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DATA DIGEST

COMPARING BOOMERS' AND THEIR ELDERS' WEALTH AT MIDLIFE

Introduction

In a mere three years from now—2008—the first wave of baby boomers will reach the Social Security eligibility age, and it is timely to consider whether boomers will have adequate financial resources for their retirement. A standard way to pose this question is whether boomers are faring worse than their parents, about the same, or better in terms of their retirement preparation.

Early assessments of boomers' economic status published a decade or more ago examined boomers when the oldest were in their mid-40s and probably just beginning to prepare for their retirement (Congressional Budget Office, 1993; Easterlin, Schaeffer, and Macunovich, 1993; Manchester and Sabelhaus, 1993). These studies generally reached the conclusion that boomers were doing better than their parents at a comparable stage of their lives, when measured in terms of net worth or net worth relative to income. A Congressional Budget Office report compared boomers' financial wealth with that of their parents' generation by using two wealth surveys, the 1989 Survey of Consumer Finances (SCF) and the 1962 Survey of the Financial Characteristics of Consumers (SFCC) (CBO, 1993). The report compared the boomer cohort (aged 25–44 in 1989) with the same age group in 1962, and compared the younger (born 1946–55) and older (born 1956–64) halves of the boomer cohort.

Since these early boomer assessments were published, there has been no lack of attention to boomers' economic well-being, as each economic ripple that came and went was scrutinized in terms of its consequences for the boomers' fate.

The most recent (2001) Federal Reserve SCF, along with an earlier SCF in 1983, allows us to compare boomers' economic fortunes in 2001, when boomers ranged in age from 37 to 55, with people of that same age in 1983. The latter age cohort, born between 1928 and 1945, corresponds roughly to what is sometimes known as the "silent generation," which is often dated as the cohort born between 1925 and 1942 (Strauss and Howe, 1991). Although the SCF is by consensus the best survey of financial wealth (Juster and Kuester, 1991), it has shortcomings when it comes to comparing overall wealth because it does not include "annuitized wealth," that is, projected Social Security and defined benefit pension wealth. It does, however, include pension wealth held in defined contribution plans.

In this report we concentrate on three basic measures of wealth derived from the SCF. First, we examine total *net worth*, which consists of total assets minus total liabilities. This is the most inclusive measure of nonannuitized wealth.

Our second measure is *net worth minus home equity*. Although housing is the largest single asset in the portfolio of most American families, it is relatively illiquid and is therefore not as readily available to finance consumption in retirement. There are exceptions, of course, because families can gain liquidity by purchasing less expensive housing, by purchasing a reverse equity mortgage, or simply by cashing out the equity in their homes to finance consumption. Recent research suggests that older homeowners do gradually consume their housing equity late in life (Sheiner and Weil, 1992; Venti and Wise, 2000). And we cannot ignore the fact that, even with a relatively illiquid asset such as housing, individuals and families derive a flow of services from housing that they would otherwise have to purchase. Nevertheless, we know that housing is still relatively illiquid and that older homeowners are generally reluctant to divest themselves of their most valuable asset. For that reason we also examine net worth minus home equity as a measure of financial adequacy.

Our third measure is *financial assets*, consisting of checking and savings accounts, CDs, corporate and government bonds, stocks, retirement accounts (including defined contribution, IRA, and Keogh accounts), and other managed assets.

