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More bad news for baby boomers

By: Pamela Villarreal **September 22, 2012**

More bad news for baby boomers. For a number of years now, retirement and financial experts have bemoaned the fact that baby boomers and others who should be thinking about retirement saving are nowhere near ready to retire. Some blame the failure of 401(k) and Individual Retirement Account retirement plans to fill in the gaps left by elimination of corporate pensions. Others argue that American adults of all ages are not saving enough.

However, trends in spending habits have changed over the past 20 years for the population that should be most concerned right now about securing a nest egg — 45- to 64-year-olds. Real incomes for these age groups have not changed much since 1990. But the portion of disposable income households spent on certain categories of goods and services has increased. Some examples:

■ Education. According to the Bureau of Labor Statistics' Consumer Expenditure Survey, from 1990 to 2010, education expenditures increased the most — by 80 percent for 45- to 54-year-olds and 22 percent for 55 to 64 year olds. As with health care, the cost of a college education has grown faster than income for decades. Thus it is not surprising that a recent analysis by the New York Federal Reserve Bank found that one-third of the nation's student loan debt is held by individuals over the age of 40.

Though some individuals choose to further their own education during midlife, it is likely that many baby boomers are helping their college-age children with college expenses and loan payments.

■ Adult children. A recent survey from the National Endowment for Financial Education found that more than half of parents are helping to support their adult children. Among parents of 18- to 39- year-old children, 59 percent of parents are providing financial support to adult children who are no longer in school. This support takes the form of living expenses (48 percent), transportation costs (41 percent), spending money (29 percent), medical bills (28 percent) and paying back loans (16 percent). Another survey found that two out of five parents have paid off debt for their adult children, including 29 percent who had paid off student loans for their children. Gone are the days when kids asking parents for money was like Oliver Twist asking for more gruel.

■ Mortgage debt. Housing is typically the largest monthly consumer expenditure, and it has increased about 25 percent for baby boomers. What is particularly startling is that for 55- to 64-year-olds, nearly half of this increase was due to an increase in the interest portion of housing expenditures — even though mortgage interest rates have fallen over time. The portion of income they spend on mortgage interest increased 47 percent, from 4.3 percent to 6.3 percent.

Are baby boomers buying more home than they can afford or are prices for a basic home simply outpacing income growth? Probably. The median house size has increased from 2,080 square feet in 1990 to 2,392 square feet in 2010. Since the mid-1990s, the Federal Housing Authority allowed more borrowers to qualify for loans with lower down payments. After 2000, home price growth outpaced income growth, peaking in 2004 and 2005. Home prices began plunging by the end of 2008 with many households owing more on their mortgages than their homes were worth.

Moreover, the average age of the first-time homebuyer increased from age 28 in 1985 to age 35 in 2011. As the age of the first-time homebuyer increases, the probability that a household will carry a mortgage into its postretirement years also increases. In addition, due to the availability of home equity loans, many boomers who were previously close to paying off their homes could be refinancing or tapping into home equity. It is estimated that 15 percent of all baby boomers will not get out of debt in their lifetimes.

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