



How Will Boomers Fare at Retirement?

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As boomers approach retirement, the news on how they will fare is mixed. In absolute terms—measured by higher wealth and income, and lower poverty—boomers will be better off than current retirees. But in relative terms, measured as the ratio of postretirement income to preretirement income or to workers' incomes, boomers will be no better off or in some cases worse off than current retirees.

In Absolute Terms, Boomers Will Be Better Off

The Urban Institute's Dynamic Simulation of Income Model (DYNASIM) projects that boomers will amass more wealth (2003 dollars) at retirement than the previous two generations (table 1).¹ Household wealth includes financial wealth, housing equity, Social Security, defined benefit pensions, and defined contribution plans and other retirement accounts.² Median household wealth at age 67 will grow from \$448,000 among current retirees to \$589,000 among early boomers and \$609,000 among late boomers.

As a result, the typical boomer will receive more income at retirement. This is income generated from household wealth plus earnings, Supplemental Security Income, and income from non-spouse coresident family members.³ Median household income at 67 will increase from \$36,000 among current retirees to \$50,000 among early and late boomers. Surprisingly, late boomers will accumulate only slightly more wealth than early boomers and receive no more income at retirement.⁴

The increase in retirement incomes between current retiree and boomer cohorts will reduce poverty substantially, largely because poverty thresholds are not adjusted to reflect real-wage increases.⁵ Overall, poverty rates at age 67 are expected to decrease from

8 percent among current retirees to 4 percent among early boomers and 2 percent among late boomers. So *absolute* measures suggest that boomer retirees will be better off than current retirees.

In Relative Terms, Boomers Will Be No Better Off

Relative measures, however, tell a different story. One measure is the replacement rate, which expresses postretirement income as a share of preretirement income. Financial planners typically suggest retirees need about 60 to 80 percent of preretirement earnings to meet their needs.

Median income replacement rates are projected to be between 86 and 88 percent for current retirees, near-retirees, and early boomers.⁶ Despite their higher incomes, late boomers are expected to have median replacement rates of only 80 percent. In fact, 46 percent of late boomers will replace less than three-quarters of their pre-retirement income compared with only 42 percent of current retirees.

Another relative measure compares retirees' incomes with workers' incomes. Retirees are far more likely to have per capita incomes below 45 percent of the national average wage (i.e. Social Security's definition of low-wage workers) than they are to have incomes below the poverty threshold. Unlike the poverty rate, this measure projects the share of low-income retirees will remain at about one-third over time.

Boomers' Retirement Prospects are Ambiguous

Boomers may need to increase their savings now or work longer to maintain their living standards at retirement. Even with higher wealth and income, and lower poverty, certain boomers will remain vulnerable, including divorced women, never-married men, Hispanics, high school dropouts, Social Security non-beneficiaries and auxiliary beneficiaries, those with weak lifetime labor force attachments, and those with the lowest lifetime earnings.

Our estimates may overstate adequacy at later ages because health care costs typically increase as retirees



TABLE 1. Projected Measures of Economic Well-Being at Age 67, by Birth Cohort

	Birth Cohort			
	Current retirees (1926–35)	Near-retirees (1936–45)	Early boomers (1946–55)	Late boomers (1956–65)
Absolute Measures				
Median household wealth (thousands of 2003 dollars)	\$448	\$520	\$589	\$609
Median household income (thousands of 2003 dollars)	\$36	\$44	\$50	\$50
Percentage below poverty	8	5	4	2
Relative Measures				
Median replacement rate	87	86	88	80
Percentage below 3/4 replacement	42	42	41	46
Percentage below 45 percent of national average wage	33	34	32	33

Source: Urban Institute tabulations of DYNASIM3.

Notes: The boomer cohort is typically represented as those born between 1946 and 1964. For this analysis, however, we define it as those born between 1946 and 1965. Household wealth includes financial wealth, housing equity, Social Security, defined benefit pensions, and defined contribution plans and other retirement accounts. Household income is income generated from household wealth plus earnings, Supplemental Security Income, and income from non-spouse coresident family members. Like the U.S. Census Bureau, we exclude imputed rent from our estimates of poverty. To compute replacement rates, we exclude imputed rent and coresident income from per capita household income since these income flows, unlike Social Security and pensions (for example), are not derived from preretirement earnings.

grow older. In addition, we assume that retirees convert their financial assets to real annuities, which preserve the value of income throughout retirement. In any case, further research is needed to examine how outcomes may change at later ages and how different postretirement consumption patterns may affect these outcomes.

Notes

Adapted from Butrica and Uccello (2004) at <http://www.urban.org/url.cfm?ID=900767>.

1. See Favreault and Smith (2004) for a description of DYNASIM.
2. There is debate over whether to include housing in economic measures of well-being. Proponents argue that homeowners with identical financial resources as renters are better off because they do not have to pay for housing. Critics argue that only actual income flows should be included. Although we account for housing in household wealth and income, we exclude imputed rent from replacement rates and poverty rates.
3. DYNASIM imputes income from financial assets by determining the real (price-indexed) annuity a family could buy if it annuitized 80 percent of its financial assets. The annuity is used for that year's imputation of financial assets only, and is recalculated each

year to reflect changes in wealth (based on a model of wealth spend-down) and life expectancy given the individual has survived another year. For married couples, we assume a 50 percent survivor annuity.

4. Butrica and Uccello (2004) show that even when housing is excluded, both household wealth and income are projected to increase over time.
5. Like the U.S. Census Bureau, we exclude imputed rent from our estimates of poverty.
6. Income replacement rates are computed as the ratio of per capita household income at age 67 to average per capita shared earnings between ages 50 and 54, where per capita shared earnings are half the total earnings of the couple in years when married and own earnings in years when single. We exclude imputed rent and coresident income since these income flows, unlike Social Security and pensions (for example), are not derived from preretirement earnings.

References

- Butrica, Barbara A., and Cori E. Uccello. 2004. "How Will Boomers Fare at Retirement?" Final Report. Washington, DC: AARP.
- Favreault, Melissa M., and Karen E. Smith. 2004. "A Primer on the Dynamic Simulation of Income Model (DYNASIM3)." Discussion Paper, The Retirement Project. Washington, DC: The Urban Institute.