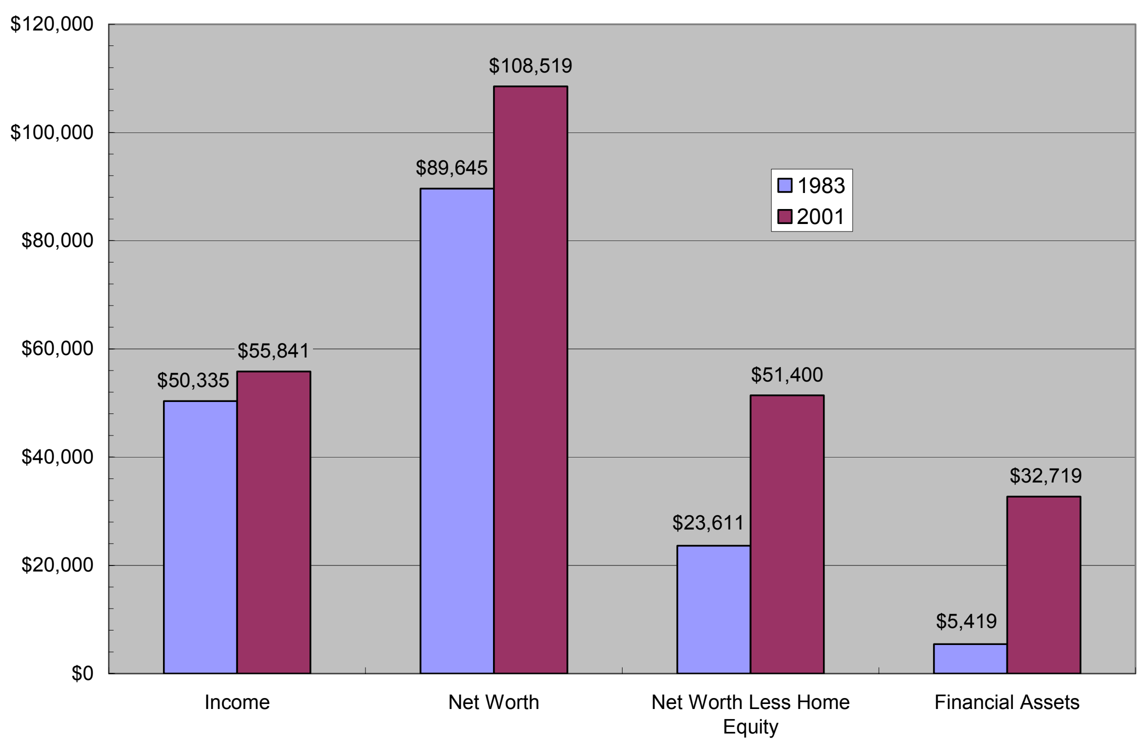
After comparing these three measures for the total population and certain subgroups, we will also examine the ratio of these wealth measures to total family income and again compare differences among certain demographic subgroups.

Overall Financial Measures

Figure 1 compares the "silent" and "boomer" generations at ages 37-55 (in 1983 and 2001, respectively) in terms of income and the above three measures of wealth. All four measures, which are reported in 2002 dollars, show boomers doing better at midlife than their predecessors. Somewhat surprisingly, family income showed the smallest improvement for boomers over the silent generation. The median income of boomers in 2001 was almost $56,000, compared with about $50,000 for their predecessor silent generation at the same age. This rate is just under six-tenths of one percent per year, well below the historical real wage growth of one percent per year.

Boomers had amassed $109,000 in net worth, compared with $90,000 for their predecessors. The differences for net worth less home equity and for financial

Figure 1. Median Income, Net Worth, Net Worth Minus Home Equity, and Financial Assets for Boomer Cohort (Aged 37–55) in 2001 Compared with 37–55-Year-Olds in 1983 (2002 dollars)



assets were greater, with boomers accumulating more than twice as much net worth less home equity, and about six times as much in financial assets as their silent generation elders.

The relatively smaller difference in total net worth compared with the much larger differences in net worth excluding home equity and financial assets measures suggests that the 1928-45 birth cohort relied much more heavily on home equity as a source of wealth than did boomers. This could be the result of higher rates of homeownership in 1983 than in 2001 for 37- to 55-year-olds, or merely larger shares of housing contained in the asset portfolios of the silents than in those of boomers. Or it may be due to the greater opportunities of the current generation to tap into home equity for consumption and thereby to lower their equity. Federal Reserve data show that owners' equity as a percentage of household real estate value declined steadily from 68 percent in 1985 to 56 percent in 2003.

Although homeownership rates were slightly higher (73 percent) among silents in 1983 than among boomers in 2001 (71 percent), this difference does not seem large enough to account for the portfolio differences between the two generations. The aggregate value of homes was nearly twice as great among boomers in 2001 ($3.7 trillion) as it was among their elders in 1983 ($2.0 trillion), although the average home equity among boomers was not much greater ($84,000) than that of silents ($76,000).[1] But boomers had more than three times as much nonhousing wealth as did silent generation households. Because overall wealth had increased so much between 1983 and 2001, the value of primary residences accounted for only about one-fifth of aggregate assets for boomers in 2001 compared with nearly one-third of the aggregate assets of their predecessors in 1983 (see Table 1).

