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ECONOMIC Synopses

The COVID Retirement Boom

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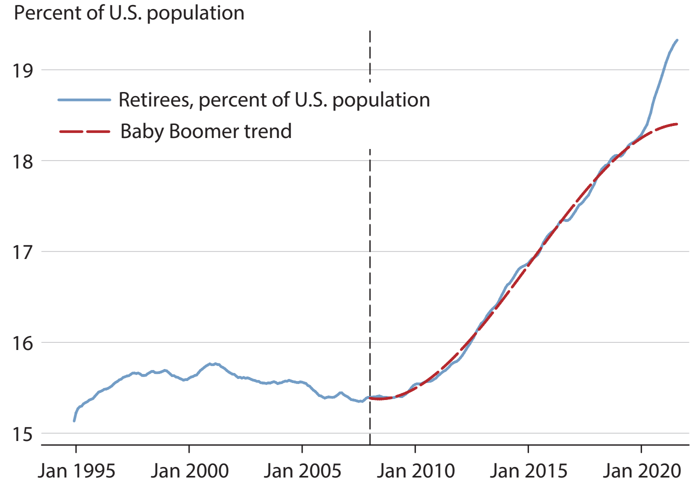
The labor force participation rate[1] registered its largest drop on record in 2020, falling from 63.2 percent in the fourth quarter of 2019 to 60.8 percent in the second quarter of 2020.[2] By the second quarter of 2021, the rate had recovered slightly, to 61.6 percent, but was still 1.6 percentage points below its pre-pandemic level—indicating that as of that quarter, roughly 4.2 million people had left the labor force.

> As of August 2021, during the COVID-19 pandemic, slightly more than 3 million people likely retired earlier than they would have otherwise.

People left the labor force during 2020 for many reasons. Some may have left due to cyclical factors: Labor force participation tends to fall when the unemployment rate is high, and in 2020 the COVID-19 crisis featured the highest post-Great Depression unemployment rate on record (14.8 percent in April 2020).[3] Others may have left for factors specific to the COVID-19 crisis. For example, many people were forced to quit jobs to care for children or other family members because of the lockdown of schools and other institutions. Some people would have left the labor force anyway because of retirement. Retirees are a significant fraction of the population, as U.S. population growth has slowed and Baby Boomers (those born between 1946 through 1964) are currently retiring. Finally, a significant number of people who had not planned to retire in 2020 may have retired anyway because of the dangers to their health or due to rising asset values that made retirement feasible. This essay provides a back-of-the-envelope estimate of the number of "COVID-19 retirements."

The figure shows that the percentage of retirees in the U.S. population (the blue line) was relatively stable at around 15.5 percent until 2008 (the vertical dashed line). That year marked not only the beginning of the Great Financial Crisis but also when the oldest Baby Boomers, those born in 1946, turned 62 years of age and became eligible to receive Social Security retirement benefits. As Baby Boomers began retiring, the percentage of retirees in the U.S. population grew to 18.3 percent in February 2020, the eve of the COVID-19 outbreak. The percentage then increased at a much faster rate, reaching 19.3 percent in August 2021.

Percentage of Retirees in the U.S. Population and the Baby Boomer Retirement Trend



NOTE: The percentage of retirees is a 12-month moving average, and the Baby Boomer trend is a cubic trend estimated between January 2008 and February 2020.
SOURCE: Current Population Survey and author's calculations.

One simple way to disentangle "normal" retirements from excess retirements due to COVID-19 is to compare the predicted percentage of Baby Boomer retirements from 2008 to February 2020 (the red dashed line in the figure) with the actual percentage of all retirements. The 0.92 percent difference between the two can be interpreted as the excess retirements. Based on that number, as of August 2021, there were slightly over 2.4 million excess retirements due to COVID-19, which is more than half of the 4.2 million people who left the labor force from the beginning of the pandemic to the second quarter of 2021.[4]

There are several reasons why some people may have decided to retire early, some directly related to the pandemic. First, these "excess retirees" tend to be older people, who are especially vulnerable to COVID-19 and were thus motivated to leave the labor force because of the serious risk of infection and death. Second, the COVID-19 recession was abnormal in the sense that it featured a sharp downturn in real economic activity but also rising asset values, such as for housing and stocks. Standard theories of household behavior predict that when people get richer, they work less, and there is some evidence that the evolution of asset values influenced labor force participation in previous recessions, especially for those closer to retirement.[5] The large rise in asset valuations during the pandemic suggests that retirement may have become feasible for many people.

Finally, there is the question of whether the excess retirements are permanent. If they are, then the amount of slack in the labor market may be smaller than the 4.2 million "lost workers" may suggest. However, many of these new retirees may decide to return to the labor force, which will depend on personal factors as well as aggregate labor market conditions. ■

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Notes

[1] The labor force participation rate is the percentage of the noninstitutional civilian working age population that is either employed or actively looking for a job.

[2] For reference, the largest quarter-on-quarter drop in the labor force participation rate prior to 2020 was the 0.7 percentage point drop in the second quarter of 1953, which was almost four times smaller than that in 2020.

[3] Hobin, B. and Şahin, A. "Maximum Employment and the Participation Cycle." Paper prepared for the Federal Reserve Bank of Kansas City 2021 Jackson Hole Economic Symposium, August 2021; https://www.kansascityfed.org/documents/8334/JH_paper_Sahin_3.pdf.

[4] This estimate is sensitive to the way that the forecast of retirees is made.

[5] French, E. and Benson, D. "How Do Sudden Large Losses in Wealth Affect Labor Force Participation?" Chicago Fed Letter No. 282, January 2011; https://www.chicagofed.org/publications/chicago-fed-letter/2011/january-282.

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