



2015

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Richard N. Fischer

Siena College, m13fisc@siena.edu

Recommended Citation

Fischer, Richard N. (2015) "The Savings Behavior of Baby Boomers and Echo Boomers," *Undergraduate Economic Review*: Vol. 11: Iss. 1, Article 12.

Available at: <http://digitalcommons.iwu.edu/uer/vol11/iss1/12>

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The Savings Behavior of Baby Boomers and Echo Boomers

Abstract

Much has been written on the Baby Boomers and Echo Boomers following the Great Recession. This paper examines the savings behavior of these two groups and gives possible reasons as to why they make such decisions. Using data from a Times Union/Siena College poll to 751 residents in 51 upstate New York counties, I attempt to illustrate why people's perceptions differ from reality. A chi-square analysis is used due to the categorical nature of the data. The findings show that people make economic decisions based on the life-cycle hypothesis and less on the economic recovery.

Cover Page Footnote

I would like to thank my faculty mentor, Dr. Ashley Provencher, Ph. D., whose encouragement and critiques assisted me in crafting this paper. I would also like to thank Dr. Levy and the Siena Research Institute for allowing me to use their data set, which was the foundation of this paper.

Introduction

Although the Great Recession ended in 2009, few have felt the economic gains of the past five years. Indeed, the economic recovery has been largely concentrated among the “superaffluent” (Garson 2013). This paper will explore whether the economic recovery has been realized among residents in upstate-New York. More specifically, this paper will determine whether or not the Great Recession has impacted the savings behavior of perhaps the two-largest generations: the Baby Boomers and the Echo Boomers. Possible reasons as to why people's perception is different from reality and potential policy prescriptions to correct for such misalignment are then discussed.

Before proceeding, it is important to define the two cohorts that are examined in this study. The Baby Boomer generation's years are defined as those born between 1946 and 1964. The Echo Boomer years, however, are loosely defined. According to Shih & Allen (2006), the years for the Echo Boomers begin anytime from 1977 to 1982 and end some between 1994 and 2003. Likewise, Timmermann (2007) defines the Echo Boomers from 1977 to 1994 (p. 27); Zick, Mayer, and Glaubitz (2012) define the generation as those born from 1975 to 2000 (p. 4). Tom DiPrete, a sociology professor at Columbia University, says that the reason for the discrepancy in years for the Echo Boomers is because this generation is not defined by concrete characteristics. He contrasts this observation to the Baby Boomer generation which he says had characteristics that solidified them as a generation (Bump 2014, para. 5). Some of these characteristics are the rise in the “standard of living” after World War II and the “rise of the nuclear family” (para. 5). Moreover, the Baby Boom generation began when the Greatest Generation returned home from war, married, and started to have children. The generation ended with the invention of “The Pill.” For the Echo Boomers, however, the boundaries between Generation X and the Echo Boomers overlap too much to give specific starting and end dates (para. 10).

For the purposes of this paper, we will define the Echo Boomer generation as those born between 1980 and 1996. This is consistent with the literature and also limited by the data used in this analysis. The next section of this paper looks at the labor market and its connection to retirement savings. Section III synthesizes and reflects on previous literature related to the generational differences in saving. Section IV discusses the methodology of the research analysis. Section V addresses the results of the research and its limitations and section VI offers a discussion of the results. Finally, section VII discusses policy recommendations on how employers and the government can assist consumers in changing their savings behavior and, in turn, improve their savings.

Labor Market

For more than 50 years, the labor force participation rate accelerated upwards and reached a high water mark at 67.1 percent in the late 1990s (Mosisa & Hipple 2006, p. 35). One reason for the fall in the labor force rate has to do with the Baby Boomers' and their effect on the population size and composition. A flat labor force characterized the 1950s and 1960s. In the years following, however, the labor force rate increased exponentially as this was the time when many Baby Boomers reached the age to join the labor force. During this time, women entered the labor force, which further increased the size of it (Mosisa & Hipple 2006, p. 35-37).

By 2001, the labor force rate was on the decline mostly due to a recession that began in March of that year. Among the age groups affected, 16-24 year olds suffered the biggest decline in labor force participation (Mosisa & Hipple 2006, p. 37). "From 2000 to 2005, the participation rate for young adults fell 3.2 percentage points" (Mosisa & Hipple 2006, p. 39). Despite this fall, young men participated at a greater rate than women of this age group in 2005 (Mosisa & Hipple 2006, p. 39).

Another reason for the decline in the labor force was the increase in school enrollment. From 2000 to 2005, school enrollment increased from 32.5 percent to 36.1 percent. This may have been due to the possibility that young adults were having a difficult time finding gainful employment (Mosisa & Hipple 2006, p. 40).

