



Q3-2024

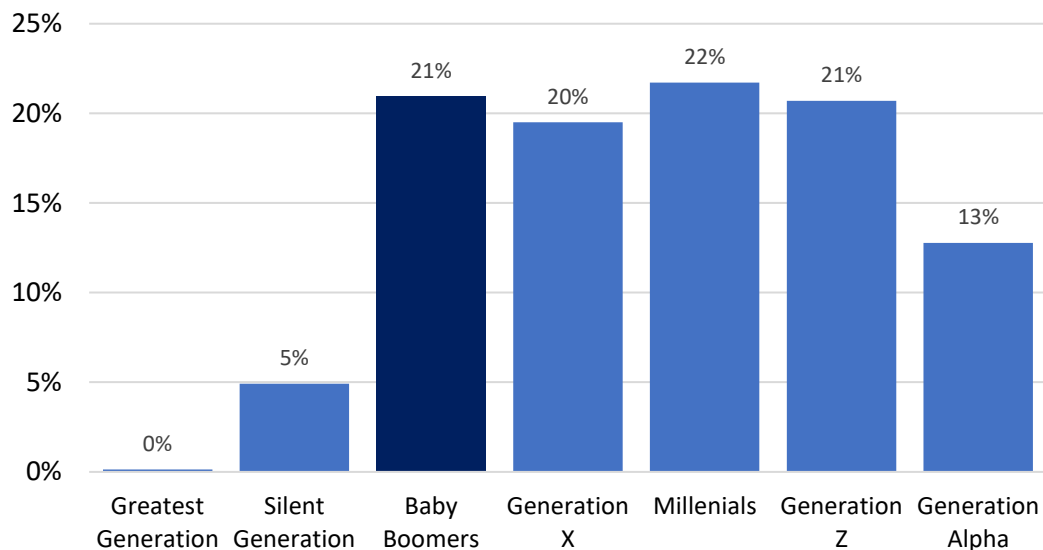
**Don't Throw the
Baby Boomers Out
with the Bathwater**

**Educational Update:
By The McConachie Team**

Introduction

The United States consumer is the cornerstone of the U.S. economy and is integral to the nation's health. In the 1st quarter of 2024, consumer expenditures accounted for ~68% of total GDP (FactSet). U.S. consumers are made up of a series of underlying generations, each of which, has unique personal and financial situations. These generations, and their percentage of the total U.S. population, are as follows:

- The Greatest Generation (Born prior to 1928)
- The Silent Generation (1928-1945)
- The Baby Boomers (1946-1964)
- Generation X (1965-1980)
- Millennials (1981-1996)
- Generation Z (1997-2012)
- Generation Alpha (2013-Current)



United States Census Bureau; [U.S. and World Population Clock](#), Population as of 12/31/2023

Some differences are clear between generations, such as their stage of employment or retirement, their relationship with technology, and their spending habits. The generation currently retiring from the workforce is the Baby Boomers, and over the last ~78 years, the Baby Boomers have helped build the United States into the financial goliath it is today. They are at the stage in their life where accumulating wealth shifts to spending wealth, and as we will see, they sure have accumulated a large amount of assets. In this educational piece, we look forward to discussing the financial empire the Baby Boomer’s have built over their long and prosperous lives, and what that means for the generations following in their footsteps.

