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Economic Insecurity for Older Adults in the Presence of the COVID-19 Pandemic

What can we learn from the most recent major economic downturn?

AUTHORS:

Marc A. Cohen, PhD and
Jane L. Tavares, PhD
LeadingAge LTSS Center
@ UMass Boston

Susan Silberman, PhD and
Lauren Popham, PhD
National Council on Aging

The House of Representatives recently gave final approval to a massive $2.2 trillion economic rescue bill with robust backing from both parties. While much of the public's attention has rightly been focused on the devastating local health impacts of the spread of COVID-19, policymakers in Washington have acted with record speed to try and prevent a general economic collapse. While the virus itself is considered to be deadliest for older adults, that is, those age 60 and over, it is also the case that this group may be particularly vulnerable to the economic recession/depression that is fast developing. Although younger adults also experience economic hardship during times of recession, these younger age groups generally have enough time before retirement to allow the financial market to recover. Recent history shows us that older adults suffer significant declines in net wealth during large and unanticipated economic downturns. A case in point is the Great Recession that began with the collapse of financial markets in 2008.

Purpose

In this data brief, we present information on the impacts of the 2008 market collapse on the financial status of older adults age 60 and over. We do so in order to understand what is at stake for older Americans today and to estimate the likely magnitude of loss. By analyzing the nationally representative, longitudinal data in the Health and Retirement Study (HRS) from 2006 to 2010, we are able to look at the immediate pre- and post-recession impacts on the financial well-being of older Americans (N= 12,006). We do this for four groups of individuals: individuals age 60 to 74 who are either working (N=3689) or retired (N=3854), and individuals age 75 and over who are either working (N=1138) or retired (N=3325). We further examine how the economic downturn affected various income groups within the population including those in the lowest to the highest quintile of net wealth. We also explore how poverty rates were affected over the period.

Method

We analyze changes in the following measures of wealth: (1) Total household income is the total sum of respondent and spousal earnings, pensions and annuities, Social Security Income (SSI) and Social Security Disability (SSDI), Social Security Retirement, unemployment and workers' compensation, other government transfers, household capital income and other income for the last calendar year[1]; (2) Total

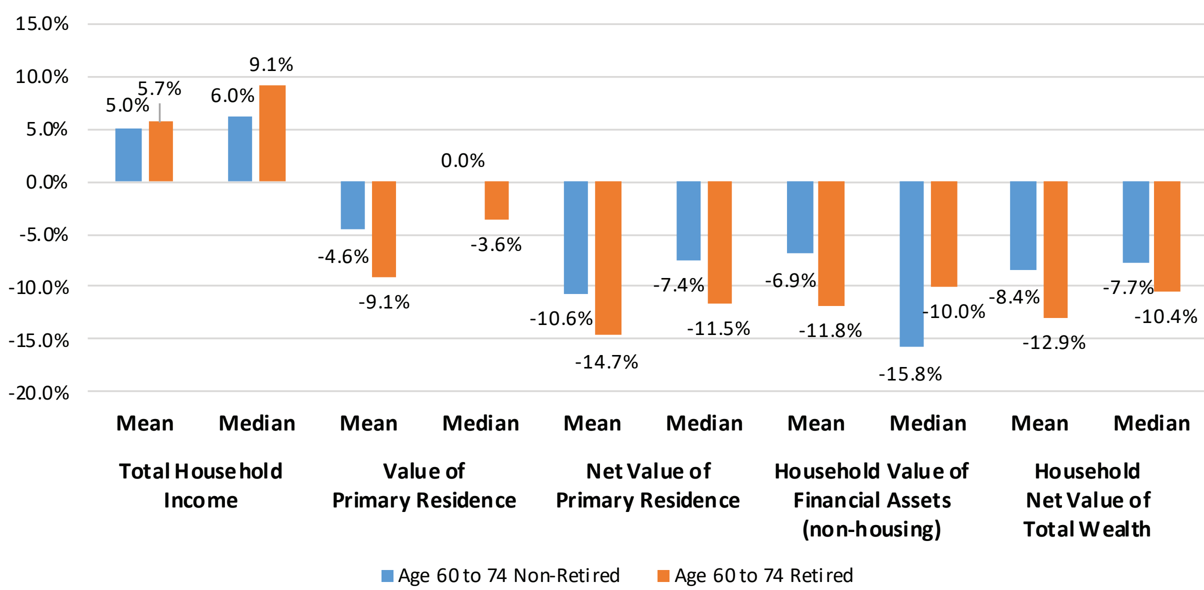
[1] Quintiles in this memo are defined based on the net value of total wealth; this approach is meaningful in terms of understanding the overall household financial circumstances of the various segments of the age 60 and older population.

