Longer life spans and earlier expected retirement imply that Americans will spend a larger fraction of their lifetime without income-producing work. As a result, more resources will be needed to maintain their living standards during retirement. Thus, either people must save more during the working stage of life or more resources must be transferred from workers to retirees through Social Security. The need to increase transfers will intensify as baby boomers age and retirees’ share of the population rises.

Although trends in life expectancy, retirement behavior, and population aging all point to a need for greater saving, U.S. personal and private saving have trended downward from the mid-1970s on, and the decline accelerated in the 1990s. In contrast, surging revenue due to strong economic growth and a slower increase in federal discretionary expenditures have eliminated federal budget deficits. Large budget surpluses are now projected for the coming years if economic growth remains strong.

Total saving equals output not consumed, so breaking down the share of output consumed into its private and public components mirrors patterns of private and government saving. Although the increase in government saving exceeded the decrease in private saving during the 1990s, that decade still had the lowest 10-year average for the net national saving rate recorded in the postwar period—4.7%. If projected government surpluses are, in fact, realized and are used to pay off federal debt, they would lighten the tax burdens that future workers will carry in order to support retired baby boomers.

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a. The private saving rate is the sum of the personal and business rates.
b. The net national saving rate is defined as one minus the fraction of private consumption plus government purchases in the net national product.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and Social Security Administration.