

**THE MARKETS WILL RALLY WHEN THE BABY BOOMERS RETIRE**

Conventional wisdom tells us the Baby Boomers will transform everything before it like a conquering army as it heads toward old age, because of its massive size. Sell your house and stocks before others do because there are not enough younger people to buy all the assets that Baby Boomers will dump onto the market. No matter how many times this idea is repeated, it is wrong. Baby Boomers have not single-handedly changed the American demographic landscape. There is no big bulge in the age distribution of America. Official figures document that much of conventional wisdom is a statistical artifact, created by comparing the Baby Boomer generation which lasted 19 years, against Generation X, which lasted 16 years. Naturally, a “generation” lasting 19 years will be bigger than one that is only 16 years long. Furthermore, the part that is real has been diminished by a tide of young immigrants that have streamed into America since 1981, legally and illegally, a process that is far from over. The perpetuation of the massive Baby Boomer myth is like a bad joke that will not go away. Someone is always citing it. Unlike a bad joke, however, it can lead to major investment mistakes if you believe it. The coming Baby Boom retirement does not constitute a key “tipping point,” where far seeing asset owners will be rushing out the door to sell their stocks, bonds, and houses before all the others do. Instead, expect the future to look like the past: a steadily increasing population that will want financial assets to provide for their futures and places to live amid a growing economy.

There is no laughing, however, about the coming changes to the federal budget. Under federal law, workers can apply for “early” Social Security retirement benefits at age 62, which means the first Baby Boomer will receive old age Social Security benefits next month. In three years, the first Baby Boomer retiree will qualify for Medicare. For taxpayers, it is a shame that the Baby Boomer myth is not true. If it were, the problem would disappear when the Baby Boomers passed away. Unfortunately, ballooning Social Security, Medicare, and Medicaid payments only start with the Baby Boomers retire, and lamentably they continue indefinitely. This problem is as serious as a heart attack, but is also being misdiagnosed by the media.

**Baby Boomer Births Between 1946 and 1964: Just Part of the Story**

The part of the myth that rings true is that America’s birth rate, as measured by the number of births per 1,000 women of reproductive age, averaged 113.5 between 1946 and 1964 – more than anytime since 1921, when it was 119.8 – then plunged in 1968, mostly due to the sudden widespread availability of birth control starting in 1965. As a result:

- 75.9 million baby boomers were born between the 19 years spanning 1946 and 1964
- 54.9 million from Generation X were born between the 16 years from 1965 to 1980

Of course, half of the difference in the number of Baby Boomers and Gen Xers is due to comparing apples and oranges; the Baby Boom generation encompasses 19 years, while Gen X

lasted only 16 years. If Generation X lasted 19 years, from 1965 to 1983, then there would have been 65.9 million of them.

Furthermore, Baby Boomers undermined their claim to be an especially large generation because each Boomer couple had two children of its own – often referred to as the “baby echo” – which is why 77.8 million Generation Yers were born over twenty years, 1981-2000. The Baby Boom generation and Generation Y are of equal size.

### **America’s Recent Immigration Wave: The Rest of the Story**

A phenomenon less remarked about but even more important has been the surge in immigration since 1981, when both legal and illegal immigration spiked.

#### **Net Immigration by Generation**

	<b>Legal</b>	<b>Illegal</b>	<b>Total</b>
1946-1964	3.7 million	1.1 million*	4.8 million
1965-1980	3.8 million	0.9 million*	4.7 million
1981-2000	10.1 million	10.7 million	20.8 million

Sources: Social Security Administration/author’s calculation\*

When America liberalized its immigrant rules and also reduced enforcement of its immigration laws, younger foreign workers disproportionately took advantage of the opportunities. Thus, 19 per cent of Generation X is foreign born, compared to only 13 percent of Baby Boomers. Immigration has diminished the size difference between Generation X and the Baby Boomers. <http://www.census.gov/population/www/socdemo/foreign/ppl-176.html>. The swelling of Generation X’s ranks by immigrants is not over. More ambitious Generation Xers, seeking opportunity at age 30, are likely to immigrate here in the next decade, while proportionately fewer 55 year old foreign-born Baby Boomers will embark on a brand new life legally – or try to sneak across the U.S. border for the first time. The generational size gap between the Baby Boomers and Generation X is likely to narrow further.

### **What Baby Boom Bulge? The World is Flat**

As the table below documents, the Baby Boom bulge, those now between 43 and 61 years of age, has shrunk to a small bump!

#### **Distribution of U.S. Population in 2007, by 5 Year Age Cohorts, (millions)**

<b>Age</b>	<b>Population</b>	<b>Age</b>	<b>Population</b>	<b>Age</b>	<b>Population</b>
Under 15	63.0	35-39	21.7	60-64	15.1
15-19	22.0	40-44	22.3	65-69	11.4
20-24	21.1	45-49	23.5	70-74	8.8
25-29	21.4	50-54	21.8	75 or older	18.1
30-34	20.1	55—59	18.8	Total:	309 million

Source: Social Security Administration, <http://www.ssa.gov/OACT/STATS/table4c5.html>

Basically, America is a nation with a flat age distribution. Only “analysis by cherry picking” can manufacture any noticeable variation; grouped in five year cohorts, the smallest number of Americans is 20.1 million and the highest is 23.5, until mortality affects the totals at around age 55. There is no massive “Baby Boomer” bulge in the U.S. population distribution.

