



Economics Group

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Boomer Balance Sheets: Nothing Great about That Recession

Boomer balance sheets took a big hit during the housing bust. The asset side of the ledger has recovered somewhat, but small financial holdings for the typical Boomer suggest a challenging retirement for many.

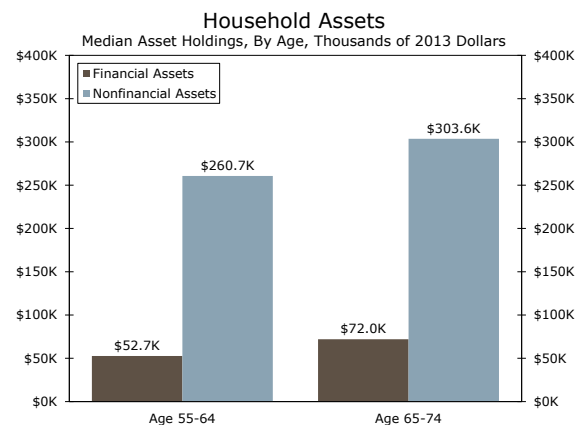
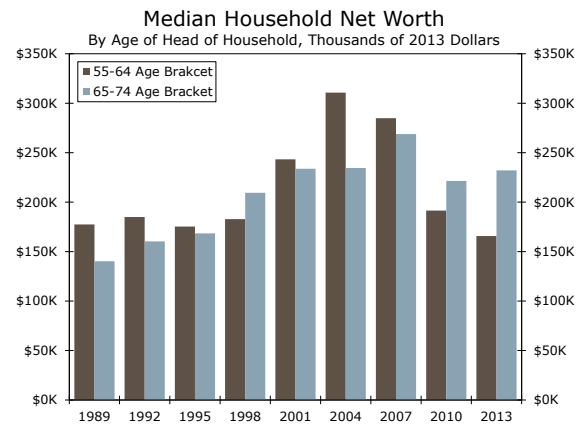
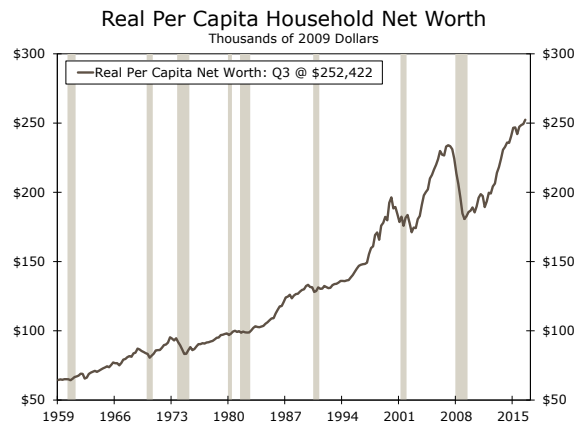
Boom and Bust for the Boomers

In the aggregate, household balance sheets have recovered their losses from the Great Recession. As illustrated in the top chart, real per capita household net worth has surpassed its pre-recession peak. Rising home prices, a recovery in the stock market and household deleveraging have all contributed to the rising trend in net worth. For instance, today the S&P 500 is more than 50 percent above its pre-recession peak, and household debt as a share of disposable income is the lowest it has been since the early 2000s. On this basis, households have made clear gains that will augment their financial situations in retirement.

However, higher frequency, aggregate data can mask divergent trends beneath the surface, such as distributional or demographic patterns. For a more detailed look at Boomer balance sheets, we must turn to the Federal Reserve Board’s Survey of Consumer Finances (SCF), a triennial survey for which the most recent data is 2013. This data show that, as of 2013, the “typical”, or median, Boomer had acquired less wealth than previous generations. Real median household net worth for individuals age 55-64 was the lowest on record (middle chart). Older Boomers fared a bit better, but their real net worth also remained below its 2007 peak.

The decline in home values as a result of the housing bust played a large role in the contraction of wealth. Between 2007 and 2013, the real median value of primary residence asset holdings declined roughly 22 percent for Boomer households. Nonfinancial asset holdings, of which a primary residence is often the biggest chunk, tend to comprise a larger share of asset holdings than financial instruments (bottom chart). As a result of the bust, the Baby Boomers experienced an unexpected decline in what for many is their most valuable asset. Although the housing bust’s scars remain a challenge for some, steady home price appreciation over the past few years should help the Boomers, as the equity built in a home can be used to sustain living standards during retirement, either by downsizing to a less expensive home, a reverse mortgage, or other means.

Another challenge for the Boomer generation as it enters retirement is the divide between those who have relatively sizable asset holdings and those who do not. The disparity between the median and mean financial asset holdings for Boomer households highlights this phenomenon. The “typical” Boomer approaching the age of 65 had just \$52,000 in financial asset holdings as of 2013. Average holdings for this age bracket, however, were more than \$400,000, suggesting this generation has a segment of outliers with financial asset holdings several times greater that of the “typical” Boomer. This dynamic highlights that, even with the recent gains, the challenges facing some Boomers are unlikely to be fully resolved by the solid asset appreciation experienced over the past few years.



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