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## Consumer Morsel

# The curious case of the missing millions

**23 June 2022**

## Key talking points

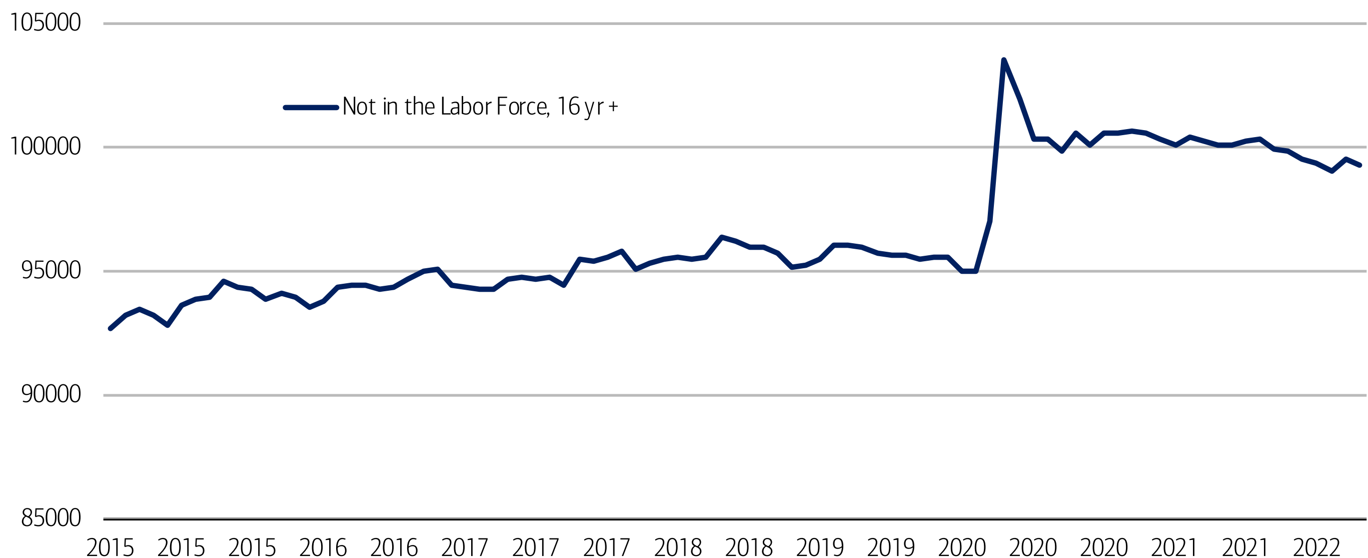
- Over the pandemic there was a large rise in the number of people not participating in the labor market. In particular, many older workers appeared to 'retire'.
- A key question is whether these workers may come back to the labor force, which would help fill the very high number of job openings currently in the US. In turn this may assuage some anxiety over rising wage pressures and inflation.
- We review aggregated anonymized Bank of America data to try and shed some light on this question. We find that there is some evidence that some of these 'missing millions' may return.

## The case of the missing millions

One of the striking developments over the pandemic was how many people left the US labor market. Exhibit 1 shows that there was an almost immediate jump in the number of people 16 years old and older not in the labor market in 2020. Moreover, a large part of this reduction in the size of the labor supply has been yet been reversed - comparing January 2020 to May 2022, shows around 4.3 million more people not in the labor market. This means these people either do not have jobs or do not meet the definition of being unemployed[1].

**Exhibit 1: People 16+ not in the US labor force ('000s)**

At the outset of the pandemic there was a large rise in the number of people not in the labor force, and much of this has persisted




**Source:** Bureau of Labor Statistics

To put this figure in perspective, the level of US job openings in May 2022 was around 11.4 million, while the level of US unemployment is 5.95 million. This historically large excess of job vacancies compared to unemployment leads many to think of the labor market as exceptionally tight ('white hot'). This tightness is being reflected across many industries in higher pay

[1] The Bureau of Labor Statistics defines people as unemployed if they do not have a job, have actively looked for work in the prior 4 weeks, and are currently available for work.

