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IT'S ALL RELATIVE: UNDERSTANDING THE RETIREMENT PROSPECTS OF BABY BOOMERS

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The economic well-being of future retirees in the baby boom cohort – those born between 1946 and 1964 – is of particular concern to policymakers. Not only is this group the largest birth cohort in U.S. history (some 76 million people), but the first baby boomers will be eligible for early retirement in five years, and, without program changes, the Social Security OASDI Trust Fund is projected to be exhausted by 2042. Yet, as the tail of the baby boom generation nears middle age, there is still much speculation on how this birth cohort will fare in retirement.

The aim of this paper is to compare baby boomer retirees with previous generations on their overall level, distribution, and composition of family income and on the adequacy of this income in maintaining their economic well-being in retirement. For this comparison, the study uses projections of the major sources of income at age 67 from the Social Security Administration's Model of Income in the Near Term (MINT) model.

Results from the analysis suggest that baby boomers can expect higher incomes and lower poverty rates in retirement than current retirees. For example, real per capita family income at age 67 will increase from $29,000 among current retirees to $35,000 among near retirees and $44,000 among early baby boomers. Among late baby boomers, it is projected to increase slightly further to $48,000. These increases will reduce projected poverty rates at age 67 from 8 percent among current retirees to 6 percent among today's near retirees and 4 percent among baby boomers. Thus, *absolute* measures of well-being suggest that baby boomer retirees will be better off than current retirees.

Relative measures of well-being, however, tell a different story. For example, one key measure of well-being in retirement is the replacement rate, which expresses retirement income as a share of pre-retirement income. Median replacement rates at age 67 for future retirees are projected to be about thirteen percentage points lower than they are for current retirees. Another way to measure well-being is to compare the relative ranking of important subgroups within specific cohorts. Our analysis shows that while family income is projected to increase across cohorts for all subgroups, not everyone will be equally well off in the baby boom cohorts. For example, high earners will experience substantial gains in real per capita income over time, while low earners will gain comparatively little. For individuals in the highest career earnings quintile, median per capita family income as a percent of the cohort median income increases from 162 percent for current retirees to 228 percent for those in the baby boom cohorts. For individuals in the lowest career earnings quintile, this ratio declines from 56 percent for current retirees to 45 percent for late baby boomer retirees.

Regardless of the measure of well-being, certain baby boomer subgroups will remain economically vulnerable, including divorced women, never married men, Hispanics, high school dropouts, Social Security nonbeneficiaries and auxiliary beneficiaries, those with weak labor force attachments, and those with the lowest lifetime earnings. These economically vulnerable subgroups typically have higher than average replacement rates because of Social Security's progressive payment formula; however, high replacement rates do not ensure economic well-being.

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