Financial Decisions of Young Households During the Great Recession

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Research Symposium , the Federal Reserve Bank of St. Louis
The Balance Sheets of Younger Americans: Is the American Dream at Risk?
May 9, 2014

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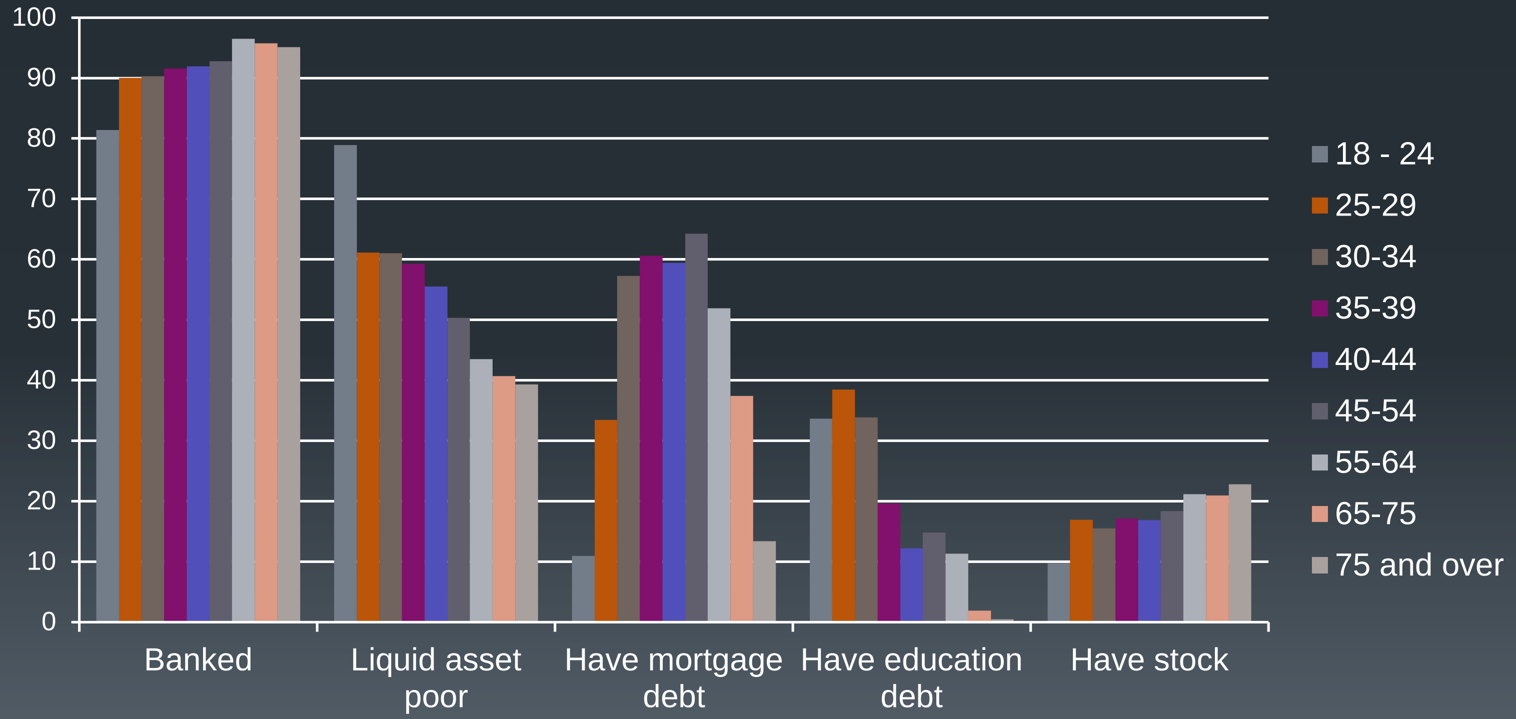
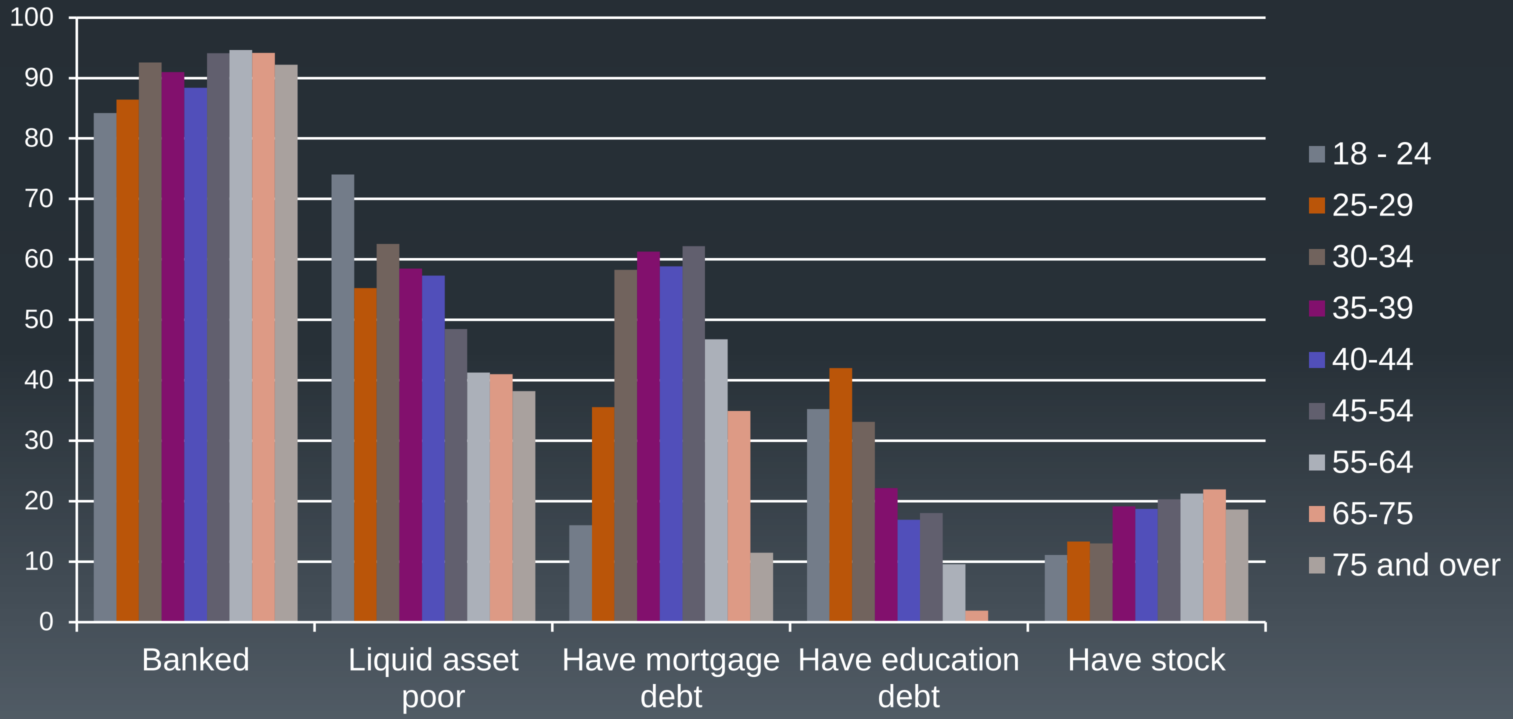
Financial Decisions in 2007



