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# The Demographics of Wealth:

## How Education, Race and Birth Year Shape Financial Outcomes

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July 12, 2018

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The views expressed here are those of the speaker and do not necessarily represent the views of the Federal Reserve Bank of St. Louis or of the Federal Reserve System.

# Overview

- STL Fed's Center for Household Financial Stability
- Income and wealth inequality
- Financial (in)stability
- How do demographic factors play?
- What can be done?

# Why Study Wealth?



- Assets matter for economic security and upward economic mobility in ways income does not; balance sheets reveal



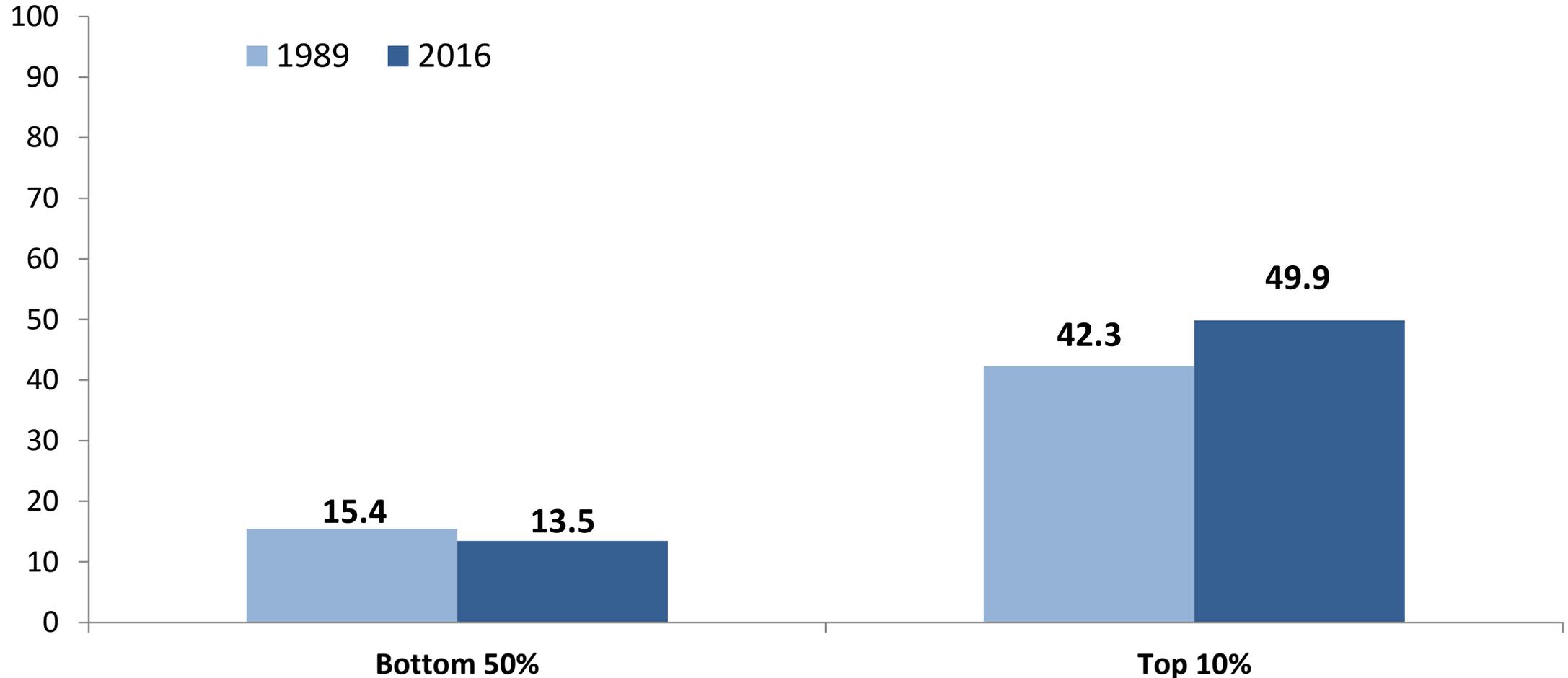
**IN FOUR**

- maintain at least a small buffer or liquid savings, even if the cash in that buffer is not being used to pay down high-interest debt.” (Gallagher, 2018)

# Income Inequality Overall

## Share of Total Pre-Tax Income

Percent

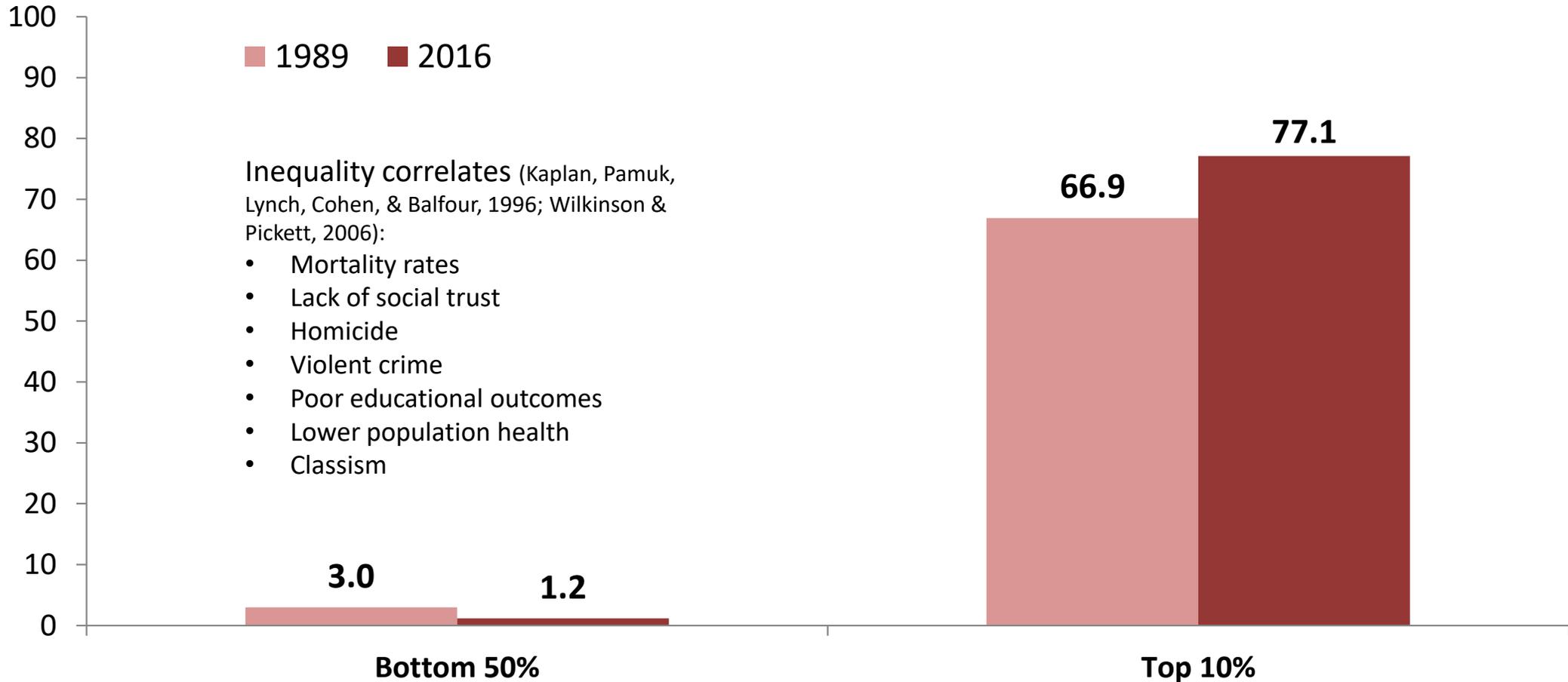


Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

# Wealth Inequality Overall

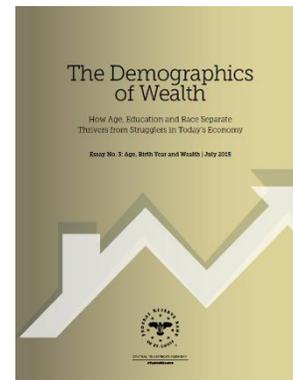
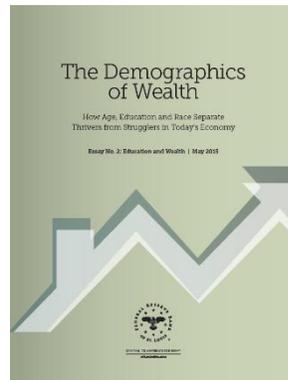
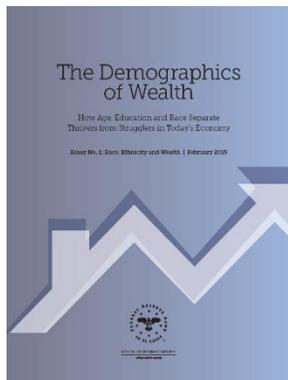
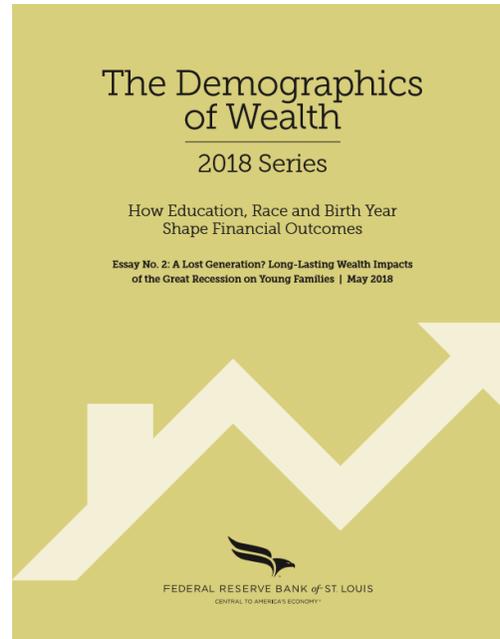
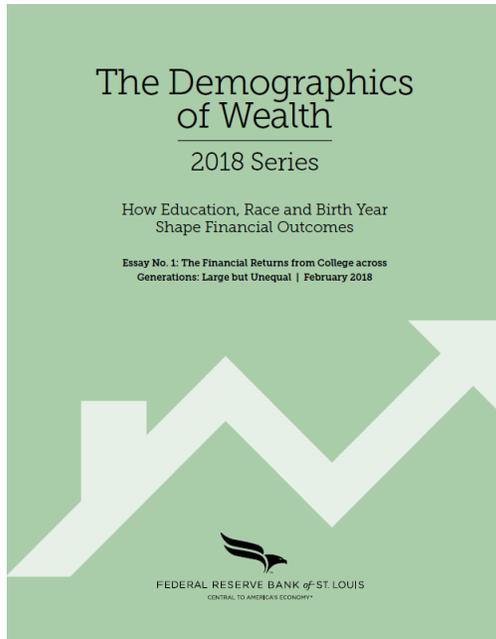
## Share of Total Net Worth