The entry of women into the labor force during the post-World War II period played an integral role in the labor force participation rate. The 1970s saw the biggest increase in female participation at 13.9 percent. In 1999, the participation rate of women (aged 25-54) hit an all-time high at 76.8 percent. Similar to the overall labor force participation rate, women's participation rate began to decline in 2000. From 2000 to 2005, women in the 25-29 age bracket saw the sharpest fall (2.7 percent). One reason for this fall applies to married women. Many of these women left the labor force to care for their children until they reached school age (Mosisa & Hipple 2006, p. 42-43).

For men aged 25-54 years, their participation rate began to decline in the mid-1950s. By 2005, the rate hit a low of 90.5 percent (Mosisa & Hipple 2006, p. 47). Similar to women, the decline of men's participation in the labor force can be attributed to those with less education. As low-skilled jobs have disappeared, men with less than a college degree have found it difficult to return to the labor force. Another reason might be due to the fact that restrictions on the Social Security Disability program have been loosened. Thus, the number of people benefitting from this law has increased (Mosisa & Hipple 2006, p. 49).

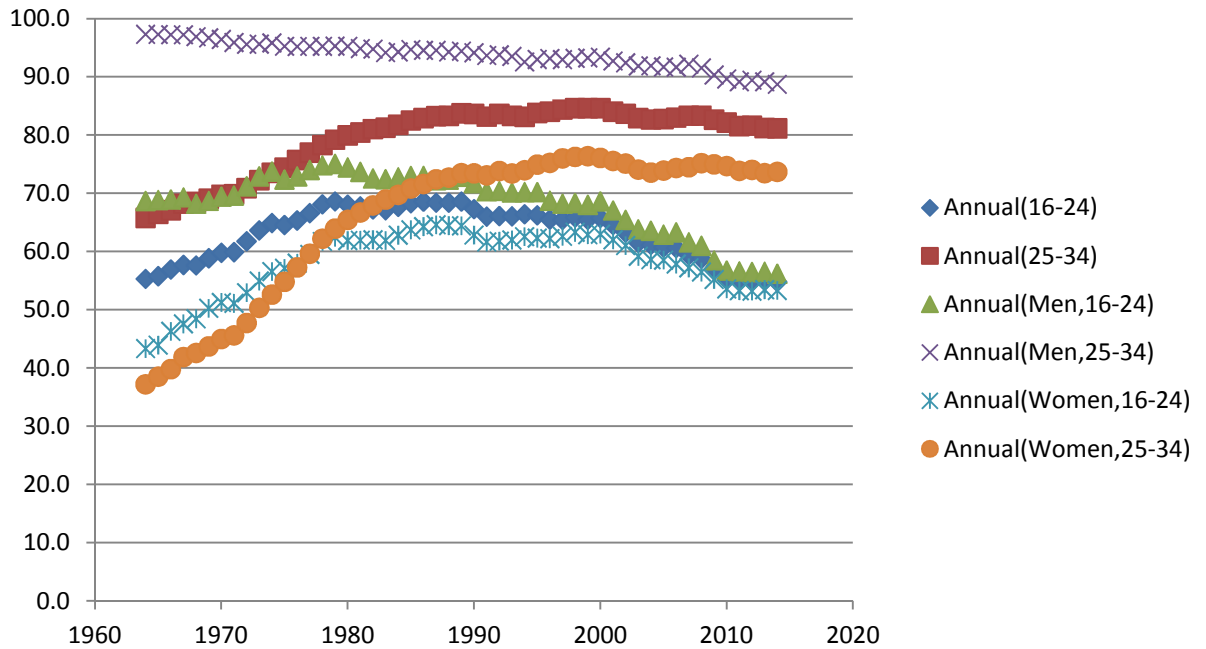


Figure 1: Labor Market Participation Rate of Men vs. Women by Age

New York Labor Market

From 2007 to 2012, the labor force participation rate in New York State dropped. This drop, however, differs among age groups (Olsen 2012, p. 3). For age groups under the age of 55, labor force participation dropped particularly for younger workers. Members of this group may have decided to stay in school as the state went through the recession. On the other hand, the labor force participation rate for those above age 55 actually increased (Olsen 2012, p. 3). New Yorkers between the ages of 55 and 64 witnessed an increase of 1.9 percent while those aged 65 or older experienced an increase of 2.2 percent. The increase among the 65+ group is attributed to the fact that many of these consumers lost their savings during the Great Recession. To make up for their losses, they returned to the work force (if retired) or decided to work past the normal retirement age (Olsen 2012, p. 3).

Linking the Labor Market and Retirement Savings

From 1948 to 1995, the labor force participation rate of workers aged 55 and older fell by 13.3 percentage points (Mosisa & Hipple 2006, p. 49). Beginning in 1996, however, this trend began creeping upwards for both men and women. One reason for this upward trend in the labor force was the increase in

retirement age for Social Security benefits (Mosisa & Hipple 2006, p. 50). In 1983 the normal retirement age was raised as part of the Social Security reform legislation, and this change only applies to those born in 1937 or later. This increase in the age may have caused individuals to stay in the labor force longer than they had anticipated (Mosisa & Hipple 2006, p. 51).

