

THE DISTRIBUTION OF FINANCIAL WEALTH AMONG BOOMERS

The arrival of the boomer generation (birth years 1946-64) at mid-life has generated new concerns about their ability to finance their retirement and the nation's ability to pay for Social Security and Medicare benefits (Congressional Budget Office, 2002; General Accounting Office; 2001, 2002a, 2002b). We are a mere four years from the Social Security early eligibility age of the leading edge of the boomer generation; it is appropriate to consider the resources that boomers will have available for their retirement and how those resources have changed over time.

In this paper, we examine boomers' non-annuitized wealth—that is, total wealth excluding Social Security and defined benefit pensions—over the period 1989-2001 to see how well they are preparing for retirement. In particular, we examine how their wealth is distributed by various economic and demographic characteristics. Forthcoming reports will examine inequality of wealth among boomers and the composition of boomers' asset portfolios. We use the most recent wealth data from the Federal Reserve's Survey of Consumer Finances (SCF) for 2001, as well as surveys for 1989, 1992, 1995, and 1998.

Because the distribution of wealth is highly skewed at the top, we will mostly focus our attention on medians—the midpoint—rather than means because medians better reflect the typical case. In some cases, we will also examine net worth after subtracting home equity (i.e., the home value minus any outstanding mortgage or home equity loans). Although equity in the home is the largest single source of wealth for most

families, it is much less liquid than other sources of wealth, and does not serve readily as a resource for consumption in retirement.

