

The Potential Impact of the Great Recession on Future Retirement Incomes

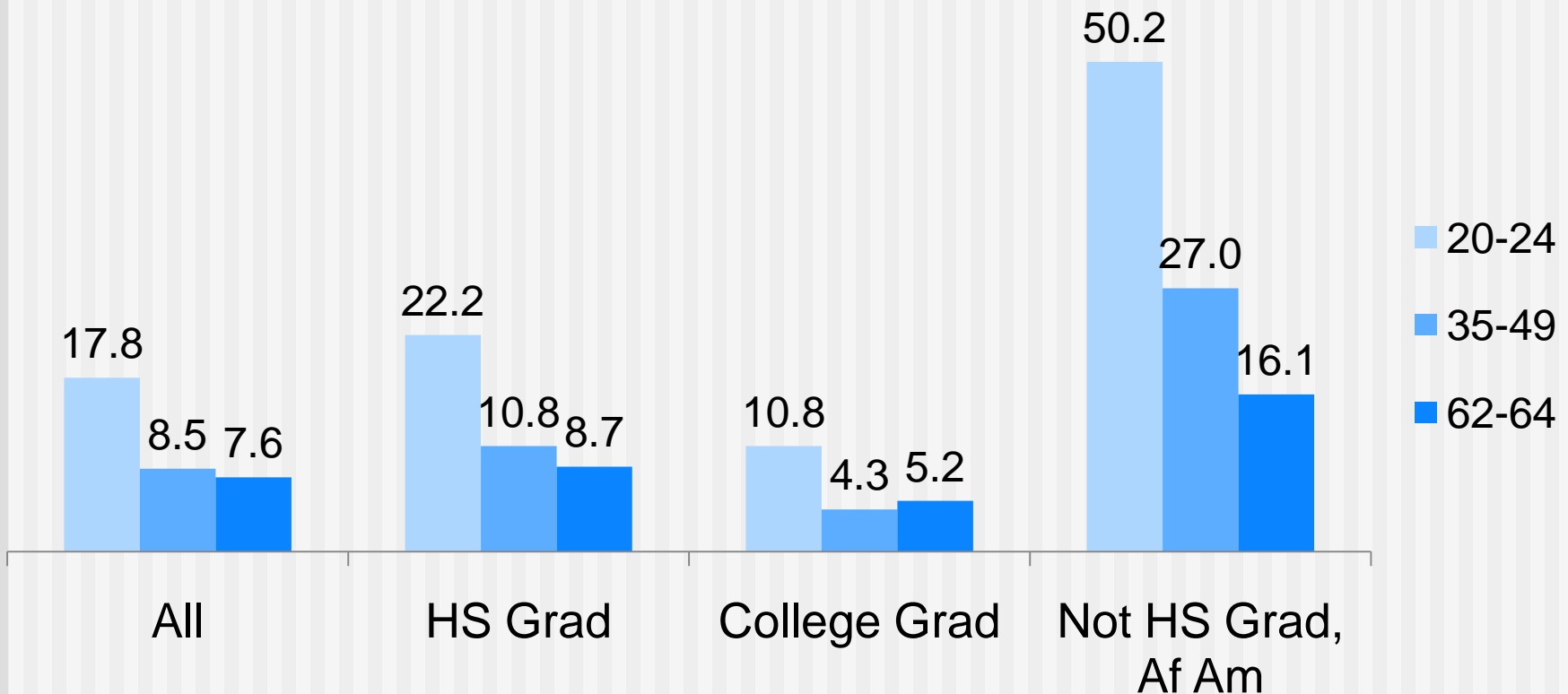
Barbara A. Butrica, Richard W. Johnson, & Karen E. Smith
The Urban Institute

2011 Pension Research Council Symposium
Philadelphia, May 5, 2011

The 2007-2009 Great Recession

- Longest downturn since Great Depression
- GDP fell 2.6% in 2009
 - steepest annual drop since 1938
- 8.8 million private sector jobs were lost between 12/07 and 2/10
- Unemployment surged 5.5 pct. points
 - sharpest recession-related increase since WWII
- Long-term unemployment proliferated
 - 43% of unemployed were out of work for more than six months

Average Male Monthly Unemployment Rate by Age, Education, and Race, 2010 (%)



Source: Authors' calculations from monthly CPS files.

