Distinctions between Boomers’ and Silent Generation’s Financial Security

The Fundamentals

This chapter assesses the financial security of Americans aged 55+ during the period of 1992-2014, using the Health and Retirement Study (HRS) data.

- We follow the financial well-being of older households in different birth cohorts, starting in their 50s and well into the last years of life.
- Baby boomers are compared with the Silent Generation.
- Baby boomers’ retirement security outlook is bleak.
  - Baby boomers, with substantially less savings and more debt, are found to be financially vulnerable and inadequately prepared for their retirement and longevity.

Overview

Relative to the working population, retirees have fewer sources of ongoing income to utilize. They rely primarily on Social Security, employer-sponsored retirement accounts, and Individual Retirement Accounts (IRAs). The opportunities to further accumulate income-generating assets, such as stocks and bonds, diminish for most people post-retirement. Life expectancy in the US has also increased from 69.7 years in 1960 to 78.7 years in 2015 [1]. However, the retirement age has not changed accordingly [2], which means that funds have to be stretched thinner across a longer lifespan. Health care expenditures are also expected to continue rising to a degree that could be potentially prohibitive for many retirees. Whether older adults are truly financially prepared for their retirement and longevity has become a highly debatable topic [3, 4, 5, 6, 7, 8, 9, 10, 11, 12].

This chapter focuses primarily on the following birth cohorts:

- CODA/AHEAD cohort, Born before 1930
- HRS Initial Cohort, Born 1931-1941
- War Babies, Born 1942-1947
- Early Baby Boomers, Born 1948-1953
- Mid Baby Boomers, Born 1954-1959
Main findings:

- Baby boomers are in a worse financial position than earlier generations of retirees, in terms of home equity accumulation, financial wealth, and total wealth.
  - In 2014, mid-boomers had 30% less in total net wealth and 40% less in home equity than retirees 10 years older.
  - One third of baby boomers had no retirement plan in 2014 when they were age 58 on average. Even for those with plans, their average balance was less than $300k.
- When compared to earlier cohorts, baby boomers have already lagged behind when reaching their 50s, with lower levels of home equity and total wealth.
- The 2008 financial crisis exacerbated baby boomers’ under-preparedness for retirement.
  - The housing market crash coincided with baby boomers’ beginning of retirement, which deprived them of home equity growth opportunities.
- A distinction was found in post-recession recovery between early- and mid-boomers.
  - For early-boomers (the older boomers): Only the poor early boomers experienced a rough and slow recovery.
  - For mid-boomers (the younger boomers): The poor, middle-class, and rich mid-boomers all experienced weak, or even stagnant, recovery.

The Specifics

(1) A Snapshot Of 2014

(1.1) Boomers Measured Low In All Wealth Categories

Figure (1) compares wealth by cohorts, highlighting baby boomers’ inadequate savings. This difference is even more pronounced than it appears, as boomers should have more in savings than their older counterparts, due to less time in retirement. The youngest group in the survey, mid-boomers, have less total wealth measured by both mean and median, and their median housing equity is 40% less than that of the HRS initial cohort and the war babies cohort.
Compared to earlier generations of retirees, boomers had accumulated lower wealth in all categories (Figure 2) in 2014, including:

- Housing equity
- Work-place retirement accounts1 (“pensions”)
- Individual Retirement Accounts (IRAs)
- Financial wealth (Checking/savings accounts/stock/bonds)

\[\text{Figure 1: The mean and median of household wealth, 2014}\]

\[\text{Figure 2: Wealth comparison of two cohorts in 2014}\]

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1 According to the Health and Retirement Study’s naming convention, a pension refers broadly to any employer-sponsored retirement plans, including 401(k) plans, supplemental retirement accounts (SRA), defined benefit plans, 401(a) plans, 403(b) plans, thrift/savings plans (TSP), profit-sharing plans, money purchase plans, and many others (RAND HRS data document, p.1140).
(1.2) Boomers Measured High In Debt

Total debt is the sum of housing and non-housing debt obligations. A high debt level relative to wealth renders families financially vulnerable, especially in economic hard times. Further, households that concentrate wealth in housing are more susceptible to housing market fluctuations. According to Lusardi, et al. [10], a household is financially vulnerable if it has a high debt-to-asset ratio, low savings, or cannot meet its debt obligations. Compared to earlier cohorts, boomers are more likely to be in debt, and they have a higher debt balance (Figure 3).