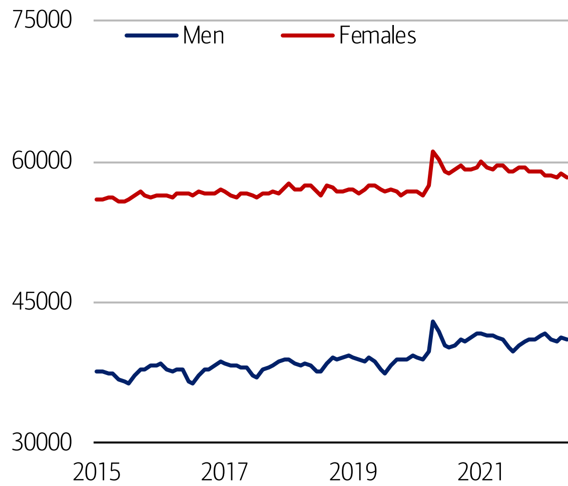
growth and is one of the key considerations behind the Federal Reserve raising its policy rate, as the labor market could be one important and growing source of inflationary pressure even as more immediate energy price surges abate.

Relative to this imbalance between demand and supply in the labor market the large rise in those not in the labor force is a very significant number. Were there to be a complete reversal and the labor force were boosted by 4 million then the degree of imbalance labor demand and supply could be much less, though ultimately this would also depend on whether the skills of those entering the labor force were a good match for the available vacancies. A less 'tight' labor market would then have implications for wage growth and potentially monetary policy.

It is very important to understand whether the rise in those not in the labor market is a temporary or permanent feature and whether those people who appear to have exited the labor force may re-enter it. When we look across different categories we see that the rise in those not in the labor force appears to be due to rising inactivity in both male and females. But Exhibit 3 illustrates those not in the labor force appear to be mainly amongst people saying that they 'do not want a job now'. While this does not preclude them changing their minds in the future, the implication here is perhaps this group may prove more tricky to tempt back to work.

**Exhibit 2: Breakdown of those (16+) not in the labor force by gender ('000s)**

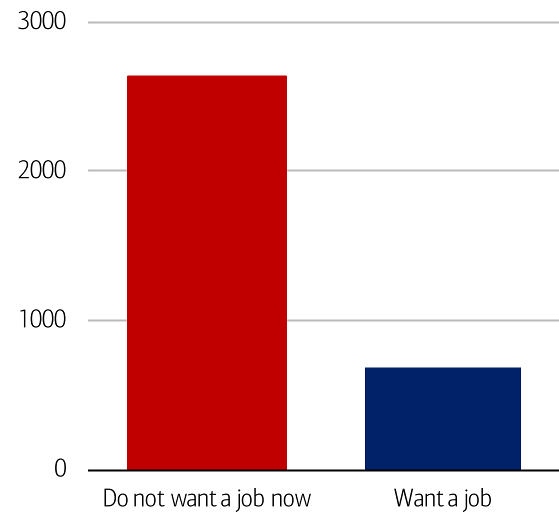
The rise in those not in the labor force is seen in both males and females




**Source:** Bureau of Labor Statistics

**Exhibit 3: Breakdown of those (16+) not in the labor force by wanting/not wanting a job (change May 2019 to May 2022, '000s)**

