BOOMER WEALTH—BEWARE OF THE MEDIAN

Introduction

Analysts, pundits, and the media frequently express concern that boomers are not prepared financially to manage their retirement. It is a topic of seemingly endless interest to the media, and to boomers themselves. A quick search of “boomer saving” on Google yielded 3.5 million hits, and a cursory review of the contents suggests that the consensus outlook is a fairly gloomy one. A notable example of the consensus view was expressed by Ben Stein, TV actor/humorist/investment expert (and spokesman for the National Association of Variable Annuities and host of Win Ben Stein’s Money) on CBS Sunday Morning on March 5, 2006. Stein painted a dismal scenario for baby boomers, imploring them to save more or face financial disaster.

A strikingly different perspective is offered by the title of a 2004 book: Boomer Nation: The Largest and Richest Generation Ever and How It Changed America (Gillon, 2004), suggesting that boomers will be affluent consumers in retirement. Numerous online reports emphasize the enormous spending power of the boomer generation compared with today’s 60 to 70 year olds. More than one such report suggested that boomers will spend twice as much—one trillion dollars a year—as their elders did. This view might actually merge with the first view if boomers’ spending habits leave them unprepared for retirement. Hope is sometimes expressed that inheritances will bail them out, but this is a thin reed on which to rely, given that most boomers themselves say they do not expect any such windfalls (Gist and Figueiredo, 2006; Ng-Baumhackl, Gist, and Figueiredo, 2003).

Measuring Boomer Wealth

Overly broad generalizations about boomers call to mind a paper published nearly two decades ago which cautioned researchers to “beware of the mean” when analyzing the economic well-being of the elderly population. The author argued that the mean disguises important distributional differences among older Americans (Quinn, 1987).

A variation of this cautionary tale could easily be applied to many descriptions of boomers today. For example, numerous reports suggest that boomers or subsets of boomers (e.g., 55-year-olds, 55-to-64 year-olds, etc.) have accumulated an average (mean) of about $50,000 in their retirement accounts (DeVaney and Chiremba, 2005) or less (Goodman and Orszag, 2005). Medians—the value at which half the population falls above and half below—are generally used rather than means to characterize wealth distributions because wealth is so skewed toward the top.

Based on the 2004 Federal Reserve Survey of Consumer Finances, the median total net worth of the entire boomer generation was about $146,000 in 2004, but only about $50,000 is left after housing equity, which is less liquid, is removed (Gist and Wu, forthcoming).

However, even using medians to describe the “typical” boomer ignores the substantial variation in accumulated
wealth that exists among this 19-year cohort. For instance, the median net worth of the older half of the boomer generation was about $179,000 in 2004, compared with only $118,000 for the younger half. It is important to divide the boomer generation at least into the younger and the older halves because of significant differences between younger and older boomers in educational attainment, marital history, number of children, and wage histories (Congressional Budget Office, 1993; Gist, Wu, and Ford, 1999). Because boomers today range in age from early 40s to 60, many of the oldest are thinking about retiring soon, whereas the youngest may be just beginning to save seriously for retirement. The youngest boomers have at least two decades to prepare for their retirement, whereas older boomers have several more years to acquire additional retirement savings.

**Wealth Variation Among Boomers**

A better picture of the variation in boomer wealth can be seen in Figures 1 and 2, which divide boomers into five discrete birth cohorts of 4 years each using the past 6 Federal Reserve Surveys of Consumer Finances. We added 1965 births to the youngest group in order to have five equal 4-year cohorts for analysis. Figure 1 compares total net worth across 4-year birth cohorts, and Figure 2 subtracts home equity from the measure of net worth.

Figures 1 and 2 demonstrate a number of important results. First, there is a steady upward progression in net worth for each of the five 4-year birth cohorts. The average annual increase in net worth over the 15-year period for the five 4-year cohorts ranges from 5.2 percent for the 1950–53 birth cohort to 23.3 percent for the youngest (1962–65).

Second, the net worth of the oldest 4-year cohort (born 1946-49) is two and a half times that of the youngest 4-year cohort (1962-65).

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1 We first divided them into single-year cohorts, but in some cases the cell sizes were smaller than we deemed desirable for comparisons.
Third, despite the differences among age groups at a single point, by 2004 the later birth cohorts had greater net worth than earlier cohorts when compared at the same age.

Table 1 elaborates on the latter point. The 15-year period covered in this analysis allows us to compare boomers from different birth cohorts at the same age—e.g., the 1958–61 birth cohort was the same age in 2001 (40 to 43) as the 1946–49 birth cohort was in 1989, and they were again the same age (43 to 46) in 1992 and 2004 respectively. These two cohorts are shown in red in Table 1 (data derived from Figures 1 and 2). The 1946–49 and 1958–61 birth cohorts had comparable amounts of real (inflation-adjusted) net worth, including home equity, at ages 40 to 43—$102,488 for the 1958–61 cohort in 2001 compared with $103,426 for the 1946–49 cohort in 1989. But by ages 43 to 46, the younger cohort had greater wealth ($106,000) than the older one ($89,000),

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<tr>
<td>36-39</td>
<td>$76,231 (b. 1950-53)</td>
<td>$55,269 (b. 1962-65)</td>
<td>$30,769</td>
<td>$29,788</td>
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<tr>
<td>40-43</td>
<td>103,426 (b. 1946-49)</td>
<td>102,488 (b. 1958-61)</td>
<td>34,602</td>
<td>47,230</td>
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<tr>
<td>39-42</td>
<td>$70,023 (b. 1950-53)</td>
<td>$98,000 (b. 1962-65)</td>
<td>$23,417</td>
<td>$43,560</td>
</tr>
<tr>
<td>43-46</td>
<td>88,587 (b. 1946-49)</td>
<td>105,820 (b. 1958-61)</td>
<td>35,892</td>
<td>37,800</td>
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Source: Tabulations of Federal Reserve Board’s 2004 Survey of Consumer Finances.
likely because the older (1946-49) cohort encountered a recession at that time (1991) in their work lives.

