

# A Lost Generation? Young Families after the Great Recession

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# **WELCOME AND INTRODUCTION**

**Ray Boshara**, director, Center for Household Financial Stability  
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# SETTING THE STAGE

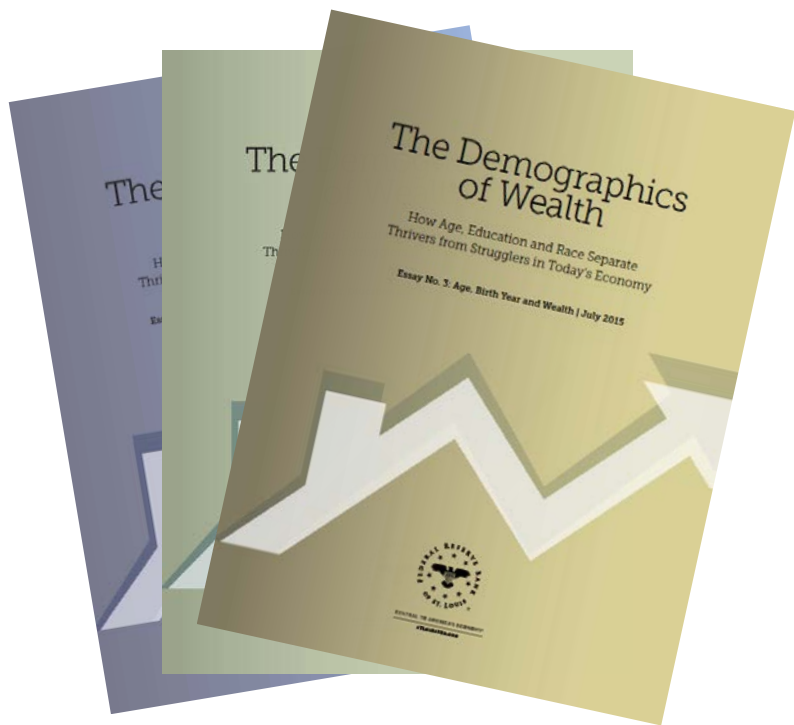
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# PRESENTATION

# Overview

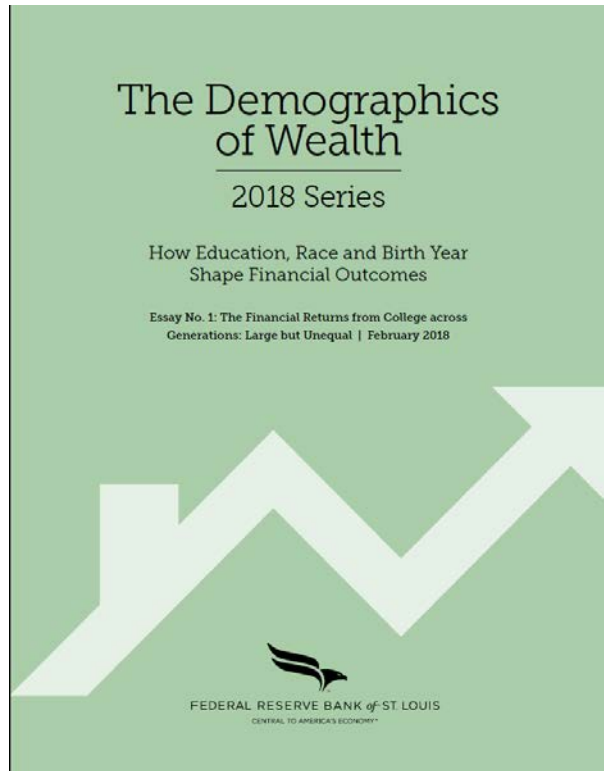
- Introducing the *Demographics of Wealth*
- The Lasting Impact of the Great Recession
- Exploring the Life Cycle of Wealth
- When You Were Born Matters: Wealth Outcomes of Generations
- Why Were Young Families Hit So Hard?
- Will the 1980s Cohort Become a “Lost Generation”?

# *The Demographics of Wealth*



- Three essays written by Center staff in 2015.
- The series explores the connection between wealth and a person's race/ethnicity, education and age.
- These three factors increasingly predict which families struggle and thrive.

# *The Demographics of Wealth Redux*



- The new series uses 2016 data from the Survey of Consumer Finances (SCF).
- It explores connection between financial outcomes and the education of both a family and their parents.

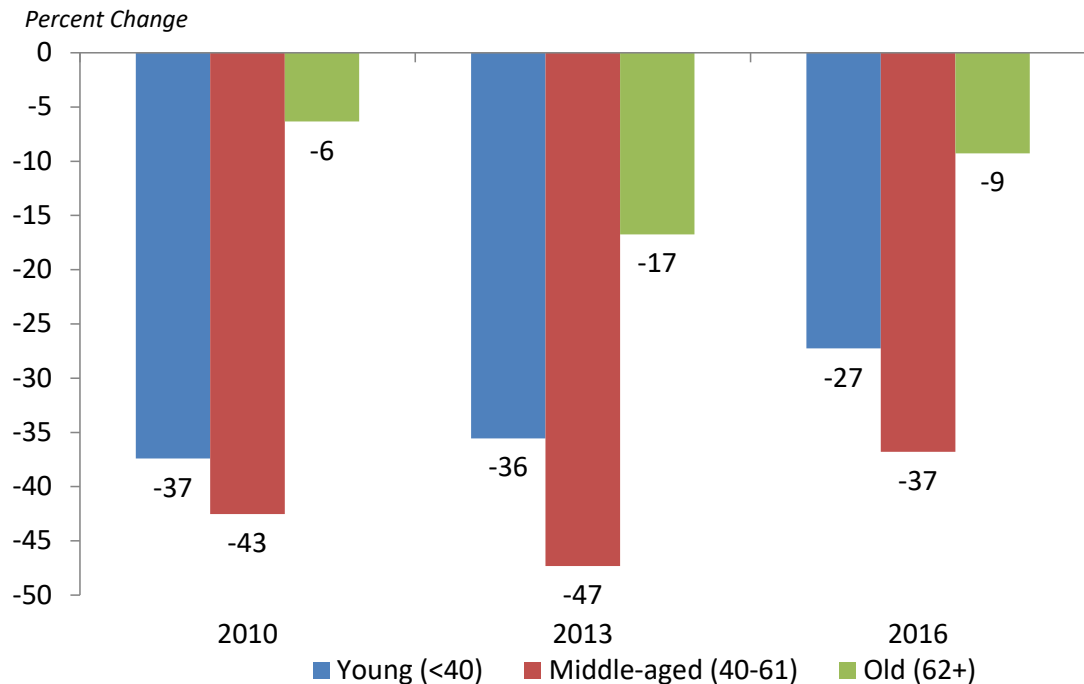
# The Lasting Impact of the Great Recession

- 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.



