

# **The Market Crash and Mass Layoffs: How the Current Economic Crisis May Affect Retirement**

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“Those Golden Years Have Lost Their Glow; With Home Values Down, Costs Up and Their 401(k)s Declining, Some Seniors Have Had To Rethink Retirement.” (*Los Angeles Times*, September 21, 2008)

“Will You Retire?; New Economic Realities Keep More Americans In the Workforce Longer.” (*Washington Post*, October 15, 2008)

“Economic Crisis Scrambles Retirement Math: The 401(k) Model of Saving is Under Duress as Stocks Slide. Home Equity Losses Don’t Help.” (*Christian Science Monitor*, March 4, 2009)

## I. INTRODUCTION

One casualty of the financial and economic crisis that began in the fall of 2008 may be workers’ carefully laid retirement plans. The popular press recognized this from the start of the crisis, as the headlines listed above make clear. Front page stories of lost retirement savings and plunging home values are commonplace. With diminished retirement savings and less home equity to draw on, the story goes, expected retirement income has shrunk, forcing older individuals to stay in the labor force longer. Workers interviewed for these stories wondered when or if they would ever be able to retire.

Amidst these concerns, another news story appeared briefly in spring 2009 indicating that Social Security benefit claims have risen sharply since the crisis began, suggesting an increase in retirements rather than a decrease.<sup>1</sup> But why are more workers retiring now if their expected retirement income is going down? The answer may lie in another aspect of the crisis, the weak labor market. The unemployment rate has more than doubled and the economy has shed millions of jobs since the crisis began. Some of those workers struggling to stay employed or find new

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<sup>1</sup> See, for example, Dorning (2009). The media coverage around May 24, 2009 was based on an interview with Stephen Goss, the Social Security Administration’s Chief Actuary. A few days later, his office released a memo detailing these findings. In it, Goss reports that the number of claims for new retirement benefits in 2009 rose 10 percent more than one would expect based on demographics alone (Goss, 2009). Goss indicated that the economic downturn is the potential cause of this increase.

jobs are surely nearing retirement age. For the unfortunate ones who are not able to maintain or find employment, retirement may be the only solution, despite its involuntary nature.

The net effect of the current financial and economic crisis on retirement is thus far from clear, as plunging equity and home values would be expected to lead to a decrease in retirements while a weak labor market would be expected to lead to an increase. The purpose of this paper is to examine this issue. We use 30 years of data from the March Current Population Survey (CPS) to estimate models relating retirement decisions to changes in equity, housing, and labor markets over time and (where possible) across geographic locations. We also use the Survey of Consumer Finances (SCF) to provide a descriptive analysis of the impact of falling equity prices on older household's expected retirement income. We then use our regression estimates to predict the net effect of the current crisis on retirement.

Our analysis indicates that the retirement decisions of workers between ages 62 and 69 with more education are affected by long-run fluctuations in stock market returns. We also find that labor market conditions are an important determinant of retirement decisions. When the unemployment rate rises, more workers between ages 62 and 69 retire, particularly those with less education. Workers between ages 55 and 61 are not found to be responsive to either type of market fluctuation. Individuals do not seem to respond to fluctuations in the housing market regardless of their age. On net, we predict that the increase in retirement brought about by the recent rise in unemployment will be almost 50 percent larger than the decrease in retirement brought about by the stock market crash.

Overall, our findings suggest that the plight of those who are forced to retire early as a result of weak labor market conditions merits greater attention from the media and from policy makers. These results have potentially important distributional implications as well. It is often

those on the bottom of the economic ladder who are being hurt by retiring prematurely due to labor market factors and those at the top who may not be able to retire as planned due to equity losses. Our results also have implications beyond the current economic crisis, as they suggest that the past literature on retirement has paid too little attention to the important role of labor market conditions in the retirement decision.

The remainder of our analysis proceeds as follows. In the following section, we document trends in the environment surrounding retirement decisions, including stock returns, housing prices, and the labor market. Next, we review the relevant literature and discuss the data and methods we use in the remainder of the analysis. We then present our results regarding the impact of changes in equity, housing, and labor markets, respectively, on retirement decisions. Finally, we simulate the net effect of recent market events on retirement and discuss the policy implications of our findings.

## **II. BACKGROUND**

In this section, we present trends in equity, housing, and labor markets to review recent activity and summarize earlier events that may be less well remembered. We also discuss the conditions under which fluctuations in these markets may affect retirement behavior.

### *A. Trends in the Stock Market*

Annual changes in the value of the stock market, as captured by the S&P 500 Index, are shown in Figure 1A. This figure reports real annual changes (adjusted for inflation) based on December monthly average values. The figure illustrates the tremendous year-to-year volatility in aggregate stock prices. The pattern in the 1980s and early 1990s is one of two good years with 10 to 20 percent annual returns followed by a bad year with zero or negative returns. Since

then, the market has experienced more prolonged booms and busts, including two five-year rallies in the late 1990s and mid 2000s, as well as a multi-year bear market early in this decade. The market fell by 40 percent in real terms in 2008, the sharpest decline in recent history.

One can see how these dramatic turnarounds in equity markets have captured the public's attention. The question at hand, though, is whether they alter retirement decisions. Given that there has always been substantial year-to-year variability in stock prices, is it sensible to expect a single year's market performance to drive behavior?

The market return over a longer period of time could potentially play a more important role in retirement decisions. In Figure 1B, we display five-year and ten-year market returns (again calculated using December monthly average values). This figure shows that there is substantial variability in longer-term returns over time. In the 1980s and early 1990s, the five-year real return was consistently about 50 percent. After that real returns rose, hitting almost 200 percent in the year 2000 before collapsing to small or negative values. Ten-year returns are higher, but the patterns are similar.

These statistics suggest that market returns could have a significant impact on retirement behavior. One worker approaching retirement age could have tripled the value of his portfolio over a five year period, while another worker's portfolio remained constant or even shrank. If workers have considerable resources invested in the stock market, a boom or a bust in the period leading up to traditional retirement ages could play a key role in the decision of when to retire. We later explore the level of stock ownership among the population and various subgroups.

### *B. Trends in the Housing Market*

Although the volatility in the housing market is less dramatic, home values also exhibit substantial fluctuations over time. Figure 2 displays annual changes in real house prices from

1987 to 2008 based on the Case-Shiller (CS) Index for 10 large cities across the country and from 1976 to 2008 based on data from the Office of Federal Housing Enterprise Oversight Home Price Index (OFHEO) for the entire country.<sup>2</sup> The figure shows that housing market returns are considerably more serially correlated than stock returns. In the late 1980s and early-to-mid 1990s, home values did not keep pace with inflation. In the decade that followed, however, prices rose continuously, with annual growth rates in the Case-Shiller Index of over 10 percent in some years. House prices have fallen sharply since 2006, dropping almost 20 percent in 2008.

These statistics suggest that home prices could also affect retirement decisions. Depending on their year of birth, individuals may have doubled their home equity or had it cut in half as they approach traditional retirement ages. If workers had substantial home equity to begin with and are willing to draw down this equity during retirement, a substantial increase in home equity could accelerate retirement while a substantial drop could delay it.

### *C. Trends in the Labor Market*

Figure 3 presents the cyclical variation in the labor market, as measured by the monthly unemployment rate for workers age 16 and over. As we describe subsequently, older workers have a lower unemployment rate, but the pattern over time is very similar to that for all workers. The highest unemployment rate in recent times was 10.8 percent in 1982. Subsequent recessions in the early 1990s and the early 2000s were less severe, with the unemployment rate reaching highs of 7.8 percent and 6.3 percent, respectively. In the current crisis, the unemployment rate is climbing rapidly; as of May of 2008, it had reached 9.4 percent. Aside from these recessions, the unemployment rate has been at a low level, around 4.5 percent, for much of the period since the mid-1990s.

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<sup>2</sup> We discuss these two indices in more detail below. Annual returns in the CS Index are calculated as the change in the December values. Annual returns in the OFHEO Index are calculated as the change in the fourth quarter values.

As with our earlier discussions of equity and housing markets, labor market conditions around traditional retirement ages may matter. Workers are twice as likely to be unemployed now as they were a few years ago. In times when obtaining a new job is difficult, older individuals who are laid off or unemployed for other reasons may be more likely to retire. This may be especially true for workers age 62 and up, who generally have access to Social Security.

As this discussion has made clear, there are reasons to believe that variations in stock prices, house prices, and the labor market have the potential to alter retirement behavior. It is also clear that there are important conditions for these behavioral responses. Lower stock and housing prices may lead to fewer retirements if individuals nearing retirement hold sufficient levels of equity and plan to consume that equity during retirement. Higher unemployment rates may lead to more retirements if older individuals are unable to find work and withdraw from the labor force instead. Furthermore, for market fluctuations to affect aggregate retirement rates, the relevant elasticities must be large enough to generate behavioral responses by more than just a handful of older individuals. In the end, the retirement responses to fluctuations in equity, housing, and labor markets are empirical questions. In the remainder of this paper, we attempt to answer these questions.

### **III. PREVIOUS LITERATURE**

Much of the existing retirement literature has focused on Social Security, private pensions, and health. While these factors may be important in explaining long-run trends, such as the steep decline in older men's labor force participation since World War II and the recent reversal of that trend, they are unlikely to explain dramatic changes in retirement behavior in any

given year, such as those that might result from the current crisis. In this section, we focus on those parts of the retirement literature that are most directly relevant to our analysis.

