Boomers Approaching Midlife:
How Secure a Future?
Public Policy Institute
AARP, celebrating 40 years of service to Americans of all ages, is the nation’s leading organization for people age 50 and older. It serves their needs and interests through information and education, advocacy, and community services which are provided by a network of local chapters and experienced volunteers throughout the country. The organization also offers members a wide range of special benefits and services, including *Modern Maturity* magazine and the monthly *Bulletin*.

The Public Policy Institute, formed in 1985, is part of the Research Group of the American Association of Retired Persons. One of the missions of the Institute is to foster research and analysis on public policy issues of interest to older Americans. This paper represents part of that effort.
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Baby boomers have been a focus of attention for the media, scholars, and pollsters throughout their lives. When the final boomer was born in 1964, their cohort represented about 40 percent of the U.S. population. While boomers today represent only about 29 percent of the population, they remain highly influential not only because of their historical significance but because their relative size continues to have a profound effect on American life. They now constitute the core of the prime working age population, helping to fuel the longest peacetime economic expansion in our history. When they begin to retire in large numbers in 2008 (when the oldest boomers turn 62), they will create pressures on private and public retirement systems as they begin to withdraw from the labor force, and they may in the process redefine retirement.

This chartbook represents an assessment of the future economic prospects of boomers based on several sources: a body of research already in print (see bibliography), tabulations of the most recent and relevant government surveys, conversations with experts, and modeling of alternative policy scenarios. The book had its genesis in a report by John Rother, AARP’s Director of Legislation and Public Policy, based on a sabbatical year he spent in 1996 studying and talking with experts around the country about the future economic and health trends that will affect the boomers’ future. The choice of content in the chartbook was based on his observations and experiences, and the charts and narrative were prepared by economics team staff of AARP’s Public Policy Institute, while the policy implications and conclusions are those of John Rother.

The book’s conclusions are that most boomers will generally be better off in retirement than most people think, but there will still be a substantial vulnerable segment of the boomer population that will retire with no private pension, little or no retirement savings, and with the prospect of increased longevity with meager resources. This underscores the continuing importance of social insurance programs for the boomers. They will need a reliable foundation of retirement income and protection against the growing costs of health care.

Any questions about the contents can be addressed to John Gist, Associate Director of the Public Policy Institute at (202) 434-3872. Copies of the book may be ordered through AARP fulfillment.
As it has throughout its life cycle, the boomer generation (those born from 1946 through 1964) continues to present enormous challenges for the economic future of the nation.

In its infancy, the baby boom generation helped create increased demand for housing, because their parents sought to purchase first homes of their own or larger dwellings to accommodate additions to post-war households.

When boomers reached elementary school age, they presented a challenge to the nation’s educational systems, requiring substantial investment in school construction and expansion in the corps of elementary and secondary teachers (Russell, 1982). They later also created a demand for higher education resources because they entered college in record numbers in the 1960s and 1970s.

When they reached maturity, boomers posed a new challenge to the nation’s economy to absorb tens of millions of additional workers into the labor force.

The arrival of the boomer generation at midlife has generated new concerns about the nation’s ability to pay for the costs of an aging population. We are only a decade away from the retirement of the leading edge of the boomer generation, and the two major bulwarks of retirement security—Social Security and Medicare—are both in need of reform to accommodate them. Will boomers have a more or less secure financial future in the wake of possible reforms of the two largest federal retirement programs?

While the media and the public have been absorbed with the long-term financing problems of Social Security and Medicare, serious inadequacies in private pensions and savings and in private health and disability insurance deserve as much attention from policymakers.

 Boomers have been commonly perceived as live-for-today profligates who have not saved enough for their retirement. The accuracy of this perception depends on the yardstick with which one chooses to measure the boomers’ future prospects. Easterlin (1987) has argued that the relative size of birth cohorts influences their lifetime economic prospects, so that members of a large cohort such as the baby boom will face an inherently more difficult economic environment because of increased competition for everything—educational placements, job opportunities, promotions, homes, and so forth.