value of primary residence is the current market value their primary residence would be according to the respondents[2]; (3) Net value of their primary residence is the value of primary residence without mortgages and home loans[2]; (4) Total value of financial assets is the total sum of retirement plans (IRA, Keogh accounts), stocks mutual funds, investment trusts, checking, savings, money market accounts, government savings bonds, T-bills, bonds, bond funds and other savings in a household. This does not take into account debts; (5) Net value of total wealth is the total sum of housing and financial assets less debts. The housing and financial assets are their primary residence, stocks, mutual funds, investment trusts, checking, savings, money market accounts, government savings bonds, T-bills, bonds, bond funds, other savings and retirement plans such as IRA and Keogh accounts. The debt components include their mortgage, home loans, credit card debts, and any other debts.

Findings

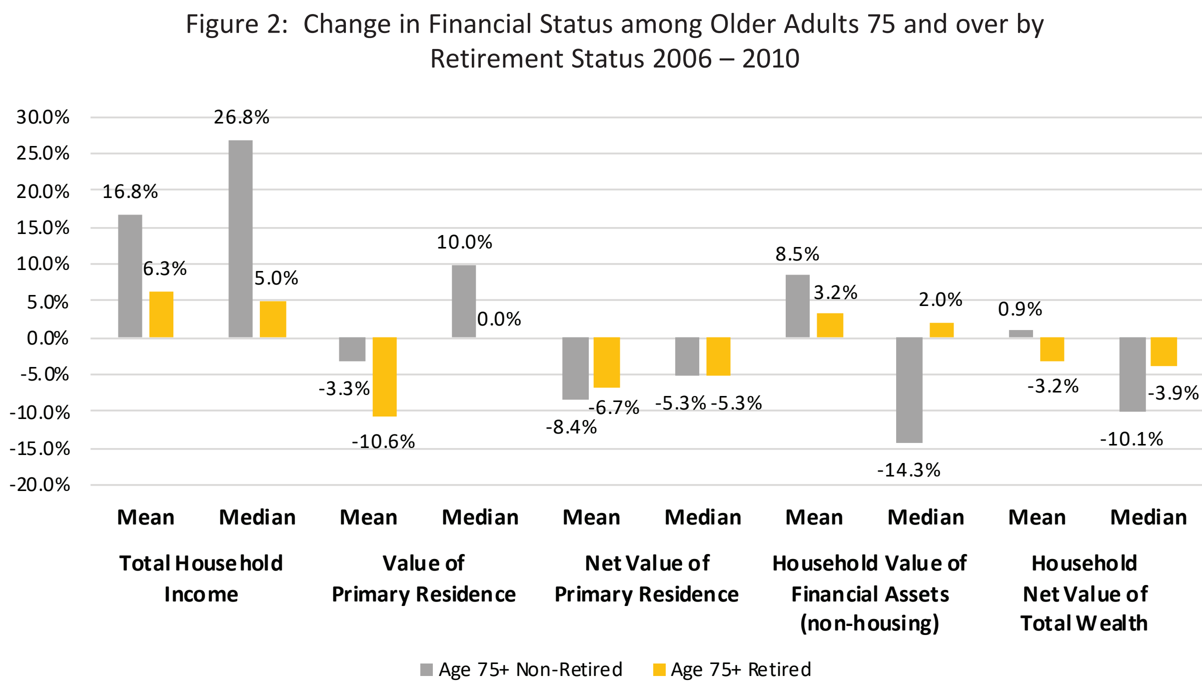
FIGURE 1 shows that among older adults 60 to 74, while there is no statistically significant change in household income, the net value of the primary residence as well as financial assets declined significantly over the four-year period. The fact that the net value of the primary residence fell more than the value of the residence itself, suggests that people are taking on more mortgage debt over the period, in part to pay for additional items. As well, financial asset values fell by between 7% and 12%, depending on retirement status. This translated to losses of $17,000 to $32,000 in value. Across all categories, individuals who are retired, fared worse than those who were still in the workforce.

