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Rising Senior Unemployment and the Need to Work at Older Ages

Richard W. Johnson

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The Retirement Policy Program

A crosscutting team of Urban Institute experts in Social Security, labor markets, savings behavior, tax and budget policy, and micro-simulation modeling ponder the aging of American society.

The aging of America raises many questions about what's in store for future and current retirees and whether society can sustain current systems that support the retired population. Who will prosper? Who won't? Many good things are happening too, like longer life and better health. Although much of the baby boom generation will be better off than those retiring today, many face uncertain prospects. Especially vulnerable are divorced women, single mothers, never-married men, high school dropouts, and lower-income African Americans and Hispanics. Even Social Security—which tends to equalize the distribution of retirement income by paying low-income people more then they put in and wealthier contributors less—may not make them financially secure.

Uncertainty about whether workers today are saving enough for retirement further complicates the outlook. New trends in employment, employer-sponsored pensions, and health insurance influence retirement decisions and financial security at older ages. And, the sheer number of reform proposals, such as personal retirement accounts to augment traditional Social Security or changes in the Medicare eligibility age, makes solid analyses imperative.

Urban Institute researchers assess how current retirement policies, demographic trends, and private sector practices influence older Americans' security and decisionmaking. Numerous studies and reports provide objective, nonpartisan guidance for policymakers.

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Unemployment rates for older workers reached record levels in 2009, partly because fewer workers eligible for early retirement benefits are dropping out of the labor force. Growing concerns about the adequacy of retirement savings and whether retirees will have enough money to live comfortably in later life appear to have discouraged early retirement. Instead, more older workers are now remaining in the labor force and searching for work after they lose their jobs. The need for older adults to keep working raises the imperative for new policies that help address the special challenges that older job seekers face.

Introduction

The 2007–09 recession hit workers hard. The unemployment rate reached 9.7 percent in August 2009, the highest level in 26 years. That translates into 14.9 million adults out of work and actively seeking employment. The true impact on the labor market has been even greater. Millions of workers were employed part-time because they couldn't find full-time employment, and some nonworking adults were not included in the official unemployment count because they had become so discouraged by their poor job prospects that they dropped out of the labor force and stopped looking for work. With these two groups factored in, the share of the labor force that was unemployed or underemployed rose to about 16 percent in August. The one piece of good news is that average wages for those workers who have remained employed did not fall as employment contracted.

Unlike previous economic downturns over the past 30 years, this recession has not spared older workers. Those earlier recessions raised unemployment rates at older ages, but the increases were modest. Seniority rules, especially in unionized workplaces, generally protected older workers from layoffs. And in the past, many workers who lost their jobs at age 62 or older would drop out of the labor force, choosing to retire and collect Social Security benefits instead of searching for new jobs. As a result, relatively few older adults were included within the ranks of the unemployed. In 2009, however, unemployment rates for older workers have reached record levels, partly because fewer workers eligible for early retirement benefits are dropping out of the labor force. Growing concerns about the adequacy of retirement savings and whether people will have enough money to live comfortably in retirement, magnified by the 2008 stock market collapse, appear to have discouraged early retirement. Instead, more older workers are now remaining in the labor force and searching for work after they lose their jobs. The need for older adults to keep working raises the imperative for new policies that help address the special challenges that older job seekers face.