The Recession Created Financial Hardship for Millions of Workers

- Three-fourths of unemployed workers in 2010 said it had a major impact on their lives
- Of those unemployed for 7+ months:
 - 70% spent money from savings
 - 56% borrowed from family, friends
 - 24% missed mortgage or rent payments
- Wages stagnated
- Wealth declined between 2007 and 2009 for three-fifths of Americans
- Number in poverty increased 17% from 2007 to 2009

How Might the Great Recession Affect Future Retirement Incomes?

- Retirement incomes depend on lifetime earnings
 - Social Security, pensions, other wealth
- Impacts may differ by age and education
 - Younger workers have more time to recover
 - But, effects may cumulate over time
 - Unemployment surged for young & less educated
 - Well-educated have more to lose

Our Approach

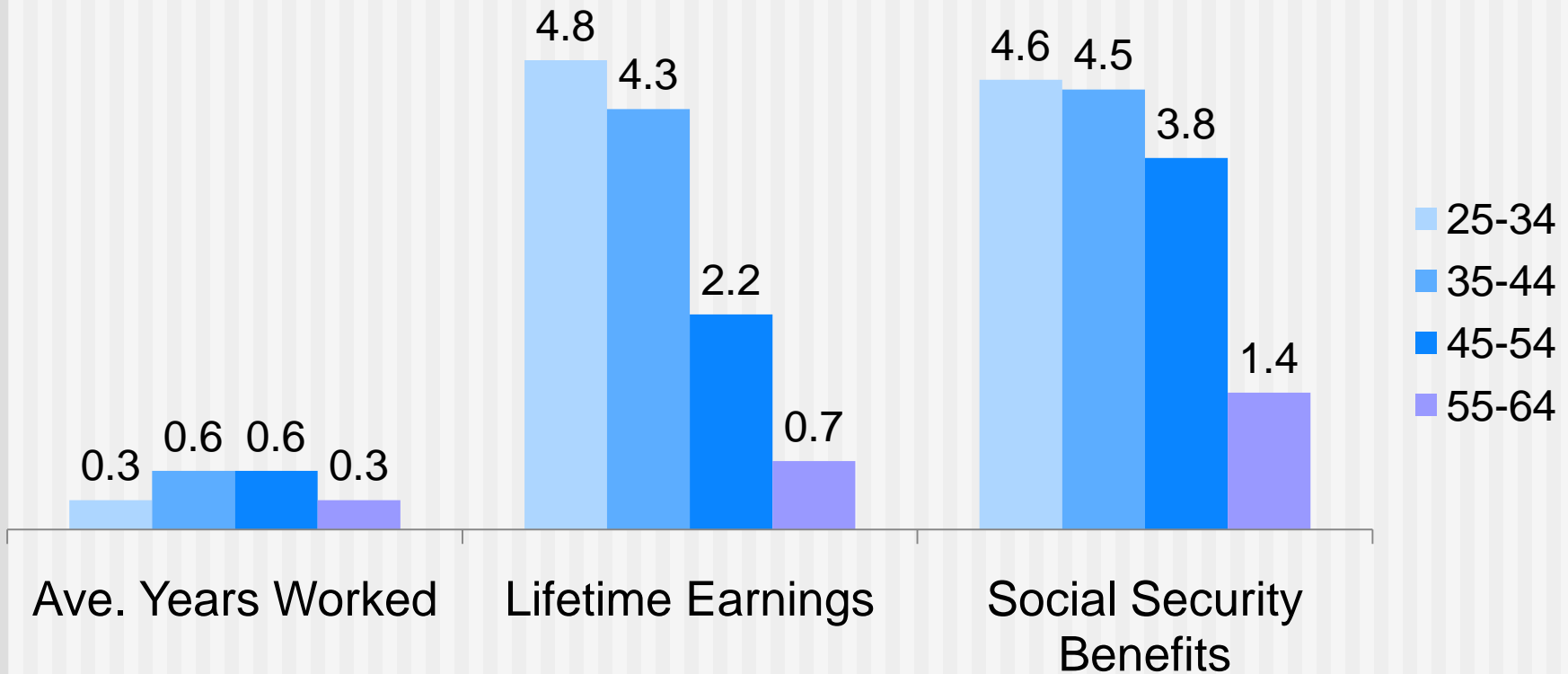
- Project retirement incomes for adults age 25 to 64 in 2008
 - compare to what they would have received had recession not occurred
- Focus on income at age 70
- Compare outcomes for 10-year cohorts
 - 55-64 in 2008 (turn 70 in 2014-2023)
 - 25-34 in 2008 (turn 70 in 2044-2053)

