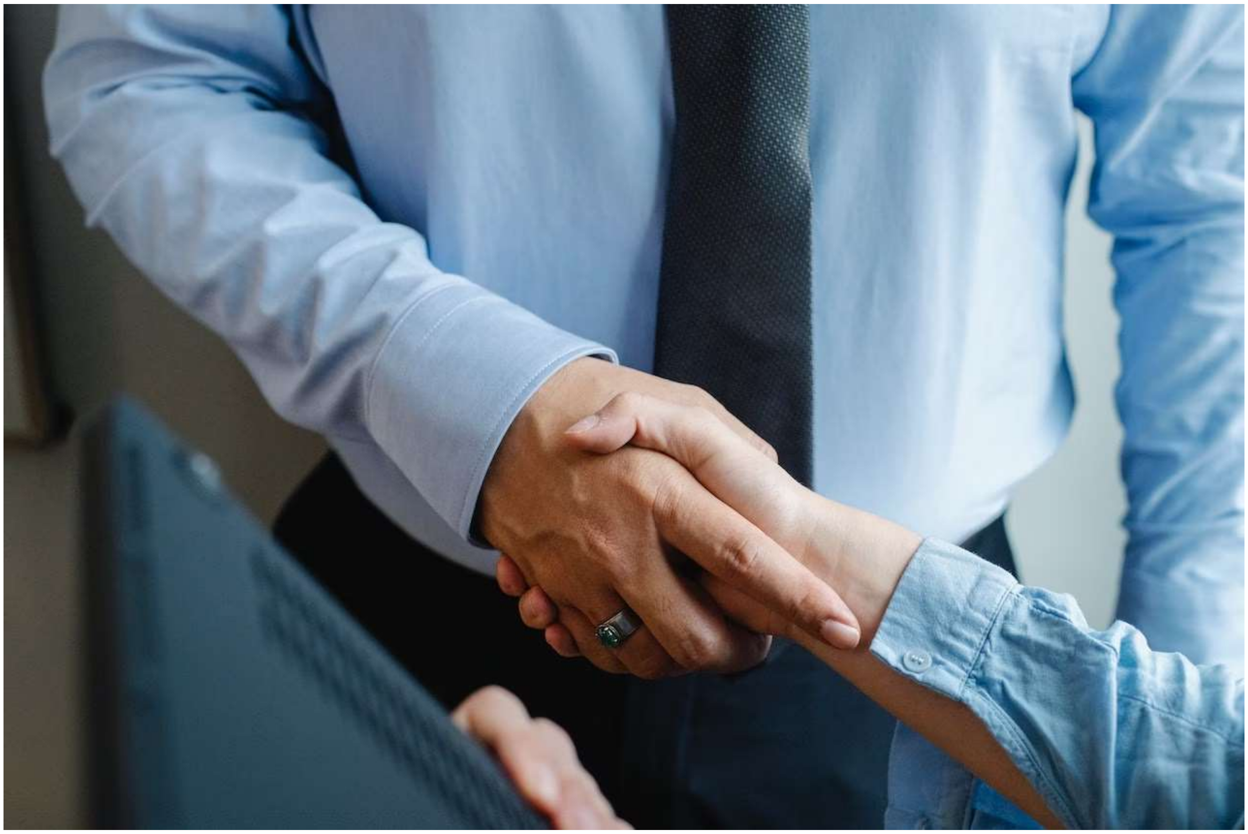
OCTOBER 6, 2023

Uneasy Un-Retirements

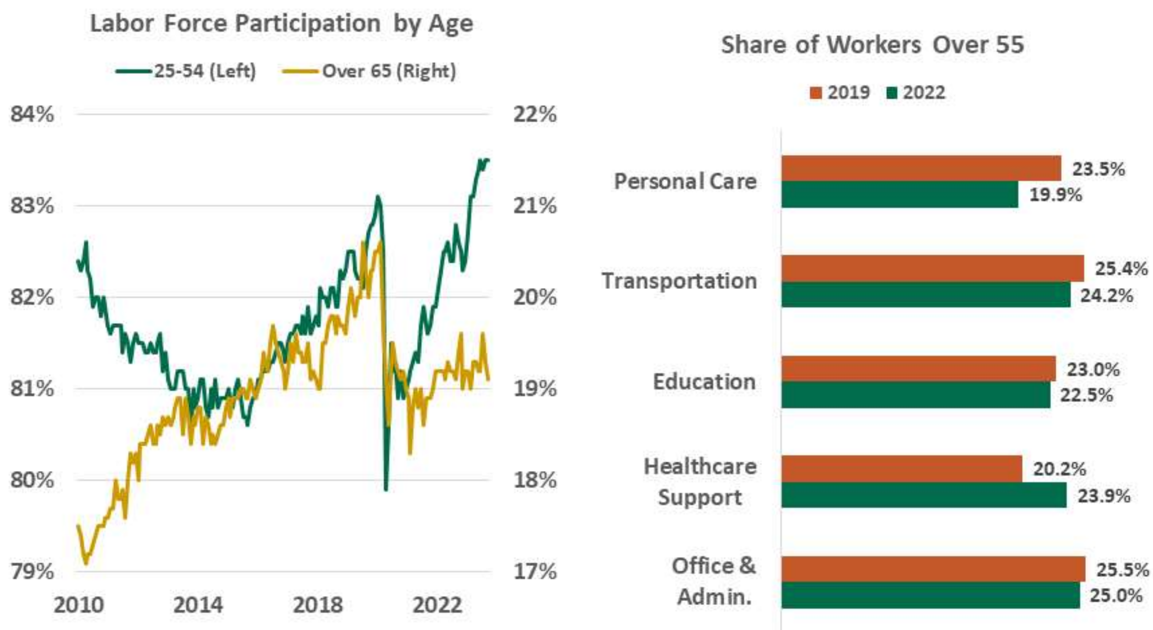
Older workers can still be a source of relief for tight labor markets.



In the recovery from the Global Financial Crisis, I found myself in the uncomfortable position of defending my generation. Millennials were stereotyped as lazy for not working (when no one was hiring!) and living with their parents (hard to afford rent without a job!). But the economy recovered, and younger workers established themselves. Now, the tables have turned: Millennials are in our prime working years, and we're wondering where all the older workers have gone.

The recovery from the pandemic has created ample opportunity for workers of all skill levels. The labor force participation rate (LFPR) for workers between the ages of 25 and 64 now exceeds the rate seen in the pre-COVID era; for prime-aged women, participation touched an all-time high. But workers aged 65 and over are holding back.

Older workers' pandemic-led departure from the labor force was rational. COVID carried the greatest risk to older people, and their urge to stay home was understandable. Rapidly recovering markets generated wealth effects, allowing many to afford a break from the workforce. Buoyant real estate markets allowed homeowners to sell at a gain and relocate to retirement destinations.



Sources: Bureau of Labor Statistics, Haver Analytics

Labor force participation by workers over the age of 65 currently stands at 19.5%, more than a percentage point below its 2020 peak; in a demographic currently standing at 11.4 million people, each percentage point is a loss of over 100,000 potential employees.

More experienced workers were prominently represented in a number of professions. Personal care services like hair styling saw an exodus of older workers; these carried high risk of viral transmission, providing a strong rationale for older workers to stay out. Older teachers have also stepped out of crowded classrooms. Less physically demanding jobs, like professional and business services, have maintained a similar share of workers over 55.

In a tight labor market, we would expect to see higher wage offers entice more workers back. Some may welcome a workplace as a social outlet and source of intellectual stimulation. And some may realize their retirement savings will not last as long as initially hoped.