# Wealth Losses Unevenly Distributed

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



Source: Federal Reserve Board's Survey of Consumer Finances.

- The decline in median wealth among older families (62+) was milder.
- The median wealth among middle-aged (40-61) & young (<40) families remains well below pre-recession values.

# Can Families Recover What They Lost?

- For the families that lost the most wealth, how likely are they to recover in time for major goals?
  - First 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?

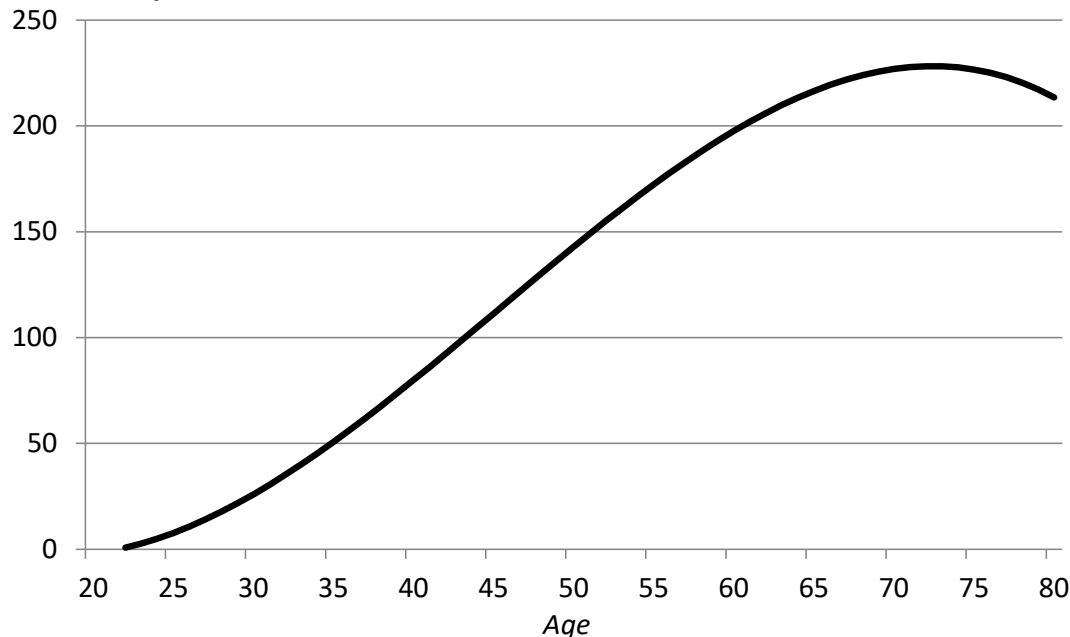
# The Life Cycle of Wealth

- 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 \$



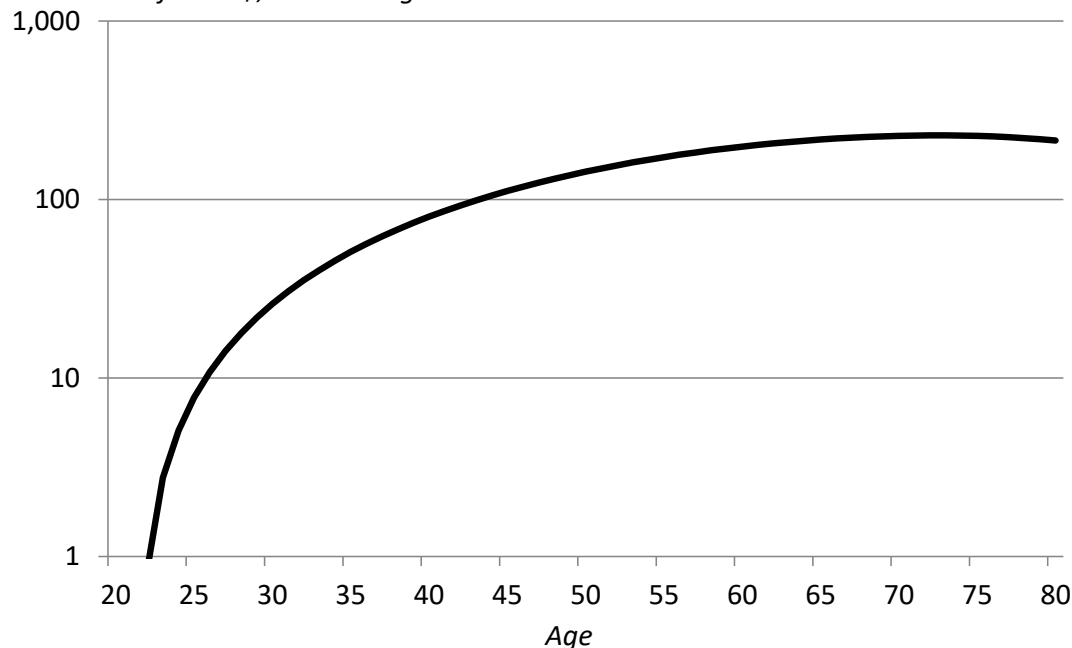
Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.

- The classical life cycle is represented as a hump shaped trend.
- This trend line is estimated from responses from 47,776 families in the SCF 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



Sources: Federal Reserve Board's 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.