Unemployment Rate Trends for Older Workers

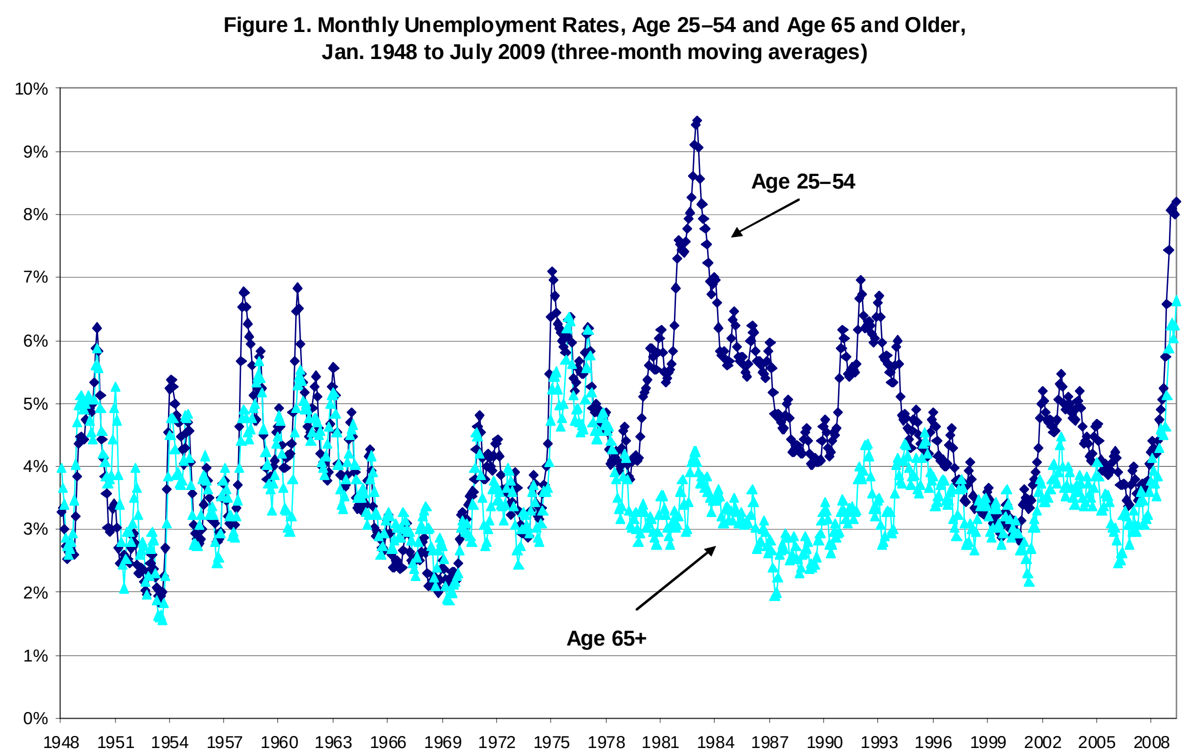
Joblessness among older workers has soared in recent months. According to Bureau of Labor Statistics (BLS) data, about 2 million adults age 55 or older were unemployed in August 2009. That's more than double the number unemployed in November 2007, just before the recession began. At age 55 to 64, the August 2009 unemployment rate was 7.1 percent for men and 6.7 percent for women. At age 65 and older, the unemployment rate was 6.9 percent for men and 6.7 percent for women. Senior jobless rates were even higher earlier in the year. For adults age 55 to 64, the July unemployment rate hit 7.4 percent for men, the highest rate in 26 years, and 7.1 percent for women, the highest rate recorded for women in that age group since the federal government began compiling age-specific rates in 1948. For adults age 65 and older, the unemployment rate reached 7.6 percent for men in February and 7.3 percent for women in July, both all-time highs.

Unemployment rates are much higher among older adults with limited education. Data from the Current Population Survey, the source for the BLS's official unemployment numbers, show that 10.8 percent of workers age 65 or older who had not completed high school were unemployed in July 2009, compared with 5.8 percent of their counterparts who completed four or more years of college (Johnson and Mommaerts 2009). Back in November 2007, the unemployment rate gap between older workers who lacked a high school diploma and those with a four-year college degree was only 2.5 percentage points.

Although the recession has touched all segments of the older workforce, the effects have been concentrated within certain industries. July 2009 unemployment rates for those age 55 and older were highest in the construction (15.8 percent), information (10.8 percent), manufacturing (10.4 percent), and leisure and hospitality (7.7 percent) industries. Nearly two-thirds (63.5 percent) of all older unemployed workers were last employed in manufacturing, construction, wholesale and retail trade, education, or professional services. Unemployment rates for older workers were lowest in health services (3.7 percent), public administration (5.2 percent), and finance (5.2 percent).

Old-age unemployment rates have always increased during recessions, of course, but in recent downturns, they have increased more slowly for older workers than for younger workers. Consistent with recent patterns, unemployment today remains less prevalent among older workers than their younger counterparts. However, the gap is smaller today than it was in the 1981–82, 1990–91, and 2001 recessions. Figure 1 shows three-month moving averages of the unemployment rate between February 1948 and June 2009, for workers age 25 to 54 and those age 65 and older. Before 1980, monthly unemployment rates for workers age 65 and older were similar to those for workers age 25 to 54 (so-called prime-aged workers). From 1948 to 1979, the average monthly differential was only 0.1 percentage points. Beginning in 1980, however, the unemployment rate for older workers fell substantially below the rate for younger workers. From 1980 to 2007, the average monthly shortfall was 1.7 percentage points. The age-65-and-older unemployment rate did not increase much during the 1981–82 and 1990–91 recessions, but grew substantially for younger workers.

