest rate to close to zero and, subsequently, clarified it would keep interest rates low through 2022. In addition, the Fed took on less-traditional measures to calm markets, buying an unprecedented range and level of securities. One of the byproducts of the Fed's actions is "locked-in" historically low interest rates for at least the next several years; projections by the CBO put the rate on 10-year Treasury securities at just 0.7 percent in 2021.[29] Interest rates on safe assets are well below the expected rate of inflation, so an investor who buys a ten-year Treasury bond and

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25. Joseph Blasi and Douglas Kruse, unpublished note based on data from the 2018 Annual Business Survey, July 2020.

26. Gurley-Calvez, Tami, Kandice A. Kapinos, and Donald Bruce. 2012. "Retirement, Recessions and Older Small Business Owners." Office of Small Business Administration Advocacy. http://dx.doi.org/10.2139/ssrn.2199615.

27. Ang, James S., James Wuh Lin, and Floyd Tyler. 1995. "Evidence on the Lack of Separation between Business and Personal Risks among Small Businesses." *Journal of Small Business Finance* 4(2/3): 197-2102.

28. Data from the Economic Tracker maintained by Opportunity Insights: https://www.tracktherecovery.org/.

29. Swagel, Phill. 2020. "CBO's Current Projections of Output, Employment, and Interest Rates and a Preliminary Look at Federal Deficits for 2020 and 2021." CBO Blog, Congressional Budget Office. https://www.cbo.gov/publication/56335.

sells it ten years later will have less money after accounting for inflation. The "real rate of interest" is negative.

Low interest rates have a mixed impact on retirement. On one hand, they can boost stock prices in the near-term and make consumer borrowing less expensive, all else equal. But lower interest rates also mean lower returns on savings accounts, CDs, and bonds—plus more expensive retirement products like annuities and long-term care insurance—which are provided by insurance companies that invest in safe, interest-bearing assets. On the whole, lower interest rates generally have an adverse impact on those approaching retirement.

What can be done?

At the federal level, the Administration failed to take COVID-19 seriously when it first appeared and have tried to play down its seriousness even as the number of cases and deaths multiplied. Other countries have been much more successful at bringing down the number of cases and reducing the number of deaths.[30] The unwillingness of the Administration, and some governors, to take sufficiently strong action has resulted in more deaths and damage than was necessary and a higher cost to the economy. It is important that the same mistakes are not made in dealing with the aftermath of the pandemic. Indeed, an economic recovery is impossible until the spread of the virus has been controlled.

Sustain but modify the stimulus program

On the plus side, the program to prop up the rapidly collapsing economy was large and provided support to both families and businesses. The plan—designed to support the economy for several months—was appropriately large and was implemented quickly. Yet, the program suffered from several flaws: too much of the support for business went to companies that did not need such a large handout, while other deserving businesses have been unable to access support. And to-date support for state and local governments, which have seen a sharp downturn in revenues while largely being tasked with managing the COVID-19 response, has been woefully insufficient and will lead to widespread layoffs if not corrected. Thus, while this brief is not the place for a detailed discussion of the stimulus efforts, we stress that sustaining such support is essential to help all workers—especially vulnerable older workers.

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30. Johns Hopkins University. "COVID-19 Dashboard by the Center for Systems Science and Engineering." Accessed July 22, 2020. https://coronavirus.jhu.edu/map.html.

Strengthen Social Security

The COVID-19 recession has sharply reduced tax revenues, including Social Security payroll taxes. There has also been a decline in interest rates that has lowered the return on the program's trust fund. As a result, projections expect the trust fund to run out about 4 to 5 years earlier than forecasts prior to the pandemic.[31] The Medicare Trust Fund is expected to be depleted in as early as 2023, three years earlier than pre-pandemic forecasts.[32]

Older workers have been pushed out of employment and private retirement assets have been hurt by the decline in equity values and by the prospect of vanishingly small interest rate returns for years to come. As a result, it seems certain that more people will draw Social Security benefits early and benefits will be a larger share of retiree incomes going forward.

It is high time that policymakers addressed Social Security solvency concerns—and the COVID-19 pandemic may provide the political push to get something done. In our view, the best approach is to increase revenues to the system by increasing the share of earnings subject to the tax. Any attempt at Social Security reform will lead to calls to increase the full retirement age, which is akin to a reduction in benefits. We do not see a good argument for this but, if it happens, it should be accompanied by an increase in the minimum benefit to ensure early retirees are not pushed into poverty.