Figure 1: Change in Financial Status among Older Adults 60-74 by Retirement Status 2006 – 2010



[2] Pantoja, P., Bugliari, D., Campbell, N., Chan, C., Hayden, O., Hayes, J.,Clair, P., S. (2018). RAND HRS Detailed Imputations File 2014 (V2) Documentation. Retrieved from https://www.rand.org/content/dam/rand/www/external/labor/aging/dataprod/randhrsimp1992_2014v2.pdf.

FIGURE 2 highlights similar patterns for individuals age 75 and over when focusing on mean changes in the variables. Statistically significant differences from pre- to post-recession include the mean change in the value of primary residence, the net value of primary residence, and the change in household wealth. Mean changes in income and the value of liquid assets were not statistically significant. Again, those individuals who were in the labor force fared better than those who had retired. In addition, across most of the financial measures, individuals in the 75 and over age group fared better than did those in the 60-74 age group. This may be related to the fact that this older age group likely had more of their liquid assets in conservative investments, were more likely to have had their homes paid for with little mortgage left, and were more dependent on stable funding from Social Security and other public programs.



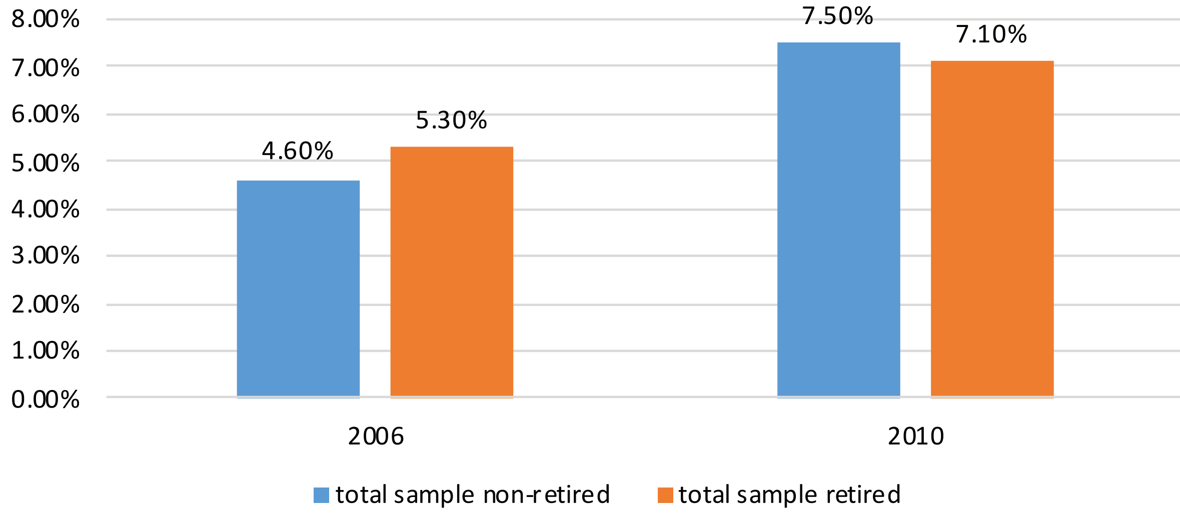
However, when focusing on changes in the median values, which are less subject to outliers, we find that those individuals age 75 and over in the workforce fair worse on overall financial assets and net wealth despite doing better on income. Although being over age 75 in the workforce meant better income than those retired, it appears that they are remaining in the workforce out of necessity precisely because their overall financial resources and net wealth are worse than those retired.

In terms of poverty status, **FIGURE 3** shows that the recession of 2008 did have a major impact on the percentage of individuals over age 60 who fell below the Federal Poverty Level (FPL).

In fact, among the non-retired sample, the percentage of individuals who slipped into poverty grew by 63% — from 4.6% to 7.5%. For individuals already retired, who tend to be older on average, the rate increased by 34% — from 5.3% to 7.1%.

One would not expect the impacts of the recession to affect all income groups the same. In order to test this, we segmented the population into quintiles based on their net value of total wealth, which is to divide the population into five equal parts of 20 percent. Thus, Quintile 1 represents the lowest 20 percent of the population, followed by the 20 - 40 percent of the population in Quintile 2, the 40 – 60 percent of the population in Quintile 3, the 60 – 80 percent of population in Quintile 4, and the 80 – 100 percent of population in Quintile 5.

