How Is the Financial Crisis Affecting Retirement Savings? May 2009, Update

Mauricio Soto

The stock market gained 35 percent between March 9, 2009 and May 5, 2009. For those who held on to their equities, these gains reversed some of the massive losses experienced since September 2007.

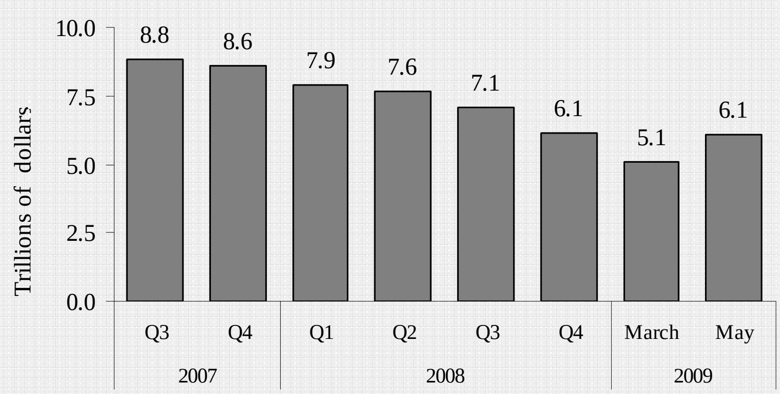
How Much Have Retirement Accounts Fallen?

- Updated estimates from the Board of Governors of the Federal Reserve indicate that assets in retirement accounts (defined contribution plans and IRAs) reached $8.8 trillion on September 30, 2007. About 70 percent of these assets were invested in stocks. We estimate that, as of May 5, 2009, retirement accounts held about $6.1 trillion in assets – a loss of $2.7 trillion (31 percent) since September 2007 (figure 1).
- Retirement accounts, however, are well off their lows. These accounts gained approximately $1 trillion between March 9, 2009 and May 5, 2009 (figure 1).

How Is the Financial Turmoil Affecting Older Americans?

- Older households are not isolated from market swings. Before the financial crisis, households age 50 and older typically held half their retirement assets in equities. Although stock losses likely reduced equity exposure, part of their retirement security remains at the mercy of the market.
- Losses in retirement assets could force older adults to remain in the labor force. But the slowing economy could limit their employment prospects. In fact, the unemployment rate for older adults recently reached the highest level recorded since 1948 (Johnson and Mommaerts 2009).

Figure 1. *Accumulations in Retirement Accounts, 2007-2009*



Source: Author's calculations using the 2009 Flow of Funds Accounts of the United States, the Consumer Price Index, and the Russell 3000 Index.

Note: Estimates are for end of quarter (2007-2008), March 9, 2009, and May 5, 2009. These estimates are expressed in constant 2009 dollars.

Reference

Johnson, Richard W. and Corina Mommaerts. 2009. "Unemployment Rate Hits All-Time High for Adults Age 65 and Older." Washington, DC: The Urban Institute.

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