

# WORKING PAPER

## *Executive Summary*

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## HOW WILL OLDER WORKERS WHO LOSE THEIR JOBS DURING THE GREAT RECESSION FARE IN THE LONG-RUN?

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Although the peak unemployment rate during the Great Recession was similar to that during the recession of the early 1980s, two characteristics distinguish it from previous downturns. First, whereas the older workers escaped previous recessions relatively unscathed, during the Great Recession, the unemployment rate for those over 50 almost equaled that among younger workers. Second, a broader swath of the population experienced job loss with each education and age group setting new records.

Previous research shows that job-loss has adverse effects, in particular on older workers. Other research, focusing on younger workers, shows that the “scarring” effects of job loss are highly persistent. While some studies have examined older workers, their analysis is limited to the first five years after job loss. Furthermore, it is unclear whether the effects are greater when job loss occurs during a recession. Workers laid off during recession may find it harder to find new employment; this effect is of particular concern for older workers, who have less time remaining in their careers to recoup earnings and asset losses. On the other hand, workers laid off during recessions may be of higher average quality.

Using data from the *Health and Retirement Study* (HRS), a nationally representative panel dataset of older Americans, this study addresses three questions. First, what are the long-run effects of job-loss on older workers? Second, does this long-run effect vary with the state of the labor market at the time of separation? Third, what will be the long-run effects of the Great Recession on older workers?

To answer the first and second questions, we take as our sample the 6,314 participants in the HRS who were employed at the 1992 to 2000 interviews and were surveyed by the HRS five waves later (2002 to 2010). We discard individuals who were not living in a Metropolitan Statistical Area (MSA) containing at least 30 individuals, leaving 5,335 individuals and 14,279 person-wave observations.

We categorize them into those who were not laid off during the two-year period between one interview and the next, the basis period, those who experienced a mass layoff, and those who were otherwise displaced. We then look forward ten years from the above waves, and calculate various indicia of financial outcomes. We estimate econometric models in which the financial outcome of interest is the dependent variable, and the explanatory variables include dummies indicating whether the individual experienced a

mass or other layoff during the basis period, the MSA unemployment rate during the basis period, plus a full set of socio-economic controls. We also interact the local unemployment rate with the layoff dummies to test the hypothesis that the impact of displacement depends on the state of the local labor market. We include MSA level fixed effects.

We first compare the pre displacement socio-economic status of workers who were displaced between one wave and the next with that of workers who were not laid off. Displaced workers had lower pre-displacement earnings and financial assets, were less likely to be white collar workers, or to have a college-level education. Many of these socio-economic disparities persisted ten years after the displacement. Those who were displaced worked for an average of one fewer year in the ten-year follow-up period, and were more likely to experience further displacements. These disparities are consistent across MSAs with high and low unemployment rates, suggesting that long-run outcomes do not depend on labor market conditions at the time of job loss.

Controlling for socio-economic differences in the econometric models without interactions, individuals who experience mass layoffs are 4.6 percentage points less likely to be working eight to ten years later. They are 6.3 percent less likely to have escaped displacement during the follow-up period, work 11 fewer months over that period, and accumulate 30.2 percent less financial wealth (including pensions). When added, the interactions between the unemployment rate and mass and non-mass layoff indicators generally lack statistical significance, and the coefficients on the mass layoff variable are similar in magnitude. Individuals who are displaced other than as a result of a mass layoff experience similar effects, although they are sometimes smaller in magnitude.

We infer from the small magnitude and lack of statistical significance of the interaction terms that the effects of displacement vary little with the unemployment rate. In particular, we find no evidence that those experiencing mass layoff during recessions are of higher quality, or that those who are displaced other than through a mass layoff struggle more if they lose their job during a recession.

We then simulate the impact of the Great Recession on the long-run financial and employment outcomes of older workers. Using the above models, we calculate the probability of displacement and employment and financial outcomes for individuals, weighted by the probabilities that they experience a mass layoff, other displacement, or retain their job. We then calculate the above probabilities under an alternative scenario in which unemployment rates instead had remained at 2001-2003 levels. We find that 23.7 percent of the sample from the 2008 HRS is expected to be employed in 2018 given the unemployment rate in their area during the Great Recession, compared to 27.5 percent using 2001-2003 unemployment rates. Earnings and financial assets also fall relative to the scenario with a more modest recession, though the decline in assets is not substantial. Most other outcomes, however, were little different between the Great Recession and the milder recession scenarios. Overall, the simulations suggest that the effects of the Great Recession will be felt throughout the rest of the decade through weaker labor market outcomes and, to a lesser extent, asset accumulation than if we had experienced a more typical downturn.

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