

The Baby Boomers' Retirement Consumption and Savings Puzzle

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As America's largest generation, the baby boom generation, approaches retirement in increasing numbers, we should expect that the consumption and savings decisions of this group would have a significant social and economic effect, to some degree directly through changing demand for goods, but more interestingly in determining the necessity or plausibility Social Security and Medicare reform. According to standard theoretical macroeconomic models, individuals maximize their welfare by maintaining relatively constant consumption throughout their lives, saving when income is high and borrowing or using savings when income is low, as in retirement or during unemployment. The question addressed is thus whether boomers adhere to this predicted consumption trend, and whether they behave as predicted when faced with a shock like the Great Recession or face a health shock. This paper will use panel data on consumption, wealth, and other variables from PSID between 2001 and 2015 in the United States. It then uses the Consumption Expenditures Survey as a robustness check for results. The paper will then explore some policy implications.

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