

# Coming of Age in the Late 1960s versus the Late 1980s: Differences in Wealth Accumulation of Young Households

Daniel Cooper

Federal Reserve Bank of Boston

May 9, 2014

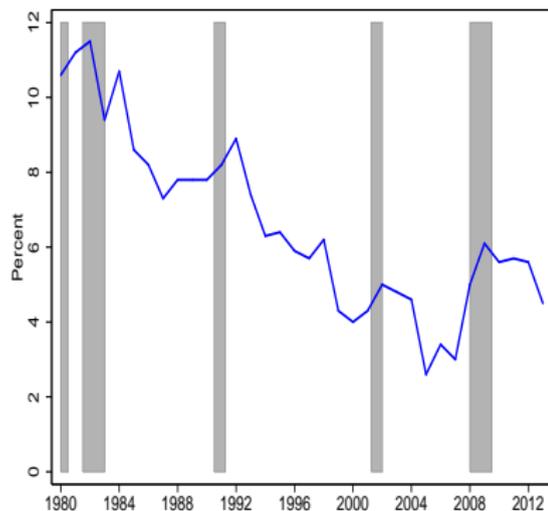


## Standard Disclaimer Applies

The analysis and views in this paper are my own and do not necessarily represent the views of the Federal Reserve Bank of Boston or the Federal Reserve System

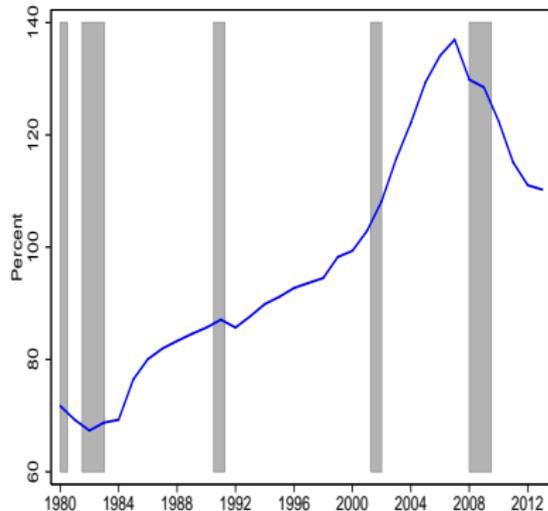
# Wealth Accumulation (Decumulation) in the U.S.

## Saving Rate



Source: Bureau of Economic Analysis /Haver Analytics

## Household Debt-to-Income

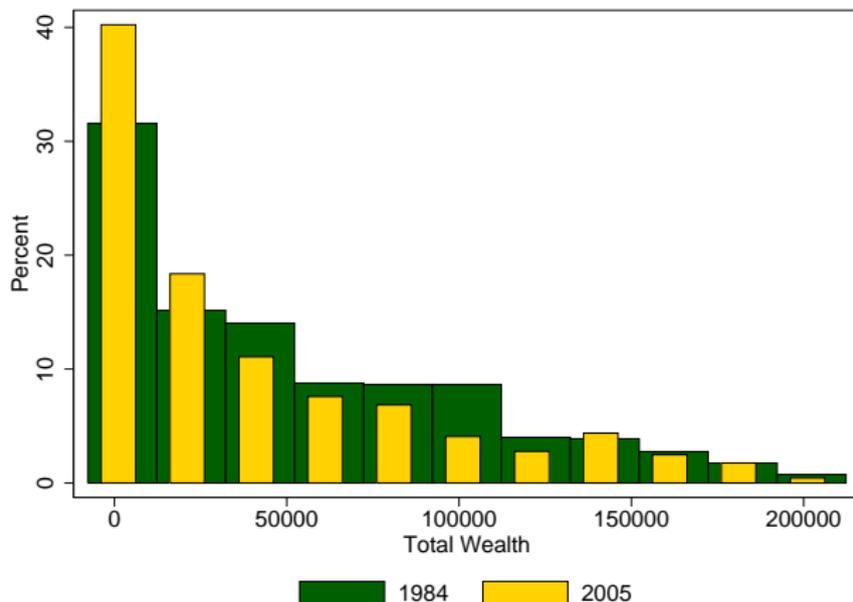


Source: Federal Reserve Board and Bureau of Economic Analysis /Haver Analytics

## Research Question

- Has the decline in the saving rate, increase in household indebtedness, and/or other factors like rising income inequality lead to a substantial change in wealth accumulation for young households over time?

## Unconditionally yes (for those 35 to 40 years old)...



...but does this wealth shift persist after controlling for factors that may impact households' asset accumulation over time?