- About 70% of mid-boomers had at least some debt in 2014, compared to only 20% and 40% for the CODA/AHEAD and the HRS initial cohorts.
- Among households with non-zero debt, mid-boomers’ average debt reached $120,000, three times that of the oldest cohort.
- More boomers crossed three dangerous debt thresholds (Figure 4).
  - 18% of mid-boomers had debt over half of net worth
  - 12% of mid-boomers had debt over 80% of net worth
  - 9% of mid-boomers had debt over 100% of net worth
(1.3) Boomers Have The Lowest Balances In Retirement Plans

We would expect boomers to have more on average in their retirement plans than their older counterparts in 2014, as boomers had been in retirement for less time. However, data show inadequacy in boomers’ retirement plan levels:

- About 30% of mid-boomers have zero balances in retirement accounts
- Among those with positive retirement plan balances:
  - Mid-boomers have only $291,453 on average
  - Early-boomers have $369,004 on average
  - War babies have $492,077 on average.

Table 1: Holding of retirement plans, and balances

<table>
<thead>
<tr>
<th>Avg. age in 2014</th>
<th>Avg Balance, if &gt; 0</th>
<th>Balance &gt; 0</th>
<th>Avg Balance, if &gt; 0</th>
</tr>
</thead>
<tbody>
<tr>
<td>CODA/AHEAD</td>
<td>88</td>
<td>29.8%</td>
<td>$137,076</td>
</tr>
<tr>
<td>HRS initial cohort</td>
<td>77</td>
<td>50.0%</td>
<td>$266,999</td>
</tr>
<tr>
<td>War babies</td>
<td>69</td>
<td>61.2%</td>
<td>$492,077</td>
</tr>
<tr>
<td>Early-boomers</td>
<td>63</td>
<td>65.1%</td>
<td>$369,004</td>
</tr>
<tr>
<td>Mid-boomers</td>
<td>58</td>
<td>70.2%</td>
<td>$291,453</td>
</tr>
</tbody>
</table>
(2) Multi-Cohort Comparisons

The cross-sectional analysis in the previous section provides a snapshot of wealth and debt for older households in 2014. Though useful in its own ways, it underestimates the savings inadequacy for the boomer generation, as it fails to take into account the effect of age. In the following, we make multi-cohort comparisons to evaluate different generations of retirees when they were at the same age.

(2.1) Wealth, Income, And Debt

Figures (5) and (6) show the distinctions in wealth, income and debt, and housing equity across four birth cohorts, the HRS initial cohort, war babies, early-boomers, and mid-boomers.

Several notable distinctions across cohorts:

- **Different initial conditions** -
  - By age 55, boomers were already lagging behind the wealth level reached by earlier generations at the same age.

- **Different growth trajectories** -
  - Earlier cohorts had significant wealth growth after age 55;
  - Boomers’ wealth stayed relatively stagnant after age 55.

- **Home equity** –
  - Earlier cohorts enjoyed a long and steady growth in home equity, withstanding the burst of the housing bubble in the late 2000s;
  - Boomers were hit relatively hard by the housing market crash, with greater loss in equity and slower recovery.

- **Debt burdens** –
  - Earlier cohorts had less debt in their 50s (about $9,000), and were able to cut down debt obligations quickly in the following years;
  - Boomers had a significantly greater amount of debt in their 50s (about $43,000-46,000 in 2010), and as of 2014, mid-boomers still had about $20,000 debt.
Figure 5: Multicohort comparison of wealth, debt, and income

Figure 6: Home value and net worth
(2.2) Debt Indicators

We followed Lusardi, et al. [10] and calculated key indicators to assess older Americans’ financial vulnerability:
- Debt-to-net worth ratio
- Debt-to-income ratio
- Liquid-asset to all-asset ratio
- Loan-to-value ratio