Consequently, many have expected boomers to be the first generation to be worse off economically than their parents (Levy and Michel, 1991). But a number of recent studies that have carefully examined the boomers’ economic status relative to that of previous generations suggest a more benign conclusion based on comparisons of income, wealth, and demographic characteristics.

**Income Sources**

Incomes of boomers today exceed, and in retirement are expected to significantly exceed, those of their parents at a similar age. In terms of male earnings alone, boomers are about 30 percent
better off in real (inflation-adjusted) dollars than their parents, and about 50 percent better off in terms of total family income. When incomes are adjusted to take into account the smaller size of boomer households, they are about two-thirds better off (Easterlin et al., 1993). This advantage is likely to continue.

A study by the Congressional Budget Office (Manchester, 1993) analyzed whether boomers would be better off than their parents by comparing their parents’ and their own income and wealth levels at similar ages (25 to 34 and 35 to 44-year-olds in 1962 and 1989). CBO found that boomers generally are better off than their parents. Other recent studies also support this conclusion (Crystal and Johnson, 1998; Lewin-VHI, 1994; EBRI, 1994).

The CBO estimated that early boomers’ real (inflation-adjusted) incomes are about 53 percent higher than their parents’ income at similar ages, and that later boomers’ incomes are about 35 percent higher than their parents’ incomes. When adjusted for household size, the early boomers’ income advantage is 82 percent and, for the later boomers, 75 percent (Manchester, 1993).

However, lower-income boomers are not that much better off than their parents. For the bottom 40 percent of boomers, median real incomes were only 11 percent greater than that of the previous generation, whereas the median real incomes for the top 40 percent were 56 percent greater than the top 40 percent of the previous generation. Part of the difference is that the phenomenon of growing income inequality has hit the boomers in the middle of their peak earning years. Income inequality began to widen in the middle 1970s and has continued for two decades.

**Wealth**

Total wealth and assets held among boomers today are substantially larger than the amounts held by their parents at the same age.

The net worth of early or leading-edge boomers (those born between 1946 and 1955) was estimated in one study to be double that of their parents (Easterlin et al., 1993a). The CBO estimates that median wealth of both early and late boomers is about 50 percent greater than that of their parents at the same age (Manchester, 1993). There are important differences between unmarried and married heads of households, with the latter holding six to seven times as much non-housing wealth as their unmarried counterparts. Inheritances may also play an important role in the economic well-being of a small proportion of boomers. An estimated $9 trillion is projected to be bequeathed by older age cohorts to younger ones between 1990 and 2030 (Avery and Rendall, 1993).

Despite their relatively greater economic well-being than their parents, some argue that this economic status has come at a price. Boomers may have purchased their improved economic status in part through choices they have made about work and family life that have allowed them to cope better with the more competitive economic circumstances they faced as a result of
the relative size of their cohort (Crystal and Johnson, 1998; Easterlin, et al., 1993). More women have worked, people have married later, they have had fewer children, and they have had them later. These choices don’t necessarily show up in pure income or wealth comparisons between boomers and their forebears, but they cannot be ignored, and surely must be considered as qualifiers to the story of boomers’ relative economic well-being.

Family Circumstances
A larger proportion of boomers have remained single and more of those who married have not had children. The proportion of boomers who never married is considerably higher than their parents. Among the late boomers (those born from 1956 to 1964), nearly 10 percent will have never been married at ages 55 to 64, which is twice the rate of their parents, and even higher than cohorts born late in the last century. The percent never married declined steadily from the 1880s until the boomers came along, and then went up sharply (Easterlin et al., 1993a).

Among people aged 25 to 34 in 1989 compared with 25 to 34-year-olds in 1962 (late boomers compared with their parents), the proportion of households headed by unmarried people rose from 14 percent to 46 percent. For those aged 35 to 44 in 1962 and in 1989, the proportion headed by unmarried people rose from 16 percent to 38 percent (Manchester, 1993).