Figure 3: Percentage of Group below Federal Poverty Level by Retirement Status



We begin our discussion with the age 60 to 74 age group where **FIGURES 4** and **5** highlight the results.

Clearly, individuals in the lowest quintile are hit hardest regardless of their retirement status. This is true with respect to both their mean financial assets and mean net value of total wealth. Although this is not shown in the figures, the decreases as measured by the median — which is less influenced by outlier values — are less dramatic, even as those in the lowest quintile are significantly more impacted than the other quintiles. The non-retired individuals from Quintile 4 above are left somewhat better off than their retired counterparts on these two important financial measures. The individuals in this quintile would generally be categorized as upper middle-class. Thus, it may be the case that the non-retired in Quintile 4 had a combination of well-paying jobs, monetary savings, and stable investments that helped buffer the impact of economic decline along with being less likely than those in Quintile 5 (i.e. the wealthiest group of individuals) to be large business owners with riskier investments that may have incurred greater debt as a result of financial losses.

Figure 4: Change in Value of Financial Assets and Total Wealth by Non-retired Individuals Age 60 – 74

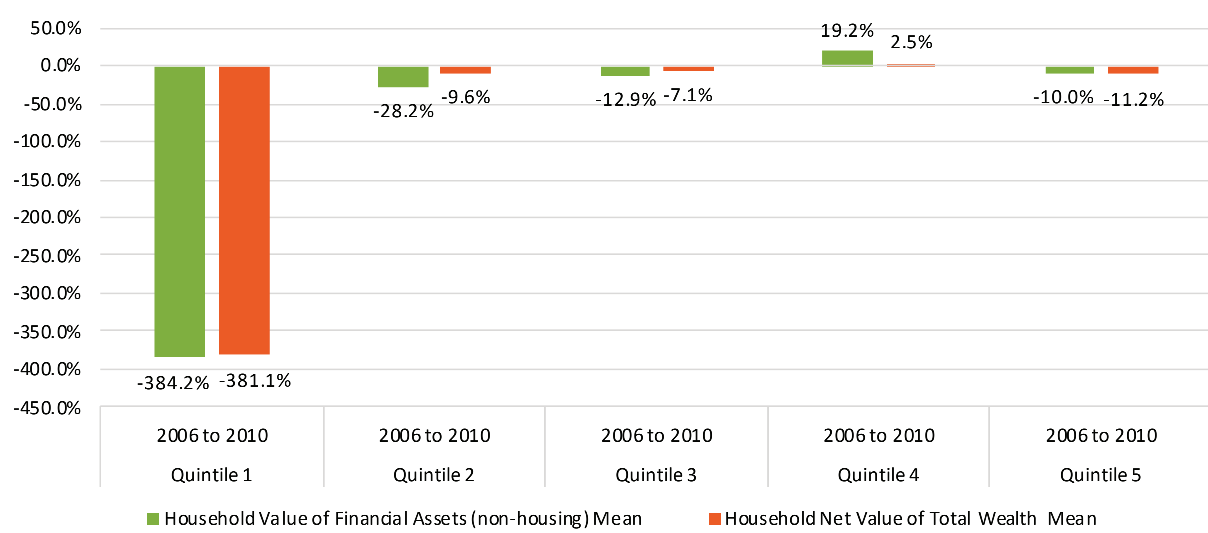
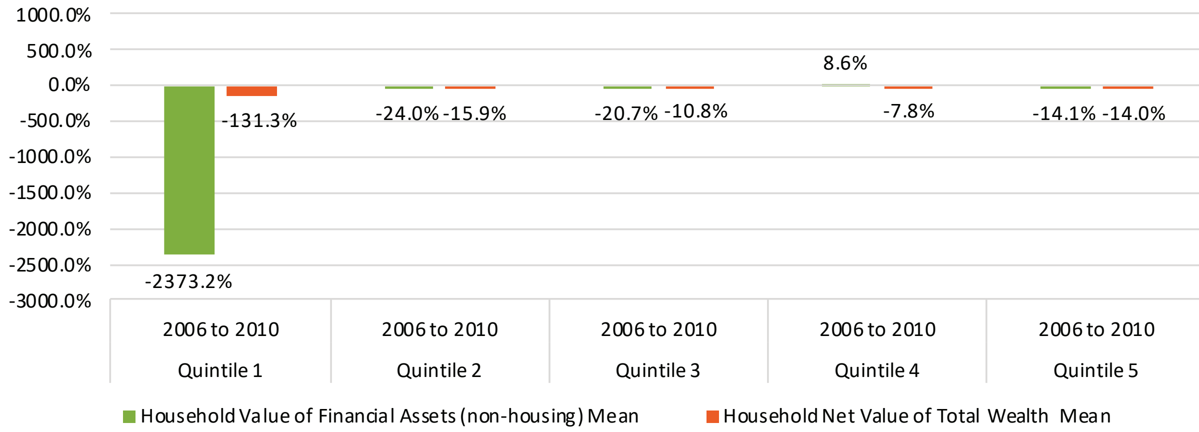