A Booming Net Worth

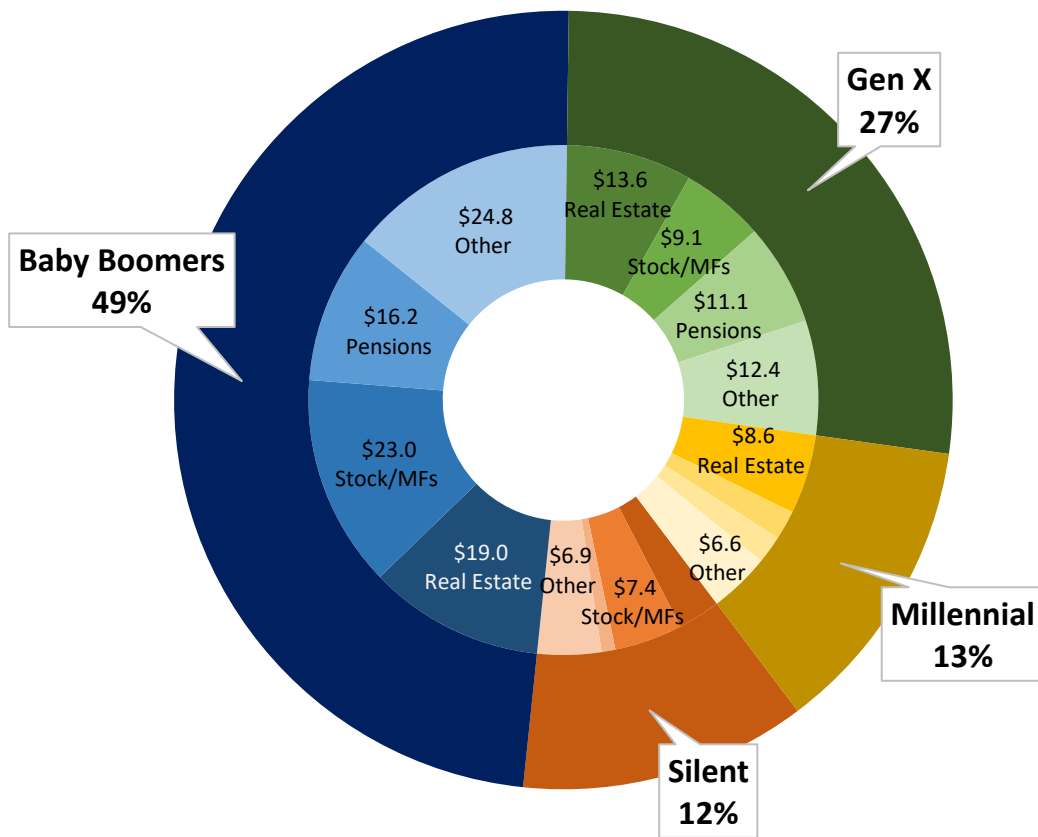
The majority of Baby Boomers have likely reached their stage of peak wealth accumulation. Around retirement age, funds usually have been accumulated, but not meaningfully drawn down yet. Every three years, The Federal Reserve conducts a [Survey of Consumer Finances](#), which helps gauge the financial health of the U.S. population. The most recent poll (completed for 2022) shows the average and median net worth for citizens of different age groups. The Baby Boomers (aged 58-76 at the time) have the highest median, average, and total implied net worth.

Age Range	Population (2022, M)	Median Net worth (\$M)	Avg Net Worth (\$M)	Groups Implied Total Net Worth (\$M)
0-34	149.56	0.04	0.18	27,425,693
35-44	43.94	0.14	0.55	24,081,157
45-54	40.63	0.25	0.97	39,462,911
55-64	42.47	0.36	1.56	66,422,819
65-74	34.05	0.41	1.78	60,629,696
75-101	23.46	0.33	1.62	38,000,954

Federal Reserve; [Survey of Consumer Finances](#) | United States Census Bureau; [U.S. and World Population Clock](#)

Additionally, the Federal Reserve gathers data on financial [Assets by Generation](#). When grouping together the 4 wealthiest generations (Baby Boomers, Gen X, Millennials, and the Silent Generation) the Baby Boomers compromise 49% of total U.S. assets, clearly demonstrating the current empire of wealth the Baby Boomers have accumulated.

