

Effect of Job Loss on Wealth Accumulation of Older Workers

Gulgun Bayaz Ozturk and William T. Gallo

CUNY School of Public Health at Hunter College

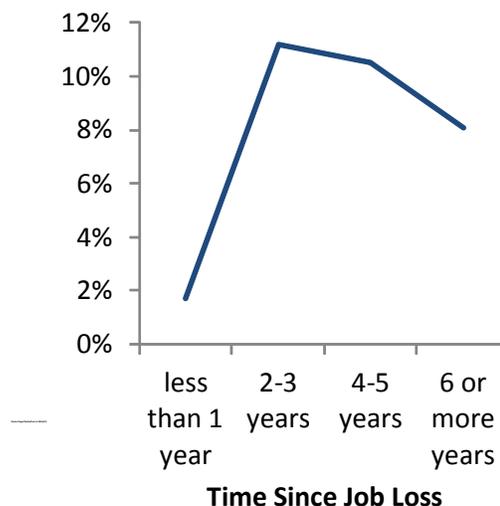
Losing a job can have long-lasting and devastating effects for older workers. It may be difficult for older workers to find a new job, which could lead to reduced income, fewer resources for retirement, and even deteriorating health. These effects are likely to grow with age: while three-fourths of people who lose a job in their fifties begin working again within two years, only one-third of 62-year-olds do so. Older workers who lose a job may also retire early, lengthening the period of time to use retirement assets such as Individual Retirement Accounts.

Although there is substantial research on how job loss affects future earnings and employment, less is known about its effects on wealth. However, reduced wealth may make it more difficult for someone to retire, and can reduce how much they are able to purchase. This study adds to the literature by examining what happens to wealth when someone older than 50 loses a job. One of the innovations of this study is that it distinguishes between housing assets and financial wealth, such as stocks and bonds. In addition, the study examines whether reduced wealth pushes individuals into poverty or near poverty during their retirement years.

The study has several key findings:

Late-life job loss leads to substantial reductions in wealth. The effects are initially small: there is very little reduction in wealth in the first two years after job loss, compared to similar individuals who do not lose their jobs (Figure 1). This grows to more than 10 percent after several years, and seven years out and beyond, the average older worker has 8 percent less wealth after losing a job. Because older workers had more than \$350,000 in wealth on average in 2010, this represents a reduction of about \$30,000 in the longer term.

Figure 1: Reductions in Wealth Over Time



Financial wealth is especially hard-hit. After more than six years, financial wealth – assets such as stocks, bonds, checking accounts, and savings accounts – had dropped by more than \$13,000 because of job loss. Housing values were affected by half as much, perhaps because this study covered a time period that included the housing crisis of the past few years, which also resulted in reduced housing values for many individuals who were able to keep working.

Reduced wealth pushes some individuals closer to poverty during retirement. Reductions in wealth of this magnitude may mean that individuals have fewer assets to draw from during their retirement years. When combined with other income sources such as Social Security benefits, this reduced wealth may place the individual near or below the poverty level. The study suggests that most people are not affected in such a dire way, but some are (Figure 2). About 21 percent of older workers who have lost a job are projected to be below 150 percent of poverty during retirement, compared with about 17 percent of other older workers.

Figure 2: Projected Poverty Status During Retirement