As well as reforms to the system itself, there should be reforms to make Social Security more user-friendly and help older families get advice so they can get the most out of the program. When should people start collecting Social Security benefits? There is a powerful financial incentive to postpone collecting and increase the monthly benefit amount. But what if someone is out of work? Should they draw down their savings to postpone benefits? Should they borrow money to live on? What if spouses are of different ages, should they start drawing together or should the younger spouse wait? These are only a few of the tough questions facing people near retirement and it is very hard to find answers. A specially trained group of specialists at the Social Security Administration (SSA) should be assigned to help with answers to these questions, using phone and video calls or, if safe, in-person interviews. SSA should also run courses for financial advisors so they can help their clients find the right answers.

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31. The most recent Social Security Trustees report, which was published on April 22, 2020, leaves the estimated date of the Social Security Trust Fund depletion unchanged at 2035, but the report does not factor in COVID-19 impacts in its analysis. However, other projections that factor in COVID-19 effects estimate an acceleration of the depletion: the Bipartisan Policy Center expects that another recession would cause the trust fund to deplete in 2029; the Penn-Wharton Budget Model projects the depletion date between 2032 and 2034 due to the crisis compared to its baseline 2036 estimate; the Committee for a Responsible Federal Budget projects the depletion date at 2031.

32. The most recent Medicare Trustees report, like the Social Security Trustees report, does not factor in COVID-19 impacts in its analysis and leaves the projected depletion date for the Medicare Hospital Insurance Trust Fund unchanged at 2026. The Committee for a Responsible Federal Budget projects the COVID-19 crisis to accelerate the depletion of the trust fund to 2023 from 2026.

Labor market policies to help older workers

The damage to the labor market cuts across all age and ethnic groups and assistance should be provided to those who need it, regardless of who they are. For example, young people just entering the labor market are particularly hard-hit and need help, otherwise they may suffer permanent damage to their job paths. The focus of this brief is, however, on the needs of retirees and those approaching retirement and we will emphasize programs that can help this group. In most cases workers of all ages would be helped by our suggested policies.

1. *Strengthen anti-discrimination laws.* The Age Discrimination in Employment Act (ADEA) of 1967 has been weakened and should be restored to reduce both actual and perceived age discrimination. It is currently too hard for workers to demonstrate workplace bias. The ADEA should be put on the same legal basis as other anti-discrimination statutes.

2. *Lower the cost of employing older workers/raise take-home pay.* Once a worker has been employed for a minimum number of years, both employer and employee portion of Social Security payroll taxes could be eliminated or lowered—raising workers' take-home pay and reducing the cost of hiring older workers. Another option is to allow employees at age 65 to enroll in Medicare, rather than remaining on their employer's health insurance program; this could be a particular benefit given the increased health risks from COVID-19.[33] Given the Social Security and Medicare trust funds are in danger of running out, it may seem foolish to propose reducing tax contributions to this fund. However, if lowering the cost of employing older workers increases employment, the total revenues to the federal government may not be reduced, or at least not by much.

3. *Improved access to the Earned Income Tax Credit (EITC).* Low-wage older workers pay too much in explicit and implied taxes and are thus discouraged from working. Expanding the EITC for older workers would give these workers an incentive to keep working and help build a more secure retirement.[34]

4. *Connecting older workers to jobs.* The pandemic-induced economic shock has depressed employment and resulted in a wave of bankruptcies, but its impact has not been uniform. It has accelerated a trend towards greater use of technology and online resources: the market share of retailers like Amazon has grown; other retailers have expanded their online presence and delivery services; educational and health care institutions are using video tools; and restaurants are delivering meals using robots to customers' homes.

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33. Clark, Robert L., and John B. Shoven. 2019. "Enhancing Work Incentives for Older Workers: Social Security and Medicare Proposals to Reduce Work Disincentives." Retirement Security Project, Brookings Institution. https://www.brookings.edu/research/enhancing-work-incentives-for-older-workers-social-security-and-medicare-proposals-to-reduce-work-disincentives/.

34. Munnell, Alicia H., and Abigail Walters. 2019. "Proposals to Keep Older People in the Labor Force." Retirement Security Project, Brookings Institution. https://www.brookings.edu/research/proposals-to-keep-older-people-in-the-labor-force/.

As the economy emerges from this crisis, it is vital that workers understand how the labor market has shifted, the industries and jobs where there are permanent job declines, and the places where new opportunities have opened up. Governors and the new Administration should lead an effort to inform Americans about which firms are hiring, what skills are needed and how to obtain those skills. This initiative should be under the leadership of the Department of Labor, working in collaboration with state labor departments and private-sector employers and job-finding companies. Federal funding should support this effort. There should be a special taskforce within this initiative identifying jobs suitable for older workers and firms willing to hire older workers.