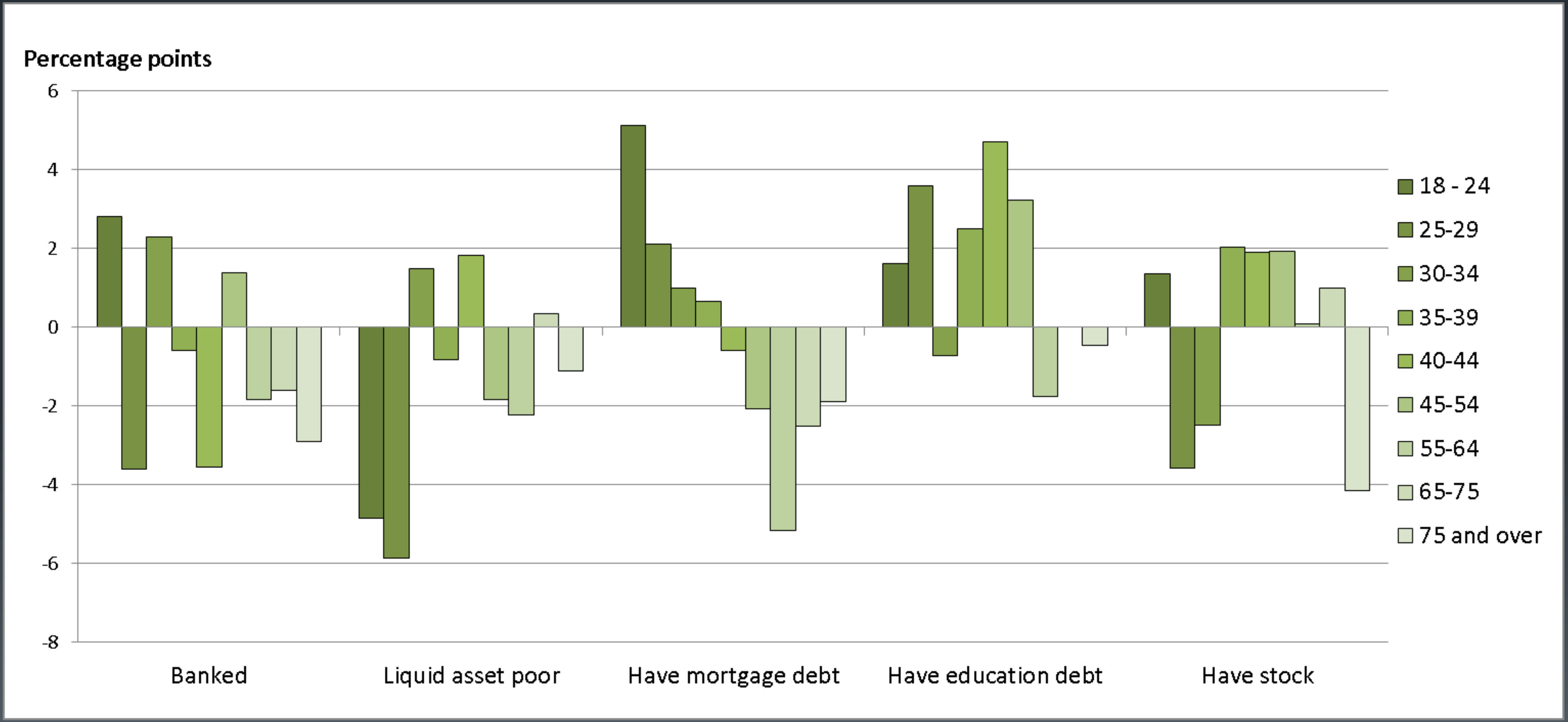
Source: Survey of Consumer Finances, 2007

