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Content in Retirement

Many older workers who left the workforce during the pandemic may not return to the labor market.

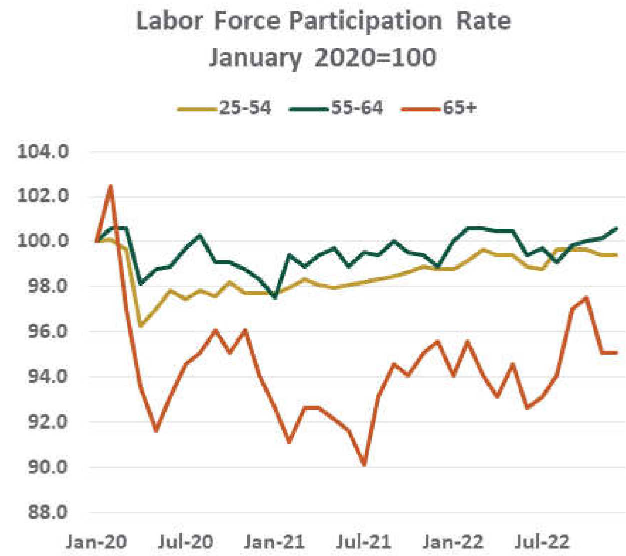
By Carl Tannenbaum

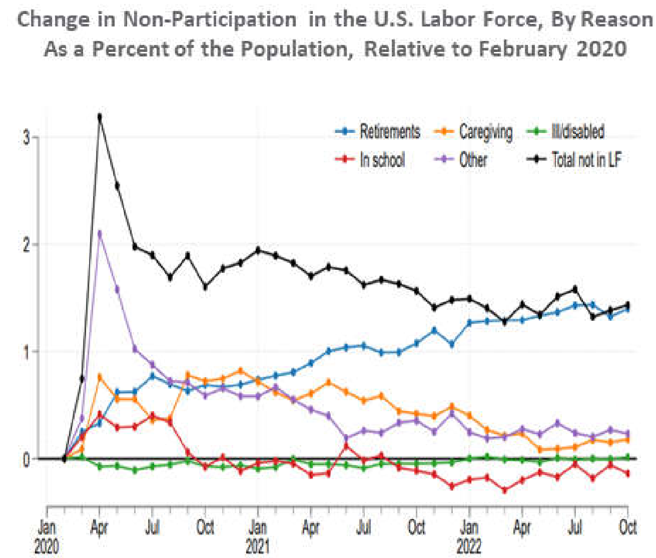
Coming out of retirement is a difficult decision. Some comebacks, like those of Stephen King and Michael Jordan, were a success. Others, like Muhammad Ali and Charles de Gaulle, found the going much tougher the second time around.

In the present day, economists are hoping that more people will come out of retirement. Labor markets remain very tight, and the premature departure of more experienced workers is one of the main reasons why. Unfortunately, it is appearing increasingly unlikely that seniors will return to work, leaving a big gap between demand and supply in the job market.

As we detailed in our 2021 essay "Coming Out of Retirement," somewhere around 1.5 million Americans retired earlier than expected during the first year of the pandemic. Many of them still had plenty of productive years left, and many left the workforce without substantial amounts of saving. This led us to anticipate that waves would be returning to the labor market when public health risks abated.

We've seen a trickle, but not a flood. While labor force participation rates for most age cohorts have gradually returned to pre-pandemic levels, the majority of workers over the age of 65 who left the labor force in 2020 and 2021 have stayed away.





Sources: Haver Analytics, Census, Federal Reserve

A study by the Federal Reserve found that the retired share of the U.S. population is still 1.5% above what the country's demographic profile would suggest. This accounts for almost all of the remaining deficit in American labor force participation relative to the pre-pandemic position.

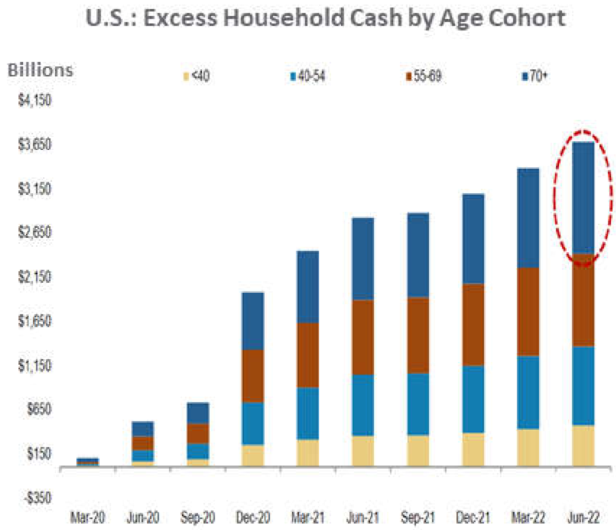
The limiting influence of factors such as caregiving and illness on labor force participation has diminished over time. But the influence of retirements has been growing.

The reasons for this are varied. Health issues have played a part: older individuals are more vulnerable to COVID-19, and those who have had the disease are more likely to have the lingering after effects ("long COVID") that can limit the ability to work. Fear of contracting the virus in the first place may still leave some senior workers reluctant to return to offices or shop floors.

Older workers who retired during the pandemic also face a difficult path to re-employment. Senior workers generally take longer to find new positions after layoffs; geographic and vocational flexibility is more limited at advanced career stages, and the atrophy of skills and networks can be more rapid. While there remain lots of open jobs in the U.S. economy, they may not fit well with the profiles of those who are older.

Early retirements during the pandemic are no longer considered transitory.

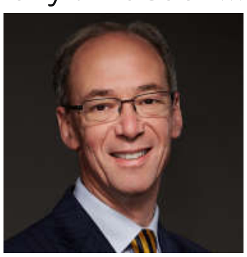
Finally, financial considerations play an important role. Savings built up during the pandemic have augmented retirement nest eggs. Rates of home ownership rise with age; the sharp rise in house prices has added to the wealth of those households.



Sources: Morgan Stanley, Federal Reserve, Haver Analytics, Census, Indeed

Our earlier work found that many of the excess retirements occurred prior to the age of 65, and involved families with more limited means. The need to augment finances generated a surge in "unretirements" early last year. But data received since then suggests a leveling off. To facilitate additional re-entry among more experienced workers, firms may have to do more than just offer higher wages. Some help in re-skilling those who have been away from the labor force for a while should also be a part of the package. And since more senior workers are much less mobile, remote arrangements should be leveraged wherever practical. Unfortunately, many of the greatest current needs in the labor market are in roles that cannot be done entirely remotely.

During the holidays, we spent time with a number of friends who retired during the pandemic, long before they turned 65. They told tales of days filled with pickleball, volunteering and doting on grandchildren. I don't think we'll see them in the labor force again any time soon…or ever.



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