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Baby Boomer Retirement

March 2008

Over the course of the next two decades, an average of 10,000 baby boomers per day will reach retirement age. Their retirement will cause a surge in federal spending. (See "Will Aging Boomers Lose Benefits? Medicare and Social Security Need Serious Financial Help," *USA Today*, January 17, 2008.)

"A tsunami is building and ready to hit future generations, but this one won't be set off by earthquakes or other natural disasters. Instead, it will be a fiscal calamity created by the failure of government and business leaders to deal with the financial drain of millions of retiring baby boomers."

—David Walker, U.S. Comptroller General

This is the first year the oldest of the nation's baby boom generation—the 79 million Americans born between 1946 and 1964—become eligible to collect retirement benefits from the federal government. The retirement of the baby boom generation will dramatically alter the balance between the nation's working-age population and retirement-age population. In 2007, there were roughly five people 20 to 64 years old for every person 65 and older. By 2030, when the youngest of the baby boomers turn 65, that number is projected to be less than three. These changes in the U.S. age profile have important implications for government programs that provide retirement benefits.

Since both Medicare and Social Security are financed primarily through payroll taxes, the retirement of the baby boomers will decrease the ratio of workers funding the system to retirees receiving program benefits. In their most recent testimony on the long-term budget outlook, the Congressional Budget Office projected that the number of taxable workers per Social Security beneficiary will decline from 3.2 currently to 2.1 in 2030. As this ratio falls, the two programs face looming fiscal crises. In their 2007 annual report, the trustees of the Social Security trust funds project that by 2017 Social Security benefit payments will have exceeded payroll tax revenues. The 2007 annual report from the trustees of the Medicare trust fund projects a more imminent threat: Projected tax revenues used to fund the Medicare program will fall short of expenditures for 2007 and all subsequent years.

Fiscal policy watchers have warned that maintaining the status quo of government spending on these programs sets the federal budget on an unsustainable path. The Government Accountability Office calculates that preventing a long-term fiscal shortfall would require double-digit annual economic growth every year for the next 75 years. This scenario appears unlikely, given that the Social Security trustees project average annual growth in real GDP to be 1.9 percent over the next 75 years, a slower rate than observed historical averages.

As a result, addressing the fiscal challenges facing government retirement benefit programs could necessitate drastic policy measures that create a heavy economic burden on future generations. The GAO projects that balancing the budget in 2040 would require as much as a 60 percent cut in total federal spending or a 100 percent increase in federal taxes. But less extreme policy actions can be taken. For example, Federal Reserve Chairman Ben Bernanke suggested in a recent speech that policy steps to promote greater national and private saving, financial education, investment in human capital, and participation in the labor force could indirectly lessen the fiscal burden on future generations. He further stated that it should be a priority to reform entitlement programs in a manner that minimizes reliance on deficit spending and enhances the incentives to work and save.

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The views expressed are those of the author and do not necessarily reflect the official positions of the Federal Reserve Bank of St. Louis, the Federal Reserve System, or the Board of Governors.

Recent Articles and Further Reading on Baby Boomer Retirement

The Coming Generational Storm: What You Need to Know about America's Future by Laurence J. Kotlikoff and Scott Burns, MIT Press, 2005.

This book provides a comprehensive overview of a looming generational imbalance caused by shifting demographics. The authors detail the social, political, and economic consequences that may arise from this imbalance.

"The Long-Term Budget Outlook" from the Congressional Budget Office.

This report provides detailed commentary on long-term fiscal issues facing the United States and projected long-term spending and revenues. The Congressional Budget Office also provides data for each chart included in the report.

"The Summary of the 2007 Annual Reports" by the Social Security and Medicare boards of trustees.

This message summarizes the annual reports from the trustees of the Social Security and Medicare trust funds.

"As Boomers Slow Down, So Might the Economy" by Kevin Kliesen, Federal Reserve Bank of St. Louis *Regional Economist*, July 2007.

This article examines the implications of retiring baby boomers for the U.S. labor market and future growth rates of real GDP. Using a general growth accounting framework, Kliesen projects slowing real GDP growth over the following two decades.

Free Data Sources

Data: Social Security Statistical Tables
Description: Data related to the administration of the OASI and DI trust funds
Published by: Office of the Chief Actuary, Social Security Administration
Location: http://www.ssa.gov/OACT/STATS/index.html

Data: Center for Retirement Research Data
Description: Provides access to data and publications from the Center, as well as additional datasets that relate to aging and retirement issues
Published by: Center for Retirement Research at Boston College
Location: http://crr.bc.edu/data/index.php

Data: The Health and Retirement Study
Description: A national longitudinal study of health, retirement, and aging. For an overview of the study and help getting started with the available data, see Cindi Leacock's "Getting Started with the Health and Retirement Study"
Published by: University of Michigan with funding from the National Institute on Aging
Location: http://hrsonline.isr.umich.edu/intro/index.html

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