

# Transitioning To Retirement: How Will Boomers Fare?

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## Transitioning To Retirement: How Will Boomers Fare?

As the leading edge of the Baby Boom generation attains age 60, this unusual cohort born 1946-1966 is poised to have a major impact on the economy, the healthcare system, the pension arena, and national social safety nets. As this cohort of 76 million Boomers moves into retirement, researchers at a Wharton Impact Conference entitled “Transitioning to Retirement: How Will Boomers Fare?” gathered to tease out implications and conclusions from new and cutting-edge research. Organized by Wharton’s Pension Research Council and The Boettner Center for Pensions and Retirement Research, Professors Olivia Mitchell and Brigitte Madrian co-hosted the event with Dr. Elizabeth Soldo from the University of Pennsylvania’s Population Aging Research Center.

Researchers from around the world presented studies showing conflicting evidence about Boomers’ prospects for health and income during retirement, but they agreed for the most part on evidence of growing financial inequality for baby Boomers. Mitchell led off with by stating that “the question is how will Boomers fare relative to earlier cohorts? What will they bring to the retirement table?” While some believe Boomers will be better off than their predecessors, having benefited from a run-up in housing prices, improvements in healthcare, and an expanding economy, there are also those who argue the generation’s sheer size has put pressure on resources, such as education, and created labor market pressures. Topics covered included overall wellbeing, social security and pensions, housing equity, health, and financial literacy.

### **Overall Wellbeing**

Joyce Manchester from the Office of Policy at the Social Security Administration, with coauthors, used the Social Security Administration’s Modeling Incomes in the Near Term (MINT) model to assess the relative position of Boomers as they head into retirement. That

analysis indicated a 35% drop in the number of pre-retirement Boomers living in poverty, as compared to their parents. Median income as a ratio of poverty-level income was 40% higher, at 5.3 for Boomers versus 3.7 for the older age cohorts. As for non-pension financial wealth, the ratio of wealth to average wage was up nearly 19% at the median, from 1.1 for the parents' generation to 1.3 for the baby Boomers. Regarding health, she argued that only 27% of Boomers reported being in poor or fair health, a 14% decline from the parents' group. The number of Boomers with work disabilities fell by 11% from the earlier respondents. The researchers then constructed a measure of combined economic well-being and health status. Manchester concluded, "on average, baby Boomers are projected to fare better than their parents according to almost all measures of economic and physical well-being."

Boomers *on average* will head into retirement in better financial and physical health than prior generations of retirees, and they are expected to fare better than current retirees in absolute terms, measured by per capita income in relation to poverty rates. However, the *distribution* of income and wealth may be more unequal than in earlier years, and in relative terms they may be less well off than current retirees. This conclusion was offered by Howard M. Iams from the Office of Research Evaluation and Statistics at the Social Security Administration, and coauthors from The Urban Institute. The researchers based their findings on MINT Model estimates of retirement adequacy at age 67 for four age groups born between 1926-35, 1936-45, early Boomers born 1946-55, and late Boomers born 1956-65.

This study noted that the share of family income from non-retirement income sources is projected to increase due to the increased importance of asset income, which represents 4% of mean per capita family income for current retirees, but is expected to grow to 20% for the late Boomers. An analysis of average anticipated per capita income shows an increase over time at

the mean and median, and later Boomers will have slightly higher income than the early Boomers. Turning to projected replacement rates in retirement, the researchers compared per capita family income at age 67 to average household earnings between ages 22 and 62. By this measure, median replacement rates are projected at 93% for current retirees falling to 80% for future retirees. For current retirees, some 45% can anticipate incomes higher than average lifetime earnings; the figure drops to around a third for Boomers. “In absolute terms, then, the baby Boomers at age 67 will be better off in terms of higher income and lower poverty rates. But in relative terms they may be worse off than current retirees,” said Iams. He also noted looming uncertainties for retirement prospects, including the rising cost of healthcare and uncertainty regarding the future of Social Security and defined-benefit pension plans.