Figure 5: Change in Value of Financial Assets and Total Wealth by Retired Individuals Age 60 – 74



FIGURES 6 and **7** – which focus on changes in mean results among those 75 and older by quintile, paint a similar story with an important exception. When looking at mean values across all income groups, 75 and older individuals who are retired fared better than those who are still working. Median values (not shown for visual clarity purposes) revealed the same trend. This may reflect the fact that older non-retired individuals may not yet have accumulated the same level of assets compared to older retirees and that their income is more dependent on variable sources of income rather than just Social Security, for example. The important observation here is that the impacts of the recession are inversely related to the value of financial assets and household total wealth: it strikes hardest on the lower quintiles and its impacts diminish as one moves up the wealth stream.

Overall, the quintile findings suggest that older adults with the least net wealth and who are still in the workforce will likely see some of the greatest impact of COVID-19 as getting ill may cut-off their ability to work and bring in any additional income that they are relying on (on top of any market declines). We also see the importance of segmenting the population into net wealth quintiles as it enables one to assess impacts on important sub-population groups, like the most economically vulnerable, and it also underscores the importance of government benefits acting as a buffer to financial ruin.

Figure 6: Change in Value of Financial Assets and Total Wealth by Non-retired Individuals Age 75 and Older

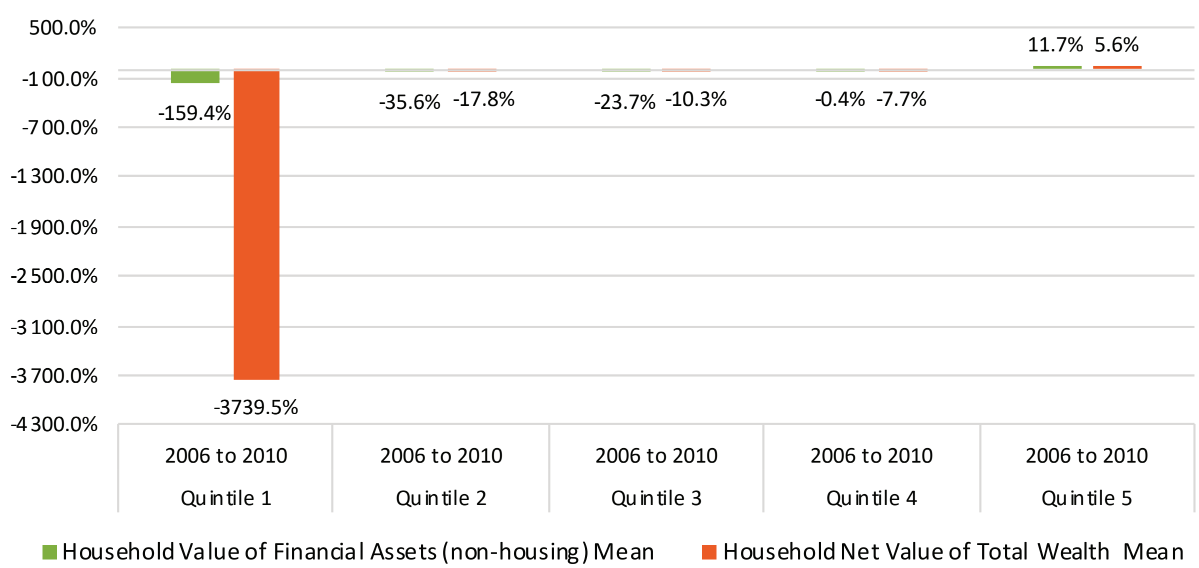
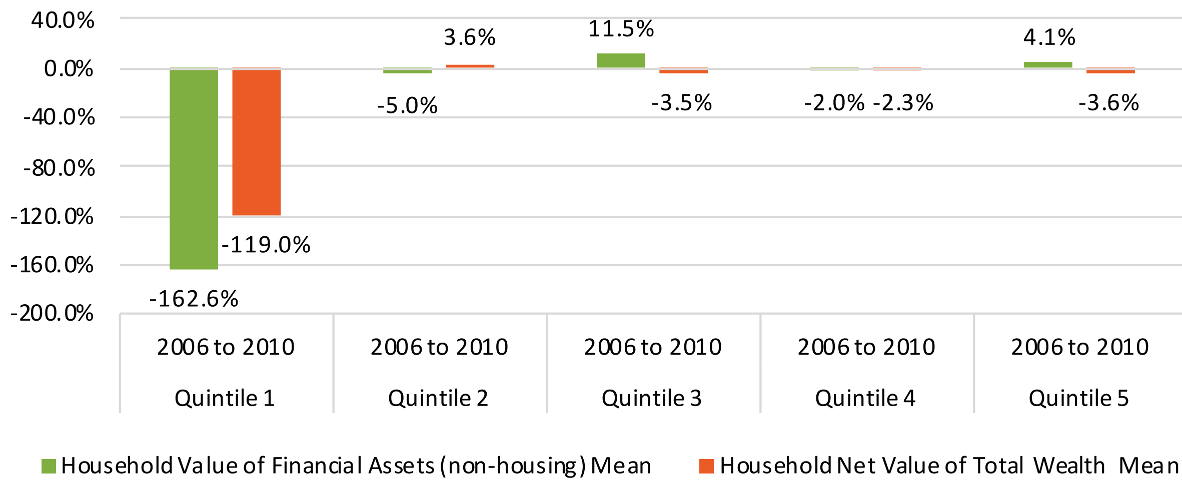