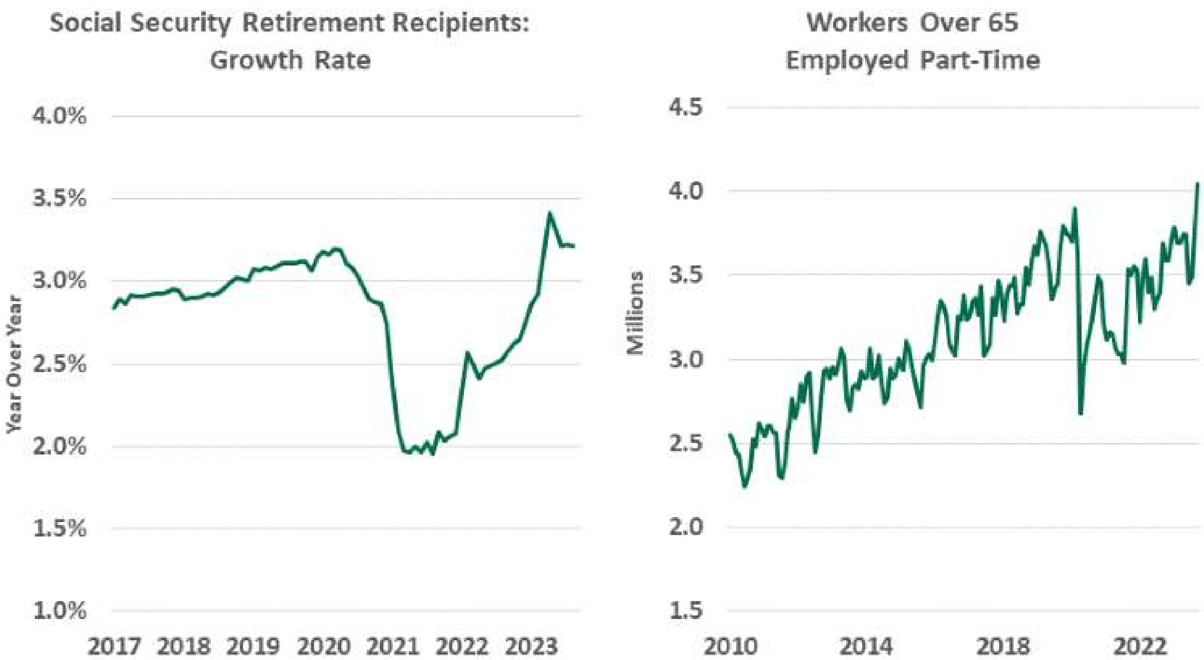
The greater role of service sector jobs (which are often less physically demanding) and the growth of remote work should also be enticements for senior workers. Job openings remain strong in professional and business services. More of these jobs can be done remotely or with limited time in the office.

But despite these attractions, the return has been sluggish. Instead, we have witnessed a rise in Social Security claimants, suggesting that many people of retirement age who took a break from work may now see their situation as permanent. High inflation raised Social Security benefits by more than 6% in 2021 and more than 7% last year. More claimants receiving a higher payout was an important reason the U.S. budget deficit grew beyond expectations in 2023.

Over 20% of older workers choose to work part-time, which serves as a comfortable step toward retirement. However, that arrangement appears to have reached a ceiling. Part-time employment has recovered to its pre-pandemic level.

Expanding part-time or job-sharing opportunities may help to bring more older workers back, an approach with many benefits. These arrangements can also work well for young parents or others with caregiving obligations who seek a flexible return to work. Opportunities to work seasonally or on a project basis can also fit an older person's lifestyle. Employers' efforts to improve diversity should give some consideration to including workers of all ages.

Over three years have passed since the pandemic surge of early retirements. Inertia will be a challenge for both candidates and employers to overcome. A prolonged stretch of unemployment will make a worker of any age experience a loss of skills, work habits and motivation; this *hysteresis* effect was part of the sluggish labor recovery after the 2008 financial crisis. Employers can help with specific outreach and onboarding processes to encourage older workers' return.



Sources: Social Security Administration, Bureau of Labor Statistics, Haver Analytics

Retirement should be a happy milestone. I know many retirees who are perfectly content enjoying leisure activities and time with their grandchildren. But some moved out of work sooner than they expected in the pandemic. For those still seeking, jobs are available; and for employers struggling to hire, more outreach to and accommodation of older workers can be an important source of relief.

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