Percent



Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

# Demographics of Wealth Series

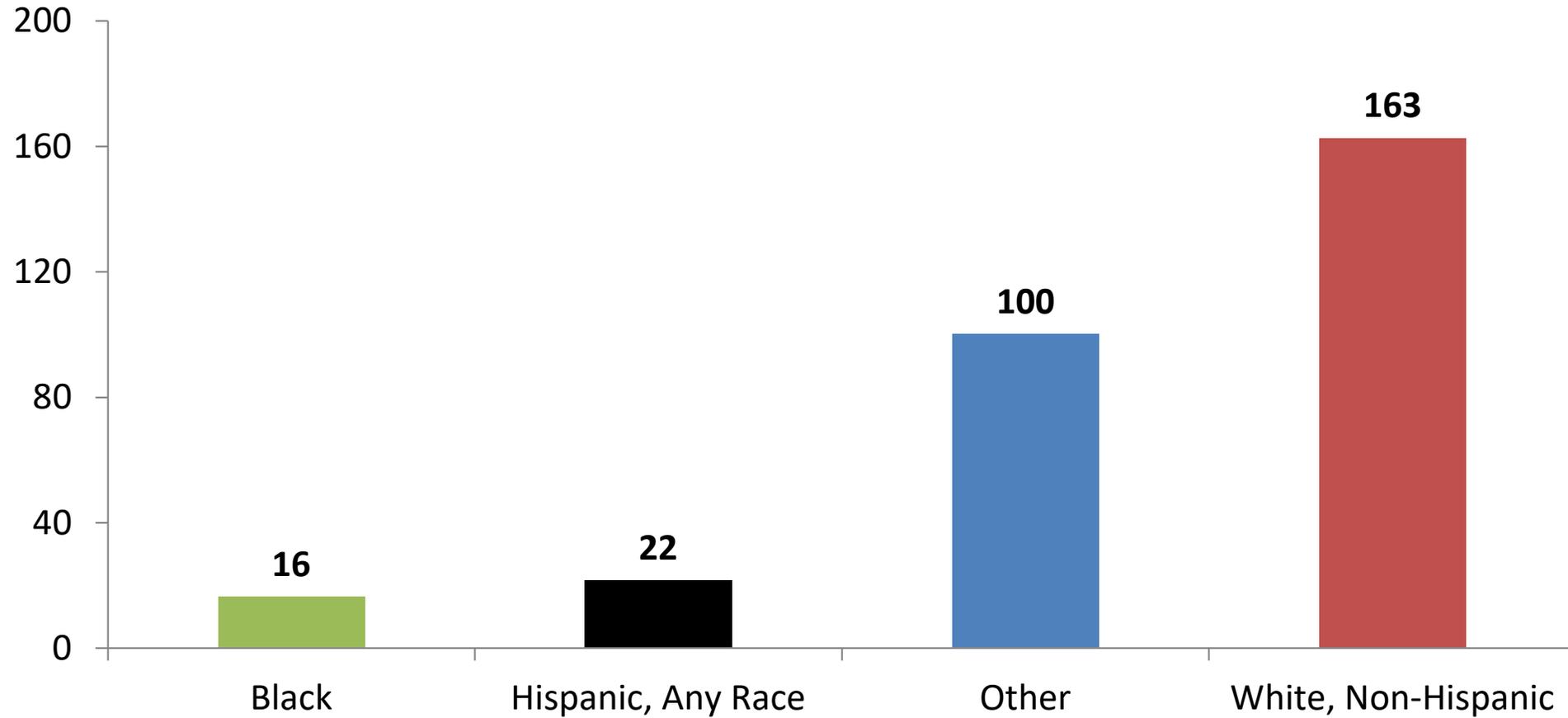


- Five essays written by Center staff
- Explore connections between wealth and a person's race/ethnicity, own education, parents' education, and age and birth year
- These factors are related to which families struggle and thrive
- Uses Survey of Consumer Finances; the "gold" standard

# Race and Ethnicity

## Real Median Family Net Worth, by Race/Ethnicity

*Thousands of 2016 Dollars*

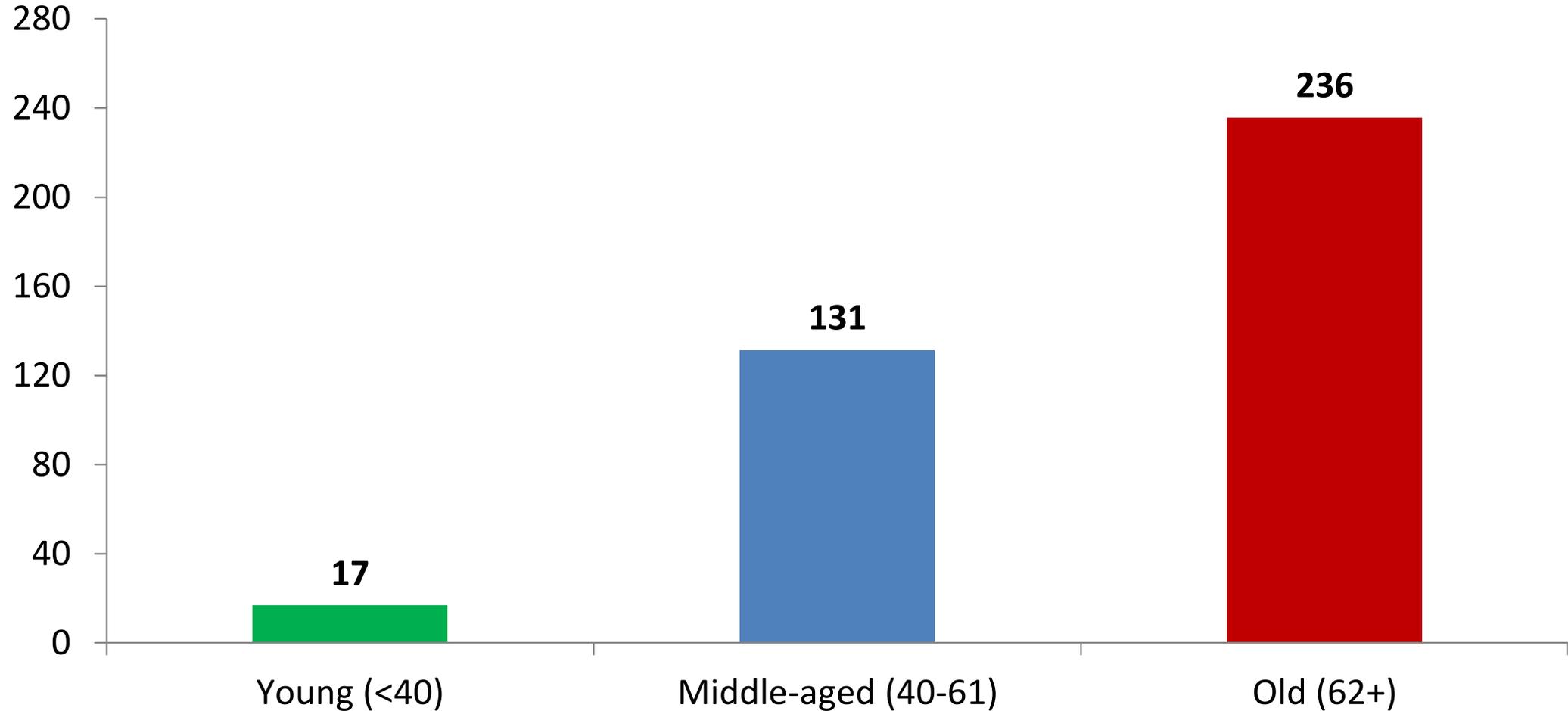


Source: Federal Reserve Board, Survey of Consumer Finances.

# Age

## Real Median Family Net Worth, by Age

*Thousands of 2016 Dollars*

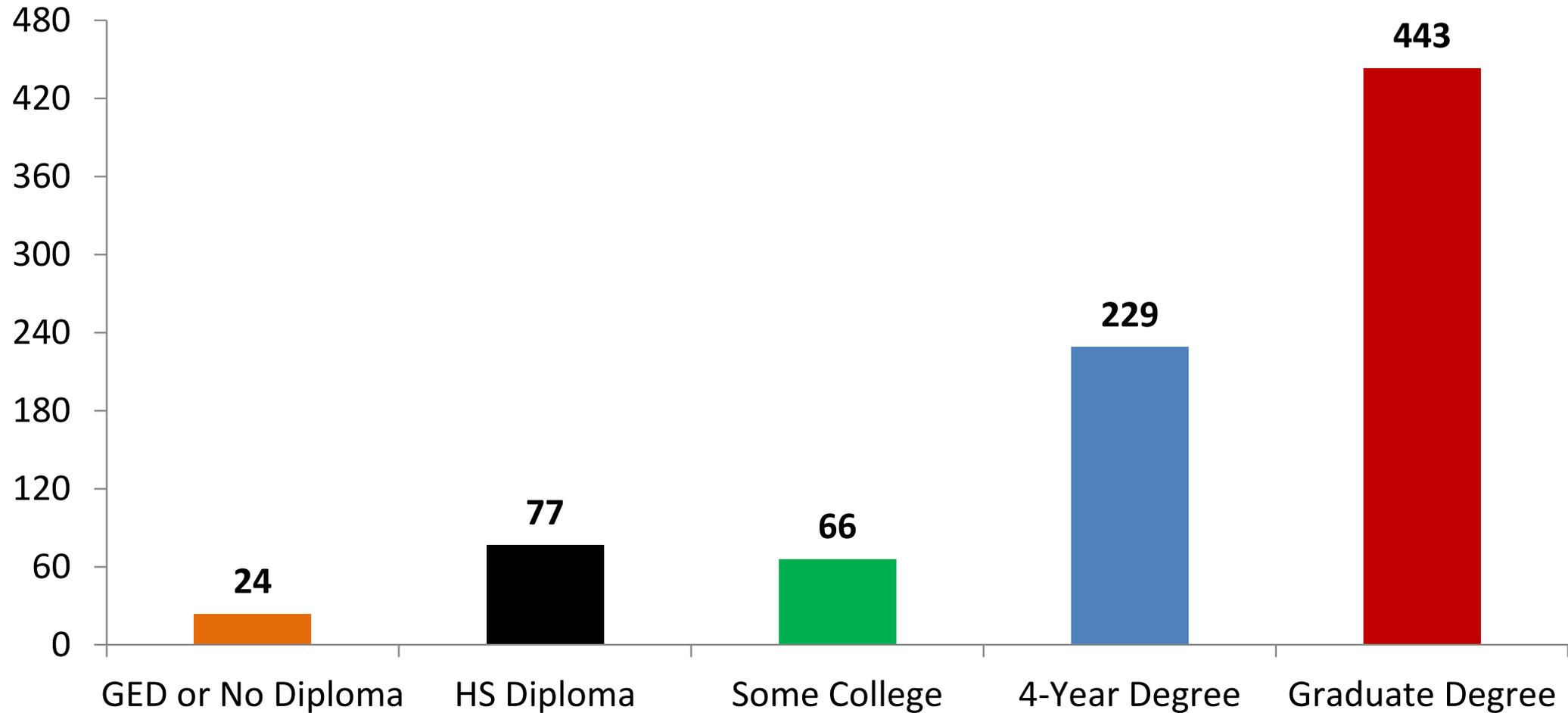


Source: Federal Reserve Board, Survey of Consumer Finances.

