

# WebMemo



Published by The Heritage Foundation

No. 2613

September 15, 2009

## Retiring Baby Boomers Will Not Cause an Asset Bust

Nicola Moore

Some have argued that baby boomers' retirement poses a threat to working Americans' savings. The value of workers' saved assets, they say, could drop once retiring boomers stop buying new assets or sell off current assets in order to have more cash on hand.

Such swings in supply or demand would have to be substantial to have a real impact on asset values, and the notion that 78 million baby boomers, who own 50 percent of all financial assets in the U.S.,<sup>1</sup> could create critical mass was a common refrain of those opposed to Social Security reform in 2005. However, a new report from the Congressional Budget Office (CBO) has found that boomers are unlikely to dump assets or create a demand vacuum that would cause asset values to fall. This finding is significant because it means that pre-funded retirement savings in IRAs, 401(k)s, or other personal savings vehicles of today's workers will not lose value when boomers retire.

**Boomers and Supply.** One hypothesis about why boomers would negatively impact asset values is that they would sell off large amounts of assets during retirement to fund their consumption. Theorists contend that 78 million asset sellers, who became eligible for retirement in 2008, could cause an asset glut. The CBO analysis reveals that this is unlikely to occur for the following reasons:

- *Boomers continue to save assets, even in retirement.* Retirees face uncertainties about the long-term costs of their health care and lifespan. To hedge against the risk that they will require expensive medical treatment or live longer than their budget, retirees do not rampantly sell assets,

as the CBO report shows. Additionally, survey and research data reported by CBO shows that roughly one-half to three-quarters of retirees spend little in order to have a bequest to pass on to heirs (thus drawing down assets more slowly).

- *Boomer wealth is concentrated, so all 78 million retirees will not be selling assets at once.* Only two-thirds of boomers actually hold assets, and of those, the top 10 percent hold more than two-thirds of all boomer assets, and the top 1 percent hold most of the remainder.<sup>2</sup> Evidence collected by CBO shows that wealthier retirees rely less on their assets for living expenses during retirement than less wealthy ones. Because of this wealth concentration, few boomers will be selling their assets, avoiding an asset-market flood.

**Boomers and Demand.** The second reason many have suspected that boomers' retirement would drive asset values down is that, when they are no longer earning an income, they will stop buying assets and depress demand. But CBO's analysis diffuses these concerns:

- *Reactions to financial turmoil may change behavior.* Like most Americans, many boomers' asset wealth has declined as a result of the financial market turmoil, and some boomers may

This paper, in its entirety, can be found at:  
[www.heritage.org/Research/Economy/wm2613.cfm](http://www.heritage.org/Research/Economy/wm2613.cfm)

Produced by the Thomas A. Roe Institute  
for Economic Policy Studies

Published by The Heritage Foundation  
214 Massachusetts Avenue, NE  
Washington, DC 20002-4999  
(202) 546-4400 • [heritage.org](http://heritage.org)

Nothing written here is to be construed as necessarily reflecting  
the views of The Heritage Foundation or as an attempt to  
aid or hinder the passage of any bill before Congress.

delay retirement as a result. CBO indicates that the likelihood of delay is mixed. Research studies have revealed that the 2000 recession had little impact on retirement decisions, but survey data from 2008 indicates that 32 percent of near-retirees (age 55–64) plan to delay retirement.<sup>3</sup> Two-thirds of boomers do not have adequate savings to be able to maintain their lifestyles in retirement, meaning many may likely delay retiring.<sup>4</sup> To better prepare, those who delay retirement could continue buying (or at least not selling) assets, minimizing boomers' impact on asset demand.

- **International demand will support domestic assets.** Any reduction in asset demand will more than likely be filled by international buyers. Particularly in China and India, developing economies are growing rapidly, yet their overall

populations are younger than America's, creating crowds of potential asset buyers. In fact, demand from China alone could more than make up the difference in demand lost from boomers.<sup>5</sup>

**Boomers Are Not Busters.** The sheer number of baby boomers is often considered the driving force behind many future budgetary dilemmas, such as the affordability of Social Security and Medicare. However, with the new CBO study, retiring boomers and working savers can now rest assured that asset values are insulated from any damage that may be caused by the coming tidal wave of boomer retirement. This finding should give savers and policy-makers more confidence about the returns of pre-funded retirement savings accounts.

—Nicola Moore is Assistant Director of the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.

1. U.S. Survey of Consumer Finances, quoted in Congressional Budget Office, "Will the Demand for Assets Fall When the Baby Boomers Retire?," September 2009, at [http://www.cbo.gov/ftpdocs/105xx/doc10526/09-08\\_Baby-Boomers.pdf](http://www.cbo.gov/ftpdocs/105xx/doc10526/09-08_Baby-Boomers.pdf) (September 8, 2009), p. 8.
2. Congressional Budget Office, "Will the Demand for Assets Fall When the Baby Boomers Retire?," September 2009, at [http://www.cbo.gov/ftpdocs/105xx/doc10526/09-08\\_Baby-Boomers.pdf](http://www.cbo.gov/ftpdocs/105xx/doc10526/09-08_Baby-Boomers.pdf) (September 8, 2009), p. 8.
3. *Ibid.*, pp. 10–11.
4. McKinsey and Company, "Why Baby Boomers Will Need to Work Longer," November 2008, at [http://www.mckinseyquarterly.com/Why\\_baby\\_boomers\\_will\\_need\\_to\\_work\\_longer\\_2234](http://www.mckinseyquarterly.com/Why_baby_boomers_will_need_to_work_longer_2234) (July 2009).
5. Congressional Budget Office, "Will the Demand for Assets Fall?," p. 15.