Another reason is the change from Defined Benefit (DB) to Defined Contribution (DC) plans (Mosisa & Hipple 2006, p. 51). More specifically, there has been an increase in the number of 401(k) plans and a fall in pensions. This change has placed the onus on workers to save more. Also, DC plans involve more risk as a fall in the stock market can affect the workers' account balances. This risk behavior may lead some people to stay in the labor force longer (Mosisa & Hipple 2006, p. 51).

Improvements in health play a role in workers participating in the labor force. Improvements in health lead to longer life expectancy which, in turn, leads to a longer participation in the labor force (Mosisa & Hipple 2006, p. 51).

Decline in retiree health benefits may also play a role. Between 1997 and 2002, access to health benefits from employers dropped off from 22 percent to 13 percent. For Medicare eligible workers, access fell from 20 percent to 13 percent between 1997 and 2002. This lack of access to health care coverage might force individuals to work longer because they are unable to afford insurance from their pockets (Mosisa & Hipple 2006, p.51).

Generational Differences on the Decision to Save

Two theories exist regarding retirement savings behavior: the life-cycle savings hypothesis and the theory of planned behavior (DeVaney & Chiremba 2005, p1).

The life-cycle savings hypothesis posits that people want to establish the same level of consumption during their lives. At the beginning of this cycle, household members borrow money early-on in their careers because of lower earnings. As their incomes increase, however, one can expect that savings will increase as retirement becomes the end-goal (DeVaney & Chiremba 2005, p. 1).

The theory of planned behavior says that people allow their beliefs and previous experiences to influence their decisions and behavior (DeVaney & Chiremba 2005, p. 1). In other words, if a consumer has saved in the past for consumption, such as buying a house, then that person will be more likely to save compared to a consumer who has never saved (DeVaney & Chiremba 2005, p. 1).

How people save may be answered by observing the costs of planning and learning that many people face on a daily basis. Lusardi (2001) attempts to answer this by assessing the use of consultants in order to acquire information for savings among 51 to 61 year olds. In her study, using data from the Survey of Consumer Finances (SCF), Lusardi (2001) found that people consult multiple

sources of information so that they are equipped with the best advice on how to save (p. 8). These sources may include anyone from professionals (financial planners) to family members. Higher educated consumers are more likely to consult professionals while lower educated individuals are more likely to read magazines and newspapers that offer savings advice. Both higher and lower education groups, however, were both likely to consult friends and family (Lusardi 2001, p. 9).

The information Lusardi extracted from the SCF fails to report whether or not people follow through on the advice given from different sources of information. Nor does it demonstrate how much people save. Another limitation is that the survey looks at higher and lower education groups but fails to differentiate between the two groups. In addition, it focuses on workers who are nearing retirement age (51 to 61 year olds). While this group is more likely to save for retirement, they are by no means the only demographic and economic group that saves. While I do not look at education levels in my analysis, I do focus on different age groups to show the differences in savings behavior. In addition, I plan to show why people are likely to save.

Lusardi extracts data from the Health and Retirement Survey (HRS) to illustrate four reasons that explain differences in patterns of household savings (Lusardi, 2001, p. 13): pension and social security wealth, past economic circumstances, future expectations, and preferences. The HRS focused on individuals born between 1931 and 1941 and asked them questions on housing, wealth, and income (Lusardi 2001, p. 29).

The first piece of information is pension and social security wealth. Using people's Social Security records, one can compute how much a person has accumulated through Social Security. However, this is only possible if that person gives permission to view their Social Security records (Lusardi 2001, p. 13).

Looking at how past economic circumstances has affected people's behavior is another insight. Past economic circumstances may include anything from inheritance to unemployment. Studying these situations may provide insight in the wealth holds of consumers (Lusardi 2001, p. 13).

Expectations about the future play a role in the savings behavior of individuals. People might expect asset prices to increase or they may expect to live well into their eighties. "If household have a precautionary saving motive, the care not only about the decline in income at retirement, but also about risk, which can be measured empirically by the variance of earnings" (Lusardi, 2001, p. 13-14).

Although not sufficiently explored, preferences are another vital aspect of household savings. Preference variables that must be taken into account include risk aversion and time preference (Lusardi, 2001, p. 14).

Regarding the savings patterns of Baby Boomers, DeVaney and Chiremba (2006, p. 1) assert that views on the economic well-being of Boomers vary. A commonly held perception says that Baby Boomers are not saving enough for retirement (Gist, 1999, p.1). Baby Boomers have often been labeled as a spend-now, save-later generation (Gist 1999, p.1). To illustrate this point, DeVaney and Chiremba (2006) cite a study conducted by Teresa A. Sullivan and her colleagues in 1991. According to Sullivan and her colleagues, Baby Boomers were susceptible to losing all of their money (p.1).

