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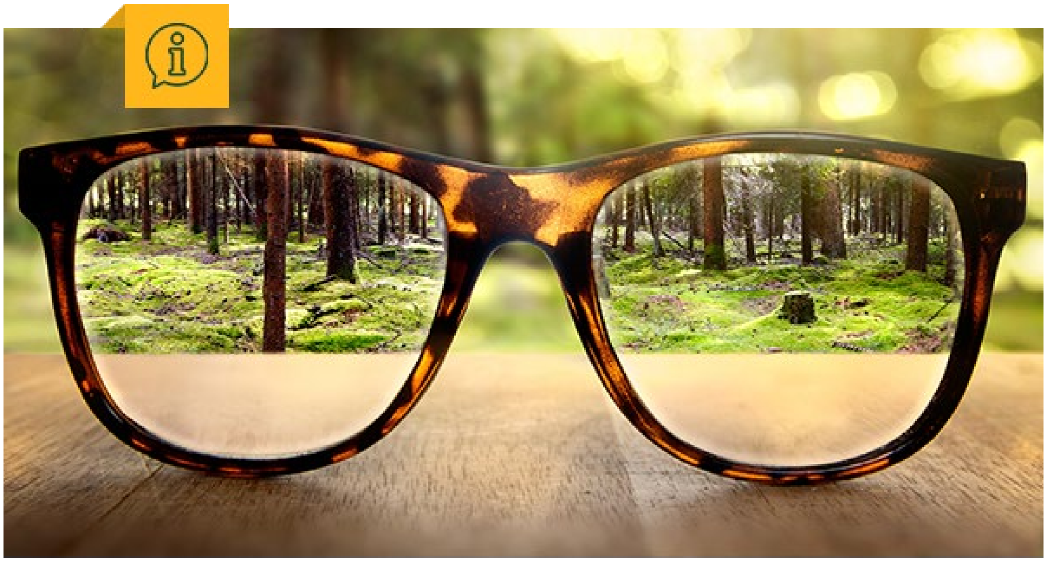

Are You "Unretired"? How the Pandemic Has Impacted Older Workers

By James P. Freeman

"The thing is, if you're 55 years old, you might be in the workplace for another ten, fifteen, even twenty years."

--Cal Halvorsen (Assistant Professor and Affiliate, Center on Aging & Work at Boston College)

It will take years to fully analyze, appreciate, and adapt to all the disruptions that COVID-19 has wrought over the last 24 months. But certain trends are already starting to emerge, especially in the retirement planning space. One in particular is how older workers have been impacted by the pandemic. Specifically, if not surprisingly, older workers have been leaving the workplace at a faster pace during the pandemic than they did before the onset of the pandemic. The real question to ask is, will this be part of a longer-term trend or will older workers "unretire" and return to the workplace?

It won't be the first surprise to come from Covid as financial advisors and clients will learn.

According to a recent Pew Research Center study, 50.3 percent of U.S. adults 55 and older said they were out of the labor force due to retirement in the third quarter of last year, based on an analysis of the most recent official labor force data. In the third quarter of 2019, for sake of comparison, before the pandemic, 48.1 percent of adults were retired.

Richard Fry, a labor economist at Pew Research and the author of the brief, wrote that, for the first time in over 25 years, there is a marked decline in labor force participation of older Americans (which, some argue, has contributed to the labor shortage pressures we are seeing today). And today there is a measurable increase of this demographic who are retired. The biggest rise on a percentage basis occurred for those between the ages of 65 to 74. In 2019, 64 percent of them were deemed retired; that now stands at nearly 67 percent. (For some context, there are about 78 million Americans who are aged 55 and over today.)

Fry also notes that, "The leading edge of the Baby Boomer generation reached age 62 (the age at which workers can claim Social Security) in 2008. Between 2008 and 2019, the retired population ages 55 and older grew by about 1 million retirees per year. In the past two years, the ranks of retirees 55 and older have grown by 3.5 million."

These were unforeseen developments.

In May of 2017, the Bureau of Labor Statistics ("BLS") in fact estimated that the labor participation rate "is expected to increase fastest for the oldest segments of the population -- most notably, people ages 65 to 74 and 75 and older -- through 2024."

These predictions were largely sound. To underscore this point consider the following. For nearly a quarter century before Covid struck, the trend was for older workers to remain in the labor force. If you go back as far as 1991, even prior recessions did not disrupt the longer-running trend of rising labor force participation and declining retirement among older Americans. In 1997, for instance, roughly 58 percent of adults ages 55 and over were deemed retired. That steadily fell to about 48 percent just before the pandemic.

Older workers stayed employed for longer periods of time for a number of reasons. Chiefly, they were:

1. Rising education levels among older Americans, and experience levels.
2. People were generally healthier so they could work longer.
3. Policy changes in Social Security that may have impacted their retirement decisions.
4. Decline in wealth effect -- especially after The Great Recession (2008-2009).

This last point is important and deserves special focus. In 2000, the dot.com bubble burst and many people's retirement savings were impacted. And fewer than ten years afterwards America experienced a disastrous recession. That was a debt-induced, financial recession. So not only was there a steep decline in the value of financial assets, home values also plunged. The resulting loss of wealth induced older workers to remain in the labor force and postpone retirement. Remember, this occurred just as the first Boomers were about to turn 65 -- which began in January 2011. A decade later the virus struck.

