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# Discussion of “Labor Market Shocks: Scarring the Future?”

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# Questions, Methods, and Results

	Coile & Zhang	McEntarfer	Johnson & Smith
<b>Shock</b>	COVID	Recessions (including COVID)	Millennial’s experience
<b>Impact on</b>	Entering retirement (exiting labor force)	Retirement transitions Entering and exiting retirement ( $\geq 50\%$ max, 3Qs $< 50\%$ , 3Qs $< \$1.2K$ )	Labor market & marriage Wealth Retirement income
<b>Data</b>	Monthly CPS	Quarterly state UI data	Annual CPS, SCF, & DYNASIM
<b>Time period</b>	2017:01 to 2021:11	2000:Q1 to 2021:Q4	1966+, 1989+, & forecast
<b>Age ranges</b>	Aged 55 to 74 in 1 <sup>st</sup> interview	Aged 35 to 55 in 2000	Various birth cohorts
<b>Results</b>	Retirements increased Not driven by local conditions	Recessions increase retirement Most retirements permanent	Higher retirement income More risk of low replacement

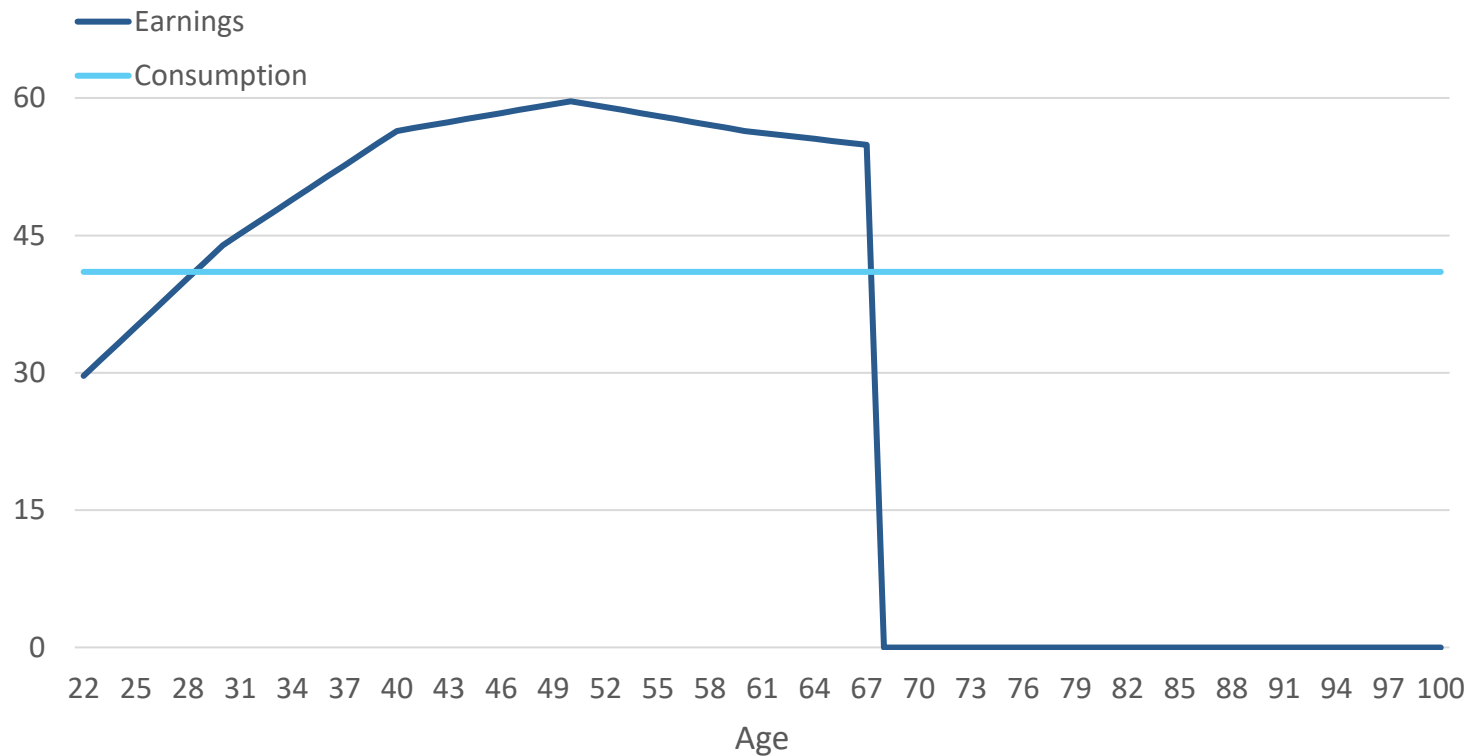
# How Coile & Zhang Use CPS Embedded Panel

