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Baby Boomers in Retirement: An Early Perspective

BABY BOOMERS IN RETIREMENT: AN EARLY PERSPECTIVE

The Congress of the United States
Congressional Budget Office

NOTES

Unless otherwise indicated, all years are calendar years and all dollar values are expressed in 1989 dollars.

Numbers in the text and tables of this report may not add to totals because of rounding. Medians do not add to subtotals, and ratios of medians are not equal to median ratios.

Preface

In less than two decades, the first wave of baby boomers will retire. Many people are concerned that boomers will not do well financially in retirement. In response to a request from the Subcommittee on Social Security of the House Ways and Means Committee, this study looks at how the incomes and wealth of baby boomers compare with those of their parents as young adults, assesses the financial health of current retirees as a basis for comparison, and discusses factors that will influence the financial well-being of baby boomers in retirement.

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Summary

The impending swell of retired baby boomers has raised concern that both public and private resources will be inadequate to provide for their financial well-being in retirement. Ultimately, changes that take place over the next few decades in the national economy, workplace, and family will determine how the baby boomers will fare in retirement. Yet, one can glean some insight about their future incomes from looking at their present circumstances.

Viewing the Baby Boomers Versus Their Parents as Young Adults

Baby boomers--the generation born between 1946 and 1964--are in general financially better off than their parents' generation was as young adults. Both real household income and the ratio of household wealth to income are higher on average for baby boomers ages 25 to 44 in 1989 than was true for young adults of the same age in 1959 and 1962, respectively.

The advantage of older boomers is even greater than that of younger boomers. For the age group from 25 to 34, median household income in 1989 dollars is 35 percent higher than it was for a similar group in 1959--$30,000 in 1989 and $22,300 in 1959, after adjusting for inflation. The slightly older group, ages 35 to 44, reports substantially larger gains, with median household income 53 percent above that of the corresponding group in 1959--$38,400 in 1989 and $25,100 in 1959. The median value of real household wealth has risen about 50 percent for the younger age group, and the median ratio of wealth to income has increased about two-thirds. For the older group, the median value of real household wealth has risen about 85 percent, but the median ratio of wealth to income has not changed much.

There are, however, notable exceptions to this general improvement in the financial situation of young adults, most particularly those groups that have not shared in the economic prosperity of the past 30 years. For example, those households with heads ages 25 to 34 without a high school degree report median household income that is lower in 1989 than in 1959 after adjusting for inflation, though today's dropouts are a smaller, less-skilled group than those of the early 1960s. Households headed by unmarried individuals ages 25 to 34 with children report median income about one-third that of married couples with children and about one-twentieth as much wealth. Married couples ages 25 to 34 with only one earner report about two-thirds as much wealth in 1989 as in 1962. Wealth among nonhomeowners ages 25 to 34 has not changed much since 1962 and has actually declined among nonhomeowners ages 35 to 44.

Sizing Up the Financial Situation of Those Close to or Just Past Retirement Today

In general, the cohort that includes parents of the baby boomers, defined to be people ages 55 to 74 in 1989, has considerable income and

wealth. These older people benefited from strong economic and real wage growth until 1973, and since then from lackluster but positive real wage growth on average. Social Security benefits have expanded greatly over the last few decades, pension coverage and benefits for recent retirees have been rising, and unexpected capital gains on housing and financial gains on fixed-rate mortgages have given many older households a welcome financial boost. For those age 65 or older, the government covers a large percentage of medical expenses through the Medicare program.

One indicator of the financial circumstances of current retirees is the relatively low share of total income from earnings--perhaps a signal that many of the elderly do not find it necessary to have a job in order to make ends meet. In 1990, just 18 percent of the total income of households with heads of household age 65 and older came from earnings, down from 37 percent in 1958. The main explanation for this decline in the share of income from earnings is the rise in Social Security benefits. In 1990, 36 percent of total income of the elderly came from Social Security, up from 22 percent in 1958.

The relative importance of other sources of income has not changed much since 1958. The share of income from assets has risen from 23 percent to 25 percent, and the share from pensions has increased from 14 percent to 18 percent. The share from public assistance dropped slightly from 5 percent to 2 percent.

Closely related to the decline in the share of income from earnings over the past few decades is the decline in the rate of labor force participation among people 55 and older. In 1965, 85 percent of men ages 55 to 64 were in the labor force, but that proportion dropped to 67 percent in 1991. Among men ages 62 to 64, participation in the labor force fell from 73 percent in 1965 to 46 percent in 1991. For men age 65 and over, participation rates fell from 28 percent in 1965 to 16 percent in 1991. Women ages 55 to 64 show small increases in labor force participation over this same period, from 41 percent to 45 percent. Among women age 65 and over, the rate dipped slightly from 10 percent in 1965 to 9 percent in 1991.

This optimistic picture of recent and soon-to-be retirees is marred by some notable exceptions. Those men and women who are ages 55 to 64, not married, and not working report substantially lower median incomes and wealth than the median household in the cohort. Households with heads holding less than a high school degree report about one-third of the median income and less than one-quarter of the median wealth of households with heads who completed four years of college. Median wealth for nonhomeowners in the 55 to 64 age group is less than 1 percent of the median wealth (including housing equity) of homeowners in this age group. In the 65 to 74 age group, median wealth for nonhomeowners is less than 2 percent of the median wealth of homeowners.

Looking Ahead to the Financial Circumstances of Baby Boomers in Retirement

The Congressional Budget Office expects that baby boomers in general will have higher real retirement incomes than older people today for a variety of reasons. First, as long as real wage growth is positive on average during the next 20 to 40 years, boomers will have higher real preretirement earnings than today's older people had in their working years. With current law, this growth will increase the level of boomers' Social Security benefits. Pension benefits will be higher as well, and higher earnings now will enable boomers to save more for retirement. Second, increases in women's participation in the labor force imply that more boomers will have acquired additional years of work experience before retirement. Not only will more women be eligible for their own Social Security and pension

benefits, but also their income from these sources in some cases will be higher. Third, boomers will be more likely to receive income from pensions as a result of recent changes in the pension system. Finally, baby boomers may inherit substantial wealth from their parents.

Several caveats must accompany these encouraging findings. One of the most important assumptions leading to these results is that wages will grow more rapidly than prices during the next 40 years. In addition, no large changes in government tax and benefit policies are built into the analysis. Changes that increase taxes or reduce benefits could leave retirees with lower discretionary income. For example, during the next three or four decades, Social Security taxes could be raised or benefits could be reduced. In addition, Medicare's benefits and financing may be altered as part of the current effort to reduce the deficit, and possibly as part of general health care reform.

Although the future looks bright for those who are well educated, it is distinctly gloomy for those without many marketable skills. The baby boomers are one of the most highly educated cohorts in history, with one of every four completing four years of college as of 1989. Those with a college education can expect higher incomes, faster wage growth, and more resources available for saving. However, the prospects of earning a decent wage are much poorer for those without skills valued by the marketplace. The job opportunities for those without a college education or technical skills will probably continue to shrink in the future as the workplace attaches a growing premium to advanced skills and training.

Marital status is also important in determining financial well-being both before and after retirement, especially for women. Being married today usually means having two incomes and sharing many expenses, with housing among the most significant. Fringe benefits, particularly health insurance coverage, are usually better for married couples than for singles because the gaps in one spouse's benefits are often filled by the other. These financial benefits continue in the retirement years, and under current law a large percentage of wives also receive more generous Social Security payments based on their husband's work background rather than their own. Widows especially gain from their husband's more extensive work history.

Home ownership is likely to be another key indicator of the potential for lifetime earnings, and at least in the past has contributed to wealth through sizable capital gains on housing assets. Homeowners to date have accumulated significantly more wealth than nonhomeowners, in nonhousing assets as well as in housing, though this may reflect the relationship between income and wealth rather than a direct link between home ownership and wealth. If this trend continues, those who are unable to buy a home as young adults might be less financially well off in retirement than those who could afford to become homeowners. Although this study cannot forecast whether housing will continue to be a lucrative investment in the years to come, it does demonstrate that households headed by older people who own their homes tend to be financially better off in retirement.

Two implications emerge. The first is that single, poorly educated baby boomers may face a bleak economic future, depending heavily on public assistance. This is true as well for the current cohort of retirees. The second implication is that nonhomeowners may be unable to accumulate wealth at a rate that is sufficient to give them a comfortable lifestyle in retirement. Although most baby boomers will enjoy higher incomes and more wealth than their parents, some types of households will be struggling to make ends meet.

These concerns notwithstanding, the somewhat optimistic view reached in this study stands in sharp contrast to the widespread concern that baby boomers as a group will not fare well in retirement. Many people seem to focus on the slowing of real wage growth, the future of Social Security, the decline in defined-benefit pension plans, low private

saving rates, and possible declines in the value of housing. In spite of those disturbing trends, baby boomers can take comfort from some positive signs: real wages are still growing, the work force is more highly educated, and the participation rate of women in the labor force has increased. All of these factors portend increases in household incomes of baby boomers in retirement, in part by making greater accumulation of assets possible during their working years.

Chapter One

Introduction

The baby boomers--a huge bulge of people born from 1946 through 1964--have raised concerns at every stage of their lives. They put severe pressure on school resources in the 1950s and 1960s; their adolescence brought a rise in crime in the 1960s and 1970s; and their entry into the labor force may have contributed to keeping the growth of wages low in the 1970s and 1980s. But despite everything, the baby boomers have done well on balance: they are richer and better educated than their parents were at the same ages, and they are behaving similarly to their parents in their adult lives.

Looking to the future, however, many people are worried about the financial well-being of baby boomers when they retire. The concern centers on the large numbers of people who will retire between 2010 and 2030, the financial condition of social support programs, and declines in the national saving rate. The share of the population that is age 65 and over is expected to rise from about 12 percent in 1990 to about 20 percent in 2030 when the youngest baby boomer is 66 years old. Pressures will be felt in funding Social Security and private pensions and in providing health care to older people. And lower saving rates in recent years reduce the odds that sufficient resources will be available to provide for the retirement of baby boomers.

In general, the economic behavior of baby boomers to date is similar to that of their parents as young adults, which bodes well for their financial well-being in retirement. Baby boomers as a whole have more real income and wealth than their parents did as young adults, but some demographic groups have not fared as well as others. The parents of baby boomers, now close to or just past retirement age, for the most part seem to have adequate financial resources in retirement, though that may reflect transfer programs available to essentially all of them and unanticipated gains on housing assets rather than systematic financial planning. In addition, as long as real wages continue to grow and assuming that Social Security and private pensions remain intact and that health care expenditures do not swamp other gains, most baby boomers are likely to enjoy higher real incomes in retirement than their parents.

Of course, predicting the financial situation of baby boomers in retirement is a bit premature at this stage. Even though the older boomers have completed almost half of their working years, they have not completed half of their financial preparations for retirement. Significantly different profiles of the wealth of baby boomers are apt to be apparent 10 to 20 years from now as they get much closer to their retirement years and have more information on which to base their saving decisions. The current retirees acquired most of their pension benefits and private assets after they were older than the boomers are now. Not least, baby boomers could inherit substantial amounts of wealth from their parents over the next 20 to 30 years.

This study relies heavily on household survey data to examine the income and wealth positions of baby boomers and their parents, but a number of problems plague survey data.[1] People sometimes have poor recall or are reluctant to reveal their true income and wealth when answering a survey, so the exact values must be used with caution. Although the income data come from two large, representative surveys, information on wealth and on the ratio of household wealth to income comes from two much smaller and perhaps less representative surveys. These surveys are the best available sources for data on wealth, but this information is almost certainly less accurate than that on income (see Appendix A for more information on the data sources).

Only changes in financial well-being as measured by income and wealth are discussed in this study. It does not address many "quality of life" issues that surely are of great importance when comparing how baby boomers live today with how their parents lived three decades ago or with how the boomers will live 30 or 40 years into the future.

For example, the large increase in women's participation in the labor force in recent decades may mean more family income and many more opportunities for women today and in the future. At the same time, when both parents work, families must set up child care arrangements outside the home and juggle the needs of all family members during the few hours of family time that remain each week. Moreover, although improvements in medical care, automobile safety, housing, and consumer electronics have been remarkable, deterioration of the environment and an increase in crime rates exact high costs in terms of health, safety, and enjoyment.

1. The Congressional Budget Office used the 1960 Census, the 1990 Current Population Survey (CPS), and the Survey of Consumer Finances (SCF) in 1962 and 1989. The unit of observation used throughout this study is the household, defined in the Census and the CPS to include all people living in a dwelling unit. In the SCF, boarders are not included as members of the household.

Who Are the Baby Boomers?

The baby-boom generation includes roughly 76 million people born between 1946 and 1964. The annual number of births reached a low point of about 2.3 million during the Great Depression but jumped soon after the end of World War II and amounted to more than 4.2 million each year between 1956 and 1961.

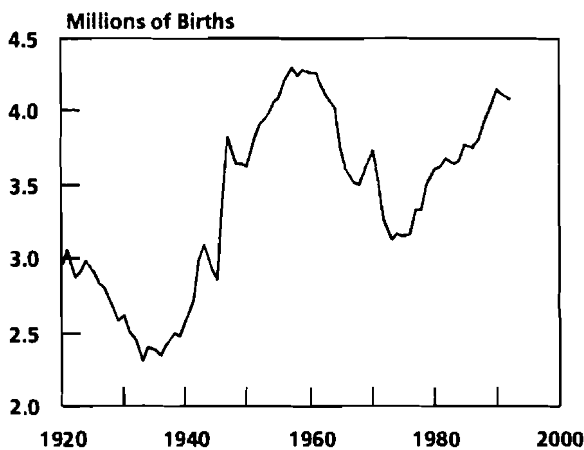
The earliest boomers show up in the huge increase--53 percent--in the under-five population between 1940 and 1950.[2] By 1960, the number of children under five had grown another 26 percent. Thereafter, births declined but did not fall below 4 million until 1965. They remained low during the rest of the 1960s and 1970s, so that the large baby-boom generation was both preceded and followed by smaller generations (see Figure 1).

This bulge is slowly working its way through the population. In 1980, there were almost twice as many young people ages 20 to 24 as in 1960. In 1990, 22 percent of all households were headed by a person age 35 to 44, up from 17 percent just 10 years before. And the proportion of the population age 65 and over will rise from about 12 percent in 1990 to about 20 percent in 2030.

For purposes of analysis, the baby boomers are commonly split into two age groups. Those born from 1946 through 1954 are known as early boomers, and those born from 1955 through 1964 are called late boomers. In other words, the early boomers are older than the late boomers. In 1989, the most recent year for which data on income and wealth are available, early boomers were ages 35 to 43 and were becoming established with their careers and family lives. Late boomers, ages 25 to 34, perhaps had not yet fully completed

2. Louise B. Russell, *The Baby Boom Generation and the Economy* (Washington, D.C.: Brookings Institution, 1982).

Figure 1.
Number of Births, 1920 to 1992



SOURCE: Congressional Budget Office using data from the National Center for Health Statistics.

their formal education and were still in the early years of their careers.

For this study, the Congressional Budget Office chose to look at people ages 25 to 44 in 1989, even though this group includes those born in 1945, just before the conventional start of the baby-boom years. The reason for this approach is that the Bureau of the Census publishes population statistics in terms of 10-year intervals--ages 25 to 34, 35 to 44, and so on. In 1989, the most recent year for which sufficient information is available, people born in 1945 were 44 years old. Thus, including those born in 1945 as well as all the baby boomers allows a quick check against published statistics.

Why the Concern About the Finances of Baby Boomers in Retirement?

Many people, including the baby boomers themselves, are concerned that the demands on private and public resources to support the baby-boom generation in retirement will be unduly large. Reasons abound to justify this concern. Among them are arguments about "crowding effects," observed trends in economic performance and social programs, and possibly inadequate private provisions for retirement.

Economic Consequences of the Baby Boom

A large cohort may suffer from crowding in all aspects of life--from getting into nursery schools, to attaining the best jobs, to obtaining high-quality medical care in old age. The demographer Richard Easterlin developed a theory suggesting that smaller birth cohorts, such as those of the 1930s, are more likely to enjoy economic good fortune and generally have relatively larger families.[3]

Larger cohorts tend to have less economic success and consequently have smaller families. Being part of a large birth cohort decreases the likelihood of economic success for both individuals and the cohort.[4] Members of large birth cohorts face increased competition for entry-level positions, less opportunity for advancement, and less likelihood of improving economic status relative to expectations. Since these factors apply to a specific age cohort, they are sometimes called "cohort effects."

Trends in Economic Performance and Social Support Programs

Sluggish economic growth in this country over the next 20 to 40 years could reduce the ability of households to save for retirement, both privately and through employment-based pension plans. Slow economic growth together

3. Richard A. Easterlin, *Birth and Fortune: The Impact of Numbers on Personal Welfare* (Chicago: University of Chicago Press, 1987).

4. See Finis Welch, "Effects of Cohort Size on Earnings: The Baby Boom Babies' Financial Bust," *Journal of Political Economy* (October 1979).

with the changing demographic composition of the U.S. population could also endanger the ability of the government to maintain needed social support programs.

Productivity growth, which is the main factor determining growth in real wages, has slowed in recent decades compared with the 1950s and 1960s, and no clear sign of a pickup is in sight. Households may save less as a result of slower growth in national income, and firms will find it more difficult to provide jobs with decent wages and satisfactory fringe benefits such as adequate pension plans and health insurance.

At the same time, sluggish economic growth in the long term will make reducing the federal government's deficit more difficult and make funding social support programs more problematic. Tax revenues are lower during periods of slow growth, and demands for government support programs are higher. Lower revenues and increased expenses will push federal deficits higher and will further hobble long-term economic growth.[5] Government programs such as Social Security and medical services for the elderly could face stiff fiscal pressure even before the time that the bulk of the baby-boom generation reaches retirement age.

The changing age composition of the population may also imply trouble ahead for maintaining social support programs for older people, though the ratio of children plus elderly to workers will not change much. Programs such as Social Security and Medicare rely on payroll taxes on current workers to support retirees. The ratio of the retired to the working population (proxied by the ratio of those age 65 and over to those ages 20 to 64) is projected to rise from 0.21 in 1990 to 0.27 in 2020 and then reach a high of 0.37 in 2035, when the oldest baby boomers are almost 90 and the youngest boomers are just past 70.

5. See Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1994-1998* (January 1993), Chapter 5.

On the bright side, the overall dependent population--including both the aged and the young--will rise much more slowly. The sum of population age 65 and over and population under age 20 divided by the population ages 20 to 64 is projected to be 0.70 in 2020, just as it is today, and then rise somewhat to 0.80 in 2035.

Private Efforts to Provide for Retirement

Declines in household saving rates over the past decade or two and uncertainty about the availability of housing wealth to finance retirement expenses have been a source of concern about how prepared households are for retirement.

In recent years, saving out of disposable income--the personal saving rate--declined to levels well below those of earlier decades. The adjusted personal saving rate fell from 7.1 percent in the 1960s to 6.1 percent in the 1980s.[6] Household survey results suggest a significant drop in saving rates in the 1980s by households with a head of household age 45 to 64, the cohort that is now close to or just past retirement age.[7]

Whether or not baby boomers are saving enough to provide for their retirement depends to a great extent on the standard of comparison. A recent study of saving finds that, on average, baby-boomer households are saving only 34 percent as much as they should to maintain their preretirement level of consumption in retirement.[8] The study assumes

6. Adjustments to the national income and product accounts' measure of the personal saving rate were made for consumer durables, inflation, the market value of federal debt, and defined-benefit pension plans. See Congressional Budget Office, *Assessing the Decline in the National Saving Rate* (April 1993), Table 14.