\$171 Trillion in U.S. Assets, Split by Generation



Federal Reserve; Distributional Financial Accounts, [Assets by Generation 2024 Q1](#)

With the Baby Boomers controlling such a significant portion of the nation’s wealth, their relationship with spending and saving has a large impact on the total US economy. As noted previously, the consumer is of utmost importance for the U.S., and Baby Boomers may be the

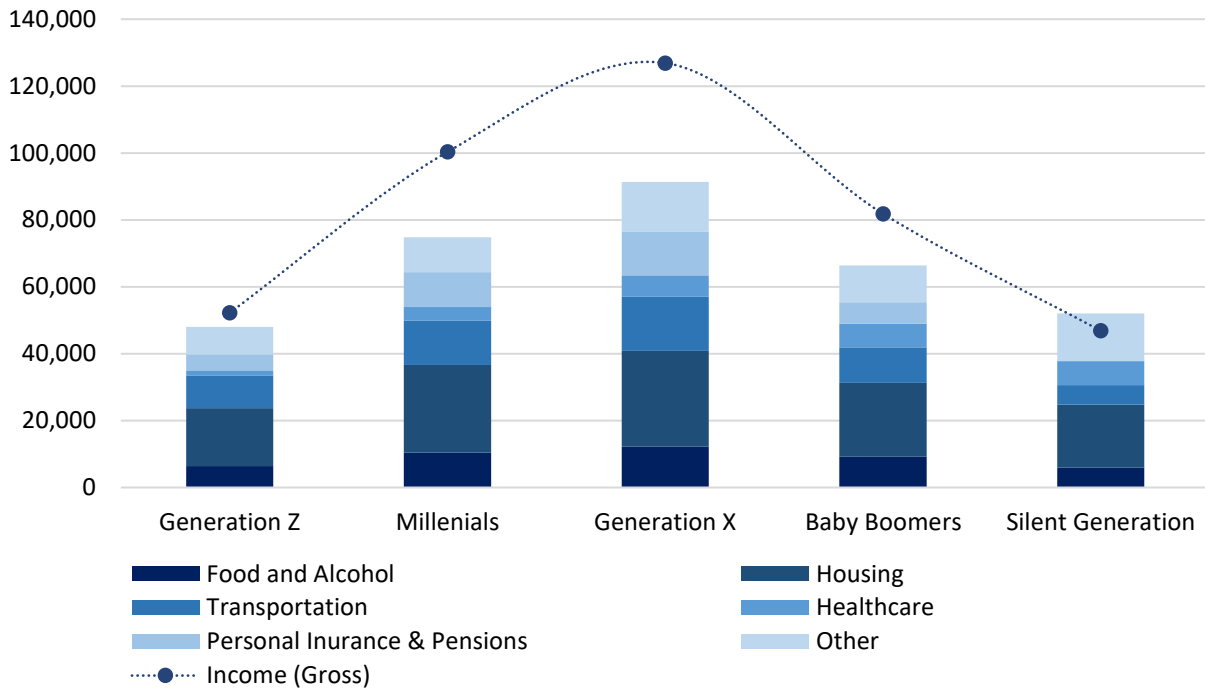
most influential generation of consumers. Over the next few decades, their funds are expected to prop-up investment markets, purchase a significant portion of consumer goods, increase healthcare spending, and be passed-down to younger generations. With this economic footprint, the Baby Boomers health, both physical and financial, can be linked to the prosperity of the entire U.S. economy.

Spending Habits

Spending habits help us build, and keep, wealth. Net worth is important, but poor spending habits could draw down that accumulated wealth over time. As more-and-more Baby Boomer's transition into retirement, they will see changes in the household's cash flows and spending habits. Many find it difficult to spend the funds they worked so hard to accumulate, but at the same time, it is important to enjoy life in retirement.

The [U.S. Bureau of Labor Statistics](#) provides some insight into generational spending and income, giving us the average income and expenses split by the five wealthiest generations. Even while owning the most assets, Baby Boomers have the 3rd lowest level of expenditures. Additionally, the average Baby Boomer is still saving funds, with more income coming into the household than is being spent.

Mean Household Income & Expenditures



[U.S. Bureau of Labor Statistics](#); Table 13. Generation of reference person: Average annual expenditures and characteristics, Consumer Expenditure Surveys, 2022

Despite controlling the largest level of accumulated assets, Baby Boomers have shown constraint in their spending. It is likely this generation's spending habits were formed from their past experiences with tumultuous markets and economic cycles. In fact, the Baby boomers have endured up to 12 recessions ([NBER](#)) and 3 bouts with +8% inflation (FactSet) in their lifetime.