Illustrative example of defining retirement date for two hypothetical workers

Year	2017												2018			
Month	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4
Interview month	1	2	3	4									5	6	7	8
<b>Person 1</b>																
Employment status	Emp	Emp	Emp	Emp	--	--	--	--	--	--	--	--	NILF	NILF	NILF	NILF
Retirement	--	0	0	0	--	--	--	--	--	--	--	--	1	--	--	--
<b>Person 2</b>																
Employment status	Emp	Emp	Emp	Emp	--	--	--	--	--	--	--	--	Unemp	Unemp	Unemp	NILF
Retirement	--	0	0	0	--	--	--	--	--	--	--	--	0	0	0	1

# What Does Rational Retirement Savings Look Like?

Example of stylized life-cycle model that predicts consumption smoothing, amounts inflation-adjusted (thousands)



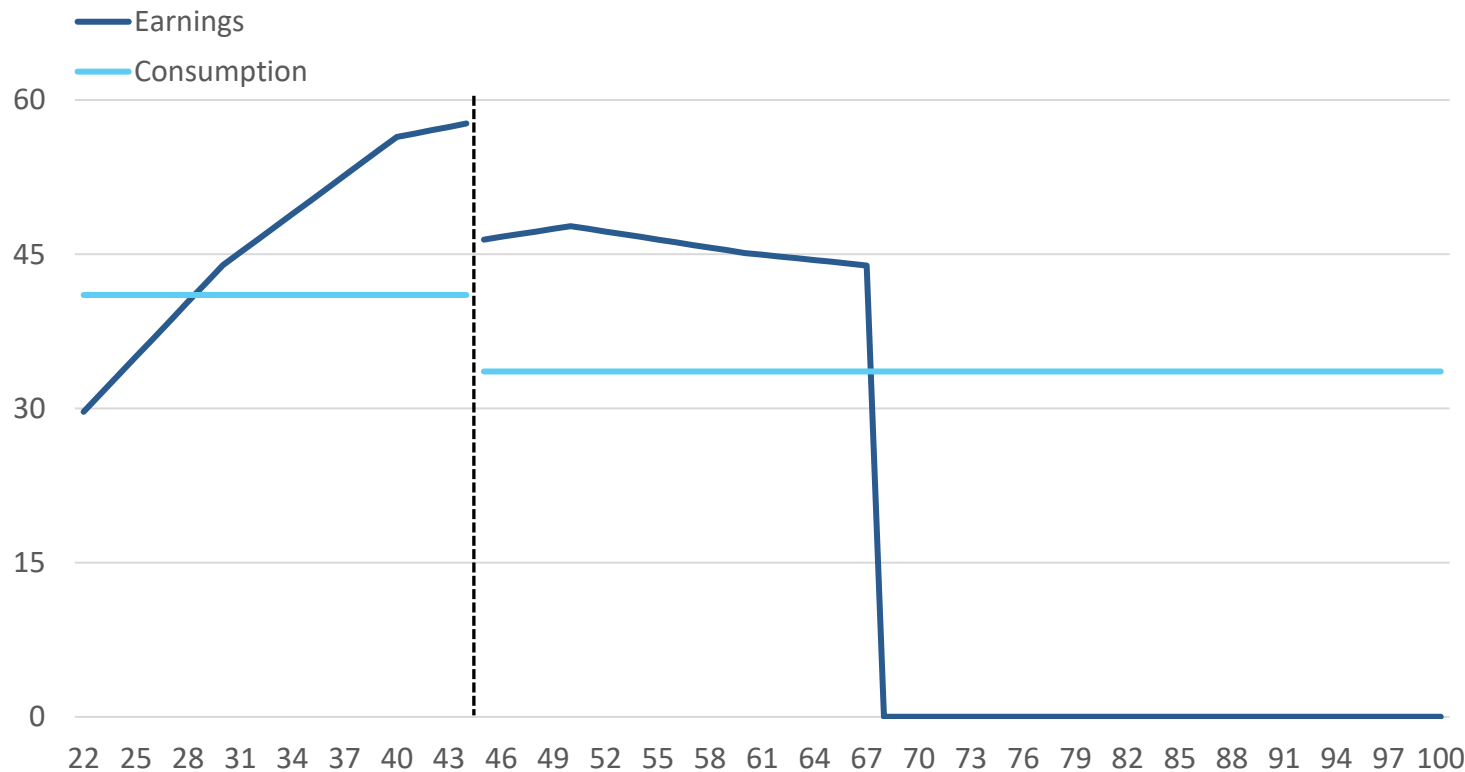
Implicit assumptions include

- No government
- Composite consumption good
- No children

Source: Discussant made it up

# What Is a Rational Response to a Negative Shock?

Example of stylized life-cycle model that predicts consumption smoothing, amounts inflation-adjusted (thousands)



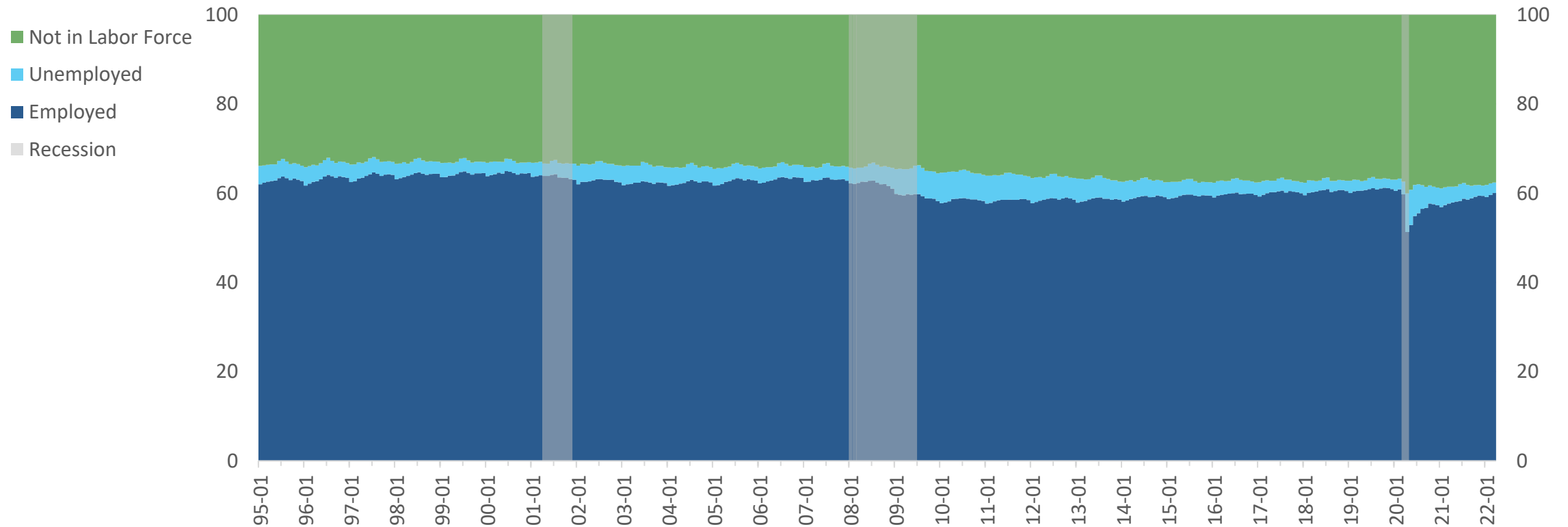
Negative economic shocks:

