



Health Problems and Job Layoffs Crack Retirement Nest Eggs

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As people prepare for retirement, even the best-laid plans can go awry. Health fails. Spouses or other family members become ill. Marriages end in widowhood or divorce. Investments sour. People lose their jobs. Health, employment, and marital shocks can have serious financial consequences—out-of-pocket health bills, reduced earnings, disrupted retirement saving—forcing people as young as 50 or 60 to dip into their nest eggs.

Health Problems, Job Loss Can Strike Before Retirement

About 7 in 10 adults who were age 51 to 61 in 1992 developed health problems, lost spouses to death or divorce, or became unemployed during the 10-year period ending in 2002. More than 4 in 10 were diagnosed with major new medical conditions, including heart problems, cancer, serious lung problems, diabetes, strokes, and psychiatric problems. About one-third developed work disabilities through health problems that curtailed employment. Nearly one-fifth were laid off between 1992 and 2002. About 10 percent of married adults became widowed; another 3 percent divorced. These estimates are based on data from the Health and Retirement Study (HRS), a large nationally representative survey of older Americans funded by the National Institute on Aging.

Negative shocks at older ages are especially common among people with limited education, who generally have fewer financial resources to help them weather adversity. For example, at ages 51 to 61, about half of those without high school degrees developed new medical conditions over a 10-year period, compared with only about one-third of college graduates. High school dropouts are also more than twice as likely

to become widowed as college graduates, and nearly four times as likely to become seriously disabled.

Married people are less likely to develop health problems than single people. Yet, they face the added risk of divorce and the risk that their spouses could die, become ill, or lose their jobs. When things go wrong for spouses, the financial consequences can be just as serious as when one's own health fails or other misfortune strikes. With spousal health problems and job loss factored in, the share of married people age 51 to 61 experiencing negative events over a 10-year period jumps to 87 percent, compared with 69 percent for single people.

Financial Ramifications

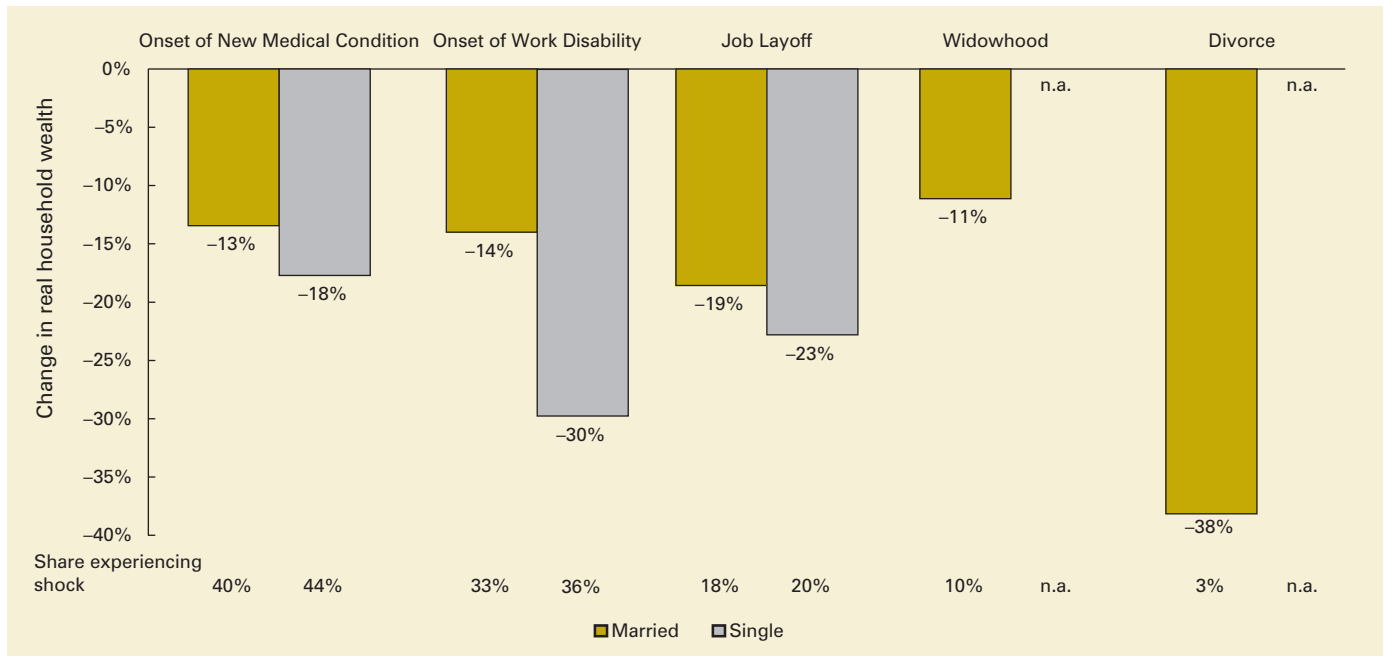
These shocks have serious financial implications. Health problems can trigger out-of-pocket medical spending, forcing people to dip prematurely into retirement nest eggs or to tap money earmarked for saving. Deteriorated health forces people to curtail work or to retire early, reducing earnings and ability to save. The second paycheck, along with at least some of the spouses' benefits, disappears when people become widowed or divorced. Job layoffs at older ages often have long-lasting consequences, as older adults tend to have more trouble finding work than younger people (Chan and Stevens 2001). Further, unemployed people forego credits toward future Social Security and employer pension benefits, which otherwise tend to accumulate rapidly as retirement approaches.