Scholars at the University of Wisconsin-Madison headed by Barbara Wolfe took a different tack. They used the Social Security Administration’s New Beneficiary Survey (NBS) and calculations of annuitized net wealth (ANW), including the equity value of owner-occupied housing, to compare retirees who left work in the early 1980s and the mid-1990s. The team reported that the mean level of new retiree wealth and annuitized net wealth increased substantially between the two cohorts, about one-third for wealth and 40% for ANW. However, using the poverty line recommended by the National Academy of Sciences Panel on Poverty Measurement, 4% of the earlier retirees had inadequate resources, while the figure rose to 7% for the later group. For both groups, more than 20% had ANW less than twice the poverty threshold. The failure to meet adequacy targets was higher among nonwhites, women, unmarried people and those with less education. “In exploring adequacy, the concern is looking at those who may be at the bottom of the income distribution,” said Wolfe. The researchers also examined respondents who had private health insurance in addition to Medicare coverage and found links

to retirement adequacy. “We believe there is more of an issue in terms of increased inequality when we compare the group that retired in the early 1980s and those that retired in the mid-1990s,” said Wolfe.

John Ameriks from Vanguard noted these findings differ starkly from media reports warning of an impending retirement crisis for Boomers. In other words, “at the median or the mean most people are OK, but there remains a segment that has very little,” he said. “This is a very different story from the one about “the retirement crisis” commonly discussed.” He described Vanguard research showing that at age 25, 85% of those surveyed had \$10,000 saved or less; the percent drops steadily to 30% by ages 45 to 49; and after that it remains steady at around 30%. He also noted that many people understand they are not saving enough for retirement: he said, “People are aware of the choices they are making; they are making the link. But it is hard to talk to people about changing saving behavior.” His company’s survey of retirement replacement rates concluded that one third of those surveyed are at risk in retirement, facing replacement rates of below 50%. Another third can be considered “potentially secure,” with replacement rates from 50-69% of income. The final third seemed to be “on track” to replace up to 100% of their income with 17% expected to go beyond 100%.

Brett Hammond from TIAA-CREF proposed a measure he called the “asset-salary ratio,” which proposes that savers should have an asset to salary ratio of 0.21 when they are 40 years from retirement, but 6.39 when they stop working. At age 30, he said, savers should have about 17% of their eventual retirement assets set aside, with the rest remaining in human capital or potential savings. “This is a much more decentralized system where the individual plays a role in determining all these things,” he said. “You’re your own defined-benefit plan now, no matter what income level.”

This discussion dovetailed with Annamaria Lusardi's study on retirement planning and preparedness. The professor from Dartmouth College showed that people who say they plan for retirement enjoy their later years more than those who put little thought into their financial future. Her research, based on data from the 1992 Health and Retirement study, showed that two-thirds of those who planned "a lot" found retirement very satisfying, while only 4% of those who did not plan were satisfied. Meanwhile, 43% of those who did not plan found retirement to be unsatisfying. Lusardi noted as firms shifted from defined benefit to defined contribution plans, many employers did financial education for workers. But financial literacy remains low. In recent data, only 75% of respondents was able to correctly define inflation, 67% understood the notion of compound interest and barely half, 52%, understood the meaning of "equity risk." She concluded that "financial education has been inadequate. It is very hard to train people. Nevertheless, since people are in charge of making investment decisions, we cannot put this under the carpet."

The theme of retirement adequacy and inequity will likely be a key focus for future policymakers in the future, according to Paul Cullinan from the Congressional Budget Office. This is in part because earlier cohorts benefited from an expanding post WWII economy and low rates of immigration kept earnings growth strong. By contrast, Boomer households will benefit from the entry of women into the workforce, and indeed over the past decade, the rate of women and men working at age 62 is rising. He also charged that wellbeing research tends to focus too little on risk. Thus if Boomers rely more on labor market earnings compared to earlier generations, this may put them at greater risk when they lose their jobs. Also greater reliance on defined contribution plans may subject Boomers to more capital market risk compared to previous generations with defined-benefit plans. Finally Boomers appear to be spending more on

higher education expenses for their children and face higher healthcare costs than did their parents.