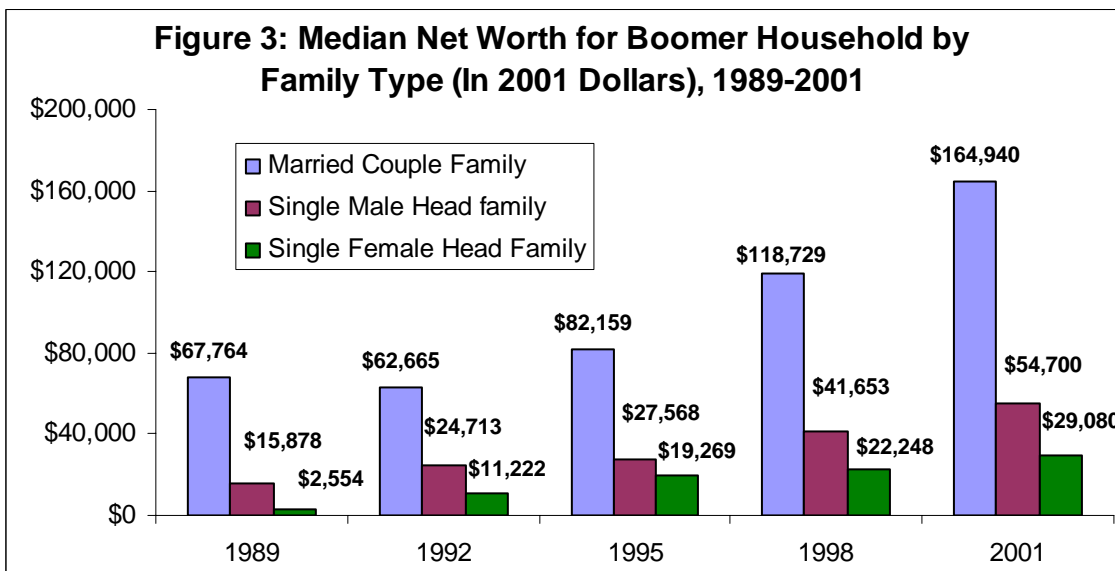
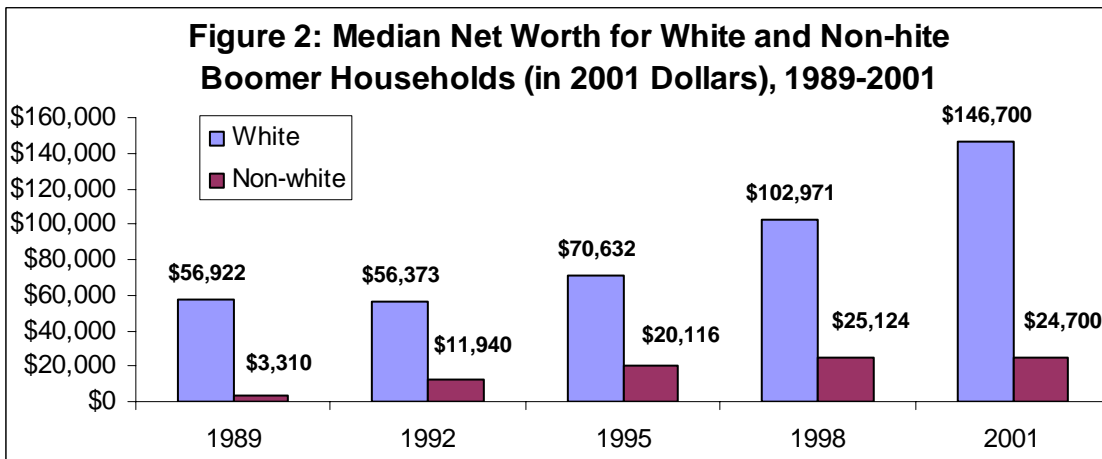
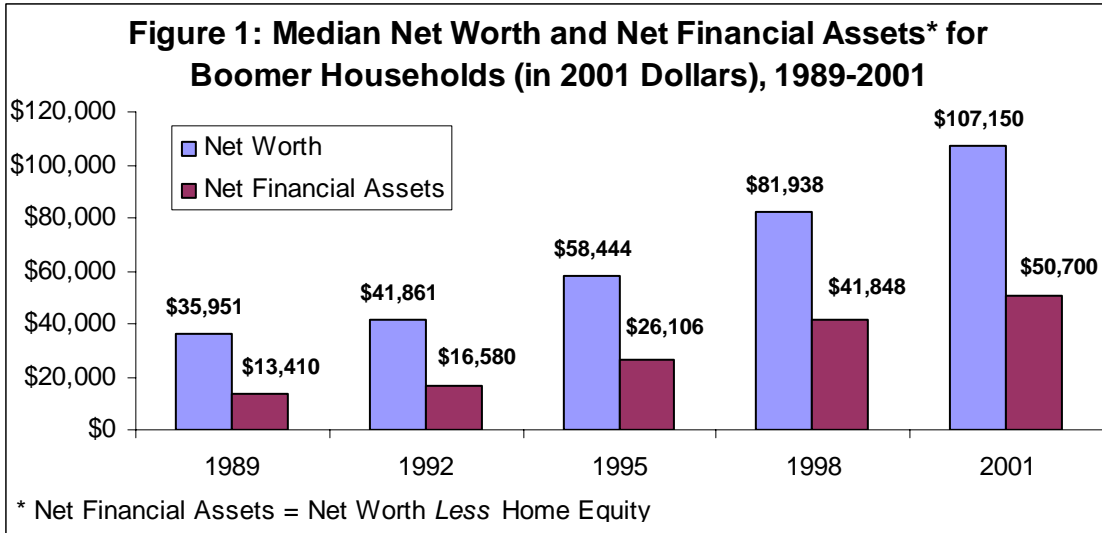
Trends in Boomers' Wealth, 1989-2001

Median net worth among boomers tripled between 1989 and 2001, from \$36,000 to \$107,000 in 2001 dollars (Figure 1). The mean net worth also nearly tripled, from \$140,000 to nearly \$400,000 (not shown). Net worth after subtracting home equity is considerably smaller, but grew faster than total net worth. Median financial assets (defined here as net worth minus home equity) for boomer households quadrupled from just over \$13,000 in 1989 to nearly \$51,000 in 2001. Mean net worth less home equity more than tripled from \$98,000 to \$316,000 over the period (not shown).