The rise in those not in the labor force reflects those not wanting a job

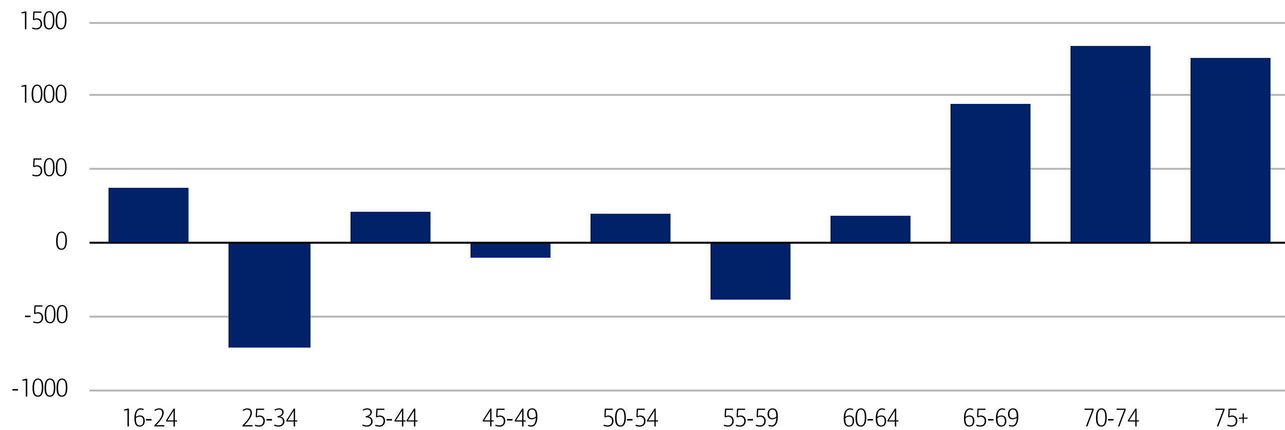



**Source:** Bureau of Labor Statistics

But the key characteristic in those exiting the labor market is really age. Exhibit 4 shows that the rise in the number of people not in the labor market is largely concentrated in older age groups. In particular, people aged above 60 have seen a pronounced rise in those not in the labor market.

**Exhibit 4: Breakdown of those not in the labor force by age range ('000s), change May 2019-May 2022**

The rise in those not in the labor forecast reflects increases in older workers leaving the labor market