On the other hand, others say that the opposite is true and believe that the Boomers are/will be better off in retirement than previous generations. Scott A. Bass for instance, says that Boomers will be fine because they are “healthier, better educated, and wealthier than previous generations” (DeVaney & Chiremba 2006, p.1). From this perspective this is most certainly true. The Boomers are living longer than previous generations, many were the first in their family to go to college, and they helped build up consumerism in America. However, there are drawbacks concerning the Boomers. If Baby Boomers are indeed not saving enough, then that means they will struggle during their retirement years as they attempt to keep up their current lifestyle with a fall in their savings. This fall is assumed to occur because they will not be working during their retirement years. If they do find out, however, that they need to earn more, then some will return to the labor force just so they can support themselves. This will not only be a drawback for them but it will also prevent younger generations from entering the labor force as they were assumed to take over the jobs that the Baby Boomers left behind.

People save for numerous reasons. Baby Boomers cite three reasons for savings: precautionary (29 percent), retirement (23 percent), and investment (22 percent) (Gist 1999, p. 14).

Precautionary reasons include hard times, illness, emergencies, among other things. Gist found that “Boomers were just as likely as those under age 30 or those between the ages of 50 and 64 to save for precautionary reasons” (1999, p. 14). He also describes the Boomers as a generation that pays little attention to savings as opposed to 50 to 64 year olds but more likely than younger generations to save for retirement. Moreover, Gist (1999) further points out that the Baby Boomers were more likely to be more concerned with helping their children pay for school and, thus, have less income to put towards themselves (p.15).

While 46 percent of Boomers make saving for retirement a priority, 24 percent of Boomers do not make it a habit. Baby Boomers also tend to be risk-averse. About 37 percent said they were risk-averse (Gist 1999, p. ii). Gist (1999) asserts that this number is not completely accurate because one of the reasons Baby Boomers save is for investment reasons. No matter how safe an investment is, it is still a risk nonetheless (p. 17-18).

Gist (1999) cites the Survey of Consumer Finance (SCF) in his paper. Although the SCF is one of the more highly used wealth surveys, it places a great emphasis on the wealthy which can lead to sampling errors (p. 1). Another issue with this particular survey is that it strictly measures wealth. Other methods exist in measuring savings such as the National Income and Products' Account (NIPA) data. Unlike the SCF, NIPA measures "personal saving as the difference between personal income and personal consumption" (Gist 1999, p. 3). Although both ways should arrive at similar conclusions, that is not always the case and adjustments must be made to account for such errors (Gist 1999, p. 3).

Another limitation is the date of this work. It was published in 1999. Much has changed in those fifteen years and people's perceptions and reasons for saving have likely changed. The data set I use is from 2014 and gives a better description of how people may view their economic situation and what they think their future will hold for them.

Little literature exists on the savings patterns for retirement of Echo Boomers. A survey conducted by Lincoln Financial Group and Money magazine ascertains that a majority of Echo Boomers are putting money towards retirement (Alch 2000, para. 10). The average age to start saving was about 23 years old whereas the average age when Baby Boomers began saving for retirement was about 27 years old (Alch 2000, para. 10). The survey also found that the youth are nervous that they are saving too little and that Social Security will be long gone before they reach retirement (Alch 2000, para. 10). These findings show that the perception of Echo Boomers differs from reality. If Echo Boomers are beginning to save earlier than Baby Boomers were at the same age, then that change in behavior may be a result of the Great Recession. Many consumers of this generation witnessed how the Great Recession affected the older generation and they do not want to go through a similar event in the future. More work has yet to be done on this generation. This may be because much of this generation is still young and have yet to begin saving a significant amount of income.

It should also be noted that when the Baby Boomers were at the same stage of life as the Echo Boomers are now, they were a confident group that was determined to live a comfortable lifestyle. Compared to earlier generations, the Boomers were much more wasteful with their money and resources. As young adults, they were risk-tolerant and lived well beyond their means with the expectation that they will make up for it as they age because earnings typically increase as one ages and gains experience in the labor force (Ratajczak, 1994, p. 20). By their 30s, many were still not saving. Rather, they were spending their money on their family and entertainment (Ratajczak 1994, p. 20).

The decline in savings of the Baby Boomers can be attributed to their situation. Unlike the previous generation that suffered to make ends meet through the Great Depression and World War II, the Baby Boomers were not exposed to

financial hardships. As a result, the Boomers were not as concerned about the future and, thus, were more prone to spend money on materials and activities that satisfied their immediate wants (Ratajczak 1994, p. 20).