How Wealth Varies with Individual Economic and Demographic Factors

Median net worth varies substantially with a variety of demographic and economic characteristics. We will highlight a few: race, marital status, education, age, income, homeownership, and pension coverage.

Race. As a number of studies have demonstrated (Gittleman and Wolff, 2000; Keister, 2000), the differences between races in terms of net worth are dramatic, and much greater than differences in income. Median net worth among white boomers was \$57,000 in 1989, and increased to about



Source for All Figures: Survey of Consumer Finances, 1990, 1992, 1995, 1998, and 2001

\$147,000 by 2001 (both in 2001 dollars). Among nonwhite boomers, median net worth was just over \$3,000 in 1989 and increased to just under \$25,000 in 2001 (Figure 2). Nonwhite net worth actually declined in 2001 relative to 1998, at a time when net worth for the total population was still growing robustly. The ratio of white to nonwhite wealth among boomers has decreased substantially since 1989 but actually increased between 1998 and 2001 from four times as great to six times as great.

Family type. Married couples have far more net worth than single men or women, in part because of economies of scale (two can acquire assets faster than one). Here we focus on three types of units—married couples, single male household heads (whether living alone or with others) and single female household heads. In 1989, married couples had about \$68,000 in net worth, which increased to nearly \$165,000 by 2001. Single men had accumulated only one quarter (\$16,000) of the net worth of couples in 1989, but they had six times that of single women (under \$3,000). These numbers grew to \$55,000 for men and \$29,000 for women by 2001. The gap between men and women had increased slightly but the male/female ratio was much smaller by the end of the period examined (Figure 3).

Education. Education, which leads to greater capacity to earn and consequently to save, also makes a large difference in net worth totals. Boomers with college degrees or higher had a median net worth of \$82,000 in 1989 compared with \$21,000 for high school graduates and \$8,000 for those with less than a high school education. By 2001,