#### *A. Financial Shocks*

Economic theory suggests that individuals should respond to negative stock market shocks by reducing their consumption of normal goods (including leisure) and delaying retirement. Articles in the popular press have similarly asserted that this will be the effect of the current crisis. Nevertheless, there is little empirical research to support this hypothesis.

In an earlier paper (Coile and Levine, 2006), we use methods similar to those described below to address this issue. We treat the stock market boom and bust of the late 1990s and early 2000s as a quasi-experiment and explore whether groups with more stock assets were more likely to retire during the boom and less likely to retire during the bust. We find no evidence of this pattern. We also argue that individuals would have to have been implausibly sensitive to market fluctuations for the observed rise in retirement in the year 2000 to have been the result of that year's market crash. Our findings are consistent with those obtained by Hurd, et al. (2009). They are unable to find support for the notion that "households which had large (financial) gains retired earlier than they had anticipated or that they revised their retirement expectations compared with workers in households that had no large gains."<sup>3</sup>

There are two possible explanations for the lack of an effect. The first is that the number of people who experienced large unexpected wealth gains from market fluctuations is relatively small, as Coile and Levine (2006) argue. The second is that the effect of unexpected wealth on labor supply is fairly small. This view is supported by Coronado and Perozek (2003), who find

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<sup>3</sup>Sevak (2001) reached a different conclusion, finding that men in defined contribution (DC) pension plans increased their retirement rates by more than men in defined benefit (DB) pensions during the stock market boom of the late 1990s. However, this study is limited by an inability to control for differences in retirement trends between the two groups, a deficiency that is overcome in Coile and Levine (2006) by the use of the boom and bust as a double experiment.



that being a stockholder during the boom of the late 1990s is associated with retiring 6 months earlier than expected, but that each additional \$100,000 of unexpected gains is associated with retiring only two weeks earlier than expected. Hurd, et al. (2009) are also sympathetic to this argument, citing evidence from lotteries.

### *B. The Role of Housing*

As with stock market shocks, economic theory suggests that unanticipated losses in home equity should lead households to retire later. However, shocks to home equity will only affect retirement behavior if households routinely consume their housing wealth in retirement. In fact, studies suggest that this is not the case. For instance, Venti and Wise (2004) find that most households do not sell their homes until they experience an event such as the death or entry into a nursing home of a spouse. This finding has led some authors to argue that many households treat their home equity as a “buffer stock” of wealth against the risk of shocks late in life. If so, then it seems unlikely that home price fluctuations will affect retirement behavior, although many recent stories in the popular press have asserted that this is the case. The effect of housing wealth on retirement has not been directly addressed in the previous literature. We provide an empirical analysis of this question below.

### *C. Labor Market Shocks*

A small body of literature has established that job loss is relatively common for older workers (Farber, 2008; Munnell, et. al., 2006). For instance, Farber (2008) reports that 10 to 12 percent of private-sector workers between the ages of 50 and 64 experienced permanent and involuntary job losses when labor markets were weak during the 1991 to 1993 and 2001 to 2003 periods, while displacement rates of around 8 percent (over a three year period) were observed during the expansions of the mid-to-late 1990s and the middle 2000s. Previous studies have

found that job loss among older workers has long-lasting negative consequences for employment and wages (Chan and Stevens 1999, 2001, and 2004; von Wachter, 2007). Chan and Stevens (1999) estimate that the employment rate of displaced older workers two years after a job loss is 25 percentage points lower than that of similar non-displaced workers and that the median reemployed worker earns 20 percent less than at his old job.

More directly related to the question we seek to address here is our earlier work (Coile and Levine, 2007). Using similar methods and data to that described subsequently, we find that retirement transitions are cyclically sensitive, a result supported by Von Wachter (2007) and Hallberg (2008). We estimate that changes in rates of retirement between the peak and trough of a business cycle are comparable to those brought about by moderate change in financial incentives to retire or to the threat of a health shock, factors that have traditionally received far more attention in the literature. We also find that Social Security interacts with labor market conditions in affecting retirement transitions, as the effect of the unemployment rate on retirement appears only as workers become eligible for benefits. We expand upon this discussion later in our analysis.

#### *D. Contribution of this Research*

The current analysis builds on the previous literature, including our own past work, in several ways. First, we update and extend our analyses of the effect of stock market and labor market fluctuations on retirement. Second, we provide a new analysis of the effect of housing market fluctuations on retirement, a question not addressed in the previous literature. Third, we use these various estimates to predict the net effect of the current crisis on retirement. Finally, we discuss the distributional consequences and policy implications of our findings.

## IV. DATA SOURCES

The main data requirement for our analysis is a way to measure retirements for large numbers of workers over time. Beyond data on their labor market activity, we also need information on workers' asset holdings, including both financial assets and home equity. This section of the paper will describe the sources of data we use.

### *A. Measuring Retirement*

Our main source of data for measuring retirements is the Current Population Survey (CPS). The CPS is the leading survey of labor market activity in the United States. The monthly CPS survey asks a sequence of questions about the respondent's involvement in the labor market around the time of survey and also collects demographic data. In March of each year, the "Annual Social and Economic Supplement" (previously called the "Annual Demographic Survey") is administered as a supplement to the regular monthly CPS. Each March CPS provides sample sizes of between 130,000 and 215,000. Although we only are interested in the data for workers around the age of retirement, the large size of each sample coupled with the annual nature of the survey provides us with a tremendous amount of information. For instance, when we pool data from the 1980 through 2008 March surveys for individuals between the ages of 55 and 69, we obtained a sample of nearly 600,000 individuals.

For our purposes, one key attribute of the March CPS is that it enables us to identify retirement transitions.<sup>4</sup> To do so, we make use of information on the labor market activity of respondents in the preceding calendar year, including weeks worked, usual hours worked per

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<sup>4</sup> As we describe subsequently, we define retirement as complete labor force withdrawal. However, we recognize that retirement could be defined in other ways, for example, as the initial claim of retirement benefits or as departure from a "career" job. In fact, several studies have found that it is quite common for workers to leave a career job and work for a period of time at a less demanding "bridge" job before completely withdrawing from the labor force; see Cahill, et. al. (2006) for a recent contribution. The data available to us leads us to focus on a definition of complete labor force withdrawal. However, an analysis of these other types of retirement transitions would be a fruitful area for future research.

week, and weeks spent looking for work. Combining this retrospective information along with that obtained in the regular monthly survey, we can define a retirement to occur when an older worker reports being in the labor force for 13 or more weeks during the preceding year, but is out of the labor force on the March survey date.<sup>5</sup> After restricting our sample to these workers, we obtain a final sample size of over 300,000. State of residence is available in the March CPS, which we can use to merge in state-level data on unemployment rates and house prices.

### *B. Measuring Home Prices*

We use two sources of home price data. The first is the S&P/Case-Shiller Home Price Index, which is available monthly for 20 metropolitan areas beginning in 1987. The index uses a “repeat sales pricing” methodology, where data on sale prices of individual single-family homes is collected from county records and matched to each home’s previous sales price, then a weighted aggregate index is created based on the change in sales prices of these homes. We convert the index to real values using the Consumer Price Index (CPI) to calculate real changes in house prices. We calculate the percent change in the index from one March to the next, as our definition of retirement in the CPS is essentially based on changes in labor market activity between one March and the next, and relate retirement decisions in a given year to housing returns over the previous 12 months.

The second data source is the Office of Federal Housing Enterprise Oversight (OFHEO) Home Price Index. This index is available quarterly at the state level starting in 1975. The

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<sup>5</sup> A second way that we could use CPS data is by taking advantage of the longitudinal structure of the CPS to create a short panel of information for each respondent. This panel can be created by matching CPS information for some respondents in one March CPS with that from the CPS in the following March. The procedure for doing so is reported in Madrian and Lefgren (1999). These data offer about one-third the sample size as the regular CPS. An advantage of these data, though, is that we can create a definition of retirement for workers who have been more committed to the labor market and out of the labor force for a longer period of time. We have used these data as well and obtained findings qualitatively similar to those reported subsequently. We have chosen not to report them for expediency.

OFHEO index is also based on changes in the value of individual homes over time, but is calculated using Fannie Mae and Freddie Mac data on mortgages originated by these entities during home purchase and refinancing transactions. We use first-quarter data and again relate retirement decisions to home price appreciation in the previous 12 months.

In comparing the two indices, the OFHEO index has the advantage that it is available for all states and years in our sample, allowing for larger sample sizes in these regressions than those that use the Case-Shiller index. However, the Case-Shiller index displays more variation over time, as shown in Figure 2, which can be attributed to several differences in the construction of the two indices, including the fact that the OFHEO index does not include foreclosures. As we report below, results using the two indices are very similar.

### *C. Measuring Asset Values*

The primary source of wealth data in the United States is the Survey of Consumer Finances (SCF). The survey has been conducted every three years since 1983, most recently in 2007, with a sample of roughly 4,500 households per survey. The survey oversamples high net worth households to obtain a more accurate estimate of aggregate wealth holdings. The survey collects detailed data on assets and income, including data on asset allocation within retirement accounts. We use the SCF to generate information on the stock holdings of older households, using sample weights to obtain statistics that are representative of the population.

