WORKING PAPER
Executive Summary
DECEMBER 2005, WP # 2005-18

center for retirement research at boston college

WHEN THE NEST EGG CRACKS: FINANCIAL CONSEQUENCES OF HEALTH PROBLEMS, MARITAL STATUS CHANGES, AND JOB LAYOFFS AT OLDER AGES

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Things often go wrong at older ages. Health frequently fails, many people become frail, and some lose the ability to live independently, especially at very advanced ages. Older people not yet retired run the risk of losing their jobs. Even when one's own health remains strong, spouses often fall ill, become disabled, or die. Some lose their spouses to divorce. In addition to the emotional toll, these events can have serious financial consequences in later life, leading to the loss of earnings or spousal income, or forcing people to spend much of their savings on health or long-term care costs.

This report examines different types of negative events that strike at older ages. The study reports the prevalence of health problems among adults age 51 to 61 and those age 70 and older. It then computes the incidence of widowhood, divorce, job layoffs, disability, nursing home entry, and various medical conditions over time and examines their impact on wealth and income. Data come from the Health and Retirement Study (HRS), a nationally representative longitudinal survey of older Americans. The observation period spans the years 1992 to 2002 for respondents age 51 to 61 at baseline and the years 1993 to 2002 for those ages 70 and older.

The results show that many older Americans develop health problems over time or become widowed, and many older people young enough to remain in the labor force are laid off from their jobs. Job layoffs, the onset of work disabilities, and spells of nursing home care substantially erode household wealth at older ages.

Nearly one-half of adults age 51 to 61 have health problems or frail parents or in-laws.

- 28.4 percent report one or more major medical conditions.
- 20.1 percent report health problems that limit their ability to work.
- 18.8 percent have a frail parent or in-law.

Among people living in the community (not in nursing homes), medical conditions are nearly twice as common at ages 70 and older as at ages 51 to 61.

- 52.0 percent have one or more major medical conditions.
- 4.2 percent have severe disabilities, and 4.9 percent are cognitively impaired.

Over a 10-year period, more than three-quarters of adults age 51 to 61 at baseline experience negative shocks, including widowhood, divorce, job layoffs, health problems, or the onset of frailty among parents or in-laws.

- 41.3 percent experience major new medical conditions.
- 33.7 percent develop health-related work limitations.
- 18.7 percent are laid off from their jobs.
- 9.8 percent of married adults become widowed, and only 3.0 percent become divorced.

More than two-thirds of adults age 70 and older experience at least one negative shock over a nine-year period.

- 29.0 percent of single adults develop severe disabilities.
- 31.8 percent of single adults enter nursing homes.
- 29.1 percent of married adults become widowed, including 44.3 percent of women.

Negative shocks at older ages are especially common among those with limited education. Among people age 51 to 61 and single at baseline, for example, 40.3 percent of those who did not complete high school develop health-related work limitations, compared with 23.4 percent of college graduates. However, college graduates are just as likely as high school dropouts to lose their jobs.

The incidence of negative events rises when the analysis accounts for spousal shocks, which can threaten financial security as much as individual shocks.

- 90.5 percent of adults age 51 to 61 and married at baseline experience negative shocks over a 10-year period or are married to someone who experiences shocks.
- 81.6 percent of those age 70 and older and married at baseline experience negative shocks to themselves or their spouses over a nine-year period.

Job layoffs, divorce, and the onset of health related work limitations sharply reduce household wealth for adults age 51 to 61, according to results from median regressions of the level of household wealth in 2002 or at the last interview (for those who died before 2002).

- Job layoffs reduce median household wealth by about $33,000 (or more than one-quarter of median baseline wealth) for married men, and by about $23,000 (or nearly one-half of wealth) for single men.
- Divorce reduces median wealth levels, adjusted for household size, by nearly $60,000 (or about one-half of baseline wealth) for typical married women, and by about $46,000 for typical married men.
- Widowhood reduces wealth for married women, but the impact is only about one-third as large as the impact of divorce. Widowhood does not significantly reduce men's wealth.

Nursing home entry has important financial consequences for adults age 70 and older, especially for women, even after controlling for demographic factors and baseline health conditions.

- Married women typically forfeit about $40,000, more than one-third of median baseline wealth, when they enter nursing homes.
- Single women forfeit about $20,000, or about 60 percent of baseline median wealth.

Both age groups, blacks, Hispanics, and those who did not complete high school accumulate much less wealth by the end of the period than other adults.

- Among single women age 70 and older, blacks hold only about one-third as much wealth as whites, controlling for negative shocks and other factors, a deficit of more than $22,000.
- Hispanic single women age 70 and older and single women who did not graduate from high school are even more disadvantaged.

These findings highlight the limitations of protections available to people with disabilities. Long-term care costs can be staggering, especially for nursing home residents, and private and public insurance is limited. People must generally spend nearly all of their resources on long-term care services before they qualify for Medicaid, and Medicare covers few services. Private long-term care insurance remains rare. Although long-term care costs have not received as much attention as the financial problems facing Social Security and Medicare, they are likely to place enormous pressures on government and family budgets as the population ages and more people become frail. Innovative ways of financing long-term care must be developed to protect the financial security of older Americans, limit the tax burden on younger generations, and ensure that frail older adults receive the care they need.

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