## **Pensions**

Despite the concerns about a looming retirement-funding crisis, Michael Hurd and Susan Rohwedder from RAND concluded that Boomers appear to be as well-positioned as previous generations. They rely on the Health and Retirement Study (HRS) sponsored by the National Institute on Aging along with the Social Security Administration and administered at the University of Michigan. This survey of some 22,000 individuals has been conducted every two years since 1992, and it is an unusually important source for estimating the retirement readiness of prior retirees against Boomers. The authors compare three HRS cohorts, with the first termed “original HRS” age 51-56 in 1992, the so-called “War Babies” age 51-56 in 1998, and the early Boomers age 51-56 in 2004. The Hurd/Rohwedder paper focused on changes in pensions in part attributable to the shift from defined benefit to defined contribution plans.

A key challenge in this arena is how to measure the value of pension wealth. The Rand researchers rely on data from respondents near retirement when they seem most knowledgeable about what they will have to draw on. “This is when they are making decisions. They have an account and have to do something with it,” explained Rohwedder. “We believe we get fairly accurate information when we ask when they quit their jobs.” She reported a small increase in the amount of real bequeathable wealth, from \$304,000 at the mean for the oldest cohort, to \$317,300 for the War Babies, to \$382,300 for the early Boomers (all in \$04). “We see no crisis for those in pre-retirement,” she said. “However, this assumes that financial risks in retirement faced by the different cohorts stay the same.”

Pension wealth was also the focus of a research project described by Gary Engelhardt. He noted that many workers have little or no idea what they can expect in pension benefits during retirement, making it difficult for researchers to gauge the adequacy of retirement savings, particularly as retirees move increasingly to defined contribution plans. The team has developed a software tool they call the DC/401K Calculator and used it to compute pension wealth measures for respondents to the HRS. They also compare these to results generated by an older Pension Estimation Program (PEP) developed at the University of Michigan. The new calculator uses researcher-defined wage and voluntary contribution histories, and it also incorporates innovations such as time-varying measures of individual rates of return, inflation rates, employee pre-tax deferral rates, and eligibility based on plan adoption dates. Estimates of defined contribution pension wealth prove to be somewhat lower than the original values; that is 401(k) pension wealth was 40% lower, and overall defined contribution wealth was 20% less. In addition, the researchers document the shift from defined benefit to defined contribution programs. For the older HRS cohort, the 401(k) account balance was \$15,205, with a median of 0; 44% of the positive balances was due to employer matching. For the War Baby cohort, mean and median balances had risen to \$78,141 and \$31,044 respectively; some 24% of the total was due to employer matching, indicating a greater take-up for these plans.

Research by described by Anthony Webb at the Longevity Center also explored pensions, but instead focused on nonpension saving for households with pension plans. The research shows that households with defined contribution plans are more likely to invest in equities than those with only a defined benefit plan. The research also showed that 38% of those with only a defined-contribution plan owned equities, while 29% of those with only a defined-benefit plan owned stock (47% percent with both types of plans owned stock.)

Investor behavior in defined contribution plans was the focus of a team examining the Swedish retirement system. Andrei Simonov noted that since 2000, Swedes have been required to invest 2.5% of their 18.5% pension tax in their own personal investment accounts; the plan offers some 700 funds. The researchers reported that affluent participants shuffled money between accounts more often than others, and people more exposed to more funds tend to underperform. This underperformance amounted to about 40 basis points, which over a lifetime could curtail retirement saving by 15%.