# Education

## Real Median Family Net Worth, by Education

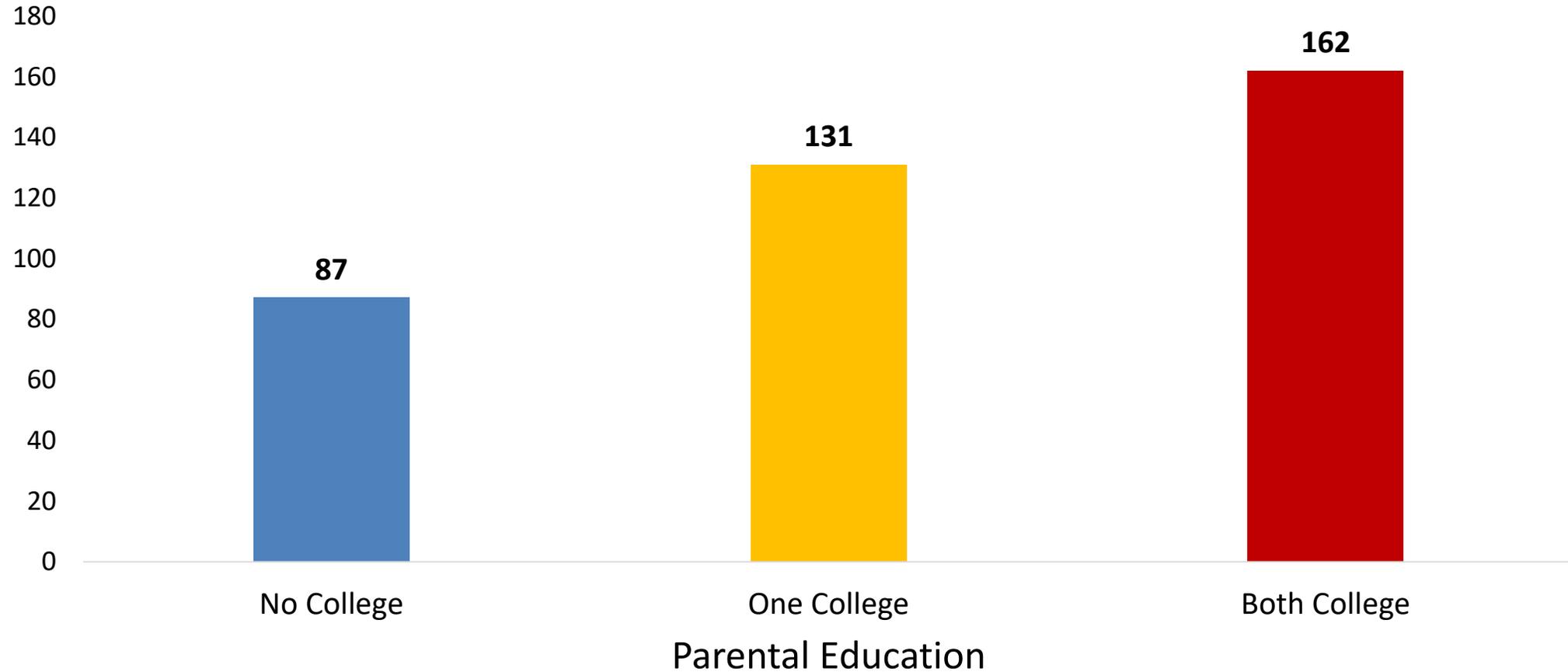
*Thousands of 2016 Dollars*



Source: Federal Reserve Board, Survey of Consumer Finances.

# Parents' Education

**Median Family Net Worth, by Parental Education**  
*Thousands of 2016 Dollars*



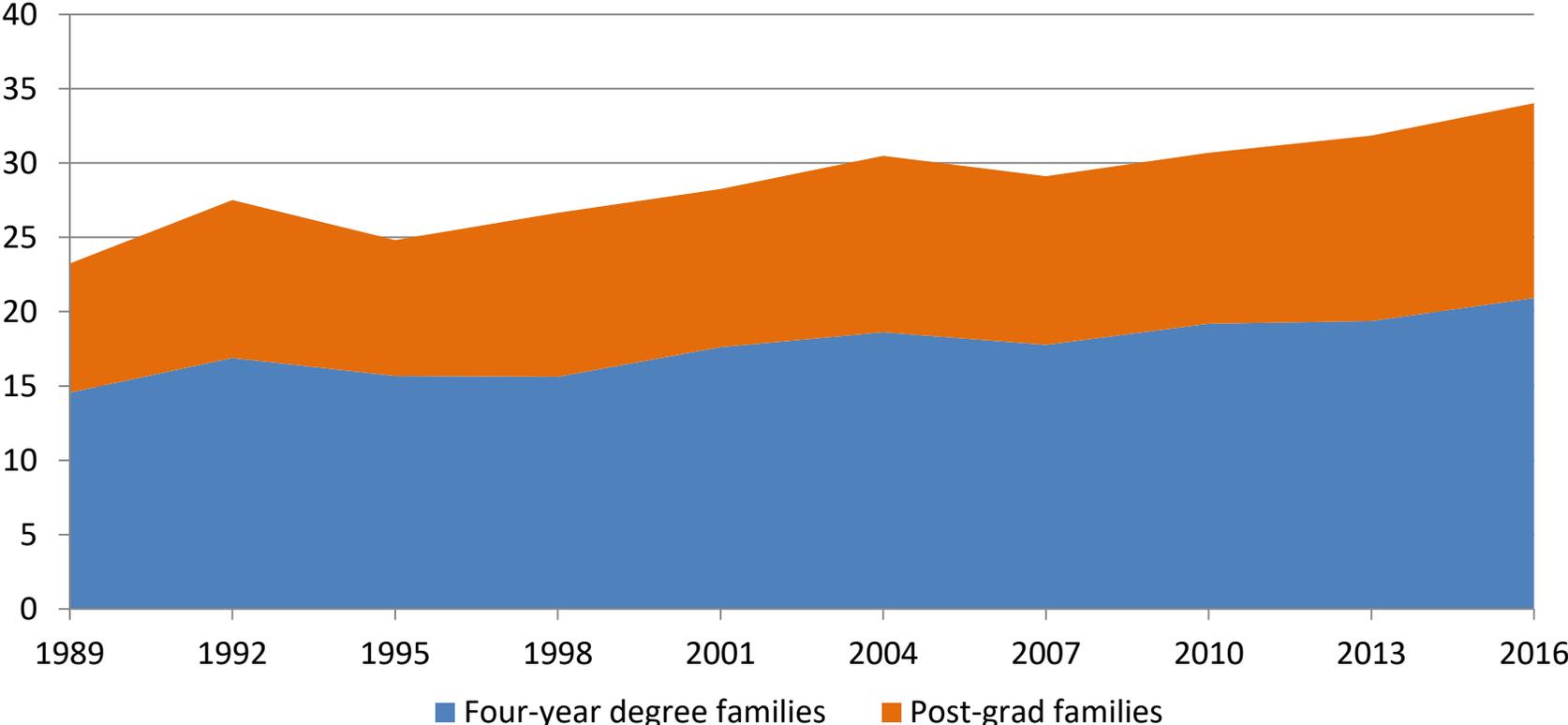
# Essay 1: The Financial Returns from College Across Generations: Large but Unequal



# College Attainment Increases

## U.S. Families Headed by College Graduates and Post-Graduates

*Percent of all U.S. families*

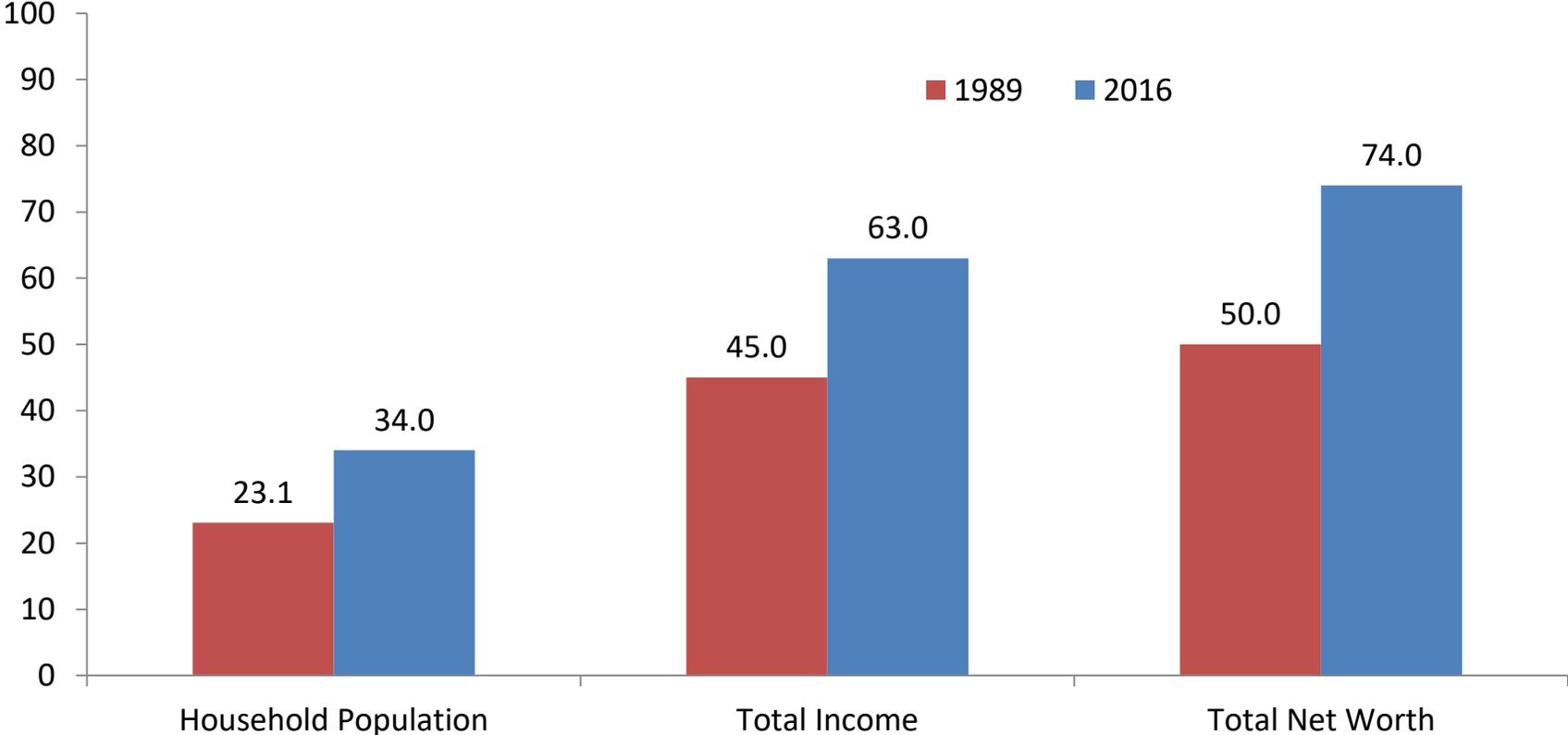


Source: Federal Reserve Board, Survey of Consumer Finances.