## **V. METHODOLOGY**

Although the specific methods we use depend on whether we are addressing stock market wealth, housing wealth, or unemployment, the general approach is similar. To avoid repeating

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ourselves, we first present the basic methodological framework and then provide details regarding the ways in which we modify it for each specific application.<sup>6</sup>

### *A. Framework*

Our goal is to determine whether different types of market conditions alter retirement decisions. Underlying our analysis is a regression model where the dependent variable is an indicator for whether an older worker retired in a particular year as a function of the market conditions he faces along with other explanatory variables, mainly demographic factors like race/ethnicity, gender, level of education, etc. We also include a full set of exact age dummies, which essentially converts our retirement regression into a hazard model with a nonparametric baseline hazard. We use the same CPS data to provide information on retirement behavior as well as the explanatory variables (other than the market conditions).

For each analysis we exploit quasi-experimental variation in the data, which we believe is able to plausibly generate causal conclusions regarding the impact of conditions in each market on retirement behavior. Quasi-experimental variation relies on changes over time in the explanatory variables occurring in some locations or for some groups but not in other places or for other groups. Those individuals who experienced no change act as a quasi-control group for those in a quasi-treatment group who experienced a change. Comparing differences in outcomes over time between the two groups provides a means to identify the effect of the change. Statistically, this approach is referred to as a difference-in-difference method as the change, or difference, within one group is differenced from the change in the other group to estimate the effect.

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<sup>6</sup> In principle, we could use one regression model that would include all three measures of market conditions. As we describe subsequently, though, each analysis has somewhat different data and sources of identification that requires separate analyses. Where possible, however, we include other market conditions as control variables. For instance our analysis of the impact of home prices includes the unemployment rate as an explanatory variable.

In practice, this approach is generally implemented using panel data, estimating regression models that include specific market conditions (stock market, housing market, and labor market) along with relevant fixed effects when possible. One set of fixed effects would represent a vector of state of residence dummy variables that can hold constant any longstanding differences in behavior between workers who live in different areas of the country.<sup>7</sup> A second set of fixed effects would represent dummy variables for the time periods included in the analysis. These time fixed effects would hold constant broader social and economic conditions that may be changing over time and that might alter outcomes for all individuals. What remains to be estimated once these fixed effects are included is the difference in outcomes that take place over time between the groups. The coefficient on the market conditions variable, our key explanatory variable, is this estimate. We will apply this general approach in all of our subsequent analyses.

### *B. Application to Changes in Financial Wealth*

Not everyone holds financial wealth. As we document later, some segments of society have little financial wealth. Because changes in equity market conditions should have little or no direct bearing on the retirement decisions for those who do not own equities, these individuals can be thought of as a quasi-control group. We can compare the effect of stock market fluctuations on retirement for those without financial wealth to the effect for those with significant financial wealth to estimate the impact of the market on retirement.

In practice, the CPS data we use to measure retirement do not include data on financial wealth. Instead, we first divide individuals by educational attainment. As we report later, individuals with no more than a high school degree typically have very limited equity holdings

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<sup>7</sup> If the quasi-treatment and quasi-control groups were identified by a characteristic other than location, for example education, then the dummy variables for each education group would serve to hold constant any longstanding differences in behavior between workers in different education groups, as the state dummies do in this discussion.

and can act as a quasi-control group for college graduates, whose holdings are more extensive. If the more educated are estimated to retire at a differentially higher rate in response to higher stock market prices, this would support the hypothesis that market conditions matter.

In these specifications, we are unable to include a complete vector of year fixed effects because the stock market variables available to us vary only over time and not across locations. Instead, we capture broader movements in retirement behavior over time by including quadratic time trends in our regression model, allowing the trends to differ by group. This model enables us to identify the impact of stock market changes by estimating whether retirement behavior deviates from a quadratic trend in years in which market returns are higher. To support a causal effect, estimates would need to be greater for the more highly educated.

### *B. Application to Changes in Housing Wealth*

Our use of quasi-experimental variation and difference-in-difference methods is somewhat different when we analyze changes in housing wealth. We first consider the variation available to us as a result of differences in house price changes by location. In the extreme, we could think about individuals who live in locations where housing prices have remained flat (in real terms).<sup>8</sup> They would represent a control group to compare to those in locations where prices rose or fell. Dividing individuals in this way is a bit unrealistic, however, since housing prices tend to fluctuate everywhere at least some of the time.

Nevertheless, we can use the same methods and somewhat modify our interpretation. In reality, what we have are groups who were more affected than others in the sense that housing prices change by more in some locations at some points in time than others. Implementing the

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<sup>8</sup> In reality, since we are interested in unanticipated housing gains or losses, what should matter for retirement is not so much the total amount of the gain but the amount that was unexpected, so the ideal control group would be one where housing prices rose no more or less than expected. While it is plausible that expectations about house price appreciation may vary by location, we have no data to guide us on this point, so we must treat all gains or losses in all locations as (equally) unanticipated.



difference-in-difference method with location and time fixed effects enables us to estimate whether there are greater changes in retirement behavior in areas with greater changes in home prices. This method still holds constant longstanding differences in retirement behavior across locations and trends in retirement behavior over time that affect the population as a whole. The experimental analogy does not work quite as well here, but the general approach is the same and yields results that plausibly can be interpreted as causal.

We can further expand upon this approach by incorporated a “third difference” as well. As with financial wealth, home equity varies across individuals. While we are not able to identify the exact amount of home equity held by each individual, we can identify home ownership status in the CPS, allowing us to use those with no equity as a true quasi-control group. If we find that homeowners increase retirement by more than renters in response to an equivalent increase in housing prices, this would be consistent with the hypothesis that home equity affects retirement and provide further support for a causal interpretation of our findings.

### *C. Application to Changes in Labor Market Conditions*

The methods available to evaluate the impact of changes in labor market conditions, as measured by the unemployment rate, are similar to those for housing wealth. The unemployment rate changes in some places at some points in time more than others and we rely on that variation just like we described with changes in housing prices. We can also estimate difference-in-difference models separately for different demographic groups, including by educational attainment. Less-skilled workers tend to be more sensitive to labor market conditions (Hoynes, 1999), so we would expect any impact of an economic downturn on retirements to be larger for this group. Following the previous literature, we use less-educated as a proxy for less-skilled

workers. Therefore, we can use the differential response in retirement to labor market conditions across educational attainment categories as a further test of a causal effect.

## **VI. IMPACT OF LOST STOCK MARKET WEALTH**

### *A. Descriptive analysis*

Before proceeding with our econometric analysis, we begin with a descriptive analysis of individual equity holdings using data from the 2007 SCF, the most recent data available. Our goals in this analysis are to determine the level of equity holdings and the differences in holdings across population subgroups and to get a sense of whether the level of equity holdings may be sufficient to influence individuals' retirement behavior if the market rises or falls.

Table 1 presents information on equity holdings for households headed by individuals between the ages of 55 and 64, who are likely to be contemplating retirement in the near future. The results in Table 1 indicate that the typical household's equity holdings are very small. In fact, the median values of directly held stocks, stock-based mutual funds, and retirement accounts (including DC pension plans and Individual Retirement Accounts, or IRAs) that include stocks are zero or very close to it. For all stock-based investments combined, the median value of holdings is just \$8,000. The 75<sup>th</sup> percentile of this distribution is just under \$100,000. One needs to look very high in the distribution in order to find households with very large levels of stock holdings.

As previewed earlier, stock ownership is strongly correlated with education. The share of households with any stock-based investments is 46 percent for high school graduates vs. 78 percent for college graduates. Furthermore, those with high levels of wealth are heavily concentrated among more highly educated individuals. For example, the 75<sup>th</sup> percentile of the

distribution of all stock-based investments is just \$28,500 for high school graduates vs. \$271,300 for college graduates.

Despite the relatively low levels of equity holdings for most households in 2007, equity holdings are even lower at the beginning of our sample period. While estimates for earlier years are complicated by the fact that some previous SCF surveys did not ask about the asset allocation in all relevant accounts, we can nonetheless infer that equity holdings have risen dramatically over time. Table 1 suggests that the vast majority of stock-based investments for most households are stocks held in retirement accounts, and participation in these accounts has increased markedly over time. For example, the Employee Benefit Research Institute (2009) reports that the share of pension plan participants with a DC plan rose from 34 percent in 1980 to 64 percent in 2005. It seems very likely that stock holdings were much lower when many fewer households held such accounts and those that did had only recently established the accounts.

Table 2 presents a descriptive analysis of the impact that the recent stock market crash will have on future retirement income based on the 2007 equity holdings reported in Table 1. We begin by listing different levels of equity holdings ranging from none to \$500,000 in Column 1. In Column 2, we identify the fraction of households headed by an individual between ages 55 and 64 that have equity holdings at that level or lower. About 42 percent have no holdings at all and 75 percent have \$100,000 or less; 8 percent have \$500,000 or more. In Column 3, we approximate the loss experienced by households at each the equity threshold, assuming that their portfolios fell by 50 percent. We then make the simplifying assumption that households consume 5 percent of their wealth per year to approximate the lost retirement income resulting from the market crash. This is reported in Column 4; Column 5 divides this figure by 12 to get monthly statistics.

The results of this analysis suggest that if households divide this lost wealth over their remaining retirement years, the change in income would be modest for most of them. Those with \$100,000 of equity holdings would lose \$2,500 per year or \$208 per month as a result of the stock market crash. These are not insignificant values, but the losses are likely to represent a small percentage of retirement income. The losses are, obviously, even smaller for those with less invested in equities, a group that includes 75 percent of older households in 2007.