DYNASIM3

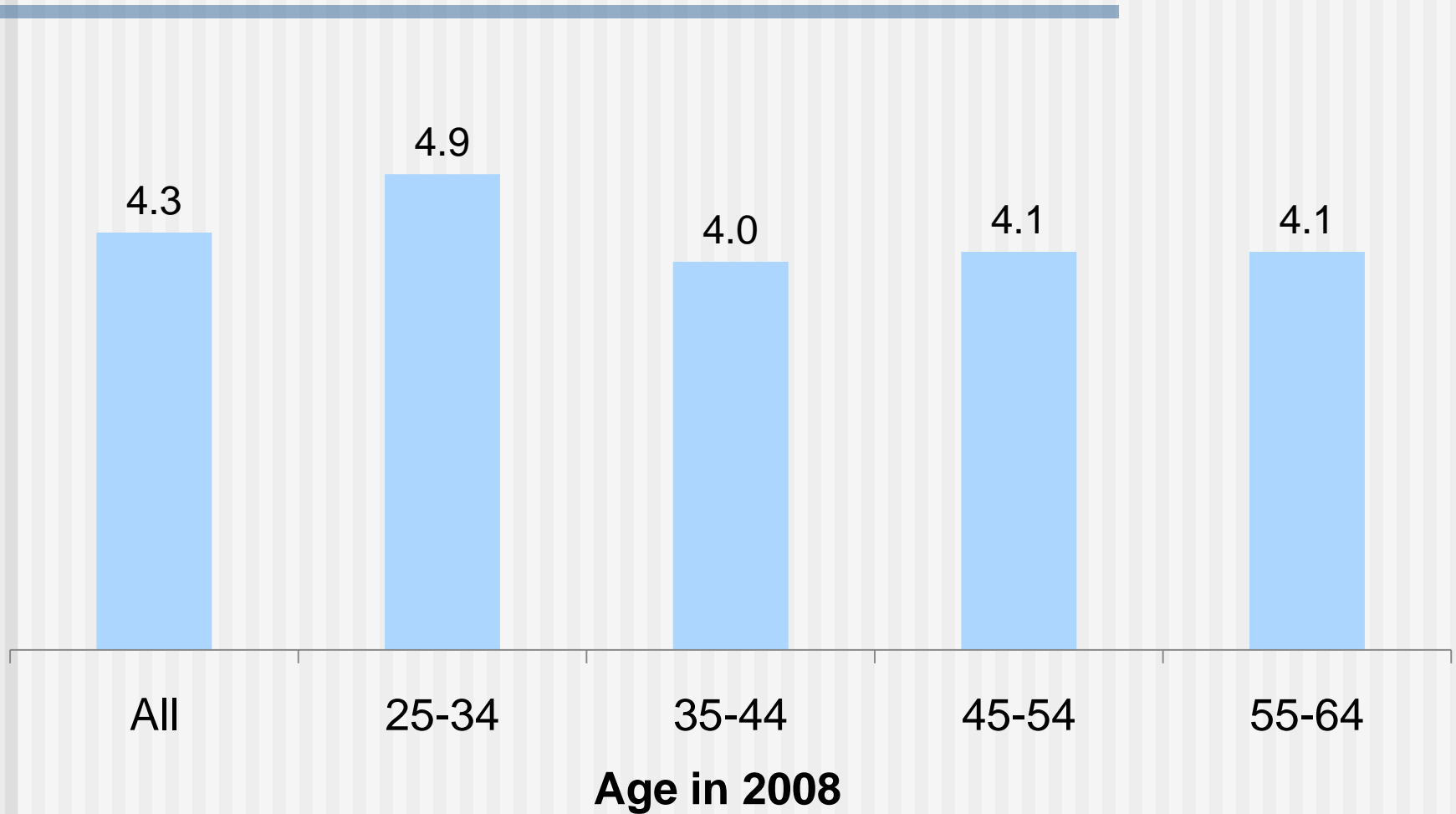
- Starts with sample from 1990-93 SIPP panels
- Ages them each year to 2085
 - equations model major life course processes
- Employment, earnings, and inflation aligned to Social Security trustees' projections
 - baseline uses 2010 assumptions
 - “no-recession” scenario uses 2008 assumptions
- Income measure assumes people annuitize 80% of retirement accts, other financial assets