7. Barry Bosworth, Gary Burtless, and John Sabelhaus, "The Decline in Saving: Evidence from Household Surveys," *Brookings Papers on Economic Activity*, no. 1 (1991).

8. B. Douglas Bernheim, *Is the Baby Boom Generation Preparing Adequately for Retirement? Summary Report* (Princeton, N.J.: Merrill Lynch, January 1993).

Social Security benefits will continue at current levels, ignores housing wealth as a component of total wealth, and accounts carefully for job changes, pension benefits, and family composition. Although the conclusions about the adequacy of saving may be valid under the assumptions of that analysis, the question posed in this study is whether baby boomers will have higher real incomes in retirement than their parents. Baby boomers may do better than their parents in retirement even though they are not accumulating assets fast enough to maintain preretirement levels of consumption.

The role of home ownership and housing wealth is an important issue in assessing private provision for retirement for two reasons. First, the parents of baby boomers enjoyed strong capital gains from housing, but baby boomers should not expect similar gains. Some people even fear a sharp decline in real housing values. Second, some analysts question whether households view wealth tied to housing as being available to finance retirement expenses. These analysts argue that households do not appear to reduce housing equity as they age and therefore do not finance living expenses from housing equity. Others counter that housing equity can be used if needed, that more financial instruments are becoming available to allow housing equity to be tapped, and that households do, in fact, reduce housing equity in the year or two before death. For the purposes of this study, housing wealth is included as part of total wealth (see Box 1).

The Standard of Comparison

Will the baby boomers' real income and wealth in retirement exceed that of their parents? The answer to that question appears to

Box 1.
The Role of Home Ownership in Accumulating Wealth

Although home ownership is strongly correlated with the accumulation of wealth, buying a house certainly does not guarantee high levels of wealth. True, homeowners have some opportunities to accumulate capital that are not available to renters. Some current homeowners have benefited from capital gains on housing assets in the past, and payment of the monthly mortgage bill results in some "forced saving" as a portion of the payment adds to the homeowner's equity in the house. After paying off the mortgage, homeowners end up with a sizable asset. However, other circumstances are more important factors in determining the accumulation of wealth, and homeowners today cannot count on large rates of return on their housing equity in the future.

Alternatively, home ownership might indicate the potential lifetime earnings of household members or their preferences toward saving. Perhaps people who are cash-constrained with little expected growth in real income or are improvident with little concern about the future do not save much or become homeowners. Those who accept the discipline that comes with saving for a down payment, paying property taxes, and maintaining the home in good condition may care more about providing for their future through the accumulation of wealth.

Some evidence of the association between home ownership and the accumulation of wealth is available from the Survey of Consumer Finances, although the evidence in large part reflects the relationship between income and wealth. In 1989, the median value of wealth, excluding housing equity, for homeowners ages 35 to 44 was more than 20 times as great as that for nonhomeowners. For households headed by people ages 55 to 64, the median value of nonhousing wealth for homeowners was almost 50 times as large as that for nonhomeowners. However, income for homeowners was higher than for renters in each cohort examined for this study. For example, median income of homeowners ages 35 to 44 was $45,800 in 1989 compared with $25,200 for renters. Median income of homeowners ages 55 to 64 was $36,400 in 1989 compared with $17,700 for renters.

be yes. But that standard, applied throughout the economy, would imply a very low level of national saving and abandoning the goal of increasing standards of living. Higher rates of saving--by baby boomers, their parents, and the generation following the boomers--and lower government deficits would increase the likelihood of continued growth in standards of living, both for the boomers in retirement and for their children.

Other studies of future retirement incomes have used higher standards, though they are not related to any specific concern about overall national saving. Some studies suggest that baby boomers might seek to maintain some proportion of their preretirement standards of living when they retire, with the proportion ranging up to 100 percent. Full replacement of preretirement income is probably a higher standard than current retirees have met, and there is no way of knowing what replacement ratio boomers would find acceptable. (This study does not examine how boomers' retirement income might relate to their preretirement income.)

Chapter Two

Are Baby Boomers Better Off Than Their Parents Were as Young Adults?

Most baby boomers have higher real incomes and more wealth than their parents had at a comparable stage of their lives, and these factors bode well for the baby boomers' financial circumstances in retirement. However, some types of households have not improved their lot in life as much as others during the past three decades. Among young adults ages 25 to 44, many of those who are less well educated or do not own their homes have lower household incomes and less wealth than similar groups 30 years ago.

Incomes of Baby Boomers and Their Parents as Young Adults

Most households headed by young adults are earning higher incomes today than did similar households in the early 1960s. Based on data from the 1960 Census and the 1990 Current Population Survey, median household income (in 1989 dollars) for the age group from 25 to 34 has risen 35 percent in real terms, from $22,300 in 1959 to $30,000 in 1989.[1] The cohort age 35 to 44 reports substantially larger gains, with the median household income rising 53 percent, from $25,100 to $38,400. The gains are even larger if incomes are adjusted for the reduction in average household size from 3.3 in 1960 to 2.6 in 1990.[2] For households with a head of household age 25 to 34, median household income adjusted for household size increased 75 percent. It jumped 82 percent for households with a head of household age 35 to 44.[3]

Unlike their parents, who enjoyed the benefits of a dynamic economy as young adults, baby boomers achieved these gains in income despite the lackluster performance of the U.S. economy in the 1970s and 1980s. The average real rate of growth of the U.S. economy in the 1950s was about 4.1 percent a year, followed by 4.0 percent average annual growth in the 1960s. Growth in earnings was strong during the 1950s and 1960s as well. Disposable income per full-time-equivalent worker increased by 2.5 percent a year from 1947 to 1973.[4]

1. Appendix A describes Census and Current Population Survey data and reports sample sizes for the specific household types analyzed in this study. It also discusses how the choice of price deflator affects measured income growth. CBO used the implicit personal consumption expenditure deflator to convert 1959 dollars into 1989 dollars. The Current Population Survey measure of income includes cash income from all sources, including wages and salaries, business income, interest and dividend income, and current income from pensions and Social Security. It does not include capital gains or in-kind income such as food stamps or government-provided medical care.

2. The Congressional Budget Office used the official poverty thresholds from the Bureau of the Census to adjust for household size. In particular, total household cash income was divided by the ratio of the poverty threshold for the household's size to that for a household with only one member. For example, the income of a four-person household is divided by 2.0084 to obtain adjusted household income. When a household has only one person, adjusted income is equal to household income.

3. Young people ages 25 to 34 quite possibly got a faster start on their careers in 1962 than was true in 1989. If this is the case, income and wealth of the late boomers might catch up to that of the early boomers with time.

4. Frank Levy and Richard J. Murnane, "U.S. Earnings Levels and Earnings Inequality: A Review of Recent Trends and Proposed Explanations," *Journal of Economic Literature* (September 1992), pp. 1,333-1,381.

The economic environment was less rosy, however, for baby boomers as young adults. The average rate of real gross domestic product (GDP) growth in the 1980s was only 2.4 percent, as the economy struggled with a stubborn recession during the early years of the 1980s. Disposable income per full-time-equivalent worker increased by only 0.7 percent a year from 1973 through 1988.

At the same time that the growth of the economy as a whole was slowing, the distribution of incomes for households in the 25-34 age group was becoming more skewed, and it showed some increase in skewness for households in the 35-44 age group as well. For households headed by someone age 25 to 34, the median real income for the two lowest quintiles in 1989 was just 11 percent above that in 1959, and the median real income for the two highest quintiles was 56 percent greater than in 1959 (see Table 1, top panel).

Changing Household Composition

During the past three decades, and during the 1970s in particular, the number of households composed of working father, stay-at-home mother, and several children grew much more

Table 1.
Distribution of Income in 1959 and 1989, by Age (25 to 44) and Marital Status of Household Head (In 1989 dollars)

	Age 25 to 34		Age 35 to 44	
	1959	1989	1959	1989
All Households				
20th percentile	13,400	14,900	14,200	19,700
40th percentile	19,800	25,000	21,900	32,200
60th percentile	24,700	35,100	28,400	45,400
80th percentile	32,000	49,900	38,100	63,100
Median	22,300	30,000	25,100	38,400
Ratio of 80th to 20th percentile	2.39	3.35	2.68	3.20
Unmarried Head of Household				
20th percentile	4,900	9,500	5,300	11,400
40th percentile	10,100	17,800	11,300	20,500
60th percentile	16,200	26,100	17,200	30,100
80th percentile	24,300	38,500	25,500	44,900
Median	22,300	30,000	25,100	38,400
Ratio of 80th to 20th percentile	4.96	4.05	4.81	3.94
Married Head of Household				
20th percentile	15,400	21,900	17,000	29,000
40th percentile	20,700	32,100	23,900	40,800
60th percentile	25,500	42,100	30,000	53,100
80th percentile	32,400	55,900	38,700	71,200
Median	23,300	36,700	26,700	46,800
Ratio of 80th to 20th percentile	2.10	2.55	2.34	2.46

SOURCE: Congressional Budget Office tabulations using the 1960 Census and the 1990 Current Population Survey.

NOTE: Values apply to the household at the 20th percentile, 40th percentile, and so on.

slowly than the number of less traditional households.[5] In households composed of married couples, the wife was more likely to be employed outside the home and less likely to be the mother of three or more children. The increased tendency of individuals to live alone, have smaller families, and be part of the paid labor force as wives and mothers helps to account for the increase in skewness of household incomes.

Increased Share of Households Headed by Unmarried Individuals. In the younger age group, the growing proportion of households headed by unmarried individuals accounts for some of the increased number of households at the lower end of the income distribution. These households tend to have lower incomes than married couples. The proportion of households headed by unmarried people rose from 14 percent to 46 percent among people ages 25 to 34, and the median household income for unmarried households increased 68 percent. Growth in household income at each quintile was 58 percent or more, with growth at the 20th and 40th percentiles somewhat higher than at the 60th and 80th percentiles (see Table 1, middle panel).[6]

In the older age group--those ages 35 to 44--the proportion of households headed by unmarried people rose from 16 percent to 38 percent, and median household income for these households grew slightly faster than for the younger group. Median household income for these households grew about 78 percent, and income at each quintile increased by 75 percent or more--again with faster growth in the lower quintiles.

Household income for almost all households headed by married people increased substantially between 1959 and 1989, but at a slightly slower rate than that for unmarried households. Median household income for married-couple households in the younger cohort increased 58 percent between 1959 and 1989, with more rapid growth above the median and less rapid growth below it (see Table 1, bottom panel). Increased skewness is seen in the ratio of household income at the 80th percentile to household income at the 20th percentile, which rose from about 2.1 to 2.6.

Among the early boomers, households headed by married people show even greater gains in household income over their parents' generation. Among married couples in the 35-44 age group, household incomes increased substantially at every quintile, with the median income growing 75 percent and only a small increase in skewness.

Single people are gaining ground relative to married people among the younger cohort as young adults delay the age for first marriage, but the older group shows little change in this respect. Among those ages 25 to 34, the ratio of the median household income for unmarried people to that of married people rose from 0.56 in 1959 to 0.60 in 1989. Among the older cohort, however, the ratio remained steady at about 0.54.

Increased Share of Households Without Children. The share of households without children more than doubled between 1959 and 1989, and this increase may account for some of the skewness by allowing more adults to work for pay, work longer hours, or get more advanced training. In the 25 to 34 age group, the percentage of households composed of unmarried individuals without children increased from about 8 percent in 1959 to about 30 percent in 1989 (see Table 2). Real income for the median household of this type is about 53 percent higher in real terms in 1989 than in 1959. Among households headed by unmarried individuals with children, median household income has risen by about two-thirds since 1959. These households account

5. Appendix B contains more detail on the changes in household structure that occurred during the 1960s, 1970s, and 1980s for households of all ages.

6. Each quintile contains 20 percent of the households, rather than 20 percent of the individuals, to be consistent with the focus in this study on the household as the unit of comparison. After separating households headed by unmarried people from those headed by married people, the distributions look very similar whether weighted by people or by households.

Table 2.
Household Income in 1959 and 1989, Head of Household Age 25 to 44

	Median Income (1989 dollars)		Percentage of Households	
	1959	1989	1959	1989
	Head of Household Age 25 to 34 *By Marital Status*			
All Households	22,300	30,000	100.0	100.0
Unmarried				
No children	17,000	26,000	7.6	29.9
With children	8,100	13,300	6.0	16.1
All households	13,000	21,900	13.6	45.9
Married				
No children	26,500	44,500	10.9	14.0
With children	22,700	34,600	75.5	40.1
All households	23,300	36,700	86.4	54.1
One earner	21,900	28,100	52.8	18.2
Two earners	25,500	41,500	33.6	35.9
All households	23,300	36,700	86.4	54.1
	By Education of Head of Household			
All Households	22,300	30,000	100.0	100.0
No High School Degree	18,600	16,300	42.1	13.2
High School Degree	23,900	29,000	43.2	61.5
Four Years of College	29,200	41,800	14.7	25.4
	Head of Household Age 35 to 44 *By Marital Status*			
All Households	25,100	38,400	100.0	100.0
Unmarried				
No children	16,800	28,700	9.0	22.9
With children	10,900	20,900	7.0	15.0
All households	14,200	25,300	16.1	38.0
Married				
No children	28,000	50,500	11.6	11.3
With children	26,300	46,200	72.4	50.8
All households	26,700	46,800	83.9	62.0
One earner	24,700	38,500	50.8	19.3
Two earners	29,600	50,400	33.1	42.7
All households	26,700	46,800	83.9	62.0
	By Education of Head of Household			
All Households	25,100	38,400	100.0	100.0
No High School Degree	20,700	20,800	48.6	11.5
High School Degree	27,500	35,600	40.1	58.1
Four Years of College	38,500	53,400	11.3	30.4

SOURCE: Congressional Budget Office tabulations using the 1960 Census and the 1990 Current Population Survey.

for 16 percent of all households in 1989, up from 6 percent in 1959.

Married couples with children made up 76 percent of all households in the 25-34 age group in 1959, but accounted for just 40 percent of all households in this age group in 1989. The median household composed of a married couple with or without children in this age group had real income in 1989 about $13,000 above the median income of such a household in 1959.

Early boomers with or without children and married or not have made even greater gains in income over their parents' generation at a similar age than have late boomers. For households headed by someone age 35 to 44, in every case the median household income in 1989 was more than two-thirds higher than that in 1959 (see Table 2). Despite the very rapid growth in households headed by unmarried individuals without children, median income for these households grew about 71 percent. Even larger gains were seen in married households both with and without children.

More Women in the Labor Force

A significant rise in labor force participation for married women and women with children raises household incomes and also helps to account for some of the rapid rise in household incomes at the upper end of the income distribution. In 1960, only one-third of married women of all ages were in the labor force, and only one-fifth of those with children under six years of age (see Table B-1 in Appendix B). By 1990, about three-fifths of married women and of married women with children under age six were in the labor force. Since 1960, the proportions of married women ages 25 to 34 and 35 to 44 in the labor force have doubled to 70 percent and 74 percent in 1990, respectively.

The earnings of working wives have proved to be especially important to families since the economic slowdown that began in the mid-1970s. For households of all ages, married couples in which the wife is in the paid labor force reveal the highest median income in 1990, almost $47,000, as compared with about $30,000 for families in which the wife is not in the paid labor force (see Table B-2). Of course, these differences would be less dramatic if the value of in-kind income produced by stay-at-home mothers were measured. Moreover, the only family group that shows real growth in income since 1970 is the married-couple family in which the wife is part of the paid labor force. Median income of married-couple families with working wife is almost triple that of families with a female householder and no husband present.

The general pattern of weaker growth in income for one-earner couples also applies to the baby boomers, and especially to the late boomers. For the 25-34 age group, real income for the median married couple with one earner grew just 28 percent between 1959 and 1989, as their presence among all married households in this age group dropped from three-fifths to about one-third. (Percentages of one-earner households in Table 2 refer to the share of one-earner households among all households rather than among married households.) By contrast, the median couple with two earners reported income that was 63 percent higher in 1989 than in 1959. Median household income for one-earner married couples in the 35-44 age group rose by more than one-half, as their share of all married couples fell from three-fifths in 1959 to less than one-third in 1989. The median income of two-earner couples rose sharply, standing 70 percent higher in 1989 than in 1959.

More Higher Education for Baby Boomers

Baby boomers have responded to the challenges of their changing environment by embracing higher education and becoming one of the best educated cohorts in history, boosting incomes at the upper end of the income distribution as a result. Among people ages 25 to 29 in 1960, for example, only three-fifths were

high school graduates and just over one-tenth had completed four years of college.[7] In 1990, by contrast, more than four-fifths of those ages 25 to 29 were high school graduates and almost one-quarter had completed four years of college.

Among households in the 25-34 age group, educational attainment makes the difference between losses and gains in real income compared with the previous generation. Where the head of household did not finish high school, median household income fell from $18,600 in 1959 to $16,300 in 1989. Two-fifths of households with a head of household age 25 to 34 fell into this category in 1959. However, just one-eighth of all households in the age group were of this type in 1989. Households headed by high school graduates had a median income that was 21 percent higher in 1989 than similar households in 1959, indicating that the value of a high school degree in the workplace has changed over time. Households headed by a person who has completed four years of college had a median income that was 43 percent higher in 1989 than that of a similar household in 1959.[8]

Although the gains in real income apply to the median household in each of the three education classes among those ages 35 to 44, the largest gains again belong to those households in which the head completed four years of college (see Table 2). Median household income for households headed by a person with four years of college increased about 39 percent, and their share of all households rose from 11 percent to 30 percent. Increased participation in the labor force among spouses of highly educated men may account for a large part of these gains in income. Those households headed by a person who did not finish high school showed growth in real income of just 0.5 percent.

7. Bureau of the Census, *Statistical Abstract of the United States: 1992* (1992), Table 219.

8. This figure is consistent with Levy and Murnane's result that the ratio of earnings of males who work full time, ages 25 to 34, with 16 years of schooling to those with 12 years of schooling rose from 1.22 in 1971 to 1.38 in 1987. See Levy and Murnane, "U.S. Earnings Levels and Earnings Inequality."

Wealth of Baby Boomers and Their Parents as Young Adults

Two primary factors determine how well people live when retired: their own saving and the level of transfers from people still working. The extent to which young adults have been able to accumulate wealth, some or all of which can be used to finance consumption during retirement, is measured by the level of wealth and by the ratio of household wealth to household income.

Data on wealth in this study come from the Survey of Consumer Finances for 1962 and 1989 and include liquid as well as illiquid financial assets such as individual retirement accounts (IRAs) or Keogh plans; the value that can be borrowed against employer-provided pension accounts; the value of any housing, land, and automobiles owned less the debt owed on them; less other nonhousing liabilities such as credit-card debt. The Survey of Consumer Finances reports neither the value of future Social Security benefits nor the illiquid portion of pension accounts.

In general, the survey data indicate that most households in the age groups from 25 to 34 and 35 to 44 had higher wealth-to-income ratios in 1989 than comparable households in 1962. However, certain types of households show more improvement than others according to this measure.