Table 1. Net Worth and Home Equity Among Boomer and Silent Generation Households, 1983 and 2001

Age cohort	% Home-owners	Total net worth ($tril-lions)	Total home equity ($tril-lions)	Home equity as % of net worth
1983	73%	$6.38	$1.95	30.6
2001	71%	$17.73	$3.67	20.7

Source: Tabulations of Federal Reserve Board's Survey of Consumer Finances, 1983 and 2001

Demographic and Homeownership Net Worth Differences

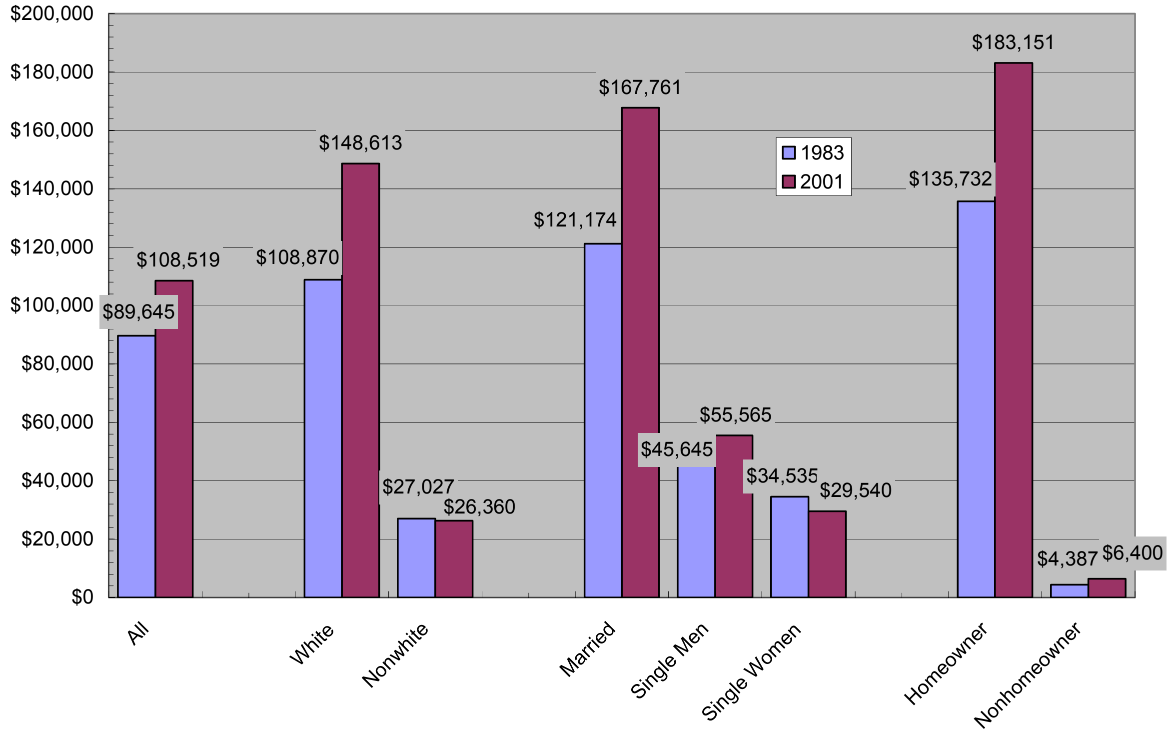
Figure 2 compares net worth for the two age cohorts overall and by selected subgroups. Although boomers in general fared better than the 1928-1945 cohort, this was not true of nonwhites or of single women.

Whites had far greater net worth than nonwhites in both 1983 and in 2001. White boomers had accumulated nearly $149,000 in net worth by 2001, compared with $26,000 for nonwhite boomers (both in 2002 dollars), a wider difference than among the silent generation. Silent generation whites had about $109,000 in net worth, compared with $27,000 for nonwhites. What is surprising here is that nonwhite boomers had accumulated slightly less ($26,000) net worth in 2001 than their nonwhite silent generation predecessors had back in 1983 ($27,000).

Married couples from both generations had significantly greater net worth than

[1] There were only about two-thirds more boomer households than there were silent households in the SCF samples—44 million boomers compared with 26 million silents.

