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LATE LIFE JOB DISPLACEMENT

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Abstract

Job displacement is examined among Americans aged 51 to 61 using the 1992 interview of the Health and Retirement Survey (HRS). Among workers displaced between 1990 and their 1992 HRS interview, 40 percent were not currently employed. The median worker displaced in 1990 saw their income fall from \$23,200 on their prior job to \$12,000 the following year. The overall rate of health insurance coverage among displaced workers is 60 percent relative to 80 percent for all workers. Median net worth is also lower for displaced workers (\$75,900) relative to current workers (\$108,500). These figures understate the impact among minorities.

Late Life Job Displacement

Introduction

As people age, they adjust their consumption paths to reflect both current and anticipated income. So when negative shocks to their income occur, consumption plans must be altered. Older workers have less of their anticipated working lives and the overall reduction in economic well-being that must occur with a loss of income is concentrated into a shorter time interval. Therefore, the negative impact of job displacement would be expected to be greater on older workers than younger workers. In this paper, the 1992 interview of the Health and Retirement Survey (HRS) is used to examine the experiences of displaced older American workers in the early 1990s.

Older workers are often targeted for job eliminations. There are two principal reasons. First, their technical skills may have become obsolete over time or with changes in technology. Second, average wages rise with seniority. Regardless of a person's skill level, an employer may determine that others inside or outside the firm can perform the same function at a lower cost. Older workers with seniority may be costlier, giving employers an incentive to substitute cheaper labor for them from within the firm itself or through outsourcing.

Several studies which have examined the incidence of job displacement as well as its economic impact upon workers reflect these economic considerations (Flaim and Sehgal 1985; Gardner 1995; Herz 1991; Horvath 1987). Each used the Displaced Worker Surveys (DWS) to examine exits from jobs which had lasted at least three years. When the job ended due to layoff or business closure, a person was considered displaced. A common conclusion of each of these studies is that older workers experience the highest rates of displacement and the lowest

subsequent rates of reemployment. However, none of these prior studies undertook a more detailed examination of older workers.

In this paper, the Health and Retirement Survey, which is a nationally representative sample of Americans aged 51 to 61 in 1992, is used to examine job displacement of older workers prior to normal ages of retirement. The incidence of job displacement, rates of reemployment, median earnings losses, changes in health coverage, and median levels of net worth will each be examined. For the remainder of the paper, a job which an individual has performed for the same employer for five or more years will be called a *permanent job*. The loss of a permanent job due to a self-reported layoff or business closure will be referred to as *job displacement*. Workers who are temporarily laid off are not included among displaced workers.

2. Data

Before proceeding to the examination of job displacement among older workers, it is important to describe the basic sample which will be used throughout the paper. The HRS contains information on 9,758 individuals aged 51 to 61 in 1992. For this paper, the most important aspect of the HRS is that it contains detailed information on the most recent job of a person who is not currently employed as well as a job history of all positions which lasted at least five years.

In order to calculate rates of displacement, the group of individuals at risk of displacement must be identified from the age-eligible population. Persons at risk of displacement are defined as those who were employed in 1989 and had been with the same employer for at least five years. Of the age eligible observations in the HRS, 4,895 meet this standard for being at risk of displacement. It should be noted that the definition adopted in the paper of a permanent job as one

which lasts more than five years is necessitated by the data, since jobs must have a minimum duration of five years to be recorded in the job history section of the survey.

From the group of individuals who are at risk of displacement, those who are displaced must be selected. To be displaced, a person must report they lost a permanent job in 1990 or later but before the date of their 1992 HRS interview. This window of approximately two years roughly duplicates the two year retrospective window which has been used in much of the prior research based on the Displaced Worker Surveys (Flaim and Sehgal 1985; Gardner 1995; Herz 1991; Horvath 1987).

Whether or not a person was displaced depends on whether they were employed or not at the date of their 1992 HRS interview. If a person was currently employed, their job history was examined to determine if they had exited a permanent job in 1990 or later due to business closure or layoff. If so, they were counted as a displaced worker. If a person was currently unemployed, the record of their most recent employment was examined. If their prior job was permanent and ended in 1990 or later due to business closure or layoff, or if they exited a job in 1990 or later for the same reasons, the person was counted as a displaced worker. In total, 330 displaced workers were identified from the 4,895 observations of those at risk of displacement. For prior occupations, details regarding compensation and the type of occupation are available. The HRS also contains a wide variety of other information about respondents' current employment situation, earnings, net worth, and health insurance coverage.