# Income and Wealth Shares Rise

Shares of Household Population, Total Wealth, and Total Income Among College Graduates

Percentage Share



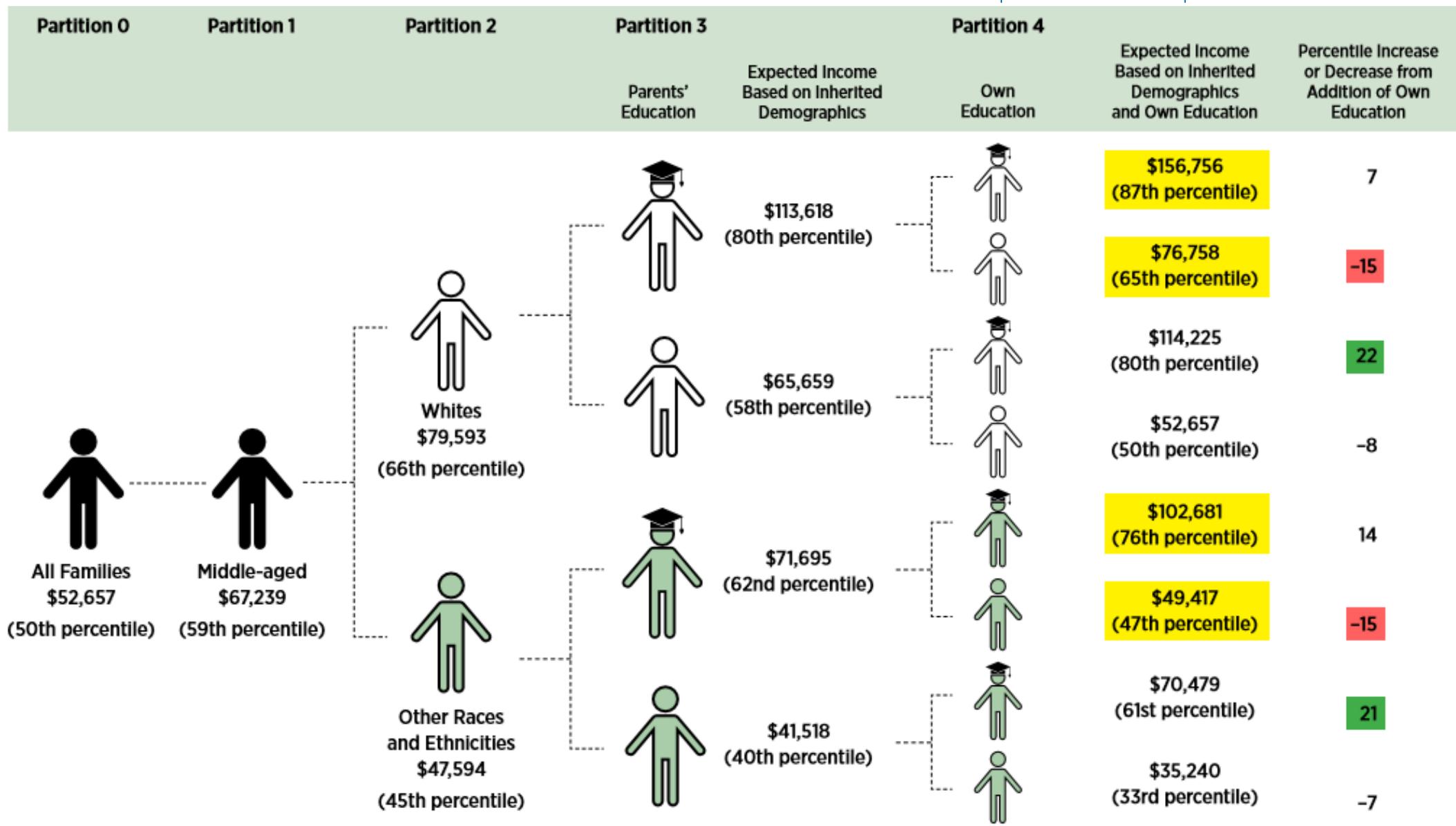
Source: Federal Reserve Board, Survey of Consumer Finances.

# Own Effort vs. Inherited Characteristics?

- College income and wealth premiums – individual efforts to complete the degree and the benefits of the learning itself?
- Or – inherited demographic traits both in predisposing someone to complete a degree and in boosting later financial achievement?
- We attempt to isolate the effect of these traits by comparing outcomes among otherwise identical groups save for a single trait.

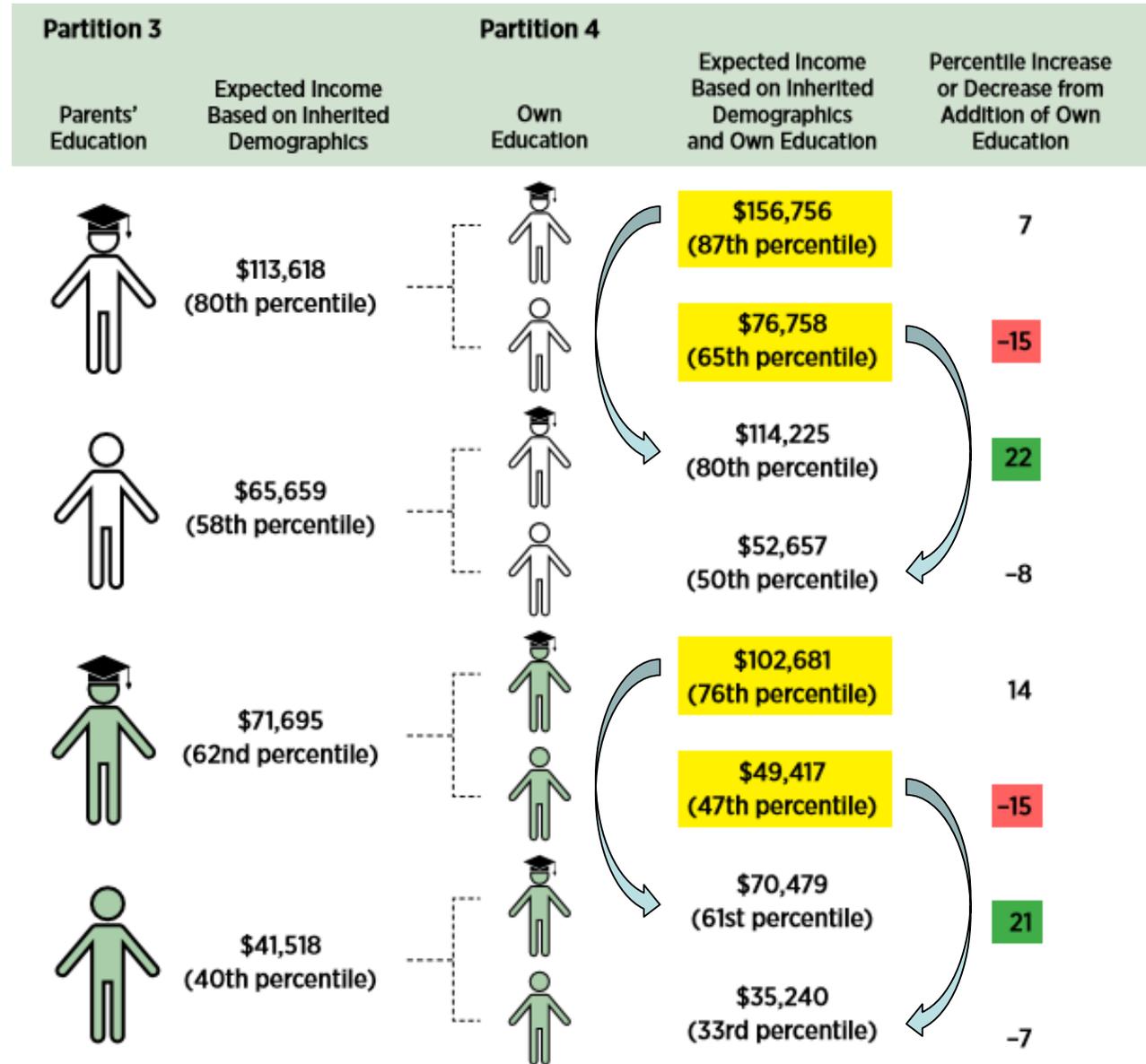
# Inherited

# Acquired





**1. The Head Start effect:** Families with “favorable” (white, middle-aged or older, college grad parents) inherited traits typically earn higher incomes and accumulate more wealth than families without them.





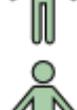
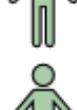
**2. The Upward Mobility effect:**  
 Among families with less “favorable” traits, a college degree usually boosts income and wealth far above levels achieved without a degree.

Partition 3	Partition 4			
Parents' Education	Expected Income Based on Inherited Demographics	Own Education	Expected Income Based on Inherited Demographics and Own Education	Percentile Increase or Decrease from Addition of Own Education
	\$113,618 (80th percentile)	 	\$156,756 (87th percentile)	7
	\$65,659 (58th percentile)	 	\$76,758 (65th percentile)	-15
	\$71,695 (62nd percentile)	 	\$102,681 (76th percentile)	14
	\$41,518 (40th percentile)	 	\$70,479 (61st percentile)	21
			\$49,417 (47th percentile)	-15
			\$35,240 (33rd percentile)	-7



**3. The Downward Mobility effect:**  
 Families with college-educated parents who fail to also earn a degree are likely to slip notably downward in expected ranking.