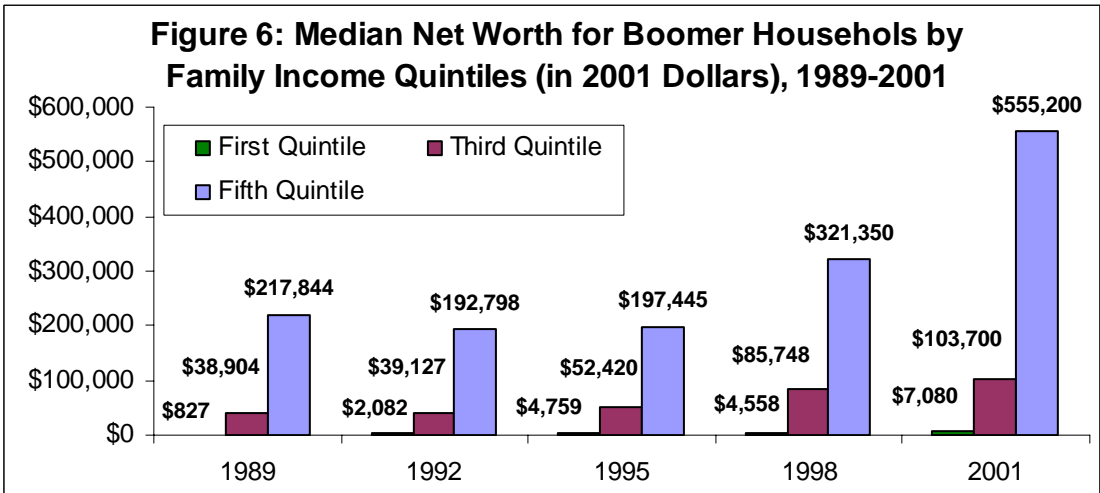
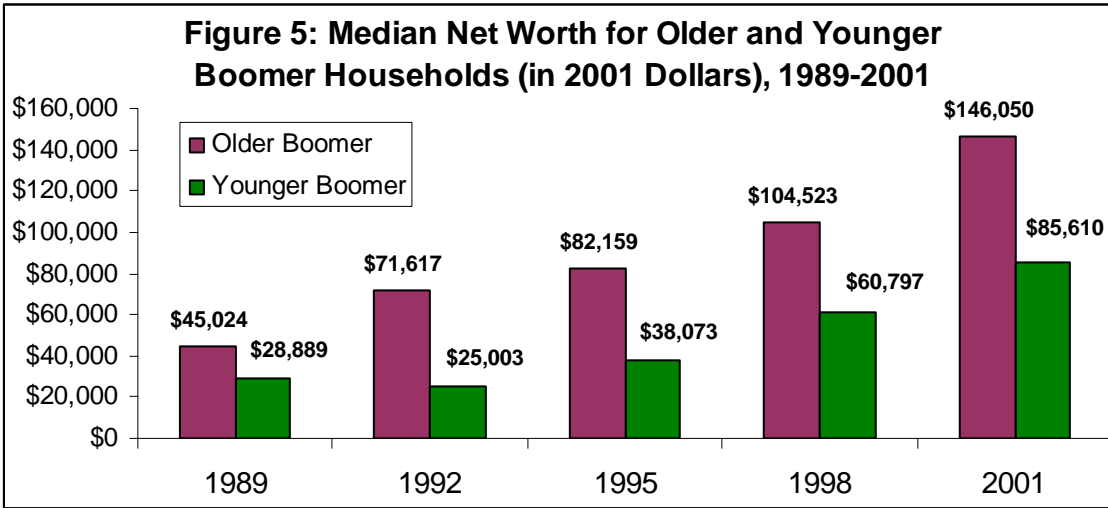
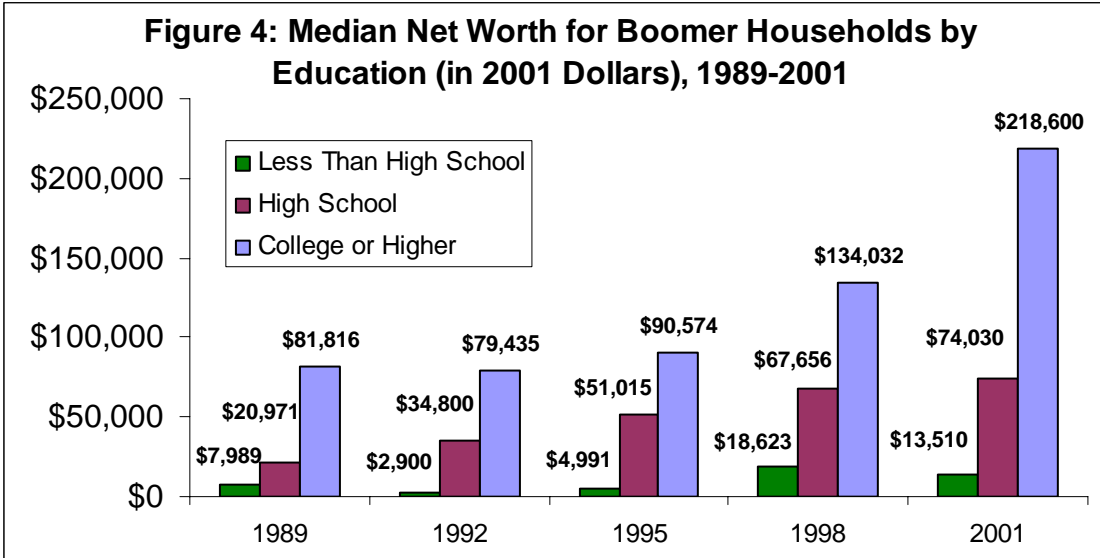
the amounts were \$219,000, \$74,000, and \$14,000 respectively, for the three groups (Figure 4).