Raimond Maurer from the Goethe University of Frankfurt discussed the role of uncertainty in the context of retirement adequacy. He compared many areas of life to driving a car: “when you push the gas pedal harder, the car goes faster. If you hit the brakes, the car stops. But that’s not how it is when you’re talking about investment and saving.” Instead, when investors have many investment options to choose from, uncertainty grows. He noted that investors can compute average returns on equities or bonds over the last 50 years, but “in retirement, these numbers are meaningless,” he stated. “I am not interested in averages: I’m interested in what is in my account.” This is particularly problematic during the payout or retirement phase, when retirees must gauge how much they should spend each year. One challenge is that they face longevity risk so they might spend all their savings before they die. Another concern, though, is that they will not live as long as expected, and scrimp unnecessarily. Maurer dubbed that dilemma “shortevity risk.” More generally, he proposed that investors and retirees must be taught to make sense of these issues while the financial industry must create new products to meet these needs. More standardization, he suggested, might help investors often baffled and intimidated by the range of investment products.

## **Social Security**

Though the conference did not focus primarily on Social Security, the topic received careful attention from Deputy Commissioner of Social Security James B. Lockhart, III, who noted that the last Trustees Report estimated that the Social Security Trust Fund will be exhausted in 2040, a year sooner than forecast in 2005, while the Medicare Trust Fund will be depleted in 2018, two years sooner than previously estimated. Said Lockhart, “the sooner we fix Social Security the easier it will be and the less dramatic the changes.” Bolstering the nation’s retirement security system, including the idea of private Social Security investment accounts, was a key element of the Bush agenda. He argued that “the message is slowly getting out that there is a problem and we need to solve it for the younger generation. The problem is we can’t decide whether we want to turn the ship port or starboard. We can’t seem to make up our mind.” He also noted that Social Security is the nation’s largest and most successful government program with 157 million Americans paying taxes to support 48 million retirees, disabled workers, and survivors with \$522 billion in benefits. The demographic challenges ahead are clear, with the first wave of Boomers close to collecting Social Security benefits. The number of retirees is expected to double in the next 30 years.

### **The Role of Home Equity**

The role of home equity in retirement saving is also crucial, since many older persons own their homes. Julia Coronado from Barclays Capital headed a team that used HRS and other data to compare early Boomers with cohorts just ahead of them. That research concluded that Boomers did have higher housing wealth levels, but they also experienced lower real wage growth over their worklives. Boomers also had higher housing equity than prior generations, but they borrowed more against their homes. As a result, “if you try to get at the replacement ratio of net worth to household income in pre-retirement, they have higher incomes but haven’t acquired

enough net worth to keep the ratio constant,” said Coronado of Boomers. In addition, she noted, Boomers have lower rates of defined benefit coverage. “So given their longer life expectancy, they appear worse off,” said Coronado.

The paper’s authors also studied HRS respondents who had moved to see if older people were cashing in on home equity to finance retirement. “It does appear that the movers used their home price appreciation to downsize and therefore their home equity to net worth is decreased,” she said. “They’re tapping into their home equity and either spending it or putting it into financial assets.” Coronado said the decision to move did not appear to be related to changes in health, since both movers and non-movers reported similar health conditions. “Very preliminarily, it appears that the early Boomers have responded to the housing boom by acquiring more leverage against high home values, but they are also reallocating it to financial assets because they have a higher net worth,” said Coronado. Those born later may be expected to follow similar patterns, particularly if financial innovations such as reverse mortgages gain in popularity.

### **Continued Work**

Turning to other sources of old-age income, Nicole Maestas from RAND reported that Boomers appear to be more attached to work and expect to continue working later in life compared to earlier retirees. Her paper showed that Boomers have different family structures and socioeconomic status than prior generations of retirees, as well as different attitudes toward work. She analyzed three cohorts, and shows that early Boomers are better educated, more ethnically diverse, and less likely to be married than earlier groups. The early Boomers also had significantly higher earnings, housing values, and net worth than earlier cohorts, but added that all cohorts underestimated the likelihood that they would live to age 75. She also highlighted a

phenomenon she termed “unretiring,” which she believes will characterize Boomers as they move through their 60s. “We see an increasing trend to partial retirement,” said Maestas, a result not attributable to differences in socioeconomic status. “This suggests the Boomers are different in ways that we can’t yet quantify; perhaps there is growing a preference for working longer, compared to the older cohort.”