Figure 2. Net Worth of Boomer Cohort (Aged 37-55) in 2001 and 37-55-Year-Olds in 1983, by Race, Marital Status, and Homeownership (2002 dollars)



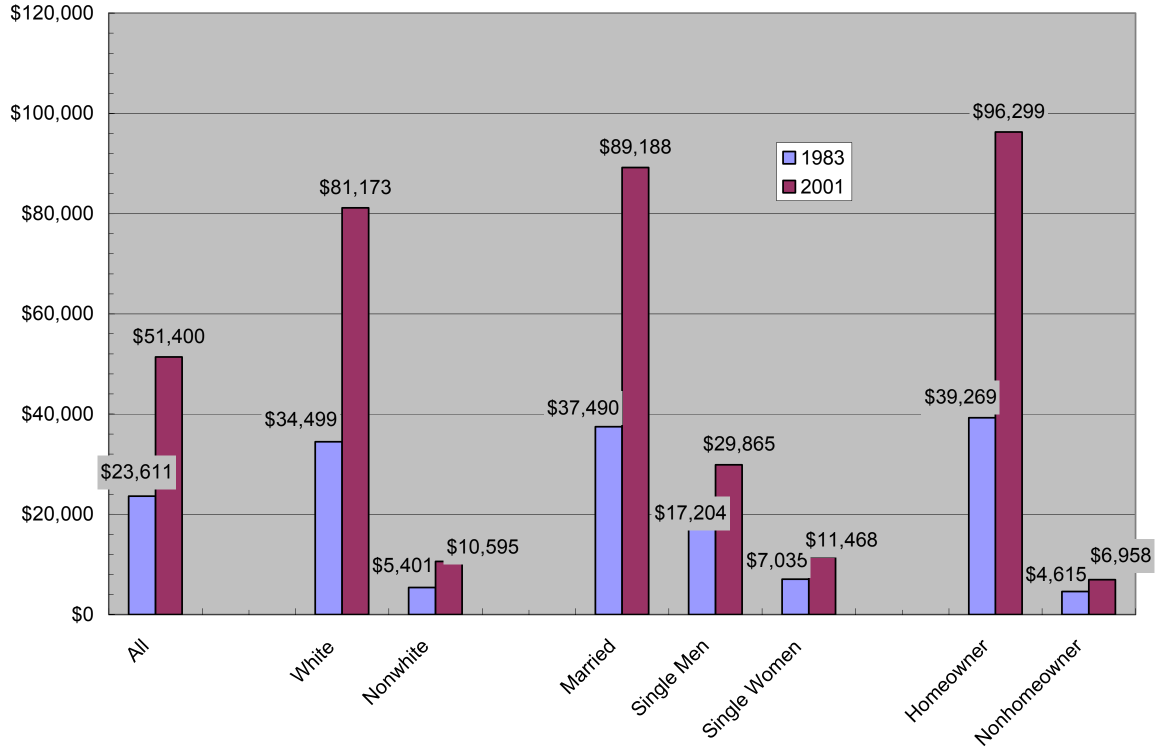
single men or women in both 1983 and in 2001. Married boomers had $168,000 in total net worth in 2001, compared with $56,000 for single men and $30,000 for single women. Married couples of the silent generation likewise had substantially greater net worth than single men or women. Both couples and single male household heads had greater net worth in 2001 than their silent generation counterparts had in 1983, but single female boomers were not as well off in 2001 as their single female counterparts were in 1983 in terms of net worth. Single women aged 37–55 in 1983 had $35,000 in net worth, compared with only $30,000 for single "boomer" females. This may be due to a larger percentage of divorced and never-married single women among the boomer cohorts who did not have as much opportunity to accumulate wealth.

Net worth is much higher among homeowners than nonhomeowners (Figure 2), which is not surprising since home equity is part of net worth. Boomer homeowners had greater net worth than their predecessors ($183,000 compared with $136,000), and boomer nonhomeowners had slightly greater wealth than silent generation nonhomeowners ($6,400 compared with $4,400), although both of the latter were quite low.

The larger role of housing in the asset portfolios of the silent generation as compared with boomers is again apparent in these subgroups.

When we exclude home equity from net worth, as we see in Figure 3, the gaps in wealth between the two generations are somewhat greater for each of the subgroups than the gaps for total net worth including housing. The slight advantage that silent generation nonwhites and single female household heads held over their boomer counterparts in terms of net worth is erased when we exclude home equity from net worth (Figure 3).