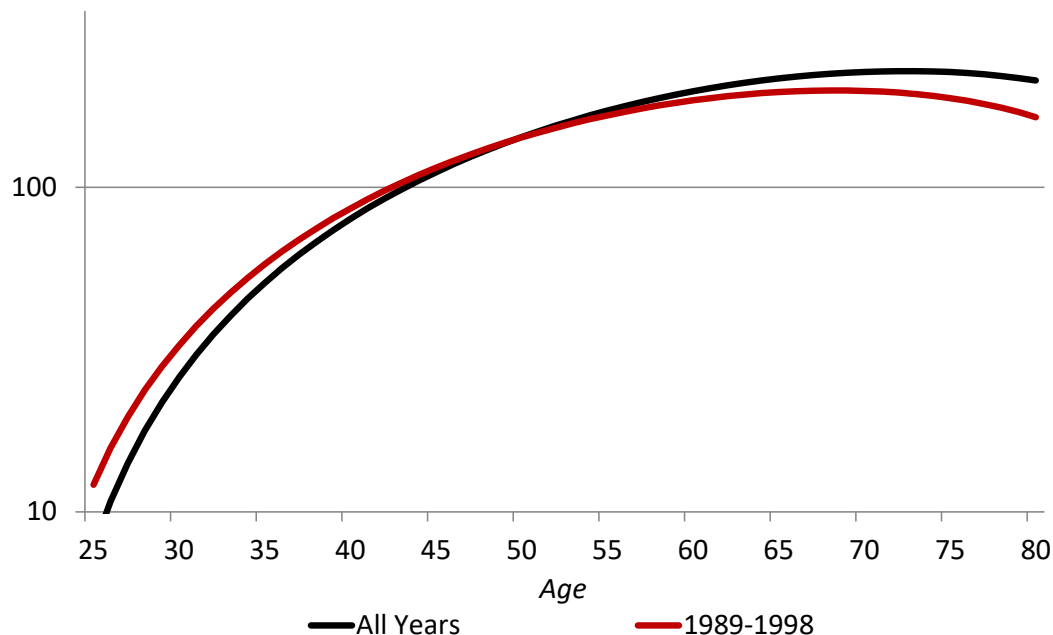
# Estimating The Life Cycle of Wealth

- The life cycle that we estimate removes the effects that are associated with taking the survey in a specific year.
- Having removed these effects, we capture the underlying relationship between wealth and age.
- In other words, time-specific factors can increase (or decrease) predicted wealth.
- Comparing the underlying trend to those estimated for specific years helps to illustrate these effects.

# The Pre-Housing Bubble Period

## Predicted Median Net Worth by Age and Survey Year

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



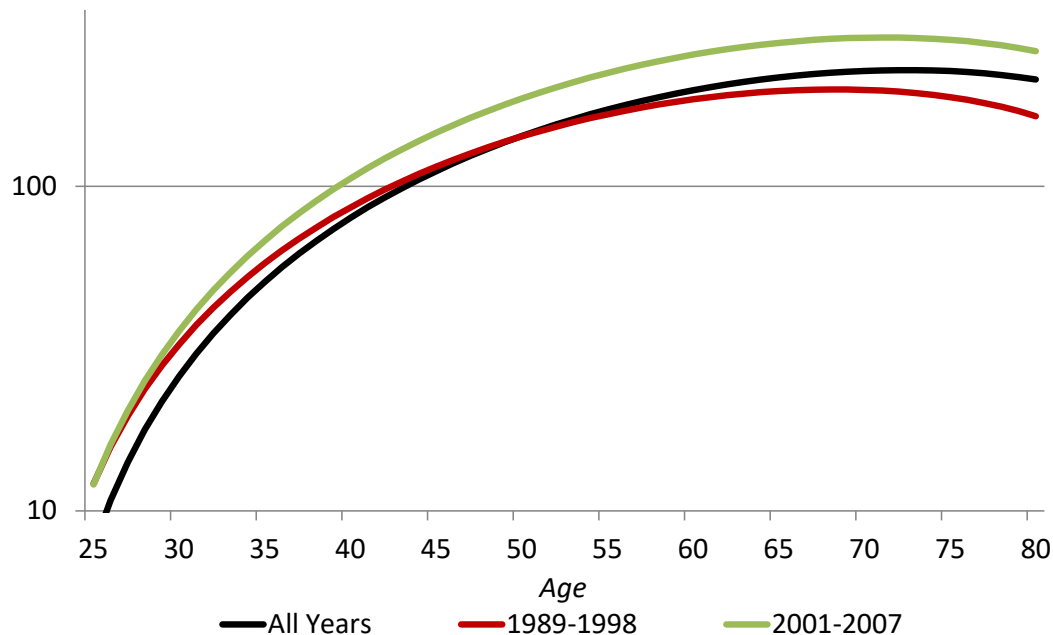
Sources: Federal Reserve Board's Survey of Consumer Finances, and authors' calculations.

- 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



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

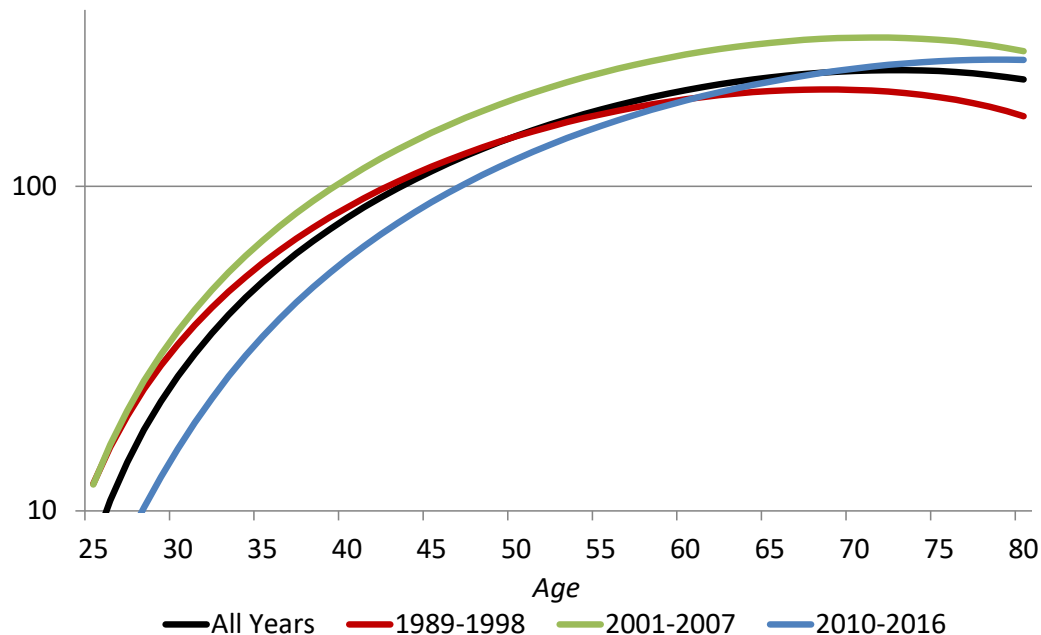
- Early to mid-2000s had greater predicted wealth for families of all ages: **+\$60,300** at age 70.
- Further gains for predicted wealth among young families: **+\$9,800** at age 30.
- Some of this wealth effect was illusory.



