Generation gap? About $200,000

By Dennis Cauchon, USA TODAY

Prashant Tungare arrived in the USA in 1984 with a wife, a child and $500 in his pocket. Today, the India-born American citizen is a prosperous computer specialist at Wachovia Bank.

"I've lived the American dream," says Prashant, 55. He owns a 3,000-square-foot house in Charlotte and has enough money to retire, but loves his job too much to quit.

Tungare is part of the wealthiest generation in American history — a group of 67 million people 55 and older who are so affluent that the gap between them and younger people increasingly is making the USA a nation of haves and haves-much-less.

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The growing divide between the rich and poor in America is more generation gap than class conflict, according to a USA TODAY analysis of federal government data. The rich *are* getting richer, but what's received little attention is who these rich people are. Overwhelmingly, they're older folks.

Nearly all additional wealth created in the USA since 1989 has gone to people 55 and older, according to Federal Reserve data. Wealth has doubled since 1989 in households headed by older Americans.

Not so for younger Americans. Households headed by people in their 20s, 30s and 40s have barely kept up with inflation or have fallen behind since 1989. People 35 to 50 actually have lost wealth since 1989 after adjusting for inflation, Fed data show.

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Older people have always been wealthier than younger ones. What's changed is the disparity between the generations. Old people have been racing ahead, helped by government retirement benefits. Young people are running in place, partly because they're delaying careers to get more education.

The growing gap between rich and poor has raised concerns about social justice, the fairness of the tax system and other issues. Congressional Democrats, Federal Reserve Chairman Ben Bernanke and President Bush have expressed concerns about economic inequality, although there is no consensus about what, if anything, should be done.

Much attention has focused on the multimillion-dollar paychecks of corporate chief executives and hedge fund managers, who've enjoyed windfalls at a time when the wages of ordinary workers have stagnated. But the graying of wealth and income may be the most important twist in the new inequality.

The implications are far-reaching and can turn conventional wisdom on its head. Social Security and Medicare increasingly are functioning as a transfer of money from less affluent young people to much wealthier older people.

Because the older generation hasn't set aside enough money to cover promised government benefits, young people will have to make up the difference or older people will face benefit cuts. The financial shortfalls of Social Security and Medicare over the next 75 years are so large — $340,000 per household — that they dwarf the wealth of every age group. This hidden debt will make it a challenge for young people to accumulate as much wealth late in life as their parents have.

A growing imbalance

In the USA, income typically peaks at age 57 and wealth tops out at 63, according to the Fed's Survey of Consumer Finance. Wealth describes a person's net worth — assets minus debts — and reflects a lifetime's accumulation of income, investments and inheritances. Income measures how much a person earned in a single year.

Inequality *within* age groups hasn't changed much. People in their 30s or 60s have roughly the same wealth distribution among themselves as in 1989. What's changed is inequality *between* age groups.

Older people are thriving in wealth and income. Younger people are not. How wealth and income have changed for two age groups, after adjusting for inflation:

•**Ages 55-59:** Median net worth — the middle point for all households — rose 97% over 15 years to $249,700 in 2004, the most recent year for which data is available. Median income rose 52%.

•**Ages 35-39:** Median household net worth fell 28% to $48,940. Median income fell 10%.

The increase in the wealth of older people tracks a sharp reduction in elderly poverty that began in the 1960s, when Medicare was introduced and Social Security benefits were improved.

The wealth gap between young and old is on a path to grow even more extreme. Baby boomers — 79 million people born from 1946 to 1964 — are entering their years of greatest wealth and maximum government benefits.

Today, the oldest baby boomer is 61. The youngest is 43. As tens of millions of people head into their years of peak wealth, inequality could soar until baby boomers pass on inheritances to their children or grandchildren.

The inequality debate has focused mostly on the super-rich, who have been getting super-richer. The top-earning 1% of taxpayers — those who make more than $310,000 annually — collected 17% of total income in 2005, up from 13% in 1989 and 8% in 1975, according to Internal Revenue Service data analyzed by economists Thomas Piketty at the Paris School of Economics and Emmanuel Saez of the University of California, Berkeley.

IRS data don't include information on age, race and education. A USA TODAY analysis of Federal Reserve and Census data found that demographics — especially age — could be the most important and overlooked factor behind the widening gap.