Our conclusion from this analysis is that, based on our assumptions, there are relatively few older households that lost enough money in the recent stock market crash that their retirement income will be substantively diminished.<sup>9</sup> Alternative assumptions, however, may lead one to predict a larger retirement response. Individuals could plan to consume a larger share of their savings just after they retire, for example to generate retirement income until Social Security benefits are available. If so, the relatively small amounts of stock holdings that most households have could lead to a substantial shock to retirement income, if just in the short-run. This could generate a larger retirement response. In the end, this is an empirical question that we will address using the regression techniques described earlier.

### *B. Econometric analysis*

In our econometric analysis, we estimate regression models using data from the March CPS, where the dependent variable is an indicator variable for retirement and the key explanatory variable is the change in the S&P 500 Index. As we discussed earlier, we consider the one-year change, the five-year change, and the ten-year change because the time frame over which individuals respond to market fluctuations is not clear. We implement the quasi-

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<sup>9</sup> Gustman and Steinmeier (2009) come to a similar conclusion using even more detailed wealth data (including Social Security and DB pension wealth) available in the Health and Retirement Survey. In their analysis, they conclude that the share of wealth associated with equities tends to be so small that even a dramatic decline in the stock market is unlikely to have retirement implications for many workers.

experimental approach described earlier where we estimate the response to market changes across groups that differ by their likelihood of holding substantial amounts of stock. For instance, more educated respondents would be predicted to respond more strongly to market fluctuations. We also estimate models separately for those 55 to 61 and those 62 to 69, since 62 is the age at which individuals are first eligible for Social Security benefits and that eligibility may alter responses.

The results of this analysis are presented in Table 3. Each cell in this table represents the results of a separate regression for the demographic groups previously identified. Based on the results reported here, there is some evidence supporting the notion that stock market fluctuations alter retirement behavior. This finding is strongest for those with more education who are between 62 and 69 and in response to long-term market fluctuations. For workers in this age group, the coefficients on short-run fluctuations are positively signed, though there is no systematic pattern across educational attainment groups and coefficients are small in magnitude relative to the mean retirement rate. For example, a one-standard deviation (or 16 percentage point) increase in the one-year return increases the retirement rate of college graduates by 0.4 points, or 3.2 percent relative to the mean retirement rate of 11.7 percent. For the ten-year return, however, the pattern across educational groups is consistent with what we would predict and the magnitude of the coefficients is greater.<sup>10</sup> A one-standard deviation (or 77 percentage point) increase in the ten-year return increases the retirement rate of college graduates by 1.5 points, or 13.0 percent relative to the mean.

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<sup>10</sup> We have also estimated similar regression models distinguishing workers by whether or not they are covered by a private pension. The type of pension held (DB versus DC) or the dollar amount of their holdings is not reported, but those with pensions are likely to have greater stock market wealth than those without, forming another type of quasi-experiment. Results by pension status are not shown in the interest of space, but are consistent with the results by education group, in that they are more in line with our expectations for older workers than for younger workers and for long-term fluctuations than for short-run fluctuations. These results are available from the authors on request.

For those workers age 55 to 61, few coefficients are statistically significantly different from zero and there is no systematic pattern in coefficients across education groups. Point estimates on short-run fluctuations are mainly wrong-signed.

## **VII. IMPACT OF LOST HOUSING WEALTH**

Next, we turn to our econometric analysis of the effect of housing market fluctuations on retirement. As discussed above, this analysis is largely similar to the stock market analysis, except that we now have a true quasi-control group, renters. We thus compare results by home ownership status rather than education level. As before, we examine the effect of the market return over different time periods, one and five years. As discussed earlier, we use two price indices to measure the variation in home prices, the Case-Shiller Index and the OFHEO index, and identify the effects of home prices on retirement based on geographic differences in home price changes over time.

The results of this exercise are presented in Table 4. When we group all households together, we find no evidence that home price fluctuations affect retirement. For both indices, time horizons, and age groups, the coefficients are generally wrong-signed and statistically insignificant. Estimating the effect separately by home ownership status does not change the results substantively, as most coefficients are again wrong-signed and insignificant. Thus we find no evidence that retirement is responsive to home price fluctuations. This finding is consistent with the previous literature suggesting that most households do not consume their home equity in retirement. Given our results, we make no attempt to include any changes in retirement resulting from home price fluctuations in the simulations of the effect of current market conditions on retirement presented below.

## VIII. IMPACT OF LABOR MARKET CONDITIONS

### *A. Descriptive Analysis*

Before reporting our econometric results, we begin by presenting a descriptive analysis designed to gauge the magnitude of the potential retirement response brought about by a weak labor market. Are there enough unemployed older workers and is the likelihood of their labor force withdrawal sufficiently large that we would be able to identify whether a labor market shock would generate an aggregate retirement effect?

To begin to address this issue, we first examine the level of unemployment among older workers and how this varies over the business cycle, using official statistics from the Bureau of Labor Statistics and our own calculations from the CPS. Older workers are less likely than the average worker to be unemployed. Unemployment rates for all workers cycle around a value in the vicinity of 6 percent, while the comparable figure for those 55 to 69 is more like 4 percent. The actual number of older workers who experience some unemployment over a given period (like a year), though, is greater than that. The unemployment rate is a point-in-time measure rather than a longer window available in a retrospective measure. Our calculations indicate that the number of workers 55 to 69 experiencing some unemployment over the past year is a number more like 8 percent with cyclical swings similar to those in the official unemployment rate.<sup>11</sup>

Earlier in this paper, we argued that we did not expect much of an aggregate retirement response to lost stock market wealth since so few individuals hold much wealth. Yet the number of people affected by labor market shocks is probably not a lot different. We would therefore only observe a bigger effect of labor market fluctuations on retirement if older workers who experience unemployment are quite likely to retire. In fact, this is what the evidence shows.

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<sup>11</sup> See Levine (1993) for a comparison of retrospective and contemporaneous measures of unemployment.

We first provide some descriptive evidence on this point using data from the Displaced Worker Survey (DWS), another supplement to the CPS. A displaced worker is someone who lost their job because of a plant closing, slack demand, or because their position was abolished. We calculate the rate at which workers displaced within the last three to five years withdrew from the labor force by the survey date. For those workers aged 20 to 54, roughly 10 percent withdrew. For those aged 55 to 69, roughly 30 percent withdrew. These withdrawals of older workers would be defined as a retirement, based on the operational definition of the term used in this analysis. Thus workers are very likely to retire in response to a job displacement.

Using our March CPS data directly, we can also distinguish retirement rates between unemployed older workers and others. Figures 4 and 5 present the results from such an analysis. In Figure 4, we present retirement hazard rates by age over the 1980 to 2007 sample period and in Figure 5 we present retirement hazard rates by year over the 55 to 69 age range.<sup>12</sup> In both figures, solid (dashed) lines represent the retirement rates for workers who experienced no (some) unemployment in the year preceding the survey. At all ages and in all years it is clear that unemployed older workers have higher retirement rates. These results along with those from the DWS are not conclusive in showing that unemployment “causes” increased retirement rates because workers who experience a job displacement or unemployment may be more likely to withdraw from the labor force for other reasons. Nonetheless, we view this evidence as supportive of a relationship between unemployment and retirement among older workers.

Figure 5 provides additional evidence that unemployment may serve as a constraint that forces workers into retirement. For workers who experience no unemployment, there is a noticeable trend towards lower retirement rates over time. Annual retirement rates for these

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<sup>12</sup> An older worker who is in the labor force in, say, 2003, and withdraws by the March 2004 survey is said to retire in the year 2003. We define that worker’s age according to the March 2004 reported age less one to approximate age in 2003.



workers are about 10 percent in the beginning of the sample period, but begin to decline in the early 1990s, reaching a level of 6 percent by 2007. This pattern is consistent with the recent trend towards greater labor force participation among older workers. Interestingly, no such pattern exists among workers experiencing some unemployment. For them, retirement rates remain roughly constant (albeit a bit noisy due to smaller sample sizes) at around 16 percent. This suggests that whatever factors are driving many workers to choose to remain in the labor force longer are not influencing the behavior of unemployed older workers.<sup>13</sup> This would lead one to believe that other constraints may be dominating their behavior. Again, this evidence is merely suggestive that unemployment may play an important role in the retirement process for some workers. We move on to discuss the results of our econometric analysis next.

### *B. Econometric Analysis*

The results of our econometric analysis are reported in Table 5. In the left part of the table we show results for the full sample as well as separate estimates for workers ages 55 to 61 and 62 to 69. On the whole, we find evidence that older workers' retirement behavior is responsive to changes in labor market conditions. A one percentage point increase in the unemployment rate increases the annual retirement rate by 0.17 percentage points. The average retirement rate is 9 percent per year, so this translates into about a two percent increase relative to the mean. In the current crisis, the unemployment rate has risen by around five percentage points so far. Our estimates suggest this would increase retirements by 0.85 percentage points, or nearly ten percent relative to the mean retirement rate.

Breaking up our sample by age, we find that the entire effect is driven by those who are 62 to 69. For 55 to 61 year old workers our results indicate a small and statistically insignificant

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<sup>13</sup> Friedberg and Webb (2003) argue that the shift from DB to DC pensions can explain some of this increase; Gustman and Steinmeier (2008) make a similar argument with respect to changes in Social Security rules.

effect of higher unemployment rates. For workers between the ages of 62 and 69, we find that a one percentage point increase in the unemployment rate would generate a 0.36 percentage point increase in the retirement rate. The five percentage point jump in the unemployment rate experienced recently is predicted to increase the rate of retirement by 1.8 percentage points, or 12 percent relative to the average retirement rate of 15.6 percent.

