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Highlights

Highlights of GAO-06-718, a report to congressional committees

Why GAO Did This Study

The first wave of baby boomers (born between 1946 and 1964) will become eligible for Social Security early retirement benefits in 2008. In addition to concerns about how the boomers' retirement will strain the nation's retirement and health systems, concerns also have been raised about the possibility for boomers to sell off large amounts of financial assets in retirement, with relatively fewer younger U.S. workers available to purchase these assets. Some have suggested that such a sell-off could precipitate a market "meltdown," a sharp and sudden decline in asset prices, or reduce long-term rates of return. In view of such concerns, we have examined (1) whether the retirement of the baby boomers is likely to precipitate a dramatic drop in financial asset prices; (2) what researchers and financial industry participants expect the effect of the boomer retirement to have on financial markets; and (3) what role rates of return will play in providing retirement income in the future. We have prepared this report under the Comptroller General's authority to conduct evaluations on his own initiative as part of the continued effort to assist Congress in addressing these issues.

What GAO Recommends

GAO is not making any recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-06-718.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Barbara Bovbjerg at (202) 512-7215 or bovbjergb@gao.gov.

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BABY BOOM GENERATION

Retirement of Baby Boomers Is Unlikely to Precipitate Dramatic Decline in Market Returns, but Broader Risks Threaten Retirement Security

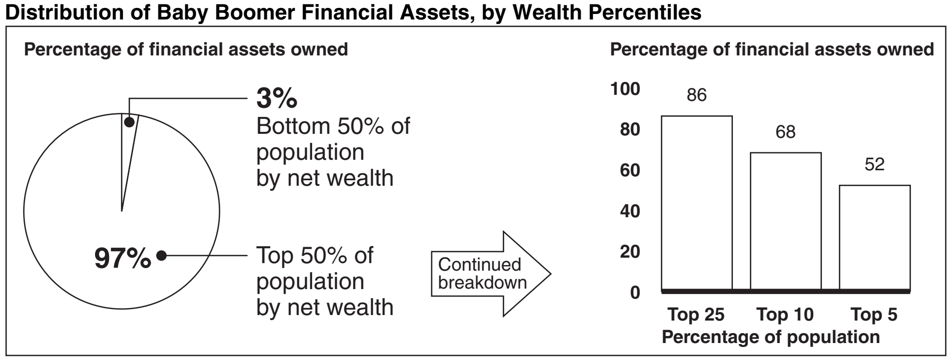
What GAO Found

Our analysis of national survey and other data suggests that retiring boomers are not likely to sell financial assets in such a way as to cause a sharp and sudden decline in financial asset prices. A large majority of boomers have few financial assets to sell. The small minority who own most assets held by this generation will likely need to sell few assets in retirement. Also, most current retirees spend down their assets slowly, with many continuing to accumulate assets. If boomers behave the same way, a rapid and large sell off of financial assets appears unlikely. Other factors that may reduce the odds of a sharp and sudden drop in asset prices include the increase in life expectancy that will spread asset sales over a longer period and the expectation of many boomers to work past traditional retirement ages.

A wide range of academic studies have predicted that the boomers' retirement will have a small negative effect, if any, on rates of return on assets. Similarly, financial industry representatives did not expect the boomers' retirement to have a big impact on the financial markets, in part because of the globalization of the markets. Our statistical analysis shows that macroeconomic and financial factors, such as dividends and industrial production, explained much more of the variation in stock returns from 1948 to 2004 than did shifts in the U.S. population's age structure, suggesting that demographics may have a small effect on stock returns relative to the broader economy.

While the boomers' retirement is not likely to cause a sharp and sudden decline in asset prices, the retirement security of boomers and others will likely depend more on individual savings and returns on such savings. This is due, in part, to the decline in traditional pensions that provide guaranteed retirement income and the rise in account-based defined contribution plans. Also, fiscal uncertainties surrounding Social Security and rising health care costs will ultimately place more personal responsibility for retirement saving on individuals. Given the need for individuals to save and manage their savings, financial literacy will play an important role in helping boomers and future generations achieve a secure retirement.

Distribution of Baby Boomer Financial Assets, by Wealth Percentiles



Source: GAO analysis of 2004 Survey of Consumer Finances.