The old are richer

Most wealth accumulation happens rapidly and late in life — after the kids leave, when income is high, debts drop, 401(k) accounts fatten and home equity swells, according to Fed data.

The safety net — Social Security, pensions and Medicare — also has resulted in big increases in income for the elderly and a sharp decline in the rate at which they dissipate their assets in old age. Most people over 60 have no mortgage debt, no credit card debt and no car loan.

Trends for younger people have gone in the opposite direction. Mortgage debt peaks for people in their late 30s, the same time they have the most kids at home. About 11% are at least 60 days behind paying on some debt.

Younger generations now delay the start of wealth accumulation. They postpone careers to get more education. They marry later (delaying the financial benefit of a shared household), have children later (delaying the arrival of lower-cost, kid-free days) and inherit money later (their parents live longer).

Younger people may not look poor. They have more stuff than ever — more valuable houses, cars and other assets. But they are so much deeper in debt than their parents — student loans, credit cards, mortgages, car loans — that their net worth has shriveled.

What's not clear is whether today's younger people will catch up. Will they reap financial rewards late in life as their parents did?

"Young people have a great future ahead of them, but the rules of wealth creation have changed," says economist Kay Strong of Bowling Green State University in Ohio. She says young people will have to work longer and switch jobs more often than their parents for financial success.

"The baby boomers were the last generation able to ride the old industrial economy that let you hold one job for a long time and retire with a pension," says Strong, 54. "The new economy is going to require people to adapt, hold more jobs over a lifetime and give up the concept that you will retire at 62."

Challenge for the middle class

Gary Burtless, a scholar at the Brookings Institution, says the richest and the poorest have improved their standing. The middle class, however, has lost ground, he says.

The poor have been helped by expanded government programs, including the Earned Income Tax Credit, which provided $36 billion to 21 million poor households in 2006. The wealthiest have been helped by lower tax rates on income and capital gains.

"The tax system is a lot less burdensome today on the bottom 25% and the top 10%. It's the middle class that has done less well," Burtless says.

Bernanke, the Federal Reserve chairman, said in February that a snapshot of income today would find greater inequality than 25 years ago. But he said the key question is whether economic mobility — the ability to move up the income ladder — is still strong.

Other factors besides age contribute to income inequality.

President Bush in January cited education's role. "Income inequality is real; it's been rising for more than 25 years," he said. "The reason is clear: We have an economy that increasingly rewards education."

So far, though, the return on education has paid off for older people, but not for younger generations.

The net worth of households headed by a college-educated person ages 55-59 rose to $526,300 in 2004, up from $271,515 in 1989, adjusted for inflation.

This group has enjoyed enormous income gains, too, and had a median annual income of $100,634 in 2004.

By comparison, wealth and income have declined for college-educated people in their late 30s and risen only slightly for college grads in their early 40s. In short, age has mattered more than education in widening the wealth gap in recent years.

That could change as highly educated younger people — who delayed finishing college, entering the workforce and having kids — move deeper into their careers.

Another often cited contributor to income inequality is race and ethnicity.

From 1995 to 2005, median income soared among Hispanics and income inequality among Hispanics declined, the Census Bureau reports. But this robust trend of upward mobility made the nation more unequal. Why? The growing numbers of Hispanics, who tend to be younger and poorer, may be prospering compared with where their parents started. But they're poorer than white baby boomers entering their most affluent years.

Juan Guillermo Tornoe, 38, an advertising executive in Austin, had an MBA and top newspaper marketing position in Guatemala before moving to the USA in 2002.

"I am 100% sure that the upward mobility of Hispanics will continue," he says. "I've seen it in my work. I've seen it in the data. I've seen it in my own family."

A cousin who arrived 20 years ago has a good job, nice clothes and a nearly paid off home. "She would be lower-middle class in Guatemala," he says. "Here, she lives a tranquil, prosperous life."

Jeff Barham, 33, who works in human resources in Sterling Heights, Mich., feels confident about his future.

His college debt is paid off, his employer paid for him to get a master's degree, and his wife is a school teacher. But he worries whether his generation has enough discipline and opportunity to match the economic success of his parents.

"I have friends with every new gadget out there," he says. "They have a big house, two cars, college loans. I have no idea how they're making it on their incomes."

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