As in past analyses, we also estimate our models by education group; we report these results in the right part of Table 5. We find that high school graduates' retirement decisions are most responsive to a weak labor market. For them, a five percentage point increase in the unemployment rate would generate a 1.8 percentage point increase in the retirement rate, a 19 percent increase relative to the mean. More-educated workers do not increase their retirement significantly (in either a statistical or economic sense) in response to rising unemployment rates. Based on this evidence, we conclude that changes in labor market conditions have an important effect on retirement decisions, particularly for less-educated workers.

## **IX. OVERALL IMPACT ON RETIREMENT**

The results that we have presented suggest that the stock market may cause some workers to delay retirement. In particular, in response to long-term declines in the value of stocks, highly educated workers between the ages of 62 and 69 appear to respond by reducing their likelihood of retirement. We find no support for the idea that declining housing values will have much impact in retirement. A likely explanation for this fact, as past research would suggest, is that few older workers use their housing wealth to finance retirement consumption. The impact of a sharply contracting labor market appears to be a relevant, and apparently overlooked, factor in forecasting coming retirement trends.

Taken together, our results suggest that retirements in the near term are likely to fall because of the long-term decline in equity prices, be largely unaffected by the decline in housing prices, and rise because of the increase in the unemployment rate. The net effect is uncertain because the effect of the long-term decline in stock prices and the rapidly rising unemployment rate tend to offset each other.

To assess the relative magnitudes of the two effects, we conduct a simulation exercise designed to estimate the number of individuals in a birth cohort likely to be affected by the recent changes in the stock market and the labor market. The results of this analysis are reported in Table 6. We begin by using data from the 2005 through 2007 American Community Survey (ACS) to estimate the size of the labor force by exact age. We find that there are 2.8 million individuals in the labor force at exact age 55, a figure that declines to 1.4 million at age 62, 800,000 at age 65, and 400,000 at age 69. Then we apply to these data age-specific hazard rates that we estimate using the March CPS data to arrive at the number of retirements we would predict over the course of a typical year at each exact age. These statistics represent a baseline of the “typical” number of expected retirements per year. In total, about 2 million workers between the ages of 55 to 69 would be expected to retire per year, on average.

The remainder of the table simulates the impact of the changes in retirement brought about by the weak labor market and the plunging stock market. We use the results presented in Tables 3 and 5 to implement this. In both cases, we use the regression coefficients relating changes in market conditions to changes in retirement rates that were estimated separately for workers ages 55 to 61 and 62 to 69. For the stock market, we focus on the ten-year change in the S&P 500 index and simulate the effect of a 110 point drop in the return, which is equivalent to moving from the average ten-year return during the past thirty years (62 percent) to the ten-year

return experienced in the period ending in 2008 (-48 percent). For the labor market we estimate the impact of a five percentage point increase in the unemployment rate, approximating the actual rise in that rate from the low point of 4.4 percent in March 2007 to 9.4 percent in May 2009. The product of these changes in market conditions and the age-specific coefficient estimates from Tables 3 and 5 yields estimates of the change in hazard rates. We apply these estimates to the baseline hazard rate to obtain “adjusted” hazard rates. The product of the adjusted hazard rates and the actual number of workers in the labor force at each age provides an estimate of the adjusted number of individuals retiring. Taking the difference between these new estimates of the number of annual retirements and the number in the base case provides an estimate of the impact of the changes in market conditions on retirement.

The results presented in Table 6 suggest that 87,000 workers who otherwise would have retired will not do so as a result of the declining stock market. On the other hand, our estimates indicate that 126,000 workers will be forced into retirement as a result of the weak labor market. These effects are not huge, but with a baseline estimate of about 2 million workers retiring per year, these figures reflect swings in retirement of 4 to 6 percent. Importantly, the results also indicate that almost 50 percent more workers will be forced to retire because of the weak labor market than will be forced to work longer because they cannot afford to retire. On net, we predict that almost 40,000 additional retirements will occur per year as a result of the economic crisis.

We would further argue that the impact of a weak labor market on older workers’ well-being may well be more significant than that of a weak stock market even if the number of older workers affected by each were similar. As we highlighted earlier, those workers forced to stay in the labor force because the falling stock market reduced their retirement nest egg tend to be from

wealthier households. The plunging stock market cannot hurt those without large stock holdings in the first place. For these workers, the alternative to retirement may be to work for another two or three years so that they have fewer years of retirement to finance and may replenish some of their lost wealth with additional savings. We do not mean to diminish this cost for those workers. Nevertheless, our results suggest that the weak labor market has its greatest impact on less educated workers who have fewer resources in the first place. Workers who are unable to replace labor earnings lost due to a job displacement by extending their working lives are likely to have lower levels of consumption for the rest of their lives. For instance, they may need to claim Social Security earlier than planned in order to make ends meet. Although the adjustment to Social Security benefits for early claiming is designed to be roughly actuarially fair, the worker's annual flow of income from this source is reduced if he retires earlier, increasing the household's risk of poverty in old age. The cost to these individuals appears to us to be greater than that experienced by workers with substantial stock holdings who are forced to work a few extra years to make up for equity losses.

## **X. POLICY IMPLICATIONS**

Taken as a whole, our results indicate that the public discussion regarding the impact of the recent economic crisis on retirement is off target. Some relatively wealthier workers will be forced to delay retirement, but a larger number of workers with fewer economic resources will be forced into retirement because of their inability to find new jobs. These workers may need to start collecting retirement benefits to make ends meet now, resulting in lower income in retirement and an increased risk of poverty in old age. Indeed, the fact that Social Security claims have risen sharply since the recession began suggests this response has already begun.

Despite a wealth of media attention to the effect of the economic crisis on older workers, the risks they face as a result of weak labor markets have gone largely unnoticed. As policy makers seek approaches to help older workers cope with the current crisis, they should give greater consideration to the concerns of workers affected by weak labor markets.

Beyond the economic crisis, there are existing policy debates in which the concerns of workers affected by weak labor markets are highly relevant, but have thus far received little attention. One example is the debate over raising the Social Security normal and early retirement ages. With individuals living longer and drawing more Social Security benefits over their lifetimes than in the past, one possible reform to help address the financial shortfalls in the Social Security system is to raise the retirement ages. In the past, a common criticism regarding such proposals is that they will harm those individuals who are forced to retire involuntarily because of poor health. A substantial body of evidence exists supporting the notion that poor health is an important prelude to retirement for some older workers (Currie and Madrian, 1999). Our findings indicate that unemployment may be another involuntary mechanism that leads to retirement. In our earlier study, we provided evidence indicating the impact of unemployment is comparable in magnitude to the impact of poor health. This does not mean that we should avoid raising retirement ages, but rather that we need to incorporate this argument into the discussion. If we are going to increase those ages, we may need additional policies to help those who have no alternative other than to retire early, whether that reason is poor health or a lost job.

We can continue the analogy with health shocks to think about the types of interventions that could assist older workers who, through no fault of their own, find themselves unemployed with limited job prospects. For those older workers who experience a health shock, we have a disability insurance system that enables them to receive income support until they convert to

Social Security retirement benefits. For unemployed workers there is no such system. Unemployment insurance provides short-term benefits, which have been extended during the current crisis to last for up to 59 weeks.<sup>14</sup> Once those benefits have been exhausted, filing a Social Security retirement claim may be the only choice available to unemployed older workers, although this option is available only to those who have reached age 62. Modifications to the UI system to better address the needs of unemployed workers on the verge of retirement may help them stay in the labor force long enough to find a new job.

One way to help older workers having difficulty find employment would be to promote policies that are already on the books. For instance, unemployed older workers who are eligible for Social Security could modify their claiming behavior in such a way that it acts a lot like an extension of the unemployment insurance system. Individuals could claim Social Security benefits while they continue to look for work, stop receiving payments if they are able to locate a job, and then restart their claim when they are ready to retire. This pattern of claiming is available right now, but it is our feeling that it is poorly understood and not widely used.<sup>15</sup>

Other policy options may be available as well. It is not our intention to provide specific policy recommendations, but rather to emphasize that older unemployed workers represent a disadvantaged group that have not received the attention that we believe is appropriate. Particularly in the context of the current economic crisis, this group has been almost completely ignored. Their problems need to be more widely discussed and better addressed in the design of policies for workers nearing retirement age.

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<sup>14</sup>The exact number of weeks differs across states depending on each state's unemployment rate. This duration is considerably longer than workers have been eligible for benefits in recent recessions, but it reflects the greater severity of the present downturn.

<sup>15</sup>We are not aware of any study that estimates the number of workers who request to stop receiving Social Security benefits after an initial benefit claim, though informal conversations with Social Security claims representatives suggest this request is exceedingly rare if not unheard of.