3. The Incidence of Job Displacement among Older Workers in the United States

The basic questions regarding job displacement among older workers in the United States are: (1) how many individuals are at risk of displacement, (2) how many experience it, and (3)

what is the overall rate of displacement. As can be seen in Table 1, almost 12,000,000 workers between the ages of 51 and 61 in 1990 were working in a job which they had held for at least five years. The total number of persons displaced from those who were at risk was slightly less than 800,000, translating into a displacement rate of 6.7 percent from 1990 through the date of the 1992 HRS interview.¹

Table 1 also shows displacement among several major demographic groupings conditional on two age groups, 51 through 55 and 56 through 61. The age of 55 was used as a cutoff as some private pensions use 55 as an age of initial eligibility. For whites, nonwhites, and males, those aged 51 through 55 experience higher displacement rates than those aged 56 through 61. The only exception to this pattern is observed among females. Nonwhites experience higher rates of displacement at any age than either whites, all females, or all males. While this table offers no direct evidence, it raises the possibility that nonwhites are more likely than whites to be displaced when firms seek to terminate employment of a target number of workers.

A different concern is that displacement may be highly concentrated among a handful of industries or occupations. Table 2 considers displacement rates across both industry and occupational groups. As can be seen in that table, workers in several occupations experienced rates of displacement of more than 10 percent in the time period considered: mining and construction; wholesale and retail trade; and finance, insurance, and real estate. Each of these industries is considered to be somewhat dependent on business cycle conditions. Several other industries experienced displacement rates of 5 percent or less: transportation, services, agriculture, and government. The public sector had the lowest displacement rate observed at less than 1 percent.

Less variation is seen in the displacement rates across occupations. Blue collar workers had a higher displacement rate (7.4) than white collar workers (6.4). With the exception of service occupations, however, the displacement rates among white collar workers appear similar to those of blue collar workers. Having said this, it is also important to point out that while the displacement rates are similar across occupational categories, total displacement is not. Of those at risk of displacement, 70 percent are employed in white collar occupations. Correspondingly, 68 percent of those displaced come from white collar occupations.

Job displacement imposes its greatest hardship on those who are unsuccessful in obtaining new employment. Table 3 looks at the labor market status in 1992 of individuals who were displaced between 1990 and their 1992 interviews. Column 1 indicates the number of individuals displaced by the same age and demographic groupings as in Table 1. The remaining three columns indicate the percentage of those individuals who were currently employed, unemployed, or had exited the labor market at the time of their interview. These three categories are mutually exclusive so the percentages in the final three columns sum to 100.

For all workers aged 51 to 61 who were displaced, 60 percent were reemployed at the time of the 1992 survey. The current employment rate of previously displaced workers falls significantly each year for those over the age of 55. Younger workers reenter employment at higher rates across all of the demographic groupings considered in the table. The nearer one is to eligibility for social security benefits, the more likely is one to exit the labor force, as would be expected. Even with these labor force exits, the rates of unemployment for all ages and groups are very large. The average national rate of unemployment in 1992 was 7.4 percent. The lowest unemployment rate for any age group of workers in Table 3 is 20.6 percent for those age 61. The highest unemployment rate by age is 42 percent for those age 58.

Among older displaced minority workers, the rate of unemployment is more than 50 percent. A different way of considering the information in Table 3 is to think about the percentage of different demographic groups who are employed following displacement versus those who are not. Among nonwhites aged 51 through 55, 43 percent are not working versus 31 percent in the same age group for whites. Among nonwhites ages 56 through 61, 70 percent are not working versus 41 percent for whites. Displacement rates are higher among blacks, and reemployment prospects appear dim.

For those who are not working, the most salient consideration is usually the fact that they lose the earnings from their former employment. Table 4 examines the median earnings of displaced workers on their former jobs and currently. These figures are provided for both all displaced workers and those who were reemployed at the time of their 1992 interview.

In the 1992 HRS, information on earnings is collected for the 1991 calendar year. This creates a problem in making before and after earnings comparisons because workers displaced in 1991 would report earnings at the time of leaving their permanent job, and those same earnings would be reported as part of their total earnings in 1991. In order to make a pure comparison of earnings on prior jobs relative to earnings in 1991, the figures presented in Table 4 are calculated only for those individuals displaced in 1990. The comparison being made is between annualized earnings at the point of leaving a permanent job in 1990 to annual earned income in 1991. These calculations use 112 observations. No figure presented in Table 4 is based on less than 22 observations.