Table 2: Debt burden at age 55-60, Median ratios

<table>
<thead>
<tr>
<th></th>
<th>Debt-to-net worth ratio</th>
<th>Debt-to-income ratio</th>
<th>Liquid-asset to all-asset ratio</th>
<th>Loan-to-value ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>HRS initial cohort</td>
<td>9.06%</td>
<td>21.99%</td>
<td>9.29%</td>
<td>16.98%</td>
</tr>
<tr>
<td>War babies</td>
<td>14.99%</td>
<td>42.27%</td>
<td>9.47%</td>
<td>24.22%</td>
</tr>
<tr>
<td>Early-boomers</td>
<td>21.37%</td>
<td>50.86%</td>
<td>6.74%</td>
<td>29.60%</td>
</tr>
<tr>
<td>Mid-boomers</td>
<td>26.38%</td>
<td>46.88%</td>
<td>6.86%</td>
<td>34.81%</td>
</tr>
</tbody>
</table>

Note: the standard errors and confidence intervals are reported in the white paper, but omitted here to conserve space.

The results in Table (2) show that, at around age 55-60, early- and mid-boomers have significantly heavier debt burdens than earlier cohorts reaching the same age. For mid-boomers in particular, their debt level exceeds one quarter of their net worth, and is close to half of their annual income. The loan-to-value ratio is calculated as outstanding home loans divided by the market value of main residences. From the earliest HRS initial cohort, to the latest mid-boomers, the loan-to-value ratio continued to increase. Compared to earlier cohorts, boomers relied more on mortgages to finance their home purchases.

(2.3) Trajectory Of Post-Recession Recovery

Figure [7] illustrates the distribution of household net worth, comparing the four birth cohorts during the period of 1992 through 2014. The orange vertical line represents the 2008 financial crisis.

Post-recession recovery experiences:
- Early-boomers (the light green curve), whether in the lower or upper quartiles of wealth distribution, suffered varied degrees of loss after their wealth peaking in 2006;
- Poorer early-boomer families suffered more loss in relative terms, and were slower to recover, compared to the middle-class and richer families.
• The wealthiest early-boomers (the 90th percentile) bounced back quickly after the crisis, but the poorest early-boomers had yet to regain their pre-crisis wealth level by 2014.

• Mid-boomers across the distribution – poor or rich – all had stagnant wealth growth between 2010 and 2014.

![Figure 7: Household wealth percentile, by cohort and year](image)

**Conclusion**

This paper analyzed the retirement preparedness of older American households, by examining their net worth, income, and debt, and discussed a number of alarming signs for baby boomers regarding their retirement security outlook.

It is crucial for researchers and policy makers to acknowledge the fact that baby boomers are financially vulnerable based on their current savings and debt burdens as elaborated above. That message must be delivered loud and clear, because only then may we convince baby boomers of the critical need to cut spending, put aside emergency funds, and avoid piling up new debts.

Cutting spending after retirement is something easier said than done. In fact, households spend most of the extra money that they have on hand, rather than saving it, after the children leave home [15]. When it comes to borrowing, many older Americans who once felt financially secure could easily go down the slippery
slope of accumulating excessive credit card debt [16]. Facing high interest rates, some older adults may be too proud to ask for help but then find themselves unable to keep up with the rising minimum payment.

Baby boomers may also consider the option of working longer, full-time or part-time, which expands their opportunities to accumulate financial resources. As Americans have been spending more time receiving education and are expected to live longer, it is not unreasonable for them to consider the possibility of a later retirement age. The academic world has paid a lot of attention to this issue - researchers at the Stanford Center on Longevity, the Stanford Institute for Economic Policy Research, the Center on Aging and Work, the Center on Retirement Research at Boston College, and the Age Boom Academy at Columbia University have all advocated for working longer and encore careers [16, 17]. Unfortunately, the call for delaying retirement past 65 has not been well received by the public. More than half of Americans retire between aged 61 and 65 as of 2015, and 73% of retirees report being unconcerned about outliving assets; the retirement age among males in 2015 is even slightly below that in 1962 [2, 18]. Among the bright spots however is that entrepreneurship among boomers is strong when compared to younger age groups [19], which invites discussions on how policy makers can help boomers enter and sustain successful entrepreneurship [20].

For recent retirees and those getting ready to stop working, a progressive strategy is indispensable to ensure financial security for the next thirty years or more. Researchers have emphasized the benefits of delaying Social Security retirement income, the optimal strategy to draw down on retirement assets, and additional strategies to manage existing housing and non-housing assets [21, 22, 23, 24, 25].

References