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**Table 1: Equity Holdings of Households Age 55-64 by Education Group, 2007 SCF**

Category	% with Holdings	Median Conditional on Holding	<u>Values among All Households at Percentile:</u>				
			25 <sup>th</sup>	50 <sup>th</sup>	75 <sup>th</sup>	90 <sup>th</sup>	95 <sup>th</sup>
<b>All</b>							
Directly-Held Stocks	0.213	24,000	0	0	0	25,000	125,000
Stock Mutual Funds (Non-Ret.)	0.140	97,000	0	0	0	45,000	191,000
Stocks in Retirement Accounts	0.500	66,500	0	20	66,500	230,000	447,500
Any Stocks	0.583	78,000	0	8,000	97,500	357,620	752,000
<b>Less than High School</b>							
Directly-Held Stocks	0.054	270	0	0	0	0	50
Stock Mutual Funds (Non-Ret.)	0.019	3,000	0	0	0	0	0
Stocks in Retirement Accounts	0.214	10,000	0	0	0	10,000	70,000
Any Stocks	0.214	10,000	0	0	0	10,000	70,000
<b>High School</b>							
Directly-Held Stocks	0.127	9,000	0	0	0	500	14,000
Stock Mutual Funds (Non-Ret.)	0.069	50,000	0	0	0	0	38,000
Stocks in Retirement Accounts	0.366	33,800	0	0	15,000	88,000	188,800
Any Stocks	0.460	35,000	0	0	28,500	130,000	212,500
<b>Some College</b>							
Directly-Held Stocks	0.156	3,500	0	0	0	2,000	15,000
Stock Mutual Funds (Non-Ret.)	0.060	45,000	0	0	0	0	20,000
Stocks in Retirement Accounts	0.503	60,000	0	20	61,600	160,000	224,000
Any Stocks	0.558	65,000	0	4,000	73,500	197,150	319,500
<b>College Graduate</b>							
Directly-Held Stocks	0.342	60,000	0	0	13,000	154,000	500,000
Stock Mutual Funds (Non-Ret.)	0.260	107,000	0	0	4,700	200,000	385,000
Stocks in Retirement Accounts	0.668	85,000	0	27,000	159,600	480,000	775,800
Any Stocks	0.775	125,000	3,250	65,100	271,300	846,000	1,865,000

Note: data are weighted to be representative of the U.S. population.

Table 2: Equity Losses of SCF Households Age 55-64 in 2008 Market Crash

Stock Assets in 2007 SCF (1)	% of Sample w/ assets at/below (2)	Asset Loss (3)	Lost Annual Retirement Income (4)	Lost Monthly Retirement Income (5)
0	0.417	0	0	0
25,000	0.587	12,500	625	52
50,000	0.654	25,000	1,250	104
100,000	0.751	50,000	2,500	208
250,000	0.869	125,000	6,250	521
500,000	0.920	250,000	12,500	1,042

Notes:

1. Assets are assumed to have dropped by 50% in value since 2007 SCF.
2. Lost retirement income is calculated by assuming that household will consume 5% of wealth each year.

Table 3: Effect of Stock Market Fluctuations on Retirement by Age, March CPS

Measures of Stock Market Performance	All	High School Dropout	High School Graduate	Attended Some College	College Graduate
<u>Age 55-61</u>					
Mean of Dependent Variable	0.059	0.068	0.058	0.054	0.054
% change S&P 500 - 12 Mo. (* 100)	0.0001 (0.0032)	0.0138 (0.0082)	-0.0033 (0.0057)	-0.0066 (0.0070)	-0.0022 (0.0056)
% change S&P 500 - 5 Year (* 100)	0.0048 (0.0014)	-0.0004 (0.0033)	0.0033 (0.0025)	0.0106 (0.0029)	0.0022 (0.0025)
% change S&P 500 - 10 year (* 100)	0.0023 (0.0014)	-0.0017 (0.0039)	-0.0007 (0.0024)	0.0084 (0.0030)	0.0029 (0.0024)
<u>Age 62-69</u>					
Mean of Dependent Variable	0.156	0.188	0.161	0.141	0.117
% change S&P 500 - 12 Mo. (* 100)	0.0211 (0.0075)	0.0043 (0.0169)	0.0184 (0.0131)	0.0336 (0.0168)	0.0238 (0.0140)
% change S&P 500 - 5 year (* 100)	0.0055 (0.0032)	-0.0040 (0.0068)	0.0036 (0.0059)	-0.0005 (0.0069)	0.0118 (0.0061)
% change S&P 500 - 10 year (* 100)	0.0065 (0.0033)	-0.0074 (0.0078)	-0.0076 (0.0057)	0.0136 (0.0071)	0.0198 (0.0060)

Note: Each cell entry represents a separate regression that also includes the following explanatory variables: age dummies, race and ethnicity, gender, marital status, unemployment rate, state fixed effects, and a quadratic year trend. Reported coefficients show the effect of a one hundred percentage point change in the S&P 500.

Table 4: Impact of Real House Price Fluctuations on the Likelihood of “Retiring” in March CPS, by Age  
(standard errors in parentheses)

Mean of Dependent Variable	Case-Shiller Data				OFHEO Data			
	12-Month Change		5-Year Change		12-Month Change		5-Year Change	
	62 to 69	55 to 61	62 to 69	55 to 61	62 to 69	55 to 61	62 to 69	55 to 61
% Change in Index (* 100)	-0.025 (0.073)	0.004 (0.041)	-0.011 (0.017)	0.026 (0.008)	-0.010 (0.027)	-0.015 (0.018)	-0.023 (0.007)	-0.010 (0.003)
% Change Index * Owner (* 100)	-0.023 (0.078)	0.015 (0.042)	-0.010 (0.016)	0.028 (0.007)	0.007 (0.029)	-0.011 (0.018)	-0.023 (0.009)	-0.010 (0.003)
% Change Index * Renter (* 100)	-0.017 (0.062)	-0.029 (0.058)	-0.015 (0.025)	0.020 (0.011)	-0.082 (0.051)	-0.034 (0.029)	-0.026 (0.012)	-0.011 (0.005)
Homeowner	1.944 (1.004)	-0.561 (0.488)	2.225 (1.103)	-0.853 (0.537)	0.662 (0.397)	-0.384 (0.228)	0.829 (0.400)	-0.343 (0.227)
Sample Size	14,784	33,126	11,709	27,310	97,408	210,807	97,391	210,751

Notes: Every column and each panel represents the results from a different regression in models where the dependent variable is an indicator for retirement and the key independent variables are those listed. Additional explanatory variables include: age dummies, race, gender, marital status, education, children less than 18, unemployment rate, state or MSA fixed effects, and year fixed effects. Reported coefficients show the effect of a one hundred percentage point change in the house price index.

Table 5: Impact of Experiencing Unemployment and of the Unemployment Rate on the Likelihood of “Retiring,” by Age and Educational Attainment  
(standard errors in parentheses, sample size in brackets)

	Age 55 to 69	Age 62 to 69	Age 55 to 61	HS Dropout	HS Graduate	Some College	College Graduate
Mean of Dependent Variable	0.090	0.156	0.059	0.118	0.094	0.084	0.067
Coefficient on Unemployment Rate (*10)	0.017 (0.006)	0.036 (0.014)	0.010 (0.007)	0.004 (0.013)	0.035 (0.011)	0.001 (0.013)	0.008 (0.016)
Sample Size	308,215	97,408	210,807	66,317	105,766	61,847	74,285

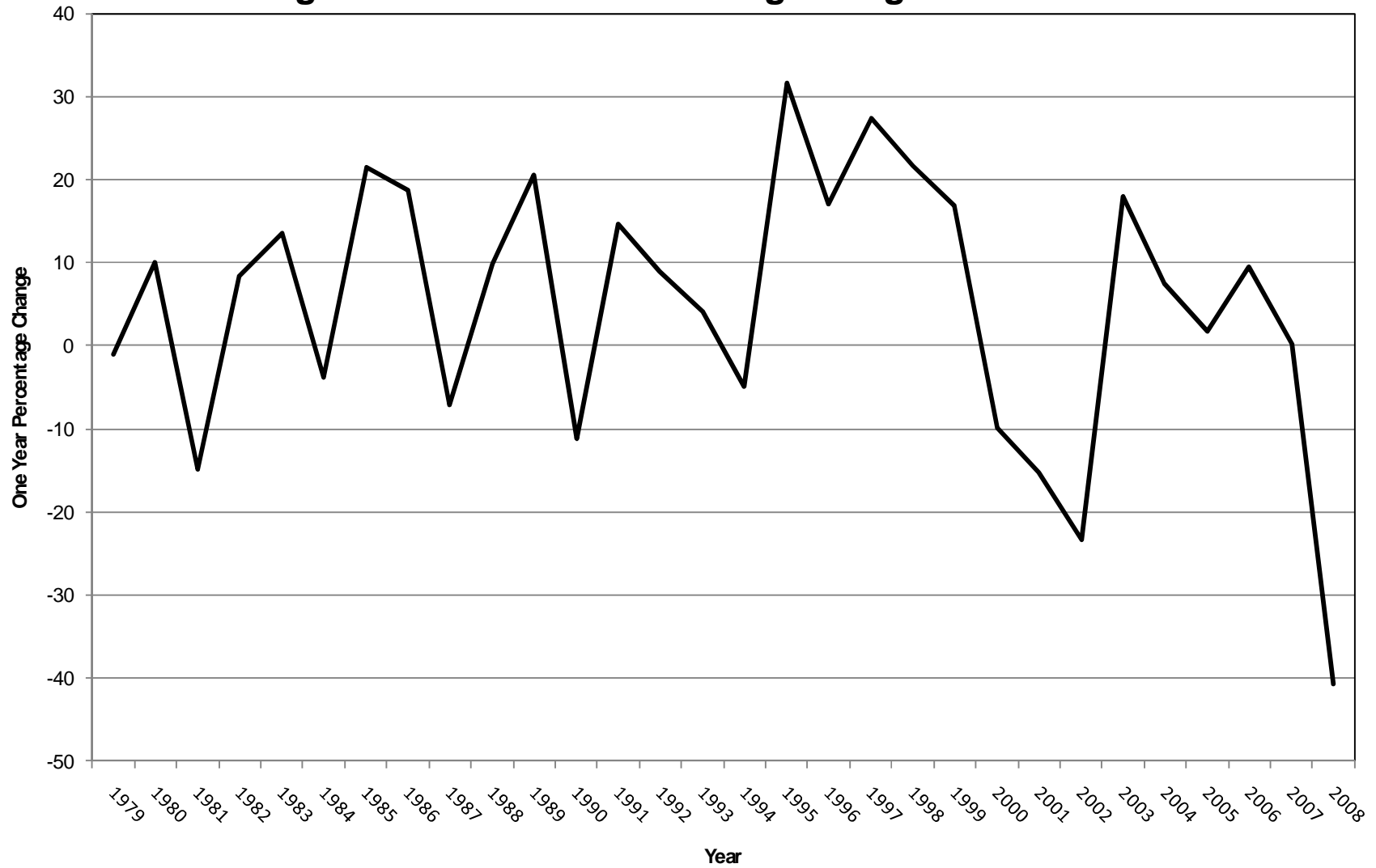
Notes: Each cell entry represents the coefficient on the unemployment rate in a separate regression that also includes age dummy variables, race, marital status, children less than 18, and state and year fixed effects. Standard errors are clustered at the state level. Reported coefficients show the effect of a ten point change in the unemployment rate.

