The Peak Boomers Impact Study

EXECUTIVE SUMMARY

A Majority of Peak Boomers Are Not Financially Prepared for Retirement and Their Retirements Will Have Large Effects on the U.S. Economy

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Executive Summary

From 2024 to 2030, the largest and final cohort of baby boomers—30.4 million "peak boomers" in 2022, born from 1959 to 1964—will turn age 65. This study examines how prepared they are to retire and the impact of their retirements on the American economy.

- The peak boomers are diverse: 52% are women and 48% men; 68% are white, 12% Black, 13% Hispanic, and 11% "Other;" and 32% have college or graduate degrees, 24% have some college or associate degrees, 36% graduated high school, and 9% have no diploma.
- Peak boomers' incomes skew high and low: 36% have incomes under $50,000, including 11% below $5,000; 23% have incomes of $50,000 to $100,000; and 41% have incomes of $100,000 or more, including 13% over $200,000.

Based on their assets, two-thirds of peak boomers will be financially challenged in retirement. There also are large disparities in their assets based on gender, race and ethnicity, and education.

- 52.5% of peak boomers have assets of $250,000 or less and will rely primarily on Social Security as a source of income in retirement.
- 14.6% of peak boomers have assets $500,000 or less and most will strain to meet their financial needs.
- Peak boomer men, whites, and those with college or graduate degrees are more likely to have savings in multiple types of retirement accounts and with larger balances than peak boomer women, Blacks and Hispanics, and those without college degrees.
- The peak boomers' median retirement savings are $225,000 and with large disparities: The median is $269,000 for men versus $185,000 for women; $299,000 for whites versus $123,000 for Hispanics and $49,000 for Blacks; $591,000 for college graduates versus $75,000 for high school graduates and $7,000 for those without high school diplomas.
- The form of retirement savings with the least disparities are defined benefit (DB) pensions held by 24% of peak boomers—just over 50% provided by private employers and just under 50% by state and local governments. However, the median benefit in 2022 was $25,450 for public DB pensions versus $17,640 for private ones. In addition, private DB pensions are more common for men and those without college degrees while the public DB plans are more common with women and college graduates.

Peak boomer women will struggle financially in retirement compared to peak boomer men.

- The gender disparity between the median retirement savings peak boomers—$269,000 for men versus $185,000 for women—includes their defined contribution (DC) plans: 48% of male peak boomers have such plans with accounts worth $99,000 versus 41% of women with DC plan assets of $60,000.

- The median Social Security benefit for retired peak boomers will be $28,400 for the men versus $21,400 for the women, a disparity of one-third.
- Equal shares of male and female boomers have annuities, but the average initial annual payout will be $15,700 for men versus $13,700 for women.
- By 2030, 48,400 peak boomers with few assets and very low incomes will qualify for SSI benefits, which now average $6,900 per year, and 69% will be women versus 31% men.

As retired peak boomers draw on Social Security and Medicare, their benefits will add $347 billion to entitlement spending by 2030.

- As peak boomers turn 65 from 2024 to 2030, their Social Security benefits will cost $614 billion from 2025 to 2030. But all seniors will age along with the peak boomers, and mortality among seniors will offset 61% of the costs: All federal spending for Social Security retirement benefits as the peak boomers turn 65 from 2025 to 2030 will increase by $237 billion, not $614 billion.
- All peak boomers will become eligible for Medicare from 2024 to 2030 and those costs from 2025 to 2030 will total $887 billion, including $264 billion in 2030. Mortality among all Medicare recipients will offset 58% of the costs for peak boomers: In 2030, Medicare spending will increase $110 billion or $154 billion less than the peak boomers' costs.

As peak boomers turn 65, the value of their financial assets may not be stable and secure due to the impact of market volatility on their retirement assets.