Zick et al. (2012) focus on this question in their 2012 paper. In fact the first sentence of the introduction is, "How has the Great Recession changed Americans' financial attitudes and behavior?" They found that Echo Boomers were "more likely to report that they had increased their retirement savings" compared to Baby Boomers (Zick et al 2012, p. 10). They were also the group most likely to believe that they will be able to keep up a lavish lifestyle during their retirement years (p. 12). They were more likely to be skilled and knowledgeable on a wide array of personal financial topics. They also seemed to be the most ambitious and practical as many asserted the importance of meeting with a financial advisor to discuss their personal finances (p. 5). This suggests that the Echo Boomers took notice when they witnessed the losses their parents suffered in the aftermath of the Great Recession. This generation is much more cautious and will be more cautious throughout their lives. They want to live a comfortable life without having to worry about their financial situations.

A 2009 survey asked questions pertaining to retirement behavior decisions (Zick et al. 2012, p. 6). Data was collected from this survey and also from two focus groups that answered questions from the survey. The paper focused on retirement-related activities among different age groups. According to the findings, Baby Boomers were more likely to believe that they will have to work longer in order to build up their retirement funds (Zick et al. 2012, p. 11). They were also more likely to resist change to their investment strategies (Zick et al. 2012, p. 10). The data also looked at Echo Boomers and showed that they may have benefitted the most from the recession. Unlike older generations, Echo Boomers appeared to emerge from the recession with minimal loss in confidence and with all the potential in the world (Zick et al. 2012, p. 13).

Not only did I look at how the Great Recession affected young adults, but I also looked at when the Baby Boomers were young adults and the Great Stagnation was imminent in the United States. I then compare the two events and see how they resemble and differ from one another. First of all, what is stagflation? Stagflation is a period of negative output growth and rising inflation (Mankiw 2012, p. 296). The most recent stagflation period occurred in the early to mid-1970s and was caused by OPEC (Organization of Petroleum Exporting Countries). In the early 1970s, OPEC reduced the oil supply which caused a spike in oil prices. 1974 saw the largest increase in oil prices (68 percent). Consequently, these sharp increases also caused high inflation and rising unemployment (Mankiw 2012, p. 298). This period is what became known as the "Great Stagnation".

Both the Great Stagnation and Great Recession share similarities. One is the large increase in oil prices at the onset of the recessions (Labonte 2000, Summary section, para. 3). Even though oil prices jumped up following the latest recession, they did not adversely affect the economy in the United States mostly due to "conservation efforts and technological changes." Also, the amount of oil consumed per unit of real GDP has decreased drastically over the past three decades. Ergo, oil prices would need to experience an exponential increase in prices to have the same affect that it did in the 1970s. (Mankiw 2012, p. 299).

Another similarity is the large fall in GDP. In 1973 and during the Great Recession, GDP fell by 3 percent and 4.1 percent respectively. While the falls in GDP were significant, the reasons behind it were rather different. High interest rates in the 1970s most likely caused the severity of the 1973-1975 Recession. In the most recent recession, interest rates were not as high although inflation was initially prevalent. However, the inflation did not come close to what it was three decades prior (Labonte, 2000, p. 2-3).

A third similarity is the high and prolonged unemployment rate. Following the 1973 recession, unemployment continued to rise for 19 months whereas unemployment following the Great Recession continued to increase for 22 months. In addition, the unemployment rate hit its peak following the end of each recession. The peak for the 1973 recession was 9.0 percent while the peak for the Great Recession was 10.1 percent (Labonte, 2000, p.4).

Differences of both recessions must also be highlighted in this paper. The first difference is the high inflation experienced during the 1970s was not as high as inflation during the Great Recession. High inflation during the 1970s made the Federal Reserve hesitant to reduce interest rates. On the contrary, inflation was not as high following the Great Recession. During this time, the Federal Reserve kept interest rates at or near zero (Labonte, 2000, Summary section, para. 2).

Another difference is the fall in housing prices that caused the Great Recession. While housing prices do often fall during economic downturns, the bursting of the housing bubble right before the Great Recession was more serious than usual (Labonte, 2000, Summary section, para. 5). Whereas housing is often blamed for the beginning of the Great Recession, the shift in oil supply by OPEC is often blamed for starting the 1973-1975 Recession (Mankiw, 2012, p. 298).

A unique characteristic of the Great Recession is the "severe disruption to financial markets" (Labonte, 2000, Summary section, para. 6). While it is not uncommon to notice declines in the financial markets during economic downturns, it was uncommon for the market to continue to fluctuate as was evident following the most Great Recession. In the past, financial markets would have returned to operating normally (Labonte, 2000, Summary section, para. 6).