The median ratio of wealth to income for households with a head of household age 25 to 34 has risen from 0.25 in 1962 to 0.42 in 1989 (see Table 3). For households with a head age 35 to 44, the median ratio has increased slightly from 1.19 to 1.23. This rise suggests that the typical young adult household has

Table 3.
Wealth-to-Income Ratios and Wealth Within Income Quintiles in 1962 and 1989, Head of Household Age 25 to 44

	Median Ratio of Wealth to Income		Median Wealth (1989 dollars)	
	1962	1989	1962	1989
Head of Household Age 25 to 34				
All Households				
Lowest income quintile	0.02	0.02	300	200
Second income quintile	0.14	0.21	2,500	3,000
Middle income quintile	0.32	0.45	7,300	10,900
Fourth income quintile	0.57	0.43	17,400	16,600
Highest income quintile	0.63	1.07	25,500	73,600
Median	0.25	0.42	6,100	9,000
Unmarried Head of Household[a]				
Lowest income third	0	0	0	0
Middle income third	0.05	0.19	700	2,200
Highest income third	0.86	0.45	24,200	13,900
Median	0.05	0.18	400	1,800
Married Head of Household				
Lowest income quintile	0.03	0.38	300	2,300
Second income quintile	0.14	0.47	2,800	10,900
Middle income quintile	0.40	0.44	9,000	11,700
Fourth income quintile	0.57	0.45	17,300	19,100
Highest income quintile	0.65	1.47	28,800	90,900
Median	0.31	0.67	7,900	17,300
Head of Household Age 35 to 44				
All Households				
Lowest income quintile	0.17	0.17	1,900	1,000
Second income quintile	0.72	0.84	11,600	23,000
Middle income quintile	1.19	1.73	31,200	64,400
Fourth income quintile	1.64	1.32	57,600	69,900
Highest income quintile	1.61	2.08	81,000	167,500
Median	1.19	1.23	29,300	54,200
Unmarried Head of Household[a]				
Lowest income third	0	0	0	0
Middle income third	0.72	0.70	10,300	17,900
Highest income third	0.94	1.64	23,700	80,000
Median	0.56	0.62	6,300	16,700
Married Head of Household				
Lowest income quintile	0.54	0.30	7,700	6,300
Second income quintile	1.14	1.74	23,200	53,100
Middle income quintile	1.05	1.28	29,300	61,000
Fourth income quintile	1.78	1.80	61,900	102,700
Highest income quintile	1.59	1.84	85,800	185,100
Median	1.28	1.49	36,500	70,100

SOURCE: Congressional Budget Office tabulations using the Survey of Consumer Finances in 1962 and 1989.

a. The sample size for unmarried people in this age group was too small in 1962 to calculate quintiles.

been able to squirrel away assets more readily in the 1980s than was true in the 1950s.

A look at the accumulation of wealth across the income distribution shows that poorer households have not become wealthier during the last three decades. For households in the age bracket of 25 to 34, the median value of wealth within the lowest income quintile shows a slight decline from 1962 to 1989, and the median ratio of wealth to income shows no change (see Table 3). These patterns are also true of households ages 35 to 44 in the lowest income quintile.

If one separates households headed by unmarried people from those headed by married people, substantial differences are notable in the accumulation of wealth. Households headed by unmarried people show much lower ratios of wealth to income and lower wealth than do those of married couples. Among those households headed by unmarried people ages 25 to 34, the median ratio of wealth to income has more than tripled from 1962 to 1989, but remains less than one-third that of married couples. However, within the top third of the income distribution of singles, both the median ratio of wealth to income and the median value of wealth have declined. By contrast, the median wealth-to-income ratio of households with a married head of household age 25 to 34 within the highest income quintile has more than doubled. The median ratio for all married couples has more than doubled as well.

Among households in the age bracket of 35 to 44, those headed by married or unmarried individuals in the top tier of the income distribution show modest to substantial growth in the median ratio of wealth to income from 1962 to 1989. The median ratio for singles increased 11 percent, and that for married couples increased 16 percent. Median wealth for single people in 1989 was about one-fourth that of married couples, up from one-sixth in 1962.

The amount of wealth not tied up in housing also varies widely between single people and married couples. In 1989, the median amount of nonhousing wealth held by single people in the 25-34 age group was just $1,100, and that held by married couples was $7,800 (see Table 4). For households in the 35-44 age group, single people held $4,000, and married couples held $23,400.

Role of Home Ownership. Home ownership is an important factor in accounting for the accumulation of wealth in the 1980s, reflecting not only gains in housing assets but also the higher incomes and saving preferences of homeowners. Those young households who are homeowners show relatively higher wealth-to-income ratios in 1989 than in 1962, and those who do not own their homes show stagnant or lower wealth-to-income ratios. The median ratio for households with heads of household ages 25 to 34 who were not homeowners stood at 0.08 in 1962 and at 0.12 in 1989, showing little change in magnitude. Nonhomeowners ages 35 to 44 showed a ratio of 0.29 in 1962, and this ratio dropped to 0.15 in 1989.

Conversely, the wealth-to-income ratios of homeowners show considerable improvement. For homeowning households in the 25-34 age group, the median ratio increased from 0.7 to 1.1. For those in the 35-44 age group, the median ratio increased from 1.6 to 1.9. An analysis of the composition of wealth suggests that the share of housing assets in total wealth has not changed much for most household types since 1962 but has increased for wealthier households in the 25-34 age group.

Role of Marital Status and Children. A breakdown of young adult households by cohort, marital status, and the presence of children points to further disparities in the accumulation of wealth. Almost nine-tenths of unmarried households with heads of household ages 25 to 34 with children had less wealth than income both in 1962 and in 1989 (see Table C-1 in Appendix C). Among married-couple families ages 35 to 44 with or without children, however, less than one-half had less wealth than income in 1962, and by 1989 fewer than two-fifths reported less wealth than

income. Being older and married implies more wealth relative to income, and this difference has grown over the last three decades.

The value of nonhousing wealth relative to income has not changed much over time for most household types, whether married or not and whether they have children or not. If one compares the percentage of households with nonhousing wealth equal to less than one-half of their income in 1989 with that in 1962, only two types of households show a sizable change. Households headed by an unmarried person age 35 to 44 without children show a substantial decline in the proportion of households with nonhousing wealth equal to less than one-half of income, meaning that these baby boomers have accumulated more nonhousing wealth relative to their income than did their parents. The same is true for married households ages 25 to 34 without children.

One- Versus Two-Earner Families. When wives enter the labor force, families accumulate wealth more readily. Families with married couples with one earner in 1989 had less than half the median nonhousing wealth of two-earner families (see Table C-2). The me-

Table 4.
Wealth and Income of Households in 1962 and 1989, by Age (25 to 44) and Marital Status of Household Head (In 1989 dollars)

	Age 25 to 34		Age 35 to 44	
	1962	1989	1962	1989
All Households				
Median income	22,300	30,000	25,100	38,400
Median wealth	6,100	9,000	29,300	54,200
Median nonhousing wealth	2,400	4,200	12,200	17,400
Percentage for which:				
Wealth is less than income	77	69	47	42
Nonhousing wealth is less than one-half of income	77	72	51	55
Unmarried Head of Household				
Median income	13,000	21,900	14,200	25,300
Median wealth	400	1,800	6,300	16,700
Median nonhousing wealth	300	1,100	1,900	4,000
Percentage for which:				
Wealth is less than income	79	82	61	59
Nonhousing wealth is less than one-half of income	80	77	60	65
Married Head of Household				
Median income	23,300	36,700	26,700	46,800
Median wealth	7,900	17,300	36,500	70,100
Median nonhousing wealth	3,200	7,800	15,800	23,400
Percentage for which:				
Wealth is less than income	77	61	45	35
Nonhousing wealth is less than one-half of income	77	69	49	50

SOURCE: Congressional Budget Office tabulations using the 1962 and 1989 Survey of Consumer Finances. Data on median incomes come from the 1960 Census and the 1990 Current Population Survey.

dian value of total wealth was lower for these one-earner families as well. In addition, one-earner families in 1989 seem to be slipping behind their comparable group in 1962. The proportion of those households ages 35 to 44 with nonhousing wealth equal to less than one-half of income rose from 47 percent to 64 percent between 1962 and 1989. For those ages 25 to 34, the proportion was approximately unchanged.

In most cases in 1962, single-earner families had higher median levels of wealth and nonhousing wealth than did two-earner families. In 1989, however, wealth and nonhousing wealth were greater for two-earner families. An explanation may be that wives who worked in 1962 did so because their families needed the second income so that they could save more, whereas wives work today for other reasons as well.

Education. Over the past three decades, higher education has become both more accessible to students and more important to employers. That trend has had implications for both the growth in incomes and the accumulation of wealth.

Those households with a head of household who completed four years of college report not only much higher incomes and wealth than less educated households in the same year, but also bigger increases in income and wealth between 1962 and 1989 (see Table C-3). At the same time, households in which the head has no high school degree are falling further behind their better-educated peers. For example, the college-educated head of household age 35 to 44 in 1989 shows median wealth of about $103,000. In comparable households where the head has a high school degree, median wealth is about $46,000. When the head has no high school degree, median wealth is only $6,000.

Median wealth rose about 50 percent between 1962 and 1989 for the college-educated household age 35 to 44. But it rose only slightly for those with high school degrees and fell by about 56 percent for those without a high school diploma.

Composition of Assets and Liabilities

How have baby boomers shifted the composition of assets and liabilities relative to that of their parents? For example, if most of the increase in wealth comes from capital gains on housing assets, baby boomers need to be especially wary of a sharp decline in housing prices. Housing assets have not changed much as a share of total wealth, but they have more than doubled in real dollar terms for the median household age 35 to 44 (see Table C-4). On the liabilities side, consumer debt has also increased in dollar terms but not as a fraction of wealth.

Composition of Assets

Median values in real terms of liquid financial assets--such as checking accounts, money market accounts, and certificates of deposit--increased about 2.5 times for both age groups from 1962 to 1989. At the same time, the amount held in other financial assets--such as savings bonds or corporate bonds and stocks--has declined.

The median value of housing assets was zero for households ages 25 to 34 in both 1962 and 1989 because just 39 percent of these households were homeowners in 1962 and only 43 percent in 1989. For the 35-44 age group, however, the median household reported $23,300 in housing assets (including both principal residence and vacation homes) in 1962, and this value more than doubled to $50,000 in 1989.

At the same time, tangible nonhousing assets--such as cars and real estate bought for investment purposes--rose substantially for both age groups. Excluding autos from both assets and liabilities reduces the median value of wealth by about $2,200 for those ages 25 to 34 and by about $1,800 for those ages 35 to 44 in 1962. In 1989, the median value of wealth is reduced by about $3,400 for the 25-34 age group and by $4,800 for the 35-44 age group.

The median amount that could be borrowed against retirement and profit-sharing accounts was reported to be zero in both 1962 and 1989. Similarly, the median value of individual retirement accounts or Keogh accounts was zero in both years.

Composition of Liabilities

The real value of liabilities rose substantially for households in the 35-44 age group, but increased much more modestly for those ages 25 to 34. In 1989, 66 percent of early boomers were homeowners; the reported median mortgage value for all households was $12,000. In 1962, about 57 percent of households in this age group were homeowners, and the median value of housing liabilities among all households ages 35 to 44 was zero.

Nonhousing liabilities, primarily consumer debt such as credit cards and auto loans, showed a modest rise for late boomers but a more significant increase for early boomers. As a percentage of total wealth, however, the positions of either group of households in 1962 and in 1989 change little. The median ratio of consumer debt to wealth is 7 percent for households in the 25-34 age group in 1962, and it drops to 5 percent in 1989. For households in the 35-44 age group, the median ratio remains at 4 percent both in 1962 and in 1989. Changes in the mean ratio of consumer debt to wealth are similarly small. Nonhousing liabilities are slightly higher than consumer debt because they include loans secured by insurance or other assets and debt on investment real estate in addition to consumer debt.

Composition by Home Owner Status

A comparable breakdown of assets and liabilities for nonhomeowners and homeowners sheds more light on disparities in the accumulation of wealth. The median value of wealth for nonhomeowners was stagnant or declined between 1962 and 1989 (see Table C-4). Early boomers who do not own their home show a sharp decline in the median value of financial assets and a modest increase in consumer debt. Those late boomers who do not own a home show somewhat higher financial assets and little change in consumer debt; the median value of their total wealth increased slightly.

The picture is quite different for homeowners. Both age groups show substantial increases in the median value of liquid financial assets and a rise in both housing assets and in nonhousing tangible assets. The rise in the value of housing is especially large for homeowners in the 35-44 age group. Median mortgage values, reported as housing liabilities, increase about 20 percent for homeowners in the younger group and about 63 percent for homeowners in the older group. Consumer debt more than doubles for late boomers and more than triples for the older group. Again, however, consumer debt as a percentage of wealth changes little. The median ratio remains at 5 percent for early boomers who are homeowners and at 8 percent for late boomers.

Despite the dramatic rise in the price of housing relative to other prices during the 1970s and 1980s, the share of housing equity in total wealth has not changed much for most homeowners between 1962 and 1989. For households in the 35-44 age group who own their home, the mean value of housing equity as a share of total wealth remained at about 37 percent and the median ratio hovered around 62 percent. Within the bottom, middle, and top thirds of the wealth distribution, the shares have remained stable as well. For homeowners in the 25-34 age group, wealthy households held a higher proportion of their

wealth in housing in 1989 than in 1962, but less wealthy households held a lower proportion in housing. The median ratio of housing equity to wealth declined, and the mean ratio increased. For those in the middle third of the wealth distribution, however, the mean ratio remained at about 70 percent.

Conclusions

In most cases, baby boomers are financially better off than their parents were as young adults, as measured by household incomes and ratios of wealth to income. However, survey data reveal some important qualifications. First, early boomers are relatively better off compared with their parents' generation than are late boomers. Those born between 1955 and 1964 tend to be struggling more than those born 10 years earlier, though this situation may change as late boomers advance in their careers. Second, postsecondary education has big payoffs in today's economy. Young adults with only a high school degree or less are not making big gains in income or wealth compared with their parents. Third, married couples with only one earner are slipping behind those households with two earners. And finally, home ownership seems to play an important role in the accumulation of wealth.

A few surprises have emerged from this analysis. Widespread concern exists that baby boomers are not doing as well as their parents, but the strong economic growth before the early 1970s and the weak but positive growth since then has produced growth in real income for most individuals. More advanced educational attainment also plays a role. Many households are doing far better than their parents with the help of a working spouse, though the improvement would be smaller if the value of household production were known and could be included in the analysis. Households that own their homes have enjoyed sizable capital gains, but nonhousing wealth has not increased as a percentage of income since the early 1960s for most households.

Chapter Three

What Factors Have Influenced the Financial Well-Being of Current Retirees?

For the most part, the financial health of retirees today is good. Several important factors are responsible for this healthy condition.

For those who started their working life in the 1950s, strong growth in productivity in the economy through the 1960s and into the early 1970s meant strong growth in real wages. Although growth in productivity has not been so strong since then, those workers built a solid financial foundation with which to buy a house, start a family, and save for future needs. Social Security benefits are also quite generous compared with those paid to earlier generations, and private pensions have become more widespread and are providing a greater share of retirement income. In addition, gains from home ownership have exceeded the expectations of most, and the government is picking up a large share of medical expenses.

Unfortunately, certain types of older adults do not face such a secure financial position in retirement despite the optimistic outlook for the group as a whole.[1] Those who are struggling tend to be unmarried and not working before normal retirement age, or have less than a high school education. Older unmarried women in particular are a high-risk group. In addition, home ownership makes a big difference in the accumulation of wealth.

Incomes of Older Adults

Older adults who are now close to retirement age began their working lives during the "post-war golden age, which ended in 1973."[2] As noted in Chapter 2, real disposable income for each full-time-equivalent worker increased by 2.5 percent a year from 1947 to 1973, but only by 0.7 percent a year from 1973 to 1988. Being part of the labor force during the 1950s and 1960s meant that incomes rose faster than had been expected, perhaps leading to more savings as well as more consumption.

One indication of rapid income growth in the early postwar period comes from tracking median individual incomes of men ages 45 to 54 who worked year-round and full time from 1948 to 1988.[3] Median income, adjusted to include employer contributions for both private fringe benefits and social insurance, doubled from $17,000 in 1948 to $34,074 in 1973, in 1988 dollars. Between 1973 and 1988, the increase was much more modest, rising to just $35,943 in 1988.

1. A recently released survey contains more detailed information on income and wealth by race and health status for those ages 51 to 61 in 1992. See F. Thomas Juster and others, *Health and Retirement Study* (National Institute on Aging, June 1993).

2. Angus Maddison, "Growth and Slowdown in Advanced Capitalist Economies: Techniques of Quantitative Assessment," *Journal of Economic Literature* (June 1987), p. 649.

3. Frank Levy and Richard J. Murnane, "U.S. Earnings Levels and Earnings Inequality: A Review of Recent Trends and Proposed Explanations," *Journal of Economic Literature* (September 1992), p. 1,337.

Survey Data on Incomes

The 1990 Current Population Survey reports the median income of households headed by a person age 55 to 64 to be $32,300 in 1989, but this figure masks substantial variation within the group (see Table 5). A good part of the variation is associated with the marital status of the head of household. Some of the variation occurs because the group contains both households with no current earnings and households with at least one earner still employed full time. The labor force participation rate for men ages 55 to 64 was 67 percent in 1989, down from 87 percent in 1960.[4] The labor force participation rate for women ages 55 to 64 has risen, however, from 37 percent in 1960 to 45 percent in 1989.

Table 5.
Distribution of Income in 1989, by Age (55 to 74) and Marital Status of Household Head (In 1989 dollars)

	Age 55 to 64	Age 65 to 74
All Households		
20th percentile	13,900	9,500
40th percentile	25,600	16,100
60th percentile	39,400	24,800
80th percentile	60,600	39,500
Median	32,300	20,300
Ratio of 80th to 20th Percentile	4.36	4.16
Unmarried Head of Household		
20th percentile	7,200	6,500
40th percentile	14,500	10,400
60th percentile	23,400	15,600
80th percentile	37,200	26,100
Median	18,900	12,800
Ratio of 80th to 20th Percentile	5.17	4.02
Married Head of Household		
20th percentile	22,000	15,800
40th percentile	34,900	23,400
60th percentile	49,200	32,700
80th percentile	71,200	49,100
Median	41,400	27,700
Ratio of 80th to 20th Percentile	3.24	3.11

SOURCE: Congressional Budget Office tabulations using the 1990 Current Population Survey.

NOTE: Values apply to the household at the 20th percentile, 40th percentile, and so on.

Households headed by someone age 65 to 74 report median income of $20,300, with variation that is similar to but slightly smaller than that in the 55-64 age group. The variation may be smaller for two reasons. Support programs for people age 65 and older in the low end of the income distribution help them to maintain a modest level of income, and fewer members of households in the upper end continue to participate in the labor force. In 1989, the participation rate of people age 65 and over in the labor force was just 17 percent for men and only 8 percent for women.

Marital status, the number of earners in the household, and educational attainment play important roles in determining incomes of older people and in explaining variations in household income, just as they did for the baby boomers.

Marital Status. Among those ages 55 to 64, the median income of households headed by unmarried individuals is about $19,000, and that of households headed by married individuals is about $41,000. About 63 percent of households in this age group are married couples.

The distribution of household incomes is especially skewed among households headed by unmarried people in the 55-64 age group (see Table 5). For these households, the income of the household at the 80th percentile is 5.2 times the income of the household at the 20th percentile. At the 20th percentile, the income of households headed by unmarried people is less than one-third that of married couples.

