Retirement, Boomer Style

The problems facing Social Security and Medicare have received renewed attention this year as the first members of the massive baby boom generation became eligible for early Social Security benefits.

But a lesser–known demographic shift is also under way. Economists and policymakers are growing concerned about what will happen to our economy as the 78 million boomers gradually exit the workforce.

As with any major shift in consumer behavior, investors will want to keep an eye on this unfolding situation.

Boom Times

The source of concern is related to the situation facing Social Security. In 1945, early in the program's history, there were 42 workers paying into Social Security for every person collecting benefits. But this worker–to–beneficiary ratio is shrinking as our population ages. In 2006, the ratio was 3.3 workers per beneficiary. It is projected to shrink to fewer than 3–to–1 by 2015.[1] Predictably, Medicare is also facing falling revenues and rising obligations. The shortfall between revenues and promised benefits for Medicare and Social Security combined could top $45 trillion by the 2080s, when today's junior high school students become eligible for benefits.[2]

This trend is also affecting the U.S. workforce: By 2010, one out of three Americans will be older than 50, and one out of five will be older than 65.[3] Between 2007 and 2017, the annual growth rate of the working–age population is expected to dwindle to less than 1% after averaging 2.25% between 1970 and 2006.[4] Although fewer workers joining the workforce may sound as though it could drive down the unemployment rate, the opposite might be true. The expected drop in the number of available workers, combined with the possibility that many boomers would consume less in retirement because they have less money than in their working years, could result in a significant economic slowdown. And the slowdown could last until enough younger Americans reach working age to repopulate the workforce.

Because this shift is unprecedented, it's not clear how investors should react. The American economy has surprised us before. Whether the situation will be a disaster or no big deal is likely to hinge on a few variables.

- **Whether technology can continue to raise our workforce productivity.**
- **Whether policymakers can find sound ways to meet the predicted shortfalls.**
- **Whether the boomers will be willing to stay in the workforce past age 65.**

It could be quite interesting to see how our country will tackle its demographic challenges. Meanwhile, it is more important than ever to remain focused on working toward your own financial goals.

1) Social Security Administration, 2007

2) Associated Press, December 17, 2007
3) AFP, December 24, 2007
4) Federal Reserve Bank of St. Louis, 2007

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