Results:

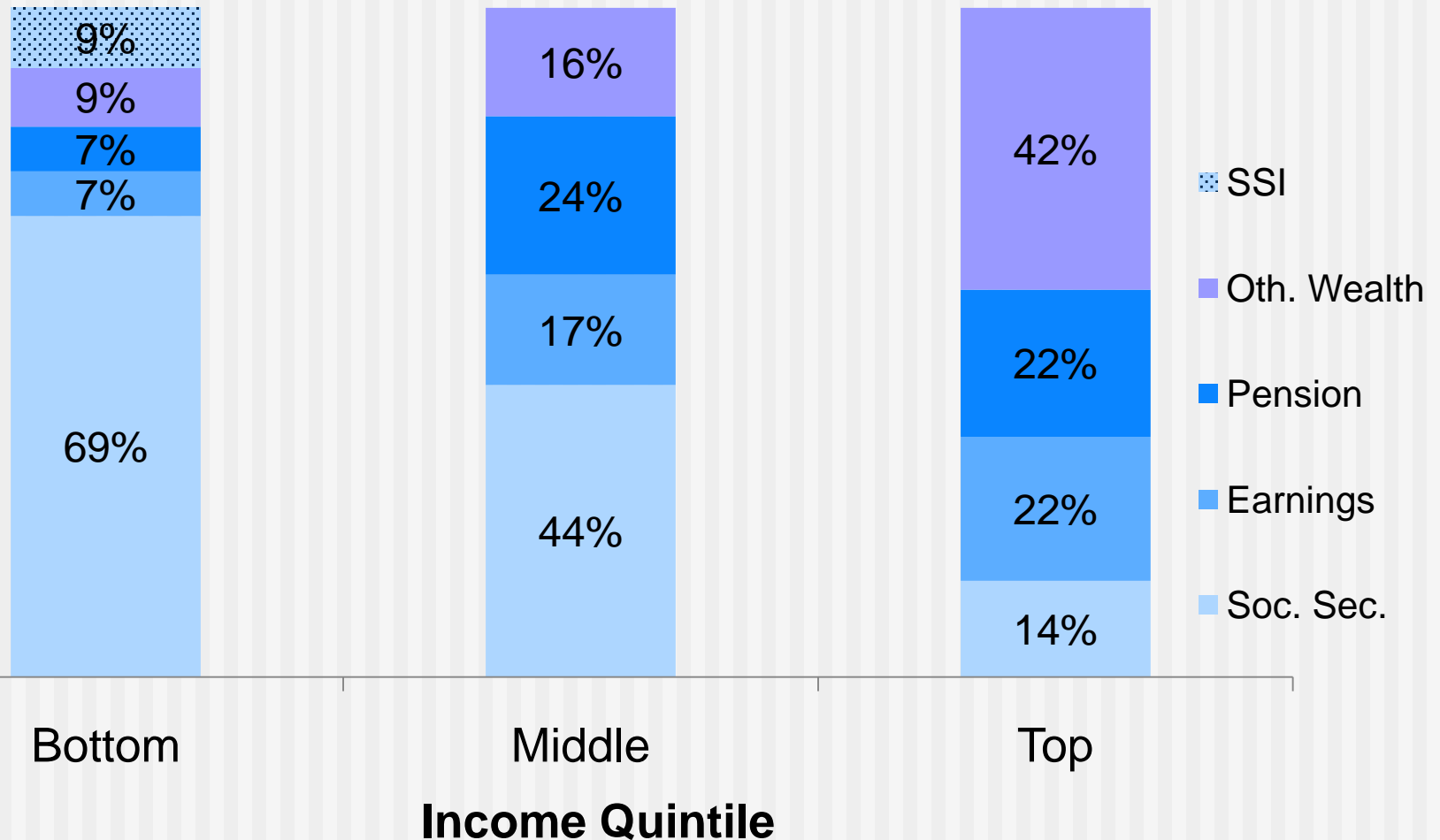
Pct. Reduction Due to Recession, by Age in 2008