4. House Committee on Ways and Means, *Overview of Entitlement Programs: 1992 Green Book*, WMCP: 102-44 (May 15, 1992), Table 5, p. 1,238.

Among those ages 65 to 74, the median income of households headed by unmarried people is $12,800, and that of households headed by married individuals is $27,700. The income of households headed by unmarried people is about half that of households headed by married people at the median and at each quintile (see Table 5). Of households in the 65-74 cohort, 50 percent are married couples.

Relatively low divorce rates have helped to keep household incomes at a comfortable level for many older adults, particularly for women. Low divorce rates lead to higher incomes in retirement because many wives receive Social Security benefits under their husband's work history and some receive private pension benefits under his coverage as well. Divorce in many cases leads to lower incomes for older women than does the death of a spouse. For example, divorced women do not receive spousal or survivorship benefits under Social Security unless they were married for more than 10 years before the divorce.

Older people who are no longer married are more likely to have lost a spouse through death than through divorce. This situation may be less true for baby boomers when they reach retirement age. The median age of women at the time of divorce has not changed much in recent decades, rising from 30 in 1970 to 33 in 1988.[5] But the divorce rate per 1,000 population has grown from 2.2 in 1960 to 3.5 in 1970 and 5.2 in 1980, with some retrenchment to 4.7 in 1990.[6]

Number of Earners. The number of earners in the household has a bigger influence on the median income of households in the 55-64 age group than it does for the older cohort.[7] For households in which the head is 55 to 64 years of age and not married, participation in the labor force implies a median income of $24,900 as compared with $11,100 when no adult in the household is working (see Table 6). For households in the same age group with husband and wife, the median income rises from $24,900 if neither spouse is an earner to $39,100 for one earner to $53,300 for two earners.

Participation in the labor force matters somewhat less for the median household income of adults in the 65-74 age group, perhaps because many of those who work are doing so only part time. Alternatively, only those who need the additional income are still in the labor force. For example, the difference in median incomes is only $6,800 between having no earners and one earner for households headed by an unmarried person in this older age bracket (see Table 6).

More wives in the younger cohort of retirees contributed to the financial position of the household during their working years. Participation of wives in the labor force grew significantly throughout the 1960s, 1970s, and 1980s, particularly among women who earned relatively high incomes. If one follows the cohort age 25 to 34 in 1960, rapid changes take place in the typical role of women in the family from housewife to working woman. Participation in the labor force of married women ages 25 to 34 stood at 29 percent in 1960.[8] This same cohort in 1970, then ages 35 to 44, reported participation rates of 47 percent. By 1990, the participation rate for married women ages 45 to 64 was 57 percent.

Educational Attainment. Differences in educational attainment and the strong education premium explain a large part of the variation in household incomes as well. One-fifth of the heads of households in the 55-64 age group had completed four years of college in 1989 and reported median income of $58,100. This income compares with $33,800 for those with a high school degree and $20,100 for those who did not finish high school. The

5. Bureau of the Census, *Statistical Abstract of the United States: 1992* (1992), Table 132.

6. Ibid., Table 80. The stock of divorced women has risen by less than the increase in the rate of divorce because the rate of remarriage has increased.

7. A person qualifies to be an earner if he or she reports at least one hour per week in the paid labor force.

8. Bureau of the Census, *Statistical Abstract 1992*, Table 618.

Table 6.
Household Income in 1989, Head of Household Age 55 to 74

	Age 55 to 64		Age 65 to 74	
	Median Income (1989 dollars)	Percentage of Households	Median Income (1989 dollars)	Percentage of Households
Marital Status				
Not married	18,900	37.1	12,800	47.7
Married	41,400	62.9	27,700	52.3
All households	32,300	100.0	20,300	100.0
Number of Earners				
Unmarried households				
No earners	11,100	45.0	11,700	84.0
One earner	24,900	55.0	18,500	16.0
All households	18,900	100.0	12,800	100.0
Married households				
No earners	24,900	20.9	24,400	66.2
One earner	39,100	37.9	33,800	25.0
Two earners	53,300	41.2	47,200	8.9
All households	41,400	100.0	27,700	100.0
Education of Head				
No high school degree	20,100	28.9	14,100	37.3
High school degree	33,800	51.3	21,900	48.1
Four years of college	58,100	19.8	38,600	14.6
All Households	32,300	100.0	20,300	100.0

SOURCE: Congressional Budget Office tabulations using the 1990 Current Population Survey.

households in the 65-74 age group with a head of household who completed four years of college report median income of $38,600. Those with a high school degree or less show median incomes that are one-third to three-fifths as large.

Men and women with four years of college who work full time have earned between 30 percent and 55 percent more than those with high school diplomas since at least 1971.[9] For example, the ratio of earnings of males ages 35 to 44 with 16 years of schooling to those with 12 years of schooling was 1.50 in 1971. The corresponding ratio for females was 1.47. The same education premiums applied to males and females ages 45 to 54 in 1987.

The earnings premium associated with age is another factor explaining strong income growth during the working years of older adults. In 1971, men ages 45 to 54 with four years of college earned 36 percent more than those ages 25 to 34. This age premium grew to 45 percent in 1987. The corresponding premiums for males with 12 years of schooling were 8 percent and 33 percent. The age premiums for women were smaller and grew less rapidly, varying from 2 percent in 1971 for high school graduates to 10 percent in 1987 for those with four years of college.

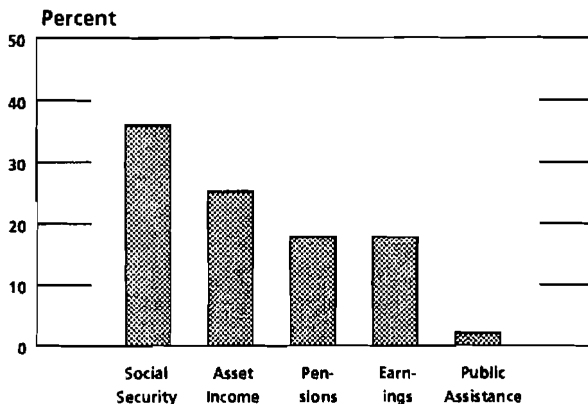
The Role of Social Security

Social Security is the largest single component of incomes for the elderly, representing almost two-fifths of the total income of the population

9. Levy and Murnane, "U.S. Earnings Levels and Earnings Inequality," p. 1,355.

age 65 or older in 1990 (see Figure 2).[10] Income from assets provides 25 percent, and pension income and earnings each account for 18 percent of the total.

Figure 2.
Shares of Total Income of Households Age 65 or Older, 1990



SOURCE: Congressional Budget Office using data from Susan Grad, *Income of the Population 55 or Older, 1990* (Office of Research and Statistics, Social Security Administration, April 1992).

Social Security receives a significant portion of the credit for increasing the incomes of the elderly to a standard roughly equivalent to the rest of the population. About 95 percent of all households age 65 or older in 1990 received Social Security benefits, up from about 70 percent of the corresponding group in the early 1960s. Although Social Security provides 40 percent of total income for all those 65 or older, its importance is much greater for those in the lower portions of the income distribution. Those elderly households with income below the poverty threshold in 1990 received 71 percent of their total income from Social Security, whereas those with income at least three times the poverty threshold derived only 25 percent of their income from this source.[11]

Social Security's benefit structure reflects two policy objectives: to provide an income floor loosely tied to lifetime earnings, and to supply relatively more in benefits to those with greater perceived needs. For someone who always earned the average wage and retired at age 65, Social Security benefits replace about 40 percent to 45 percent of average earnings. However, because benefits are calculated using a three-tier formula designed to replace relatively more of earnings for low earners than for higher earners, this so-called replacement ratio is higher for people with lower lifetime earnings and lower for higher earners.[12] In addition, spouses may also receive benefits based on the worker's earnings record, reflecting greater income requirements for couples than for singles.

When comparing the Social Security income of the elderly population in 1990 with that in other years, some consideration should be given to particular factors that bolstered their benefits relative to cohorts born both before and after them. When the indexation of Social Security was introduced in 1972, the method used for adjusting benefits for future retirees overindexed benefits for inflation. Although the indexing method was corrected in the Social Security Amendments of 1977, retirees born from 1911 to 1916 (and to a lesser extent, those born from 1917 to 1921) continued to benefit from the flawed indexing method.

A more general problem associated with the indexation of entitlement benefits during the late 1970s and early 1980s concerns the construction of the consumer price index (CPI), particularly the housing component of the index. The CPI in the 1970s tried to reflect

10. Susan Grad, *Income of the Population 55 or Older, 1990* (Office of Research and Statistics, Social Security Administration, April 1992).

11. House Committee on Ways and Means, *1992 Green Book*, Table 10, p. 1,244. The poverty threshold is based on Census ("Orshanky") poverty levels. For example, the poverty threshold for a family of two with head age 65 or older was $7,905 in 1990. For a single person age 65 or older, the poverty threshold in 1990 was $6,268. See the *1992 Green Book*, Table 1, p. 1272.

12. The replacement rate in 1993 is about three-fifths for those with low preretirement earnings and is about one-fourth for those with maximum preretirement earnings.

home purchase costs for the proportion of the population that bought a new home each year. The rapidly rising housing costs during this period resulted in an overstatement in the CPI, which was the basis for the annual benefit adjustments in Social Security as well as in other indexed cash-benefit programs. The index was changed in 1983 to reflect the rental equivalent for owner-occupied housing. The rental equivalence method moves around less during periods of sharp increases in the price of housing and during periods of large movements in interest rates.

Current retirees need not worry about insolvency in the Old Age and Survivors Insurance (OASI) Trust Fund, but some trouble may appear in the next 10 to 15 years in other parts of the program. The 1993 Social Security trustees' report claims that the OASI trust fund will have surplus income through 2015 but is projected to be exhausted in 2044 under the midrange assumptions.[13] However, the Disability Insurance Trust Fund is projected to become insolvent in 1995, and the balance between income and outgo of the Hospital Insurance part of Medicare is projected to become increasingly negative if no changes are made.

The Role of Pension Income

Pension income in retirement has become more widespread over the last 30 years, both in terms of the number of households receiving such income and in terms of the share of total income coming from this source. The proportion of households receiving income from all types of pensions was 44 percent in 1990.[14] Pension income accounted for 18 percent of all income for households with members age 65 or older.

Both private and government pensions have increased in importance for elderly households over the last 30 years. Whereas only 9 percent of households age 65 or older received income from private pensions in 1962, 29 percent reported such income in 1988.[15] The proportion of older households receiving income from government-employee pensions has risen as well--from 5 percent in 1962 to 14 percent in 1988. From 1975 to 1987, total private pension payments increased from less than one-third to almost two-thirds of the amount of Social Security OASI payments.[16]

However, the percentage of households that receive pensions varies considerably with marital status, sex, race, and income. In 1988, 40 percent of married couples age 65 or older received private pension income, but only 28 percent of unmarried men and 19 percent of unmarried women did. The rate was 31 percent for whites but only 17 percent for blacks. In addition, 18 percent of married couples, 12 percent of unmarried men, and 11 percent of unmarried women received government-employee pensions.

Differences among rates are most striking when looking at variations by income, since pensions raise incomes. Just 4 percent of households with income under $5,000 received private pension income, and only 2 percent received government-employee pensions. In households with income of $20,000 or more, 44

13. Board of Trustees, Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund, *The 1993 Annual Report*, House Document 103-63 (April 7, 1993), Table II.F.19.

14. House Committee on Ways and Means, *1992 Green Book*, Table 9, p. 1,243.

15. As cited in John A. Turner and Daniel J. Beller, eds., *Trends in Pensions 1992* (Department of Labor, Pension and Welfare Benefits Administration, 1992). Data for 1962 come from Susan Grad, "Income of the Population Aged 60 and Older, 1971," Staff Report No. 26, HEW Publication No. (SSA) 77-11851 (Department of Health, Education, and Welfare, Social Security Administration, Office of Research and Statistics, April 1977), Table 10. Data for 1988 come from Susan Grad, "Income of the Population 55 and Older, 1988," SSA Publication No. 13-11871 (Department of Health and Human Services, Social Security Administration, Office of Policy, Office of Research and Statistics, June 1990), Table 1.

16. Yung Ping Chen, "The Role of Private Pensions in the Income of Older Americans," in Turner and Beller, eds., *Trends in Pensions 1992*.

percent received private pensions and 28 percent received government-employee pensions.

The share of income for those 65 and older provided by private pensions has increased over the last three decades, but the share of income from government-employee pensions has not changed. Private pensions provided 8 percent of total income in 1988, up from 5 percent in 1958 and 1967.

Again, the most dramatic variations in this share of income show up at different levels of total income. Of the group with income less than $5,000, 1 percent comes from private pensions; that share is 4 percent for those with income between $5,000 and $10,000. The share of income from private pensions was 9 percent to 10 percent of total income for the group earning more than $10,000. Government-employee pensions accounted for 9 percent of income in 1988, the same share as in 1958.

The Role of In-Kind Income for Health Expenditures

For many older Americans, the financial circumstances of their retirement years depend heavily on their ability to manage their health care costs. Almost all older adults have health insurance. Because of Medicare and Medicaid, only 1 percent of those 65 and older were uninsured in 1990. About 10 percent of men and 13 percent of women between the ages of 55 and 64 did not have insurance.[17] By contrast, almost 14 percent of the total population is uninsured.

Health Benefits for Those Age 65 and Older

The Medicare program, which covers virtually everyone 65 years of age and older, plays an extremely large role in providing acute health care for elderly adults.[18] In 1987, about 94 percent of people age 65 and older incurred medical expenses, excluding costs of long-term care, at an average annual total expense of about $4,600.[19] Medicare paid for 48 percent of these expenses, and another 14 percent came from Medicaid and other public programs. The share paid by private insurance was 16 percent, and 21 percent was paid out of pocket.

The Medicare program is financed by a combination of payroll taxes, general federal government revenues, and premiums. It consists of two parts. Coverage under Hospital Insurance (HI)--which includes inpatient hospital care, limited nursing home services, and some home health services--is earned through payment of a payroll tax during one's working years or through marriage. Coverage under Supplementary Medical Insurance (SMI)--which includes physician and other ambulatory services as well as durable medical equipment--is voluntarily obtained through payment of a premium once eligibility for Medicare is established.[20]

17. Congressional Budget Office, *Selected Options for Expanding Health Insurance Coverage* (July 1991), p. 10.

18. Only about 300,000 elderly people were uninsured in 1992, as reported in the statement of Robert D. Reischauer, Director, Congressional Budget Office, before the House Committee on the Budget, February 17, 1993. For more information about the Medicare system, see Nancy De Lew, George Greenberg, and Kraig Kinchen, "A Layman's Guide to the U.S. Health Care System," *Health Care Financing Review* (Fall 1992).

19. Beth Hahn and Doris Cadigan Lefkowitz, "Annual Expenses and Sources of Payment for Health Care Services," National Medical Expenditure Survey Research Findings 14, AHCPR Pub. No. 93-0007 (Public Health Service, Agency for Health Care Policy and Research, November 1992).

20. Those who have reached age 65 and those who have been eligible for disability benefits for two years under the Social Security program are eligible for Medicare. Those with end-stage renal disease, who may or may not be disabled, are eligible for SMI coverage as well.

Medicare is an intergenerational transfer program primarily funded by taxes from working people to provide services to aged beneficiaries. However, expenses are increasing more swiftly than revenues, leading to a possible overhaul of the program or new sources of funding in the next few years.[21]

Current Medicare enrollees receive a substantial subsidy under HI and SMI. The Congressional Budget Office estimates that for the cohort of people who became 65 in 1992, Medicare will pay at least 60 percent more per person for HI benefits over their lifetimes than the value of their contributions and those made by their employers.[22] In 1992 dollars, this amount represents an annual subsidy of about $2,000 per enrollee.[23] An even more generous subsidy accrues to recipients of SMI benefits. Premiums cover only about 25 percent of the program's cost, and general federal revenues pick up the remaining 75 percent. Premiums for enrollees were $36.60 a month in 1993.

Despite these subsidies, Medicare covers less than one-half of the total medical care expenses of the elderly, if the costs of long-term care are included. Medicare is oriented toward acute care; services such as long-term nursing home care, most preventive care, and outpatient prescription drugs are not covered. Moreover, Medicare patients must also pay coinsurance and deductibles.[24] To pay for Medicare coinsurance and deductibles and, in some cases, uncovered benefits, more than three-quarters of Medicare beneficiaries have some form of supplemental coverage either through private insurance or Medicaid.[25]

21. See Board of Trustees, *The 1993 Annual Report*, Table III.A.2.

22. CBO testimony before the House Committee on the Budget, February 17, 1993.

23. Virtually all employed individuals pay the HI payroll tax. The payroll tax is 1.45 percent of payroll for both the employer and the employee (for a total of 2.9 percent) up to a maximum of $135,000 of income in 1993. This maximum was raised in 1990 from $51,300. Under the 1993 reconciliation act, all income will be subject to the tax.

24. Medicare coinsurance and deductibles account for an average of 17 percent of the costs of services covered by Medicare and consume an average of 6 percent of per capita income of those covered by Medicare, as reported in the House Committee on Ways and Means, *1992 Green Book*, p. 254.

Health Benefits for Those Ages 55 to 64

Compared with the group age 65 and older, adults ages 55 to 64 incur somewhat lower average annual expenses. Among those ages 55 to 64 in 1987, 85 percent had some medical expenses, excluding costs of long-term care, with the average annual total expense being about $2,350.[26] Private insurance paid for 48 percent of costs, and 23 percent came from out-of-pocket expenditures. Medicaid, Medicare, and other public programs made up another 24 percent of the payments, and other sources such as workers' compensation and private charity accounted for the remaining 5 percent.

Among those who are retired in the age group from 55 to 64, employment-related health insurance is crucial. In 1987, about 70 percent of retirees ages 55 to 64 held employment-related coverage.[27] Eleven percent had other private coverage only, and 16 percent had no private coverage whatsoever. Of those with no private health insurance, 28 percent were covered by Medicaid.

Wealth

The amount of wealth that households accumulate during their working lives is an important factor in determining financial well-being in old age. Assets provide a store of wealth that can be tapped if necessary, and

25. Ibid., p. 262.

26. Hahn and Lefkowitz, "Annual Expenses and Sources of Payment for Health Care Services."

27. Tabulations by CBO from the 1987 National Medical Expenditure Survey.

Table 7.
Wealth-to-Income Ratios and Wealth Within Income Quintiles for Older Households (Age 55 to 74) in 1989

	Median Ratio of Wealth to Income		Median Wealth (1989 dollars)	
	Age 55 to 64	Age 65 to 74	Age 55 to 64	Age 65 to 74
All Older Households				
Lowest income quintile	0.55	1.84	8,100	10,400
Second income quintile	3.70	5.23	50,000	51,000
Middle income quintile	3.67	6.36	98,200	96,700
Fourth income quintile	2.88	4.15	109,300	108,300
Highest income quintile	3.62	6.00	331,200	333,200
Median	3.07	4.83	97,200	81,500
Unmarried Head of Household				
Lowest income quintile	0	0.94	0	3,700
Second income quintile	2.58	2.60	19,200	20,900
Middle income quintile	2.48	5.92	46,100	60,600
Fourth income quintile	3.92	5.75	97,200	79,600
Highest income quintile	2.92	7.19	182,000	228,400
Median	2.58	3.99	43,100	50,800
Married Head of Household				
Lowest income quintile	3.90	3.95	39,900	44,500
Second income quintile	3.83	6.36	97,700	88,000
Middle income quintile	3.18	2.89	116,200	67,800
Fourth income quintile	2.76	4.67	162,900	158,200
Highest income quintile	4.86	6.83	425,000	491,000
Median	3.51	5.23	119,500	130,200

SOURCE: Congressional Budget Office tabulations using the Survey of Consumer Finances in 1989.

the single most important asset for most households--their home--provides housing services as well. In addition, income from assets is second only to Social Security income as a share of total income for households age 65 and older, providing about 25 percent of total income in 1990.[28] For households in the lowest income quintile, the share of income from assets was 4 percent. The share of income from assets for households in the top income quintile was 33 percent.