Age. We compare older (born 1946-55) and younger (1956-64) boomers in each of the survey years. Both younger and older boomers tripled their net worth over the decade. The median net worth of younger boomers grew from \$29,000 to \$86,000, and older boomers' net worth grew from \$45,000 to \$146,000 (Figure 5).

Younger boomers seemed to be doing better than older boomers at comparable ages. Younger boomers had \$61,000 in net worth in 1998 (at ages 34-42) and \$86,000 in 2001 (ages 37-45), compared with \$45,000 and \$72,000 for older boomers at comparable ages in 1989 and 1992.¹

Income. Income differences are critical in explaining wealth disparities. The median net worth of the 90th percentile (midpoint of the fifth quintile) was \$218,000 in 1989, and grew to \$555,000 by 2001. In contrast, the 10th percentile (median of the first quintile) had less than \$1,000 in net worth in 1989 and only \$7,000 by 2001. The median net worth of the top income quintile followed an interesting path from 1989 to 2001. Between 1989 and 1995, median net worth declined for this fifth of the boomer population, from \$218,000 to \$197,000, perhaps as a result of the 1990-91 recession and the slow recovery. But the picture changed radically after 1995. Net worth for the top fifth increased by

¹ If we calculate net worth to income ratios, younger boomers were slightly behind older boomers in 1998 (1.26 to 1.36), but slightly ahead of them in 2001 (1.47 to 1.45).



more than 60 percent between 1995 and 1998 and again by nearly 75 percent between 1998 and 2001 (Figure 6).

Homeownership. Homeownership is the main saving vehicle for most American households. But there are differences between homeowners and non-homeowners in the amount they save elsewhere. These differences in net worth between homeowners and non-homeowners are striking. Homeowners had \$100,000 in net worth in 1989, compared with slightly more than \$2,000 for non-homeowners. By 2001, homeowners had \$175,000 in net worth, compared with under \$7,000 for non-homeowners (Figure 7). When we subtract home equity from net worth, the differences in other assets between homeowner households and non-homeowner households are still striking. In 1989, the amount of net worth other than home equity accumulated by homeowner households was \$33,000; it grew to \$91,000 by 2001. This compares with only \$2,000 for non-homeowners in 1989 and under \$7,000 by 2001. These patterns have suggested to some experts that people who are inclined to save in one way may be more likely to save in other ways as well. In other words, some households have a propensity or “taste” for saving, and others don’t. We will discuss this assumption at greater length below.

Pension coverage. A number of studies have demonstrated large wealth differences between families with and those without a pension (Gustman et al., 1997; Kennickell and Sunden, 1997). Kennickell and Sunden found that families with a pension had median net DB plan wealth. Thus, if we compare net worth differences between households that have DB plans and those

that don’t, we’re not including the DB pension wealth in net worth of more than three times that of those without a pension when all sources of retirement wealth, including Social Security and pensions, were combined. Households with a pension also had a median financial assets of more than three times that of those without a pension, although this difference varied with income.