Figure 3. Net Worth Less Home Equity of Boomer Cohort (Aged 37–55) in 2001 and 37–55-Year-Olds in 1983, by Race, Marital Status, and Homeownership (2002 dollars)



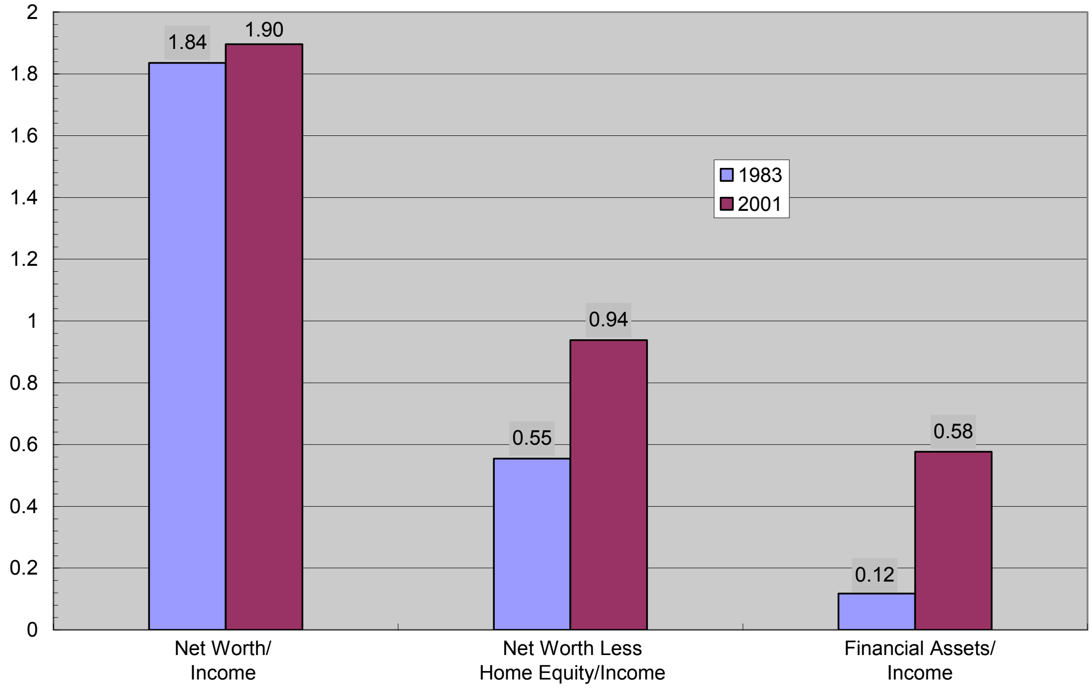
Ratios of Wealth to Income

The ratio of net worth to income better captures the adequacy of family wealth to finance consumption because adequacy depends in part on one's standard of living, which in turn depends on income. Figure 4 shows three different ratios of wealth to income, using the three measures of wealth—net worth, net worth minus home equity, and net financial assets.

One surprising result in Figure 4 is that there is little difference in the net worth-to-income ratio for boomers (in 2001) compared with their predecessors (in 1983). We can tell from Figure 1 that net worth grew almost twice as fast as income between 1983 and 2001 for this age group (about 21 percent compared with 11 percent), but net worth did not grow fast enough to make the *ratio* of net worth to income move much over this period of time.

Based on this small difference, it is tempting to conclude that boomers are no better off in terms of financial wealth than their predecessors. On the other hand, after subtracting housing and other nonfinancial assets from net worth, boomers had significantly higher ratios of financial wealth to income than did silents. Moreover, as noted at the outset, the SCF provides no information on annuitized sources of wealth, including Social Security or defined benefit pension plans. These two sources account for large percentages of retirement wealth, especially for families above the median wealth level. Boomers' Social Security wealth is likely to be larger than that of their predecessors because of real growth in benefits over time. This suggests that boomers are likely to be wealthier overall than the silent generation, but that the

Figure 4. Wealth to Income Ratios for Boomer Cohort (Aged 37–55) in 2001 and 37–55-Year-Olds in 1983 (2002 dollars)



differences may have more to do with the composition and liquidity of their assets than with their overall level of wealth.

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