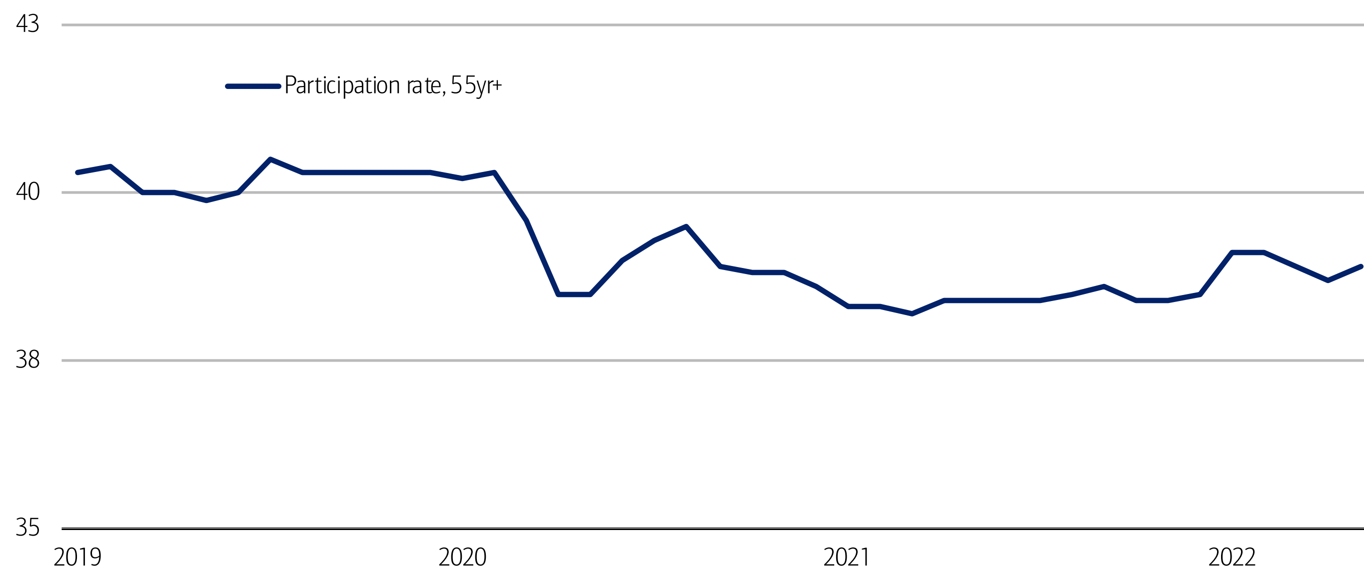



**Source:** Bureau of Labor Statistics

This increase in the numbers of older workers leaving the labor force is not just the consequence of an aging population raising the absolute numbers of people in these categories. Rather, as Exhibit 5 shows, the participation rate (defined as the percentage of a given population either working or unemployed) has also declined.

**Exhibit 5: Participation rate for those aged 55+**

There has been a drop in the participation rate of those aged over 55 at the outset of the pandemic which has not been reversed




**Source:** Bureau of Labor Statistics

## Will people 'unretire'?

One hypothesis for these labor market developments over the pandemic is that some older workers decided it was a good time to retire earlier than they might otherwise have done. For example, they may have been concerned about potential ongoing exposure to covid in their workplace, or they may have found that the uncertainty surrounding working from home did not make them inclined to continue looking for work. Another set of possible reasons could be that financially a set of these older workers had seen significant asset price appreciation in their equity and housing wealth and therefore decided they could 'afford' to retire.

Recent research by e Castro (2021)[2] uses the Bureau of Labor Statistics Current Population Survey in order to document that more than half of the 4 million departures from the labor force can be explained by workers reporting that they are retired. While the share of retired in the US population increased from 2008, from 15.5 percent to 18.3 percent in 2019, the share accelerated rapidly during the pandemic to 19.3 percent in August 2021.

We review aggregated and anonymized Bank of America data to provide more insight on some of these questions. The data potentially allows us to better understand what employment, income, spending and asset positions lead people to make key decisions on their labor market participation. In this piece we focus on the retirement question and try and see if there is any evidence that people's decisions to leave the labor market may be temporary.

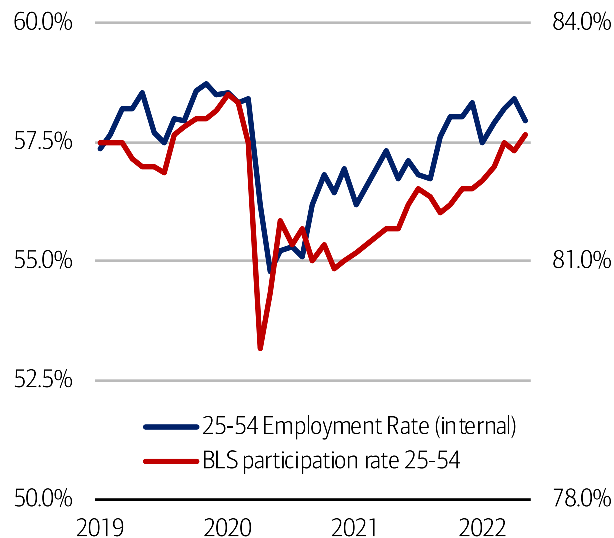
In Bank of America customer data it is possible to identify direct debit (ACH or automated clearing house) payments that reflect employment. It is however less easy to identify whether someone is not in employment but available and searching for work and therefore unemployed. Unemployment insurance claims themselves may not be a good indicator. For one some people receiving unemployment insurance may not be 'active' in the labor market. For another there will be people who are not eligible or are not receiving unemployment insurance who are in the labor market and actively looking for work.