Survey Data on Wealth

A large disparity exists in wealth-to-income ratios and in the amount of wealth older households hold. This disparity indicates that some older households are unable or lack the desire to prepare for retirement by saving. The ratio for the median household with head of household age 55 to 64 in 1989 is 3.1, and the median value of wealth is $97,200. Within the lowest income quintile of households headed by unmarried people, median wealth is zero (see Table 7). Within the highest income quintile of households headed by married people, the median ratio of wealth to income is 4.9. Median wealth in this group is $425,000.

For the older group (ages 65 to 74), the range is even wider. The median ratio of wealth to income is 4.8, and median wealth is $81,500. The median ratio is 0.9 for households headed by unmarried people in the lowest income quintile. For households headed by married people within the highest income

28. Grad, *Income of the Population 55 or Older, 1990.*

quintile, the median ratio is 6.8. Median wealth for this group is $491,000.

Marital Status. Wealth of elderly households is related even more to marital status than is income. The median wealth of households headed by a person who is 55 to 64 or 65 to 74 and not married is less than two-fifths that of married couples in the same age group (see Table 8). Median wealth for married couples ages 55 to 64 is about $120,000, and that for married couples in the older group is $130,000.

Marital status is also correlated with the amount of nonhousing wealth that households accumulate. Median nonhousing wealth for households headed by single older adults who are 55 to 64 is less than one-seventh that of married couples. For those ages 65 to 74, households headed by single people show about one-fourth as much nonhousing wealth as married couples.

Participation in the Labor Force. Among those ages 55 to 64, the decision to remain in the labor force means substantially higher median levels of wealth as well as income. For example, median wealth for married couples rises from about $100,000 for those with no earners to about $140,000 for two-earner couples (see Table C-7).

Financial need may play a large role in the decision of husbands and wives ages 65 to 74 to participate in the labor force. Both partners may decide to work when the couple does not have sufficient income from assets to allow a comfortable lifestyle without current earnings. As was seen previously, the total income of married couples in this age group does not vary much with the number of earners. However, both total wealth and nonhousing wealth are much smaller for those with two earners than for those with no earners or one earner. Moreover, 23 percent of married couples with two wage earners have less wealth than income, more than three times the proportion of those with one or no earners.

Educational Attainment. Educational attainment is associated with wide variation in the amount of wealth accumulated over the working years. Households with a head of

Table 8.
Wealth and Income of Households in 1989, by Age (55 to 74) and Marital Status of Household Head (In 1989 dollars)

	Age 55 to 64	Age 65 to 74
All Households		
Median income	32,300	20,300
Median wealth	97,200	81,500
Median nonhousing wealth	28,500	23,500
Percentage for which:		
Wealth is less than income	19	16
Nonhousing wealth is less than one-half of income	38	28
Unmarried Head of Household		
Median income	18,900	12,800
Median wealth	43,100	50,800
Median nonhousing wealth	6,600	11,800
Percentage for which:		
Wealth is less than income	32	25
Nonhousing wealth is less than one-half of Income	52	37
Married Head of Household		
Median income	41,400	27,700
Median wealth	119,500	130,200
Median nonhousing wealth	47,400	42,100
Percentage for which:		
Wealth is less than income	10	8
Nonhousing wealth is less than one-half of income	28	20

SOURCE: Congressional Budget Office tabulations using the 1989 Survey of Consumer Finances. Median incomes come from the 1990 Current Population Survey.

household age 55 to 64 and without a high school diploma show about one-fifth the amount of total wealth and less than one-twentieth the amount of nonhousing wealth of households with a head of household who completed four years of college (see Table C-8). Even larger differences apply to those ages 65 to 74.

Housing Wealth. Older adults have benefited tremendously from the run-up in housing values during the 1970s and part of the 1980s. Housing wealth accounts for more than half of all wealth for the median household in both age groups (see Table C-9). In fact, the median ratio of housing assets to total wealth for all households ages 55 to 64 is about 60 percent. For households ages 65 to 74, the comparable figure is 55 percent.

The share of wealth in housing assets for older households in the early 1960s was significantly smaller than was found in the 1989 survey. In the 1962 Survey of Consumer Finances (SCF), the median ratio of housing assets to total wealth for households ages 55 to 64 and 65 to 74 was about 40 percent. The level of median housing assets, adjusted for inflation, has more than doubled over this time period.

The current cohort of older adults has benefited both from real increases in the value of housing and from higher rates of home ownership. Relative to the gross national product (GNP) deflator, the quality-adjusted price of a new home in 1990 was more than 20 percent higher than in the early 1960s.[29] Although there is no long-term study of sales prices of existing houses, several studies of repeat sales in various metropolitan areas yield information that is consistent with this result.[30] In addition, more older people own homes. About 81 percent of households with a head of household age 55 to 74 were homeowners in the 1989 SCF compared with about 64 percent in 1962.

Balance Sheets of Homeowners Versus Nonhomeowners. Separating nonhomeowners from homeowners shows wide differences in household balance sheets. Homeowners generally have higher lifetime earnings as well as financial gains from home ownership, so the correlation between income and wealth may be driving the relationship between home ownership and wealth. The median value of financial assets for nonhomeowners is less than 5 percent of the median value for homeowners, and the median value of nonhousing assets such as cars is less than 20 percent of that for homeowners (see Table C-9). Median wealth of nonhomeowners is less than 2 percent of median wealth of those who own their home. Among homeowners, the median ratio of housing assets to total wealth is about two-thirds for those ages 55 to 64 and for those ages 65 to 74.

Older homeowners have gained not only from the increase in the real price of housing during the 1970s but also from the prevalence of fixed-rate mortgages and subsequent unanticipated inflation during their years of borrowing to finance home ownership. Many of these households obtained 30-year fixed-rate mortgages at 5 percent or 6 percent. During the 1970s and early 1980s, the combination of relatively high inflation and deductibility of mortgage interest frequently meant that the real after-tax cost of mortgage borrowing was negative. Households saw their mortgage payments dwindle in real terms, while house values climbed steadily upward. Wealth rose at the same time that more resources became available for increased saving, higher consumption, or the purchase of larger homes.

Comparison of Characteristics of Baby Boomers and Their Parents' Generation. Several of the characteristics exhibited by older people with high incomes and substantial wealth in 1989 will be even more prevalent among the baby boomers as they approach retirement. More of the baby boomers will have

29. Bureau of the Census, as cited in James M. Poterba, "House Price Dynamics: The Role of Tax Policy and Demography," *Brookings Papers on Economic Activity*, no. 2 (1991), p. 146.

30. Poterba, "House Price Dynamics," cites several studies and also conducts new analysis.

a high school or college degree and more will be part of two-earner households. A higher proportion of them are likely to receive pension income given the recent changes in vesting provisions and government guarantees of private pension benefits. These factors increase the likelihood of higher incomes and substantial wealth in retirement.

However, several factors work against higher incomes and greater wealth for the baby boomers in retirement. More of the baby boomers will be single or divorced, and more may be paying for children or college educations during their older years. If current trends continue, fewer will be homeowners. These factors will probably reduce the financial well-being of baby boomers in retirement to some degree.

Saving Rates and Rates of Return on Assets

One explanation for the relatively small share of wealth in nonhousing assets is that older people saw capital gains on housing as a substitute for financial wealth. In addition, they may have correctly anticipated relatively generous transfers in retirement both from public and private pensions and hence needed less private saving to finance a comfortable retirement. In response to these events, they reduced their saving in financial assets.

Some support for this view comes from household survey results on saving rates by households of different ages in 1963, 1972-1973, and 1983-1985.[31] These results show a significant drop in saving rates in the middle 1980s by households with a head of household age 45 to 64, the same cohort that is close to or just past retirement age today. Saving rates fell between 4 and 7 percentage points for these older households.[32]

Increases in wealth arising from gains in housing assets and increases in expected retirement benefits probably explain at least part of this decline in saving. The majority of these older households were homeowners during the housing boom of the 1970s. They reaped sizable capital gains on their housing assets at the same time that their real mortgage borrowing costs were dropping. Provided that they viewed their housing wealth as accessible, it was an offset to financial wealth.[33] In addition, they could foresee indexed benefits from Social Security so that the fear of erosion of benefits by inflation was reduced, and Medicare was established so that medical costs did not impose such a burden.

Aside from housing investment, assets commonly found in household portfolios did not show particularly strong returns from the 1950s through the 1980s. After adjusting for inflation, returns on investments in Treasury bills and government bonds were only slightly positive or even negative during the 1960s and 1970s (see Table 9). Stocks proved to be a lucrative investment during the 1950s, 1960s, and 1980s, but were a disappointment during the 1970s.

People who invested in stocks have done nicely over the last 40 years; other financial investments have done poorly, at least until the 1980s. The excellent returns on investing in the stock market in the 1950s came when parents of baby boomers were in their twenties and thirties, when few families can afford to save much. For those investors who were sophisticated enough to put savings into the

31. Barry Bosworth, Gary Burtless, and John Sabelhaus, "The Decline in Saving: Evidence from Household Surveys," *Brookings Papers on Economic Activity*, no. 1 (1991).

32. For example, Bosworth, Burtless, and Sabelhaus report that saving as a percentage of disposable income for those ages 45 to 54 fell from 16.8 percent to 10.5 percent between 1972 and 1985 based on the Consumer Expenditure Survey. For those ages 55 to 64, the saving rate fell from 22.9 percent to 15.8 percent.

33. Considerable debate takes place about whether older households are willing to reduce their housing equity to finance retirement expenses. See the discussion in Chapter 4 of this study.

Table 9.
Annual Real Rates of Return on Selected Assets (In percent)

Decade	Treasury Bills	U.S. Government Bonds	Stock Market
1950-1959	-0.4	-2.2	15.9
1960-1969	1.3	-0.9	5.5
1970-1979	-1.1	-1.7	-1.8
1980-1989	8.9	8.4	11.9

SOURCE: Congressional Budget Office using data from Roger G. Ibbotsen and Gary P. Brinson, *Investment Markets: Gaining the Performance Advantage* (New York: McGraw-Hill, 1987), and additional data from Ibbotsen Associates.

stock market in the 1960s, the 5.5 percent annual return was good. In fact, only during the 1980s have investments in bonds and stocks been more lucrative.

Conclusions

Most current retirees enjoy considerable financial well-being. A number of fortunate occurrences have contributed to this state: strong growth in real wages in the 1950s and 1960s, higher Social Security benefits, higher rates of private pension coverage, government coverage of a large proportion of medical expenses, and appreciation of housing assets.

Those older people who are not doing so well financially include unmarried people who may be involuntarily without a job and do not yet receive Social Security payments, those who have less than 12 years of schooling, and those who did not buy a home and therefore did not receive the financial benefits of home ownership during the years of real appreciation and low borrowing costs.

Chapter Four

The Outlook for the Financial Well-Being of Baby Boomers in Retirement

Based on information that is available now, the incomes and wealth of baby boomers in retirement are expected to be higher than those of their parents.[1] However, some demographic groups will undoubtedly fare better than others, and unexpected expenses--such as health care costs--could threaten the financial well-being of many retirees.

Two types of factors will be critical to the financial well-being of the baby boomers in retirement. The first type is economic, such as the rate of wage growth, the rate of saving, the rate of return on assets, and the performance of the economy. The second type is demographic, such as life expectancy, the ratio of workers to retirees, and household living patterns. For some programs, such as Social Security, the interaction of these two types of factors will play an important role in determining benefits for retired baby boomers.

Baby boomers have control over some of these factors, but they have little or no control over other critical events. How much they save during their working years, how long they work, and whether they stay married or get divorced will prove to be important in their elderly years (see Box 2). But also critical will be circumstances beyond their control, such as the performance of the economy in general, the generosity of Social Security and pension provisions, real capital gains experienced on housing, the rate of return on financial assets, and the state of the health care system.

How Wage Growth and Labor Force Participation Affect the Baby Boomers

The outlook for the growth in real income from employment is probably the largest single factor determining the financial circumstances of the boomers' retirement. As long as real wage rates grow, and the recent upward trend in participation is not reversed, the outlook is promising.

Real Wage Growth

The growth in real wage rates has a large bearing on the amount of wealth that can be accrued before retirement, as well as on the size of Social Security benefits and pension benefits that individuals can expect to receive after reaching retirement age.

The Congressional Budget Office expects the growth of real wages to be positive on average during the next 20 to 40 years, but not as large as occurred during the 1950s and 1960s. Two distinct periods of real wage

1. Other analysis also reaches the conclusion that baby boomers will be better off in retirement than their parents. For example, see Richard A. Easterlin, Christine M. Schaeffer, and Diane J. Macunovich, "Will the Baby Boomers Be Less Well Off Than Their Parents: Income, Wealth, and Family Circumstances over the Life Cycle" (working paper, University of Southern California, May 1993).

growth have occurred in the post-World War II economy--fast growth before 1973 and slow growth since. These periods reflect differences in the growth of the major factor determining the increase in real wages--average labor productivity. Output per hour of all people in the nonfarm business sector grew 2.4 percent a year on average during the 1960s, whereas it slowed to 0.8 percent a year on average during the 1980s. Based on current trends in capital investment and technological change, a return to the rates of growth in real wages of the 1950s and 1960s is unlikely.

Nevertheless, a positive rate of real wage growth when compounded over the remainder of the working years of baby boomers implies better financial circumstances in retirement. It means more resources to allocate to consumption as well as to saving during the working years that remain, as well as higher benefit levels of Social Security and private pensions in retirement. Growth in real wages of 2 percent a year for the next 30 years would imply incomes that are 56 percent higher at the end of the working years of baby boomers than if real wage growth were only 0.5 percent a year for the next 30 years.[2]

Box 2.
How Much Must Boomers Save to Attain Their Parents' Wealth?

To illustrate how much baby boomers need to save to reach the wealth their parents' generation now holds, the Congressional Budget Office calculated the annual savings boomers need to reach the median wealth of those who were ages 55 to 64 in 1989. If the average real rate of interest earned on all assets over the next 30 years is 2.5 percent a year, the median late boomer household (with a head of household age 25 to 34) in 1989 needs to save $1,700 a year for 30 years to attain the median wealth of households ages 55 to 64 in 1989. Annual savings would have to be greater the longer the baby boomers postpone saving. The median early boomer household (with a head age 35 to 44) needs to save much less, only $300 a year for 20 years, to reach the same wealth.

Even if the value of housing assets does not increase at all in real terms, baby boomers who already own their homes need to save even less to attain the degree of wealth of current older homeowners. If nonhousing assets increase at a rate of 2.5 percent a year in real terms but the real value of housing assets does not change, homeowners now ages 25 to 34 would have to save $1,200 a year for 30 years to reach the level of wealth of homeowners now ages 55 to 64. Homeowners ages 35 to 44 would need to save only a trivial amount, $100 a year for 20 years.

These calculations do not reflect either large expenditures, such as paying for children's education, or bequests from baby boomers' parents.

1. Median household wealth of boomers and their parents is reported in Chapters 2 and 3 of this study.

Rates of Participation in the Labor Force

The rate of participation in the labor force, together with age at retirement, will also help to determine the income of baby boomers in retirement. The participation of men in the labor force has declined over the past few decades as more generous benefits have become available in retirement (see Table 10). However, older women are remaining in the labor force longer or are joining the labor force as opportunities outside the home have become more appealing or as perceived needs for income have become greater.

In recent decades, participation in the labor force has increased for married or widowed women in particular, and this trend portends increased benefits for many of them after they retire. Today, many women receive spouses' benefits under their husband's Social Security. However, as more women build their own employment records, a rising percentage will receive more generous benefits in retire-

2. The majority of baby boomers will retire between 2010 and 2030, with the implication that between 17 and 37 working years currently remain for this cohort.

Table 10.
Labor Force Participation of Men and Women Age 45 and Older (In percent)

	Male Participation Rate		Female Participation Rate	
	Age 45 to 64	Age 65 and Older	Age 45 to 64	Age 65 and Older
Single				
1970	75.7	25.2	73.0	19.7
1980	66.9	16.8	65.6	13.9
1990	67.1	15.7	66.1	12.2
Married				
1970	91.2	29.9	44.0	7.3
1980	84.3	20.5	46.9	7.3
1990	82.5	17.6	56.5	8.5
Other[a]				
1970	78.5	19.3	61.9	10.0
1980	73.3	13.7	60.2	8.2
1990	74.6	12.0	65.0	8.5

SOURCE: Bureau of the Census, *Statistical Abstract of the United States: 1992* (1992), p. 387, Table 618.

a. Widowed, divorced, or married without a spouse present.

ment on the basis of their own work than on their husband's.[3] More women may become eligible to receive their own pension benefits as well.

The trend toward greater participation in the labor force by older married women is striking. Whereas only 44 percent of married women ages 45 to 64 earned income outside the home in 1970, that proportion increased to almost 57 percent in 1990. In addition, participation in the labor force of women who are widowed, divorced, or married without a spouse present has also increased in recent years.

Female baby boomers are likely to surpass the rate of labor force participation now observed for older women based on the behavior of young and middle-aged women to date. For example, 70 percent of wives ages 25 to 34 worked outside the home in 1990 compared with 59 percent in 1980 and 39 percent in 1970.[4]

At the same time, fewer older single women have been in the labor force in recent years. Unless these women have other sources of income, this trend does not bode well for their retirement income.

Several factors may push both men and women to work longer. First, normal retirement age will increase gradually under current law from age 65 to age 67 beginning in the year 2000. Those born in 1937 will be the last group with normal retirement age set at 65. Those born in 1960 will be the first group with normal retirement age set at 67. In addition, the value of Social Security benefits that can be claimed by those who retire at age 62 will decrease gradually from 80 percent to 70 percent of the full benefit level.

3. Married women receive the greater of their own benefit or about one-half of their husband's benefit. When the husband dies, the wife receives the greater of her own benefit or 100 percent of the husband's benefit. Thus, women of the baby boom are less likely to receive higher benefits as widows than are women today.

4. Bureau of the Census, *Statistical Abstract of the United States: 1992* (1992), p. 387, Table 618.

Second, the earnings test for Social Security has been liberalized in recent years, meaning that older people will not have to give up as much of their Social Security benefits if they continue to work beyond retirement age. In 1993, Social Security beneficiaries age 65 or older may earn up to $10,560 before any reduction in benefits occurs. For each $3 of earnings above this limit, the reduction in monthly benefits is $1.[5]

Third, changes in the labor market may also encourage more older people to remain in the labor force. The number of people employed part time in the U.S. economy increased from 14 percent to 18 percent between 1959 and 1992, and older people may be more attracted to part-time jobs than to full-time jobs. In addition, many jobs have become less demanding physically. For example, the share of people employed in manufacturing has declined from 26 percent in 1959 to 15 percent in 1992.[6]

Promised Benefits from the Social Security System

Although pressures will be felt, the Social Security system is vital to the financial well-being of so many retirees that changes are likely to be made to ensure its continued financial health in the coming years. Adjustments in the benefit structure or revenue sources may be necessary as the bulk of baby boomers reach retirement age, but Social Security will probably continue to be the single largest source of income for retirees.[7] At present, using the trustees' midrange assumptions on economic growth and demographic trends and assuming no changes in benefits or revenues, the Old-Age and Survivors Insurance Trust Fund is not likely to be exhausted until 2044.