The gap is narrowing again, however. Between the start of the current recession in December 2007 and July 2009, the average monthly unemployment rate for workers age 65 and



Source: Author's calculations based on data from BLS (2009a).

older was only 1.0 percentage points less than the average for workers age 25 to 54. During the deep 1981–82 recession, the shortfall for older workers was 3.8 percentage points.

Table 1 takes a closer look at unemployment among older workers during the 1981-82 recession and the current recession. It shows average unemployment rates by age over a four-month period near the end of the 1981–82 recession when unemployment peaked (November and December 1982 and January and February 1983) and over four recent months of the current downturn (April to July 2009). The table compares them with rates for the same months two years earlier, before the recessions began. Examining unemployment rates for the same months in different years eliminates seasonal effects that could distort comparisons.

First consider outcomes for men. The 2007 unemployment rates were similar to those in the months before the 1981–82 recession. At age 55 to 61, the two-year increase in the unemployment rate was about the same in the late 2000s as in the early 1980s. For older male

Table 1. Unemployment Rates at Older Ages During the 1981–82 and 2007–09 Recessions, by Sex and Age

	1981–1982 Recession			2007–2009 Recession		
	Before (%)	After (%)	Pct. Point Difference	Before (%)	During (%)	Pct. Point Difference
Men						
55–61	3.7	7.3	3.6	3.2	7.3	4.1
62–64	3.6	4.9	1.3	2.6	6.3	3.7
65–69	3.3	5.0	1.7	3.7	6.6	2.9
70 and older	2.8	4.1	1.3	2.9	6.5	3.6
Women						
55–61	4.2	5.8	1.6	3.0	6.3	3.3
62–64	4.6	5.8	1.2	2.0	5.6	3.6
65–69	3.9	3.3	-0.6	3.0	6.8	3.8
70 and older	1.4	2.0	0.6	3.9	5.6	1.7

Notes: In 1981–82, the "before" rates are averages of November and December 1980 and January and February 1981, and the "after" rates are averages of November and December 1982 and January and February 1983. In 2007–09, the "before" rates are averages of April, May, June, and July 2007, and the "during" rates are averages of April, May, June, and July 2009.

Source: Author's computations from the Current Population Survey.

workers, however, unemployment rates have increased more rapidly today than they did 26 years ago. At age 62 to 64, for example, male unemployment rates increased 3.7 percentage points between 2007 and 2009, compared with 1.3 percentage points between 1981 and 1983. At age 70 and older, rates increased 3.6 percentage points today but only 1.3 percentage points in the early 1980s.

Patterns for women are similar, with unemployment rates for workers age 62 to 69 increasing about 4 percentage points today but hardly increasing at all between 1981 and 1983. Unlike male unemployment rates, female rates at age 55 to 61 also grew about twice as fast over the past two years as they did in the early 1980s.

It's not entirely clear what's behind the recent surge in old-age unemployment, but the declining influence of seniority rules is one likely suspect. In past recessions, older workers were less likely to lose their jobs than younger workers, but their advantage has declined since 1984 and had virtually disappeared by 2004 (Munnell et al. 2006). Low layoff rates for older workers appear to have resulted largely from older workers' relatively long tenure. Less experienced workers, who were generally younger than their their more experienced colleagues, were generally laid off first. That advantage is eroding, however, as workers become increasingly mobile and spend less time with one employer. The declining power of labor unions, which generally protect older, long-tenured workers, may also explain part of the unemployment growth at older ages. Data tracking individuals over time do not yet cover the current recession, so it's impossible to know with certainty whether these age-related trends in layoff rates are continuing, but there's nothing to suggest that they have stopped.

Another reason for the increase in unemployment at older ages is that older men tend to spend more time out of work than their younger counterparts. BLS estimates show that in July 2009, 45 percent of unemployed men age 65 and older and 44 percent of unemployed men age 55 to 64 had been unemployed for at least 27 weeks (BLS 2009b). By comparison, only 36 percent of unemployed men age 35 to 44 had spent at least 27 weeks looking for work. (Older unemployed women, however, do not spend much more time out of work than younger unemployed women.) The reasons for these age differences in unemployment spell duration are not well understood. Older men may engage in less intensive or less effective job search activities than other unemployed people. They may be more selective about employment opportunities, waiting for the near-perfect job that offers the best package of wages and benefits. Employers may be reluctant to hire them, perhaps because they believe that older workers lack appropriate skills or are too expensive. Or older workers may face discrimination in hiring decisions. Age discrimination claims soared in 2008 (Equal Employment Opportunity

Commission 2009), and some research suggests that employers discriminate against older job applicants (Lahey 2008), although the evidence is not conclusive (Neumark 2009).