Inherited traits *matter*

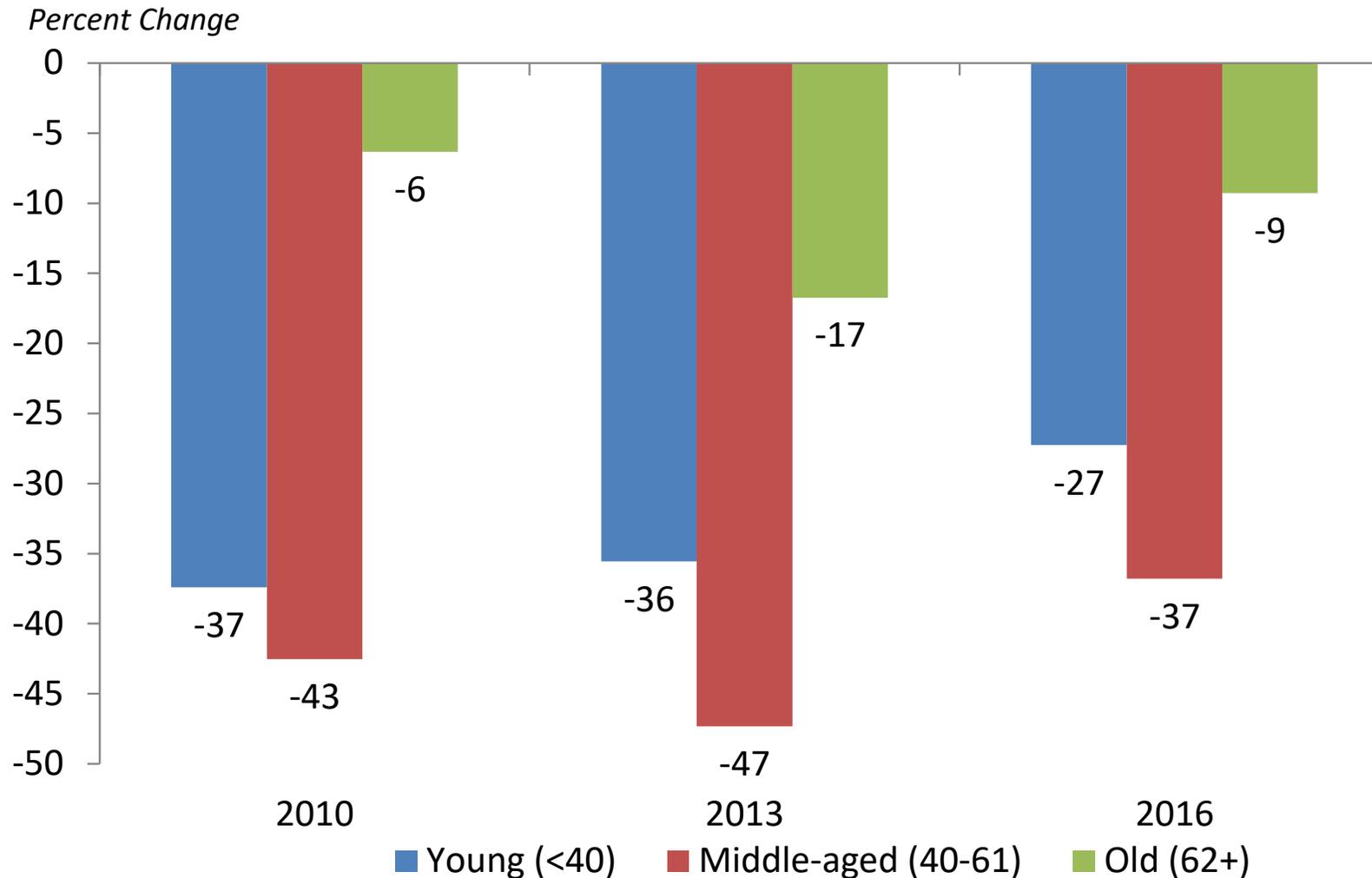
Partition 3	Partition 4	Expected Income Based on Inherited Demographics and Own Education	Percentile Increase or Decrease from Addition of Own Education
Parents' Education	Own Education		
 \$113,618 (80th percentile)	 	\$156,756 (87th percentile)	7
	 	\$76,758 (65th percentile)	-15
 \$65,659 (58th percentile)	 	\$114,225 (80th percentile)	22
	 	\$52,657 (50th percentile)	-8
 \$71,695 (62nd percentile)	 	\$102,681 (76th percentile)	14
	 	\$49,417 (47th percentile)	-15
 \$41,518 (40th percentile)	 	\$70,479 (61st percentile)	21
	 	\$35,240 (33rd percentile)	-7

# Essay 2: A Lost Generation? Long-Lasting Wealth Impacts of the Great Recession on Young Families

- The Great Recession of 2007-09 inflicted deep and widespread losses to wealth across American families.
- While wealth losses occurred across the age spectrum, the extent of the damage has been unequal.
- Younger families suffered the most and have rebounded slowly.

# Great Recession Hit Under-Retirement Age Families Harder

## Change in Median Net Worth by Age Group, Relative to 2007



Source: Federal Reserve Board, Survey of Consumer Finances.

# Can Families Recover What They Lost?

- For the families which lost the most wealth, how likely are they to recover in time for major goals?
  - First-time home purchase
  - College tuition for their children
  - Retirement
- Will young or middle-aged families at the advent of the Recession become part of a “lost generation” that struggles to achieve life’s financial milestones?

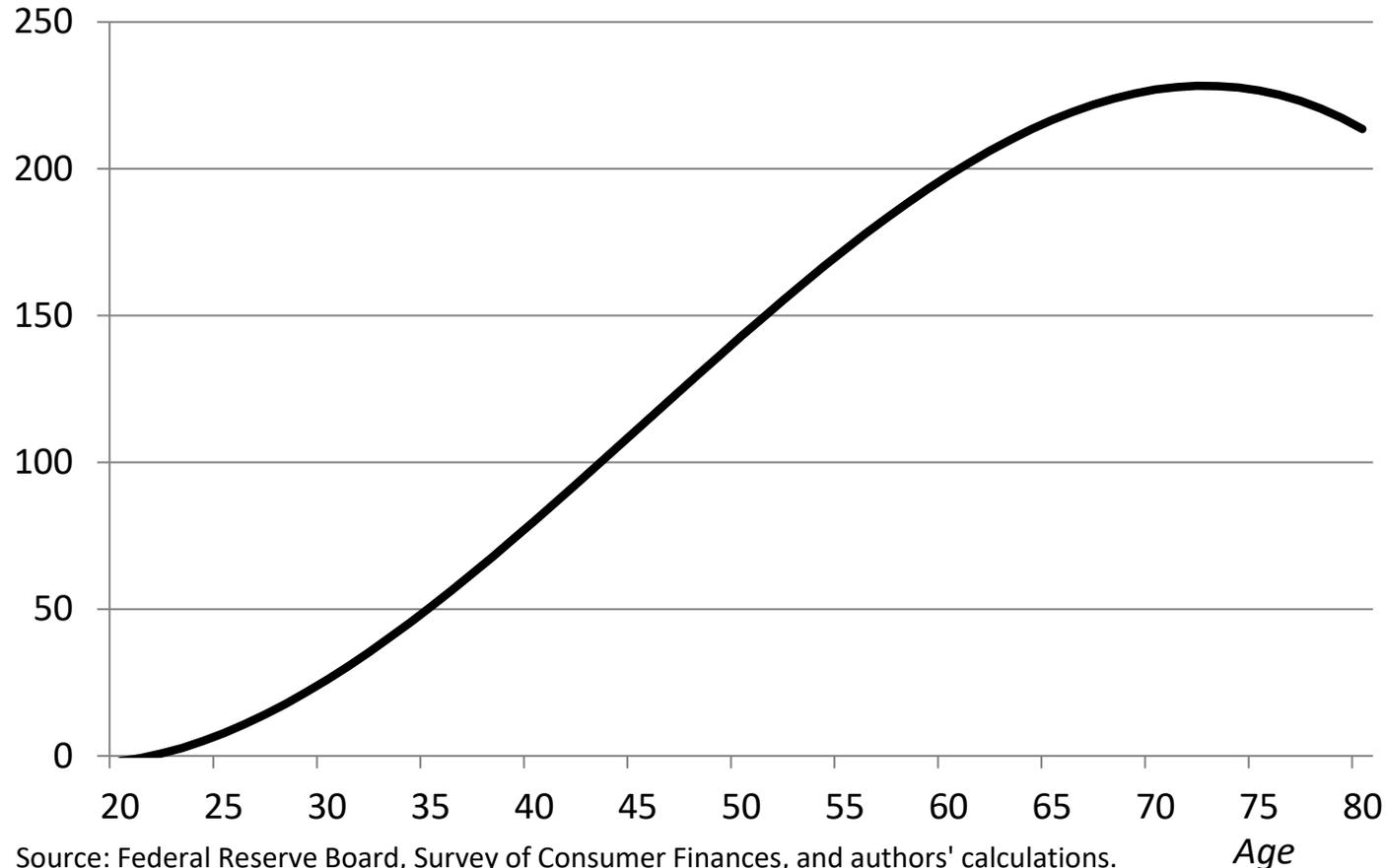
# The Life Cycle of Wealth

- The life cycle of wealth sounds complicated but you may find it pretty intuitive.
- When you're young your earnings are typically at their lowest, and you haven't had much time to save.
- By middle-age your income is close to its maximum and you (hopefully) start to build a sizable savings.
- As you reach your elder years you eventually retire and draw down your savings in the form of income.

# The Life Cycle of Wealth

## Predicted Median Net Worth by Age

Thousands of 2016 \$



Source: Federal Reserve Board, Survey of Consumer Finances, and authors' calculations.

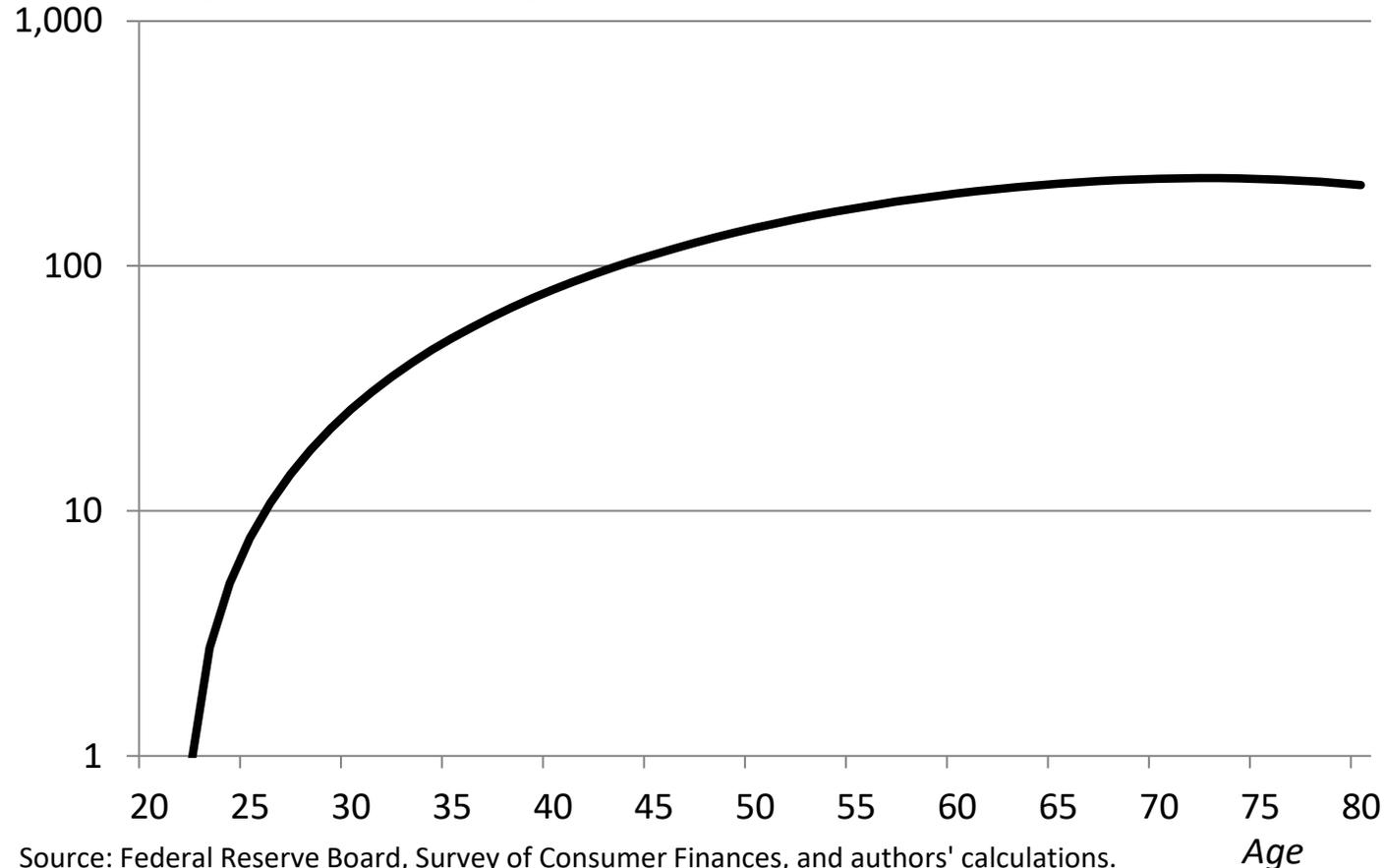
- The classical life cycle is represented as a hump shaped trend.
- This trend line is estimated from responses from 47,776 families in the Survey of Consumer Finances between 1989 and 2016.



