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Baby Boomers and the Future of the Stock Market

The stock market looks as if it is finally rebounding, and the amount of corporate scandal has at least slowed. To some, the stock market looks like a safe investment once again. According to numerous experts, this may not be the case. In fact, many are predicting the most severe stock market crashes in history sometime within the next 10-15 years, and it may have everything to do with the law that created the individual retirement account (IRA).

The Employee Retirement Income Security Act (ERISA) was enacted in 1974 to address concerns that private pension plan funds were being mismanaged and abused. ERISA moved responsibility for retirement savings from the businesses that employed workers to the workers themselves. This act created what we know today as IRAs.

One of the provisions of this law dictates when IRA holders reach the age of 70; they must begin to take mandatory distributions from their IRAs. This is based on a life expectancy table, the goal of which is to have the average retiree deplete their retirement savings completely by the time they die.

Many stock market and financial analysts are very concerned regarding this provision. According to an article in Time Magazine, titled *Everyone, Back in the Labor Pool*, “the baby boomers… [are] turning 50 at the rate of 10,000 a day.” Every year almost 4 million baby boomers are moving closer to the mandatory distribution age of 70. This baby boomer population is the largest segment of the American population and also happens to be the wealthiest segment. As those baby boomers reach 70 and are forced to begin drawing from their retirement funds, more and more money will be leaving the stock market. Many fear this could trigger the biggest crash in history. A stock broker who requested anonymity stated, “If there was another serious downturn in the stock market, I wouldn’t be surprised if a large number of investors panicked and pulled completely out of the stock market. There could be a huge domino effect as this money leaves the market. After the crash of 2000, few individual investors have the stomach to take on another big bear market.”

Daniel Kadlec, a financial columnist, suggests a solution. “The first step toward fixing the problem is to recognize how dramatically things have changed. People need to downscale their expectations and recognize that the phenomenal returns of the 1990s were the aberration.” The best strategy he points out is to begin to save earlier. Others suggest diversifying one’s retirement portfolio to include businesses and real estate. Whether or not there is another stock market crash, it is always a good idea to diversify your investment portfolio. Stocks, businesses, financial paper, and real estate can all be great investments. All of these can be invested in using IRA, 401k, or personal savings funds. Don’t put all your eggs in one basket!