

Do recessions cause early retirement?

In the wake of the December 2007–June 2009 recession, a number of studies have explored the effects of the economic downturn on people’s retirement decisions. Many people watched the value of their 401(k)-type retirement plans plummet when the stock market crashed in 2008, and some might have deferred retirement because of those losses. In addition, tight labor market conditions might have induced some people to retire earlier than they had planned, either because they lost their jobs or they could not find work. Although the stock market had recovered to prerecession levels by 2010, the weakness in the job market persists. In “Recessions, Retirement, and Social Security” (*American Economic Review: Papers and Proceedings* 2011, May 2011, pp. 23–28, <http://www.aeaweb.org/articles.php?doi=10.1257/aer.101.3.23>), economists Courtney C. Coile and Phillip B. Levine use data from the Annual Social and Demographic Supplement to the Current Population Survey (CPS) as well as other data to analyze the implications of the current weak labor market on retirement decisions and on the receipt of Social Security benefits.

As Coile and Levine point out, high unemployment can have a substantial impact on older workers’ income—in the present and for the rest of their lives. When older workers lose their jobs, it is generally more difficult for them to find new ones than it is for younger workers. In that kind of environment, Social Security benefits may be the only source of income for many of these

workers. But if they begin drawing benefits early—at age 62, for example—their monthly benefit and, in many cases, their lifetime benefits will be reduced. Coile and Levine examine how changes in the unemployment rate affect retirement decisions, the claiming of Social Security benefits, and the subsequent total amount of Social Security benefits received by older workers. They find evidence that workers are more likely to leave the labor force, collect Social Security earlier, and receive lower lifetime Social Security benefits if a recession happens when a worker is near retirement age. People age 62 and older are more likely to withdraw from the labor force than to seek work when the unemployment rate is high, and they also are likely to start claiming Social Security benefits. These effects are most pronounced for people with less education as they tend to be more vulnerable to job loss and to rely more heavily on Social Security for their retirement income.

Coile and Levine use CPS supplemental data from the 1980 to 2009 March surveys for their analysis of the effects of weak labor market conditions on labor force status and Social Security receipt, focusing on men ages 55 to 69 for that part of their study. For their analysis of older peoples’ income, they look at men ages 70 to 79 and use data from the 2000 Census and from the 2001, 2002, and 2006–2009 American Community Surveys. The authors limit their sample to *men* who have already left the labor force, because women in that age group are likely to receive Social Security payments based on their husbands’ earnings. In addition, the authors include only people who report some income from

Social Security—more than 90 percent in this age category—because the other 10 percent are most likely ineligible to receive benefits and thus their income from that source would not be affected by labor market conditions. The resulting sample consists of nearly 600,000 men ages 70 to 79, which they combine with state-level unemployment data from the Bureau of Labor Statistics.

When’s the right time to “claim”?

Social Security benefits are universally available to Americans starting at age 62, but the monthly benefit amount depends on a number of factors, especially an individual’s age when beginning to collect benefits. This is because the Social Security Administration recognizes that those who delay claiming collect for fewer years and hence are entitled to a greater monthly income. In “The Decision To Delay Social Security Benefits: Theory and Evidence” (National Bureau of Economic Research, Working Paper 17866, February 2012, <http://www.nber.org/papers/w17866>), authors John B. Shoven and Sita Nataraj Slavov report on their empirical research into the advantages and disadvantages of starting to claim benefits at various ages—taking into account other demographics—and then suggest the optimal age to begin.

The authors focus on the financial advantage to the recipient of delaying the commencement of benefits. They note that the annual increase in benefit amount from delaying has become more generous over the years; for example, the 1924 birth cohort earns 3 percent of their base benefit per year of delay beyond full

retirement age, while the 1943 cohort (and later) can earn 8 percent of their base benefit per year of delay beyond full retirement age. The authors explain the financial advantages that occur when interest rates are low—and especially when rates are 3.5 percent or lower, as is the case today, because the delay raises the net present value of the benefit. The authors even suggest that households would be better off first spending down other assets (such as 401(k) plans) in order to delay claiming.