# The Post-Great Recession Period

## Predicted Median Net Worth by Age and Survey Year

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



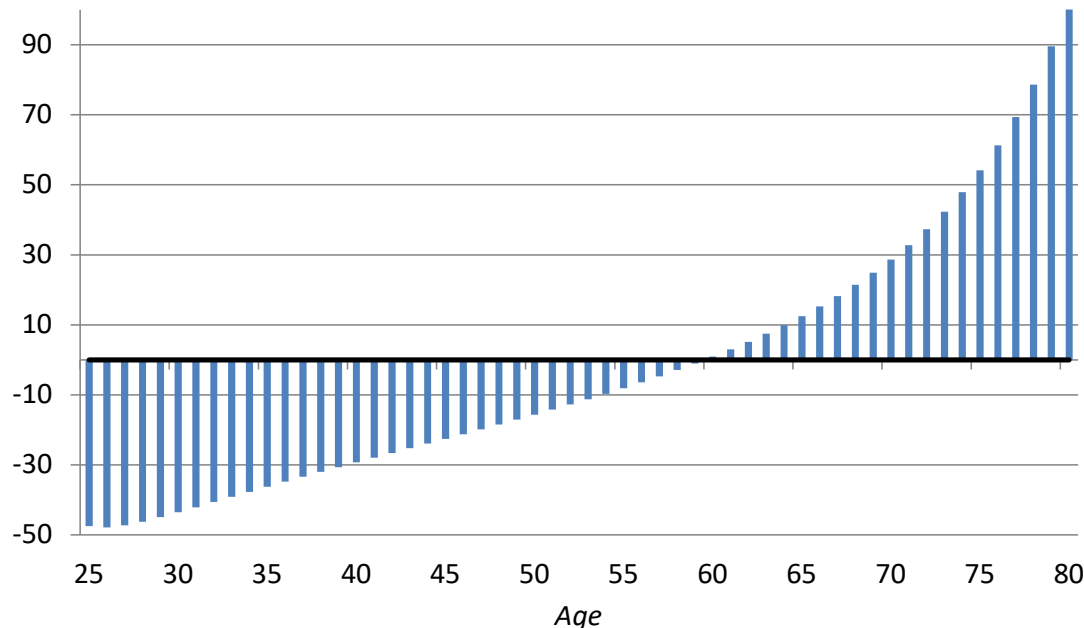
Sources: Federal Reserve Board's Survey of Consumer Finances, and authors' calculations.

- 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 were still over trend: **+\$3,800** at age 70.

# The Changing Fortunes of Age

## Change Between 1989 and 2016 in Predicted Wealth

Percentage Difference



Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.

- 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.

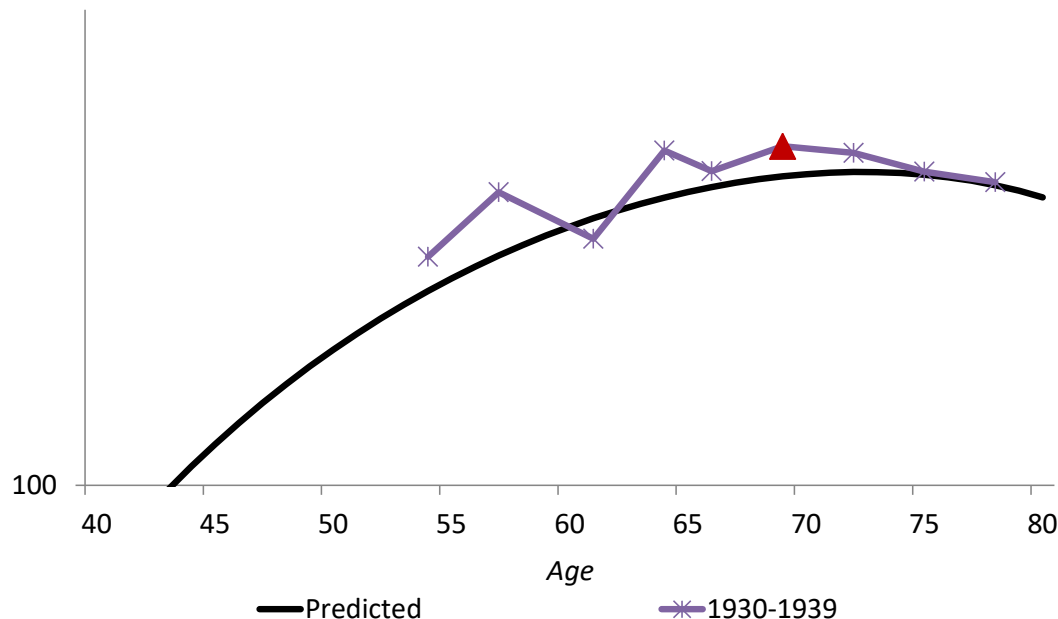
# When You Were Born Matters

- 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.
- To be clear, we don't track individual families across time; instead, we use “quasi-panels” of families.

# Born in the 1930s

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

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



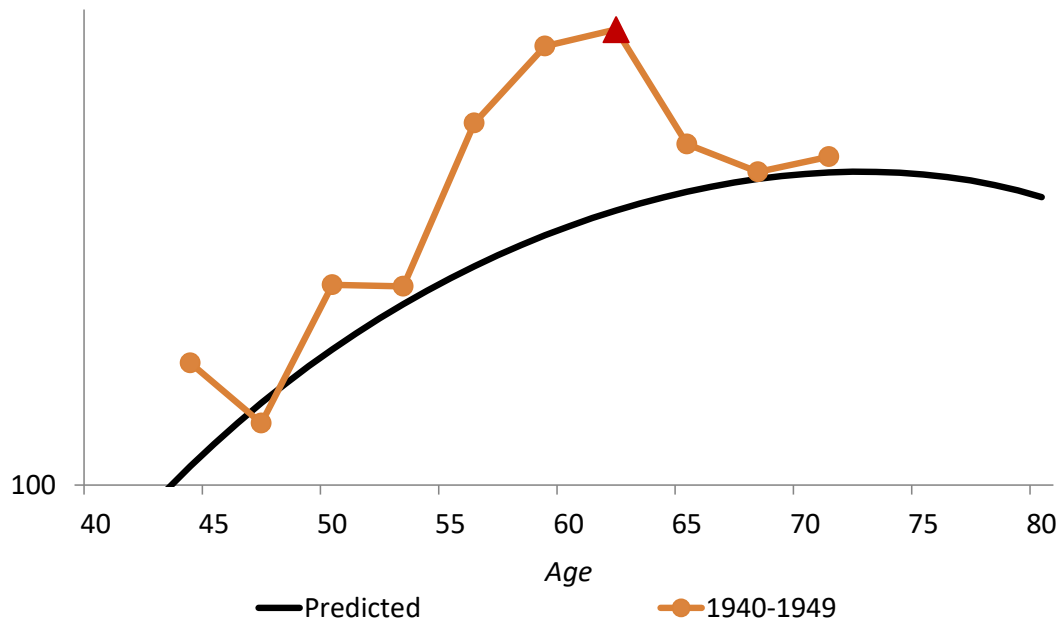
Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.

- Over the course of the SCF, these families have exceeded predictions.
- This cohort lost wealth after 2007 but remained above their age-specific benchmark.
- Observed wealth in 2016 is roughly as predicted.