So in our analysis we concentrate on those who are employed in the aggregated and anonymized Bank of America data. Exhibit 6 and Exhibit 7 illustrates our internally derived employment rates (blue line) and the official Bureau of Labor Statistics (BLS) participation rates for the 25-54 and 55+ age groups. Overall it appears that the broad profiles of these two series track closely. Note the levels of the rates are not the same and we would not expect them to be, as the internal 'employment rates' will not include the unemployed and may also miss some forms of payments for employment which are more ad-hoc or cash based. Moreover, the internal Bank of America data captures a large sample of the American population but will likely not be totally representative.

[2] E Castro, 'The Covid Retirement Boom', (2021) Federal Reserve Bank of St Louis.

**Exhibit 6: BLS 25-54 year old participation rate and employment rate derived from internal Bank of America data (%)**

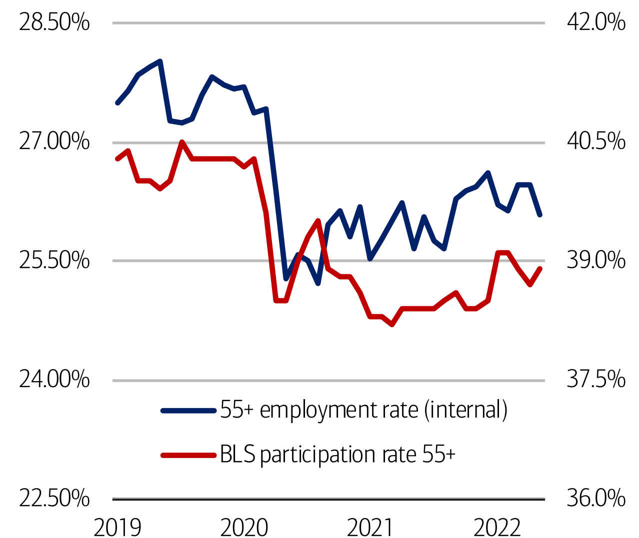
BLS participation rate data and Bank of America internal 'employment rate' track closely for the 25-54 year old cohort




**Source:** Bureau of Labor Statistics, Bank of America Internal Data

**Exhibit 7: BLS 55+ year old participation rate and employment rate derived from internal Bank of America data (%)**

The 55+ year old cohort data for BLS participation rate and Bank of America internal 'employment rate' also follow each other




**Source:** Bureau of Labor Statistics, Bank of America Internal Data

## No sign of an increase in older claimants

To the extent older workers are making a more permanent decision to retire from the labor force, it is reasonable to expect that they would exercise the option to start collecting Social Security when eligible. Retirement benefits can be taken as early as 62 years old, although this involves a reduction in the size of the monthly benefit. For those born between 1943 to 1954, full retirement benefits can be taken at 66; the age increases gradually for those born between 1955 and 1960 and 2 months until it reaches 67, and for those born thereafter full benefits are payable at 67. It is possible to delay retirement beyond the age where full benefits are paid up to start when 70 years old, with a rise in benefits for the delay.

Someone claiming retirement benefits from age 62 can apply for a 'withdrawal of benefits' but this is only possible once and it must happen within 12 months of the first benefit claim. And while it is also possible to work and also receive social security for every extra dollar in employment income a relatively large proportion of social security is withdrawn. For these reasons it appears relatively unlikely someone only temporarily dropping out of the labor market over the pandemic period would start to claim retirement benefits. Their incentive would likely be to delay claiming in the anticipation of re-entering the labor market and earning a higher eventual retirement benefit.

It is conceivable that the pandemic had a significant impact on key drivers of the decision to retire and start collecting social security benefits. In particular, the greater vulnerability of older workers to the pandemic, combined with increased needs of their own children to provide child care for grandchildren, have significantly increased the cost of working. Moreover, significant increases in home prices and asset prices observed at least through early 2022, might have created net worth that reduced the need for incremental saving through continued work.

To study this question, we identify customers in the aggregated and anonymized Bank of America data who are receiving social security payments. A feature of the social security system that makes this a useful route to identify people's retirement choices is the ability to take benefits at different ages, as described above.