Figure 7: Change in Value of Financial Assets and Total Wealth by Retired Individuals Age 75 and Older



Conclusions

The findings from this analysis highlight the financial impacts of the Great Recession of 2008 market collapse on older adults and offer a launching point for understanding the economic implications of the COVID-19 pandemic among this vulnerable age group. A common trend seen across those 60 and older, regardless of age group or retirement status, was the decrease in total net wealth and taking on greater debts, particularly property related debt, during times of recession. Along these lines, we see significant increases in poverty status post-recession across those 60 and older. Of particular interest is that older retired individuals tended to fare somewhat better overall during the recession, suggesting that there was greater financial stability among this demographic likely due to government benefits such as Social Security and Medicare as well as the greater likelihood of owning their home and more conservative investments.

This underscores the importance of government benefits as a means of buffering financial collapse among older adults, particularly for those who are currently relying on income from an employer and may suddenly find themselves unable to work. Given that those in the lowest net wealth quintiles of the 60 and older population were the hardest hit by the recession irrespective of age or retirement status, it will be critical to ensure that these most vulnerable individuals are eligible for government benefits and the targeted recipients of economic aid solutions.

Although this research brief focuses on the potential financial risks to older adults during an impending recession, we must be mindful that COVID-19 adds a health component that will likely have devastating consequences for this age demographic on top of any economic impacts. It is often the case that health vulnerability and financial vulnerability overlap, impressing upon us that it is crucial to consider how both of these factors will intersect. Taking into account both the economic effects of a recession and the heightened health risk to our older citizens will be vital for navigating the impact of COVID-19 during this time of uncertainty.

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About NCOA

The National Council on Aging (NCOA) is a trusted national leader working to ensure that every person can age well. Since 1950, our mission has not changed: Improve the lives of millions of older adults, especially those who are struggling. NCOA empowers people with the best solutions to improve their own health and economic security—and we strengthen government programs that we all depend on as we age. Every year, millions of people use our signature programs BenefitsCheckUp®, My Medicare Matters®, and the Aging Mastery Program® to age well. By offering online tools and collaborating with a nationwide network of partners, NCOA is working to improve the lives of 40 million older adults by 2030. Learn more at **www.ncoa.org** and **@NCOAging**.

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The LeadingAge LTSS Center @UMass Boston conducts research to help our nation address the challenges and seize the opportunities associated with a growing older population. Established in 2017, the LTSS Center is the first organization of its kind to combine the resources of a major research university with the expertise and experience of applied researchers working with providers of long-term services and supports (LTSS). Learn more at **www.ltsscenter.org**.