

Provide Protections From Retirement's Pitfalls

Richard W. Johnson

The nonpartisan Urban Institute publishes studies, reports, and books on timely topics worthy of public consideration. The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders.

Document date: September 05, 2006

Released online: September 05, 2006

washingtonpost.com

With Americans living longer and healthier than ever before, many aging baby boomers have rallied behind the cliché that 60 is the new 40. Some act as if they've discovered a fountain of youth that will extend their robust health and steady employment indefinitely.

But as earlier generations discovered, many things can go wrong as people approach retirement. Health fails. Spouses take sick or die. Marriages end. Investments sour. People lose their jobs. And these shocks exact a high price -- out-of-pocket medical bills, reduced earnings, disrupted saving -- that often forces people to prematurely tap into their retirement nest eggs. Policymakers need to be mindful of some sobering statistics on personal setbacks as they consider ways to reform Social Security, Medicare, and Medicaid, which threaten to bankrupt the federal government as the population ages.

My research colleagues Gordon Mermin and Cori Uccello and I recently gathered hard facts on the boomer school of hard knocks. We found that more than 4 in 10 adults age 51 to 61 in 1992 were diagnosed with major new medical conditions -- including heart disease, cancer, serious lung ailments, diabetes, strokes, and psychiatric problems -- between 1992 and 2002. About one-third developed health problems so severe that they had to cut back on work or retire early. About 10 percent of married people became widowed; another 3 percent divorced.

Older adults also work in an uncertain job market as retirement nears. Almost one in five was laid off between 1992 and 2002. Remarkably, these jobs were lost during the longest economic expansion in U.S. history, when unemployment rates fell to historic lows. The next generation could approach retirement in far tougher economic times.

Combining all of these shocks, we found that about 7 in 10 adults age 51 to 61 in 1992 developed a health problem, lost a spouse to death or divorce, or became unemployed during the 10 years ending in 2002.

People with limited education, who tend to have lower income, are especially vulnerable to the slings and arrows of outrageous fortune as retirement approaches. Seventy-seven percent of high school graduates age 51 to 61 experienced one of these shocks over a 10-year period, compared with about 61 percent of college grads. Serious medical conditions struck more than half of unmarried high-school dropouts but fewer than one-third of college grads. Do the math: people with limited schooling and income face the highest risks of setbacks.

Married people are less likely to develop health problems than single people. Yet, the wedded face the added risks of divorce and of seeing their spouses get sick, die, or lose their jobs. When things go wrong for spouses, the financial consequences can be just as serious as when one's own health fails or other misfortune strikes. With spousal health problems factored in, the share of married people age 51 to 61 experiencing major setbacks over a decade jumps to 87 percent. For single people, it's 69 percent.

These disturbing events can be impoverishing as well as heart-breaking. Unexpected medical travails can swiftly drain retirement funds or other savings. Deteriorating health means many people must work less or retire early, taking a bite out of both earnings and the ability to save. The second paycheck, along with at least some of the spouses' benefits, disappears when a mate leaves or dies.

Job layoffs at older ages often have long-lasting consequences since older adults tend to be less employable than younger people, who will work for less and cost less to insure. Older out-of-work people also forgo boosting their Social Security credits and employer pension benefits, which tend to accumulate rapidly as retirement approaches.

In the run-up to retirement, health problems, job losses, and widowhood and divorce can rob people of financial security later. We need to bolster social insurance to keep older people who lose their jobs or have to

retire early for health reasons from falling through the meager safety net.

One partial solution would be to shore up unemployment benefits. Today's system excludes many unemployed workers, particularly part-timers and those with low wages, and benefits generally last no more than 26 weeks. Another worthwhile option would be to expand the Social Security disability program, whose strict eligibility criteria deny benefits to many people too sick to work.

For their part, the "forever young" crowd needs to look hard -- while they're actually young -- at the high-stakes risks they face and develop their retirement plans accordingly. Waiting until their 50s to begin saving seriously, as many do, will be too little too late.

Richard W. Johnson is a principal research associate in the Income and Benefits Policy Center at the Urban Institute. The opinions are those of the author and do not necessarily reflect those of the Urban Institute, its trustees, or its sponsors.

Other Publications by the Authors

- [Richard W. Johnson](#)

Usage and reprints: Most publications may be downloaded free of charge from the web site and may be used and copies made for research, academic, policy or other non-commercial purposes. Proper attribution is required. Posting UI research papers on other websites is permitted subject to prior approval from the Urban Institute—contact publicaffairs@urban.org.

If you are unable to access or print the PDF document please [contact us](#) or call the Publications Office at (202) 261-5687.

Disclaimer: *The nonpartisan Urban Institute publishes studies, reports, and books on timely topics worthy of public consideration. The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders. Copyright of the written materials contained within the Urban Institute website is owned or controlled by the Urban Institute.*

Source: The Urban Institute, © 2012 | <http://www.urban.org>