The New Work Imperative for Older Adults

Older adults' rising labor force participation is at least partly responsible for the growth in old-age unemployment. Table 2 reports the share of men and women in the labor force in 1980–81 and 2007 and how these shares changed over the next two years. Over the course of the early 1980s recession, participation rates fell for both younger and older men, and generally declined more steeply at older ages than younger ages. Between 2007 and 2009, younger men's participation rates also declined, but rates for their older counterparts increased. Participation rates grew especially rapidly—by 4.5 percentage points in only two years—for men age 62 to 64, nearly all of whom qualify for reduced Social Security retirement benefits. Rates also increased by 2 percentage points for men age 65 to 69.

The share of older women in the labor force also increased between 2007 and 2009, although generally more slowly than for men. For example, participation rates increased by 1.9 percentage points over the two-year period for women age 62 to 64. By contrast, older women's participation rates did not change much between 1981 and 1983. However, younger women were more likely to participate in the labor force in 1983 than 1981, reflecting the general increase in women's involvement in the labor market during the 1980s and perhaps married women's efforts to offset earnings lost by their husband during the recession.

Many factors play a role in the growing labor force participation of older adults. For example, Social Security reforms have increased work incentives at older ages. These changes include raising the program's full retirement age, eliminating the retirement earnings test after

Table 2. Labor Force Participation Rates During the 1981–82 and 2007–09 Recessions, by Sex and Age

	1981–1982 Recession			2007–2009 Recession		
	Before (%)	After (%)	Pct. Point Difference	Before (%)	During (%)	Pct. Point Difference
Men						
25–34	94.6	94.2	-0.4	92.4	90.4	-2.0
34–54	93.5	93.3	-0.2	90.2	89.5	-0.7
55–61	79.0	77.6	-1.4	75.6	75.9	0.3
62–64	50.0	48.9	-1.1	50.8	55.3	4.5
65–69	28.0	26.6	-1.4	33.8	35.8	2.0
70 and older	12.9	12.0	-0.9	14.4	14.5	0.1
Women						
25–34	66.6	69.1	2.5	74.4	75.3	0.9
34–54	64.4	65.9	1.5	75.2	75.8	0.6
55–61	46.1	47.1	1.0	63.5	66.2	2.7
62–64	28.6	29.5	0.9	41.0	42.9	1.9
65–69	14.6	14.7	0.1	25.4	26.5	1.1
70 and older	4.4	4.4	0.0	7.7	8.2	0.5

Notes: In 1981–82, the "before" rates are averages of November and December 1980 and January and February 1981, and the "after" rates are averages of November and December 1982 and January and February 1983. In 2007–09, the "before" rates are averages of April, May, June, and July 2007, and the "during" rates are averages of April, May, June, and July 2009.

Source: Author's computations from the Current Population Survey.

the full retirement age (which reduced beneficiaries' Social Security payments if they earned more than a limited amount), and increasing the delayed retirement credit (which raises benefits for those who wait until after the full retirement age to claim Social Security). The erosion of traditional defined-benefit pension coverage reduced work penalties at older ages, because most traditional pension plans force participants to forfeit retirement benefits if they work beyond the plan's retirement age. Work has generally become less physically demanding (Johnson, Mermin, and Resseger 2007), enabling more older adults to remain employed.

Much of the increase in seniors' labor force participation rates stems from growing concerns about retirement income security. Questions about the adequacy of retirement savings came to a head when the stock market collapsed in 2008, but they have been building for decades. The long-term decline in employer-sponsored defined-benefit pension plans and retiree health benefits, increases in out-of-pocket health and long-term care costs, and the erosion in the share of pre-retirement earnings replaced by Social Security have raised concerns about the adequacy of boomers' retirement savings. Surveys indicate that many boomers worry about having enough money in retirement, fears confirmed by several studies (Munnell, Webb, and Golub-Sass 2007), although other experts are more optimistic (Scholz, Seshadri, and Khitatrakun 2006).

