Today's Research on Aging

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Effects of the Great Recession on Older Americans' Health and Well-Being

The Great Recession (2007 to 2009) had wide-ranging economic effects on Americans of all ages, but older people were relatively insulated from the prolonged economic downturn. Adults ages 65 and older were more likely to be retired and thus less likely to experience the impact of job loss. They were more likely to own their homes outright, so they were less likely to fall behind on payments or lose their homes to foreclosure. And while poverty rates increased sharply among children and working-age adults during the recession, the poverty rate for retirement-age adults remained unchanged, largely because of their access to Social Security benefits (West et al. 2014).[1]

Although young adults in their 20s and 30s bore the brunt of the economic downturn, many Americans ages 50 and older—including baby boomers nearing retirement—were also affected, either directly or indirectly, by rising unemployment, falling home values, and the decline in the stock market. Moreover, many older adults who were not directly affected by the recession had children or other family members who were. For many older adults, financial difficulties associated with the recession translated into changes in wealth and spending patterns, as well as physical and mental health problems that can have long-term consequences.

This newsletter summarizes recent research conducted by National Institute on Aging-supported researchers and others who have studied the effects of the recession on the health and well-being of older Americans. This research is important not only because older adults make up a growing share of the population and labor force, but also because of the potential implications for health care systems, retirement decisions, and future Social Security payments.

Highlights

- Although young adults in their 20s and 30s bore the brunt of the Great Recession, many Americans ages 50 and older were also affected by rising unemployment, falling home values, and the decline in the stock market.
- Depression increased sharply among older adults living in neighborhoods where foreclosures were most prevalent, even after taking factors such as poverty into account.
- Older adults were disproportionately affected by a loss of retirement savings during the recession, while younger adults were more affected by the decline in home values.
- Compared to other age groups, older adults nearing retirement (ages 55 to 64) saw the largest decline in the dollar value of their wealth, while those in the 35-to-54 age group experienced the largest percent decline in wealth between 2007 and 2011.
- By 2012, households headed by older adults had recovered most of the wealth they had lost during the recession.
- Laid off older U.S. workers were more likely to experience depression than their European counterparts who lost jobs, likely reflecting Europe's strong social safety net.
- Adults ages 55 to 64 were much more likely to reduce their spending during the recession than those ages 75 and older.
- Financial help within families during the recession flowed primarily from older parents to adult children.

This publication summarizes research related to the objectives of the National Institute on Aging (NIA), with emphasis on work conducted at the NIA Centers on the Demography and Economics of Aging. Our objective is to provide decisionmakers in government, business, and nongovernmental organizations with up-to-date scientific evidence relevant to policy debates and program design. These newsletters can be accessed at www.prb.org/About/ProgramsProjects/Aging/TodaysResearchAging.aspx

Effects on Health

Experiencing a job loss during a recession may compound an individual's risk of physical and mental health problems.

Economic well-being is linked to health in a variety of complex ways (Smith 1999). Studies of the effects of recessions on health are beginning to address this complexity, distinguishing effects on individuals from impacts on the health of the broader population. While different aspects of recessions have undeniably negative effects on individuals, interestingly, population health statistics tend to improve during recessions. Some research suggests that recessions may improve population health, in part through a decline in problematic alcohol use, which reduces the risk of traffic fatalities (Ruhm 1995). A drop in atmospheric pollution is another important mechanism, explaining up to one-third of the effect of unemployment on mortality. (Heutel and Ruhm 2013).

Measuring the direct effects of a recession on individual health outcomes is difficult because many people do not directly experience negative consequences related to economic crises (Burgard, Ailshire, and Kalousova 2013). Yet for those who do experience job loss, recessions may compound the negative impact on physical and mental health. For example, using data from the Health and Retirement Study (HRS), Noelke and Beckfield (2014) showed that adults ages 45 to 66 who lost their jobs during a recession had an elevated risk of death, compared with those who lost their jobs during non-recessionary periods.