# The Life Cycle of Wealth (Transformed)

## Predicted Median Net Worth by Age

Thousands of 2016 \$, Natural Log Scale on Y-Axis



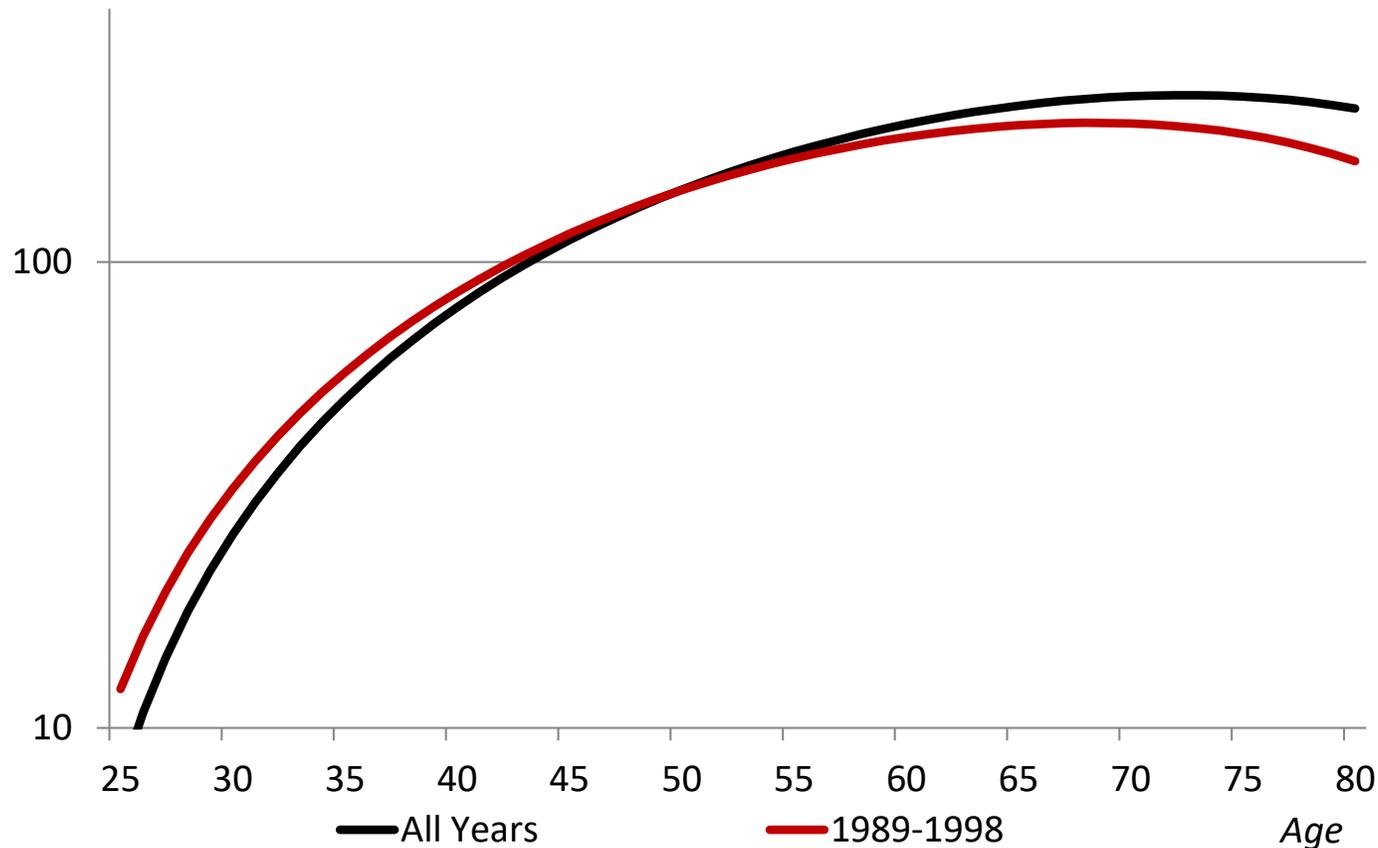
Source: Federal Reserve Board, Survey of Consumer Finances, and authors' calculations.

- We transform the scale because wealth accumulation is a compounding process.
- Using this approach, equal vertical distances represent equal percentage differences.
- The life cycle that we estimate removes the effects that are associated with taking the survey in a specific year.

# The Pre-Housing Bubble Period

## Predicted Median Net Worth by Age and Survey Year

Thousands of 2016 \$, Natural Log Scale on Y-Axis



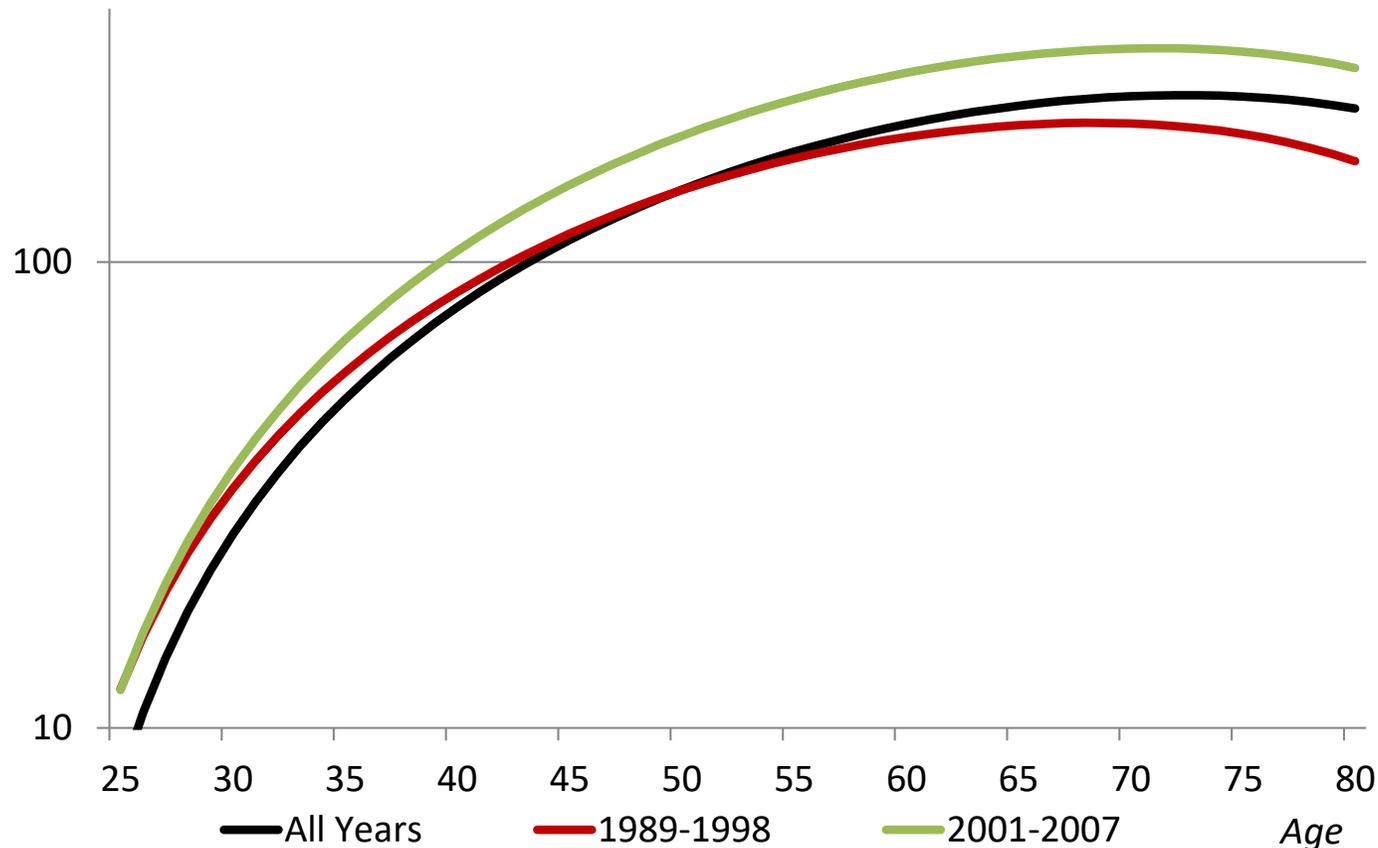
Source: Federal Reserve Board, Survey of Consumer Finances, and Authors' Calculations

- As compared to the long-run life cycle, the 1990s featured...
- Greater predicted wealth among families under 45: **+\$6,600** at age 30.
- Lower predicted wealth among those over 55: **-\$28,600** at age 70.

# The Housing Bubble Period

## Predicted Median Net Worth by Age and Survey Year

Thousands of 2016 \$, Natural Log Scale on Y-Axis



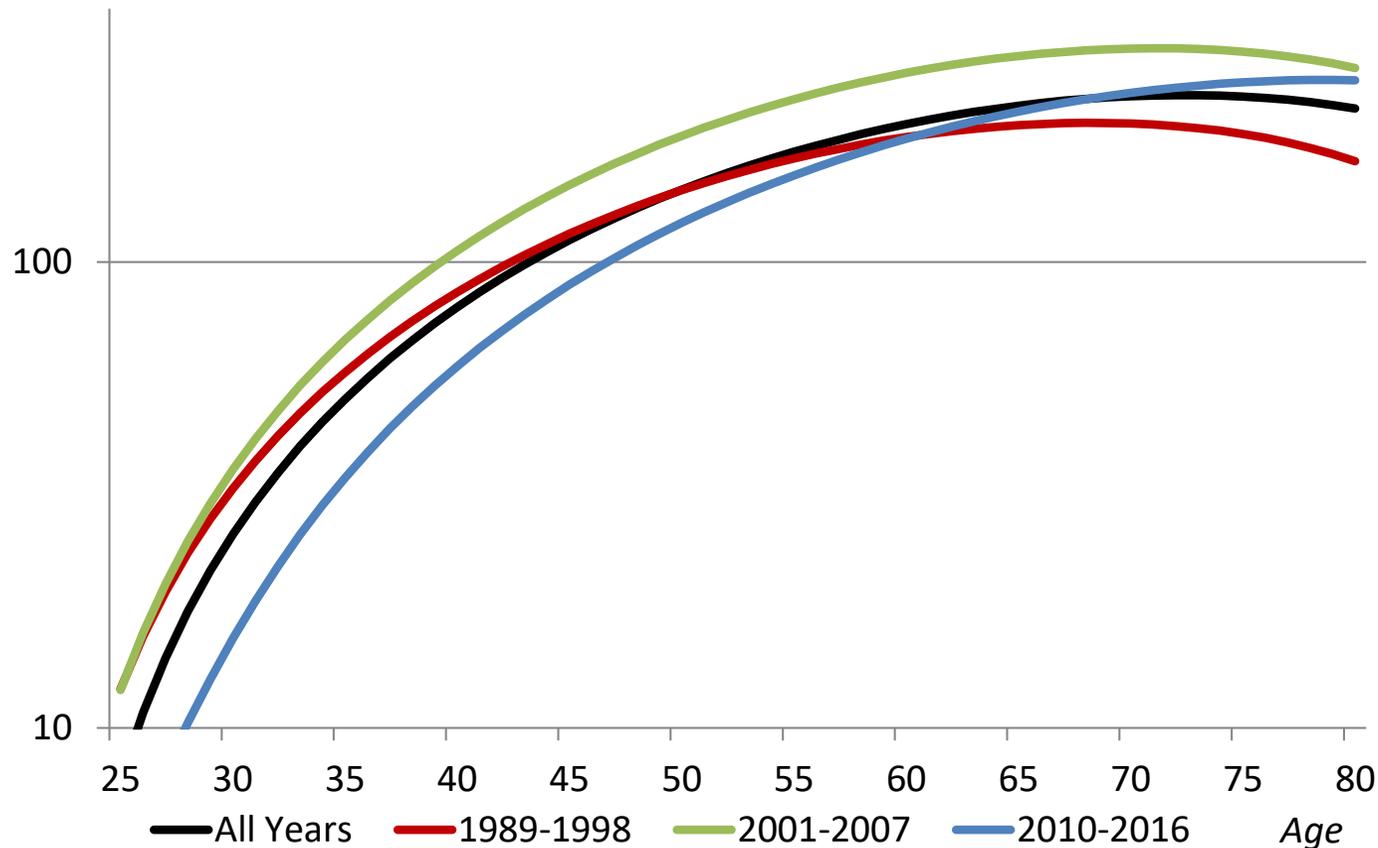
Source: Federal Reserve Board, Survey of Consumer Finances, and Authors' Calculations