The percent widowed and divorced among early boomers (those born from 1946 to 1955) will be about 25 percent, and about 30 percent for late boomers, when they reach 55 to 64 years old, compared to about 15 to 20 percent for previous cohorts going back to the late 19th century.

The percent of early boomers living alone is projected to reach 37 percent, an increase from 24 percent among the 1916 to 1925 cohort and 21 percent among the 1926 to 1935 cohort. This means an unprecedented proportion of boomers are likely to live alone in retirement (Easterlin et al., 1993a, Table 5).

Childlessness is higher among boomers. The percentage of households aged 25 to 34 in 1959 composed of unmarried individuals without children was 8 percent compared with 30 percent in 1989. Of all married couples aged 25 to 34 in 1959, 13 percent were without children, compared with 26 percent without children among that age group in 1989 (Manchester, 1993). Therefore, elder caregiving will become a much greater social concern as boomers age in retirement.

Summary
These patterns suggest that many boomers will be better off than their parents while some will not do as well.

Some boomers will have steady employment, dual incomes, tax-subsidized employer pensions, health insurance, and home ownership, along with substantial savings. Others will experience intermittent employment or disability, will have no employer-provided pension or health coverage, will rent rather than own a home, and will lack savings needed for emergencies.
Roughly the top fifth of boomers appear to have a secure future with financial independence. They have high incomes (more than $75,000) and are likely to have retirement savings, employer pensions, own their own home, and be protected from high health costs.

Roughly the middle half of boomers are middle income ($25,000-$75,000), may have less generous pension coverage, more modest retirement savings, and higher health insurance costs.

The bottom quarter or so of boomers have low or moderate incomes (under $25,000), are more likely to be single earner households, to have more intermittent work histories, to lack pension coverage, to have small savings, and to rent rather than own their own homes.

In the remainder of this chartbook, we attempt to assess the future economic prospects of boomer generation households by examining their present circumstances and some projections that have been made by experts. We investigate what financial resources they have amassed to this point in their lives, the economic factors influencing their future well being, and their likely economic futures based on what we know today.
Population
The boomer generation followed a period of very low birth rates during the Great Depression and World War II, and was followed by smaller cohorts, but not as small as pre-baby boom levels.
The Boomers Today
U.S. Population Projection by Age and Sex: 1995

Source: U.S. Bureau of the Census,
*Population Projections of the United States, 1995-2050, 1996*
AARP Public Policy Institute

In 1995, the shape of the population distribution looked more or less like a pyramid between ages 35 and 100, with the boomers (ages 30 to 50) bulging in the middle.
By 2030, the population age distribution will be much more rectangular in shape, with the large boomer cohorts now near the top of the age scale. However, they will no longer outnumber their fellow Americans in younger age ranges due to mortality.
Boomers Will Live Longer
Life Expectancy at Age 65 for Men and Women, 1940–2060

Source: Board of Trustees, Federal OASDI Trust Funds,
The 1997 Annual Report of the Board of Trustees of OASDI Trust Funds
AARP Public Policy Institute

Over time, in addition to there being more older persons, the life expectancy of persons at age 65 is projected to increase. By 2030, when virtually all boomers will be retired, the life expectancy of both men and women will be more than three years greater than it was for similar age groups in 1970. There will still be nearly a four-year greater life expectancy at age 65 for women than for men.