Tapia Granados and colleagues (2014) used data from the Panel Study of Income Dynamics (PSID) to simultaneously evaluate the impact of recessions on both individual and population health. In line with what individual-level studies have shown, they found that losing a job during a recession is linked to a higher risk of death for individuals. Corroborating what Ruhm and others have found, their results from the PSID also showed that recessions are associated with moderate declines in mortality for the population as a whole. More research is needed to fully explain these patterns.

Economic recessions have also been linked to depression among older adults. Cagney and colleagues (2014) investigated the impact of a rise in foreclosures on depression, using the National Social Life, Health, and Aging Project. They found a sharp increase in reports of depression among adults ages 57 and older living in neighborhoods most affected by foreclosures, independent of other factors such as poverty. They argue that a foreclosure "signals instability and disinvestment akin to trash on the street or sidewalks in disrepair," leading to depressive symptoms among community residents.

In a similar line of research, Wight and colleagues (2013) found a link between community unemployment levels and depressive symptoms among adults ages 51 and older. Using data from the HRS, they found that older adults were most likely to be depressed in 2000 if they lived in neighborhoods with historically high unemployment rates, controlling for sociodemographic characteristics.

Recessions can also have long-term effects on individuals, so experiencing a recession as a younger adult can affect health later in life. Using the Survey of Health, Ageing and Retirement in Europe, Leist, Hessel, and Avendano (2013) investigated whether experiencing a recession between ages 25 and 49 was associated with a decline in cognitive function at ages 50 to 74. They found that men who experienced a recession at ages 45 to 49 experienced lower levels of cognitive function at older ages. The same pattern held for women who experienced a recession at ages 25 to 44. The researchers concluded that "unfavourable labour market trajectories" for these groups are negatively associated with cognitive function later in life.

Effects on Wealth

Wealth, such as stock market holdings and other savings, provides an important source of income for many adults ages 65 and older, so "even small decreases in net worth can have adverse implications for their economic security," health, and well-being (West et al. 2014). Results from the HRS have shown that a higher level of wealth is associated with a reduced risk of death, even after controlling for other socioeconomic factors. Just as wealth contributes to better health outcomes, unexpected health problems can increase medical expenditures and reduce levels of wealth among older adults (National Institute on Aging 2007). Loss of wealth could also trigger stress and depression among older Americans who are trying to save money for retirement.

Households headed by older adults are wealthier, on average, compared with households headed by younger adults. In 2007, the median net worth of households headed by adults ages 65 and older was about $257,000, more than twice that of households headed by adults ages 35 to 54 ($100,000) (Pfeffer, Danziger, and Schoeni 2013).[2] Older adults not only had more wealth to lose during the recession, but also have less time to wait for values in the stock or housing markets to recover, compared with younger adults. Data from the PSID show that households headed by adults ages 55 to 64 experienced a decline in median wealth of about $72,000 between 2007 and 2011, compared with a $60,000 decline among those ages 35 to 54 and nearly a $2,100 drop among those under age 35 (Pfeffer, Danziger, and Schoeni 2013). Median net worth declined by $64,000 among households headed by adults ages 65 and older (see Figure 1).

However, in percentage terms, households headed by older adults experienced smaller declines in wealth during the recession relative to households headed by younger adults. Among those ages 65 and older, net worth declined by 25 percent between 2007 and 2011, compared with a 33 percent decline among those ages 55 to 64 and a 61 percent decline among 35-to-54-year-olds (Pfeffer, Danziger, and Schoeni 2013) (see Figure 2).

Using a broader wealth measure that includes the future value of Social Security payments and defined benefit pensions, Gustman, Steinmeier, and Tabatabai (2014) found that the effects of the recession on older adults' wealth were generally modest. Baby boomers in their 50s experienced a 3.6 percent decline in wealth between 2006 and 2012, with future Social Security and pension payments providing a significant financial cushion. Among those nearing retirement, the wealthiest households experienced the largest percent decline in assets. But by 2012, households headed by older adults had recovered most of the wealth they had lost during the recession (Gustman, Steinmeier, and Tabatabai 2014).