These life experiences have created certain behavioral and emotional tendencies in the Baby Boomer generation. These tendencies can be seen in their actions and spending habits, like gravitating toward preferred purchasing channels and a managing a unique relationship with

technology. For Example, Baby Boomers are less likely to make purchases online, which insulates them from overspending.

Preferring in-store spending insulates consumers from the 24/7 marketing done through television, social media, and other applications. Today's youth is constantly advertised to through their phones, with more-and-more purchases being only a click away. Purchasing goods on social media sites, or through company specific apps, is becoming more of a common occurrence for younger generations. The installment and adaption of monthly payment plans for everyday goods has also drawn modern consumers into overspending. Baby Boomers have some insulation from spending traps by preferring in-store spending, previously experiencing scarcity in recessions, and having a less involved relationship with key technologies.

It's Real (Estate)

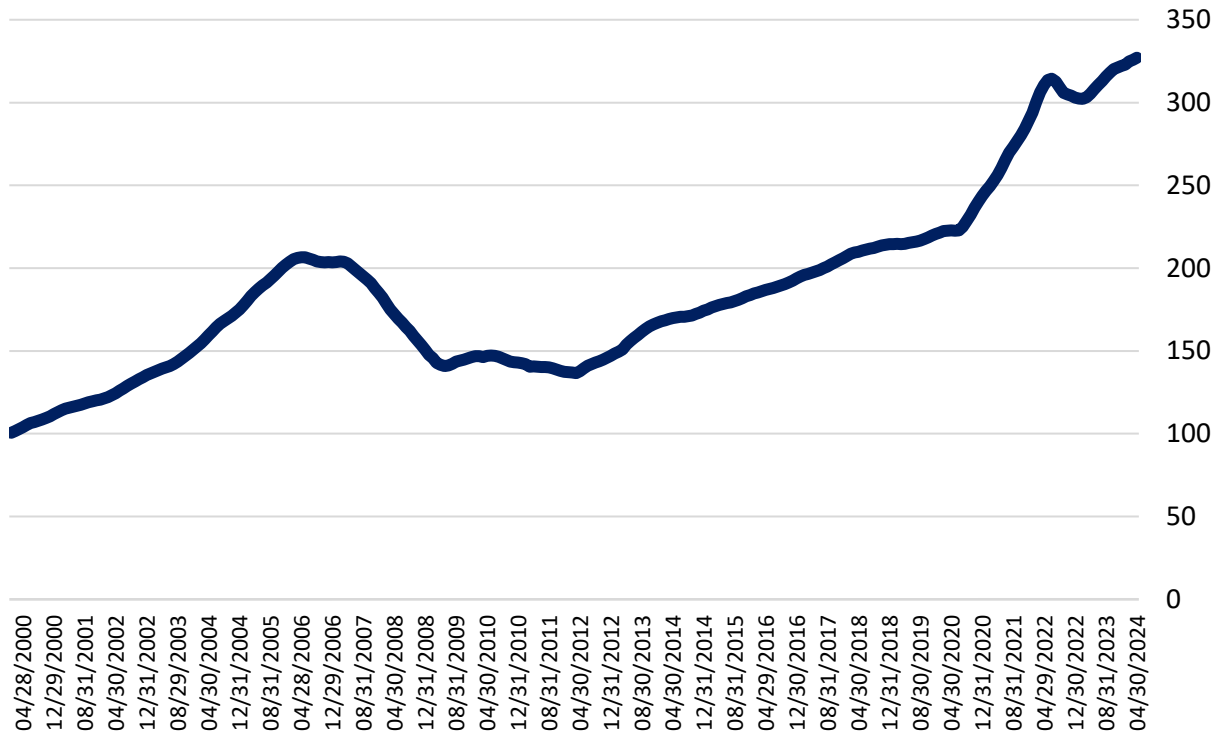
The real estate portion of Baby Boomer wealth is a significant \$19T dollars. This real estate wealth alone is close to **all** the assets held by the Silent generation (at \$20T) or Millennial generation (at \$21T). Additionally, Baby Boomers have had higher levels of homeownership relative to younger generations, despite the high interest rates and housing crises along the way.