HRS estimates show that the onset of work disabilities among people in their 50s and 60s reduces household wealth by 30 percent for single people and 14 percent for married people, holding constant such other personal characteristics as education, race, gender, age, and baseline health status (figure 1).¹ The onset of medical conditions that do not necessarily limit work has smaller but still significant effects, reducing household wealth by 18 percent for single people and 13 percent for married people. Job layoffs shrink wealth by 23 percent for single people and 19 percent for married people. Health problems and job loss are especially serious for single people not financially bolstered by a spouse.

Widowhood and divorce in late midlife significantly reduce wealth, even factoring in reduced living expenses resulting from the loss of a spouse. Financial impacts are greater for women than men and for those who become widowed at relatively young ages.



FIGURE 1. Estimated Impact of Health Problems, Job Layoffs, and Marital Dissolution on Real Household Wealth, by Baseline Marital Status



n.a. = not applicable

Notes: Estimates are based on median regressions of real household wealth in 2002 or at death for those who do not survive until 2002. The analysis measures shocks between 1992 and 2002 or death. The sample consists of adults age 51 to 61 in 1992, and models were estimated separately by 1992 marital status. Regressions control for education, race, age, and the presence of medical conditions, work disabilities, and frail parents or in-laws in 1992. Regressions for married people also control for spousal health in 1992 and spousal shocks after 1992. Wealth includes financial assets and the net value of housing, other property, and businesses, and is expressed in constant 2002 dollars. The analysis adjusts for household size by dividing household wealth for married people by 1.62. For more information, see Johnson, Mermin, and Uccello (2006).

Conclusions

Health problems and job layoffs are common as people approach retirement, though most Americans lack adequate protection when such disaster strikes. Inadequate health insurance exposes people to high out-of-pocket costs when serious medical conditions develop. The safety net is meager for people who lose their jobs or are forced to retire early because of declining health. Unemployment benefits generally last no more than 26 weeks, and only those who satisfy Social Security's strict eligibility requirements receive disability benefits. Health problems, job losses, widowhood, and divorce in the years immediately prior to retirement can rob people of financial security later. Workers need to consider these risks as they develop their retirement plans. Those who wait until their 50s to begin saving seriously, as many do, may find it too late to protect them-

selves against unexpected setbacks and the financial consequences.

Note

1. Household wealth includes financial assets (such as bank accounts, Individual Retirement Accounts, stocks, and bonds) and the value of housing (net of outstanding mortgage debt), other property, and businesses. It excludes the value of future benefits from Social Security and traditional employer pension plans.

References

- Chan, Sewin, and Ann Huff Stevens. 2001. "Job Loss and Employment Patterns of Older Workers." *Journal of Labor Economics* 19(2): 484-521.
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