Working longer may be the best solution for those approaching retirement with inadequate savings (Munnell and Sass 2008). By extending their careers, seniors accumulate more Social Security and 401(k)-plan credits, receive additional earnings that they can partly save for retirement, and shorten the period over which their savings must be spread.

Long before the current recession, older Americans had already begun working more than they did a few years ago. Between 1991 and 2008, labor force participation rates at age 65 to 69 increased 11 percentage points for men and 9 percentage points for women (BLS 2009a). These are substantial gains. In relative terms, they signify a 44 percent increase for men over the period and a 55 percent increase for women. The gains for men are particularly striking because they reverse a sharp downward trend in older men's labor supply that lasted for most of the 20th century.

Policy Implications

Because fewer older workers are now choosing to retire when the economy slumps, older adults' unemployment rates have reached new highs. Some encouraging economic news suggests that the recession may have ended in the summer of 2009, but if true, it won't be official for months. The National Bureau of Economic Research, which decides when recessions start and end, usually announces the end of a recession more than a year after the fact because it takes so long to collect and analyze the necessary data. Even if the recession is over, relief for older workers may be a long way off. Unemployment rates usually peak in the months after the end of a recession, because most employers are slow to resume hiring.

Unemployment has serious consequences at older ages. It usually takes older workers an especially long time to become reemployed. The earnings lost while out of work certainly make it more difficult for unemployed people to meet current spending needs. But unemployed older workers also forgo Social Security and pension credits and are less able to save, leaving them with less money in retirement. When older workers become reemployed, they usually end up earning much less than they did on their former jobs.

To help older unemployed workers, the federal and state governments should improve workforce development programs. One-Stop Career Centers, funded by the Workforce Investment Act of 1998 (WIA), provide valuable employment and training services. These centers serve workers of all ages, but there is some concern that performance appraisal standards discourage centers from serving older workers (General Accounting Office 2003). Some states have already taken additional steps to serve older workers through these programs. Ohio, for example, has tailored four centers specifically for seniors (Eyster, Johnson, and Toder 2008). But more needs to be done.

The Senior Community Service Employment Program (SCSEP), administered by the U.S. Department of Labor, is the nation's only workforce development initiative geared specifically to older adults. It helps workers age 55 and older with incomes below 125 percent of the federal poverty level gain job skills by offering training, such as computer classes; placing participants in subsidized, part-time community service assignments; and providing other supportive services. Because of funding constraints, however, SCSEP now serves only about 100,000 adults, just a small fraction of the older adults who could benefit.

Funding constraints limit the entire workforce development system. Government spending for WIA programs has declined by nearly 70 percent since the late 1970s (Holzer and Martinson 2008). More funding for job training and employment services could improve employment outcomes for older workers and bolster retirement security. The American Recovery and Reinvestment Act of 2009 provided some additional resources, boosting funding for WIA training and employment services by $3.95 billion and SCSEP by $120 million, but these programs remain underfunded.

In addition to receiving more funding, workforce development programs could be redesigned to better serve workers of all ages. Workforce development programs should promote partnerships between education providers and employers in key industries, and should systematically identify labor-market opportunities in growing sectors of the economy in each state (Holzer 2008). It is important that programs offer participants financial supports, such as modest stipends, to improve access to education and training. Otherwise, those who need training most would not generally be able to afford it.

Other reforms could also help older workers. Congress could change Medicare secondary payer rules to require the federal health insurance program to provide primary coverage to workers age 65 and older with employer-sponsored health benefits, instead of forcing these older workers to rely primarily on their employer's insurance. This change would reduce the cost of employing older workers, boosting their employment prospects. Congress could eliminate Social Security payroll taxes for workers beyond the system's full retirement age, since most don't gain much in benefits from those additional contributions. More support for family caregivers would help those struggling to balance work with elder care responsibilities. All of these initiatives, however, would further drain government resources at a time of record federal deficits. Reforming labor laws to promote workplace flexibility might also keep more older workers employed, without adding to the deficit.

As the nation ages, the economy will increasingly depend on contributions made by older workers. BLS (2009a) data indicate that adults age 55 and older made up 18 percent of the nation's workforce in 2008, the highest share in more than 40 years. That share will increase in coming decades as the population grows older. Sound policy reforms could help older workers realize their full potential, benefiting seniors and promoting economic growth.

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