Information regarding the Great Stagnation's effect on savings behavior was difficult to obtain. The graph below shows the trend of the personal savings rate from 1970 to 2013:

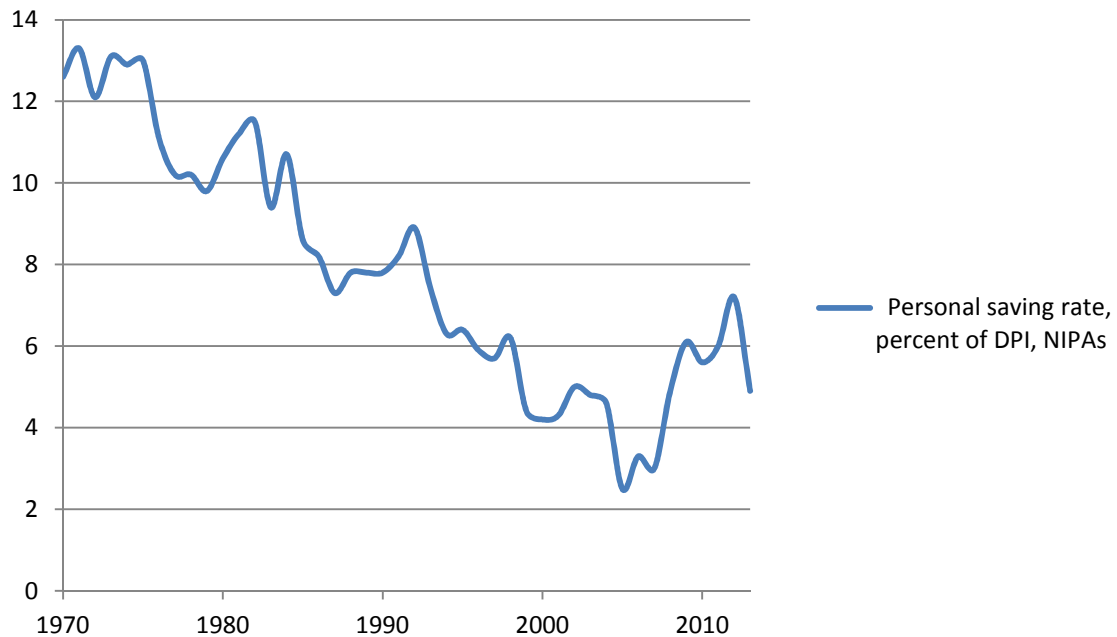


Figure 2: Personal Savings Rate (1970 to 2013)

Source: Bureau of Economic Analysis, National Income and Product Accounts (NIPA)

Note: Personal savings rate as a percentage of Disposable Income

Note: Unknown whether numbers are real or nominal.

It is impossible to infer whether or not the values in the chart are real or nominal. The numbers are not as important so much as the trend is. Based on the data, the personal savings rate began to descend in the mid-to-late 1970s. In the midst of the Great Recession, the savings rate hit its lowest point before rebounding. Munnell and Cook (1991) assert that the decline in the savings rate is attributed to two reasons. The first reason is the increase in housing prices in the 1960s and the 1970s (p. 17). During this time, people invested more of their income on housing due to the potential to sell the house at a higher price at a later time. The second reason for the increase in housing was the accounting effect (p. 17). "The nationals account seriously understated the return to housing following the boom" (p.17). As a result, income and saving fell during the 1970s and 1980s. The second reason is the funding limits placed on pensions during the 1980s. Employer contributions to pensions declined significantly due to the

increase in stock prices. In turn, this increase in stock prices maxed out the contributions to pensions as per the Internal Revenue Code's limit (p. 17-18). The savings rate remained close to 5.5 percent for much of the 1990s. More recently, in 2012, the rate fell to about 4 percent.

Methodology

The data for this paper originates from a Times Union/Siena College poll that was conducted from August 20 to September 4, 2014. 751 residents from 51 counties in Upstate New York were asked questions over multiple telephone calls. Data was divided by age and gender to ensure representativeness. Sampling was conducted via random digit dialing to land lines and cell phones weighted to reflect known population patterns. The margin of error was +/- 3.6 percentage points. This survey was the second part of a television series called the "How We Live: The Fabric of Upstate Life." The counties included in the survey were those North of Orange and Putnam not including these. The map below shows the counties that were part of the survey.