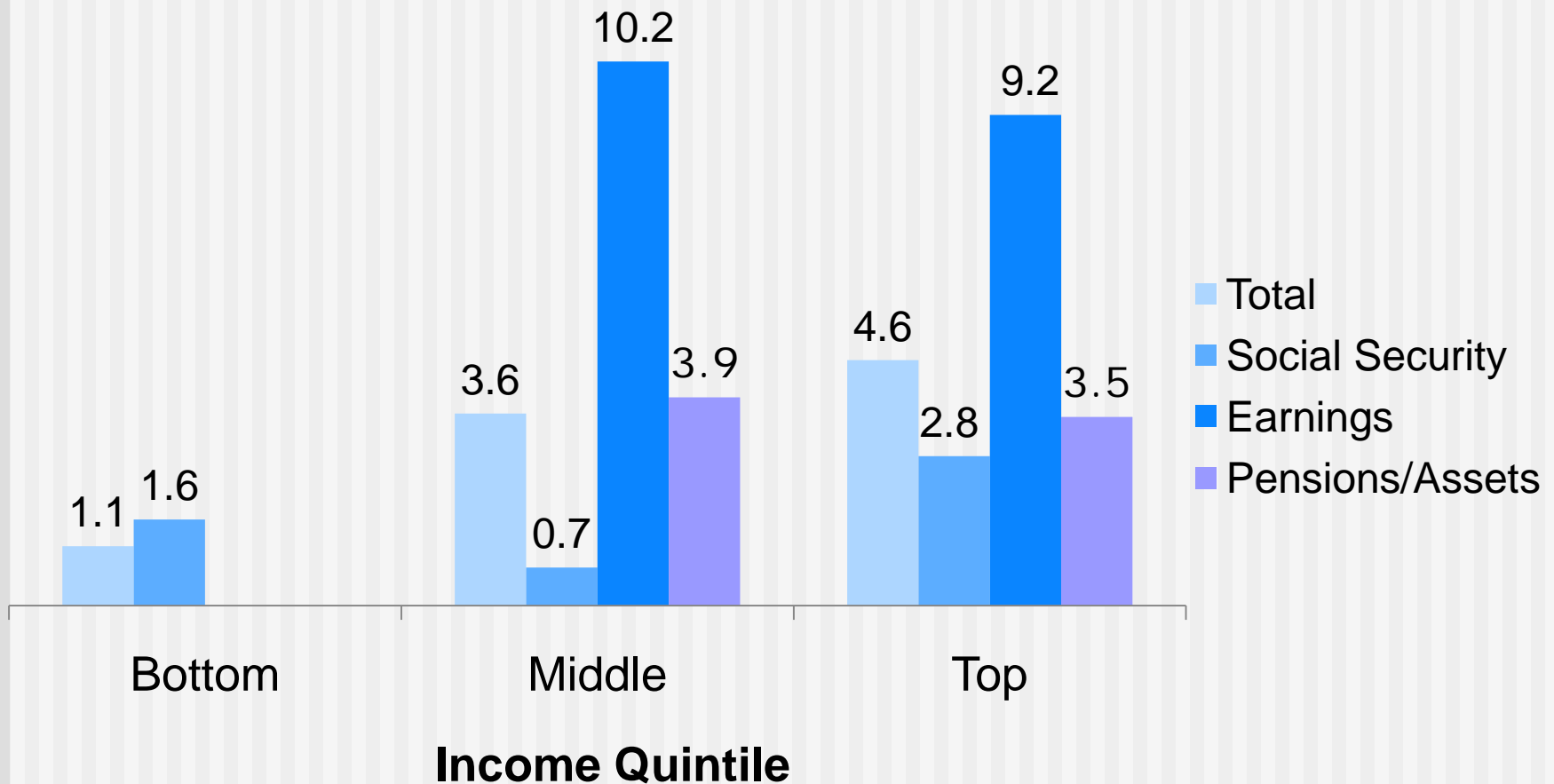
Pct. Reduction in Mean Per Capita Household Income at Age 70, by Age in 2008



