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 ppt. 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

Ave. Years Worked

Lifetime Earnings

Social Security Benefits

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

<table>
<thead>
<tr>
<th>Age in 2008</th>
<th>Pct Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>4.3</td>
</tr>
<tr>
<td>25-34</td>
<td>4.9</td>
</tr>
<tr>
<td>35-44</td>
<td>4.0</td>
</tr>
<tr>
<td>45-54</td>
<td>4.1</td>
</tr>
<tr>
<td>55-64</td>
<td>4.1</td>
</tr>
</tbody>
</table>
Breakdown of Mean Age-70 Per Capita HH Income by Quintile, Age 55-64 in 2008

Bottom

- 9% (SSI)
- 9% (Oth. Wealth)
- 7% (Pension)
- 7% (Earnings)
- 69% (Soc. Sec.)

Middle

- 16% (SSI)
- 24% (Oth. Wealth)
- 17% (Pension)
- 44% (Earnings)

Top

- 42% (SSI)
- 22% (Oth. Wealth)
- 22% (Pension)
- 14% (Earnings)
Pct. Reduction in Mean Age-70 Per Capita HH Income, Age 55-64 in 2008, by Source and Income Quintile

<table>
<thead>
<tr>
<th>Income Quintile</th>
<th>Bottom</th>
<th>Middle</th>
<th>Top</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Quintile</td>
<td>1.1</td>
<td>3.6</td>
<td>9.2</td>
</tr>
<tr>
<td>Source</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1.6</td>
<td>2.8</td>
<td>3.5</td>
</tr>
<tr>
<td>Social Security</td>
<td>0.7</td>
<td>4.6</td>
<td></td>
</tr>
<tr>
<td>Earnings</td>
<td></td>
<td></td>
<td>10.2</td>
</tr>
<tr>
<td>Pensions/Assets</td>
<td>3.9</td>
<td></td>
<td>3.5</td>
</tr>
</tbody>
</table>
Pct. Reduction in Mean Age-70 Per Capita HH Income, Age 25-34 in 2008, by Source and Income Quintile

<table>
<thead>
<tr>
<th>Income Quintile</th>
<th>Total</th>
<th>Social Security</th>
<th>Earnings</th>
<th>Pensions/Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottom</td>
<td>3.5</td>
<td>3.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middle</td>
<td>5.3</td>
<td>4.7</td>
<td>5.6</td>
<td>7.2</td>
</tr>
<tr>
<td>Top</td>
<td>4.7</td>
<td>3.6</td>
<td>3.8</td>
<td>5.9</td>
</tr>
</tbody>
</table>
Reduction in Mean Age-70 Per Capita HH Income by Education and Income Quintile, Age 25-34 in 2008 ($2007)

<table>
<thead>
<tr>
<th>EDUCATION</th>
<th>INC QUINTILE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not HS Grad</td>
<td>Bottom</td>
</tr>
<tr>
<td></td>
<td>$400</td>
</tr>
<tr>
<td>HS Grad</td>
<td>Middle</td>
</tr>
<tr>
<td></td>
<td>$2,100</td>
</tr>
<tr>
<td>Coll Grad</td>
<td>Top</td>
</tr>
<tr>
<td></td>
<td>$7,500</td>
</tr>
</tbody>
</table>

$7,500
$2,400
$4,300
$1,100
$400
$2,100
$7,500
Impact of Recession on No. of Adults Age 25 to 64 in 2008 in Poverty or Near Poverty at Age 70

- Below 100% Poverty Line:
  - No recession: 6,685
  - With recession: 6,971
  - Increase: 4.3%

- Below 125% Poverty Line:
  - No recession: 9,674
  - With recession: 10,385
  - Increase: 7.4%
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