Among all of the workers displaced in 1990, median earnings on their prior job were \$23,200 versus \$12,000 the following year. Similarly, among the displaced workers who were reemployed, median earnings on the prior job were \$25,000 versus \$14,200 in 1991. By

comparison, the median 1991 earnings for all workers employed at the time of the 1992 HRS interview were \$22,000. The median earnings of the displaced worker decline from approximately at the median for all workers to substantially lower whether one considers all displaced workers or only those who are reemployed. A similar pattern is observed for all of the groups considered in Table 4.

For all displaced workers, median earnings of every group considered in Table 4 declines by at least 45 percent. The largest percentage reductions are seen among females (55 percent), minority workers (56 percent), and those aged 55 through 61 (57 percent). These groups also have the lowest levels of median earnings following displacement.

In addition to sizable earnings losses, people who are displaced also stand a chance of losing supplemental benefits whether they are reemployed or not. Table 5 examines the health insurance coverage status of all workers employed in 1992 relative to those who had been displaced. For any worker, the possibility exists that they receive their health insurance from either their own employer or from their spouses' employer. So, the potential of coverage through a partner's employer is also examined.

The first column of Table 5 indicates that slightly more than half of all current workers aged 51 to 61 receive health insurance coverage from their employer. Altogether, 80 percent of workers in this age group receive coverage from either their own or their spouse's employer. Among workers who were displaced and reemployed, these rates are markedly lower: 37 percent currently have health insurance from their own employer; 66 percent currently have coverage from either their own employer or their spouse's. Among all displaced workers, the overall rate of coverage falls to 59 percent.

The most striking difference in health care coverage for previously displaced workers is seen among minority group members. For reemployed minority workers, total coverage, either from their own employer or their spouse's, is 48 percent. Among reemployed whites, the total rate of coverage is 70 percent. Health insurance coverage for all displaced minority workers at the time of the 1992 survey was 40 percent versus 65 percent for whites.

While total rates of health care coverage are lower among displaced minority workers, rates of coverage for reemployed workers from their own employer are essentially the same for whites and nonwhites, 37 and 36 percent. Thus, the overall difference in total coverage must be attributed to factors other than differential provision of the benefit, factors such as household composition and the employment experiences of other members of the household.

The possibility exists that health coverage as well as the earnings losses experienced by displaced workers could be replaced by assets accumulated prior to the job displacement. Table 6 examines whether observed levels of net worth are consistent with individuals spending down their assets following job displacement. If people are forced to spend down assets, lower current asset levels would be expected among those who have experienced a recent job displacement.

The first column of Table 6 gives the median net worth in 1991 of all individuals who are currently employed in 1992. Net worth includes housing and financial assets but excludes pensions. For all workers in 1992, the median net worth was \$108,500 in 1991. Among displaced workers, whether reemployed or not, the median net worth was \$75,900 in 1991. For those who were displaced but are currently employed, the median net worth was \$85,925 in 1991. This pattern is consistent with individuals spending assets following the loss of employment to help buffer the decline in their lifestyle.

Across the demographic groups considered in the table, minorities appear to have the least access to private resources which they might use to adjust to the loss of a job. The median net worth for the households of all minority workers in the sample was \$47,000 in 1991, while that for all displaced minority workers was \$33,219. The difference in median earnings for all minority workers relative to those who were displaced of approximately \$14,000 is less than for whites (\$20,000). Nonetheless, the level of median net worth is significantly smaller for minority group members and points to a more limited ability to privately adjust to unforeseen changes in employment status.

4. Conclusion

Job displacement in preretirement years forces workers and their households to face a difficult and uncertain adjustment process. The loss of earnings and the need to maintain one's lifestyle out of existing assets represent a reversal of financial fortunes that extends for an uncertain period into the future. For all workers, the younger they are, the more time they have to recover from misfortune. Job displacement among older workers is of special concern because they have limited time to adjust to the event as they face a potential spend-down of assets immediately prior to retirement.

Job displacement in the period examined was fairly common, with an incidence as high as 10 percent among some industry classifications. Rates of displacement are spread fairly evenly across white and blue collar occupations, although numerically the majority of displacement occurs among white collar workers. Rates of displacement are higher for younger (aged 51 to 55) workers and minority groups.