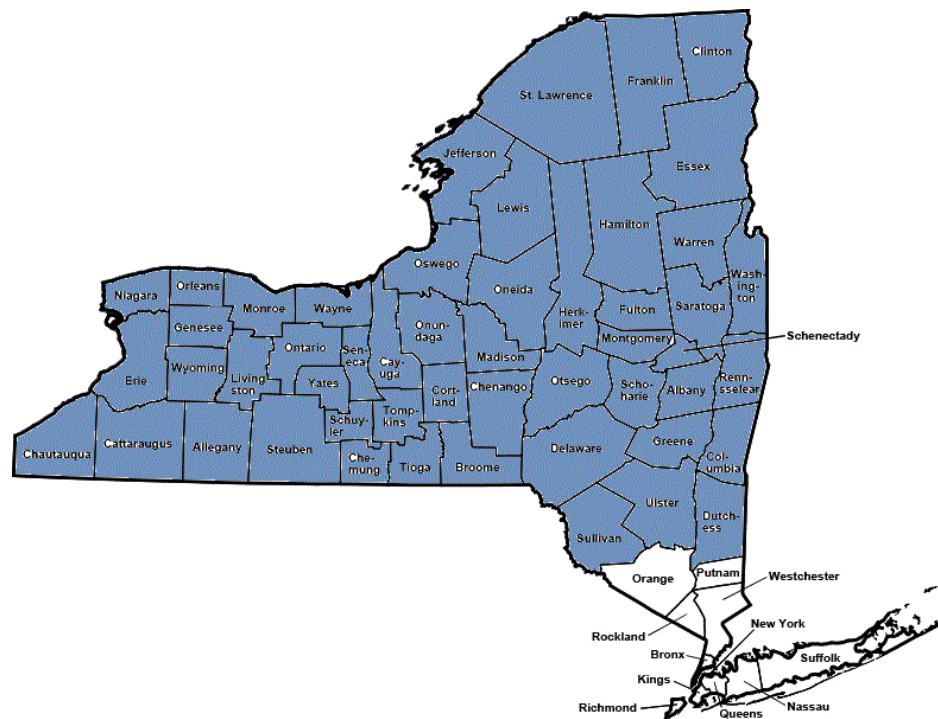


Figure 3: Map of New York State – Surveyed counties are shaded

Results and Limitations (See Table 1)

Due to the categorical nature of the data set, chi-square tests were used to evaluate the relationship of one variable to another. Most of the chi-square tests tested age against another variable that might help explain the savings behavior of those groups. One of the weaknesses of a chi-square test, however, is that they only test one variable at a time. As a result, multiple chi-square tests were needed for this particular survey. Other limitations of the survey include that one cannot infer whether or not the economic recovery played a role in people's savings behaviors as the questions appeal more to people's own perceptions about their situations. In addition, the data does not tell one the savings behavior of individuals before 2007. The only way to understand this is to read what others have written on the subject.

Across the boards, Baby Boomers and Echo Boomers were found to have seen their income and expenses even out. Both groups were also most likely to make at least a small contribution to their retirement funds. One limitation of this is that the data does not differentiate between a "great deal" of a contribution versus a "small amount" of a contribution. Depending on who was asked the question, a small amount for one person might be a significant amount for another. If someone wanted to know this, they might test to see who falls into which income bracket. That may give a better indication of who contributed what to their respective retirement funds.

Slightly more than half of Echo Boomers (51.3 percent) did not pull money out of their savings or retirement accounts in order to pay for other expenses. A little bit more than half of Baby Boomers (53.4 percent) did pull money out of their savings or retirement accounts in order to meet other expenses. The p-value, however, was found to be above 0.05, which means that there is no relationship between "Age" and "Savings & Retirement Funds."

In addition, Baby Boomers were more likely than Echo Boomers to meet with a financial advisor to discuss personal finances of the past year. Another interesting point is that Baby Boomers were much more likely to believe that they will have to postpone retirement due to the state of the economy over the past few years. This makes sense since Baby Boomers are near retirement and Echo Boomers are either just beginning their careers or about to enter into the prime earning years of their career.

Discussion

Although the chi-square tests do illustrate differences between the two cohorts, the differences are not significant enough to say that the economic recovery played a role in the savings behavior of different generations. In other words, the

savings behavior of consumers has less to do with a particular generation and more to do with a person's perception of their own situation.

This brings us back to the life-cycle hypothesis. According to the life-cycle hypothesis, a person's savings is small at the beginning of their adult life (early to mid-20s), increases as the person becomes older before decreasing upon actual retirement. As Baby Boomers enter retirement, many will see their savings deplete. At the same time, Echo Boomers will start to see their savings increase. However, it has yet to be determined whether or not the Echo Boomers will save at the same rate as the Baby Boomers did when they were young adults.

One might even expect Echo Boomers to save at a similar rate as Baby Boomers as many of the former are offspring of the latter. Thus, one would expect them to adopt their parents' habits and preferences at a young age. However, the Great Recession might say otherwise. When the recession hit in late 2007, many people lost their savings. This exogenous shock hit Baby Boomers particularly hard as many of them were in the midst of preparing for retirement. As their savings and retirement funds declined, many Baby Boomers were forced to continue working or return to the work force in order to pay for their expenses and build their retirement funds back up. Seeing how severe the Great Recession was, Echo Boomers might be more cautious with their money and, thus, would be more likely to alter their savings behavior.

