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The Great Recession, Older Workers with Disabilities and Implications for Retirement Security

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The Great Recession, officially beginning in December of 2007 and ending in June of 2009, lasted 18 months and as such was the longest recession faced by the United States since World War II. Incomes fell dramatically, poverty rates increased, and unemployment rates skyrocketed. While unemployment rates rose across all groups in the recession — people with and without disabilities, of all ages and across levels of educational attainment — evidence suggests that workers with disabilities have been hit particularly hard by the recent recession.

One potential complication in studying the relationship between employment patterns of the disabled and the Great Recession is that most national data sets that measure employment have only limited measures of disability status. A large literature discusses the validity of self-reports of disability, and in many cases these self-reports appear to respond endogenously to economic conditions and to the availability of income transfers for the disabled. Specifically, if a "justification bias" exists in self-reports of disability, so that individuals with health conditions are more likely to identify themselves as disabled when faced with a recessionary job loss, then some of the increase in the relative unemployment of individuals with disabilities may be due to increased self-reporting of disability, and may be independent of initial health conditions.

In this paper, we use data from the 2004-2010 waves of the Health and Retirement Study (HRS), combined with the Consumption and Activities Mail Survey (CAMS) of the HRS to examine how the Great Recession has affected older workers — those over 50 years old — with disabilities. We take advantage of the detailed array of health-related questions in the HRS, and use Principal Component Analysis (PCA) to create detailed measures of disability risk among the subsample of HRS respondents who are working in 2004. We also look at measures of self-reported disability. We examine whether recessionary effects on a number of outcomes, including employment, job separation, and involuntary job separation, as well as the level of consumption, are greater for those individuals we identify as high risk for disability. Finally, we directly examine whether, holding initial health conditions constant, self-reports of disability increase during the years of the Great Recession.

Findings

While the Great Recession is associated with decreases in employment for the overall HRS sample, we find no

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evidence that these decreases are larger for those individuals who are in poor health and at risk of disability. However, we do find that the impact of the recession on the probability that individuals report that they are no longer at their previous job is significantly larger for those respondents in poor underlying health. A worsening of health conditions equivalent to a one standard deviation increase in the first PCA factor is associated with a 12 percent additional increase in the likelihood of job separation relative to those in the overall HRS sample. We find a similar result for involuntary job loss, where a similar worsening of health conditions would be associated with a 30 percent additional increase in the likelihood of involuntary job separation.

We also find recession-related declines in consumption that are significantly larger for those in poor health. A worsening in health equivalent to a one standard deviation increase in the first PCA factor is associated with an additional 1.9 percent drop in consumption, which is 20 percent higher than the average consumption decline of nine percent for the sample as a whole. Finally, we find that, controlling for underlying disability risk using fifteen measures of health conditions and impairments, self-reporting of work limitations was 3.6 percentage points more likely in 2010. This increase in self-reporting of work limitations was independent of underlying health conditions.

Conclusion

In this paper, we estimate the effect of the Great Recession on older workers with disabilities. Because of the panel nature of the HRS and a breadth of questions on chronic health conditions and disabilities, employment history, and consumption, we are able to provide a deeper understanding of the labor force dynamics and well-being of workers with disabilities than has been possible with previously available data.

Our results are consistent with previous research suggesting that self-reports of work limitations increase in recessions, and make clear the importance of having detailed information on health conditions to complement any analysis of labor market impacts on the disabled.

The fact that we find no differential recession effect for employment among the disabled, but we do find differential effects for job loss, is interesting and a bit of a puzzle. Previous work has suggested that those in poor health appear to change jobs, which might allow them to adapt to their health conditions and continue to participate in the labor force. However, our consumption results suggest that the disabled are faring worse in terms of economic well-being during the recession. Another possibility is that disabled individuals are switching into jobs that are less desirable — perhaps that pay less or that are part-time instead of full-time. Further research is necessary to examine these possibilities.

Overall, our results confirm that those approaching retirement ages in poor health appear particularly vulnerable to the economic downturn. The findings suggest a potential role for policies that support individuals to remain employed in their current jobs when possible. The vulnerability to economic downturns should also be considered during assessments of reforms to Social Security OASDI, Medicare, Medicaid and private health insurance.

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