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Executive Summary

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POINT OF NO RETURN: HOW DO FINANCIAL RESOURCES AFFECT THE TIMING OF RETIREMENT AFTER A JOB SEPARATION?

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A growing number of Americans between the ages of 55 and 70 are losing their jobs. Some retire immediately, while others search for a new job, only to determine later that retirement is the better option. This project examines how long older unemployed workers conduct their job searches before deciding to retire and how this decision varies by labor market conditions and the resources available to the unemployed, including Social Security, unemployment insurance (UI), wealth, and pension coverage. The results indicate that unemployed people who have these resources retire more rapidly than those who cannot afford to do so, regardless of their job prospects.

The Great Recession cut a swath of joblessness through the American workforce that was unprecedented in one important way. In previous recessions, the brunt of the job losses was borne by younger, lower-paid workers, and these workers again suffered the most in the Great Recession. But the recent recession left older workers more exposed than ever before (Munnell and Rutledge 2013). The unemployment rate among those 55 and older reached a record 7.3 percent in August 2010 – it was the first time since 1950 that the rate had surpassed 6 percent. Even this understates the breadth of the suffering: Farber (2011) finds that 14 percent of individuals in this age group experienced a job loss between 2007 and 2009, surpassing the previous high of 10 percent.

Many older unemployed workers grew discouraged, stopped looking for work, and began to consider themselves retired (Coile and Levine 2011). Others bore down and continued searching, unable to retire due to losses in their financial portfolios and home values, or motivated by preserving their eligibility for UI benefits. Among people over 55, the labor force participation rate actually increased by a percentage point between 2007 and 2009. But this increase was concentrated in workers who had not yet reached age 62 and were not yet eligible for Social Security retirement benefits (Munnell and Rutledge 2013). Not coincidentally, more than half of the workers who lost jobs after turning 62 left the labor force within nine months of their separations, as opposed to less than 30 percent of workers age 50-61 (Johnson and Butrica 2012). The difference in the responses to the recession before and after age 62 implies that the decision to leave the labor force and retire depends crucially on the availability of resources to buttress consumption, both during the jobless spell and after retirement.

This project provides the first analysis of how the timing of retirement and the duration of job search is influenced by the availability of social insurance benefits, financial assets, pension coverage, and macroeconomic conditions, and how these relationships have changed over time.

This project uses the *Survey of Income and Program Participation* (SIPP) panels from 1990-2008, though retirement data is available only starting in 1996. The sample for this study consists of individuals who left a job between the ages of 55 and 70 and did not immediately retire or leave the labor force. The project uses three different definitions of retirement: (1) "strict" requires the individual to answer "retired" for that wave, while ceasing to work and search for jobs, (2) "quasi-strict" requires "retired" as an answer but allows the individual to return to work and (3) "loose" includes other answers the individual not working, including health and care-giving. The project also examines labor force exit for the full 1990-2008 period.

The key independent variables capture the relationship between retirement or labor force exit and the resources available to the jobless individual, both during the jobless spell and in retirement. These resources are defined as whether the individual's age makes him eligible for Social Security, whether the individual has exhausted UI eligibility, his net worth quintile, coverage by defined benefit (DB) or defined contribution (DC) pension plans, marital status, spouse's age and work status, health insurance, health status, and a comprehensive set of demographic variables.

The results suggest that for job separations that do not lead to an immediate retirement, about half of the jobless spells end in retirement and half in re-employment. Among jobless spells that do end in retirement, most do so within a year after separation. The availability of Social Security retirement benefits, high net worth, and DB pensions appear to encourage more rapid labor force exit and retirement, rather than provide support to job seekers during a long search. Surprisingly, however, when the unemployment rate is high and new jobs are hard to find, retirement is only modestly more likely, with most of this effect concentrated among those who are already eligible for Social Security. A longer duration of unemployment insurance benefits has little effect on the timing of retirement, but poor health and work-limiting disabilities are associated with more rapid labor force exit and retirement.

The brevity of jobless spells suggests that older individuals have little tolerance for job searches, and those who can afford to make a quick exit – falling back on a substantial financial portfolio or annuities from Social Security or their previous employers – will do so. The lack of evidence of an association between labor market conditions and the retirement decision indicates that a jobless worker's impatience has little to do with the difficulty of the job search. Still, changes in recent decades that have eroded retirement security indicate that coming cohorts of older jobless people will not be able to afford the same haste to retire: defined benefit pensions and retiree health insurance coverage are all but extinct in the private sector, Social Security benefits replace a smaller proportion of income, and 401(k) balances do not make up for the shortfall. On the upside, workers in their 50s and 60s are healthier and better able to continue working, have more general experience than previous generations that may better position them to take advantage of social networks to find jobs. The uptick in the average duration of jobless spells portends longer job searches for older unemployed Americans, but their patience and persistence may pay off in rewarding second acts.

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