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## A Roundup of Crisis-Related Research

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By Editor Test      *Wed, Jan 5, 2011*

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*Here are summaries of some of the newest work published by the Center for Retirement Research at Boston College.*

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The Great Recession threw millions of people out of jobs and thousands of people out of their financially inverted homes. In the process, it also played havoc with the lives of Baby Boomers who were saving for retirement or getting ready to retire.

But how much, exactly, did it impact Boomers? Did it force them to retire earlier or later than expected? How many were affected? These and other questions are the topics of several new papers from the Center for Retirement Research at Boston College.

Here's a roundup of the findings of several recent studies from researchers at the CRR or affiliated with it:

### **Did the crisis force older men to retire early?**

Did the financial crisis, which nearly doubled the overall unemployment rate in the U.S., force older men out of the work force and into involuntary retirement? Yes, but not by a lot, according to Barry P. Bosworth and Gary Burtless of the Brookings Institution.

"We estimate that the 4.6 percentage-point increase in prime-age unemployment between 2007 and 2009 reduced the [labor force] participation rate of 60-74 year-old men by between 0.8 and 1.7 percentage points," they said in their report, "Recessions, Wealth Destruction, and the Timing of Retirement."

"A weak job market and plummeting asset returns almost certainly have effects in the expected direction," they wrote, referring to the reduction in employment among older men. "Those effects, however, are small in relation to variations we have seen in labor force participation, retirement rates, and pension claiming behavior over the past three decades."

While the business downturn cost some older men their jobs, the drop in investment and housing values compelled other older men to work longer, Bosworth and Burtless noted, and the two trends effectively offset each other. The crisis affected the employment of older women less than it affected men, the research also showed.

### **Life after a "force-out" can be messy**

But those findings don't mean that the financial crisis didn't play havoc with the careers of many American men in their 50s. Even among those who found new work after a layoff or force-out, life became "messy," according to Steven A. Sass and Anthony Webb of the Center for Retirement Research.

"Involuntary and pressured job loss between ages 50 and 56 is often followed by 'messy' employment patterns, so that focusing solely on the first post-displacement job fails to capture the long-term

consequences of involuntary job loss,” they write.

“Displaced workers... are more likely to job-hop, to suffer further involuntary job losses, and to experience subsequent unemployment than those who were still working for their age-50 employer at age 56,” they add. The disruptions, of course, often strike during what should have been the prime retirement-saving years, and “increase the risk that [the workers] will be unable to maintain their pre-retirement standard of living in retirement.”

People who lose jobs between ages 50 and 56 are much less likely to be working full-time or at all at age 60, the authors note, adding that the outlook for older workers has trended worse over the years. In the early 1980s, almost three out of four men ages 58 to 62 were still working for the same company that employed them at age 50. Today, that’s true for less than half of men.

### **If the retirement age goes up, will 62-year-olds claim disability?**

Some policymakers worry that if Congress raises the full retirement age, or FRA, to take financial pressure off the Social Security program, the policy could backfire because people might simply file for disability insurance (SSDI) instead, and no overall savings will result.

After sifting through the data, Norma Coe and Kelly Haverstick of the Center for Retirement Research found that while the number of applications for SSDI might go up after an increase in the FRA, those applications won’t necessarily be granted.

“The characteristics of the SSDI application pool could change dramatically due to the increase in the FRA. Indeed, we do find significant differences in the applicants based on birth year.

“However, these changes in the applicant pool only lead to a decreased acceptance rate on the SSDI program once one applies. The SSDI recipient pool does not seem to change; we find no increase in SSDI benefit receipt based on birth year between age 55 and the FRA, once controlling for health and the determinants of SSDI insurance coverage.

### **Women and Social Security: Are the incentives misplaced?**

The changing role of women in the workforce over the past few decades has not been matched by a change in the Social Security program’s treatment of women. More women than ever are working, but the program’s spousal and widow’s benefits mean that a woman could receive lower benefits after working and contributing to the program than she might receive if she had never worked or contributed.

In their paper, “The Treatment of Married Women by the Social Security Retirement System,” Andrew G. Biggs, Gayle L. Reznik, and Nada O. Eissa suggest that these incentives be reversed, given the need to increase overall participation in the labor force as America ages and the ratio of workers to retirees falls.

They note two commonly proposed reforms to incentivize women to work outside the home. The first proposal would cap spousal benefits for high earning households, so that women could earn higher Social

Security benefits by working and paying payroll taxes. A second reform proposal would increase widow's benefits to 75% of the total benefits received by the couple when both were alive. This would produce a widow's benefit that, in some cases at least, would in part depend on the earnings of the wife.

Times have changed, the researchers point out. "In 1960, the median first marriage for women occurred at age 20, leaving relatively little time for paid work prior to getting married. By 2003, the median value had risen to over age 25 and for educated women with the highest potential earnings marriages were delayed further.

"Thus, women today have more significant earnings prior to marriage and, due to higher rates of divorce, have a greater likelihood of needing to rely upon their own earnings to support themselves both in the present and, through saving and contributing to Social Security, in retirement.

### **A weak link, if any, between foreclosure and retirement security**

Although the collapse of the real estate bubble caused a drop in housing values and a foreclosure epidemic, particularly in overbuilt areas in the South and West, older Americans do not seem to have suffered greatly as a result, according to "What Is the Impact of Foreclosures on Retirement Security," a paper by Irena Dushi of the Social Security Administration, Leora Friedberg of the University of Virginia, and CRR's Anthony Webb.

"Almost all of the housing wealth gains observed for cohorts aged 51-56 between 1992 and 2004 were erased by 2010, while their mortgages have grown throughout," but "households nearing retirement have lower rates of housing distress than younger households, by measured by arrears and foreclosure rates," they found.

The incidence of mortgage arrears and foreclosure among older households is relatively low, in comparison to the national average. Our projections suggest that the risk of arrears will increase to 3.4% among older households in 2010, and 4.4% by 2012.

Housing distress, when it does occur, is significantly related to layoffs and health shocks, as well as high loan-to-value ratios observed in 2006. Moreover, the incidence of housing distress is greater among ethnic minorities, even after controlling for income and education, possibly reflecting unfavorable mortgage terms.