The likely demographic pressures on the system are already evident. Under the Social Security trustees' midrange projections, the ratio of the population age 65 and older to the population ages 20 to 64, known as the "aged dependency ratio," will increase 31 percent between 1990 and 2020. By 2030, it will be about 70 percent above its 1990 value. Expressed differently, the number of people ages 20 to 64 who can support retirees age 65 and older will drop from 4.8 per retiree in 1990 to 3.6 in 2020 and will fall further to 2.8 in 2030.

Focusing on the aged dependency ratio alone, however, can be misleading. The increase in that ratio would imply a significant increase in the burden on younger workers to maintain the promised benefits to baby boomers in retirement under current financing arrangements. But the total dependency ratio, defined as the population 65 and older plus those under 20 divided by the population ages 20 to 64, does not show such large increases. This total ratio remains at about the same level in 2020 as in 1990 and increases only 12 percent by 2030. Thus, although government budgets will be under pressure--because government support for the elderly generally exceeds that for children--the overall burden on workers may not rise very much.[8]

5. The reduction for beneficiaries who have not yet reached age 65 is $1 for each $2 of earnings above $7,680. For a history of the earnings test, see Department of Health and Human Services, Social Security Administration, *Annual Statistical Supplement to the Social Security Bulletin, 1992* (January 1993), Table 2.A29.

6. Other factors may work toward reversing the trend in earlier retirement as well. See Phillip B. Levine and Olivia S. Mitchell, "Expected Changes in the Workforce and Implications for Labor Markets," Pension Research Council Working Paper Series 91-2 (Wharton School of the University of Pennsylvania, June 1991).

7. For simulation results on retirement income of the baby boomers, see Emily S. Andrews and Deborah Chollet, "Future Sources of Retirement Income: Whither the Baby Boom," in Susan M. Wachter, ed., *Social Security and Private Pensions* (Lexington, Mass.: Lexington Books, 1988).

8. Board of Trustees, Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund, *The 1993 Annual Report*, House Document 103-63 (April 7, 1993), p. 152.

Table 11.
Estimated Average Social Security Benefit Payable to Retired Workers at Normal Retirement Age, by Preretirement Earnings Level, Based on Midrange Assumptions

	Benefit Amount in Constant 1992 Dollars			Benefit as a Percentage of Earnings		
Year	Low Earnings	Average Earnings	Maximum Earnings	Low Earnings	Average Earnings	Maximum Earnings
1993	5,967	9,853	13,570	59	44	25
2020	7,495	12,399	19,651	56	42	28
2030	8,369	13,867	21,942	56	42	28

SOURCE: Board of Trustees, Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund, *The 1993 Annual Report*, House Document 103-63 (April 7, 1993), Table III.B.5, p. 189.

NOTE: Normal retirement age in 1993 is 65, in 2020 rises to 66 and 2 months, and by 2030 has reached 67. Those with low earnings have 45 percent of the average wage; those with maximum earnings earn at least the contribution and benefit maximum, equal to $57,600 in 1993. The average wage in 1991 was $21,812.

Social Security, designed as a progressive social insurance system, does not provide equal benefits to all. Benefits are based on past earnings, but, relative to high-income workers, those with lower incomes receive a higher percentage of their annual earnings after they retire. In 1993, Social Security benefits replaced about 44 percent of average earnings ($21,812 in 1991) for those who retired at 65. For low-wage recipients, whose earnings were about 45 percent of the average during their working years, the replacement ratio was about 59 percent. For high-wage recipients, who earned at least the maximum contribution amount ($57,600 in 1993), the replacement ratio was about 25 percent or lower. Under the midrange assumptions, similar ratios for replacements are likely to hold for baby boomers who retire in 2020 at what will then be the normal retirement age of 66 and 2 months (see Table 11).

Real benefit levels are projected to rise faster for high-income than for low-income workers over the next few decades. The inflation-adjusted level of benefits is expected to rise about 26 percent for low and average wage earners from 1993 to 2020, and about 45 percent for the earner at the contribution and benefit maximum ($57,600 in 1993).[9]

Benefit amounts and replacement ratios will decline, under current law, for those who retire before the age of eligibility for full benefits. For example, benefits for workers retiring in 2022 at the earliest allowable age (62) will be reduced from 80 percent of those available at the normal retirement age, as is the case today, to 70 percent.[10] To the extent that some workers accept Social Security benefits early because their employment options are limited either by poor health or lack of job opportunities, they will probably be among the most economically disadvantaged baby-boom retirees. However, many may do so by choice rather than for economic necessity, and they will probably span the range of financial well-being.

9. The after-tax replacement ratio is expected to rise less as a result of the nominal cap on the level of total income that triggers partial taxation of Social Security income. Under current law, up to one-half of Social Security income is taxable income for single people with income of $25,000 or more and for married couples with $32,000 or more. To calculate income for this purpose, the tax filer or tax unit must include adjusted gross income, tax-exempt interest, and one-half of Social Security benefits received. These thresholds are not adjusted for inflation, so more Social Security income becomes taxable each year. Under the 1993 reconciliation act, up to 85 percent of Social Security income is taxable income for single people with income of $34,000 or more and for married couples with $44,000 or more.

10. This reduction is calculated to be actuarially fair.

Trends in Private Pensions

Income from private pensions is likely to remain an important source of retirement income, particularly for upper-income baby boomers, and will gain in importance for women. Pension coverage of younger workers seems to have fallen somewhat in the past decade. But shorter vesting mandates, increased participation in the labor force by women, and a hike in coverage rates in the future imply that somewhat higher proportions of baby boomers will receive pension income than is the case for current retirees.

Between 1950 and 1979, the proportion of U.S. private-sector wage and salary workers covered by pensions more than doubled. During the 1980s, however, the upward trend in pension coverage stalled and may have been reversed. One study reports that the proportion of all male workers covered by employer- or union-sponsored pension plans fell 9 percentage points between 1979 and 1988.[11] The reported fall was concentrated among less educated young males. For males ages 25 to 34 with less than 12 years of schooling, pension participation fell from 49 percent to 23 percent. The decline for all female workers was just 1 percentage point. The study attributes some part of the decline in pension coverage for young males to declines in real earnings and the lesser role of labor unions. Other studies, however, find a smaller decline, or no decline at all, in coverage.

In contrast, eligibility for pensions has been increased by a mandated reduction in the number of years required for complete vesting in a pension plan. The Tax Reform Act of 1986 established five-year cliff vesting (meaning that workers are fully eligible for pensions after five years on the job) or seven-year graduated vesting. This standard replaces the 10-year vesting of the Employee Retirement Income Security Act of 1974 and increases eligibility for pensions among workers who change jobs more often or who move in and out of the labor force more frequently. In particular, relatively more women will become eligible to receive pensions with the shortened vesting periods since they typically have shorter careers in paid employment than men.

Women in full-time, private-sector jobs are increasingly likely to be covered by pension plans, but their benefits may not be as generous as those for men. Between 1972 and 1988, coverage among women rose from 38 percent to 43 percent, a contrast to the decline in coverage among men from 54 percent to 49 percent.[12] Older women shared in the general improvement, but differences in coverage between men and women are highest among older workers. Among workers ages 55 to 59, 48 percent of women and 63 percent of men were covered in 1988.

However, the gender gap in pension benefits widened between 1977 and 1988. In 1977, the median benefit for women was 47 percent of that for men.[13] In 1988, the median benefit for women had declined to 37 percent. This change occurred in part because the expansion of benefits received by women has been primarily at the low end of the distribution of benefits.

Most of the recent expansion in pension coverage is occurring through new defined-contribution plans, and these plans carry less certain returns (see Box 3). Although the growth in coverage under defined-contribution plans stems in part from their replacing defined-benefit plans, more of the increase is attributed to the addition of supplemental defined-

11. David E. Bloom and Richard B. Freeman, "The Fall in Private Pension Coverage in the U.S.," Working Paper No. 3973 (National Bureau of Economic Research, Cambridge, Mass., January 1992).

12. Sophie M. Korczyk, "Gender and Pension Coverage," in John A. Turner and Daniel J. Beller, eds., *Trends in Pensions 1992* (Department of Labor, Pension and Welfare Benefits Administration, 1992).

13. Daniel Beller and David McCarthy, "Private Pension Benefit Amounts," in Turner and Beller, eds., *Trends in Pensions 1992*, Table 10.18.

Box 3.
Risks Associated with Various Types of Pension Plans

A significant shift is under way in the type of pensions that employers are providing. This shift is changing the risks that workers will face in using pensions to support themselves in retirement.

The shift is from pensions based on salary to pensions based on accumulated savings. The traditional pension, called a defined-benefit pension, replaces a fraction of final salary at the firm. The fraction increases with the number of years a person works for the firm. The other type of pension, called a defined-contribution pension, contributes a fraction of annual salary to a savings account. The size of the pension annuity in retirement depends on how much is in the account when retirement begins.

The newest variation of the defined-contribution pension is the most rapidly growing. The 401(k) plan, named after a section of the Internal Revenue Code, was first enacted in 1978 and by 1989 covered at least 17 million workers. Under a 401(k) plan, workers decide what fraction of their salary, within limits, they would like to have deducted and deposited in their pension savings account. Employers offer matching contributions in many plans. The 401(k) plan spread first as a supplement to traditional defined-benefit plans but more recently is being adopted as the only plan by firms that did not provide another pension.

The traditional pension provided the least risk for people who could count on working for a single employer for several decades before retirement. Many pensions were designed to provide such workers with a combined replacement rate from pension and Social Security of 50 percent to 60 percent of their final pay. The traditional pension was much less generous to workers who had to change employers even a few times before retirement. The pension amount was based on the salary at the time the worker stopped working for that firm. Inflation in the intervening years would erode the value of the pension substantially even before retirement began. As long-term employment for a single firm is becoming less common, the risks of defined-benefit plans are rising.

The defined-contribution pension avoids the losses inherent in defined-benefit plans for those who change jobs before retirement. Amounts deposited in the worker's savings account continue to grow in value, assuming reasonable investments, whether the worker continues with the same firm or moves to another. The size of the pension that these savings will be able to support in retirement, however, depends in part on the investment returns that the contributions earn. These returns are uncertain, and the worker bears this risk in a defined-contribution pension. Further risk is inherent in the 401(k) plans. Contributions are voluntary, so that if workers do not foresee accurately what they will need for retirement, they could well end up with much less than they would like.

None of these pension plans, whether defined-contribution or defined-benefit plans, are a complete guarantee of retirement income when workers can change jobs. Employees can choose to receive a lump-sum payout of their pension savings when they leave a firm, and then face the further choice of rolling over the payout into another savings plan (such as an individual retirement account) or spending it. Even though spending the payout makes it taxable, some choose to do so and thus are more likely to find themselves with inadequate funds for retirement.

contribution plans in firms that already have a defined-benefit plan.[14] Much of the growth in defined-contribution plans is in 401(k) plans, first established in 1978.[15] Benefit amounts from these defined-contribution plans are uncertain because they depend on the rates of return earned on the assets in which the plan is invested.

The Role of Wealth from Housing

The role that wealth from housing will play in financing the retirement of baby boomers remains uncertain. As noted in Chapter 3, wealth from housing today accounts for more than half of total wealth for those households close to or just past retirement age. But baby boomers may not receive the handsome rates of return on their housing investments enjoyed by their parents, and home ownership rates have fallen for younger households in recent years. Moreover, the controversy is considerable over whether households are willing or able to spend their housing wealth on consumption or medical needs during retirement.

Gains on Investment in Housing

Returns to housing investment stem from two sources--real capital gains as housing assets appreciate over time and financial gains on borrowing to buy the house. During the 1970s and the early 1980s, real capital gains on housing assets were substantial as a result of the interaction of the tax code with inflation, the pressure of baby boomers in the housing market, and speculation that kept housing prices going up.

Such real capital gains are not expected again soon since these conditions are unlikely to reemerge in the next few decades. But few analysts expect a sharp decline in the real price of housing. One widely cited paper published in 1989 claims that the lack of demographic pressures on the housing market during the 1990s and 2000s will lead to a 47 percent real decline in the price of houses.[16] However, problems in that analysis cast doubt on the magnitude of this prediction. Although a model driven primarily by demographic movements may have explained changes in housing prices for some periods in the past, there is no guarantee that demographic changes will continue to be most important for home prices in coming years.[17]

Mortgage borrowing has also become less likely to yield financial gains. When parents of baby boomers obtained mortgages, they were 30-year mortgages with a fixed nominal rate. As inflation rates increased faster than expected during the late 1950s, 1960s, and 1970s, the real after-tax cost of borrowing through a mortgage became tiny and actually turned negative in some cases. This development put extra purchasing power into the hands of families with existing fixed-rate mortgages, but sadly it eroded the value of the financial assets held by older people at mortgage lending institutions such as savings and loans.

Baby boomers may also enjoy fewer gains from mortgage borrowing because about 40 percent of home mortgages closed from 1983 to 1992 have been adjustable-rate mortgages. Although this form of mortgage also lowers payments when expected inflation falls, the possibility of making substantial real gains

14. See Daniel Beller and Helen Lawrence, "Trends in Private Pension Plan Coverage," in Turner and Beller, eds., *Trends in Pensions 1992*.

15. See Emily S. Andrews, "The Growth and Distribution of 401(k) Plans," in Turner and Beller, eds., *Trends in Pensions 1992*; or James M. Poterba, Steven F. Venti, and David A. Wise, "401(k) Plans and Tax Deferred Saving," Working Paper No. 4181 (National Bureau of Economic Research, Cambridge, Mass., October 1992).

16. N. Gregory Mankiw and David N. Weil, "The Baby Boom, the Baby Bust, and the Housing Market," *Regional Science and Urban Economics* (May 1989).

17. See Patric H. Hendershott, "Are Real House Prices Likely to Decline by 47 Percent?" *Regional Science and Urban Economics* (December 1991).

from the mortgage borrowing is slim. Higher inflation simply boosts the mortgage rate, and hence the monthly payments on existing adjustable-rate mortgages.

Increased availability of home-equity loans in recent years may mean that baby boomers will have less equity in their homes when retirement approaches. Home-equity loans provide a source of credit to be used for college education of children, home improvement, unexpected medical payments, or Caribbean cruises.[18] Whereas households of previous generations might have saved in advance for these expenditures, baby boomers may rely on home equity to pay the bills and later find that fewer resources are available for retirement.

A final concern related to gains from housing investment is the decline in the home ownership rate among younger households in recent years. Although baby boomers have higher rates of home ownership than their parents, those rates among households headed by someone under 50 have fallen since 1982, when the Bureau of the Census first reported home ownership rates by age of householder. For example, the home ownership rate among married-couple families headed by someone age 30 to 34 fell from 71.9 percent in 1982 to 66.6 percent in 1991. Late boomers could be delaying their home purchase rather than forgoing it. But some analysts argue that home ownership instills financial discipline that helps households accumulate other assets. If so, and if lower home ownership rates continue to follow the late boomers throughout their lives, those boomers may fall short also on their nonhousing investments.

Are Households Willing or Able to Consume Housing Equity?

Since such a large proportion of total wealth held by older households is in the form of housing equity, it is only natural to ask whether this asset is available to finance living expenses in retirement or whether it will become part of an inheritance. Although some analysts argue that older households have not shown a willingness to consume their housing equity, others have found a decline in housing wealth among older people, particularly in the year or two before death.

Whether or not one includes the value of housing equity in counting the assets available for consumption in retirement makes a big difference to the issue of adequacy of savings.[19] As noted in Chapter 3, the median ratio of housing equity to wealth is about two-thirds for homeowning households with heads of household ages 55 to 64 and 65 to 74. Assuming that housing wealth will not be used to finance retirement reduces available resources by a factor of three at the median.

Whether housing equity should be included in retirement resources remains an open question, but there is little doubt that housing equity forms part of household wealth. The view that the typical elderly family does not want to reduce housing equity to finance other consumption is based on evidence showing that even the elderly who move from one home to another are as likely to increase as to decrease housing equity.[20] Yet some analysts would interpret these results as saying that elderly households do not want to reduce housing consumption, not that they do not want to extract housing equity.

More recent work shows that average levels of home ownership and housing wealth decline

18. For an analysis of who uses home-equity loans and for what purposes, see Joyce M. Manchester and James M. Poterba, "Second Mortgages and Household Saving," *Regional Science and Urban Economics* (May 1989), pp. 325-346.

19. Mixed evidence on how capital gains from housing affect consumption is presented in Jonathan Skinner, "Housing Wealth and Aggregate Saving," *Regional Science and Urban Economics* (May 1989), pp. 305-324; and in Skinner, "Housing and Saving in the United States," Working Paper No. 3874 (National Bureau of Economic Research, Cambridge, Mass., October 1991).

20. Steven F. Venti and David A. Wise, "Aging, Moving, and Housing Wealth," in David Wise, ed., *The Economics of Aging* (Chicago: University of Chicago Press, 1989); or Venti and Wise, "But They Don't Want to Reduce Housing Equity," in David Wise, ed., *Issues in the Economics of Aging* (Chicago: University of Chicago Press, 1990).

significantly with age, particularly when a spouse dies.[21] Also, a strong tendency exists among households to reduce home ownership in the few years before the death of the householder, and the value of houses sold by elderly people tends not to remain in their portfolios after the house is sold.

In theory, several mortgage instruments could be used to tap housing equity while allowing the elderly household to continue living in the home. Home-equity loans became popular during the 1980s, though many retirees find such loans difficult to obtain because lenders impose monthly payment-to-income ratios to determine eligibility. Reverse mortgages pay a monthly sum or set up an open line of credit to the homeowner in return for the bank's taking possession of the house when the household members die. Scattered lenders in 43 states provide reverse mortgage loans insured by the Federal Housing Administration, and a major financial services company has just entered the field as well.[22] How popular these loans will prove to be remains uncertain, in part because lenders cannot enforce upkeep of the property and borrowers have more information about their life expectancy than lenders.

When their parents die, some baby boomers will receive considerable bequests arising from the rapid appreciation of housing assets during the 1970s and 1980s. Whether or not this happens will depend to some extent on the regulations concerning eligibility for public assistance for health care. Under present regulations, older people must divest themselves of their assets before they are eligible to receive full benefits from government programs for long-term care. If this remains the case, the size of bequests received by baby boomers may depend in part on the health of their parents in old age.

21. Louise Sheiner and David N. Weil, "The Housing Wealth of the Aged," Working Paper No. 4115 (National Bureau of Economic Research, Cambridge, Mass., July 1992).

22. For more information on these lenders, see Jane Bryant Quinn, "Major Lender Enters Reverse Mortgages Arena," *The Washington Post*, March 21, 1993, p. H3.