# Born in the 1940s

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

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



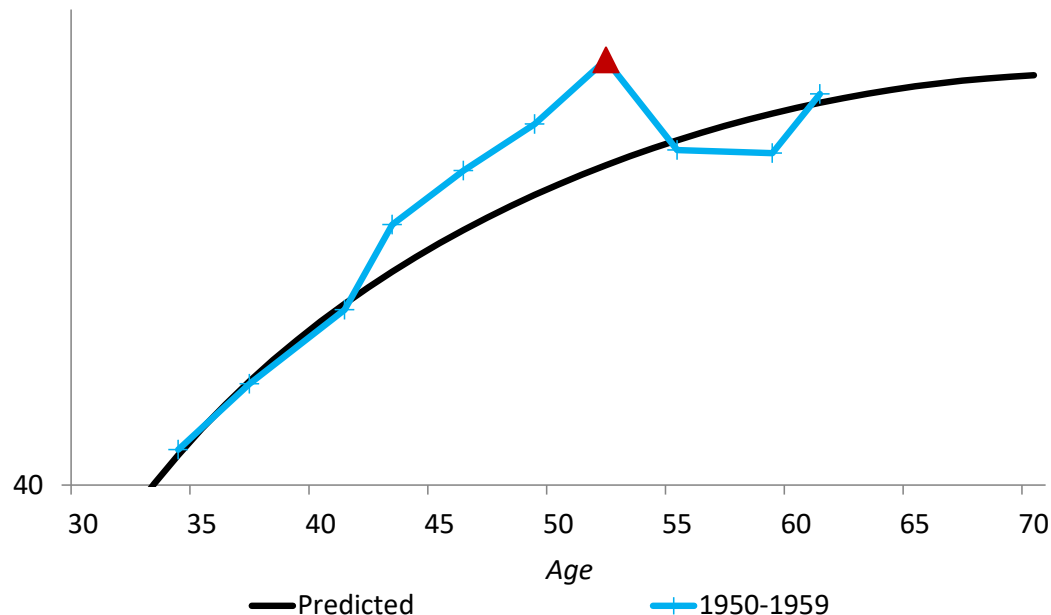
Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.

- The Great Recession reined in an impressive wealth advantage for this cohort.
- However, like the 1930s cohort, wealth levels remain at the benchmark.

# Born in the 1950s

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

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



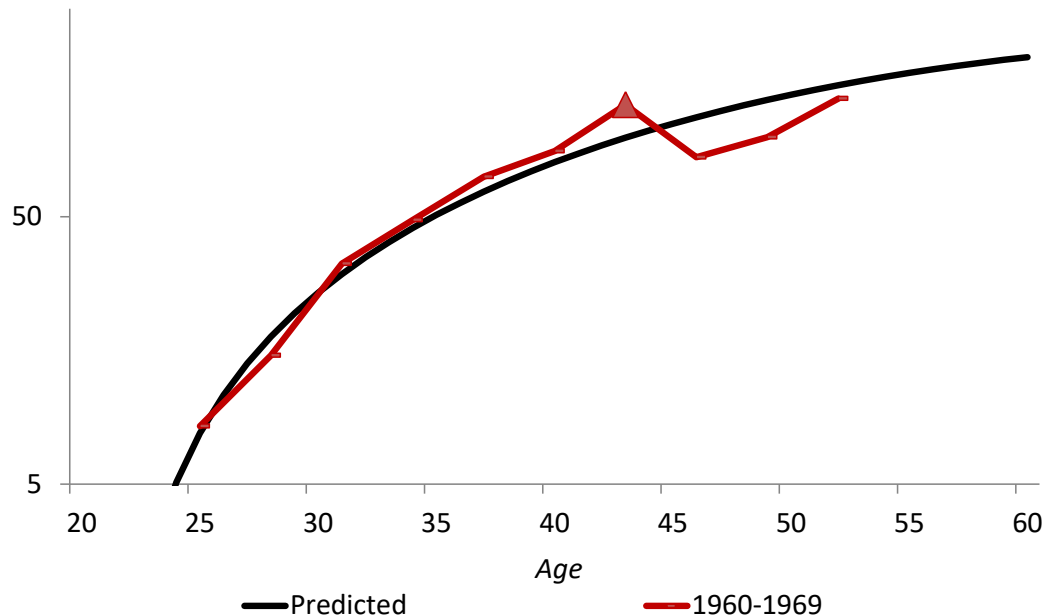
Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.

- The typical family in the 1950s cohort saw their wealth fall below predicted levels in 2010 and 2013.
- However, their median wealth rebounded in 2016 and again is exceeding the benchmark.

# Born in the 1960s

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

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



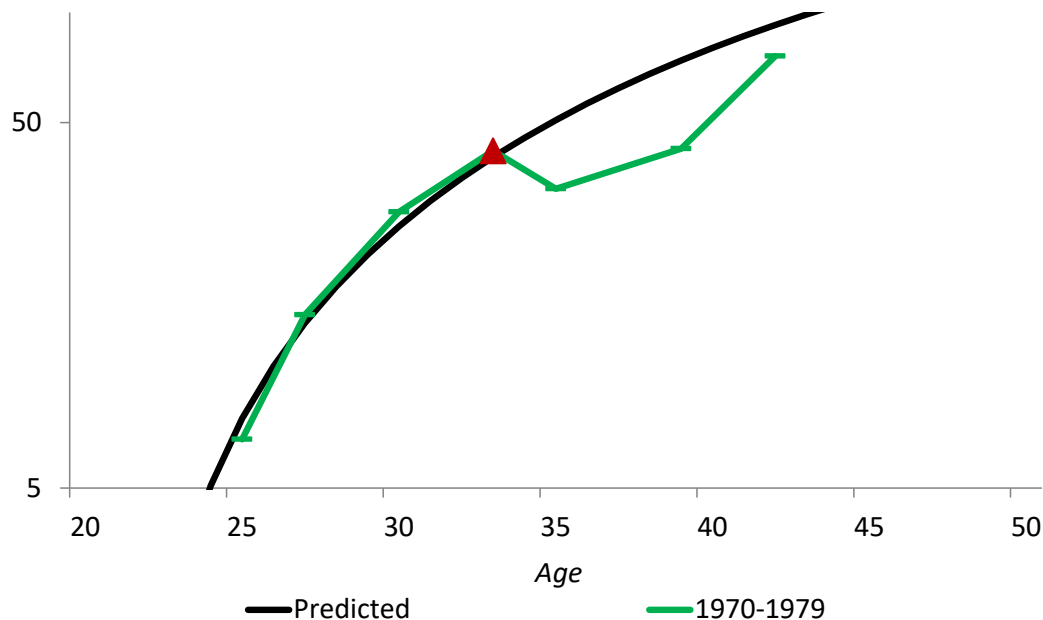
Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.