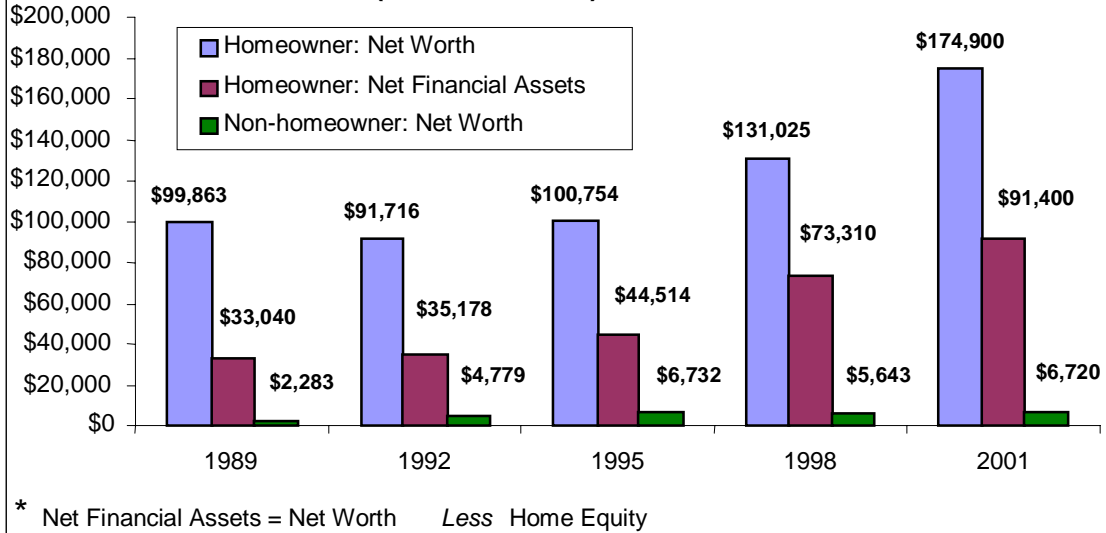
The SCF identifies households (and individuals in households) that have defined benefit (DB) and defined contribution (DC) plans, but wealth totals in the SCF include only DC plan wealth, not DB plan wealth because the latter is based on a formula and difficult to measure without detailed knowledge of the pension plan. Thus, if we compare net worth differences between households that have DB plans and those that do not, we are not including the DB pension wealth in net worth totals. However, the same is not true with DC plans, because DC plan assets are included in net worth.

To get a clearer picture of the relative effects of DB and DC plans on saving, we have to net out DC plan assets from net worth.

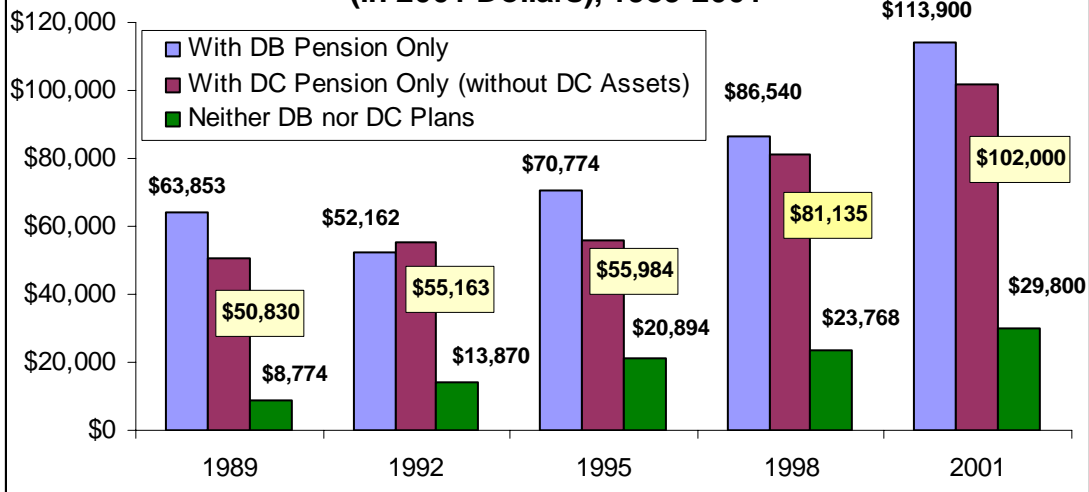
A further complication is that an individual may have either, both, or neither kind of plan, and may have a spouse with either, both, or neither as well. For these reasons, we looked at the household’s coverage as a unit and compared families in three categories: no coverage, DB-plan-only coverage, and DC-plan-only coverage.

We found that those households with no coverage at all went from about \$9,000 of net worth in 1989 to just under \$30,000 in 2001.