Savings

Income from private wealth will be critical to maintaining a comfortable lifestyle in retirement for the majority of baby boomers. Income from assets currently is second only to Social Security income as a share of total income for households age 65 and older, providing 25 percent. Savings of baby boomers throughout their working years, together with the rate of return on assets both now and in the future, will determine how much is actually available from this source. Inheritances will also boost the retirement incomes of the baby boomers.

Personal Saving

Several recent studies suggest that many Americans, including baby boomers and particularly those without a college education, save too little for their needs in retirement. If this is true, many households may find themselves with fewer resources than they would like during retirement unless saving rates rise in the future.

One study suggests creating and expanding private pension plans as a remedy to the low saving rate of low-income households.[23] Because these households do not respond to tax incentives to save, employer-sponsored pensions can increase total saving since they tend not to displace personal saving of low-income households. For high-income households, tax incentives for saving are probably no more effective in raising saving rates than in influencing other types of behavior, but pensions tend to substitute for nonpension saving.

Another study claims that relatively low wealth for less educated households is related to the importance of eligibility rules for public

23. B. Douglas Bernheim and John Karl Scholz, "Private Saving and Public Policy" (working paper, Princeton University, October 1992).

assistance programs.[24] The interaction of uncertainty and the asset-based means testing of certain public assistance programs may help to explain differences in wealth of different groups.

Perhaps the most controversial study of saving by baby boomers concludes that the average household with a head age 35 to 44 is accumulating assets at only 34 percent of the desired rate when housing assets are excluded.[25] The study compares actual savings with simulated target savings required to maintain consumption levels in retirement. The difference between actual and targeted savings is reflected in the study's index of adequacy of savings.

The study finds that the index of the adequacy of savings varies widely among different types of households. The index is generally higher for low-income households and is higher for couples than for single individuals, reflecting the higher replacement rates of Social Security for low-income households and for couples.

In addition, those households who are covered by a private pension are closer to their target savings than those who are not. For example, married couples with heads of household ages 35 to 45 with pension coverage and income between $20,000 and $40,000 show an adequacy of savings index of 49 percent (excluding housing assets), and those with pension coverage and income over $100,000 have an index of 28 percent. Single women with pension coverage and income between $20,000 and $40,000 have an index of 31 percent, and those in the same income bracket but without pension coverage have an index of 24 percent.

The study suffers, however, from a number of problems. The analysis may understate how much a household needs to save by ignoring purposes other than retirement for accumulating wealth. For example, it does not recognize the desire to save for college education, unexpected medical bills, or long-term nursing care. But it may overstate consumption goals for many households who expect to reduce their expenditures in retirement.

In addition, the study's assumption that households do not view housing assets as available for financing retirement needs is critical. When housing wealth is included in the analysis, the index of adequacy of savings increases to 84 percent.[26] The ability and willingness of baby boomers to extract money for retirement from their homes through trading down or through various types of mortgage contracts could be important to their incomes in retirement. At the very least, home ownership means more discretionary income in retirement since the household need not pay rent and many households have paid off the mortgage.

Like any results based on simulations and survey data, the study on the adequacy of savings relies heavily on the assumptions underlying the model and on the accuracy of the survey responses. Households are assumed to want to maintain the same level of consumption in retirement as throughout their working lives, and leisure is not considered to be a substitute for other goods. Yet many retirees derive a great deal of pleasure from having more leisure time, perhaps reducing their consumption of expensive vacations and restaurant meals as a result.

Moreover, in the study, household members are assumed not to delay retirement in response to low levels of wealth, even though a later retirement would allow them to build up more savings and would reduce the period for which they rely on savings. Finally, one might question the accuracy of the savings re-

24. R. Glenn Hubbard, Jonathan Skinner, and Stephen P. Zeldes, "Precautionary Saving and Social Insurance" (working paper, Columbia University, October 1992).

25. B. Douglas Bernheim, *Is the Baby Boom Generation Preparing Adequately for Retirement? Summary Report* (Princeton, N.J.: Merrill Lynch, January 1993).

26. B. Douglas Bernheim, "Is the Baby Boom Generation Preparing Adequately for Retirement? Technical Report" (working paper, Princeton University, September 1992).

ported by baby boomers for the study on adequacy of savings since responses to telephone surveys often underestimate actual wealth.

In any case, the adequacy of savings study asks a different question than that posed by this study. Although it may be true that baby boomers need to increase their saving rates if they want to consume the same amount in retirement as in their working years, the incomes of most baby boomers in retirement are still likely to exceed those of their parents by quite a large margin as long as real wages grow on average.

Inheritances

Some baby boomers will inherit substantial wealth before or during their retirement years. Although little direct evidence is available on age of inheritors or amount received, indirect evidence suggests that the median baby-boomer household could receive a large amount of wealth relative to its current wealth.

As reported in Chapter 3, median wealth for all households with heads of household ages 65 to 74 was $81,500 in 1989, and median wealth for all married couples in this age group was $130,200. Although the evidence on whether households accumulate or decumulate wealth during the retirement years is mixed, assuming no change in wealth during retirement is not far from the truth for most households.[27] If the surviving spouse of the median elderly couple holds $100,000 at the time of death and each elderly couple has three children, then the median amount inherited per child would be about $30,000. Married-couple households would inherit $60,000.

Relative to the current wealth of baby-boomer households, an inheritance of this size would be substantial. Since the median wealth of unmarried people ages 35 to 44 is about $17,000, receiving $30,000 would almost triple their wealth. The median wealth of households with a married head of household age 35 to 44 in 1989 was about $70,000, so an inheritance of $60,000 would almost double the current wealth of those baby boomers. Even if inheritances are not received until the recipient is 55 to 64, the additional $60,000 in wealth would increase the median wealth of current married couples in the 55-64 age group by about one-half.[28]

Baby Boomers at Risk in Retirement

Several groups are at particular risk to have lower incomes in retirement than their parents' generation. These groups include the poorly educated, the single, and those who were unable to buy a house. In addition, because of growing medical care costs, education costs, and longer life, all boomers face the possibility that their needs for wealth will exceed those of their parents.

Groups Most at Risk

Those households headed by a person age 25 to 34 with less than a high school degree reported lower median incomes in 1989 than in 1959, after adjustment for inflation (see Chapter 2). These households had relatively little wealth as well, with about 80 percent reporting less wealth than income. They are also less likely to have employer pensions. Unless

27. For evidence on this point, see Nancy Ammon Jianakoplos, Paul L. Menchik, and F. Owen Irvine, "Using Panel Data to Assess the Bias in Cross-sectional Inferences of Life-Cycle Changes in the Level and Composition of Household Wealth," in Robert E. Lipsey and Helen Stone Tice, eds., *The Measurement of Saving, Investment, and Wealth* (Chicago: University of Chicago Press, 1989).

28. A simulation model developed to explain overall wealth changes over the 1962-1983 period in the United States suggests that most inheritances go to households in their fifties and sixties. See Daphne T. Greenwood and Edward N. Wolff, "Changes in Wealth in the United States, 1962-1983," *Journal of Population Economics* (October 1992), pp. 261-288.

these people can find lucrative jobs so that they are able to save in anticipation of retirement, they may have to rely heavily on Social Security and even public assistance during their retirement years.

Households composed of single adults ages 25 to 34 with children also appear to be struggling. Since 1959, the proportion of households in the "unmarried with children" category has almost tripled. Their median household income is about one-third the size of that for married couples with children in the same age group in 1989, and almost 90 percent of these households report less wealth than income. These single-parent households, usually headed by women, may find it more difficult to accumulate wealth for many years. Households composed of married couples accumulate wealth more rapidly than singles in part because there can be two earners, but also because living costs such as housing can be shared. Moreover, many single women do not have the option of receiving Social Security benefits under a husband's usually more extensive and more highly paid work history.

Young people who do not own a home may also have trouble accumulating sufficient wealth to finance a style of living that is comparable with that of their parents' generation. Although home ownership by itself does not necessarily generate additional wealth, it does require a sufficiently high level of earnings throughout one's lifetime to keep up with mortgage payments, property taxes, and home maintenance. Moreover, homeowners probably save more because they have to pay off a mortgage, and they end up with a substantial asset. The median value of wealth for nonhomeowners ages 55 to 64 in 1989 was about $800 compared with $115,000 for homeowners. It is difficult to imagine starting retirement with just $800 in assets.

Uncertain Medical Expenses

Baby boomers face much uncertainty regarding health care expenditures in the future. Many proposals for changing the health care system are being considered, but it is unclear what will happen or when. Changes that are made over the next few decades could make a great deal of difference to the rate of increase of medical expenditures, who pays the bill, and the range of services covered by government programs such as Medicare and Medicaid (or their successors).

Over the past 25 years, the health sector's share of the U.S. economy has more than doubled, to about 14 percent of gross domestic product in 1992.[29] Assuming that current government policies remain in force and that medical practice and private health insurance trends continue, the Congressional Budget Office projects that national health spending will reach 19 percent of gross domestic product by the year 2000.[30] And under current policies, no sure end to this rate of increase is in sight.

Such rapid increase in health expenditures has serious implications for consumers, businesses, and governments. The high cost of private health insurance would shrink the proportion of Americans who are privately covered and increase the number of people with no insurance. Pension benefits might be cut to cover increased cost of health insurance for retirees, or private coverage of retirees might be eliminated. Governments would be called on to pay a larger fraction of U.S. health spending through the Medicare and Medicaid programs. But higher government spending on health would preempt resources from other government programs as well as make deficit reduction more difficult.

The increasing cost of health benefits has contributed to the slow growth in wages and salaries that many U.S. workers have experienced in recent years, and most likely it will continue to be a drag on wage growth in the

29. Congressional Budget Office, *Projections of National Health Expenditures* (October 1992).

30. Statement of Robert D. Reischauer, Director, Congressional Budget Office, before the Subcommittee on Health, House Committee on Ways and Means, March 2, 1993.

future.[31] Without significant changes in public policy and private behavior, rising spending on health care will continue to limit wage and salary gains as private employers pour money into higher health insurance premiums for employees rather than into pay raises. Households will have fewer resources available for saving than they otherwise would during their working years as well as lower benefits in retirement from Social Security and pensions.

Education Costs and Increased Life Expectancy

The tendency of some baby boomers to have their children later in life may lead to high demands on their wealth to pay educational expenses just before retirement. For those parents who are 35 years old when their child is born, for example, college bills will have to be paid during their mid- to late fifties-- normally the time when many people are accumulating wealth for retirement.[32] Because college tuition costs have increased 66 percent relative to the general price level since statistics were first collected in 1978, the situation may only grow worse. Unless these older parents plan ahead, they could find that their retirement assets are smaller than they would have liked.

Increases in life expectancy over the last few decades also imply the need for more financial planning. Middle-aged people now look forward to about three more years of retirement living than their parents did, assuming no change in age at retirement. At age 40, men born in 1925 had an estimated life expectancy of 74 years, and those born in 1950 had an estimated life expectancy of 77 years.[33] For women born in 1925 who lived to age 40, estimated life expectancy was about 81 years, but it increased to 83 years for those born in 1950.

Although employer pensions and Social Security continue to pay full benefits until death--though generally with some erosion of real private pension benefits from inflation--household wealth could easily be spent before the end of life. Unless baby boomers plan to save more to finance more years of retirement or decide to retire later, they could find themselves with scant resources when they are very old.

Conclusions

Most baby boomers are likely to enjoy higher real incomes in retirement than their parents currently do. The exceptions to this good fortune may be the poorly educated, single women, and divorced individuals who are not eligible for pension and Social Security benefits and do not have substantial income from assets.

A few caveats are in order, however. It is much too early in the lives of baby boomers to predict their financial well-being in retirement with much accuracy. Baby boomers themselves already recognize the uncertainties concerning Social Security and health expenditures, but other unanticipated events could dampen this optimistic outlook as well. The rapidity with which the federal budget deficit is brought down will affect the growth rate of the economy, the level of taxes, and the ability of the federal government to provide social services for the baby boomers and others in the coming years. Wars and other types of pestilence could have dire consequences for prosperity. Not least, the actions taken now by the baby boomers themselves could have a large bearing on their well-being in retirement.

31. See Congressional Budget Office, *Economic Implications of Rising Health Care Costs* (October 1992).

32. If older parents have sizable incomes and assets, they may qualify for less federal aid than otherwise identical couples who had children at a younger age.

33. See cohort life tables in Felicitie C. Bell, Alice H. Wade, and Stephen C. Goss, "Life Tables for the United States Social Security Area 1900-2080," Actuarial Study No. 107 (Department of Health and Human Services, August 1992).

Appendixes

Appendix A

Description of the Data

This appendix describes some of the important features of the household surveys used in this study. It also discusses some methodological issues.

The 1960 Decennial Census and the 1990 Current Population Survey

The Congressional Budget Office (CBO) used income data from the 1960 Census and the 1990 Current Population Survey (CPS) because they are the most comprehensive sources of data on household income for these time periods.[1] The 1960 Census covers the entire population, including the military and those living abroad. The 1990 CPS is based on the civilian noninstitutional population of the United States and also includes military personnel not living in barracks. The one in 1,000 sample of the 1960 Census contains income data for 1959 on 52,993 households, and the 1990 CPS contains income data for 1989 on 59,920 households.

The Survey of Consumer Finances

CBO prepared estimates of wealth and the ratio of wealth to income in this study using the 1962 Survey of Financial Characteristics of Consumers and 1989 Survey of Consumer Finances. Both contain information on wealth in the year of the survey. The 1962 and 1989 surveys have similar characteristics, so the abbreviation SCF will be used to refer to both. The SCF is a household survey conducted by the Survey Research Center of the University of Michigan and supported by the Federal Reserve Board. The SCF provides detailed financial and demographic data at the household level. CBO focused on reconciling conceptual differences between the 1962 and 1989 surveys so that estimated changes are meaningful.

The 1962 and 1989 SCFs surveyed 2,557 and 3,143 households, respectively, in order to achieve a sample of U.S. households of sufficient size to generate unbiased estimates of the population as a whole. In both surveys, about 75 percent of the sample came from randomly selected households, and tax data were used to select the final 25 percent. The group selected from tax data was deliberately composed of wealthier households. The oversampling of wealthier families was necessary because the distributions of wealth and income are highly skewed. By oversampling these wealthy households, a representative sample is obtained without increasing the size of the entire survey. The oversampling is corrected before analysis of the data begins by weighting wealthier households less heavily.

The concept of household used in the SCF is a bit more limiting than that used in the Census and CPS. Whereas the Census and CPS include all people living within a dwelling unit as members of the household, the SCF does not. For example, boarders are included in the household in the Census and CPS but not in the SCF.

1. The 1990 Census is not yet available for public use.

Making the 1962 and 1989 Data Sources Comparable

In preparing the SCF data for analysis and comparison, CBO occasionally found it necessary to convert the data from one form to another. Since the 1962 and 1989 SCFs were different on a variety of levels including detail and definition, data were often totaled into broader aggregates to make the numbers comparable over time. Among the most important tasks was the preparation of income data for use in the wealth-to-income ratios in the two surveys. The 1989 SCF asked respondents to report their total income from all sources in the previous year (1988). The 1962 SCF asked for current-year (1962) income from specific components including wages and salaries, business income, interest, capital gains, Social Security, and stock dividends.

In order to make these income data comparable, transformations were performed on both the 1989 and 1962 surveys. The 1988 incomes were converted to 1989 dollars using the growth rate of nominal personal income between 1988 and 1989. The 1962 income data were first totaled and then inflated to 1989 dollars with the implicit Personal Consumption Expenditures (PCE) deflator.

In general, the patterns of changes in household incomes found in the 1962 and 1989 SCFs were similar to those found in the 1960 Census and 1990 CPS. CBO reported income data from the Census and CPS rather than from the SCFs because the much larger sample sizes for specific household types increase the reliability of the data on income.

How the Choice of Price Deflators Affects Income Growth

CBO used the PCE deflator to make 1959 income comparable with 1989 income. The choice of deflator is important because changes in incomes over three decades can vary considerably using different price indices.

The implicit PCE deflator captures changes in the cost of living over time. It allows the mix of goods and services purchased to change over time rather than assuming that households in 1989 consume the same items as households did in previous years. Another commonly used price index, the consumer price index for all urban consumers (CPI-U), measures changes in the price of a fixed basket of goods over time. The basket of goods used currently is based on consumption patterns during the 1982-1984 period, but it is typically revised every decade or so. A third choice, the fixed-weight PCE price index, shows changes in the cost of living assuming that people consume the same mix of goods and services in all years as that consumed in 1987.

Because they have increased more slowly than the implicit PCE deflator, using the CPI-U or fixed-weight PCE price index would increase the measured growth of incomes between 1962 and 1989. For example, median income in 1959 for households with head of household age 25 to 34 is found to be $22,300 in 1989 dollars using the implicit PCE deflator employed in this study. Median income for these households in 1989 is $30,000. Using

the fixed-weight PCE price index reduces the 1959 value to $19,800. The CPI-U index yields $21,400 in 1959.

Household Characteristics

Much of this study's analysis of wealth and income data examined groups of households that were delineated by certain demographic and household characteristics: age, educational attainment, children, marital status, number of wage earners, and home ownership. In general, households were placed in categories that reflect the status of the household as a whole. However, the age and education categories apply only to the head of the household. In the SCF, the male is considered to be the head of the household by convention.

CBO used two definitions to determine the number of wage earners per household. For the analysis of married households with a head of household age 25 to 44, a household is considered to contain two wage earners if both the head and the spouse worked for pay during the survey year. All other households are considered one-wage-earner households. The implicit assumption is that in this age group the head of household cannot retire, but only becomes temporarily unemployed. Since the goal of this breakdown was to track the emergence of households in which both husband and wife were working, the difference between zero- and one-earner households is less important. However, the 55-74 age group has three earner categories: zero, one, and two. In this way, retirees can be separated from those in the age group who are still working.

Medians and Sample Sizes

In Chapter 2 of this study, median values of income from the 1960 Census and median values of wealth from the 1962 SCF were often compared with those of the 1990 CPS and 1989 SCF in order to gauge the financial situation of baby boomers compared with their parents. CBO chose to report median values of wealth and income rather than mean values because the median usually better represents the situation of the typical household in the survey. Outlying observations can heavily influence the mean, but all observations uniformly affect the median, which is simply the value with equal numbers of observations above and below it. Thus, the use of medians prevents a few very wealthy households from making a group seem relatively well-off in comparison with the actual financial situation of most of the households. In addition, the use of medians lessens the variation of estimates compared with means.

When making inferences about characteristics of a population from a survey rather than a census of that population, the sample size is a crucial factor in determining the confidence one can place in these inferences. A small sample is vulnerable to bias from observations that do not represent the population as a whole. Sample sizes for specific household types from the 1960 Census and 1990 CPS were generally large enough so that the data on income are quite reliable (see Tables A-1 and A-2.).

Sample sizes for the Survey of Consumer Finances were not so large, however. Exact values of wealth and of the ratio of wealth to income should be interpreted with some caution. Sample sizes for specific household types range from 22 to 685 (see Tables A-3 and A-4).