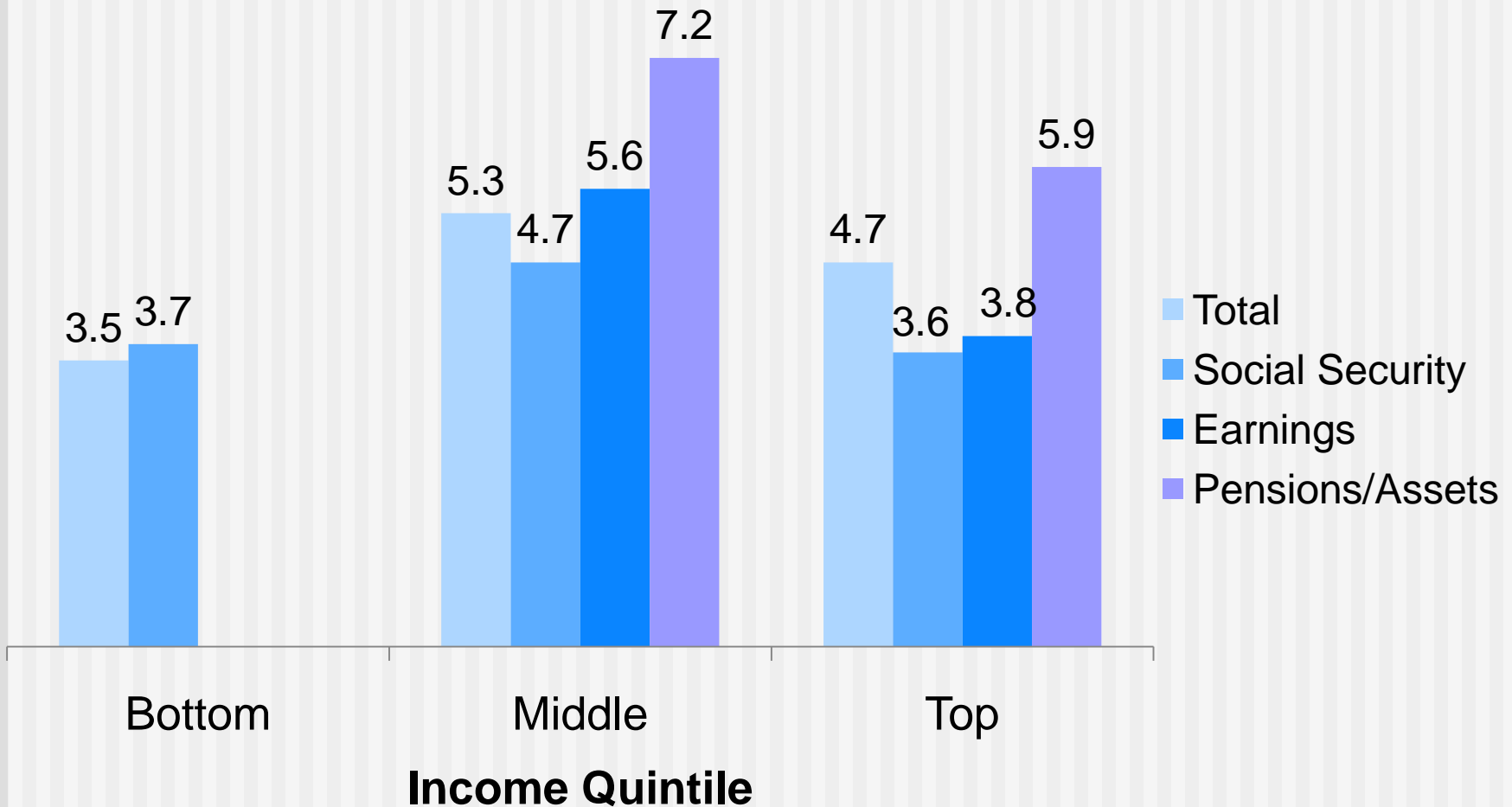
Breakdown of Mean Age-70 Per Capita HH Income by Quintile, Age 55-64 in 2008