- Early to mid-2000s had greater predicted wealth for families of all ages: **+\$60,300** at age 70.
- Further gains for predicted wealth among young families: **+\$9,800** at age 30.
- Some of this wealth effect was illusory.

# The Post-Great Recession Period

## Predicted Median Net Worth by Age and Survey Year

Thousands of 2016 \$, Natural Log Scale on Y-Axis



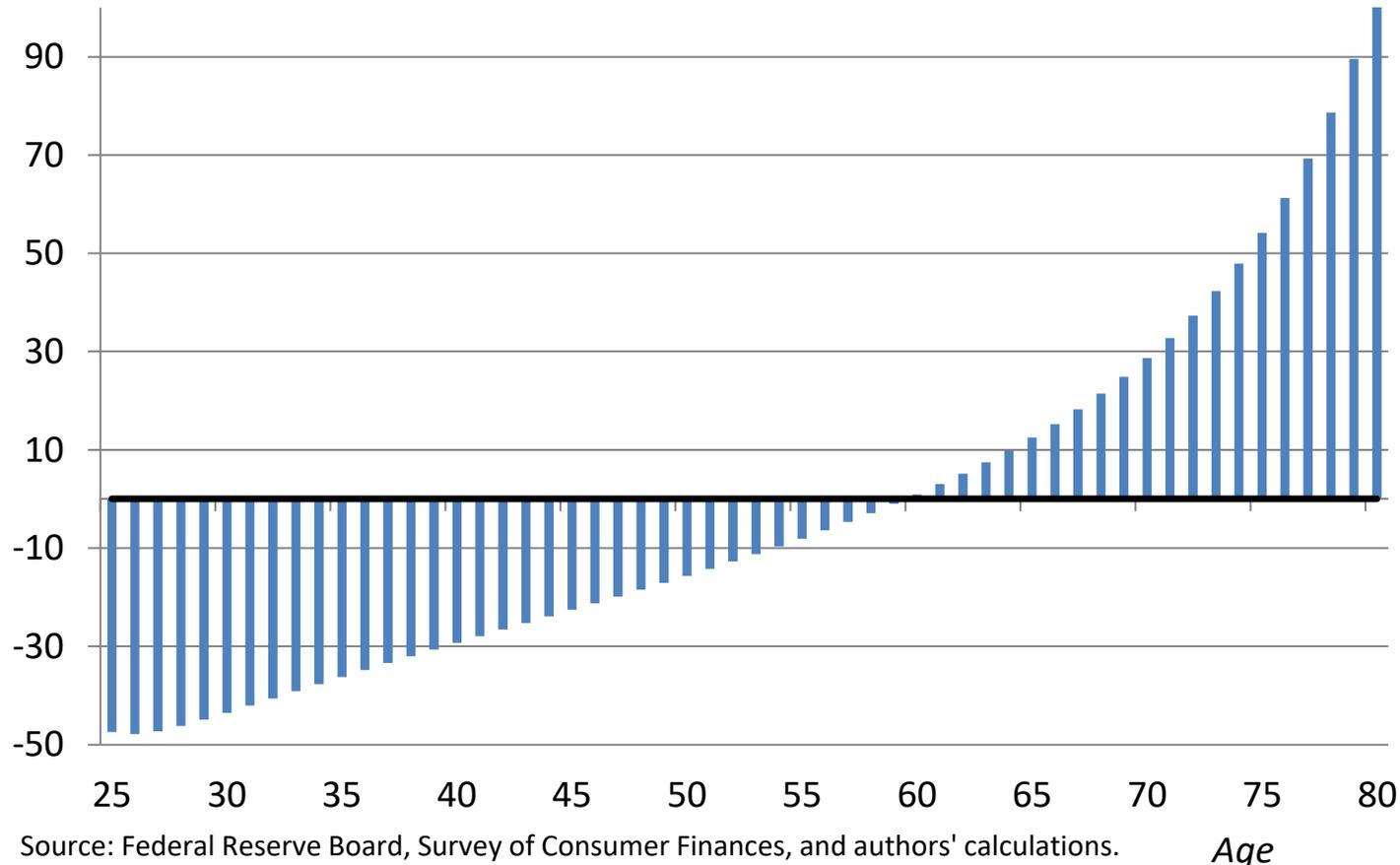
Source: Federal Reserve Board, Survey of Consumer Finances, and Authors' Calculations

- The late 2000s and early 2010s featured a reduction in *almost* all levels of predicted wealth.
- The fall was particularly severe for young families: **-\$10,500** at age 30.
- Families typically in retirement still above trend: **+\$3,800** at age 70.

# The Changing Fortunes of Age

## Change Between 1989 and 2016 in Predicted Wealth

Percentage Difference



- The age of 60 marks a turning point in predicted wealth.
- Since 1989, all families younger than 60 have lower predicted wealth; all families older than 60 have greater predicted wealth.

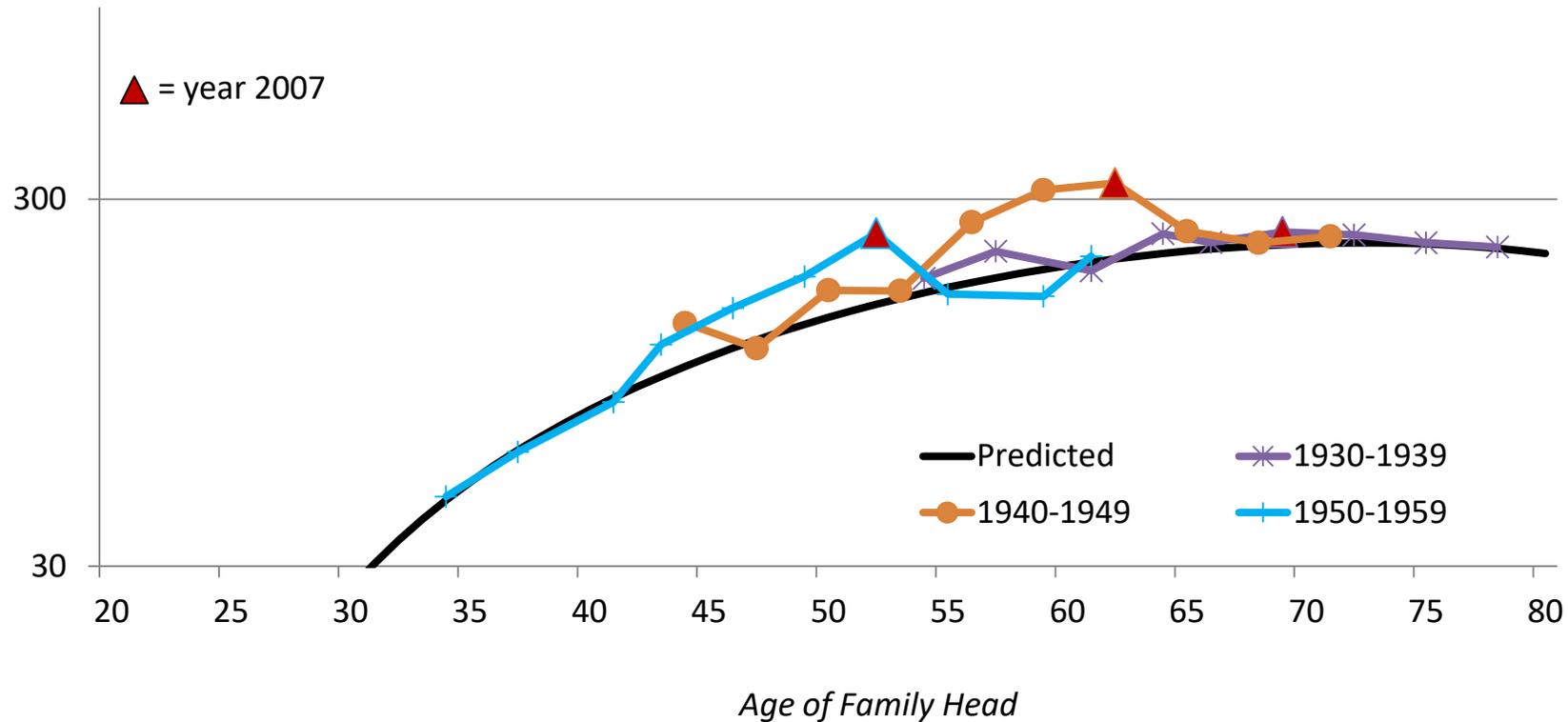
# When You Were Born Matters

- Given substantial shifts in predicted wealth by age, when you reach age milestones is important.
- To understand how members of particular birth years have fared, we track six decade-long cohorts over time:
  - Family heads born in the 1930s, 1940s, 1950s, 1960s, 1970s and 1980s.