- We tracked the value in 2030 of peak boomers' financial assets starting with $224,700 in 2022, based on the real returns for stocks and bonds in the bull market of 2017 to 2023 and the real returns in the bear market of 1973 to 1979, with peak boomers also withdrawing 7.5% each year for living expenses.
- Under the bull market, peak boomers in 2030 would still have $224,200 in assets after withdrawing $128,800 for living expenses, while the bear market would leave them with $114,400 in assets after withdrawing $72,300.
- Such market volatility also could intensify existing disparities: Under the bear market, male peak boomers would have $119,400 in 2030 versus $82,200 for women; whites would have $132,800 versus $21,800 for Blacks and $52,800 for Hispanics; and college graduates would have $262,600 versus $33,500 for high school graduates and $3,100 for those without diplomas.
- Volatility in housing prices also could markedly affect the home equity of peak boomers who sell or use home equity loans. If prices parallel the bull housing market of 2015 to 2022, the peak boomers' median equity of $156,400 in 2022 would rise to $280,400 in 2030, while a bear market like 2005 to 2012 would reduce their home equity to $134,200.

The lack of financial stability for peak boomers may be compounded by funding uncertainties for Social Security and some DB plans, which could reduce some benefits.

- Current law requires that only dedicated taxes, notably payroll taxes, can be used to pay Social Security retirement benefits. Treasury securities in the Social Security Trust Fund, purchased with past payroll tax revenues, will all be redeemed by 2033; and current law could dictate broad cuts in retirement benefits of approximately 20% starting in 2033.

- To avert deep cuts, Congress could allow the use of general revenues for benefits, likely financed through higher deficits.
- While private employer (DB) pensions, regulated by the Department of Labor, were fully funded in 2022, many state and local government DB pension plans have long-term funding ratios averaging only 76% since 2000. As peak boomers reach retirement age, the government sponsors of those DB pensions may have to cut benefits, raise employee contributions, and/or use more general revenues by cutting programs or raising taxes.

The peak boomers retiring by 2030 hold 10% of U.S. jobs today, and their retirements will raise business costs and affect GDP, productivity, and consumer spending in significant ways, even as other factors partially offset these effects.

- By 2030, the waves of peak boomer retirements in themselves could dampen GDP growth by 7.3% based on reductions of 6.5% in hours worked and 0.9% in productivity. The economy will continue to grow by an estimated 2.1% annually from 2024 to 2030 as younger workers replace the peak boomers and improve their own skills, businesses continue to invest, and productivity is expected to increase 8.5%.
- The 10.9 million peak boomers that plan to retire by 2030 include 1.6 million current employees in healthcare, 1.3 million in manufacturing, and 1 million in construction.
- If half of peak boomers now planning to retire later decide to stop working by 2030, retirement will rise to 14.8 million and include one-to-two million jobs in education, finance and insurance, retail, and professional, scientific, and technical services.
- While total employment will continue to grow as Gen Z young people and immigrants enter the labor force, filling peak boomers' open positions will also raise business costs.
- As peak boomers' retirements reduce their incomes and affect their spending choices, we estimate their consumer spending will fall 15% including 22% for transportation, 5% for housing, 7% for food, and 15% for entertainment. At the same time, total U.S. consumer spending will increase an estimated 2% annually.

While many peak boomers underestimate how soon they will retire, many also underestimate how long they will live, which can undermine how financially prepared they are to retire.

- This study focuses on the peak boomers planning to retire between 2024 and 2030, when those born between 1959 and 1964 will all reach ages 65. While many commentators assume that people retire between ages 62 and 65 or 67 and 70, based on when most people first collect Social Security retirement benefits, less than two-thirds of peak boomers plan to fully retire by 2030.
- Just over 20% of people born between 1959 and 1964 stopped working prior to 2022 and another 3% planned to retire in 2022 or 2023--predominantly older peak boomers who were ages 61 to 64 in 2022 and 2023.
- Another 40.6% plan to retire between 2024 and 2030, and 16.1% plan to stop working between 2031 and 2034 when the youngest peak boomers reach ages 67 to 70. Based on their plans, 64.0% of peak boomers will have retired or expect to retire by 2030 and 80.1%

by 2034. The remainder did not indicate that any plan to retire or are younger peak boomers working past age 70, including some who plan to work until at least 2039.

By underestimating how long they will live, many peak boomers may not recognize the value of the assured lifetime income streams provided by annuities.