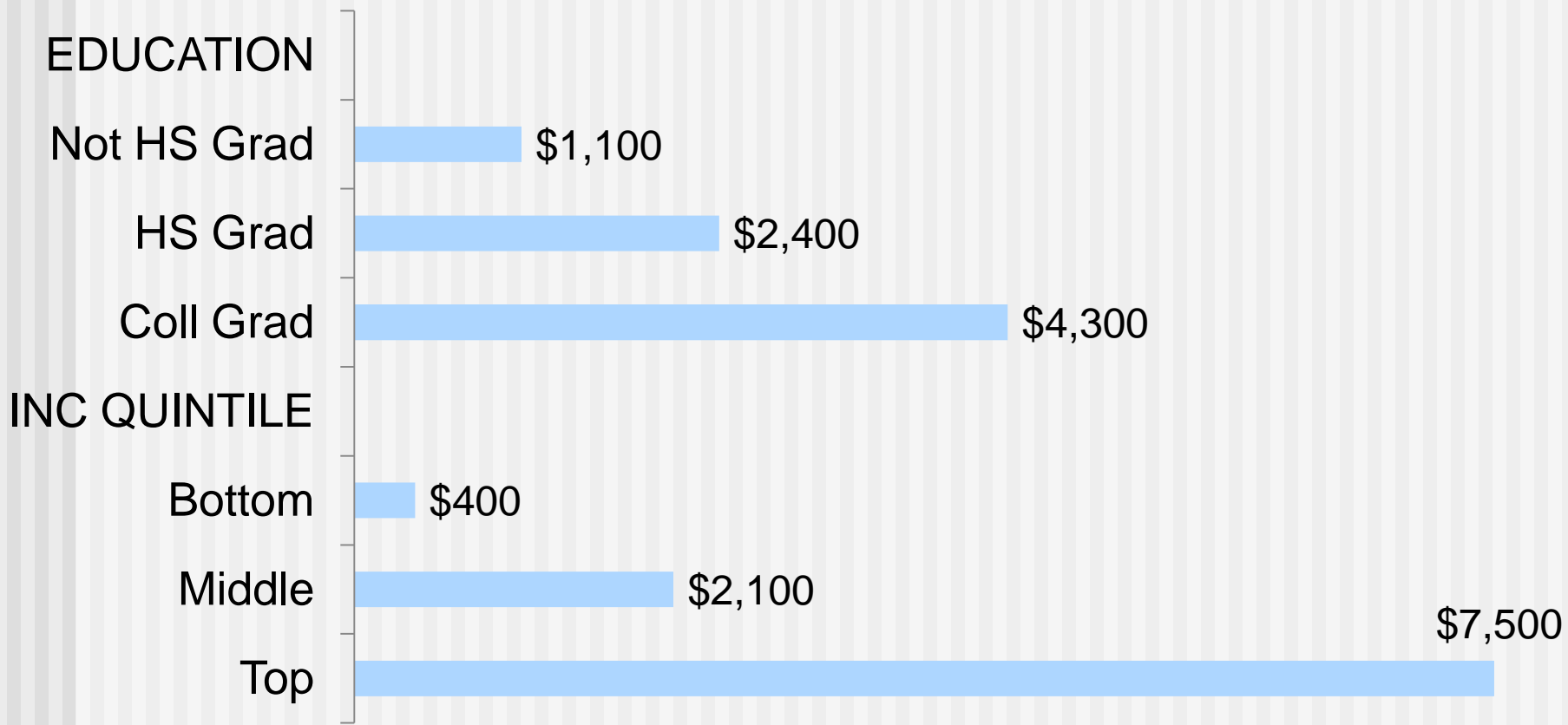
Pct. Reduction in Mean Age-70 Per Capita HH Income, Age 55-64 in 2008, by Source and Income Quintile