While African Americans have a much shorter life expectancy at birth (by 6.5 years) than whites, their life expectancy at age 65 is only about two years less than whites.
Despite the size of the boomer generation and its longer life expectancy, the ratio of non-workers (retirees and children) to workers in 2030, when most boomers will be retired, will be less than in 1900 and 1970, previous peaks. The composition of the population will have changed dramatically, however, with the child dependency ratio lower and the older person dependency ratio higher than in 1970. In 1900 the ratio of children to elder dependents was 10 to 1, in 1960 it was 4 to 1, in 1990 it was over 2 to 1, and by 2030 will be almost 1 to 1. At that point, the age distribution is projected to stabilize, and the ratio of both children and elder dependents to people of working age will not change dramatically after 2030.
Income
Rates of productivity increase and economic growth have the greatest influence on future levels of economic well-being. At two percent growth, which is consistent with recent history, GDP per capita would nearly double by 2030. With growth of three percent, which is more in line with the early post-WWII period, GDP per capita will grow by two and a half times. Future real incomes will be higher than today, mitigating the effect of increasing dependency ratios shown earlier and helping policymakers deal with the challenges of financing the boomers’ retirement.
With Reasonable Rates of Economic Growth, Boomers Will Have Higher Real Retirement Incomes
Projected Real Median Income by Household Type, Ages 65–69 (1988$)

AARP Public Policy Institute

Projections of future incomes using middle-of-the-road assumptions about economic growth suggest that boomers will have higher real incomes in retirement in the next century than retirees today. Married couples will do significantly better than single persons, and single men will fare better than single women. The improved economic circumstances will be the result of real economic growth, more women in the labor force, and broader pension coverage.
Those over age 80 will also have higher real incomes than today’s oldest old. However, they are projected to have lower incomes than younger (aged 65 to 69) persons because fewer will be employed and their Social Security benefits will be smaller in real terms. A similar pattern is projected for that of younger persons, however—older old (over age 80) couples will be better off than singles of a comparable age. These projections do not reflect possible changes in Social Security or policies affecting other retirement income sources.
Boomers’ Incomes Are More Unequal Than Preceding Generations’ Incomes


Boomers have been subject to economic pressures of slow wage growth and increased income inequality since the mid-1970s because they were entering the labor market when wage inequality became more pronounced.

The incomes of boomers in 1995 were more unequal than were incomes for the same age group in 1975, and the middle class ($30,000-$75,000) has shrunk in the last 20 years.

Nearly one-fifth of boomers have high household incomes (over $75,000), over half have incomes between $25,000 and $75,000, and nearly one quarter have incomes below $25,000.
Over 10 percent of younger boomers, who have a higher concentration of single-parent households than older boomers, are dependent upon food stamps and Medicaid benefits.

Poverty in old age is likely to result from poverty or low incomes during working years. Those boomers in greatest need today are likely to be impoverished in old age as well.

Overall, boomers’ well-being in retirement will depend upon whether they have the opportunity to build and protect pensions and savings to supplement Social Security. Health insurance coverage is a major factor in their ability to protect savings.
Pensions
Many boomers lack employer-provided pensions on their current job either because no pension is offered or they are not vested. However, more will have some coverage by the time they retire.

- Two-fifths to one-half of all boomers lack current pension coverage.
- Of those with pension coverage, about 85 percent are vested, i.e., have the right to receive pension benefits in the future.
- About half of all boomers are vested in a pension plan.

But many boomers can look forward to only modest levels of pension benefits, and most do not have benefits that are indexed for inflation.
The trend in retirement planning is away from employer responsibility and risk-bearing and toward individuals bearing greater individual responsibility and risk.

- Pension plan coverage has shifted from defined benefit plans to defined contribution plans, and overall participation has leveled off.
- A troubling sign for the future is the continued decline in pension participation of workers under 30 (data not shown).
- The number of defined contribution plans has grown at a greater rate than defined benefit plans.
- The decline in defined benefit plans is mainly due to erosion of union jobs in the manufacturing sector, plan terminations by small employers, and downsizing occurring among many firms with traditional defined benefit plans.
- Virtually no new defined benefit plans are being established.
While greater individual risk-bearing is the trend, there has been only a modest positive trend since 1987 in people saving their cash payouts from pensions.

- Less than 30 percent of lump-sum distributions received are rolled over into IRAs.
- Only slightly over half of lump-sum dollars are rolled over into IRAs.
- Legislation has made it easier to access funds before retirement, so the slight positive savings trend may reverse in the future.