- The 1960s cohort was knocked well below benchmark levels by the recession and remained below them through 2016.
- The 1960s cohort was, on average, 52 years old in 2016.
- Recall the earlier split seen at age 60.

# Born in the 1970s

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

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



Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.

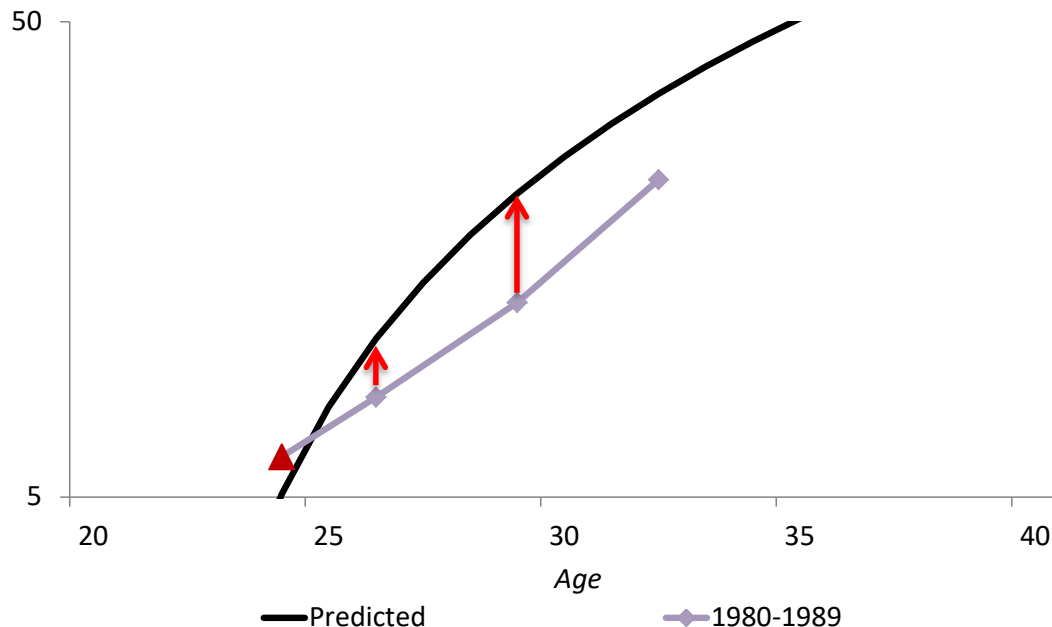
- The 1970s cohort also experienced a severe deviation from predicted wealth levels following the recession.
- The typical family within this cohort recovered a sizable amount of wealth in 2016 but remains below predicted values.



# Born in the 1980s

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

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



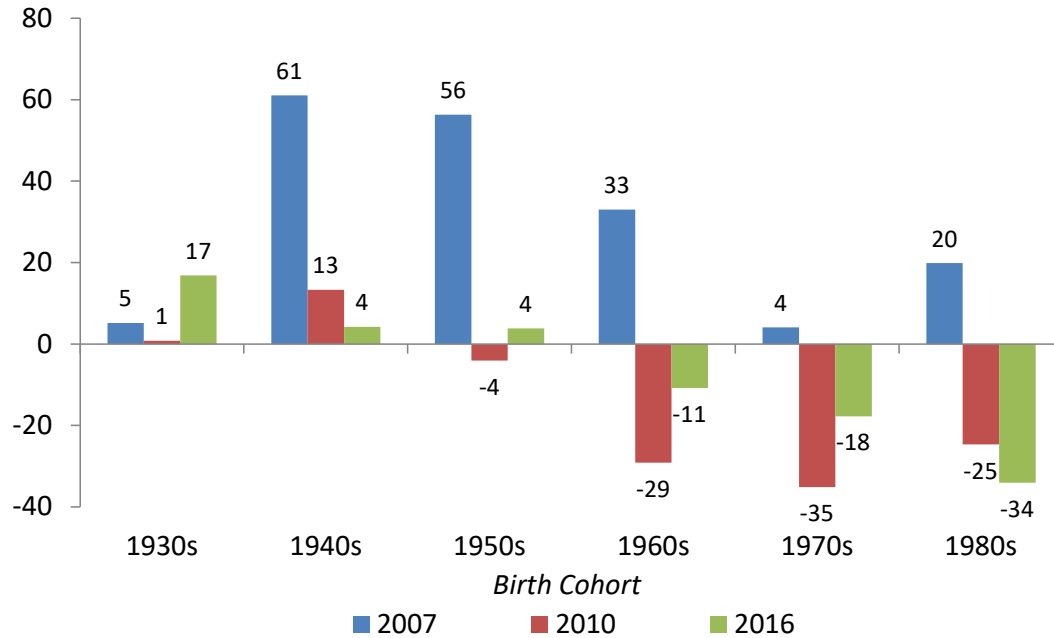
Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.

- 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



Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.

- Cohorts born before 1960 were above benchmark levels in 2016.
- Cohorts born in 1960 or later were below predicted wealth levels.
- The 1980s cohort slipped noticeably further behind between 2010 and 2016.

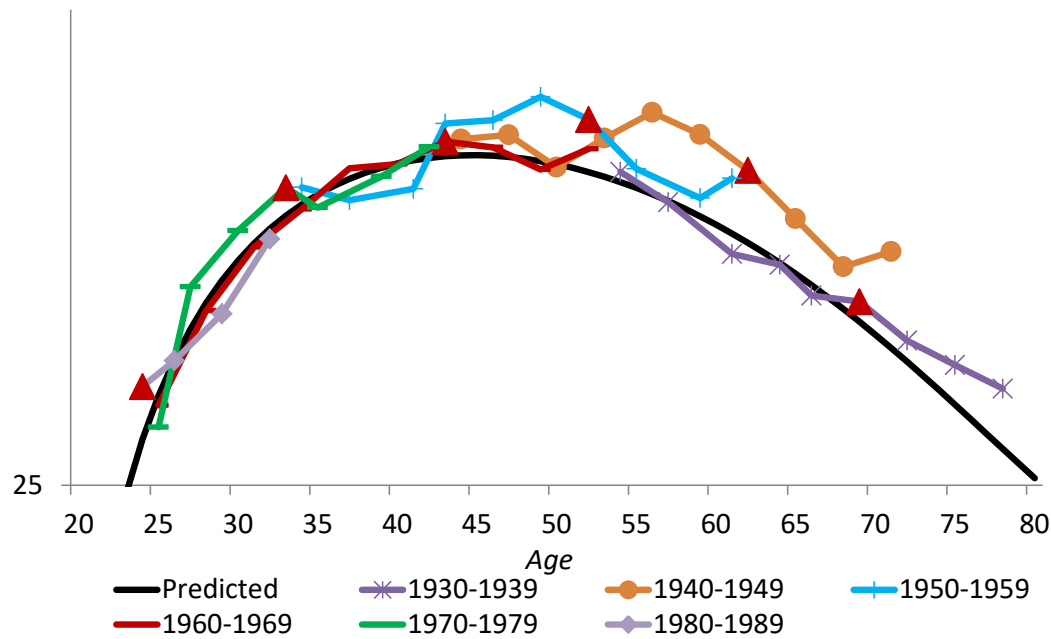
# Why Were Young Families Hit So Hard?