The effects of the short but steep recession of 2020 -- February to April -- stood in contrast from previous recessions on older workers. Indeed, the 25-year trendline of older workers remaining in the workforce during and after recessions was seemingly broken. Fry says that the large impact of the COVID-19-fueled recession on retirement differs from recent recessions "and marks a significant change in a long-standing historical trend toward declining or steady retirement rates among older adults."

What accounted for the trendline break?

Four principal factors were at play. Some are more obvious than others. For many older workers:

1. They were dissatisfied with remote work. Certain workers have indicated that they missed going into the office or the school or the factory -- that workplace environment; they longed for daily in-person interactions, the camaraderie, the social acts of riding a train, meeting for lunch.
2. They feared contracting Covid. The virus effected older people -- hospitalizations and deaths --more than other demographic groups.
3. They found a greater appreciation for just how fragile and precious life is during the pandemic -- so spending more time with family and friends, and living a desired lifestyle became a top priority for them.
4. They found new wealth. Remember, during the 2008-2009 Great Recession financial assets plunged in value -- investment portfolios as well as real estate. The single biggest asset for many Americans is their home. Back then, housing prices plummeted. And Boomers had not retired yet. (They first hit the age of 65 in 2011.) So, they wanted to recoup the losses by staying employed. But something unusual occurred during the pandemic. There was a decoupling of the economy from the markets. After recovering from the initial pandemic shock in March 2020, financial markets went on to

> new record highs despite a ravaged economy. (Only beginning this year have we seen a sideways market.) And, critically, housing prices have continued to roar ahead to new highs. So this wealth effect may have motivated people to sell their homes and reap market returns as a means to effectively retire early. Needless to say, these unusual dynamics have been extraordinary.

While perhaps an overly simplistic observation, in ten years' time it is as if the coin of the realm flipped. In 2010, older workers felt healthier but poorer; in 2020, they felt sicker but wealthier.

The retirement uptick among older Americans is important because, until the pandemic arrived, adults ages 55 and older were the only working age population group since 2000 to *increase* their labor force participation, according to Pew. This group increased their participation rate from 32 percent of the workforce in 2000 to 40 percent in 2019. This stands in stark contrast among the so-called "prime working age" population (those ages between 25 and 54), whose participation had been declining during this period. (Incidentally, the opioid epidemic has virtually wiped out an entire generation of prime-aged workers and that may partially account for a decline in labor force participation rates, especially among younger workers -- but that is a topic for another day.)

Suffice to say that the decline in labor force participation in general would have been much larger if adults 55 and older had not increased their participation in the years leading up to the pandemic.

Still, two questions remain. Will older workers continue leaving the workforce at the same pace as the pandemic wanes? Or will they return to the workforce and effectively unretire? It is too soon to tell if what we have seen over the last two years augurs a definitive new trendline, but some data suggest that older workers will return to the workplace once again.

The BLS projects this is temporary, a pandemic anomaly. In fact, the BLS believes that 40 percent of those between the ages of 65-69 will be in the work force by 2030, up from 33 percent in 2020.

And look at this unique cohort -- the "encore entrepreneur," those age "55+."

In June of 2021, prnewswire.com reported that people age 55+ make up 21 percent of the U.S. population, "but own a disproportionately high 50.9 percent of U.S.

small businesses, according to new survey data from 3,000 entrepreneurs, published by SCORE, mentors to America's small businesses."

And while there are funding opportunities and business financing vehicles to start these small businesses, many older workers prefer to rely on personal finances, including savings (74 percent of encore entrepreneurs) and credit cards (36.6 percent of encore entrepreneurs). Tellingly, these workers "are also 52.3 percent more likely to finance their business using retirement savings, compared to younger groups," writes PR Newswire.

Here is another rather fascinating datapoint. The number of small business applications just hit a record in 2021. Conceivably, then, there may be a significant number of older workers who either leave their jobs to start their own business or who unretire to start their own business. Restless retirees and encore entrepreneurs could be busy again. And they are flush with new wealth.

Last year, there were 5.5 million new small business applications submitted for approval, a record number. That is up from 3.5 million in 2019, just before the pandemic. Even if older workers do not factor into these new trends, we are going to witness a massive transformation in the workplace. That is exciting. A surge in entrepreneurship is good for the economy as it drives economic renewal and innovation. Those areas where applications have risen substantially include retail/trade, food services, and health and social assistance. These would appear to be sectors poised for high growth and new wealth creation.

A newly published brief by the Center for Retirement Research at Boston College ("CRR") addresses the prospect of unretirement possibly helping with today's labor shortages. The CRR surmises that today's high rate of job openings should convince some retirees to come off the sidelines, though the number will likely be small relative to the shortfall. Finally, CRR notes that one factor that could potentially lead to more unretirement than anticipated, is, with a dose of electronic irony, the increased ability to work remotely.

Of course, a more meaningful reentry of retired workers into the labor market would represent a break in the pattern observed over the last several decades.

Should this develop into a new, definitive trendline it would portend a bonanza for older workers and encore entrepreneurs returning to the workplace and contributing in ways unimaginable before the pandemic.

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