Emily Kessler from the Society of Actuaries pointed out that Boomers’ expectations about working into retirement may be realistic because they tend to be employed more often in knowledge-based jobs that do not require as much physical stamina as manufacturing and other jobs that employed a larger part of the population in prior generations. “Boomers are adjusting and planning to work,” she said. “The concern here is whether Boomers can readjust their spending to align with their circumstances. Compared to previous cohorts, Boomers have enjoyed a period of economic prosperity,” she said. “They have not known, as a cohort, what it’s like to do without.” Earlier studies indicated workers tended to retire earlier than planned, often due to health problems and job loss. “The chance of premature retirement is a growing risk for the Boomer population,” said Kessler.

### **Health and Health Insurance**

Another way in which Boomers may differ from earlier retirees includes health and health insurance. Helen Levy from the University of Michigan’s School of Public Health examined the health insurance coverage of Boomers, and she reported that those nearing retirement are less likely to go without health insurance, but still 14% does lack coverage. This of course becomes a growing problem the older they get. “The risk of a health shock increases with age,” she said. “Common sense tells you that young people don’t buy insurance because they’re healthy. That’s less likely to be true for older households.” In addition, she said, older

households have more to lose financially if illness strikes. She cited research that shows median wealth for households in their 50s is 18 times greater than that of households in their 20s, and more than twice the median wealth of households in their 40s.

For Boomers, one in seven was uninsured in 1998. Levy also assessed how early Boomers compared to older cohorts who faced health-related financial risks in the years leading up to Medicare. She first looked at the risk of having a spell of uninsurance in the six years before receiving Medicare. Next she examined how much wealth was at stake for uninsured households. She then set out to determine the financial fall-out of a hospitalization during an uninsured spell. She discovered there was not much difference in the levels of those going without health insurance after around age 35, when the percentage remained steady at around 13% to 14%. “I was surprised by this. I thought the early Boomers would look worse because they are approaching retirement in a period when employer-sponsored insurance has declined,” she said. The consistency in insurance rates among older people over time allowed Levy to feel more comfortable using the experience of older Americans to project what will happen to the baby Boomers. The balance between private and public insurance also remained nearly identical for the different cohorts, Levy found.

Further research showed that among the three waves of HRS age cohorts in the years leading up to Medicare, 12% reported they were uninsured at the time. Overall, 20% lacked insurance at some point in the period, while 8% of those uninsured initially lacked coverage at one or both subsequent waves. “So overall the probability of being uninsured in that window is relatively high – 20% -- that’s a lot of exposure to risk,” she said. When she looked at what is at stake in terms of wealth, Levy found that uninsured households had less wealth than those with health insurance, largely because so many younger people go without insurance.

According to HRS data, median non-housing assets of the uninsured was \$10,000, while the figure was close to \$200,000 for people who were insured. “The point is that there may not be that much at stake, particularly if you look at non-housing assets,” she said. “The uninsured in general have less.” Median assets of the uninsured would not cover the costs of an average hospital stay of \$17,000, she noted. “Essentially the uninsured are playing a game where if something happens they say ‘I will rely on charitable care. What I have will be liquidated in bankruptcy if I incur catastrophic medical bills.’” Finally she looked at the likelihood and impact of an uninsured hospital stay. She found 40% of those in the HRS cohorts had a hospitalization at some point in the three waves prior to age 65 and 4% had an uninsured hospitalization. She also pointed out that financial risk does not end with Medicare because retirees can have substantial out-of-pocket expenses. Levy concluded that the probability of hospitalization during an uninsured spell is high, but she also said that might not be the worst financial problem facing people lacking insurance as they head into retirement. Given that people in this category have broader needs, a policy response centered around healthcare coverage may not be the best approach, she said. “These are poor people with a lot of material needs. It’s not obvious that insurance is the most immediate need.”