Following displacement, it is common for workers aged 51 through 61 not to be quickly reemployed. Among all workers displaced, only 60 percent were working when they were reinterviewed in 1992. Fully 70 percent of displaced minority workers were not reemployed by the 1992 survey.

Substantial losses in earnings are observed among displaced workers. Displaced workers' median income declined from \$23,200 in their previous job to \$12,000 in the following year, moving from an income essentially equal to the median for all workers (\$22,000) just over half that amount. This general pattern is repeated in every demographic group considered, with the largest percentage reductions in median earnings among female, minority, and older (aged 56 to 61) workers.

Relative to all workers, those who experience displacement have lower rates of health insurance coverage in 1992. All workers have an 80 percent rate of coverage versus 60 percent for all displaced workers. Minority displaced workers have a 40 percent rate of health insurance coverage.

With the loss of earnings and supplemental benefits that accompany job loss, individuals may have to spend down assets to buffer the economic impact. Relative to all current workers in 1992, those who have experienced job displacement have median assets which are more than \$30,000 lower. The median asset difference among previously displaced and currently employed whites is much larger than among nonwhites, but because the initial asset levels of minority groups are much lower, they clearly are less able than others to adjust to unanticipated economic events, including unanticipated job losses.

The possibility of job displacement late in one's working life is large for the typical worker, and the negative impacts are severe for the typical displaced workers. Minorities are

clearly more affected than whites. Older minority workers experience a disproportionate share of total displacement, and they are subsequently reemployed at lower rates. Their median earnings are among the lowest of any group considered following displacement. They are less likely to be covered by health insurance (following displacement). They have fewer assets to draw upon in response to the event. Understanding this disproportionate impact upon minorities is left as an inquiry for future research. Examining the relationship of these preretirement labor market events to postretirement well-being is another topic for future research.

Endnotes

1. Although these rates could be annualized, they are often reported across an observational window in this context (Gardner 1995).

**Table 1. Job Displacement by Age, Gender, and Ethnicity among
Individuals Aged 51 through 61^a**

	At Risk in 1990	Displaced	Displacement Rate
Totals	11,911,647	796,398	6.70
Age			
51	1,004,227	66,895	6.66
52	1,245,276	78,022	6.27
53	1,174,113	86,910	7.40
54	1,188,889	94,945	7.99
55	1,168,409	96,851	8.29
56	1,075,360	79,265	7.37
57	1,038,880	52,632	5.07
58	1,121,433	74,233	6.62
59	906,355	52,132	5.75
60	1,002,473	64,385	6.42
62	973,789	50,129	5.15
Gender			
<i>Male</i>			
Aged 51 to 55	3,346,548	275,572	8.23
Aged 56 to 61	3,545,527	193,172	5.45
<i>Female</i>			
Aged 51 to 55	2,434,366	148,050	6.08
Aged 56 to 61	2,572,763	179,604	6.98
Ethnicity			
<i>White</i>			
Aged 51 to 55	4,760,646	327,060	6.87
Aged 56 to 61	1,020,269	291,171	5.64
<i>Nonwhite</i>			
Aged 51 to 55	5,162,391	96,562	9.46
Aged 56 to 61	955,899	81,605	8.54

^aAge is at the date of the 1992 interview of the HRS. Displacement must occur in the interval from 1990 to the date of the 1992 interview of the HRS.

Source: Author's calculations from the 1992 wave of the HRS.

**Table 2. Displacement Rates by Industry and Occupation among
Individuals Aged 51 through 61**

	At Risk in 1990	Displaced	Displacement Rate
Totals	11,911,467	796,398	6.70
Industry			
Mining and Construction	871,337	88,642	10.17
Manufacturing	2,613,793	195,537	7.48
Transportation	1,031,005	51,837	5.03
Wholesale and Retail Trade	1,534,442	169,494	11.05
Finance, Insurance, and Real Estate	764,989	93,356	12.20
Services	4,040,026	176,929	4.38
Agriculture	380,074	14,243	3.75
Government	675,801	6,361	0.94
Occupations			
White Collar			
Managerial and Professional Specialty	8,416,011	539,048	6.41
Sales and Administrative Support	4,352,717	260,928	5.99
Service Occupations	2,903,570	231,644	7.98
Blue Collar			
Precision Production	1,159,774	46,476	4.01
Operators, Fabricators, and Laborers	3,495,407	257,349	7.36
Farming, Fishing, and Forestry	1,513,320	90,598	5.99
	1,615,170	143,448	8.88
	366,917	23,303	6.35

Source: Author's calculations from the 1992 wave of the HRS. Displacement must occur between 1990 and the 1992 interview.