5. *Research into the best way to provide training to older workers.* Technology has opened up new ways of learning but, thus far, educational technology has been disappointing. There are some success stories, such as the training programs provided by the armed forces. A rush program is needed to determine what works and what does not, including an examination of training methods used overseas—with a marked focus on virtual training that can be provided during the pandemic.

6. *Mentoring.* Support should be provided for mentoring programs. Many people, young and old, do not know how to search for suitable jobs, how to prepare a résumé, what to expect in an interview, and how to express strengthens by discussing their backgrounds and experience.

Other policies to help retirees

The pandemic's damage extends well-beyond the labor market. Many older Americans are experiencing declines in their living standards while dealing with the most severe health risk to older people in a century. Policymakers can help ease their pain by both providing care options that reduce the health risk faced by older Americans, buffering ways for older Americans to access illiquid wealth, and strengthening the safety net for vulnerable seniors.

1. *Alternatives to care institutions.* The pandemic revealed how the risk of spreading infections in nursing homes can endanger older Americans. Lessons will be learned from COVID-19 and improvements must be made to reduce the spread of infection among those in institutions. But another lesson is that people of advanced ages may be safer in their own homes, rather than being housed together with others who are vulnerable. To facilitate this, Medicaid support for home and community-based care should be expanded so that beneficiaries can immediately receive in-home care.

2. *Improving the market for long-term care insurance.* The cost of end-of-life care can be astronomical. For example, nursing home care for a person with Alzheimer's can be $100,000 a year or more. This can exhaust the retirement savings of middle-class or even affluent families. Theoretically, long-term care insurance can cover this cost, but in practice few people purchase and maintain these policies. The market suffers from other shortcomings: policies are rarely offered by employers; are expensive relative to the cost of care; the coverage is

often limited and may expire; policies are often unappealing to younger consumers; and the Medicaid backstop for low-income families provides ample incentives for some families to forego coverage.

In other insurance markets, the federal government has provided support for a nascent industry or offered a federal backstop; examples include the mortgage market and flood insurance. These experiences provide caution against undue federal interference that may end up costing the American taxpayer. Nevertheless, it would be in the interests of the federal government to provide greater incentives for the purchase of standardized long-term care insurance policies available as part of employer-retirement benefit packages or for purchase by individuals. These policies would also provide for in-home care, for the reasons described in the above discussion. If the federal government can avoid someone moving onto a Medicaid end-of-life care program by incenting the purchase of private insurance, it can potentially save the federal government billions.

3. *Improve access to home equity*. Many families approaching retirement, or that have been forced into retirement by the COVID-19 recession, have very low levels of financial assets but own significant equity in their family homes. A reverse mortgage, which allows homeowners to borrow against their home without repayment until they leave the property, is one option for those with disproportionate wealth in home equity. The drawback to the current market, however, is that borrowing can be exceptionally expensive in terms of fees and interest rates. Commonsense reforms to the federal reverse mortgage program (the Home Equity Conversion Mortgage program, or HECM) can help older families access this source of wealth without paying the high fees currently assessed by this market. For example, as outlined in a recent paper by Stephanie Moulton and Donald Haurin, changing program rules to offer a streamlined small-dollar reverse mortgage or offering a product that converts traditional mortgages to reverse mortgages can help particular segments of the population.[35]

4. *Improved guidance and protections for elders*. We have argued that there should be a program of counselling set up to advise families on when to start drawing Social Security benefits. As part of this program, advice should be made available to any older household to help them determine how to make the best use of all their financial resources, including both the equity in their home and the value they have in future Social Security benefits.

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35. Moulton, Stephanie, and Donald Haurin. 2019. "Unlocking Housing Wealth for Older Americans: Strategies to Improve Reverse Mortgages." Retirement Security Project, Brookings Institution. https://www.brookings.edu/research/unlocking-housing-wealth-for-older-americans-strategies-to-improve-reverse-mortgages/.

As part of this counselling effort, increased attention should also be paid to elder financial exploitation—which some believe becomes more prevalent during recessions.[36] Even in normal economic times, this exploitation is prevalent, impacting between three percent and six percent of older Americans in any given year.[37] The Consumer Financial Protection Bureau recently noted that less than one-third of "Suspicious Activity Reports" of elder financial exploitation were filed with appropriate authorities, and that roughly half of states do not mandate that financial institutions take this step.[38] While recent legislative bills— the Senior Safe Act and the Elder Abuse Prevention and Prosecution Act—take aim at the issue of elder exploitation, more can be done.