Much of the baby boomer population was entering home buying age in the 1970's and 1980's, right around a massive spike in inflation. To combat this inflation, the Federal Reserve, led by Paul Volcker, increased interest rates. This pushed the average 30-year fixed mortgage rate as

high as 18.6% in [1981](#). Higher rates lead to larger mortgage payments, creating a challenging real estate environment for this budding generation. But with policy changes, hard work, and patience, the real estate environment would become more welcoming to new homeowners. Mortgage rates later dropped under 10% in the early 90's, and under 7.5% in the early 2000's. After the 2008 Great Financial Crisis, mortgage rates fell into a range between 3-5% for the next decade. As rates fell overtime, Baby Boomers had the opportunity to refinance existing mortgages and purchase new homes at lower interest rates, meaning lower monthly payments or potentially upscaling their home. A 7% 30-year fixed interest mortgage might seem high to today's home buying population, but they did not live through the inflation crisis of the 1980's, and the decades that followed.

Home equity can be acutely valuable by simultaneously offering a home to live in, saved expenses when mortgages are paid off, and an investment with potential price appreciation. Since the turn of the century, home prices have increased 3.27 times (5% annualized). For example, an average home bought in 2000 for \$150,000 would now be worth around \$490,500 today.

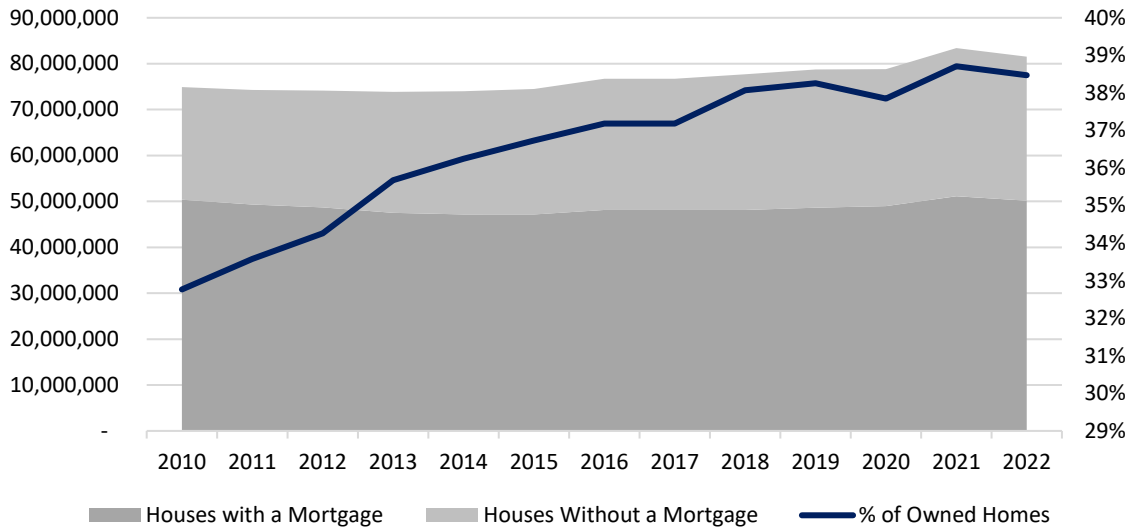
Home Price Index



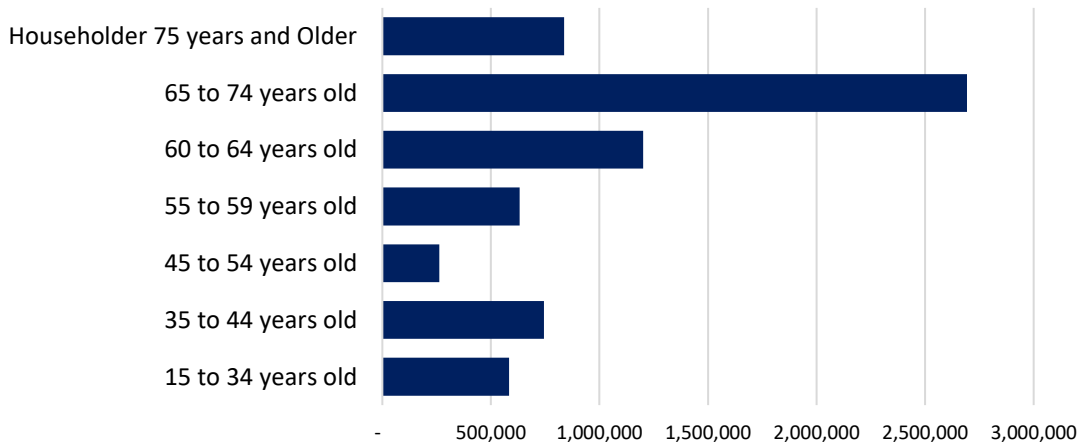
Data provided by FactSet; S&P/Case-Shiller 20-City Composite Home Price Index, 1/31/2000 - 4/30/2024

Growing prices, combined with reducing mortgages, increases the households amount of equity in the home. From 2010 to 2022, the percentage of Americans who outright own their home increased from 33% to 39%. Baby Boomers have been leading the charge with the largest increase in mortgage-free homes over this period, with the US Census Bureau showing ~4 million homes going mortgage free.

Percent of Mortgage-Free Homes in the US (all age groups)



Change in Number of Mortgage-Free Homes, by Age Group from 2010-2022



United States Census Bureau; Selected Housing Characteristics (DP04) and Mortgage Status by Age of Householder (B25027)

Full home ownership can increase one’s discretionary capital, ability to save, and net worth as property values rise. Real estate is 23% of Baby Boomer net wealth, while 47% of their wealth is

retained in investments like stocks, mutuals funds, and pensions accounts. Many of these homes and accounts are expected to outlive their owner's as we move toward the Great Wealth Transfer.

The Great Wealth Transfer