- Are bad
- Reduce consumption at all ages

Source: Discussant made it up

# COVID-19 Affected Unemployment and LF Participation ...

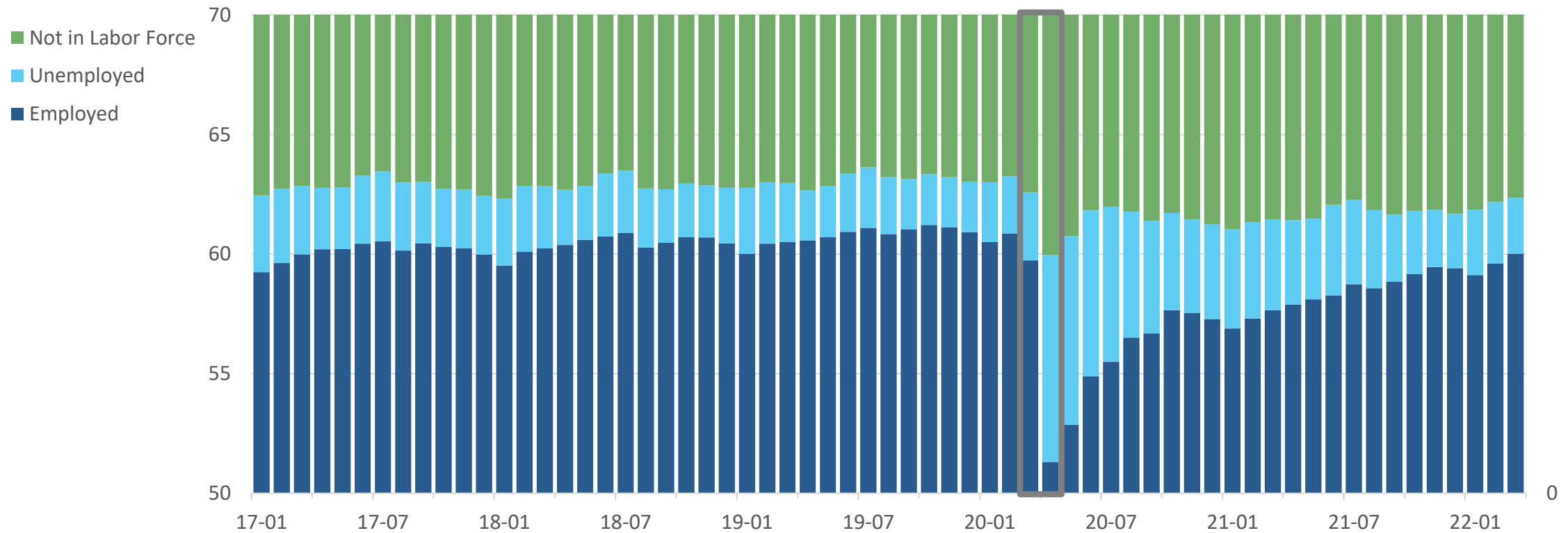
US civilian population aged 16+ by employment/labor force status, monthly, not seasonally adjusted, 1995:01 to 2022:03 (percentage)