Table 3. Job Displacement and Current Employment Status by Age, Gender, and Ethnicity among Individuals Aged 51 through 61^a

	Displaced	Employed	Unemployed	Out of Labor Force
Totals	796,398	475,521	236,353	84,523
Percentage	100.0	59.7	29.7	10.6
Age				
51	66,895	59.47	32.52	8.01
52	78,022	69.10	29.17	1.74
53	86,910	66.54	27.22	6.24
54	94,945	69.82	22.56	7.62
55	96,851	64.34	27.63	8.03
56	79,265	47.98	38.86	17.16
57	52,632	63.06	21.86	15.09
58	74,233	49.42	41.97	8.61
59	52,132	51.41	37.01	11.59
60	64,385	59.73	26.27	14.00
61	50,129	50.68	20.62	28.70
Gender				
<i>Male</i>				
Aged 51 to 55	275,572	66.80	30.53	2.68
Aged 56 to 61	193,172	54.62	35.80	9.59
<i>Female</i>				
Aged 51 to 55	148,050	64.88	21.77	13.35
Aged 56 to 61	179,604	50.05	28.31	21.64
Ethnicity				
<i>White</i>				
Aged 51 to 55	327,060	68.80	26.94	4.25
Aged 56 to 61	291,171	58.70	26.84	14.46
<i>Nonwhite</i>				
Aged 51 to 55	96,562	57.06	29.24	13.71
Aged 56 to 61	81,605	29.98	51.29	18.73

^aAge and employment status are determined at the time of the 1992 HRS. Displacement must occur between 1990 and date of the 1992 HRS.

Source: Author's calculations from 1992 HRS.

Table 4. Median Earnings by Age, Gender, Ethnicity, and Displacement Status among Individuals Aged 51 through 61^a
(in dollars)

	All Current Workers	Displaced and Reemployed Workers		All Displaced Workers	
	Current Job (1991)	Prior Job (1990)	Current Job (1991)	Prior Job (1990)	Calendar Year (1991)
Total	22,000	25,000	14,200	23,200	12,000
Age					
51 to 55	23,000	25,534	15,000	25,000	14,000
56 to 61	21,200	22,800	13,600	21,840	9,500
Gender					
Male	30,000	28,600	18,000	28,000	15,000
Female	16,000	22,420	10,400	20,000	9,000
Ethnicity					
White	24,200	25,000	16,434	25,000	13,000
Nonwhite	18,200	21,970	12,500	20,613	9,000

^aAge is at the time of the 1992 HRS. Displacement is constrained to occur in 1990.

Source: Author's calculations from 1992 HRS.

Table 5. Percentage with Employer Provided Health Insurance Coverage in 1992 among Workers Aged 51 through 61 by Age, Gender, Ethnicity, and Displacement Status^a

Provider	All Current Workers		Displaced and Reemployed Workers		All Displaced Workers	
	Own	Own or Spouse's	Own	Own or Spouse's	Own	Own or Spouse's
Total	54	80	37	66	32	59
Age						
51 to 55	54	80	35	57	32	55
56 to 61	54	79	39	79	33	65
Gender						
Male	58	80	29	64	25	55
Female	49	79	49	69	43	65
Ethnicity						
White	54	81	37	70	35	65
Nonwhite	53	72	36	48	24	40

^aBased on survey responses at time of 1992 HRS regarding current health insurance coverage. Age is at the time of the 1992 HRS. Displacement must occur between 1990 and the date of the 1992 HRS.

Source: Author's calculations from 1992 HRS.

Table 6. Household Net Worth in 1991 Conditional on Current Employment and Displacement Status^a
(in dollars)

	All Current Workers	Displaced and Reemployed	All Displaced Workers
Totals	108,500	85,925	75,900
Age			
51 to 55	98,700	78,000	59,000
56 to 61	120,000	113,200	87,950
Gender			
Male	116,000	88,400	90,700
Female	99,550	80,800	72,000
Ethnicity			
White	134,300	119,000	104,000
Nonwhite	47,000	34,500	33,219

^aEmployment Status is determined at time of interview. Assets are based on the 1991 calendar year. Displacement must occur between 1990 and the date of interview.
Source: Author's calculations from 1992 HRS.

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