Effects of the Recession on American Households

Michael Hurd and Susann Rohwedder

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Many thanks to NIA and SSA for financial support.
High-frequency Surveys in the RAND American Life Panel

- Nationally representative longitudinal survey of 2,500 households
- Collected over the Internet
- Households without Internet access are provided with Web TV and Internet subscription
- Re-weighted to match CPS population
Tracked Effects Over Time

1st ALP Financial Crisis Survey
- Nov '08
  - 2,057 responses

2nd ALP Financial Crisis Survey
- Feb - March '09
  - 2,127 responses

3rd ALP Financial Crisis Survey
- May '09
  - 2,086 responses

Oct '08

Low point of stock market.
House prices stable or declining slowly.
Unemployment increasing.
Since May 2009:
Added Shorter Monthly Surveys

Short Surveys
- May 2009
- June
- July
- Aug
- Sep

Long Surveys
- Oct
- Nov
- Dec
- Jan
- Feb 2010
- Continued to present

every 3 months
Some of the Topics Covered in the Surveys

- Labor force status
- Retirement expectations
- Recent actual job loss and chances of future job loss
- Housing value, mortgage, delinquent payments
- Stock ownership and value (including recent losses)
- Recent stock transactions (actual and expected)
- Expectations about future stock market returns
- Actual spending
- Health and affect
- many others
Selected results
Indicator of Immediate Financial Distress

Any of the following

• Behind on mortgage payments
• Negative home equity
• Foreclosure
• Respondent and/or spouse unemployed

14 waves of data: Nov ’08 through Apr ‘10
Indicator of Financial Distress

Always same households?

Percent Affected

Nov'08  F/M'09  May'09  Jun'09  Jul'09  Aug'09  Sep'09  Oct'09  Nov'09  Dec'09  Jan'10  Feb'10  Mar'10  Apr'10
Indicator of Financial Distress

Cumulative: ever experienced financial distress since Nov ‘08
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Percent Affected

Nov’08 | F/M'09 | May’09 | Jun’09 | Jul’09 | Aug’09 | Sep’09 | Oct’09 | Nov’09 | Dec’09 | Jan’10 | Feb’10 | Mar’10 | Apr’10
13   | 18    | 21    | 24    | 25    | 27    | 29    | 30    | 32    | 33    | 34    | 34    | 36    | 36
How does fraction affected vary in the population?
Younger Households More Affected

- 40-49: 19%
- 50-59: 16%
- 60-69: 8%
- 70+: 3%
Poorer Households More Affected

<table>
<thead>
<tr>
<th>Income quartile</th>
<th>Percent affected</th>
</tr>
</thead>
<tbody>
<tr>
<td>lowest</td>
<td>17</td>
</tr>
<tr>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>highest</td>
<td>11</td>
</tr>
</tbody>
</table>
April 2010, by age:

- <50: 15.1%
- 50-64: 6.6%
- 65+: 4.0%
How do American households adjust to changes in the economic environment?
Most Have Reduced Spending

• In Nov ‘08:

  73% said they reduced spending because of the financial problems in the economy

  → Began collecting detailed measure of spending in May ’09

  → 25 items each month (70% of total spending)

  → Additional 11 items each quarter

  → Covers all of spending
13 month change from log-linear regression
Mean  -14%
Median  -6%
(No adjustment for inflation)
But very different according to age

13-month change in spending (%). Cross-section

- Mean: <50
- Median: 50-64
- 65+: 65+
Important component of spending
Prescription drugs and health care services

13 month change in spending on health care (%)

- <50
- 50-64
- 65+

(mean) (median)
Households experiencing unemployment
Coping with Income Loss due to Unemployment

May 2009 – Jan 2010

Percent

- Reduced spending: 89%
- Reduced saving: 50%
- Behind on other bills: 27%
- Behind on mortgage: 8%
- Behind on rent: 7%
- None of the above: 3%
Spending and unemployment

Ask quarterly

In the past three months did you lose a job you wanted to keep?

(And lose income because of that)

Also asked about spouse

Will compare spending in wave \( t-3 \) with spending in wave \( t \)
Spending levels and change over 3 months

Monthly spending by whether had job loss:

<table>
<thead>
<tr>
<th></th>
<th>Means</th>
<th>Medians</th>
</tr>
</thead>
<tbody>
<tr>
<td>No job loss</td>
<td>-4.3%</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Job loss</td>
<td>-11.4%</td>
<td>-11.0%</td>
</tr>
</tbody>
</table>

Wave t-3 | Wave t
Effect of job loss on dissatisfaction

Dissatisfaction with life, percent of persons

- No job loss t-3 to t
- Job loss t-3 to t

Diagram showing the percentage of persons dissatisfied with life before and after job loss.
Effect of job loss on dissatisfaction

Dissatisfaction with income, percent of persons

- No job loss t-3 to t
- Job loss t-3 to t
Effect of job loss on depression

Depression problems, percent of persons

No job loss t-3 to t

Job loss t-3 to t
Outlook

What do people expect for the future?
Stock Market Expectations

Subjective probability of any stock market gain

Chances stock market will be higher a year from now

...and 10 years from now.
Stock Market Expectations Give Mixed Picture

Average subjective probability of stock market gain

Chances of gain in 10 years
- decline in optimism -

Chances of gain in one year
- increase in optimism -
Expectations About Unemployment Show No Improvement

Workers' Average Subjective Probability of Losing Job in Next 12 Months
**Effect of recession on retirement**

**Media**

People will retire later because of stock market and housing losses.

People will retire earlier because of unemployment.
Effect on Retirement

Use **Health and Retirement Study**

Age 51 or older

Panel data every two years since 1992

For this comparison use HRS 2008 and special Internet-based survey in April-May 2009

Before and after

Subjective probability of working full-time after age 62 and after 65

Within person comparison…**important**
Subjective probability of working past age 65

Historical perspective: between 1990 and 2008 labor force participation ages 65-69 increased by 9.7 ppts.
Conclusions

• Depression has affected households from all age and income groups but in different ways

• Housing and unemployment create more hardship among young and lower-income population

• Older population better protected
  – Especially over age 65
Conclusions (cont’)

• Reductions in spending, even among those not directly affected by crisis

• Unemployment
  − Spending reduced
  − Dissatisfaction and depression worsened

• Little indication from subjective probabilities of improvement.

• Permanent increase in retirement age?
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