Table 6: Simulated Impact of Economic Crisis on Retirements  
(all numbers in thousands)

Age	Baseline Statistics		Impact of Decline in Long-Term Stock Market Return		Impact of Increased Unemployment		
	Number in Labor Force	Hazard Rate	Number Retiring	Adjusted Hazard Rates	Adjusted Number Retiring	Adjusted Hazard Rates	Adjusted Number Retiring
55	2,802	0.045	127	0.043	120	0.046	129
56	2,598	0.049	126	0.046	119	0.049	127
57	2,485	0.054	134	0.051	127	0.054	135
58	2,415	0.054	131	0.052	125	0.055	132
59	2,170	0.060	131	0.058	126	0.061	132
60	1,907	0.079	151	0.077	147	0.08	152
61	1,549	0.086	133	0.083	129	0.086	133
62	1,386	0.162	224	0.154	214	0.18	249
63	1,185	0.138	163	0.131	155	0.156	185
64	1,032	0.130	134	0.123	127	0.148	152
65	796	0.194	155	0.187	149	0.212	169
66	639	0.163	104	0.156	99	0.181	116
67	578	0.158	92	0.151	87	0.176	102
68	515	0.161	83	0.154	79	0.179	92
69	432	0.154	67	0.147	64	0.172	74
total	22,489		1,954		1,867		2,080
Impact on Retirement					-87	126	

Notes: The baseline number of workers in the labor force comes from the 2005-2007 American Community Survey. The baseline hazard rates are estimated from the March CPS

**Figure 1A: Annual Real Percentage Change in S&P 500**



note: annual percentage change is calculated using December to December monthly averages

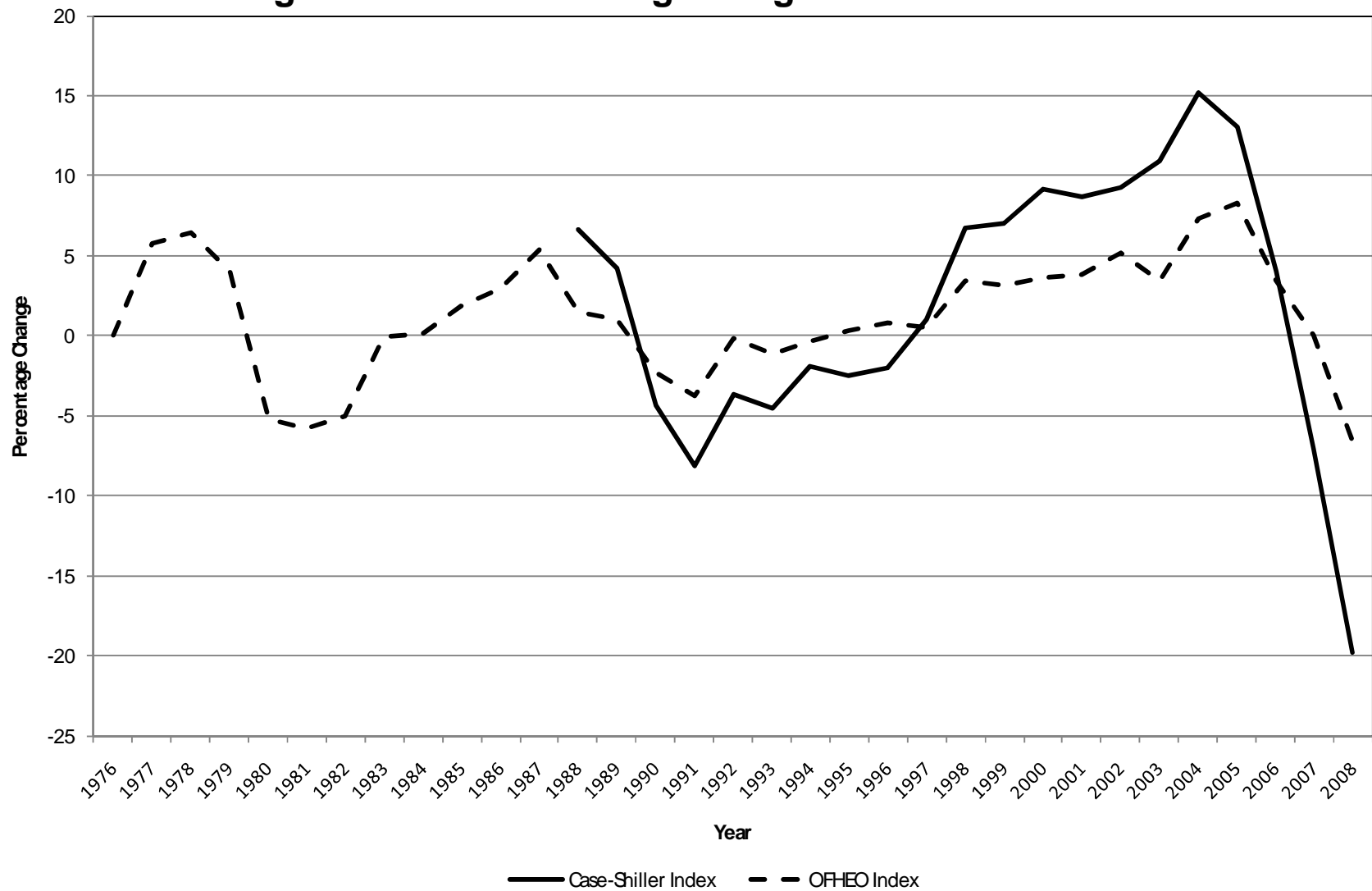


**Figure 1B: Five and Ten Year Real Percentage Change in S&P 500**



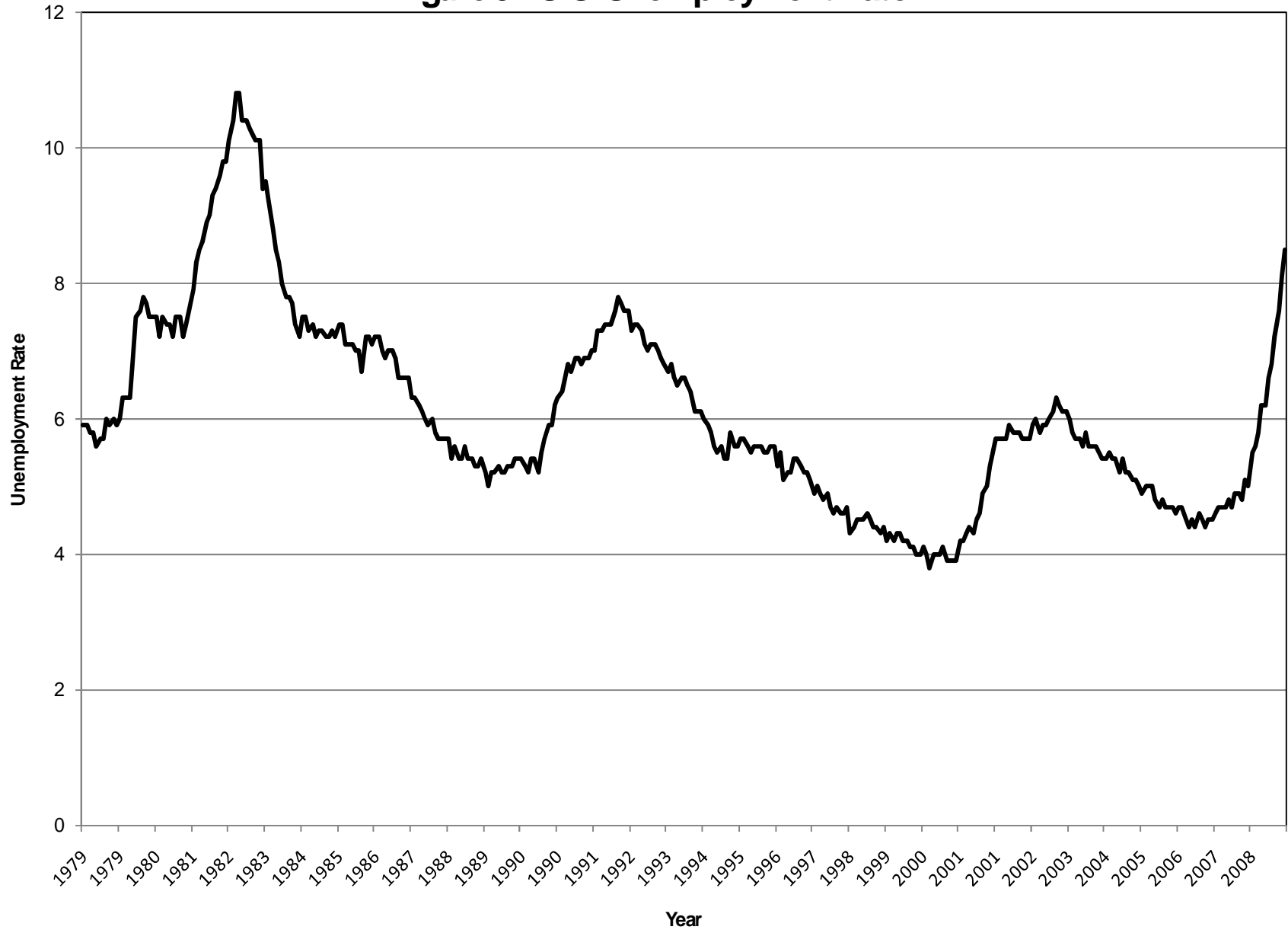
note: percentage changes are calculated using December to December monthly averages.