Unless there is a significant improvement in preserving savings for retirement, the trend toward greater defined contribution accounts may worsen economic security in retirement for boomers.
Over Four-Fifths of Boomers Will Have Some Pension Income in Retirement

Percent of Persons Aged 66–84 with Pension Income in 1990 and 2030


Future projections indicate that pension coverage among boomers will become more widespread. Only about half of boomers’ parents receive pension income now. According to projections by Lewin-VHI, a much higher percentage of future retirees will have some pension income, for several reasons.

- Many more women than previously will have pension coverage due to their greater labor force participation.
- Pension legislation that accelerated vesting schedules is allowing boomers to qualify faster for pensions.
- Survivor benefits have improved due to survivor options.
Although pension coverage will be more widespread by 2030, pensions will not be worth much more in real dollars. While Lewin-VHI projects much more extensive pension coverage by 2030, the median value of pensions in 2030 is projected to be only slightly greater than in 1990. However, more families will have two pensions.

- Women will experience more extensive coverage, but their pensions will be lower than those of retired men.
- More workers with shorter job tenures will qualify for pensions, but benefits will be smaller in amount.
- More workers with lower wages will also qualify, but these pensions will also be smaller in amount.

**Average Pension in 2030 Will Not Be Much Larger Than Today’s**

*Median Income from Pensions for Persons Aged 66–84 in 1990 and 2030*

AARP Public Policy Institute
Savings and Wealth
A much higher percentage of boomers have financial assets today than have pensions. This will probably carry through into retirement years.

- Nearly four-fifths of boomers have some form of financial assets today.
- Only one-third have both financial assets and pensions.

About 15 percent of all boomers have neither financial assets nor pensions today, and will presumably rely more on Social Security in retirement.
Most Households Have Few Financial Assets
Net Worth of Total Population Excluding Home Equity by Income Quintile in 1992

AARP Public Policy Institute

The amount of financial assets held by American households is small, and most households are not close to meeting their retirement savings targets. Among all households, median net worth, excluding home equity, was less than $8,500 for the bottom 60 percent in 1992. It was about $15,000 for the fourth quintile of boomers, and it barely reached $45,000 for those in the top 20 percent of the income distribution.
The wealth that Americans hold is mostly in the form of home equity. It accounts for about three-fourths of net worth for U.S. households. Although reverse mortgages are becoming more prevalent, home equity will remain the least liquid of assets in retirement, since most Americans prefer to stay in their homes as they retire.
Boomers Are Increasingly Likely to Own Stock
Stock Ownership of Boomer Subgroups, 1989–1995

Source: Kennickell, A. et al.,
AARP Public Policy Institute

Nearly half of all boomers own stock directly or indirectly through mutual funds, pensions, or 401(k)s.

- Boomers are more likely to own stocks (direct or indirect) than the population as a whole.
- Stock ownership among both boomers and the general population increased during the early 1990s.
The financial assets held by the typical boomer are worth only $1,000, and only one-fifth of boomers have more than $25,000 in financial assets. The lowest one-quarter have negative financial assets—i.e., their liabilities exceed their financial assets.
Only One Quarter of Boomers Expect Large or Moderate Inheritances

Percent Expecting Large or Moderate Inheritances, by Age, 1989

AARP Public Policy Institute

It is frequently said that boomers will receive a huge aggregate inheritance from their parents. One study estimates that approximately $9 trillion dollars will be bequeathed between 1990 and 2030, with bequests averaging $90,000 in 1989 dollars. Are boomers counting on receiving large inheritances from their parents? Only a fraction expect to receive a significant inheritance, and of course these inheritances occur ever later in life as longevity continues to improve. The prospect of inheritance may be a disincentive for some to save for retirement.
About two-thirds of survey respondents in the annual Retirement Confidence Survey say they save at least some money for their retirement. However,

- About half are probably not saving enough for retirement.
- A third of all workers are not saving at all for retirement.
- Most workers who do not save say it is because they do not have enough money or assets.