These factors include:

- Changing access to work related retirement plans
- Increased access to credit (consumer and housing)
- Stock market fluctuations
- Shifts in the pattern and/or timing of homeownership

# Why do we care about declining wealth accumulation for young adults?

- We care about inequality and intergenerational mobility
  - Aside: Charles and Hurst (2003) show that children of parents with limited wealth can be upwardly mobile
- We care about households' ability to use savings to help “smooth through” adverse economic shocks
- Recent cohorts of young households might be disadvantaged financially relative to previous cohorts

# This Paper

- Examines whether there has been a change in wealth holdings over time for young households (those 35-to-40 years old) beyond what standard predictors of wealth accumulation would suggest

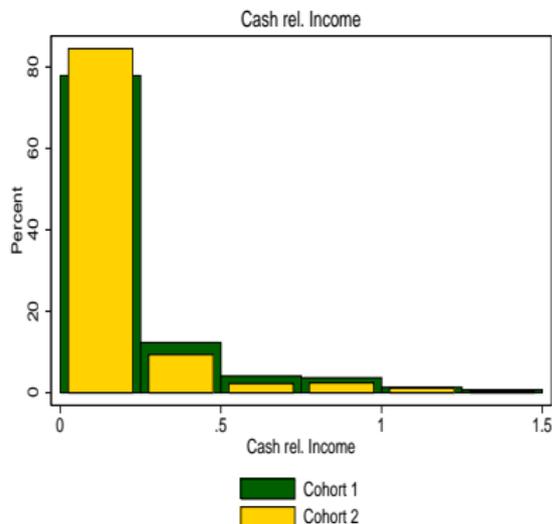
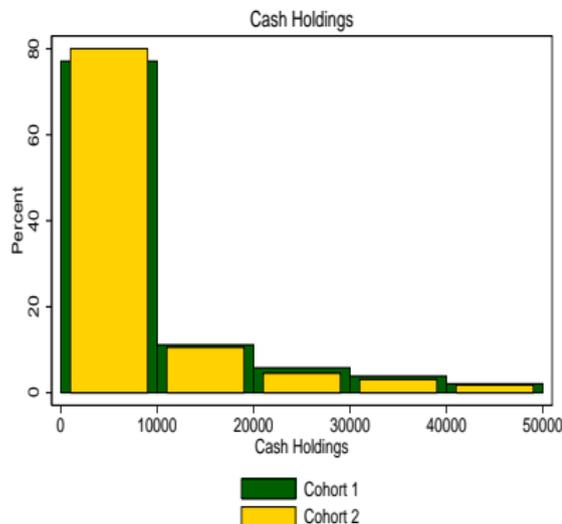
## Data: Panel Study of Income Dynamics

- Representative longitudinal household study starting in 1968 that tracks households and their offspring over time
- Started with 4800 households, now close to 9000 (2011)
- Rich set of demographic, employment, and financial characteristics
- Extensive wealth data available in 1984, 1989, 1994, and 1999 onward
- Focus primarily on households where the head is 35-to-40 years old

## Unconditional Results: Summary Statistics (Households 35-40)

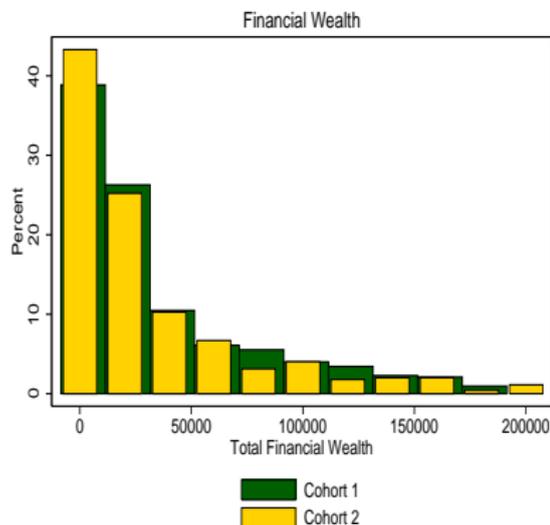
	Cohort 1 (1984)		Cohort 2 (2005)	
	mean	median	mean	median
Total Wealth	70621	43676	71584	28229
Financial Wealth	33701	12327	28459	8065
Cash Holdings	10641	3858	9781	3585
Zero Fin. Wealth (% with)	15.7	0.0	23.9	0.0
Zero Tot. Wealth (% with)	9.4	0.0	15.1	0.0
Homeowner	0.69	1.00	0.65	1.00
Family Income (after tax)	46780	43659	55715	45573
Have Ret. Plan at Work (%)	47.5	0.0	42.7	0.0

# Unconditional Results: Asset values have decreased across the wealth distribution—even cash holdings have declined somewhat...