**Figure 2: Annual Percentage Change in Real House Prices**

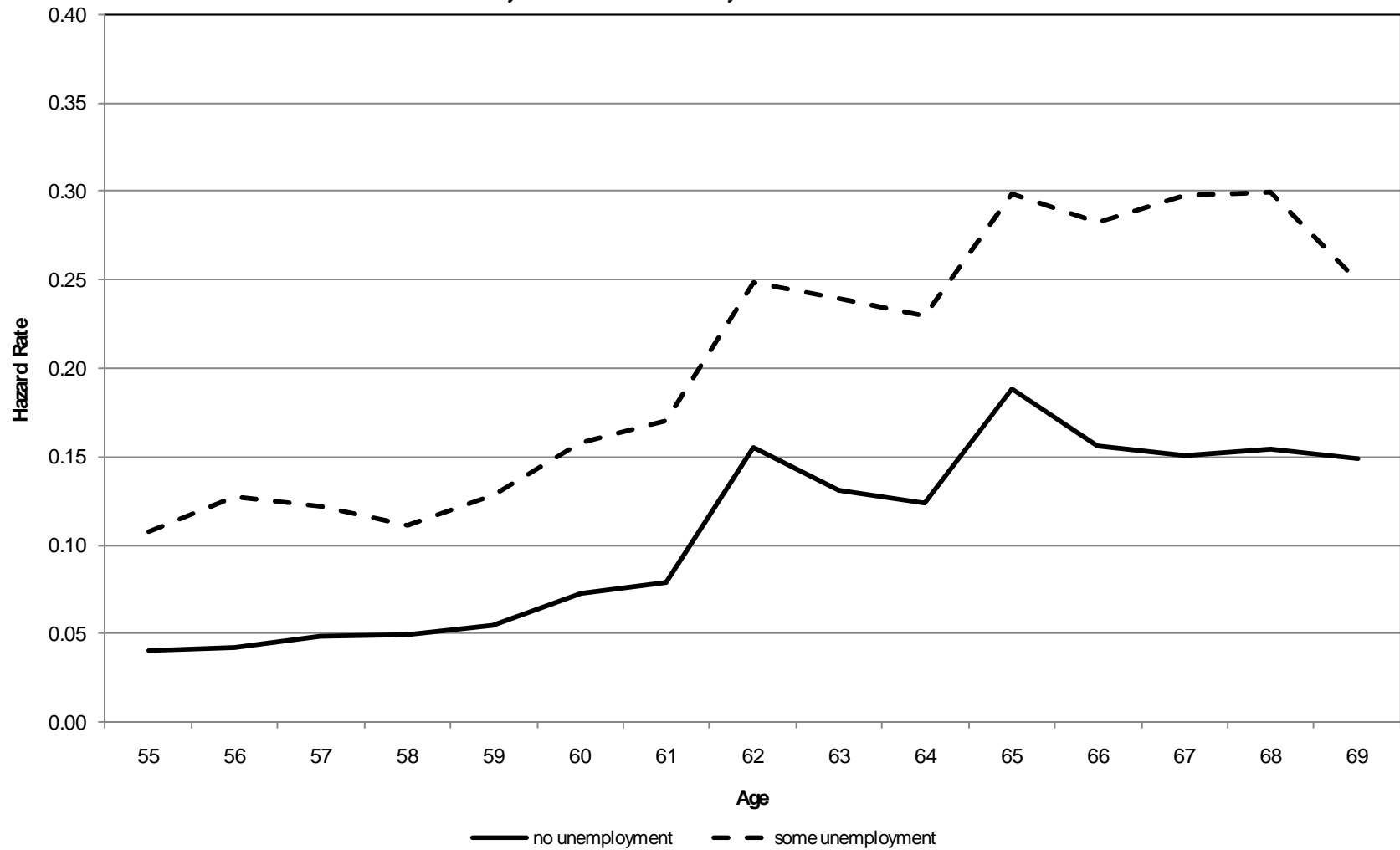


note: annual percentage change is calculated using December values for Case-Shiller Index and 4th quarter values for OFHEO Index.

**Figure 3: U.S Unemployment Rate**

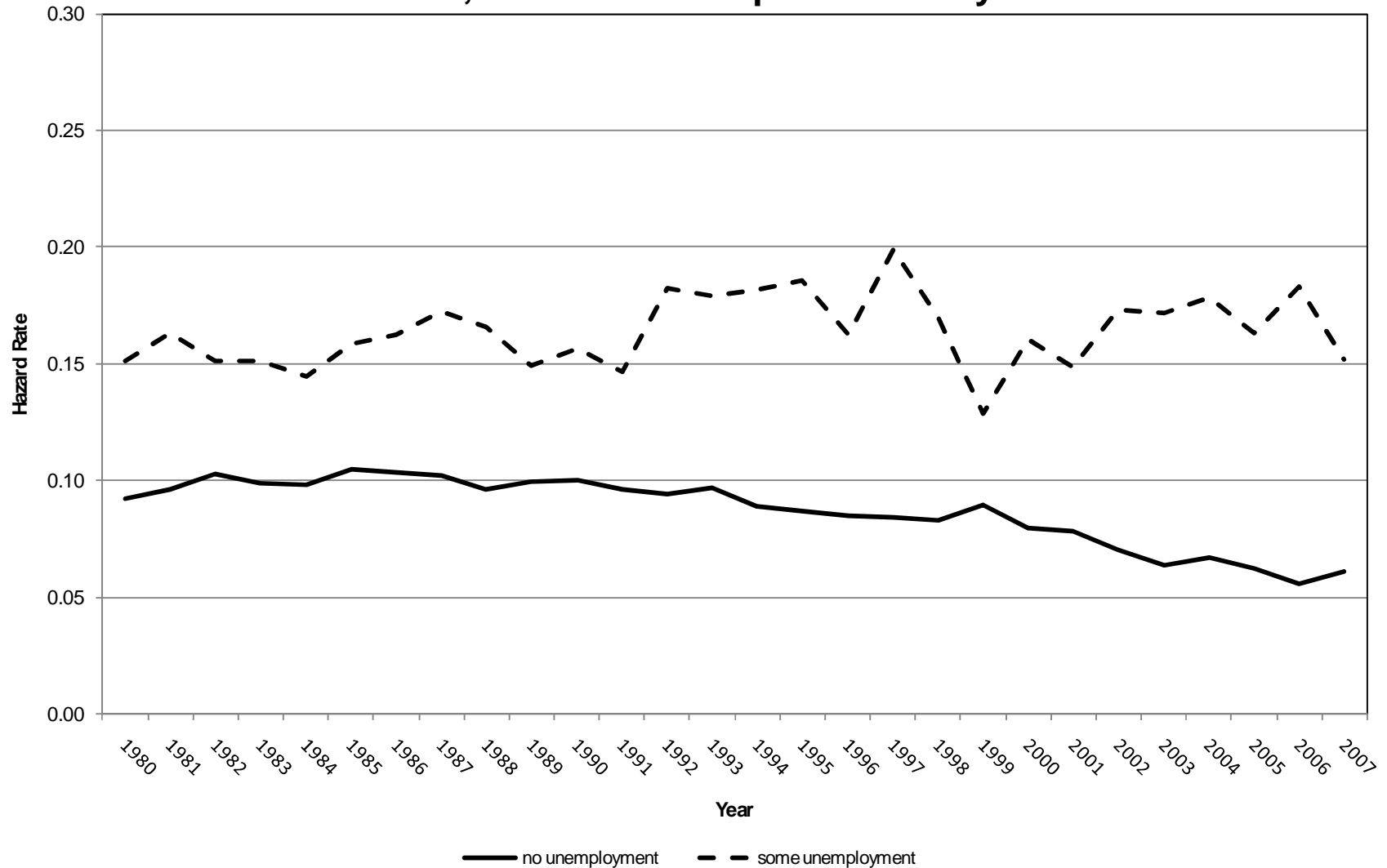


**Figure 4: Empirical Retirement Hazard Rates by Age and Unemployment Status, 1980 to 2007, March CPSData**



source: authors' calculations from March CPSData.

**Figure 5: Empirical Retirement Hazard Rates over Time, Workers Age 55-69, March Current Population Survey**



source: authors' calculations from March CPSData.