- To shed more light on this question—and to gauge their potential to recover—we look at trends in income, saving and several financial indicators.
- Perhaps surprisingly, income and saving trends appear to be relatively unimportant.
- At the same time, other indicators—debt and homeownership—may have had an important role.

# Income Gaps? Not Readily Apparent

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

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

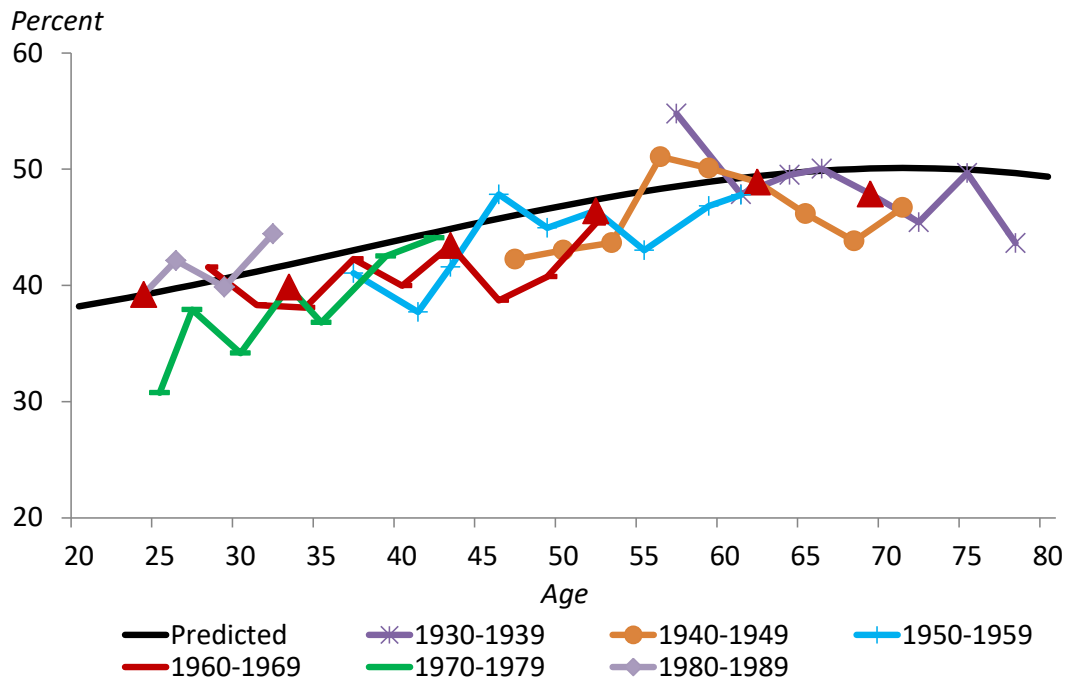


Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.

- Relative to the income life cycle, the typical family born in the 1960s, 1970s and 1980s fared well.
- Families born before 1960 did even better.
- Income gaps, before or after the recession, don't appear to be an important source of wealth shortfalls.

# Different Saving Shares? Not Likely

Saving Share, Predicted vs. Actual, by Age and Birth Cohorts

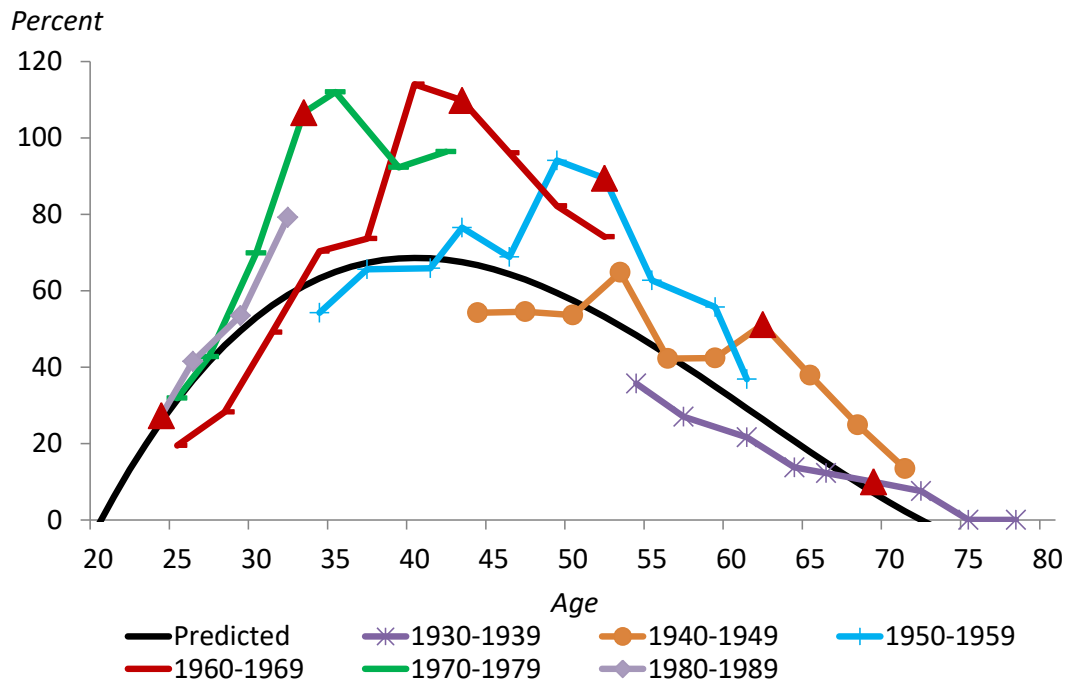


Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.

- As with income, there is nothing unusual about saving habits of younger cohorts.
- Despite a larger wealth shortfall, the 1980s cohort has a notably higher saving rate than the 1970s cohort.