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<th>How They Save for Retirement</th>
<th>Percent</th>
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<td>I regularly save money for retirement.</td>
<td>39</td>
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<tr>
<td>I save a lot of money for retirement.</td>
<td>12</td>
</tr>
<tr>
<td>Every now and then I save for retirement.</td>
<td>10</td>
</tr>
<tr>
<td>I want to save, but don’t have enough to save.</td>
<td>33</td>
</tr>
<tr>
<td>I don’t need to save because Social Security and my pension will take care of me.</td>
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Employment and Retirement
Labor force participation exceeds 90 percent among boomer males and 75 percent among boomer females. But, if current trends continue, their labor force participation will drop abruptly as boomers reach their mid-50s.
Although Boomers’ Labor Force Participation Will Decline as They Age, Projections Suggest It Will Be Higher Relative to Earlier Cohorts

Projected Labor Force Participation Rates Among Those Aged 45 and Above


Labor force participation rates will continue to decline as people age past age 55, but within age cohorts, labor force participation rates are projected to rise over the next decade. Of particular note is that the labor force participation of 55 to 64 year-olds, which declined steadily from 1970 until the mid-1980s, has risen slightly since then and is projected to rise by 2006 to the same level reached in 1970. Labor force participation among those over 65 is projected to remain stable.
More than one-third of all contingent workers come from the ranks of baby boomers (roughly those aged 35 to 54 shown in chart). Contingent work provides few employee benefits and usually provides no benefits in retirement. Approximately two million boomers are contingent workers.

**Boomers Make Up Over One Third of Contingent Workers**

Percent Distribution of Contingent Workers by Age


AARP Public Policy Institute
Most Pre-Retirees Say They Want to Work In Retirement

Percent Who Would Like to Continue Some Work When They Retire

Source: National Institute on Aging, Health, and Retirement Survey
1st Wave, 1993, respondents aged 51–61
AARP Public Policy Institute

Employment may become a more significant component of retirement income among boomers. Even today, despite sharp drop-offs in labor force participation in their 50s, most Americans aged 51 to 61 express an interest in some work beyond retirement. Boomers also express a desire to work at least part-time after retirement (see later chart).
Few Pre-Retirees Think They Could Move to Less Demanding Work With Current Employer, Even at Less Pay

Percent Who Think Employer Would Permit Older Workers to Move to Less Demanding Jobs

AARP Public Policy Institute

However, workers in their 50s are skeptical about their employer’s willingness to accommodate their needs for less demanding work as they age.
Most boomers plan to retire by or before age 65. A large minority expects to retire by age 60. In general, late boomers expect to retire earlier than early boomers even though their economic situation as a group is somewhat less strong than early boomers.
Even though most plan to retire before age 65, a large majority of boomers expect to continue working at least on a part-time basis after retirement. This emphasizes the importance of creating more options such as “bridge jobs” that span the transition from full-time career jobs to full-time retirement.
Despite low savings rates, by 2030, based on conservative projections, about three-fourths of boomers will have all three of the major sources of retirement income—Social Security, pensions, and asset income. A small percentage will have only one income source, which will generally be Social Security.
Boomers Approaching Midlife

**In 2030, Boomers Who Receive Social Security, Pensions, and Asset Income Will Be Better Off**

Median Income for Baby Boomers with One, Two, and Three Sources of Retirement Income

AARP Public Policy Institute

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Those who have three income sources will have three times as much income on average as those relying on a single source, and nearly twice as much as those with two sources of income. This illustrates the financial importance of having all three legs of the “three legged stool” of retirement income.
Even for Boomers, Social Security Will Remain the Primary Retirement Income Source

Percentage of Boomers Who Will Rely on Social Security for Different Shares of Income


*Average growth of GDP assumed to be 1.8 percent per year adjusted for inflation. Low growth assumed to be 1.0 percent.