- As Social Security replaces approximately 40% of an average retiree's pre-retirement income, and the other retirement resources of most peak boomers may not be enough to maintain their lifestyles, many economists are perplexed that more people don't purchase annuities.
- One factor is that people in their fifties and early sixties underestimate their likelihood of living until 75 by an average of 25 percentage points, while companies that sell annuities price them based on how long people are likely to survive. As a result, the prices of annuities seem excessive to potential customers who underestimate their likely lifespans.
- Adverse selection also plays a role: People with reasons to expect to live longer than average are more likely to purchase annuities. Hence, annuity providers price in the likelihood that a disproportionate share of customers will live longer than average.
- Providers also take account of the risks that bear markets will depress the value of the assets they hold to pay off the annuities. Federal Reserve economists estimate that adverse selection and risks of market volatility raise the average price of annuities by 16%.
- Other economists report that less than 40% of people use professionals to help prepare for retirement, and people who do not seek such advice are less likely to purchase annuities, especially as many have limited funds. Given all of these challenges, the pool of annuitants may be limited largely to people much more risk-averse than average.

Employers can increase the income streams that Americans can rely on in retirement by promoting annuities in their retirement plans.

- With bipartisan support, Congress enacted both the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) and the Securing a Strong Retirement Act of 2022 (SECURE 2.0), improving the retirement security environment by focusing on the importance of protected income in retirement. The Secure Act includes a provision that made it easier for employers to offer an annuity option in a defined-contribution plan, while Secure 2.0 increased the amount individuals can move into a qualified longevity annuity contract (QLAC).
- The American Council on Capital Formation has recommended a requirement that employer 401(k)s and other DC plans provide life annuities as a withdrawal option. They also have called for two-tier 401(k) plans with one tier for traditional investments and a second tier for life annuity policies, with larger tax incentives for investing in tier two, and for a refundable tax credit for moderate income households investing in annuities and/or exempting part of their annuity income from income tax.
- The challenge for policymakers is to encourage people to invest in ways that ensure a steady and adequate retirement income with the least economic distortions.

About the Authors

Dr. Robert J. Shapiro is the chairman of Sonecon, LLC, a firm in Washington D.C. that provides economic guidance and analysis to U.S. and foreign government officials, business executives, and leaders of non-governmental organizations. He is a Fellow of the Georgetown University Center for Business and Public Policy, a board director of Beyond, Inc., and an advisory board member of Cote Capital. Dr. Shapiro has advised Presidents Bill Clinton and Barack Obama, Vice President Albert Gore, Jr., British Prime Minister Tony Blair and Foreign Secretary David Miliband, Secretary of State and Senator Hillary Clinton, Treasury Secretaries Janet Yellen and Timothy Geithner, White House chiefs of Staff Ron Klain and Rahm Emmanuel, and other senior members of the Biden, Obama and Clinton administrations and the U.S. Congress. Dr. Shapiro and Sonecon also have provided analysis to companies including AT&T, Exelon, ExxonMobil, Fujitsu, Gilead Sciences, Google, Nasdaq, and UPS, and to nonprofit organizations including the International Monetary Fund, the Brookings Institution, and the U.S. Chamber of Commerce. Before founding Sonecon, Dr. Shapiro was the U.S. Under Secretary of Commerce for Economic Affairs. Prior to that, he was co-founder and Vice President of the Progressive Policy Institute and the Legislative Director and Economic Counsel to Senator Daniel Patrick Moynihan. He also served as principal economic advisor to Bill Clinton in his 1992 presidential campaign, senior economic adviser to Hillary Clinton in her 2016 campaign, and policy adviser to the campaigns of Joseph Biden, Barack Obama, John Kerry, and Albert Gore, Jr. He holds a Ph.D. and M.A. from Harvard University, a M.Sc. from the London School of Economics, and an A.B. from the University of Chicago.

Luke Stuttgen is an economist who specializes in finance and labor and health economics. He has been a senior analyst for Sonecon and served as a Staff Economist at the White House Council of Economic Advisors during the Biden and Trump administrations. Previously, he was a health economist for Aceso Global where he worked on donor-funded projects to improve health systems in low-income and middle-income countries. Mr. Stuttgen has also worked as a consultant focusing on workforce optimization and process improvement for large hospital systems and academic medical centers. He holds a B.S. degree in Mathematics and Mathematical Economics from the University of Wisconsin-Madison, an M.A. degree in International Economic Policymaking from the Paris School of International Affairs, and an M.Sc. degree in International Political Economy from the London School of Economics.