**Figure 7: Median Net Worth and Net Financial Assets*
For Boomer Households by Tenancy Status
(in 2001 Dollars), 1989-2001**



**Figure 8: Median Net Worth of Boomer Households by
Participation in Employer Provided Pension Plan,
(in 2001 Dollars), 1989-2001**



1989 to \$102,000 in 2001.²

Although it appears that pension plan coverage may account for the greater wealth among pension holders than among those without pensions, it is conceivable that some *other* factor is causing those with pensions to save more in other ways as well. Some have speculated that a propensity to save accounts for both participation in pension plans and for other saving. The only way to determine how individual factors affect net worth, or saving, is to combine the factors, and examine how each affects net worth while controlling for all the others.

Combining All Factors

The data presented above show how individual variables relate to non-annuitized wealth, but they do not show the relative importance of these variables when they are combined. To discern relative importance, we have estimated the relationship between these variables and total net worth to identify the impact of each variable, controlling for the effects of all the others. Since in some cases net worth is reported as zero or negative, we used an estimation technique known as Tobit regression to measure the impact of each variable on net worth. Those results are presented in Table 1. The first column gives estimates only for the part of the sample that had positive net worth; the second column gives estimates for the entire sample.

The marginal effect of any explanatory variable for the entire sample (which includes both zero and non-zero values

of net worth), as shown in the second column, was about 42 percent smaller than its effect on only the positive observations of net worth.

Variable	Coefficient (only those with positive net worth)	Marginal effect (all including those with zero or negative net worth)
Constant	\$ -13,802.458	\$ -7,997.612
Income (000)	6.159	3.568
Homeownership	5,294	3,068
Saver (yes)	4,397	2,548
DB plan (yes)	-4,284	-2,482
Race (white)	2,466	1,429
Children (yes)	183	106
Gender (male)	1,871	1,084
Married (yes)	2,807	1,626
Younger boomer (37- 47)	1,869	1,083
Older boomer (48- 55)	5,339	3,094
Age 56- 64	9,269	5,371
Retiree (65+)	10,487	6,076

*All estimates are significant at 1 percent level except for having children.

Source: Public Policy Institute estimates derived from Consumer Finances 2001, Federal Reserve Board

The value of 3.568 for income, measured in thousands of dollars, means that an increase of \$1,000 in a household's income would increase net worth by \$3.57. Homeownership increases net worth by \$3,068, relative to non-homeownership. The SCF asks respondents whether they save regularly, and being a regular saver increases net worth by \$2,548. On the other hand, having a DB plan has the effect of lowering the *other* (non-annuitized pension) net worth that households accumulate by \$2,482. This is not surprising, because it tells us that if people save in one form (a DB plan), they will save somewhat less in another. Their total saving will be higher with a pension, but they will save less in other

² However, with their DC assets included, their median net worth was \$60,830 in 1989 and \$132,080 in 2001.

ways if they have a DB plan than if they do not have one.

Whites have about \$1,430 more in net worth than non-whites, men have \$1,084 more than women, married couples have \$1,626 more than unmarried persons. In addition, compared with those under age 37, younger boomers (ages 37-47) have nearly \$1,083 more in net worth, older boomers (ages 48-55) have \$3,094 more, persons aged 56 years to 64 years have \$5,371 more, and retirees have \$6,076 more. The coefficient of the “presence of children” was not significant, but its positive sign shows that families with children save more and have higher net worth.

Summary

Net worth has grown steadily among boomers in the past few years, thanks to strong economic growth, but the median net worth of just over \$100,000 would not be sufficient without Social Security and DB pensions to feel comfortable about boomers’ retirement security. Although levels of net worth are higher for whites, men, married couples, older persons, families with children, homeowners, and DB pension holders, the effects are reduced when one controls for all other variables. In fact, when we control for other factors, DB pension coverage results in *other* saving being lower than it would be otherwise, because people substitute saving in the form of pensions for saving they would otherwise do in other forms.

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