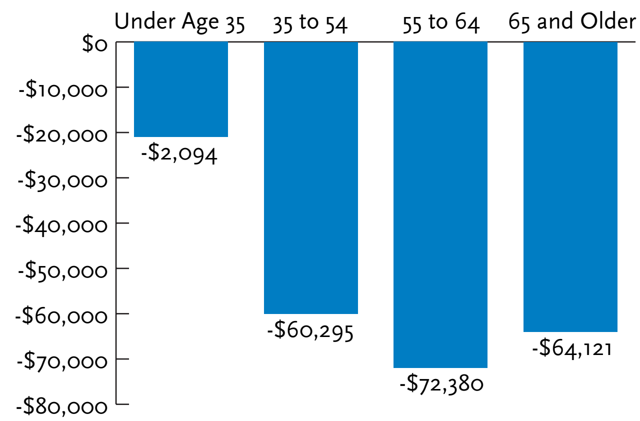
Results from RAND's American Life Panel (a series of Internet surveys of 2,500 adults ages 18 and older) showed that older adults were disproportionately affected by a loss of retirement savings while younger adults were more affected by the decline in home values. By 2010, 15 percent of homeowners under age 50 had negative equity in their homes compared with 7 percent of those ages 50 to 64 and just 4 percent of those ages 65 and older (National Research Council, 2011).

The declines in retirement savings among older adults are important because many retirees rely on these funds to supplement income from Social Security payments (National Research Council, 2011). Declines in retirement portfolios could have important effects on both retirement decisions and spending patterns at older ages.

Although millions of people lost money in the stock market during the recession, for most adults, their home is the most valuable asset they will ever own. Americans lost trillions of dollars in home equity during the recession, and

Figure 1
U.S. Adults Nearing Retirement (Ages 55 to 64) Saw the Largest Decline in the Dollar Value of Their Wealth Between 2007 and 2011.

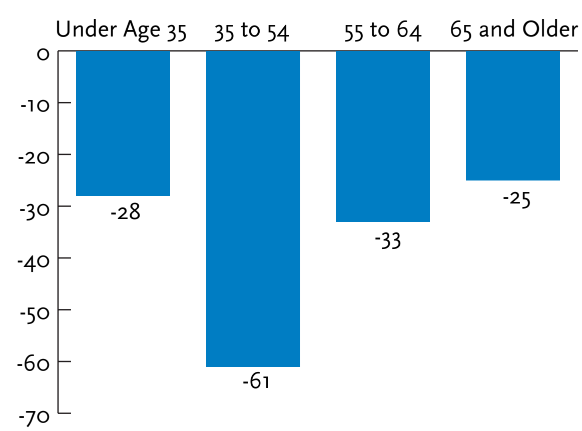
Change in Median Net Worth from 2007 to 2011, by Age of Household Head



Source: Fabian T. Pfeffer, Sheldon Danziger, and Robert F. Schoeni, "Wealth Disparities Before and After the Great Recession," *The Annals of the American Academy of Political and Social Science* 650, no. 1 (2013): 98-123.

Figure 2
U.S. Adults Ages 35 to 54 Experienced the Largest Percent Decline in Wealth Between 2007 and 2011.

Percent Decline in Median Net Worth from 2007 to 2011, by Age of Household Head



Source: Adapted from Fabian T. Pfeffer, Sheldon Danziger, and Robert F. Schoeni, "Wealth Disparities Before and After the Great Recession," *The Annals of the American Academy of Political and Social Science* 650, no. 1 (2013): 98-123.

declines in home values have been linked to stress, depression, and unhealthy behaviors, such as postponing doctors' appointments and eating cheaper, less nutritious foods (Yilmazer, Babiarz, and Liu 2015). But these effects were most pronounced among adults under age 50. Hurd and Rohwedder (2010) found similar results when they looked at the effect of home value declines—real and anticipated—on spending patterns. Declines in home equity contributed to reduced spending, but this pattern was more pronounced among younger households than those headed by people ages 65 and older, who have access to Social Security income.