**America’s Demographic Future: We Grow More Numerous and Hablamos Espanol**

Periodically, the Census Bureau projects the U.S. population over decades, with the last such projection done in 2004. The Bureau’s official population growth forecast is shown below. When the Baby Boomers retire, there will be no shortage of Americans to buy their houses, stocks, and bonds in the decades ahead.

**Projected Population of the United States, By Age (millions)**

<b>Population, by age</b>	<b>2000</b>	<b>2010</b>	<b>2020</b>	<b>2030</b>	<b>2040</b>	<b>2050</b>
0-4	19	21	23	24	26	28
5-19	61	62	66	71	75	81
20-44	104	104	109	115	122	131
45-64	62	81	84	82	89	93
65-85	31	34	47	62	65	66
85+	4	6	7	10	15	21
<b>TOTAL</b>	<b>282</b>	<b>309</b>	<b>336</b>	<b>364</b>	<b>392</b>	<b>420</b>
<b>Percent of Total</b>						
0-4	6.8	6.9	6.8	6.7	6.7	6.7
5-19	21.7	20.0	19.6	19.5	19.2	19.3
20-44	36.9	33.8	32.3	31.6	31.0	31.2
45-64	22.1	26.2	24.9	22.6	22.6	22.2
65-84	10.9	11.0	14.1	17.0	16.5	15.7
85+	1.5	2.0	2.2	2.6	3.9	5.0
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

U.S. Census, Mar 18, 2004 <http://www.census.gov/ipc/www/usinterimproj/natprojt02a.pdf>

However, it will be increasingly likely that the buyers will not be European whites, who will become a minority population in 2051 as the Hispanic population reaches 24 percent of the total:

**Projected Population of the United States, By Race (millions)**

	<b>2000</b>	<b>2010</b>	<b>2020</b>	<b>2030</b>	<b>2040</b>	<b>2050</b>
White alone	229	245	261	275	290	303
Black alone	36	40	45	50	56	61
Asian alone	11	14	18	23	28	33
All other races	7	9	12	15	18	22
<b>TOTAL</b>	<b>282</b>	<b>309</b>	<b>336</b>	<b>364</b>	<b>392</b>	<b>420</b>
<b>Hispanic (of any race)</b>	<b>36</b>	<b>48</b>	<b>60</b>	<b>73</b>	<b>88</b>	<b>103</b>
White alone, not Hispanic	196	201	206	209	210	210

U.S. Census, Mar 18, 2004 <http://www.census.gov/ipc/www/usinterimproj/natprojt01a.pdf>

## **The Retirement of the Baby Boomers is Only the Tip of Entitlements Crisis Spear**

The facts trump conventional wisdom. The adage of the U.S. population being like a pig which has been swallowed by a Baby Boomer python is incorrect. With two equally large age cohorts, Generation X and Generation Y, following in succession behind the Boomers, the correct image is that the python is trying to swallow a telephone pole. Sixteen percent of the population will be 65 or older in 2020, twenty percent will be so in 2030 and 2040. The figure will reach twenty-one percent in 2050, when almost all Baby Boomers will be gone, compared to only 13 percent in 2010.

Last Thursday, the Director of the Congressional Budget Office Peter Orszag testified before the House Budget Committee on the Long-Term Budget Outlook, available at [http://www.cbo.gov/ftpdocs/88xx/doc8884/12-13-LTBO\\_Testimony.pdf](http://www.cbo.gov/ftpdocs/88xx/doc8884/12-13-LTBO_Testimony.pdf). Director Orszag confirmed what his Republican predecessors also feared; federal spending as a share of GDP will go up sharply under current law as the ballooning percentage of elderly demand higher and higher amount of Social Security, Medicare, and Medicaid benefits. Orszag told the Committee that spending on these three programs will rise from 8 percent of GDP today to 18 percent in 2050 – and 25 percent in 2082. To pay for this spending boom, all federal tax rates, including payroll tax rates and income taxes, would have to rise by at least 50 percent. Think about a future where the payroll tax is 23 percent, the top marginal income tax rate is 52 percent, the corporate income tax rate is 52 percent, and the long-term capital gains tax rate is 22 percent. That is a world where rates have gone up by 50 percent.

Of course, such rates are unlikely to generate a 50 percent increase in revenue. We are all supplysiders now.

While the number of Americans will grow, as they have in the past, taxpayers may be angry at escalating tax rates that rise to a level seen only at the height of World War II, when the nation's survival was at stake. Their only place to hide may be by purchasing tax preferred securities. The investment implication is clear: especially if you are a Baby Boomer, overweight municipal bonds when you retire.

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