This type of behavior expressed by Echo Boomers is best explained by the concept of "adaptive preferences." Bruckner (2007) asserts that an adaptive preference is a preference that one adopts after consulting the options available to him or her (p. 308). The theory of "adaptive preference formation" was influenced by Jon Elster (Colburn 2011, p. 52). As Colburn (2011, p. 52) puts it, "Preferences that are formed in this way involve an element of adaptation to circumstances." Under adaptive preferences, consumers establish what they prefer based on what they do not have rather than on what they have. To illustrate this point, Elster recounts Aesop and La Fontaine's fable of the Fox and the Grapes. In the story, the fox spies some grapes on a tree. He desires these grapes but is unable to reach them. To justify for his loss, he convinces himself that the grapes are sour and he no longer wants them. In other words, he no longer has any desire for the grapes because he is not able to obtain them (Colburn 2011, p. 53). In the case of Echo Boomers, they would alter their behaviors based on the effects that the Great Recession had on their predecessors. Echo Boomers want to lessen the uncertainty of whether or not they will be able to live a comfortable life in retirement. The fear instilled in them due to the Great Recession will drive them to save more aggressively when they are young adults.

Conclusions/Policy Recommendations

This paper has examined the savings behavior of Baby Boomers and Echo Boomers. It is clear that most people are not saving enough for retirement. This has been a consistent downward trend since the early 1980s. Baby Boomers are realizing this today as many of them search for ways to recover the savings they lost as a result of the Great Recession. Echo Boomers do not want to experience the same fate that the older generations are currently facing. Therefore, it is important for young adults to take an active approach today so that they may have financial security tomorrow. The following paragraphs will outline policy recommendations to improve the savings of both the Baby Boomers and Echo Boomers.

There should be a greater emphasis on educating consumers about saving for retirement. Consumers know that savings is important yet they may not know how to maximize their savings or what is available to help them. The government should, therefore, increase funding for higher education and academic institutions should require all of their students to take classes on personal finance that cover all aspects of financial matters from buying a house to saving for retirement. More knowledge on matters such as these can only serve to help individuals make better informed decisions.

Another policy initiative can focus on the employer. Because many employees have a retirement fund such as a 401(k) through their employer, then it only makes sense that such a policy aim at the employer assisting the employee. Employers can help employees in a variety of ways. One way is to educate employees on financial matters. Just learning and understanding the value of saving can greatly improve the behavior of employees (Clark and Lusardi 2012, p. 2). Another way employers can help is to offer a savings or retirement plan if they do not already have one, and then require their employers to enroll in the plan. Clark and Lusardi mention that studies have shown that automatic enrollment programs can greatly improve participation rates even among low-income workers (Clark and Lusardi 2012, p. 2). Implementing ideas like these gives employees a greater sense of security. It also frees the employee up from having to worry about managing a retirement fund because they know the company is taking care of it (Helwig, Higgins, Most, McCune, and Schmitz 2011, para. 11). With less time to worry about saving for retirement, employees can put more focus into their productivity at work which will only help employers.

A policy that helps Echo Boomers pay off college debt may help to improve their savings. Young adults typically save less than older adults most likely due to lower earnings and different goals such as buying a car. The Echo Boomers are no exception to this trend. However, the Echo Boomers are also facing a situation unique to their generation: college debt. As higher education

becomes increasingly unaffordable, young adults are forced to take out huge loans just to pay for their education. Upon graduating, many discover that they have built up hundreds of thousands of dollars in loans that they will be paying off for years to come. A policy that aims at helping students pay down their debt would allow them to start saving at a young age and, therefore, establish good habits that will serve to benefit them as they age.

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Table 1: Chi-Square Analysis of Echo Boomers and Baby Boomers by Selected Characteristics of New Yorkers (Part of 2014 survey conducted by Siena Research Institute) (Numbers expressed as a percent)

Variable	Echo Boomers (18-34)	Baby Boomers (50-64)	65+	p-value
Income&Expenses (last 12 months):				0.003
Spent more than took in	20.8	23.0	19.6	
Stayed even	57.4	58.0	69.6	
Income greater than expenses	21.8	19.0	10.8	
Savings&Retirement Funds (last seven years):				0.100
Yes - pulled money out for other expenses	48.7	53.4	43.1	
No- Did not pull money out for other expenses	51.3	46.6	49.4	
Retirement Contributions:				0.000
A great deal	9.2	15.4	10.4	
A small amount	35.2	38.3	21.6	
No money at all	48.5	30.9	49.0	
Withdrawn	7.1	15.4	23.5	
Financial Advisor:				0.000
Yes - Have one	16.8	41.4	38.2	
No - Do not have one	83.2	58.6	70.1	
Postponing Retirement:				0.000
Completely true	26.2	41.4	22.9	
Somewhat true	9.8	18.4	11.4	
Neither true nor false	12.0	10.5	14.3	
Somewhat false	12.0	7.9	8.6	
Completely false	39.9	21.7	42.9	