Health was also the theme taken up by David Weir from the University of Michigan who found that recent HRS cohorts were increasingly likely to say they would work past age 62. Yet this is not necessarily because they are healthier. Indeed Weir found conflicting trends, stating that “smoking is down, but obesity is up. Smoking dropped 15% among respondents in 1992 and 2004 and lung disease was down 23%. Meanwhile, the mean Body Mass Index, a calculation of an individual’s weight in kilograms divided by his or her height in meters squared, rose 1.3 points or 5%, from 27 in 1992 to 28.3 in 2004.” (Obesity is defined as BMI of 30.) Weir

examined the effects of these changes in health status. For the smokers, he found that 19% died between 1992 and 2004, compared to 5% of those who never smoked. As BMI was rising so was the rate of diabetes, up 39% between the cohorts reporting in 1992 and in 2004. Weir said some of the increase may be due to better diagnosis. He also looked at other measures of health associated with obesity and found only a slight increase in hypertension and stroke, but a large increase in pain, of 32%.

Weir said the hypertension finding may be linked to increased use of medication to control the condition, a development he believes may provide insight into the future health of Boomers. He also suggested there may be a better chance of developing medications or treatments for obesity than there are for smoking. So while at first glance, Boomers appear to be in for more health problems than prior generations, Weir remains optimistic that they will fare better. "I'm going to go out on a bit of a limb and say that the real gains in healthcare will be after this age group is in their 60s," said Weir. He explained that medical technology has not been able to provide much in preventing disease, but has been able to deliver drugs and treatments for "secondary prevention" of illness that could be linked to obesity. He pointed to oral diabetes and cholesterol medications as examples. He also said the mortality risk of obesity is not as strong as for smoking. Of the smokers who were 51-56 in 1992, 19% had died by 2004, compared to only 5% of those who had never smoked. Another 22% had lung disease, compared to only 5% of those who never smoked. "The mortality associated with obesity is less so," he said, "but its impact on function and disability, however, is large. It may give a break in life expectancy, but there may be increasing problems with disability." Even though early Boomers indicate they are in no better health than earlier cohorts, Weir's research indicates that Boomers will be healthy enough to continue working past retirement age. "Their expectations of longer

work lives are sustainable and pessimism about life expectancy is probably unwarranted,” he said, though he added, “we’ve got 10 or 12 more years to find out.”

A team headed by Beth Soldo from the University of Pennsylvania also focused on health and wealth differences in retirement preparedness across cohorts. The analysts explored three HRS cohorts to develop an index of health using Item Response Theory and macroeconomic indicators to develop their analysis of Boomers’ stocks of health and wealth. “While we see an improvement in health overall in the raw data, we also see significant and common differences by gender. Women always report worse health, but we live a lot longer,” said Soldo. The team factored in indicators of health such as whether the respondent was a current smoker, a heavy drinker, or had psychological problems. The researchers also used U.S. infant mortality as a proxy for improvements in healthcare technology over time, and the unemployment rate to capture market conditions at the time the workers entered the labor market.

The paper showed that Boomers appear to enjoy levels of retirement wealth similar to those of earlier generations, yet after controlling for fixed effects, the researchers found that Boomer wealth was actually lower by 12-14% for men and 15-16% for women, compared to people their age 12 years ago. The strongest positive correlation for wealth was the respondent’s level of education. Current smokers also have saved substantially less. On health, after adjustment for socioeconomic status, men’s health improved compared to better 12 years ago while women’s health is slightly worse noted Soldo. “All in all it does not appear the Boomers are headed into retirement with higher levels of wealth on average,” Soldo concluded.

### **Roundtable**

The conference Roundtable discussion drew out some contradictory findings and proposed new areas for additional research. Brian Perlman from Matthew Greenwald &

Associates raised concerns about the shift from defined benefit to defined contribution pensions. He argued that defined benefit plans can generate more income for retirees than defined contribution plans, particularly because of the access to group annuities. Perlman also pointed out to the challenges faced by poor people and middle class retirees who may be unable to save \$300,000 to \$400,000. He further stressed the role of investing and spending decisions made three or four years from retirement. Perlman said most retirees have trouble looking five years ahead. “If you ask people what they want in retirement they talk about going to Italy for a year,” he said. “They don’t talk about the health consequences until you scratch the surface. They look at health as a long-term expense and enjoying life as a short-term expense.”

