

In-Brief: How Will Boomers Fare at Retirement?

Introduction

The retirement preparation of the baby boom generation is a subject of widespread and increasing interest. A number of studies have found that most boomers are not saving nearly enough for their retirement, whereas others have reached much more optimistic conclusions. This paper by Barbara Butrica and Cori Uccello of The Urban Institute provides new evidence on the adequacy of boomers' retirement resources.

Methodology

Butrica and Uccello use The Urban Institute's DYNASIM model, a complex dynamic microsimulation model that starts with a sample of 100,000 households and integrates all the important trends and differentials in life course processes, including birth, death, schooling, leaving home, first marriage, remarriage, divorce, disability, work, and earnings. For this project, DYNASIM was used to project levels, composition, and distribution of wealth forward for boomers and earlier birth cohorts at age 67, out to 2050.

Principal Findings

Average and Median Wealth Levels

The authors projected levels of wealth, levels of income, replacement rates, and poverty rates at age 67 for boomers and earlier cohorts. With respect to projected total wealth, they found that average household wealth (in 2003 dollars) will grow from \$558,000 among current retirees (birth cohorts 1926-35) to \$703,000 among today's near-retirees (birth cohorts 1936-45), to more than \$800,000 among boomers. However, early boomers (birth cohorts 1946-55) will have slightly more wealth (\$859,000) at

67 than will late boomers (birth cohorts 1956-65) (\$839,000). So while boomers in general are expected to have greater retirement wealth than their predecessors, the second half of the boomer wave will do slightly worse in terms of wealth levels than the first half.

Because wealth is unequally distributed, projected median wealth levels are lower than average wealth, but the patterns across birth cohorts are similar. Current retirees have median wealth of \$448,000, compared with \$520,000 for near-retirees, \$589,000 for early boomers, and \$609,000 for late boomers. The one difference between the pattern for median wealth and that for average, or mean, wealth is that no drop in wealth occurs among the second half of the boomer cohort when we compare medians. The higher average but lower median wealth among early boomers as compared with later boomers suggests slightly greater inequality in wealth among early boomers than among later boomers. The main difference in the composition of wealth is that late boomers have less non-retirement wealth than early boomers, but retirement wealth increases steadily across cohorts, with no drop among late boomers.

Total Household Incomes

Butrica and Uccello project that real incomes will grow steadily across birth cohorts, from current retirees to near-retirees to early boomers, but then will slow to zero among late boomers. Average household incomes at age 67 increase from \$44,000 among current retirees, to \$55,000 among near-retirees, and to \$65,000 among both early and late boomers. Median household incomes in the four age groups were projected to be

\$36,000, \$44,000, \$50,000, and \$50,000 respectively.

Certain vulnerable subgroups in the late baby boom cohort will experience average income gains, including never married and divorced men, nonmarried women, minorities, and high school dropouts and graduates. In contrast, average total income will decline or remain unchanged for married individuals, white non-Hispanics, and college graduates.

The trends in median total income are similar. Nonmarried women are projected to experience the largest gain in income between the current retiree and late baby boom cohorts than any other marital group, but they will continue to have lower average incomes than nonmarried men, married women, or married men. The composition of income is expected to change somewhat, with greater reliance on household earnings among boomer cohorts and greater reliance on defined contribution retirement accounts.

Replacement Rates

Replacement rates are calculated by Butrica and Uccello as the ratio of per capita household income (pre-tax and post-transfer), including earnings and SSI benefits, at age 67 to average per capita shared household earnings between ages 50 and 54. Using this measure, early boomers will achieve a median replacement rate (88 percent) very similar to those of today's retirees (87) and near-retirees (86). However, late

boomers are expected to face replacement rates of only 80 percent. Without earnings and SSI added, however, the replacement rates were 68 for early boomers and 63 for late boomers.

Replacement rates are highest for economically vulnerable subgroups, including never married women, widowed men, those with weak labor force attachments, and those in the lowest quintiles of own and shared lifetime earnings. Replacement rates are lowest for divorced men and women, black non-Hispanics, high school dropouts, those with many years of work experience, those in the highest quintile of shared lifetime earnings, and those in the lowest quintile of total income at age 67.

Poverty Rates

The official poverty line is indexed to the Consumer Price Index, and since wages normally grow slightly faster than prices, poverty generally declines over time as real wages grow. Projected poverty rates at age 67 will decrease from 8 percent among current retirees, to 5 percent among today's near-retirees, to 4 percent among early boomers, to 2 percent among late boomers. Individuals will grow out of poverty because their earnings, and consequently their Social Security benefits and pensions, will increase more quickly than the poverty thresholds.

Source: Barbara Butrica and Cori Uccello, The Urban Institute, "How Will Boomers Fare at Retirement?" Prepared for the AARP Public Policy Institute, AARP, 2004. A copy of the full report can be obtained at www.aarp.org/ppi, or by writing for AARP PPI Issue Paper #2004-05, AARP Public Policy Institute, AARP, 601 E Street, NW, Washington, DC 20049. © 2004 AARP.