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INCOME SECURITY

The Effect of the 2007-2009 Recession on Older Adults

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U.S. Government Accountability Office



Mr. Chairman, Ranking Member Paul, and Members of the Subcommittee:

I am pleased to be here today to discuss the effects of the recent recession on older adults.¹ While the recession officially ended in June 2009, our economy has experienced a weak recovery, with unemployment still above 9 percent. Older adults—particularly those close to or in retirement—may not have the same opportunities as younger adults to recover from the recession’s effects. For example, older adults—generally those 55 and older—may have insufficient time to rebuild their depleted retirement savings due to sharp declines in financial markets and home equity, and increased medical costs. Further, while older workers are less likely to be unemployed than workers in younger age groups, when older workers lose a job they are less likely to find other employment.² These changes have intensified older adults’ concerns about having sufficient savings now and adequate income throughout retirement.

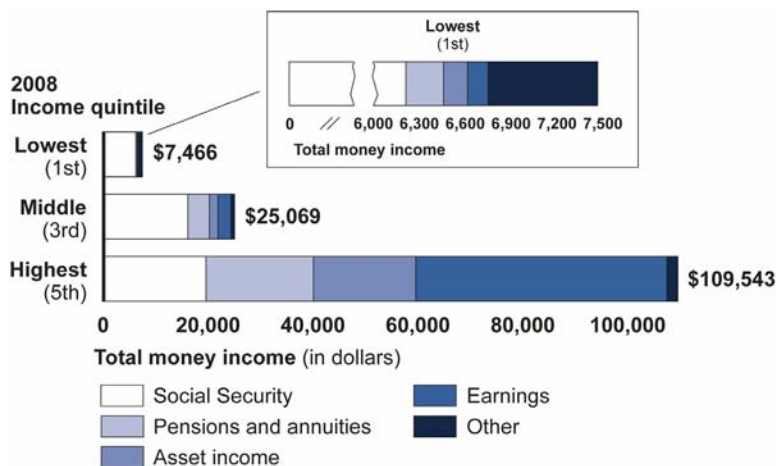
Social Security forms the foundation of income for nearly all retiree households, providing 36 percent of aggregate income for households with a member aged 65 and older; however, it provides a much greater portion of income for low and middle income households. Pensions and assets together provide 31 percent of aggregate income. However, many older adults lack any pension; 44 percent of full-time workers in their 50s have neither a defined benefit nor a defined contribution pension from their current employer; and the number of active defined benefit plan participants has declined since 1990. In 2007, before the recession began, the median level of financial assets for households approaching or entering retirement was around \$72,000. Using a 4 percent withdrawal rate in retirement, this amount would replace about five percent of these families’ \$55,000 median annual household income. Although most retirees would also receive Social Security benefits, for many retirees even these will not be sufficient to maintain their standard of living. Older Americans’ income varies widely. In 2008, annual income for households with a member age 65 and older ranged from \$7,466 for those in the

¹The National Bureau of Economic Research Business Cycle Dating Committee identifies the period of this recession to be December 2007 through June 2009.

²GAO, *Social Security Reform: Raising the Retirement Ages Would Have Implications for Older Workers and SSA Disability Roles*, [GAO-11-125](#) (Washington, D.C.: Nov. 18, 2010).

lowest of five income groups to \$109,543 for the highest of five income groups (see fig. 1).

Figure 1: Average Income by Source for Households in the Lowest, Middle, and Highest of Five Income groups, 2008



Source: GAO and SSA analysis of 2008 income data from the March 2009 U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement.

Note: Households are defined here as either a married couple living together where one member is 65 or older, or a single person age 65 or older. Income from other people (such as adult children living at home) is not included in household income. "Other" includes noncash benefits, unemployment compensation, workers' compensation, and personal contributions.

Those in the lowest and middle groups received most of their income from Social Security retirement benefits, while those in the highest group on average received most of their income from earnings, asset income, and pensions.

Today's testimony is based on a GAO report that we are releasing at this hearing, titled *Income Security: Older Adults and the 2007-2009 Recession*.³ This report examined: (1) What changes have occurred in the employment status of older adults, generally those 55 and older, with the recession? (2) How have the incomes and wealth of older adults in or near retirement changed with the recession? (3) What changes have occurred in the costs of medical care, the purchasing power of Social Security benefits, and mortality rates for older adults in recent years? To

³GAO, *Income Security: Older Adults and the 2007-2009 Recession*, [GAO-12-76](#) (Washington, D.C.: Oct. 17, 2011).

