April 2003

# RETIREMENT INCOME

# Intergenerational Comparisons of Wealth and Future Income

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**Highlights**

Highlights of GAO-03-429, a report to Ranking Minority Member, Subcommittee on Employer-Employee Relations, Committee on Education and the Workforce, House of Representatives

## Why GAO Did This Study

Today's workers will rely to a large extent on Social Security, private pensions, and personal wealth for their retirement income. But some analysts question whether these sources will provide sufficient retirement income to maintain workers' standards of living once they leave the labor force. Indeed, the Social Security trust funds are projected to become exhausted in 2042, at which time, unless action is taken, Social Security will not be able to pay scheduled benefits in full.

To gain an understanding of what today's workers might expect to receive in terms of retirement income, GAO was asked to examine (1) how the personal wealth of Baby Boom (born between 1946 and 1964) and Generation X (born between 1965 and 1976) workers compare with what current retirees had at similar ages, (2) how workers from the Baby Boom and Generation X compare in terms of the pension and Social Security benefits they can expect to receive, and (3) the likely distribution of pension and Social Security benefits across workers within the Baby Boom and Generation X.

www.gao.gov/cgi-bin/getrpt?GAO-03-429.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Barbara D. Bovbjerg at (202) 512-7215.

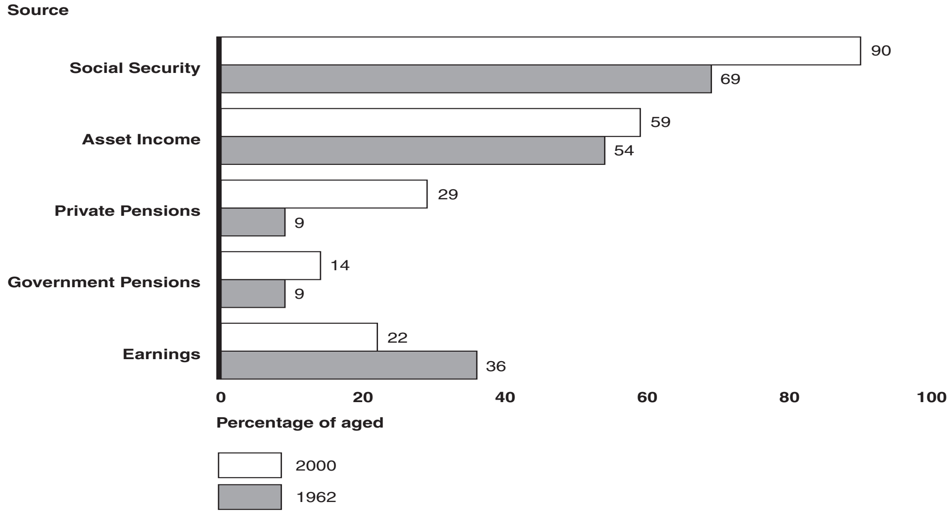
## What GAO Found

Baby Boom and Generation X households headed by an individual aged 25 to 34 have greater accumulated assets, adjusted for inflation, than current retirees had when they were the same age, but also more debt. Most of the large increase in assets between current retirees and the Baby Boom is due to increased ownership and equity in housing. Contributions to defined contribution pension plans play a role in explaining the modest increase in assets between the Baby Boom and Generation X, in part, because GAO's data do not allow it to consider the value of benefits from defined benefit pension plans.

Workers from Generation X are estimated to have similar levels of retirement income in real terms (adjusted for inflation) at age 62 as their counterparts in the Baby Boom, but Generation X may be able to replace a smaller percentage of their preretirement income. Whether Social Security benefits for Generation X are higher or lower than those for the Baby Boom will depend on how the Social Security funding shortfall is resolved. With regard to pensions, Generation X and the Baby Boom are estimated to have similar levels of pension income even with a continued shift from defined benefit to defined contribution pension coverage.

Retirement income will vary within both Generation X and the Baby Boom households, and certain groups will be more likely to have lower retirement incomes. As one might expect, given significant variation in workers' earnings, if households were arrayed from lowest to highest in terms of estimated total retirement income, those in the top 20 percent would receive a substantially larger proportion of income compared with those in the bottom 20 percent. Retirement income is lower for the less educated and single women.

**Percentage of the Aged Receiving Income, by Source**




Source: Fast Facts and Figures About Social Security, Social Security Administration, 2002.