Table A-1.
Sample Sizes for Income Data in 1959 and 1989, Head of Household Age 25 to 44

	1959		1989	
	Age 25 to 34	Age 35 to 44	Age 25 to 34	Age 35 to 44
Marital Status				
All Households	9,708	11,763	12,768	13,604
Unmarried				
No children	742	1,064	3,737	3,008
With children	578	824	2,025	2,038
Married				
No children	1,058	1,361	1,744	1,524
With children	7,330	8,514	5,262	7,034
Home Ownership				
Nonhomeowners	4,881	4,060	7,308	4,732
Homeowners	4,827	7,703	5,460	8,872
Education				
No High School Degree	4,084	5,716	1,790	1,672
High School Degree	4,196	4,712	7,838	7,851
Four Years of College	1,428	1,335	3,140	4,081
Number of Wage Earners in Married Households				
All Married Households	8,388	9,875	7,006	8,558
One Earner	5,127	5,986	2,410	2,646
Two Earners	3,261	3,889	4,596	5,912

SOURCE: Congressional Budget Office tabulations using the 1 in 1,000 sample of the 1960 Census and the 1990 Current Population Survey.

Table A-2.
Sample Sizes for Income Data in 1989,
Head of Household Age 55 to 74

	1989	
	Age 55 to 64	Age 65 to 74
Marital Status		
All Households	7,900	7,615
Unmarried	2,911	3,605
Married	4,989	4,010
Home Ownership		
Nonhomeowner	1,597	1,553
Homeowner	6,303	6,062
Education		
No High School Degree	2,374	2,863
High School Degree	4,030	3,663
Four Years of College	1,496	1,089
Number of Wage Earners in Household		
Unmarried Head		
No earners	1,296	3,022
One earner	1,615	583
Married Head		
No earners	1,044	2,643
One earner	1,906	1,011
Two earners	2,039	356

SOURCE: Congressional Budget Office tabulations using the 1990 Current Population Survey.

Table A-3.
Sample Sizes for Data on Wealth and Wealth-to-Income Ratios in 1962 and 1989, Head of Household Age 25 to 44

	1962		1989	
	Age 25 to 34	Age 35 to 44	Age 25 to 34	Age 35 to 44
Marital Status				
All Households	362	522	452	685
Unmarried				
No children	36	35	104	109
With children	22	31	50	76
Married				
No children	32	53	64	88
With children	272	403	234	412
Homeownership				
Nonhomeowners	202	169	226	175
Homeowners	160	353	226	510
Education				
No High School Degree	119	177	64	80
High School Degree	151	203	255	319
Four Years of College	92	142	133	286
Number of Wage Earners in Married Households				
One Earner	185	321	114	151
Two Earners	119	135	184	349

SOURCE: Congressional Budget Office tabulations using the 1962 and 1989 Survey of Consumer Finances.

Table A-4.
Sample Sizes for Data on Wealth and Wealth-to-Income Ratios in 1989, Head of Household Age 55 to 74

	1989	
	Age 55 to 64	Age 65 to 74
Marital Status		
All Households	569	449
Unmarried	154	160
Married	415	289
Home Ownership		
Nonhomeowner	72	66
Homeowner	497	383
Education		
No High School Degree	140	138
High School Degree	193	164
Four Years of College	233	144
Number of Wage Earners in Household		
Unmarried Head		
No earners	76	116
One earner	77	44
Married Head		
No earners	60	148
One earner	169	102
Two earners	186	39

SOURCE: Congressional Budget Office tabulations using the 1989 Survey of Consumer Finances.

Appendix B

Changes in Household Structure, 1960 to 1990

A number of changes affected the structure of households over the past three decades. Among the most important were the growing number of women in the labor force, the increase in nontraditional households, and the reduction in family size.

For married women and for women with children, rates of participation in the labor force increased particularly rapidly (see Table B-1). The earnings of married women made a big difference to household income in 1990 as compared with 1960 (see Table B-2).

Although the number of households in the United States grew from about 53 million to about 93 million between 1960 and 1990, the mix of household types shifted away from the traditional. Nonfamily and female-headed family households grew rapidly at the same time that the average size of households dropped from 3.3 people in 1960 to 2.6 in 1990. About half of the increase in all household types was in family households, which are composed of two or more related individuals (see Table B-3). The other half came from nonfamily households, which more than tripled in number over those 30 years, with the largest percentage increase in nonfamily households headed by males. The number of family households headed by females more than doubled, while the number of family households with a married couple present increased by less than half.

These trends have important implications for changes in the structure of households from 1960 to 1990. Whereas family households with a married couple present made up about 74 percent of all households in 1960, that percentage dropped to only 56 percent in 1990 (see Table B-4). Only 26 percent of all households consisted of a married couple with children under 18. Female-headed family households grew from 8 percent of all households in 1960 to almost 12 percent in 1990.

Nonfamily households doubled as a percentage of all households, rising from 15 percent to almost 30 percent. The majority of these households were composed of one person, and their share of the total rose from 13 percent to 25 percent.

Higher divorce rates in recent years have contributed to an increase in households of single parents and single individuals. The divorce rate per 1,000 individuals more than doubled from 2.2 in 1960 to 4.7 in 1990, with the rate reaching 5.3 in 1979 and 1981.[1] Because the median age of women at the time of divorce is about 30 years of age, many young adult households have been clearly affected by divorce.[2]

In recent years, families were less likely to have children and those with children were more likely to have only one or two. The average size of families fell from 3.7 to 3.2 between 1960 and 1990 (see Table B-5). The percentage of families with no children under 18 rose from 43 percent to 51 percent, while the percentage with three or more children fell from 21 percent to 10 percent.

1. Bureau of the Census, *Statistical Abstract of the United States: 1992* (1992), Table 80.

2. Ibid., Table 132.

Table B-1.
Labor Force Participation Rates for Married Women and for Women with Children in 1960, 1970, 1980, and 1990 (In percent)

	1960	1970	1980	1990
Married Women	31.9	40.5	49.8	58.4
16 to 19 years	27.2	37.8	49.3	50.0
20 to 24 years	31.7	47.9	61.4	66.5
25 to 34 years	28.8	38.8	58.8	69.8
35 to 44 years	37.2	46.8	61.8	74.0
45 to 64 years	36.0	44.0	46.9	56.5
65 and over	6.7	7.3	7.3	8.5
Women with Children Under Age 18				
Married	27.6	39.7	54.1	66.3
Single	n.a.	n.a.	52.0	55.2
Women with Children Under Age 6				
Married	18.6	30.3	45.1	58.9
Single	n.a.	n.a.	44.1	48.7

SOURCE: Congressional Budget Office based on data from Bureau of the Census, *Statistical Abstract of the United States: 1992* (1992), Table 618 (for married women) and Table 620 (for women with children).

NOTE: n.a. = not available.

Table B-2.
Median Money Income of Different Types of Households in 1960, 1970, 1980, and 1990 (In 1990 dollars)

	1960	1970	1980	1990
Family Households				
Married couple	25,933	35,424	36,705	39,895
Wife in paid labor force	30,469	41,352	42,635	46,777
Wife not in paid labor force	24,375	31,341	30,093	30,265
Male householder[a]	21,461	30,357	27,788	29,046
Female householder[a]	13,105	17,156	16,509	16,932
Nonfamily Households				
Male	10,950	15,293	17,351	17,927
Female	6,080	8,364	10,577	12,450

SOURCE: Congressional Budget Office based on data from Bureau of the Census, *Statistical Abstract of the United States: 1992* (1992), Table 709, and *Statistical Abstract of the United States: 1982-1983*, Table 717 (using factor of 1.587 to convert 1980 dollars to 1990 dollars).

a. No spouse present.

Table B-3.
Number of Households by Type in 1960, 1970, 1980, and 1990 (In millions)

	1960	1970	1980	1990	Percentage Change 1960-1970	1970-1980	1980-1990
All Households	52.8	63.4	80.8	93.3	20	27	16
Average size	3.3	3.1	2.8	2.6	n.a.	n.a.	n.a.
Family Households	44.9	51.5	59.6	66.1	15	16	11
Married couple	39.3	44.7	49.1	52.3	14	10	7
Male householder[a]	1.2	1.2	1.7	2.9	0	41	66
Female householder[a]	4.4	5.5	8.7	10.9	25	58	25
Nonfamily Households	7.9	11.9	21.2	27.3	51	78	28
Male householder	2.7	4.1	8.8	11.6	52	117	32
Female householder	5.2	7.9	12.4	15.7	52	58	26
One person	6.9	10.9	18.3	23.0	58	69	26

SOURCE: Congressional Budget Office based on data from Bureau of the Census, *Statistical Abstract of the United States: 1992* (1992), Table 56.

NOTE: n.a. = not available.

a. No spouse present.

Table B-4.
Percentage of Households by Type in 1960, 1970, 1980, and 1990

	1960	1970	1980	1990
All Households	100.0	100.0	100.0	100.0
Family Households	85.0	81.2	73.8	70.8
Married couple	74.4	70.5	60.8	56.1
With children under 18	n.a.	40.3	30.9	26.3
Without children under 18	n.a.	30.2	29.9	29.8
Male householder[a]	2.3	1.9	2.1	3.1
Female householder[a]	8.4	8.7	10.8	11.7
Nonfamily Households	15.0	18.8	26.2	29.3
Male householder	5.1	6.5	10.9	12.4
Female householder	9.8	12.5	15.3	16.8
One person	13.1	17.2	22.6	24.7

SOURCE: Congressional Budget Office tabulations using data obtained from Bureau of the Census, *Statistical Abstract of the United States: 1992* (1992), Tables 56 and 57.

NOTE: n.a. = not available.

a. No spouse present.

Table B-5.
Families by Number of Own Children Under 18 in 1960, 1970, 1980, 1985, and 1990 (In percentage of families)

Year	Total	Number of Children Under 18				Average Size
		None	One	Two	Three or More	
1960	100	43	19	18	21	3.7
1970	100	44	18	17	20	3.6
1980	100	48	21	19	12	3.3
1985	100	50	21	19	10	3.2
1990	100	51	20	19	10	3.2

SOURCE: Congressional Budget Office based on data from Bureau of the Census, *Statistical Abstract of the United States: 1992* (1992), Table 66, and the *Statistical Abstract of the United States: 1975* (1975), Tables 51 and 56.

Appendix C

Income and Wealth of the Baby Boomers and Their Parents

These tables supplement those found in Chapters 2 and 3. They provide more specific information on the income and wealth owned by the baby boomers and their parents.

Table C-1.
Wealth and Income of Households Ages 25 to 44 in 1962 and 1989, by Marital Status With and Without Children (In 1989 dollars)

	Age 25 to 34		Age 35 to 44	
	1962	1989	1962	1989
Unmarried Head of Household				
No Children				
Median income	17,000	26,000	16,800	28,700
Median wealth	900	3,100	13,500	17,700
Median nonhousing wealth	900	2,000	6900	7,000
Percentage for which:				
Wealth is less than income	73	79	61	61
Nonhousing wealth is less than one-half income	76	72	43	60
With Children				
Median income	8,100	13,300	10,900	20,900
Median wealth	0	700	1,900	7,900
Median nonhousing wealth	0	0	700	1,900
Percentage for which:				
Wealth is less than income	88	88	61	55
Nonhousing wealth is less than one-half income	88	89	72	75
Married Head of Household				
No Children				
Median income	26,500	44,500	28,000	50,500
Median wealth	7,800	17,200	43,100	71,900
Median nonhousing wealth	5,400	9,000	15,800	30,100
Percentage for which:				
Wealth is less than income	94	63	43	29
Nonhousing wealth is less than one-half income	87	67	44	41
With Children				
Median income	22,700	34,600	26,300	46,200
Median wealth	8,000	18,800	35,500	70,100
Median nonhousing wealth	3,000	7,300	15,800	22,700
Percentage for which:				
Wealth is less than income	75	61	45	36
Nonhousing wealth is less than one-half income	75	69	50	52

SOURCE: Congressional Budget Office tabulations using the 1962 and 1989 Survey of Consumer Finances. Median incomes come from the 1960 Census and 1990 Current Population Survey.

Table C-2.
Wealth and Income of Married Couple Households Ages 25 to 44 in 1962 and 1989, by Number of Wage Earners (In 1989 dollars)

	Age 25 to 34		Age 35 to 44	
	1962	1989	1962	1989
One Wage Earner				
Median income	21,900	28,100	24,700	38,500
Median wealth	12,600	8,100	40,700	53,400
Median nonhousing wealth	3,700	4,000	13,700	10,000
Percentage for which:				
Wealth is less than income	68	65	39	43
Nonhousing wealth is less than one-half income	70	74	47	64
Two Wage Earners				
Median income	25,500	41,500	29,600	50,400
Median wealth	5,600	28,300	34,600	92,400
Median nonhousing wealth	2,400	11,300	19,900	29,100
Percentage for which:				
Wealth is less than income	89	59	55	31
Nonhousing wealth is less than one-half income	88	66	53	44

SOURCE: Congressional Budget Office tabulations using the 1962 and 1989 Survey of Consumer Finances. Median incomes come from the 1960 Census and 1990 Current Population Survey.

Table C-3.
Wealth and Income of Households Ages 25 to 44 in 1962 and 1989, by Education (In 1989 dollars)

	Age 25 to 34		Age 35 to 44	
	1962	1989	1962	1989
No High School Degree				
Median income	18,600	16,300	20,700	20,800
Median wealth	800	1,600	13,900	6,100
Median nonhousing wealth	0	700	4,000	1,500
Percentage for which:				
Wealth is less than income	84	80	58	59
Nonhousing wealth is less than one-half income	87	83	65	80
High School Degree				
Median income	23,900	29,000	27,500	35,600
Median wealth	8,600	8,300	43,200	45,600
Median nonhousing wealth	3,400	3,600	23,600	13,700
Percentage for which:				
Wealth is less than income	71	71	40	47
Nonhousing wealth is less than one-half income	74	72	42	60
Four Years of College				
Median income	29,200	41,800	38,500	53,400
Median wealth	23,100	28,300	68,400	102,700
Median nonhousing wealth	10,700	12,400	38,100	37,200
Percentage for which:				
Wealth is less than income	75	57	31	29
Nonhousing wealth is less than one-half income	63	65	27	36

SOURCE: Congressional Budget Office tabulations using the 1962 and 1989 Survey of Consumer Finances. Median incomes come from the 1960 Census and 1990 Current Population Survey.

Table C-4.
Composition of Assets and Liabilities of Households Ages 25 to 44 in 1962 and 1989, Median Values by Homeowner Status (In 1989 dollars)

	Age 25 to 34		Age 35 to 44	
	1962	1989	1962	1989
All Households				
Total wealth	6,100	9,000	29,300	54,200
Liquid financial assets	500	1,300	1,600	4,000
Other financial assets	600	200	4,700	3,000
Housing assets	0	0	23,300	50,000
Nonhousing tangible assets	3,100	5,000	3,900	8,000
Retirement accounts	0	0	0	0
Housing liabilities	0	0	0	12,000
Nonhousing liabilities	2,300	3,100	2,100	5,000
Consumer debt	2,300	3,000	1,600	4,100
Nonhomeowners				
Total wealth	1,400	1,700	6,400	1,500
Liquid financial assets	300	700	700	900
Other financial assets	100	0	1,800	0
Housing assets	0	0	0	0
Nonhousing assets	2,300	2,300	2,100	2,000
Retirement accounts	0	0	0	0
Housing liabilities	0	0	0	0
Nonhousing liabilities	2,100	2,000	1,200	2,000
Consumer debt	2,100	2,000	1,200	2,000
Homeowners				
Total wealth	23,100	44,100	48,700	92,000
Liquid financial assets	800	3,900	2,600	8,300
Other financial assets	1,500	1,100	6,400	5,800
Housing assets	52,400	68,000	56,200	85,000
Nonhousing assets	3,700	8,800	4,700	11,000
Retirement accounts	0	0	0	900
Housing liabilities	34,900	42,000	22,100	36,000
Nonhousing liabilities	2,800	6,000	3,100	8,000
Consumer debt	2,600	5,900	2,200	7,000

SOURCE: Congressional Budget Office tabulations using the 1962 and 1989 Survey of Consumer Finances.

NOTE: Because the values in this table are medians, numbers do not add to totals.

Table C-5.
Median Wealth and Income of Households Ages 55 to 74 in 1989, by Marital Status and Number of Wage Earners

	Unmarried		Married	
	Age 55 to 64	Age 65 to 74	Age 55 to 64	Age 65 to 74
No Wage Earners				
Median income	11,100	11,700	24,900	24,400
Median wealth	19,200	42,100	99,800	113,100
Median nonhousing wealth	900	8,700	33,300	37,400
Percentage for which:				
Wealth is less than income	38	26	13	8
Nonhousing wealth is less than one-half income	66	42	18	21
One Wage Earner				
Median income	24,900	18,500	39,100	33,800
Median wealth	62,300	66,800	119,500	178,000
Median nonhousing wealth	19,900	23,100	39,500	82,500
Percentage for which:				
Wealth is less than income	26	23	12	5
Nonhousing wealth is less than one-half income	38	25	35	14
Two Wage Earners				
Median income	n.a.	n.a.	53,300	47,200
Median wealth	n.a.	n.a.	141,900	86,300
Median nonhousing wealth	n.a.	n.a.	62,000	15,000
Percentage for which:				
Wealth is less than income	n.a.	n.a.	8	23
Nonhousing wealth is less than one-half income	n.a.	n.a.	26	27

SOURCE: Congressional Budget Office tabulations using the 1989 Survey of Consumer Finances. Median income comes from the 1990 Current Population Survey.

NOTE: n.a. = not applicable.

Table C-6.
Wealth and Income of Households Ages 55 to 74 in 1989, by Education

	Age 55 to 64	Age 65 to 74
No High School Degree		
Median income	20,100	14,100
Median wealth	46,100	45,000
Median nonhousing wealth	5,600	6,700
Percentage for which:		
Wealth is less than income	28	26
Nonhousing wealth is less than one-half of income	56	46
High School Degree		
Median income	38,800	21,900
Median wealth	96,300	86,000
Median nonhousing wealth	27,800	32,800
Percentage for which:		
Wealth is less than income	18	12
Nonhousing wealth is less than one-half of income	36	16
Four Years of College		
Median income	58,100	38,600
Median wealth	210,900	314,000
Median nonhousing wealth	126,000	210,000
Percentage for which:		
Wealth is less than income	3	4
Nonhousing wealth is less than one-half of income	7	12

SOURCE: Congressional Budget Office tabulations using the 1989 Survey of Consumer Finances. Median incomes come from the 1990 Current Population Survey.

Table C-7.
Composition of Assets and Liabilities of Households Ages 55 to 74 in 1989, Median Values by Homeowner Status

	Age 55 to 64	Age 65 to 74
All Households		
Total wealth	97,200	81,500
Liquid financial assets	7,000	9,700
Other financial assets	3,000	2,000
Housing assets	65,000	50,000
Nonhousing tangible assets	7,000	4,000
Retirement accounts	0	0
Housing liabilities	0	0
Nonhousing liabilities	700	0
Consumer debt	300	0
Nonhomeowners		
Total wealth	800	2,000
Liquid financial assets	150	800
Other financial assets	0	0
Housing assets	0	0
Nonhousing assets	600	1,000
Retirement accounts	0	0
Housing liabilities	0	0
Nonhousing liabilities	0	0
Consumer debt	0	0
Homeowners		
Total wealth	115,000	108,300
Liquid financial assets	12,000	15,000
Other financial assets	5,000	3,000
Housing assets	80,000	60,000
Nonhousing assets	8,000	5,000
Retirement accounts	0	0
Housing liabilities	0	0
Nonhousing liabilities	1,100	0
Consumer debt	500	0

SOURCE: Congressional Budget Office tabulations using the 1989 Survey of Consumer Finances.

NOTE: Because the values in this table are medians, numbers do not add to totals.

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