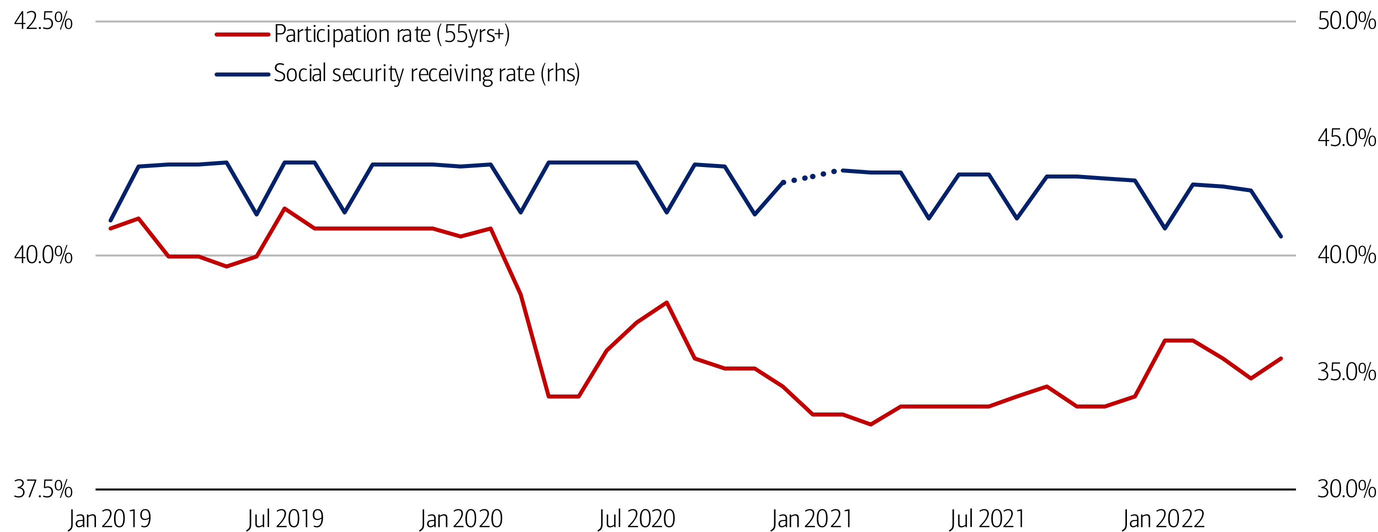
When we look at the proportion of customers receiving social security benefits in our data across age ranges where the retirement choice and the possibility of taking retirement benefits is relevant. We do not see any sign over the pandemic or more recently that there has been a risen in the proportion of people receiving these benefits. This conclusion is in line with related work by Quinby, Rutledge, and Wettstein (2021)[3] who document there has been no evidence of increase in benefit applications from the Social Security Administration.

[3] See "How has COVID-19 Affected Older Workers Labor Force Participation," Center for Retirement Research, Boston college.

Exhibit 8 shows that the percentage of people aged over 55 and older in Bank of America data receiving social security appears, if anything, to be declining rather than any sign of an increase

