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The Effect of the COVID-19 Pandemic on Expected Labor Supply

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The COVID-19 pandemic marked the biggest economic shock in the United States since the Great Recession of 2008. The sharp increase in the unemployment rate and other pandemic effects might be expected to reduce the long-run labor supply of the older population. Indeed, in the Great Recession the employment rate of the older population had increased strongly from year 2000 to 2008 (from 31.5% to 37.9% among those 55 or older) but fell in 2009, and it was not until 2012 that the employment rate had regained its 2008 level. But the pandemic differed from the Great Recession in a number of ways. The stock and housing markets declined substantially in the Great Recession, resulting in large wealth losses and the collapse of Lehmann Brothers induced financial uncertainty. The pandemic led to a health and mortality crisis not present in the Great Recession and changed the amount and nature of work. Some workers were able to minimize their exposure to the pandemic through at-home work, but others saw their risks increase because of work that had to be performed at a common site or in proximity to others. The pandemic also led to a broader policy response than the Great Recession did. Some or most of the actual harm from unemployment was offset by government programs that repaired damaged finances or even resulted in windfall gains.

Given its broad, heterogeneous impact and resulting broad policy response, the pandemic's effect on future labor supply is ambiguous. Retirement might be delayed because the ability to work from home or to have greater job flexibility could delay retirement, and those who were unemployed might have to work longer to compensate for earnings lost during the pandemic. But retirement might be hastened: Workers who lost their jobs might expect difficulties in regaining work. The pandemic also might have damaged long-term health.

We estimate the pandemic's effect on future work by older persons based on an analysis Health and Retirement Study (HRS) data about expectations of work. The HRS is a biennial panel survey, conducted since 1992; it is representative of the U.S. population 51 or older. In addition to standard demographic and socioeconomic questions, it asks respondents:

Thinking about work in general . . . what do you think the chances are that you will be working full-time after you reach age 62?

We call this P62. The time horizon varies between one year and 11 years. The survey also asks respondents about

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their chances of working full-time after age 65 (P65) or 70 (P70), as well as their chances of doing any work past age 70 (P70a). These measures have accurately predicted actual work of respondents in longitudinal follow-up in the HRS. Assessing these measures for respondents 51 to 69 years of age allows us to estimate now how the effects of the pandemic are likely to affect future work and retirement. We also consider how these effects compare with those of the Great Recession on older persons.

Overall, respondents who were interviewed in both the 2018 and 2020 waves of the HRS indicated little change in P62 and P65: The pandemic did not appear to have affected future work plans of older persons. This suggests that any long-term effect of the pandemic on employment at age 62 will be minimal. This contrasts with the long-term effects of the Great Recession on older workers.

There was some variation by group. P62 from 2018 to 2020 increased modestly among women but decreased for men. This suggests that the long-term trend of increasing retirement ages of women relative to men will continue. P65 and P70 decreased for both Black and Hispanic persons. This suggests the differences in retirement age among white, Black, and Hispanic persons may continue to increase.

We found that P70 and P70a decreased for all workers. This suggests that that the long-term increase in working at age 70 and beyond may be coming to an end.

The pandemic's effects varied over time: For example, COVID-19 mortality in the second week of January 2021 was 6.8 times that in the fourth week of June 2020. Thinking that this would induce variation in expectations, we analyzed workers by the season in which they were interviewed. We found persons interviewed later in the pandemic were more likely to report lower P62, P65, P70, and P70a values than persons interviewed earlier. This suggests that basing forecasts of future labor supply on data collected further past the pandemic's peak could be useful.

Because of the high mortality, we thought that workers might anticipate shorter lifespans, or perhaps survival expectations might be a good indicator of overall health, which was damaged in the pandemic. In both cases workers might accelerate their retirement. On average, however, we found no significant reduction in subjective survival except among Black respondents.

In past recessions, unemployment led older persons to retire and claim Social Security benefits. We anticipated that the economic turmoil of the pandemic might have led to an increase in the proportion of persons receiving such benefits. We found, however, that the proportion of respondents receiving Social Security benefits actually decreased 1.2 percentage points. This suggests that unemployment did not lead to early claiming of Social Security benefits, possibly because of the increased generosity of unemployment benefits.

The COVID-19 pandemic inflicted a large shock to many aspects of life, particularly to the labor market. Overall, we found the pandemic's effects had little impact on future work plans of older persons. But the shock varied in its effects and the populations affected. Unemployment in particular was unequally distributed, as were the effects of policies to combat economic problems resulting from the pandemic. Possibly as a consequence, expected labor supply varied across different groups of the population, which could lead to a widening gap in retirement ages. ❖

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