AARP Public Policy Institute

However, about half of boomers will still depend on Social Security for half or more of their income. Even with growing real incomes, Social Security will remain the foundation for economic security for most boomers in retirement.
The Cost of Health Care
Although health costs have slowed recently, health expenditures continue to be a major threat to the economic well-being of boomers.

- Growth in per capita health expenditures has paralleled but consistently been higher than growth in average earnings, although the gap has recently narrowed.
- Growth in per capita health expenditures has significantly outstripped the inflation rate.
- The reduction in the rate of growth of health expenditures has been due in large part to the spread of managed care approaches.
- Health expenditures are an increasing part of household budgets, especially during retirement.

The single greatest threat to boomers’ economic security in retirement will be whether health costs continue to outpace incomes.
The Cost of Health Insurance Rises Rapidly With Age After 45

Average Annual Health Premium* Cost for Nonelderly, 1994

Source: The Wyatt Co.,
1994 simulation prepared for AARP/PPI, based on existing claims data (unpublished table)
*For comprehensive fee-for-service policies only.
AARP Public Policy Institute

Boomers (ages 30 to 49 in chart) have relatively low health premium costs, but their premiums can be expected to rise substantially as they age. Out-of-pocket health costs can also be expected to increase with age, reaching one-fifth of income for those over age 65 (data not shown).
Although private health insurance coverage is quite extensive, nearly one-fifth of younger boomers are without health insurance coverage, and health insurance coverage among older boomers has diminished in the past decade as it has for most age groups.
Recent trends suggest that boomers will face more expensive health care in the future as employers cut back on the amount of the health costs of retired workers they are willing to cover.

- Over the last decade the percentage of employers paying the full cost of family health coverage for retirees aged 65 and older has declined precipitously.
- In 1995 fewer than 15 percent of employers paid full costs of family coverage, down from more than 40 percent in 1984.
- This increased cost-sharing among retirees is parallel to the trend among workers.
Disability and Caregiving
The percentage of those with private disability insurance has declined in recent years. About 43 percent of Americans between the ages of 25 and 55 do not carry long-term disability coverage (not shown). For them, Social Security provides their only disability protection, but with fairly low monthly benefits and only for those completely unable to perform any gainful activity.
Persons Over 65 in Nursing Homes Will More than Triple by 2040
Projected Nursing Home Residents Aged 65 and Over, 1994–2040

1Projections based on 1994 National Health Interview Survey age-sex specific rates applied to U.S. Bureau of the Census population projections.

The trend toward greater need for long-term care is a result of three trends:
• The demographic increase in longevity, with more boomers surviving into their 80s and 90s, when rates of disability are highest.
• The changes in health care, which are pushing more treatments and patients out of hospitals and into post-acute settings.
• The increase in persons living alone, without a spouse to help care for them.
The population over age 65 will grow 2.2 times by 2040, but persons aged 85 and above will increase fourfold and grow from 11 to 18 percent as a share of all those over age 65. The increased concentration of the very old will result in a growing percentage with activity limitations.
The Shrinking Pool of Caregivers
The Ratio of the Population Aged 50–64 to Those Aged 85 and Older

Source: U.S. Bureau of the Census
AARP Public Policy Institute

As the number of persons either disabled or in nursing homes continues to grow due to greater longevity, the pool of available caregivers relative to age groups with the greatest need of care will shrink over time because of the smaller size of boomer families.
Attitudes Toward Retirement

half empty?

or half full?
A high percentage of workers express confidence that they will have enough income in retirement to live comfortably. One quarter are very confident, and another two-fifths are somewhat confident that they will have enough to live comfortably in retirement.
Confidence in Retirement May Be Misplaced
Percent of Those Who Are “Confident” of Retirement Preparation
Who Have Done a Savings Need Calculation

