Aging U.S. Baby Boomers and Their Retirement

An aging society can place a heavy burden on the long-term care system and the public finance, and the "2030 problem" has become a major concern in the long-term care field. The baby boomer generation is represented by the people who were born between 1946 and 1964. By 2030, 95% of the baby boomers will be well beyond 70 and about 85% of them will be out of the labor force. Given the demographic size of the baby boomers, the baby boomer generation's retirement can be challenging for both the baby boomers and the society. Various aspects of economic burdens are associated with an aging population. Social security payments will go up; medical care insurance premium will increase; a shrinking labor force will impede economic growth, and baby boomers' withdrawal from financial markets will place significant downward pressure on equity prices.

As for individual-level retirement planning, the statistics seem to be quite gloomy and worrisome. According to a report by the Economic Policy Institute(EPI), on average, a household aged 51-61 has accumulated $163,577 wealth for retirement in 2017(Beckman, 2017). This number is quite scary if we look at the course of a 20-year retirement, $163,577 will translate into about $8000 a year. Although people may argue that during the 20 years, households can re-invest their savings and gain some growth from it, empirical statistics have shown that people near or in retirement strongly prefer conservative or income-oriented investment strategies, such as bonds and dividend-paying stocks. Considering this fact, baby boomers probably will not gain high growth in their retirement investment in the future.

On top of this, about 41% of households aged 55-64 have no savings at all(EPI, 2017). Regarding this group of baby boomers, they have to reply on social security payments for their retirement. However, on average, recipients of social security payments only receive $1360 a month, which can hardly cover their bills(Beckman, 2017). More importantly, the Employee Benefit Research Institute(EBRI) reports that 46% of retired households increase their spending during the first two years of retirement, and for 33%, this pattern continues for six years(EBRI, 2012). Moreover, in 2015, the Consumer Financial Protection Bureau reports that 30% of the homeowners who are 65 or older still had a mortgage. For the people who are near their retirement, but have been undersaving, they have no option but keep working. Procrastinating retirement would help individuals both financially and mentally, as research has shown that staying productive is a key element to long-term health and happiness(Friedman, 2011).

Another potential change due to baby boomers' retirement is the impact on financial markets. In particular, in the next few decades, we shall see more and more baby boomers start drawing their money from financial markets and sipping off their savings. Considering the demographic size of the baby boomer generation, this will be a market-altering event. On top of this, regardless of personal choices and preference, the IRS has a mandatory drawdown law for retirement plans such as IRAs and 401(k)s, when people turn 70 and 1/2, they have to withdraw 5% of the value of the plan each year. This forced selling will affect the market and place downward pressure on equity prices.

Although it seems to be quite negative when we look at these individual-level statistics and try to draw inferences from them, when we take a look at the empirical studies in macroeconomic literature, the situation is far from desperate. Firstly, one common argument of the pessimists is that the baby boomers are not only ill-prepared but also underestimating their life expectancy. It is true that the life expectancy of Americans has increased for about ten years since 1960(World Bank, 2016), but it is primarily due to the decreased mortality of infants, and the average increase in life expectancy for a 65-year-old is only about four years(Friedman, 2011). Additionally, because of the advancement of technology, medicine, and education, the disability rate of the elderly has dropped from 26.2% in 1982 to 19.7% in 1999(Knickman and Snell, 2002). This has two implications: (1)The elderly are capable of staying in the labor force for a longer time(if they have to). (2)They do not demand as much caregiving as their parents' generation, as disabled elderly require more assistance from both of their community and society.

The next question is that whether the baby boomers are so ill-prepared for their retirement? The answer is complicated, as there is no doubt that those statistics such as average wealth accumulated and average social security payments received are worrisome. However, multiple studies focusing on comparing the retirement planning of the baby boomer generation and their precursors have confirmed that the baby boomer generation has more wealth for retirement than their parents at the same time in the life cycle(Lusardi and Mitchell, 2006, Easterlin et al. 1993, and Brooks, 2004). So far, the previous generation has been doing fine for their retirement, and it would be overreacting to be too pessimistic for the baby boomer generation. Furthermore, Knickman and Snell(2002) offered another perspective on this question: if we look at the dependency ratio from 1960 to 2030, we will find that the ratio has been consistently improving in favor of newer generations. Mostly because newer generations tend to have fewer children and they need to support fewer people out of the labor force overall; namely, the society probably will continue to be able to afford baby boomers' retirement.

Another question is that how much downward pressure would be caused by the baby boomers' retirement on equity prices? From a theoretical point of view, the impact of this demographic shift on equity prices will not be as big as it is depicted in many articles(Liu and Spiegel, 2011). Demographic trends are much more predictable than many other market-altering events, and rational players in financial markets should anticipate the changes in asset demand. As a result, the current asset prices should at least partially reflect the anticipated effect of demographic changes. Moreover, individuals with considerable wealth may continue to hold equities to give to their heirs and as a source of financial resource in case of living longer than expected. Nonetheless, equity prices probably still will have some downward pressure due to this demographic change, but this pressure should be mitigated by various reasons.

Lastly, although the retirement planning for the baby boomer generation may not be as glooming as many articles depict, it is still a challenging issue for both of the baby boomers and newer generations. A few measures can be taken to ameliorate the potential concerns of this demographic change: (1)Delay the retirement for the baby boomers, especially for those who undersave (2)Building a viable and affordable community-based caregiving system (3)Recharge the value of family and the value of seniors in culture.