5. *Better nutrition support*. One of the devastating consequences of the pandemic was a sharp uptick in food insecurity among U.S. households. One analysis found that the share of food insecure households rose from 8.5 percent to 23.0 percent over the course of the pandemic.[39] Even before the pandemic, food insecurity was a problem for older adults: a University of Michigan survey of older Americans found that one-in-seven respondents experienced household insecurity in 2019.[40] To help address food insecurity among older Americans, Congress should increase spending for SNAP benefits and provide additional grants to state governments for food delivery, which can be a binding factor for older households given the danger associated with being in public.

The need to sustain federal support

In April of this year, CBO estimated that the federal deficit for the fiscal year 2020 would be $3.7 trillion and the federal debt would be 101 percent of GDP by the end of the fiscal year (September 30, 2020).[41] Even prior to COVID-19, their projections envisaged annual

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36. Jacob H. Zamansky. 2010. "Financial Elder Abuse Rampant In Economic Downturn." *Forbes*. https://www.forbes.com/2010/02/19/financial-elder-abuse-personal-finance-brokers-zamansky.html#46c6168f1087.
37. U.S. Securities and Exchange Commission. 2018. *Elder Financial Exploitation: Why it is a Concern, What Regulators are Doing About it, and Looking Ahead.* https://www.sec.gov/files/elder-financial-exploitation.pdf.
38. Consumer Financial Protection Bureau. 2019. *Suspicious Activity Reports on Elder Financial Exploitation: Issues and Trends*. https://files.consumerfinance.gov/f/documents/cfpb_suspicious-activity-reports-elder-financial-exploitation_report.pdf.
39. Bitler, Marianne P., Hilary W. Hoynes, and Diane Whitmore Schanzenbach. 2020. "The Social Safety Net in the Wake of COVID-19." Brookings Papers on Economic Activity Conference Draft, Summer 2020. https://www.brookings.edu/bpea-articles/safety-net-programs-and-poverty-during-the-covid-19-crisis/.
40. University of Michigan. 2020. *How Food Insecurity Affects Older Adults*. https://deepblue.lib.umich.edu/bitstream/handle/2027.42/155333/NPHA_Food-Insecurity-Report-FINAL-05102020-doi.pdf?sequence=4&isAllowed=y.
41. Swagel, Phill. 2020. "CBO's Current Projections of Output, Employment, and Interest Rates and a Preliminary Look at Federal Deficits for 2020 and 2021." CBO Blog, Congressional Budget Office. https://www.cbo.gov/publication/56335.

deficits of over $1 trillion far into the future. The federal government can only run enormous deficits like these as long as investors are willing to buy the Treasury bills and bonds used to fund the deficits. Who is buying all this debt? And will they keep doing so? While Americans regularly buy the debt—so do foreign residents, including foreign governments and private entities. Another large purchaser is the Fed, which stepped in as a large buyer of this debt during the financial crisis and is now stepping in again.

We do not know how much the federal government can borrow before asset holders, foreign and domestic, slow down their purchases of U.S. Treasuries, push up interest rates and push down the value of the dollar. What seems more certain is there will be Congressional pressure to rein in spending in the years ahead, regardless of political party. This will lead to proposals to reduce social programs, including possible cuts to Medicare, Medicaid, and Social Security. We argued above that Social Security needs to be strengthened and the same is true for Medicare and Medicaid. The right answer is to get a better balance between tax revenues and spending needs, recognizing there is a societal obligation to make sure the poor and the elderly are protected against poverty and have access to essential health care. Putting Social Security, Medicare, or Medicaid on the chopping block as part of a fiscal austerity package could yield dire results for seniors, especially those with limited assets and income sources.

The initial policy response to supporting the economy was flawed but has nonetheless helped substantially. This federal support needs to be sustained and accompanied by major additional steps. For older Americans, the policy response to date has been insufficient given the overwhelming challenges they face. Widespread deaths in group living quarters for older Americans demands an immediate response, as the rise in deaths for this population has been perhaps one of the most damaging impacts of the pandemic. Providing better access to long-term care services, helping to keep older workers employed, and improving affordable access to home equity will help ease the pain. In the long run, taking steps to make sure that the bedrock public entitlement programs are largely protected is the most important step to preserving the health of the U.S. retirement system.

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