**Exhibit 8: Share receiving social security and the participation rate for those aged 55+**

There is no sign of an increase in the share of people receiving social security



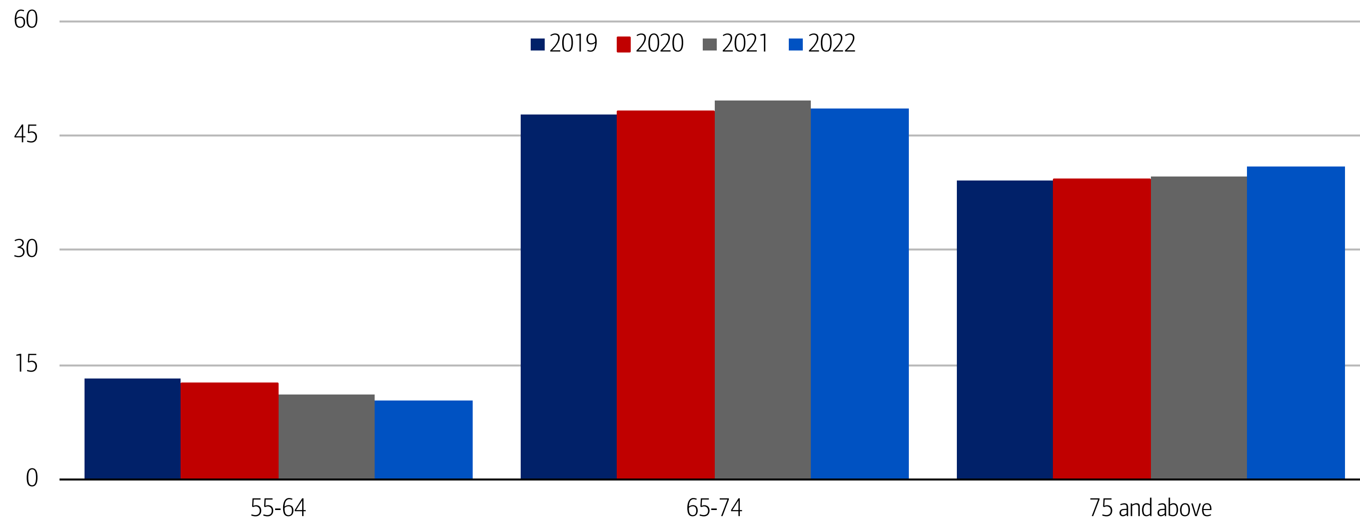

**Source:** Bank of America Internal Data

January 2021 social security payments were made in December 2020 due to 3rd of the month being a Sunday. We smooth through the drop for this to avoid a downward spike in the data, indicated by dotted line

Looking at a narrower set of age ranges, Exhibit 9 plots the proportion of those aged 55+ social security recipients broken out by 55-64, 65-74 and 75+ age groups. We do this for each May over the last four years as the data can be seasonal. There appears little evidence of a shift to younger recipients- while there did appear to have been some rise in the 65-74 age group between 2019 and 2021, this now has dropped back.

**Exhibit 9: % of share of total 55+ social security recipients by age group (for May in 2019, 2020, 2021, 2022)**

There is little sign that over the pandemic that social security recipients above 55 tended to claim earlier




**Source:** Bank of America Internal Data

## The missing millions may return

Overall, there therefore appears little evidence in the aggregated anonymized data that an increased proportion of people made a deliberate decision to permanently retire and claim social security over the pandemic, despite the drop in labor market participation observed. What are the implications from this?

For one, it could mean those leaving the labor market only decided to do so on a temporary basis and intend to re-enter it. This could mean that the current very high amount of job openings in the US could be at least partly filled from this source of labor supply, without exacerbating the inflation problem. That said, it is perhaps surprising that these people have not shown more sign of re-entering the labor market to date, especially given occupations in demand have been attracting higher wages.

It is also likely broader economic conditions over the pandemic have had an impact on the financial condition of older workers and their decision when to retire. Through the end of 2021 there was a significant increase in home values and equity prices that increased the net worth of older workers. These factors may have tended to either incentivize some older workers to remain outside the labor market even if they had not made a retirement decision.

But our data indicates many of the older workers outside of the labor market will not have started claiming for social security yet. And recent developments, such as the rapid increase in inflation, the declines in equity markets this year and the increases in mortgage rates, may well encourage some workers to rejoin the labor market and further postpone the decision to permanently retire.

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### Methodology

Selected Bank of America ("BAC") transaction data is used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used is not comprehensive; it is based on aggregated and anonymized selections of Bank of America data and may reflect a degree of selection bias and limitations on the data available.

The direct deposit data based on the BAC internal data is derived by anonymizing and aggregating direct deposit data from Bank of America consumer deposit accounts in the US and analyzing that data at a highly aggregated level. Additional information about the methodology used to aggregate the data is available upon request.

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