# 1930s-1950s: Hit, but then Recovered

## Predicted vs. Actual Median Net Worth, Family Heads born 1930-1959

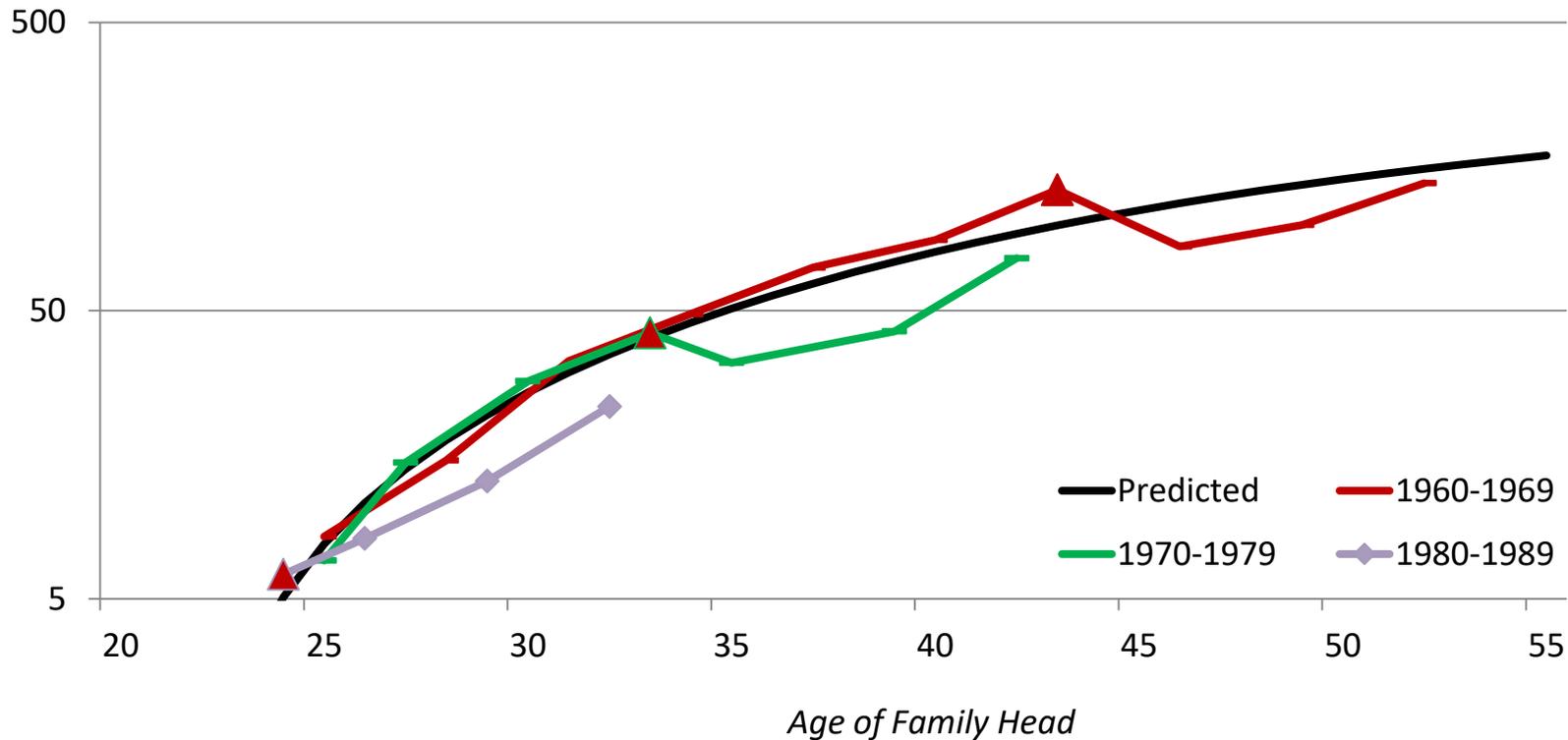
Thousands of 2016 \$, Natural Log Scale on Y-Axis



# 1960s-1980s: Hit Hard and Still Behind

Median Net Worth, Predicted vs. Actual, by Age and Birth Cohorts

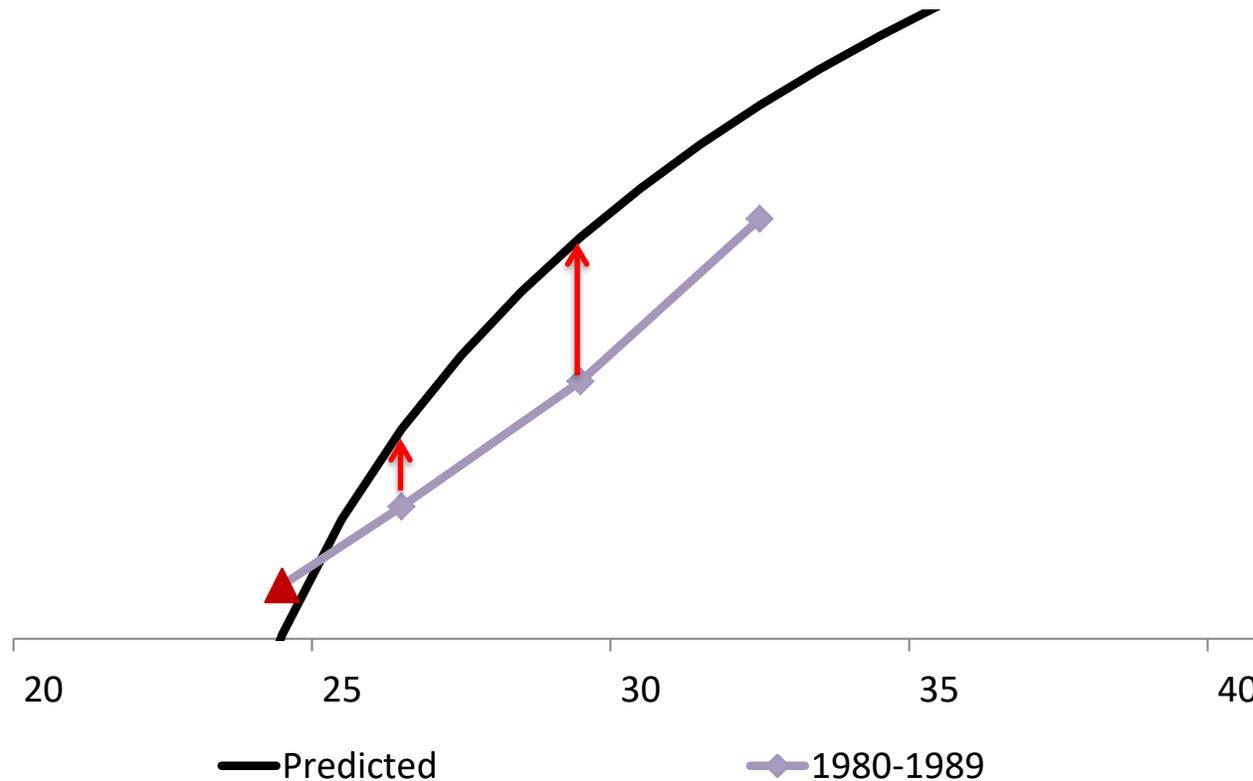
Thousands of 2016 \$, Natural Log Scale on Y-Axis



# Born in the 1980s

## Median Net Worth, Predicted vs. Actual, by Age and Birth Cohorts

Thousands of 2016 \$, Natural Log Scale on Y-Axis



Source: Federal Reserve Board, Survey of Consumer Finances, and authors' calculations.

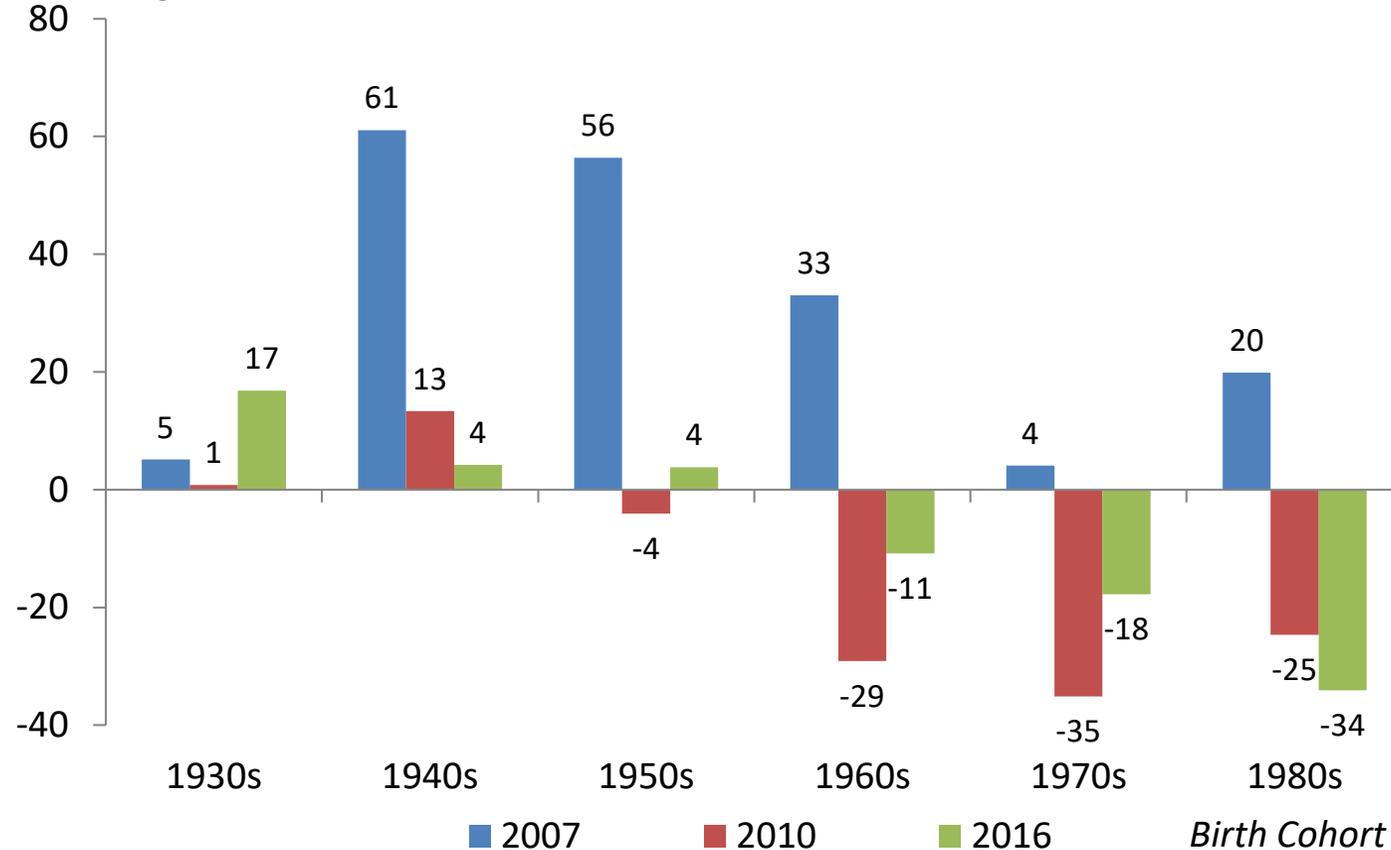
Age

- The 1980s cohort not only suffered a severe setback from the Recession but drifted further from predicted values between 2010 and 2013.
- Joining the 1960s and 1970s cohort, the typical family born in the 1980s has yet to regain their predicted wealth.

# Which generations are back on track?

Deviation of Birth Cohort Median Wealth from Predicted Value

Percentage Points



Source: Federal Reserve Board, Survey of Consumer Finances, and authors' calculations.

- 1960s and 1970s: high homeownership, delinquency, and debt ratios
- 1980s: non-mortgage debt
- Why?
- Optimism?

# What can be done?

- If born in 1980s:
  - Build wealth – start saving early, and diversify assets and risks.
  - Keep debts low and tied to appreciating or income-generating assets.
  - Build education and skills early, and throughout life.
  - Avoid over-investing in housing; a home purchase shouldn't deplete your liquid savings buffer.
- Future generations:
  - Early assets/ childhood development accounts
- Don't forget that inherited traits *matter*



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