It is likely the retiring generation has the largest amount of capital accumulated in pensions, individual retirement accounts, and other investments. As of 2024, roughly half of the Baby Boomer population is above retirement age (67). The retirees are likely utilizing their cash, income streams, and investments to currently live out their own virtuous activities, while wondering how to also plan for the future of their loved ones.

As we move further past retirement, more and more conversations begin to orient around generational wealth management. Questions about what will happen with one's estate, lifelong savings, accumulated assets, and intentions after death, begin to surface. As we all approach this stage in life, it is important to set ourselves, and the next generation, up for success. A study conducted by [Cerulli Associates](#) in 2021 estimated that \$84 Trillion will be left behind by the year 2045; and

\$72 Trillion is expected to be passed down to younger generations,

In what is becoming known as "The Great Wealth Transfer." Sadly, this transfer may not happen efficiently for much of the population. Without proper planning, the household may run into many inefficiencies at the time of passing. Estate planning is a primary example of where an Advisor can add value through both financial planning and emotional support. Evaluating each

household's situation, advisors create a smooth transition plan to give families the time to focus on what is important, and assurance no hard earnings go to waste.

This is done through strategies that can help clarify and expedite asset transitions, reduce unnecessary taxes, avoid quarrels amongst family members, and circumnavigate the inefficiencies of probate. To create a smooth transition of wealth, caring advisors will cover financial planning, optimized asset location, beneficiary education & inclusion, behavioral coaching, and more. With smart and efficient financial management, many can leave the lasting impact they want, on the world and on those around them.

Conclusion:

Baby Boomer Wealth = Economic Health

The Baby Boomers current stage of life is conducive to peak wealth accumulation; savings have been built up over decades, retirement funds and pensions are near their peak value, home loans are heavily paid down (or paid off), and more-than-likely, their investments in stocks, mutual funds, and real estate have appreciated considerably. The wealth accumulated by the Baby Boomers is some of the greatest the world has ever seen, and the expected rate of spending indicates a plethora of capital will be around long after the owners have passed. The Baby Boomers are truly an influential generation, as their decisions today will be felt for generations to come.

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