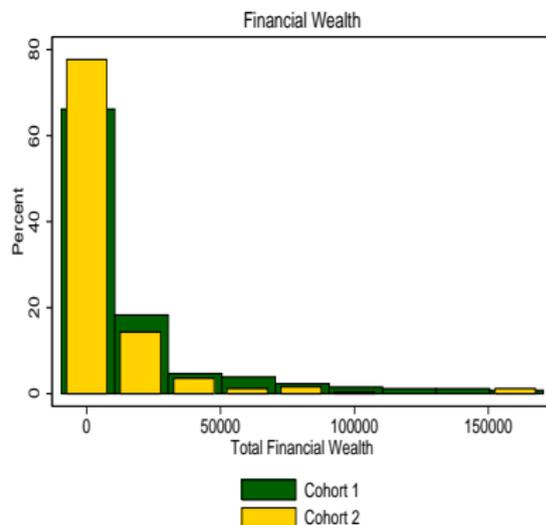


...and the wealth accumulation patterns persist across groups such as homeowners versus renters

### Owners



### Renters



## Conditional Analysis: Empirical Approach

$$w_i = \alpha_0 + \alpha_1 \gamma_i + \beta \mathbf{X}_i + \eta \mathbf{X}_{i, \mathbf{p}} + \epsilon_i$$

- $w_i$  : Wealth Measure
- $\gamma_i$  : Cohort
- $\mathbf{X}_i$  : Household Controls
- $\mathbf{X}_{i, \mathbf{p}}$  : Parental Controls

## Conditional Results: Financial Wealth (level)

	(1)	(2)	(3)	(4)
Cohort 2	-0.536*	-1.377**	-1.482**	-1.357
	(0.30)	(0.62)	(0.66)	(0.91)
After Tax Income (in 10000s)		0.728***	0.730***	0.817***
		(0.08)	(0.08)	(0.13)
Inheritances		0.079**	0.112***	0.066
		(0.03)	(0.03)	(0.04)
Chg. S&P 500 Index		0.169	0.273*	0.351*
		(0.14)	(0.15)	(0.19)
Homeowner Age 30			0.636**	0.337
			(0.32)	(0.51)
Parent homeowner				0.606
				(0.53)
White		0.630**	0.544	0.221
		(0.31)	(0.35)	(0.56)
N	1208	1208	1079	486
Adj. R-Squared	0.002	0.223	0.235	0.245

## Conditional Results: Financial wealth relative to income

	(1)	(2)	(3)	(4)
Cohort 2	-0.194*** (0.05)	-0.239** (0.11)	-0.241** (0.12)	-0.190 (0.16)
Inheritances		0.016** (0.01)	0.023*** (0.01)	0.024 (0.01)
Chg. S&P 500 Index		0.020 (0.02)	0.038 (0.03)	0.055 (0.03)
Homeowner Age 30			0.206*** (0.06)	0.217** (0.09)
Parent homeowner				0.071 (0.11)
White		0.159** (0.07)	0.130* (0.07)	0.053 (0.10)
N	1205	1205	1077	486
Adj. R-Squared	0.011	0.068	0.089	0.040

## Conditional Results: Cash holdings relative to income

	(1)	(2)	(3)	(4)
Cohort 2	-0.058*** (0.02)	-0.060* (0.04)	-0.072* (0.04)	-0.054 (0.05)
Inheritances		0.001 (0.00)	0.001 (0.00)	0.001 (0.00)
Chg. S&P 500 Index		0.003 (0.01)	0.007 (0.01)	0.010 (0.01)
Homeowner Age 30			0.038** (0.02)	0.018 (0.03)
Parent homeowner				0.010 (0.03)
White		0.033 (0.02)	0.021 (0.03)	0.008 (0.03)
N	1084	1084	964	437
Adj. R-Squared	0.01	0.03	0.02	0.02

## Conditional Results: Additional Controls

	Fin. Wealth to Inc.		Tot. Wealth to Inc.	
	(1)	(2)	(3)	(4)
Cohort 2	-0.238**	-0.290**	-0.219	-0.265
	(0.12)	(0.14)	(0.23)	(0.28)
Have Pension	-0.090	-0.132*	-0.011	-0.047
	(0.06)	(0.07)	(0.10)	(0.12)
Cohort 2 x Have Pension		0.099		0.087
		(0.11)		(0.19)
Inheritances	0.023***	0.023***	0.030***	0.030***
	(0.01)	(0.01)	(0.01)	(0.01)
Chg. S&P 500 Index	0.037	0.038	0.078	0.079
	(0.03)	(0.03)	(0.05)	(0.05)
Homeowner Age 30	0.213***	0.215***	0.746***	0.748***
	(0.06)	(0.06)	(0.09)	(0.09)
N	1075	1075	1112	1112
Adj. R-Squared	0.09	0.09	0.16	0.16

## Concluding Thoughts

- Wealth accumulation of young households appears to have fallen over time
- Results seem substantial and fairly robust although the effects are not always precisely estimated
  - Similar findings if consider 30 to 40 year old households
- More work needs to be done to understand the cause of the cohort-based wealth decline
- Understanding the cause is important for evaluating the economic implications