address our objectives, we used Bureau of Labor Statistics (BLS) and Census Bureau data concerning the employment status of older adults,⁴ Census Bureau and Federal Reserve Board data concerning the income and assets of older adults, BLS data concerning the costs of medical care, Social Security Administration and BLS data concerning the purchasing power of Social Security benefits, United States Department of Agriculture data concerning food security, and Centers for Disease Control and Prevention data concerning mortality rates for older adults.⁵ We determined that the data were sufficiently reliable for the purposes of the report. We also reviewed relevant federal laws and regulations. We conducted our review between July and September 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Mr. Chairman, the following summarizes our findings on each of the three issues discussed in our report:

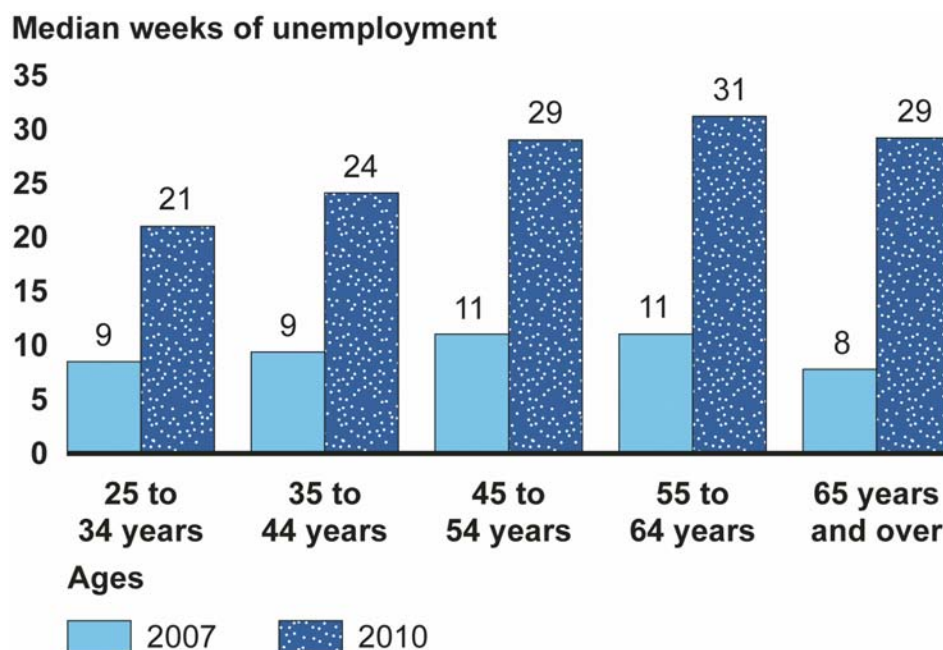
Since 2007, unemployment rates doubled and remained higher than before the recession for workers aged 55 and older. While these rates were not as high as for other age groups, of more concern is that once older workers lose their jobs they are less likely to find other employment. In fact, the median duration of unemployment for older workers rose sharply from 2007 to 2010, more than tripling for workers 65 and older

⁴Data on the labor market outcomes of displaced workers and the number of older workers who are low wage are based on GAO analyses of microdata from the Current Population Survey. For our analysis of the re-employment experiences of older displaced workers, we used data from the 2008 and 2010 Displaced Worker Supplements to the CPS; the analysis was not restricted to workers who had held the job from which they were displaced for a minimum period of time. For our analysis of low-wage older workers, we used data from the outgoing rotation groups of the CPS (the basic monthly CPS) for the years 2007 and 2010. We defined “low-wage” as those with an hourly wage rate in the bottom quintile (bottom 20 percent) of wages across the workforce for workers who reported positive earnings. We estimated the hourly wage rate using usual weekly earnings divided by usual hours worked per week.

⁵Since data on life expectancy are based on projections using older data, prior to the recession, we examined mortality rates, which directly affect life expectancy and have more updated data available.

and increasing to 31 weeks from 11 weeks for workers aged 55 to 64 (see fig. 2).

Figure 2: Duration of Unemployment by Age Group, 2007 and 2010



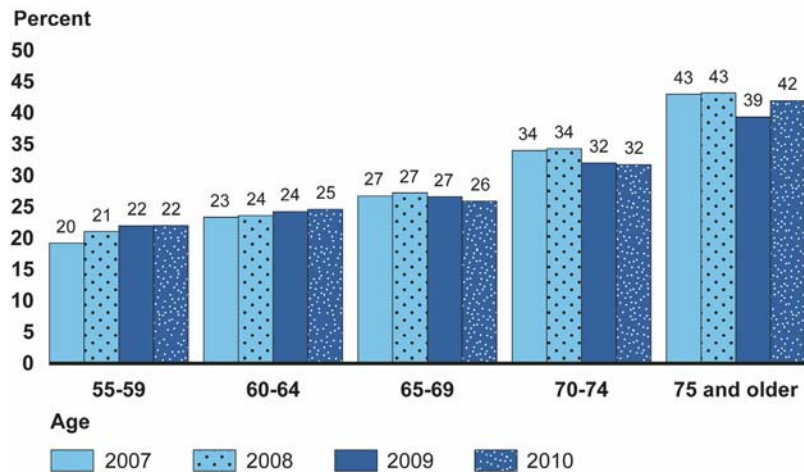
Source: Bureau of Labor Statistics.

