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Commentary: "Economic Scene: A Weekly Column"
from the November 21, 2005 edition

Will retirement be golden for boomers?

By [David R. Francis](#)

Today's seniors enjoy a "golden age of retirement security." Yet the median income of individuals age 65 and over last year was just \$15,199 in the United States.

For many, those two sentences may sound contradictory. Living on 15 grand a year does not sound like a flush American living standard. Of course, many retirees own their homes outright and aren't paying a mortgage anymore. But they are still paying property taxes, maintenance, and utilities.

Baby boomers will soon face retirement. Considering economist Mauricio Soto's description of today's retirement scene as "golden age," will it be worse for them?

Perhaps not. The real income of baby-boom retirees - those born between 1946 and 1965 - probably will be higher. Two researchers at the Urban Institute in Washington, D.C., predict that median household income (usually couples, not just an individual) will increase from \$36,000 now to \$50,000 among early and late boomers in the 2013-2032 period. Moreover, the poverty rate at age 67 will drop from 8 percent today to 4 percent among early boomers and to 2 percent among late boomers, say researchers Barbara Butrica and Cori Uccello.

Boomers will benefit from a long-term trend in the US for wages to grow faster than prices - a change that should boost living standards for a majority.

But many boomer retirees may feel poorer compared with those

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who are still working. Those retiring nowadays have an income of about 86 percent of their income before retirement. That "median replacement rate" will drop to 80 percent for late boomers, those born after 1956, the study finds. And 46 percent will have less than three-quarters of their preretirement income, compared with 42 percent today.

Because Congress has been considering changes in Social Security and in laws governing pensions and retirement savings plans, two experts at the Congressional Research Service (CRS) thought it relevant to look at the income of older Americans today.

Here are some of their findings:

- Twenty-eight percent of those 65 or older - many of them grandmas and grandpas - had incomes of less than \$10,000 in 2004. Ten percent had incomes of \$50,000 or more.

- Social Security paid benefits to 88 percent of these older Americans. It is the largest single source of income among the aged.

Sixty-nine percent of Social Security beneficiaries age 65 or older receive more than half of their income from Social Security.

For 39 percent of elderly recipients, Social Security contributes more than 90 percent of their income.

For nearly one-quarter of recipients, it is their *only* income.

Given such numbers, Congress has been cautious in dealing with proposals to partly privatize Social Security or trim the indexing of pensions to the inflation rate. With a midterm election ahead, most observers doubt Congress will make such changes this year or next.

- In 2004, 35 percent of people age 65 and older received income from a private pension or a non-Social Security public pension. The median government pension - half received more, half got less - was \$15,600 last year. The median private pension was a much skimpier \$6,720.

- Of the 35.2 million Americans age 65 or older living in households, 19.7 million (56 percent) received income from assets such as dividends, interest, rent, or royalties. For half of these, the amount was less than \$952.

- Poverty for seniors has fallen from 1 in 3 older persons in 1960 to 1 in 10 today, partly because Congress made Social Security more generous.

But poverty remains high for women, minorities, the less-educated, and those over 80, according to CRS's Debra Whitman and Patrick Purcell.

As for the future, several factors could trim retiree incomes. Social Security benefits are already being cut by gradually raising the normal retirement age to 67 by 2019, notes Mr. Soto of the Center for Retirement Research at Boston College.

Furthermore, a bigger chunk of Social Security income will be taxed by Uncle Sam. Medicare premiums, which are deducted from Social Security pensions, will rise.

Another problem is that traditional corporate pensions are

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rapidly shrinking in number; some are shrinking in value as well. Many companies instead offer 401(k) plans. In general, 401(k)s are cheaper for corporations. Employees should, but often don't, contribute adequate sums toward their own retirement. The employee also assumes the investment risks. Many future retirees will either have no private pension or a smaller one.

Nonetheless, if productivity and living standards rise (as most economists assume they will), and if stock market investments do pay off (as they have in the past), future retirees will make out all right. "Future retirees are not likely to be so secure," says Soto. "But they will have enough resources at retirement to do well."

On average, that is. Divorced women, never-married men, Hispanics, high school dropouts, those not eligible for Social Security, and the working poor could face financially grim retirements, the experts note.

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