

Baby boomer retirement spurs market worries

By PETER SVENSSON
THE ASSOCIATED PRESS

NEW YORK — Within the next 10 years, the baby-boomer generation will start going into retirement. Among experts, opinions differ widely on what effect that will have on markets and the economy, but no one is painting a happy picture.

"Baby boomers have affected the economy all through their lives. When they went to school, they put great strains on the school system; when they entered the work force, wages went up very slowly," says John Shoven, professor of economics at Stanford University in California. "It would be naive to think that their retirement will go smoothly."

The baby boomers were born between 1946 and 1964, so the oldest will become 65 years old in 2011, and the youngest ones in 2029.

Pessimists say that because succeeding generations are

RETIREMENT

Pessimists wonder who will be there to buy stocks when baby boomers decide to sell them.

smaller, retiring baby boomers who try to sell their stocks and bonds won't find enough buyers, depressing or even crashing the financial markets.

A study by Shoven estimates that after the majority of baby boomers have retired in 2024, U.S. pension plans, which own a huge part of U.S. stock, will have a net outflow for the first time. And a simulation by the International Monetary Fund shows that because investors are likely to switch from stocks to bonds as they age, stock prices and bond yields will be substantially lower when the baby-boomer generation retires.

Paul Hewitt, director of the Global Aging Initiative at the Center for Strategic and Inter-

national Studies in Washington, sees baby boomers increasing their savings in the next 10 years, a phenomenon that could be as problematic as a subsequent sell-off.

"They'll be saving more for retirement, but at the same time, their money will find few good places to go because the slow-growing global economy will need less investment," Hewitt says.

"If you have rise in savings supply and a decline in investment demand, what do you get? You get a bubble," he says.

Shoven, however, doesn't believe that there will be a drastic sell-off in the financial markets. Instead, companies will find ways of making stocks more attractive to the shrinking number of buyers by increasing dividends and stock buybacks, he says.

"If you own stocks, selling them is not going to be the only way of getting cash out of

them," Shoven says. "Dividends are going to come back in style."

To provide that cash, companies would probably invest less, an appropriate move in a slow-growing economy, Shoven says.

There are other reasons the effect might not be very severe. Sam Stovall, chief investment strategist at Standard & Poor's, sees baby boomers selling off their holdings gradually.

"Their biggest fear in life is outliving their money, so they're going to do whatever they can to make it last," he says. His bet is that they are going to stretch their pensions as far as they go, and try to leave as much as possible of their other holdings to their heirs.

But even if there is no huge sell-off, the departure of the baby boomers from the work force will affect the financial markets because the amount they invest

will decline, Stovall says.

The greatest effect on the economy may come not from the baby boom, but from the "baby bust" that came after it. Longer lifespans and declining births in the generations after the boom mean that the population is aging, and fewer people of working age will be supporting more retirees.

In 2000, the ratio of Americans between 15 and 59 years old to those 60 and older was 4-to-1, according to a United Nations report. In 2050, the ratio will be only 2-to-1.

The aging population will strain the Social Security system, which pays retirees from taxes that it levies on workers. Similar retirement systems will face even greater challenges in Europe and Japan, where the baby bust has been much more marked, and immigration is limited.

Deficits in the pension plans may force countries to borrow

heavily, raising interest rates around the world, according to the International Monetary Fund.

"You could have a complete meltdown of the global economy because the developed economies don't know how to handle their retirement plans," Hewitt said. The Global Aging Initiative he directs tries to educate governments, business leaders and the public about the effects of the aging population.

The retirement of the baby boomers will be only one of many factors affecting markets in the coming years, but just in case it proves a major factor, investors may want to pay attention to a tip that many experts put forward: Invest in countries that have a young population. Newly industrialized and developing countries may see most of the economic growth in this century.

ONLINE: Global Aging Initiative: www.csis.org/gai