Shoven and Slavov point out that delaying the initial claim has advantages similar to those of purchasing a real annuity. Full-retirement (or base-year) age for most people currently able to claim Social Security benefits is 66. Those who claim benefits at age 62 receive just 75 percent of the base-year amount, while waiting until age 70 results in a monthly benefit that is 132 percent of the age-66 amount. Demographic groups that gain the most from delaying include married couples (because of the spousal and survivor benefit) and two-earner couples (especially when the primary earner's benefit is the one that is delayed); also, single women gain more from waiting than do single men.

Life expectancy needs to be taken into account in the decision; the longer one lives, the better off one would be delaying the first claim. For men and women who were born in 1950 and reach age 62, life expectancy is now 83.20 and 85.51 years, respectively, indicating that women are financially helped slightly more by delaying benefits because of their longer life expectancies. Age at death would be a very useful bit of information, but of course is an unknown when people are deciding at what age to start claiming benefits.

The University of Michigan Health

and Retirement Study (HRS) cited by the authors found that individuals who work longer tend to postpone claiming, perhaps because they enjoy their work and it pays well. Delaying the start of claiming benefits was also true of individuals with higher levels of education, which are associated with both longer life expectancy and greater financial literacy. Nonetheless, the HRS found that the majority of Americans start claiming Social Security benefits immediately after turning 62 even though that age isn't typically to their actuarial advantage.

Working while sick

Most everyone has heard of *absenteeism* in the workplace—being absent from work because of sickness or a health-related condition. However, not many of us have heard of *presenteeism*—being present at work while sick or not feeling well. The term is so new that many well-known English dictionaries, such as Merriam-Webster, do not list it. Researchers have just become aware of the phenomenon in the past 20 years and have found that it can affect workers' productivity more than absenteeism. Workers who stay on the job while ill aren't able to complete their tasks on time, make more errors, and often miss deadlines. In addition, by continuing to stay at work, workers forgo the rest and treatment that their health condition may require.

Obviously, with employees' decreased productivity due to presenteeism, employers are incurring significant revenue losses and added costs, such as higher healthcare expenses. So what can businesses do to improve workers' physical and mental health and in turn decrease presenteeism? Many employers

have implemented workplace health promotion (WHP) programs. These programs may include but are not limited to the following: offering exercise in the workplace; increasing the number of rest periods; promoting health awareness through seminars, workshops, email, literature, etc.; and improving equipment and the environment, such as air and water quality. But just how effective are WHP programs?

Authors Carol Cancelliere, J. David Cassidy, Carlo Ammendolia, and Pierre Côté ask this same question in their article, "Are workplace health promotion programs effective at improving presenteeism in workers? A systematic review and best evidence synthesis of the literature" (*BMC Health*, May 2011, <http://www.biomedcentral.com/1471-2458/11/395>). In this article, Cancelliere and her colleagues present their research on WHP programs and their effects on presenteeism.

Finding studies that met their criteria was not easy. The criteria were that each study had to be original, include at least 20 participants 18 years or older, and include a WHP program that focused on health and wellness. The researchers searched several databases, such as Medline (<http://www.nlm.nih.gov/bsd/pmresources.html>) and the Cochrane Library (<http://www.thecochranelibrary.com/view/0/index.html>). They examined several studies published worldwide from 1990 to 2010 and found only 47 out of 2,032 that met their criteria. These 47 were then measured and divided into three groups that describe the strength of the study—strong, moderate, and weak. Researchers defined each study's strength by the percentage of participants that represented the current work population, level of study control, blinding of

participants and researchers, methods used to measure findings, and follow-up of participants. Of the 47 studies, Cancelliere et al. accepted only 14 to review for this article, rating 4 strong and 10 moderate.

The researchers then reviewed each of the accepted studies on the basis of the following:

- Are they beneficial?

- If so, what makes the programs work?
- What health conditions and other factors could lead to presenteeism?

Reviewing the 14 studies, Cancelliere and her colleagues found that exercise decreases presenteeism through improved health of workers and that some WHP programs are

beneficial. However, the researchers suggest that making programs available isn't enough on its own to improve workers' health; they emphasize the need to focus on the mechanics that go into creating, designing, and following up on the program effects and then, even more importantly, adjusting programs to workers' fitness and health needs. □