Source: EBRI,
AARP Public Policy Institute

Confidence in the adequacy of retirement income is frequently not based on actual saving for retirement. Nearly one quarter of those who are very confident of an adequate retirement income have saved nothing for their retirement, and one-third of those who are somewhat confident of an adequate retirement income have saved no money for retirement.
About 20 percent of boomers are somewhat or very confident that they will receive Social Security benefits comparable to those received by today’s retirees. Younger boomers are even less confident than older boomers—nearly 45 percent are not at all confident that their benefits will be as high as those received by today’s retirees.
Although boomers’ confidence in their future Medicare benefits is slightly greater than their confidence in Social Security, most are not confident that future Medicare benefits will be equal to those received by current retirees. Again, younger boomers are more skeptical than older boomers.
Popular support for Social Security and Medicare is significantly higher than the confidence in these programs for all ages; 84 percent of those surveyed responded that Social Security benefits for the retired were very important. 88 percent of those surveyed responded that Medicare benefits for the elderly were very important.

The support of boomers (those aged 35 to 49) for these programs is nearly as high as that of retirees.
Policy Implications

- Productivity gains, more than demographic changes, are the key to the future economic prospects for boomers.
- Public investments in education, health, research and development, and infrastructure are key growth strategies along with incentives to save more for retirement.
- Health costs, more than Social Security changes, are the major economic threat to the boomers’ future.
- Stable income expectations may mislead boomers into false optimism if out-of-pocket health costs continue to grow faster than wages.
- Greater individual responsibility and risk will lead to greater variation in retirement security.
- For most boomers, Social Security, Medicare, and flexible work opportunities will continue to be crucial to an adequate standard of living in their later years.
- Social Security will remain the essential foundation for economic security in retirement for boomers, especially for those in the lower three quartiles of the income distribution.
- Social insurance will continue to be the key to a secure retirement, but could come unglued politically with means testing or substantial benefit cuts.
- Politically, the greatest challenge for boomers will be to keep the social insurance contract between the generations strong despite growing income and wealth disparities.
The future of the boomers is mixed, with most doing substantially better than their elders, and others who will be financially much less secure and vulnerable with continued reliance on social insurance programs.

### The Two Americas of Retirement Security

<table>
<thead>
<tr>
<th>More Secure</th>
<th>Less Secure</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Steady employment</td>
<td>• Intermittent employment, contingent worker, or disabled</td>
</tr>
<tr>
<td>• Married, dual income</td>
<td>• Divorced or single</td>
</tr>
<tr>
<td>• Employer pension (tax subsidized)</td>
<td>• None</td>
</tr>
<tr>
<td>• 401(k) plan (tax subsidized)</td>
<td>• None available</td>
</tr>
<tr>
<td>• Health insurance (tax subsidized)</td>
<td>• None available</td>
</tr>
<tr>
<td>• Home equity (tax subsidized)</td>
<td>• Rent</td>
</tr>
<tr>
<td>• Long-Term investments (capital gains favored)</td>
<td>• None, or savings needed for emergencies due to lack of insurance</td>
</tr>
</tbody>
</table>
Today, the top fifth of boomers appear to have a secure future, with financial independence in retirement. They are more likely to have:

- Income above $75,000
- Married, dual income
- Defined benefit pension
- Substantial retirement savings
- Their own home
- Protection from high health costs

The middle half or so of boomers face a contingent future, dependent upon social insurance and employer programs remaining strong. They are more likely to have:

- Income of $25,000-$75,000
- One spouse working part-time or part-time career
- Defined contribution pension
- Modest retirement savings
- Their own home
- Exposure to substantial out-of-pocket health costs

The lowest quarter or so of boomers face a difficult future, dependent upon continued work opportunities and public retirement and low-income programs. They are more likely to be characterized by:

- Income below $25,000
- Single or divorced
- Unskilled or contingent workers
- No pension
- Small savings, depleted by emergencies
- Renting home
- Risk of disability and major health costs


