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University of Michigan Retirement Research Center

How Did the Recession of 2007–2009 Affect the Wealth and Retirement of the Near Retirement Age Population in the Health and Retirement Study?

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This paper uses asset and labor market data from the Health and Retirement Study (HRS) to investigate how the recent "Great Recession" (officially December 2007 through June 2009) has affected the wealth and retirement of those in the population who were just approaching retirement age at the beginning of the recession, ages 53 to 58 in 2006. This population has little time to recover from the recession before retiring and thus could be highly vulnerable to the recession.

There are four innovations in our paper that are the direct result of having HRS data available. First, the HRS provides panel data at the beginning and end of the recession allowing us to calculate changes in key outcomes for the same individuals over the full course of the recession. Second, HRS data enable us to compare the changes in outcomes between cohorts. Third, we identify gainers and losers by their place in the wealth distribution. Fourth, speculation as to the likely effects of the recession on retirement most frequently focuses on measures of retirement expectations. In contrast, the HRS provides detailed data on actual retirement outcomes.

Our findings confirm that there have been adverse effects of the recession on this group, but on the whole they have been relatively mild. In most respects, the wealth accumulation and retirement behavior of members of this cohort are similar to the outcomes observed at the same age for members of older cohorts who were not exposed to the recession. Among our findings:

1. There has been a decline in total wealth for the near-retirement population associated with the recession. On average, real wealth declined by 2.8 percent between 2006 and 2010, the period spanning the recession.

2. The sharpest decline was in net housing wealth, which fell 23 percent.

3. Social Security and pensions, accounting for 55 percent of total wealth, cushioned the decline. Overall pension wealth remained steady despite a 50 percent increase in IRA wealth, where most of the change in IRA balances was probably due to pension rollovers.

4. Those in the bottom quartile of wealth holding households experienced only a 1 percent fall in real wealth. Social Security accounts for 79 percent of their total wealth.

5. The near-retirement population did accumulate less wealth over this period than did members of older cohorts over a comparable age span. Those from cohorts 6 and 12 years older averaged about a 5 percent increase over the analogous four years.

6. The numbers of gaining and losing households are fairly comparable. Although 51 percent of households experienced a decline in real wealth, 48 percent experienced an increase.

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7. The share of the members experiencing a loss in wealth increases until reaching 70 percent of the households in the highest wealth decile. The share of households experiencing at least a 20 percent decline in real wealth ranges from 12 percent of households falling in the lowest wealth decile up to 48 percent of households in the highest wealth decile.

8. The share of households experiencing a gain in wealth includes 49 percent of the households in the lowest wealth decile in 2006, falling to 30 percent of the households in the highest wealth decile. Thirty percent of the households in the lowest wealth decile experienced a wealth gain of at least 20 percent, while 9 percent of the households in the highest wealth decile experienced a gain of at least 20 percent.

9. The share of the population not retired, as measured by a combination of hours of work and self reported status, fell from 62.8 percent of the near retired population in 2006 to 49.0 percent in 2010.

10. The 13.8 percent decline in the share of the population classified as not retired, observed over the period of the recession for respondents in the Early Boomer cohort, is identical to the decline observed for members of the War Baby cohort, six years older, and greater than the 10.6 percent decline observed for members of the original HRS cohort at comparable ages, twelve years earlier.

11. The increases in the fractions unemployed and those reporting they are not employed but not retired, was substantially greater during the period of the Great Recession than in comparable periods experienced by members of older cohorts.

12. Thus a key question remains. While unemployment was higher during the recession than in earlier years, employment was not reduced and retirements were not accelerated. One reason is that some who could retain their jobs postponed their retirement. Second, those who were laid off were less likely to leave the labor force. On net, the increase in the number who remained at work was enough to offset the job losses of those who had been laid off.

In sum, overall retirement wealth has declined. Moreover, the decline is important since in the past we have observed considerable wealth accumulation over the comparable period.

Yet our findings also provide some good news. Despite the vulnerability of those nearing retirement at the onset of the recession, the wealth loss suffered by most has been limited. In addition, the major source of loss has been concentrated in housing wealth. Very few in this cohort have found their housing wealth under water. Moreover, housing is the one asset this cohort is not likely to cash in for another decade or two, giving time for it to recover. In addition, the wealth holdings of poorer households were least affected by the recession.

The adverse labor market effects of the Great Recession are more modest. Although there is an increase in unemployment, that increase is not mirrored in a decline in full-time work or partial retirement. All told, the retirement behavior of the Early Boomer cohort looks similar, at least so far, to the behavior observed for members of older cohorts at comparable ages.

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