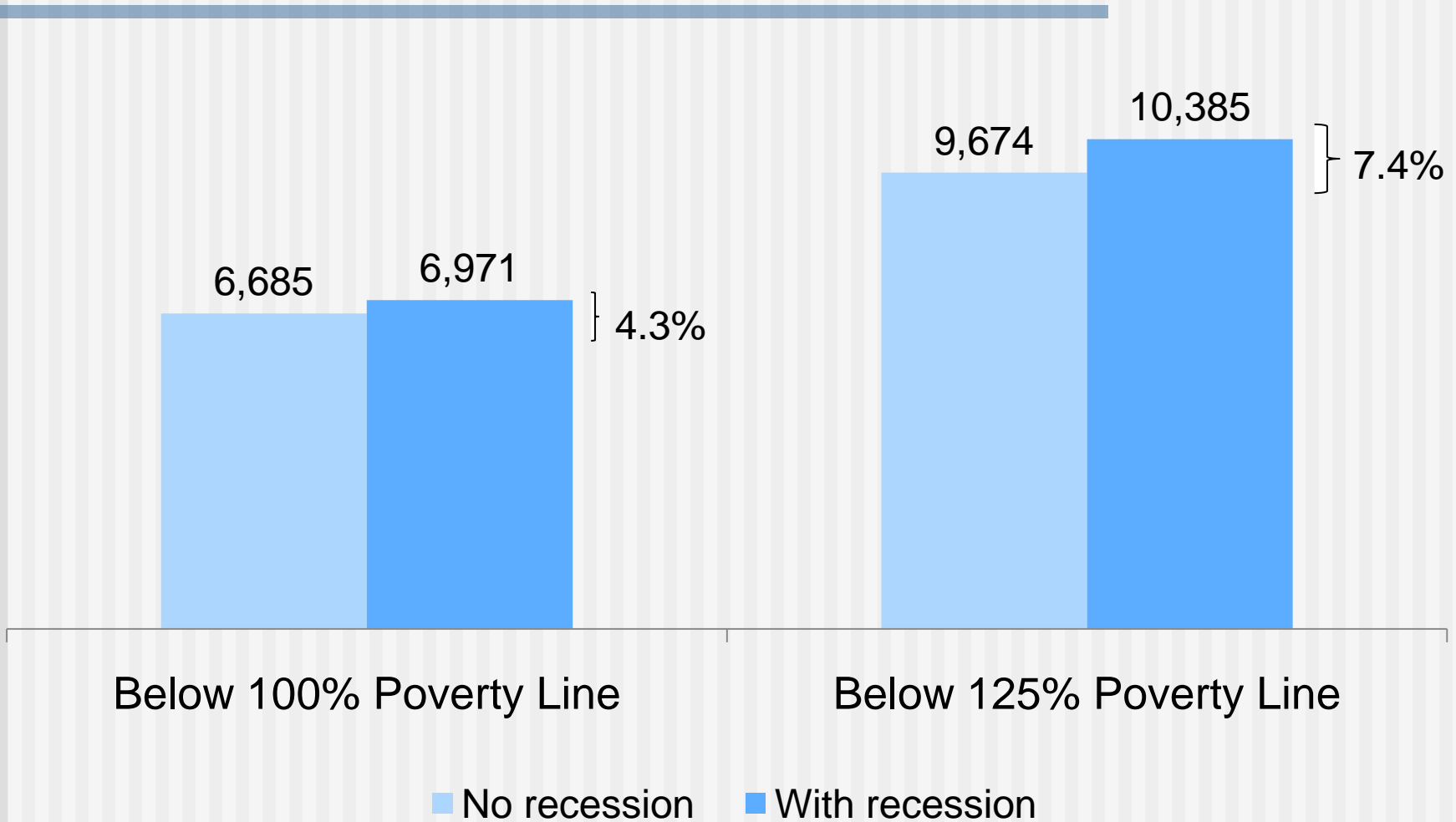
Pct. Reduction in Mean Age-70 Per Capita HH Income, Age 25-34 in 2008, by Source and Income Quintile



Reduction in Mean Age-70 Per Capita HH Income by Education and Income Quintile, Age 25-34 in 2008 (\$2007)



Impact of Recession on No. of Adults Age 25 to 64 in 2008 in Poverty or Near Poverty at Age 70



Conclusions

- The Great Recession will modestly reduce future retirement incomes
 - slow wage growth drives the results
- Absolute reductions will be greatest for high SES groups with the most to lose
 - model assumes that laid-off workers find jobs
- Adults in late 50s during recession are hit hard
 - Social Security indexing reduces benefits
 - much less likely to find work in retirement
 - these results are less tentative