Baby boomer’s old age income: Comparison of asset adequacy during retirement between 1st and 2nd baby boomers

The purpose of this study is to investigate the differences between 1st and 2nd baby boomers in terms of whether their asset accumulations at the time of retirement are appropriate for consuming throughout the lifetime.

This study is divided into two parts. The first part is the projections of assets and consumptions, and the second part is the analysis of assets and consumptions based on the projections in the first part. By using ridge regression model and adding interaction terms between explanatory variables for the projections, we alleviate the multicollinearity problem and improve accuracy. In the analysis, we compare retirement assets and consumptions by household characteristics, such as householder's sex, spouse status, education level, and household income.

The results show that net assets for the 1st baby boomers at the time of retirement (age 60) are higher than for the 2nd baby boomers whereas cost of living throughout the lifetime is higher for the 2nd baby boomers than for the 1st baby boomers. The results also show that households with middle-income level may not be better prepared for their old ages than those with low-income level.

From this study, the following implications can be drawn.

First, it is important to control consumption level as much as to increase asset accumulation. It is especially true for the households if their retirements are not far away.

Second, most households would not fall below poverty level after retirement, but efforts should be made to minimize the factors that temporarily reduce assets.

Third, insurance industry may consider to develop new pension products by
applying consumption forecasts. For example, it may be necessary to develop a joint-life annuity, a annuity with amount adjusted according to age, or an annuity joined with health insurance.

Fourth, since there are many households that have to continue their income activities even after retirement, the government should consider to extend the retirement age and make an effort to increase the public pension participation rates.

Fifth, the government should make a differentiated approach to economic policies for the elderly by considering the characteristics of the households. In particular, a policy that can facilitate getting the 2nd job after retirement may be necessary if the households have no net assets or negative net assets. Also differentiated policies based on wealth of the generations may be required,