Effects on Employment and Retirement Plans

Employment not only provides a source of income for those approaching retirement age, but has other potential benefits by keeping older adults physically, mentally, and socially active. Although many older workers lost their jobs during the recession, HRS data show that, overall, the economic downturn had only modest effects on the employment status of those nearing retirement age (ages 53 to 58). Unemployment increased sharply, but these job losses were partly offset by employment gains among baby boomers who postponed retirement (Gustman, Steinmeier, and Tabatabai 2012).

The short-term impact of the recession on older adults' employment may have been minimal, but there could also be longer-term effects. Chai et al. (2012) used a predictive model to test the effect of the recession on the future consumption, leisure, asset allocation, and retirement of younger adults. They predict that both younger adults in their 20s as well as baby boomers in their mid-50s will retire more than one year later as a result of the economic shocks associated with the recession.

Adults in their 20s and mid-50s are projected to retire more than one year later as a result of the recession.

Researchers have also investigated the effect of the recession on retirement expectations. Did the Great Recession affect older adults' retirement plans? Preliminary findings from the Cognitive Economic Study show that the average expected delay in retirement among those nearing retirement age was similar among those who lost less than 10 percent of their wealth and those who lost 10 percent or more—around 4 years each (National Research Council 2011). Szinovacz, Martin, and Davey (2013) found similar results—that changes in the value of investments, the stock market, and home values had only modest associations with workers' retirement expectations.

Most journalists have focused on the effects of stock and housing market declines on retirement decisions. But changes in the labor market can also play an important role. Employment among older workers has been increasing for decades, and the recession may have contributed to even greater employment gains, by putting pressure on older workers to stay on the job.

HRS data show that older workers are more inclined to delay retirement when unemployment rates are increasing (Szinovacz, Martin, and Davey 2013). As Hurd and Rohwedder (2010) describe it, "On the one hand, the economic crisis has led to increased unemployment among older workers, causing some earlier-than-anticipated retirement. But at the same time, workers expect to be working longer." This expectation to continue working is especially true of workers who are closest to retirement age, and those with high levels of debt (Szinovacz, Martin, and Davey 2013).

Research on retirement expectations is important because it has implications for Social Security and Medicare spending. The labor force participation rate among older adults was increasing prior to 2007 and the recession may have accelerated this trend. However, Szinovacz, Martin, and Davey (2013) stress that while macroeconomic factors can help explain recent trends in retirement expectations, individual, family, and job characteristics have also played an important role.

Older adults who are racial/ethnic minorities, in poor health, and those with lower levels of education tend to retire earlier than other groups. Certain jobs, such as those with significant physical requirements, can also force older adults into early retirement. And despite federal laws barring age discrimination, some firms continue discriminatory practices, in terms of hiring decisions, workplace policies, or opportunities for advancement for older adults (see Szinovacz, Martin, and Davey 2013 for an overview of factors influencing retirement decisions).

A stronger social safety net could help older adults weather the next economic crisis. Riumallo-Herl and his colleagues (2014) found that laid off U.S. workers ages 50 to 64 were more likely to experience depression compared with their European counterparts who lost their jobs. He attributed this difference to the fact that Europe has a stronger social welfare system, which may reduce the impact of unemployment in Europe relative to the United States.

Effects on Spending

A recession can also affect consumption patterns as individuals who become unemployed may reduce spending to make up for the loss of income. Others may reduce spending because they feel they are at risk of losing their job (Hurd and Rohwedder 2013). For older Americans, cutting back on expenses could mean rationing health spending through fewer doctor visits, screening tests, or prescription drugs.