The 1950-53 and the 1962-65 birth cohorts can also be compared at two points in time: the former cohort was aged 36 to 39 in 1989 and the latter was 36 to 39 in 2001. The two cohorts were aged 39 to 42 in 1992 and 2004, respectively. These two cohorts are shown in green in Table 1 (data again derived from Figures 1 and 2). Net worth was substantially greater for the older 1950–53 cohort ($76,231) at ages 36 to 39 compared with $55,269 for the younger 1962–65 cohort at that age. But at slightly older ages (39 to 42), the younger 1962-65 cohort had increased its net worth substantially to $98,000, and the older 1950-53 cohort had lost ground to $70,000 at that age.

Similar comparisons are made for net worth excluding home equity in Table 1. The younger 1958–61 cohort, aged 40 to 43 in 2001, had more ($47,000) than the older 1946–49 cohort had in 1989 ($35,000), and in 2004 the younger 1958-61 cohort (then aged 43 to 46) maintained a slight advantage in net worth less home equity ($38,000) over the older 1946-49 cohort ($36,000).

Comparing the 1950-53 and 1962-65 birth cohorts in terms of non-housing wealth in 1989 and 2001, respectively, they were about equally well off in 2004 dollars ($30,769 compared with $29,788) at ages 36 to 39, but at ages 39 to 42 the younger 1962-65 cohort’s non-housing wealth exceeded that of the older 1950-53 cohort by more than $20,000 due to an increase in its non-housing net worth of nearly $14,000, compared with a $7,000 loss for the older 1950-53 cohort, perhaps again due to the 1991 recession.

An important point to ponder when examining both Figures 1 and 2 is that even the oldest 4-year birth cohort (1946–49), who were aged 55 to 58 in 2004, likely had several more years of potential work and saving ahead of them before retirement. Assuming that they worked on average for 6 more years and enjoyed the same growth in net worth and financial assets as they experienced in the 1989–2004 period, the oldest boomers would be able to amass a median of more than $350,000 in net worth, and a median of nearly $175,000 in net worth minus home equity, both excluding Social Security and defined benefit pension wealth. These figures illustrate that boomer saving is significantly greater than the amounts often cited as their retirement nesteggs.

Moreover, the exclusion of both Social Security wealth and defined benefit (DB) pension wealth, which are not included in the Federal Reserve dataset, are very significant omissions, because they are two of the most significant components of saving for many families aside from home equity. A recent report (Munnell and Sunden, 2006) estimated the mean value of both of these components in 2004, along with other sources of wealth, for the middle 10 percentile of households headed by a person aged 55 to 64² (an age group which overlaps our oldest boomer cohort). Social Security wealth was estimated as having a present value of slightly more than $250,000, and DB pension wealth was slightly less than

² This calculation approximates the median but permits the addition of all sources of wealth in order to take an average.
$95,000. Total net worth, including housing wealth, was nearly $600,000.

These estimates suggest a more robust amount of available wealth for early boomers and near-retirees than is suggested by focusing on retirement accounts. In fact, a 2004 CBO report estimated that a median income boomer couple with approximately $350,000 in Social Security wealth would need an additional $300,000 at their age of full Social Security benefit receipt (66), or just under $250,000 by age 62, to reach an 80 percent replacement rate of their pre-retirement, after tax income (CBO, 2004) at age 66. The estimates of net worth for the 55-to-64-year-olds above suggest that they could easily reach those targets.

**Caveats Regarding Wealth Adequacy**

A few caveats should be noted here. There is considerable disagreement about whether or not to include housing wealth when discussing retirement preparation. Some have argued against using home equity because of its illiquidity and because the elderly wish to remain in their homes (Bernheim, 1992). On the other hand, housing equity has become more liquid as a result of reverse equity mortgages, and even more so because of the ability of homeowners to tap equity for consumption through cash-out refinancing or through home equity loans and lines of credit, while retaining ownership. Thus, others have argued that at least some, if not all, home equity should be included in net worth (Engen et al., 1999).

A recent study (Munnell and Soto, 2005) has suggested an interesting approach by dividing housing wealth into two components—the annual imputed rental equivalent value of the home (which is a kind of income component, and would be added to both numerator and denominator of the replacement rate), and the “residual value,” which is the amount of housing wealth available after the amount consumed is subtracted. They find that using this definition of housing wealth has a significant impact on replacement rates, adding between 10 and 18 percentage points to the replacement rate calculation.

Even though boomers nearing retirement have considerably more retirement wealth than is usually reported in the media, the ability to achieve a replacement rate that is “typically” recommended by financial planners of about 70 to 80 percent of pre-retirement wages (because of reduced expenses for work, taxes, and saving) remains uncertain for many, for several reasons.

First, boomers face greater investment risk in their retirement plans, as self-directed 401(k) plans have replaced defined benefit pensions in retirement asset portfolios. Second, boomers’ life expectancy is greater than that of their predecessors, so they will need more resources to sustain a longer retirement. Third, health care costs are higher than ever and rising, and over time place a larger and larger burden on successive generations of retirees (Delorme, Munnell, and Webb, 2006).

Despite these caveats, total wealth measures suggest a somewhat more sanguine outlook for boomer retirement than is suggested by focusing solely on the amounts in their retirement accounts.
REFERENCES


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