Note: Estimates have confidence intervals that are within +/- 23 percent of the estimate itself. All statements made in the text were found to be statistically significant.

In addition, the proportion of older part-time workers who indicated they would prefer full-time work nearly doubled during this time.

Household income fell by 6 percent for adults 55-64, but increased by 5 percent for adults 65 and older. Median household net worth fell during the recession for older adults. Poverty rates increased for adults aged 55-64, but declined for those 65 and older, while low incomes were more prevalent in older age groups than in younger ones (see fig. 3).

Figure 3: Percentage of Adults with Incomes Below 200 Percent of the Poverty Level by Age Group, 2007-2010



Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements.

Note: Estimates have 95 percent confidence intervals that are within +/- 3 percent of the estimate itself. All statements made in the text were found to be statistically significant. "Poverty level" refers to levels determined by the Census Bureau.

Furthermore, the recession leaves older adults with difficult choices regarding retirement savings. Neither stocks nor real estate have recovered from their low points during the recession, and continued low interest rates mean that savings provide little, if any, interest income after inflation.⁶ According to a survey by the AARP Policy Institute, many older Americans experienced financial hardship during the recession.⁷ For example, nearly a quarter of survey respondents aged 50 and older indicated that they or someone in their family had exhausted or used up all of their savings during 2007-2010, while more than 12 percent stated that they or someone in their family had lost their health insurance.⁸

⁶In 2009, however, real interest rates were positive as consumer prices fell.

⁷See AARP Public Policy Institute, *Recovering from the Great Recession: Long Struggle Ahead for Older Americans* (Washington, D.C.: 2011). AARP surveyed adults aged 50 and over who had been in the labor force at some point during the previous 3 years. Their findings were based on a random sample of U.S. residents aged 50 and older from a panel representative of the U.S. population.

⁸This question was asked of those aged 50 or older (n=5,027): Which if any of the following financial hardships have you/your family experienced in the past 3 years?

Among those who reported having difficulty making ends meet during 2007-2010, nearly 50 percent reported that they delayed getting medical or dental care, or delayed or ceased taking medication. In addition, more than one-third reported that they had stopped or cut back on saving for retirement.

Medical costs continued to rise faster than other costs, and older adults continued to spend more on medical care than those in younger age groups. The purchasing power of Social Security benefits was maintained with cost-of-living adjustments and, for those receiving benefits in 2009, increased with a one-time \$250 Recovery Act payment in 2009.⁹ Mortality rates for older adults continued a long-term decline during 2007-2009.

In conclusion, the recession of 2007 to 2009 has had a profound impact on older adults, many of whom, like other groups, have lost employment and wealth. The major challenges for older adults are that they face a shorter timeframe before retirement to make up for these losses. Social Security likely helped keep some eligible long-term unemployed older adults from falling into poverty, but workers who had to leave the workforce prematurely could still face insufficient income at older ages. In addition, more of today's older retirees are able to rely on lifetime retirement income from defined benefit plans than will in the future. The shift from defined benefit to defined contribution pension plans will make future retirees more dependent on their own choices about how much to save, how to invest those savings, at what age to retire, and how to draw upon those savings; and make them more vulnerable to financial market volatility.

Chairman Sanders, this concludes my statement. I would be happy to answer any questions that you or other members of the Subcommittee might have.

⁹Cost of living adjustments are currently based on the consumer price index for urban wage earners and clerical workers, reflecting prices for these workers. There is concern that this measure may be based on consumer items that may not be representative of those purchased by older adults. No reliable measure is currently available of inflation targeted exclusively on older adults' consumption.

For further information regarding this testimony, please contact Barbara Bovbjerg at (202) 512-7215 or bovbjergb@gao.gov. Contact points for our Office of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals who made key contributions to this testimony include Charles A. Jeszeck, Director; Michael J. Collins, Assistant Director; Eve M. Weisberg; Rachel E. Frisk; Kathy D. Leslie; Mimi Nguyen; Thomas A. Moscovitch; Kathryn I. O'Dea; Rhiannon Patterson; Benjamin P. Pfeiffer; Kathleen K. Scholl; Kenneth C. Stockbridge; Roger J. Thomas; Frank Todisco; Walter K. Vance; and Kathleen L. van Gelder.

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