Hurd and Rohwedder (2010) used data from the HRS, the Consumption and Activities Mail Survey, and HRS Internet Study to look at the effects of the recession on work, spending, and savings patterns of the population ages 51 and older. They argued that because consumption is a better measure of economic well-being than measures of income or assets, spending levels would be expected to decline during an economic downturn. However, while they found that one-third of those ages 55 to 64 reduced spending during the recession, just 17 percent of those ages 75 and older did. In fact, the older cohort was more likely to increase spending than cut back on spending during the economic downturn, suggesting that they were more insulated from the recession's impacts.

Cutting back on spending could mean older adults ration health care spending through fewer doctor visits, screening tests, or prescription drugs.

Some older adults reduced spending by substituting time for consumption (such as preparing food at home rather than buying meals in restaurants) during the economic crisis (Been, Hurd, and Rohwedder 2014). The researchers found that older homeowners ages 65 to 80—who tend to have more time available compared with younger adults—were more likely to substitute time for consumption in response to "wealth shocks," compared with younger homeowners.

Hurd and Rohwedder (2010) also found that older adults expected to bequeath less money to their children—about 20 percent less—as a result of the economic crisis. But this effect was mostly limited to wealthier adults who had more money to give.

Effects Via Family Members

Although older adults were insulated to some extent from direct effects of the recession, many were indirectly affected through their interrelationships with family members. Rohwedder (2009) used data from the American Life Panel (a series of Internet surveys of 2,500 adults ages 18 and older) to show that financial help during the recession flowed primarily from older parents to adult children.

Ailshire (2013) noted that even though older adults were less affected by job losses or housing instability, many increased assistance to their adult children who experienced hardship during the recession. Ailshire used a "linked lives" framework to examine the potential impact of families' economic hardship (in this case, mortgage delinquency) on the health and well-being of older adult relatives. Data were from the HRS and focused on the population over age 50.

Ailshire found that most older adults were affected in one way or another by the recession. However, "women, nonwhites, those with less education, single people, and the unemployed were more likely to experience housing instability and financial strain either in their personal lives or through family," compared with other groups. Those who experienced housing instability or financial strain, either personally or through family members, were more likely to experience "poor health, sleeping problems, and depression" compared with those who were less affected by the recession.

Policy Implications

Long before the recent recession, policymakers were worried about the effect of retiring baby boomers on Social Security and Medicare. The Census Bureau projects that adults ages 65 and older will make up 21 percent of the U.S. population by 2030, up from 15 percent today. The number of people receiving Medicare benefits will increase by one-third during the next decade, according to the Congressional Budget Office.

Experiencing housing instability or financial strain, either personally or through family members, increased the likelihood of poor health, sleep problems, and depression.

The most recent recession may put additional demands on Social Security and Medicare services, by negatively affecting the economic, psychological, and physical well-being of older adults. Although the recession disproportionately affected younger workers, older workers were also affected by rising unemployment, housing and stock market declines, and the rise in foreclosures. Many older Americans who were not directly affected by the recession still experienced depressive symptoms associated with a rise in neighborhood unemployment and foreclosures. Others were affected through their links to family members who experienced economic hardship. For younger adults who lost their jobs, the effects of the recession may last a lifetime—influencing their health risks when they reach retirement age.

The recent recession may put additional demands on Social Security and Medicare services by negatively affecting the economic, psychological, and physical well-being of some older adults.

Research based on the Health and Retirement Study, the Panel Study of Income Dynamics, and other surveys of older adults can help policymakers understand the effects of economic trends on baby boomers' social, economic, and psychological well-being as they transition from work to retirement. Understanding these relationships now, with millions of baby boomers on the cusp of retirement, is important so that policymakers can make the necessary legislative changes to meet the financial and health needs of baby boomers as they reach older ages.

Footnotes

1 The official poverty measure does not account for many important government benefits, tax credits, and expenses.

2 Pfeffer, Danziger, and Schoeni (2013) define net worth, or wealth, as the "total sum of housing wealth, financial wealth, real assets, retirement wealth, minus any liabilities (such as mortgages and other debts)."

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The NIA Centers on the Demography and Economics of Aging

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