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Journal of Monetary Economics 54 (2007) 1–40
Journal of MONETARY ECONOMICS
www.elsevier.com/locate/jme

The retirement wealth of the baby boom generation

Edward N. Wolff*

Department of Economics, 269 Mercer Street Room 700, New York University, New York, NY 10003, USA

Received 22 September 2006; received in revised form 15 November 2006; accepted 6 December 2006
Available online 22 December 2006

Abstract

The paper compares the well-being of the baby boom generation (ages 40–55) in 2001 with the same age group in 1983. I find little evidence that their relative position deteriorated over the period. By some indicators, this generation has seen an improvement. In terms of income, the 40–55 age group was at about the same relative position in 2001 as in 1983. In terms of conventional wealth, there was some slippage over the period. In terms of mean augmented wealth (net worth plus pension and Social Security wealth), their relative position improved somewhat but in terms of median augmented wealth there was again some slippage.

JEL classification: J32; D31; H55; J15

Keywords: Baby boomers; Wealth; Pensions; Social Security; Race

1. Introduction

The baby boom generation (individuals born between 1946 and 1961) had a rocky start economically as a result of its large cohort size. They experienced depressed earnings when entering the labor market in the 1970s (see Berger, 1983, 1984, and 1985), as well as low rates of return to schooling (see Freeman, 1976). Indeed, Berger (1985) predicted for the baby boom cohort that the negative effect of its large cohort size would continue to depress earnings as the cohort aged. In contrast, Easterlin et al. (1990) found that during the 1980s the economic well-being of the baby boomers was higher than that of their predecessors.

*Corresponding author. Tel.: +1 212 998 8917; fax: +1 212 995 4186.
E-mail address: edward.wolff@nyu.edu.

doi:10.1016/j.jmoneco.2006.12.009

Moreover, the baby boom generation shared an increase in income inequality during the 1980s that was common to all cohorts during this period. Sabelhaus and Manchester (1996) also found evidence that the baby boomers in 1989 were doing better than their parent's generation at a similar point in their life-cycle. In particular, by 1989 baby boomers accumulated more wealth relative to income than their parents had.

This generation also lived through the economic booms of the 1980s and 1990s. The latter half of the 1990s, in particular, was characterized by the stock market boom and a large accretion in share values. This period is also of particular interest because it has seen one of the most dramatic changes in the retirement income system since the end of World War II. In particular, the last two decades have witnessed a dramatic decline in traditional defined benefit (DB) pension plans and a corresponding rise in defined contribution (DC) pensions. Other salient changes over these years were the increased labor force participation of females, particularly wives, which helped augment family pension wealth and Social Security wealth (SSW); rising longevity, which also increased both pension wealth and SSW; and a sharp increase in the divorce rate and the number of families headed by single females, which would tend to lower household net worth (NW), as well as pension wealth and SSW.

The paper analyzes the wealth holdings of the baby boom generation (ages 40–55) in 2001 and compares their wealth holdings with those of the same age group in 1983 and 1989.[1] The key contribution is to use a measure of "augmented wealth", which includes not only standard NW but also estimates of both pension wealth and SSW. The paper will analyze changes in both mean and median augmented wealth of this age group over this period, as well as its various components, particularly pension wealth and SSW. It will also investigate changes in the inequality of augmented wealth of this age group over this period. The primary interest of the paper is whether this generation has made up for lost ground by the early 2000s. In particular, how does this generation stack up in comparison to the same age group 18 years earlier.

The results of the paper also shed light on the importance of Social Security as a source of retirement income for the baby boom generation, as well as the potential deleterious effects of the transformation of the pension system from DB to DC pensions on the well-being of the average worker. The latter may have important implications for pension policy in this country.

The principal data sources used for this study are the 1983, 1989, and 2001 survey of consumer finances (SCF) conducted by the Federal Reserve Board. Each survey consists of a core representative sample combined with a high-income supplement. The SCF provides considerable detail on both pension plans and Social Security for both husband and wife.

Section 2 provides a review of the pertinent literature on retirement wealth. Section 3 describes the data sources and develops the accounting framework used in the analysis. Section 4 shows time trends in standard measures of household wealth over the 1983–2001 period. Sections 5 and 6 investigate changes in pension wealth and SSW, respectively, over this period. Section 7 presents summary measures on total (augmented) household wealth for the whole age group, as well as by racial/ethnic group and household type. Concluding remarks are made in Section 8.

[1] Unavoidably, there is some overlap in the persons in this age group between the 1983 and 1989 populations and between the 1989 and 2001 populations. Fortunately, there is no overlap between years 1983 and 2001.