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What has driven the recent increase in retirements?

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The share of the population in retirement increased during the pandemic, but the main reason isn't what many might expect.

The coronavirus pandemic has led to uncertainty on many levels for American workers. As COVID-19 took hold, there were heavy job losses across the United States, particularly in sectors involving in-person work. Meanwhile, employers have seen senior employees—partly driven by safety concerns—enter retirement or begin to look at that option more seriously.

For example, the Pew Research Center reported that as of the third quarter of 2021, 50.3% of surveyed U.S. adults 55 or older said they were out of the labor force because of retirement. In the third quarter of 2019—before the pandemic—48.1% of those adults were retired.

Indeed, an analysis of U.S. Census Bureau data by the Federal Reserve Bank of Kansas City shows that since the pandemic began, there has been an overall increase in the number of retired workers as a share of the population. However, the main driver for that increase surprised even the researchers.

Senior Economist Jun Nie and Data Engineer Shu-Kuei X. Yang found that the rise in the retirement share has resulted not from a higher number of employed persons transitioning into retirement but from a decline in the number of retirees *rejoining* the labor force. With fewer retirees deciding to resume working, the retirement share remains higher than before the pandemic.

Further, based on comparisons with retirement flows in previous years, the researchers concluded that pandemic-related health concerns play a key role in retirees' decisions to delay returning to work. The findings were published in an August 2021 *Economic Bulletin*.

"The employment-to-retirement rate—which is what people might normally think about—didn't change much during the pandemic," Nie said. "It's more about fewer people coming back into the workforce from retirement. That's what the data shows. I was not expecting this. Of course, we see that the pandemic can influence decisions to retire but also the decision to come back.”

Inside the trend

For many reasons, retirement trends and data on older workers bear watching for policymakers and researchers. For example, a Bureau of Labor Statistics projection covering 2014 to 2024 estimates that, compared with a 5% increase in the growth rate for the labor force as a whole, the growth rate for the group ages 65 to 74 is expected to be about 55%, and the labor force growth rate of the group 75 and older is expected to be about 86%.

For its analysis of retirement flows, the Kansas City Fed examined data from the Census Bureau’s Current Population Survey (CPS). The study showed that the overall retirement share rose 1.3 percentage points from February 2020 to June 2021, with the majority of that increase occurring in the first few months of the pandemic.

This increase substantially outpaced the share’s 0.3-percentage-point average annual increase from 2010 to 2020. The analysis shows that if the retirement share had risen at its 2010-20 pace, the number of retirees would have increased by 1.5 million during the pandemic. Instead, the number of retirees increased by 3.6 million, according to the CPS.

Meanwhile, the rate of movement from employment to retirement has not accelerated during the pandemic, staying around 0.6%, meaning that about 0.6% of employed people retire every month.

Why it might not last

Nie said the decline in the percentage of retirees rejoining the labor force could be temporary for two main reasons.

First, a look back to the Great Recession—2007 through 2009 especially—shows that the retirement-to-employment transition rate did not plummet during that period of economic instability. This suggests that the current decline is unique to the coronavirus pandemic and indicates that some retirees who might otherwise have rejoined the workforce likely have postponed these plans rather than encounter the risk of being infected at work.

Some private-sector surveys have indicated similar concerns. According to a 2021 survey by financial services firm Allianz Life, more than two-thirds of respondents said they retired earlier than expected, a notable increase from about 50% in the previous year. Of those who retired for reasons beyond their control, 33% noted health-related reasons, up from 25% in the 2020 version of the survey.

Nie noted that coronavirus vaccinations were not widely available in 2020, so as vaccinations continue to increase and health risks decline, more retirees are likely to eventually return to employment.

“So the implication is that when the pandemic is over, we can expect to see more these people come back into the labor force,” Nie said.

Secondly, the recent increases in the retirement share include people across a wide range of ages—from those younger than 60 to individuals up to 75. That suggests that many of the retired persons who postponed plans to rejoin the workforce will be young enough to do so—should they choose—whenever the pandemic abates.

Reversing retirement

If those scenarios eventually played out—with more retirees rejoining the labor force—they would resemble trends documented before 2020.

According to Rand Corporation research before the pandemic, 40% of workers 65 or older had retired at least once. And a 2016 Federal Reserve Board study found that one-third of retired men eventually “reversed retirement” and returned to work.

More recently, the job-search firm Resume Builder reported that 34% of surveyed retirees said they have considered going back to work because of job opportunities available in sectors facing labor shortages. In the survey, published in October 2021, 20% of retirees said previous employers facing the labor crunch had asked them to return to work.

Even so, changes in retirement-to-employment trends are not expected to happen abruptly. As Nie wrote in the *Economic Bulletin*, “the retirement share might not return to its previous trend for some time.”

“Even if monthly transitions from retirement to employment return to their average pace in 2018-19, it will take more than two years to fully unwind the recent increase in the retirement share,” Nie said.