Anna Rappaport, former President of the Society of Actuaries, pointed to puzzles regarding Boomers’ prospects for continuing to work longer. While some economists predict labor shortages during the Boomers’ retirement years, she expects only spot shortages, not widespread labor demands that might boost Boomers’ incomes. She also highlighted gaps between what Boomers say they will do in retirement and what may actually happen. Rappaport suggested that some of the conflicting evidence about whether Boomers are well prepared for retirement is rooted in the growing inequality of income and wealth accumulation between the rich and the poor. She also called attention to conflicting information about women’s retirement prospects, including Boomers’ tendency to delay marriage and children.

Michael Henkel from Ibbotson Associates agreed that the responsibility for retirement savings and planning is increasingly falling on individuals’ own shoulders. But he was concerned since “they’re clearly not capable of handling the responsibility on their own. I’m now mind-boggled about the complexity of the puzzle.” Henkel also pointed to the growing disparity in retirement savings. He said standard formulas about how much people can withdraw from their

portfolios may give retirees a false sense of security. “We all know that’s not how the real world works,” he said. The financial services industry has not yet found the right business models to deal with the problems confronting Boomers as they push toward retirement and then seek to manage their investments during retirement. “They will need significant help to not blow it all in the first three years,” he said. “Uncertainty is a big part of it,” said Perlman, who added that baby Boomers may need \$200,000 for retirement, or \$2 to \$3 million depending on their circumstances. “We have a model that talks about accumulation, but we don’t talk about uncertainty.” Specifically, Boomers should focus more on risk tolerance in terms of investing and longevity risk, which he pointed out amounts to compounding in reverse. A dollar spent at age 65 may cost \$2 at age 75. “We don’t have a paradigm to address those issues,” he said. “I believe the Boomer population is unprepared to deal with this uncertainty and we haven’t educated them at all.”

Rappaport concurred, noting that “the idea of risk management is not on their radar screens.” She also noted that legal issues may impact Boomers’ retirement in new ways: for example, while people want to work longer, employers face legal problems if they try to offer phased retirement to some but not all workers. Those who want to gradually annuitize their money run into problems with minimum distribution rules. Furthermore, while retirees report they are concerned about their monthly income during retirement, when presented with the option of taking a lump sum or spreading out their income distribution, they tend to take the lump sum. She also pointed out that research shows respondents rely on intuition in determining the amount of savings they will need for retirement. When pressed for insight into their decisions about setting the amount they would need to save, she said that people reply, ‘I just knew.’

Jack VanDerhei from Temple University raised the issue of consumer debt in Boomers' retirement pictures. Perlman noted the present system has incentives for saving in 401 (k) plans that may actually lead some people to take on costly consumer debt to pay living expenses. "It's clear the 401 (k) system is not designed for real low income people." Henkel noted that retirees who experienced the Great Depression are reluctant to part with their saving. By contrast, he felt Boomers have the tendency to spend now and worry about tomorrow later. Perlman also felt that Boomers are overconfident in their ability to finance their own retirement, particularly if they look to the experience of their parents' generation when traditional defined benefit pensions were the norm and Social Security was secure. Martha Patterson of Deloitte Consulting also noted that Boomers may be unprepared for inflation, as it was not much of a problem during their working lives.

In summing up, Mitchell concluded that the best strategy for Boomers may be to plan on working past conventional retirement ages, and also to put off claiming Social Security early. The conference also clearly showed that the long-term investment in the HRS is beginning to bear fruit, informing research and policy. Hurd called on financial planners to advise their clients to push off collecting early Social Security benefits. Cullinan pointed out that today's elderly have a rich supply of Boomer sons and daughters and paid healthcare workers to provide them with long-term care. By contrast, he affirmed, Boomers do not have many people coming up to take care of them. As a result, he said, researchers and policy makers may be underestimating how much it will cost society to care for Boomers as they age. Clearly more research is needed, to judge prospects and offer guidance for Boomers on the verge of retirement.