# Debt Burdens? They Certainly Stand Out

Median Debt/Income, Predicted vs. Actual, by Age and Birth Cohorts

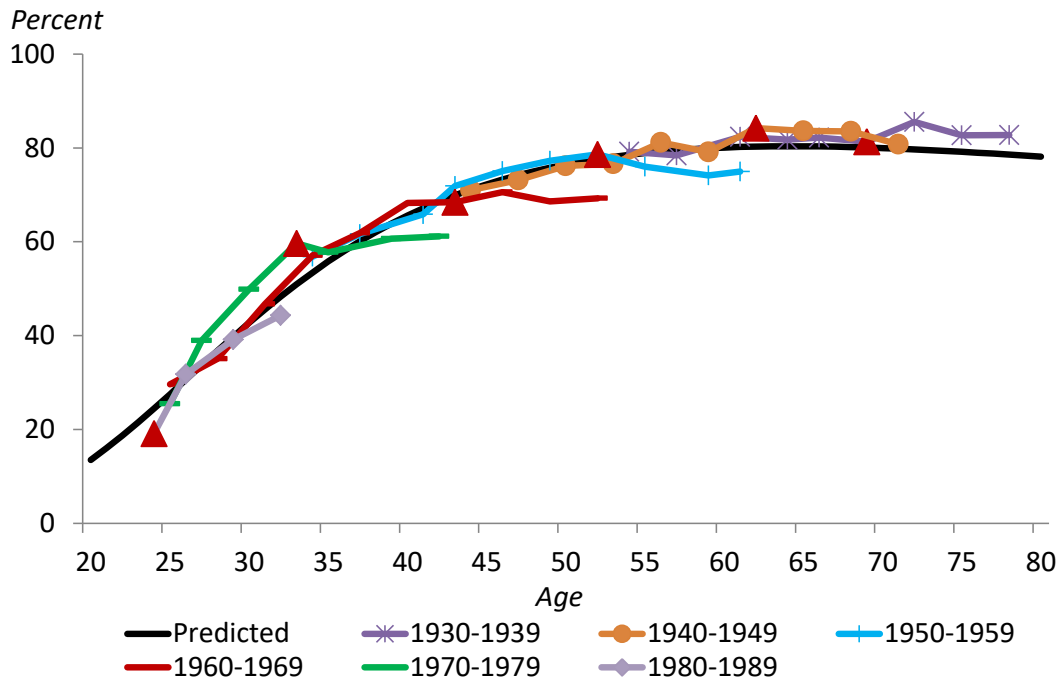


Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.

- Starting with families born in the 1930s, each successive cohort generally has held more debt relative to income.
- Although 1980s families were very young during the bubble, they also look highly debt-burdened.

# Housing Crisis? Looks Plausible

Homeownership Rate, Predicted vs. Actual, by Age and Birth Cohorts

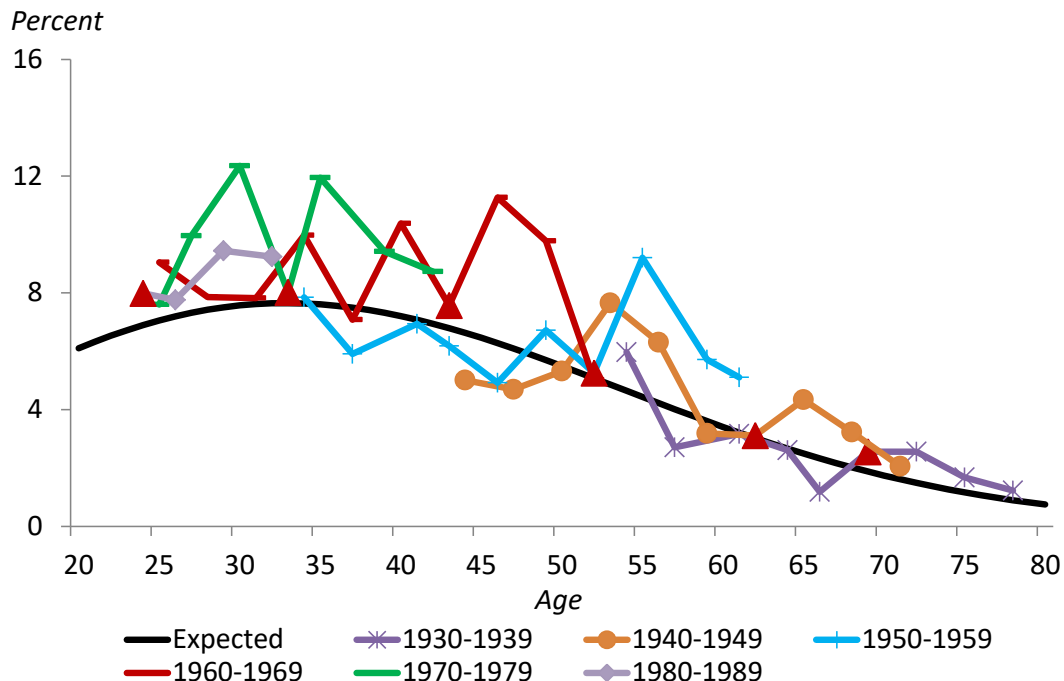


Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.

- Families born in the 1960s and 1970s had high homeownership rates prior to the Great Recession.
- By 2016, those groups' homeownership rates had fallen significantly below predicted levels.
- This does not explain lower wealth for the 1980s cohort.

# Financial Hardship? Looks Elevated

Delinquency Rate, Predicted vs. Actual, by Age and Birth Cohorts



Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.

- Debt delinquency rates have been high for all cohorts born in 1960 and later, a sign of burdensome debt.
- Both the 1970s and 1980s cohorts have always exceeded the delinquency benchmark.



# Housing Was Key for 1960s, 1970s Cohorts

- Together, high debt ratios, high homeownership rates and high delinquency rates spelled trouble for families born in the 1960s and 1970s.
- Housing and mortgage debt likely played a role in the wealth losses seen during the Great Recession.
- Conversely, as home values recovered in recent years, many of these homeowners benefited, as evidenced by closing gaps between actual and predicted wealth.

# Families Born in the 1980s Are Different

- In 2007, only 19 percent of 1980s families were homeowners.
- Instead of mortgages, student loans, credit card debt, and auto loans were a key source of leverage.
- Unlike stocks and real estate, these debt-financed assets haven't rapidly appreciated in the last few years.
- Recall that the 1980s cohort was unusual in falling further behind wealth benchmarks from 2010-2016.

# Is the 1980s a “Lost Generation”?

- The high returns on housing and financial assets in recent years are unlikely to continue in future years.
- Thus, catching up to the wealth benchmarks set by earlier generations is possible – but no simple feat.
- Income and homeownership trends have been unexceptional for the 1980s cohort so far.
- The challenge faced by the typical 1980s family should not be underestimated.

# A Case for Optimism

- Two key factors on the side of 1980s-born families are time and education.
- These families have many more years to earn, save and accumulate wealth.
- This is the most highly educated generation; it's possible that their income and wealth trajectories will be steeper.
- It's far too soon to know whether families born in the 1980s will catch up; we will have to wait and see.

# If You Were Born in the 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.

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# AUDIENCE Q & A

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