Source: Federal Reserve Economic Data (FRED), Federal Reserve Bank of St. Louis

# ... And Labor Force Participation Still Lower

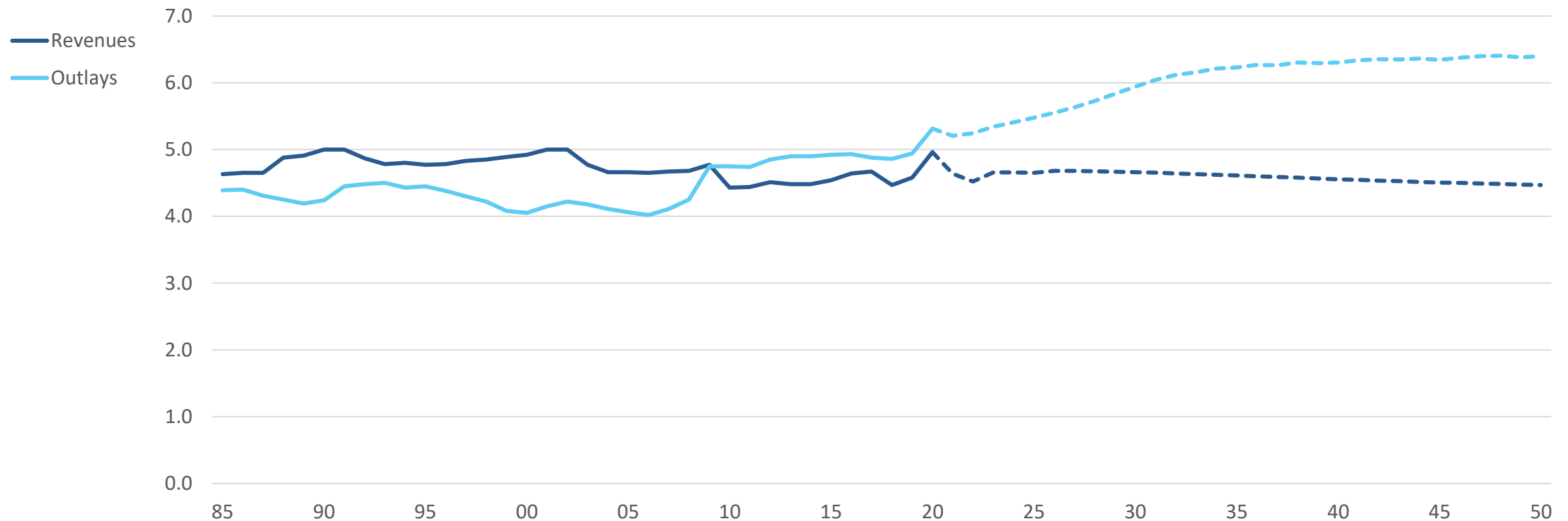
US civilian population aged 16+ by employment/labor force status, monthly, not seasonally adjusted, 2017:01 to 2022:03 (percentage)



Source: Federal Reserve Economic Data (FRED), Federal Reserve Bank of St. Louis

# Trust Fund Projected to Be Exhausted by Early 2030s

Actual (1985-2019) and projected (2020-2050) Social Security tax revenues and outlays as a percentage of GDP

