The elderly are now one of this country’s best-off population groups, largely because stock market values have surged and Social Security and Medicare benefits have been generous compared to contributions. But the latest projections show that it will be impossible to sustain these benefits for the future elderly at currently promised levels without hiking payroll taxes or diverting funds from the rest of the budget. Some suggest a possible offset: As baby boomers’ parents pass away, inherited wealth will add to boomers’ retirement resources.

Calculations based on the 1962 and 1998 Survey of Consumer Finances suggest, however, that boomers will not enjoy a significantly higher rate of inheritance receipts than their parents did in the 1960s. Between 1962 and 1997, labor compensation grew at an average annual rate of 2.9%, while cross-generation bequests grew at an estimated 3.4% annually. The faster growth of bequests slightly increased the ratio of bequests to compensation—from 3.0% in 1962 to 3.7%. On average, Social Security replaces about one-third of employee compensation at retirement. Taking this into account, the increase in bequests relative to compensation adds only a miniscule 0.7% to Social Security’s replacement rate.

Cross-generation bequests will not increase significantly until well into this century, when boomers themselves start to retire and bequeath to their children. Bequest flows are projected to exceed $500 billion (in constant 1999 dollars) only after 2020, when they will equal nearly 6% of labor compensation.

These estimates, however, may prove too high if longevity improves rapidly or seniors become more willing and able to turn their non-Social Security wealth into annuities.