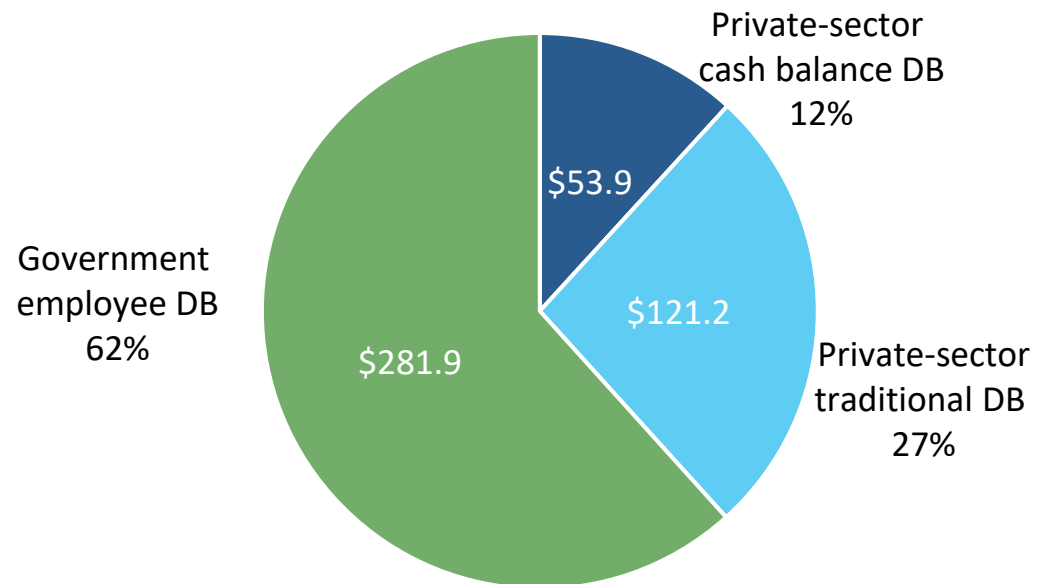


Source: Congressional Budget Office (July 2021)

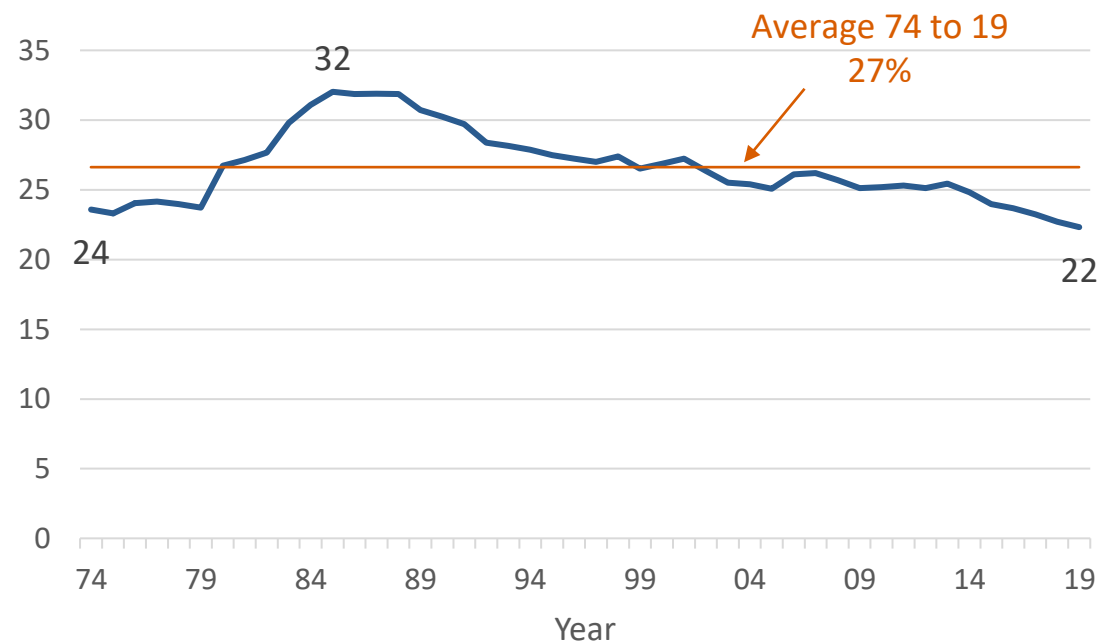


# Government Pensions Pay Bulk of DB Plan Pension Benefits

Total DB plan distributions, 2010 (billions)



Private-sector DB entitlements as a percentage of total DB entitlements



Source: Brady and Bass (2021) [“Comparing the Current Population Survey to Income Tax Data”](#)

## Summary of Discussion

- What is retirement and when does it occur?
- Is COVID-19 like the past two recessions?
- Best tool for resilience: safety net or retirement system?
- Future uncertainty
  - Social Security
  - Private-sector pensions