Financial Decisions in 2009



Source: Survey of Consumer Finances, 2009 follow-up

Changes in financial decisions by age from 2007 to 2009



Source: Survey of Consumer Finances, 2007-2009

Outline

- What are the outcomes of households' decisions during the Great Recession?
- How does a household's lifecycle position (age as a proxy) influence financial decisions?
- What factors contribute to the choices made by younger and older households?

Data

- Survey of Consumer Finances 2007-2009 Panel
- Sample size 3,857; Five implicates (19,285)
- Re-interview rate is 89%
- 34% respondents were 40 or younger in 2007
- 29% respondents were 40 or younger in 2009

Between 2007 and 2009

- Net worth and asset values fell for both younger and older households
  - Value of “liquid” assets rose slightly
- Debt increased for younger families and slightly decreased for older households
  - Mortgage debt rose for younger households and fell for older families
  - Education loan debt increased for both age groups

Bank Account Ownership Outcomes

	40 and Under		Over 40	
	To 2009		To 2009	
	Banked	Unbanked	Banked	Unbanked
From 2007	%	%	%	%
Banked	84.6	4.8	90.9	3.3
Unbanked	4.5	6.1	2.9	3.0

Cell values represent the baseline probability of being in one of the four possible outcomes over the two periods for each group in 2007 and 2009.

Liquid-Asset Poverty Outcomes

	40 and Under		Over 40	
	To 2009		To 2009	
	Liquid-Asset Poor	Not Liquid-Asset Poor	Liquid-Asset Poor	Not Liquid-Asset Poor
From 2007	%	%	%	%
Liquid-Asset Poor	51.0	11.8	35.6	10.7
Not Liquid-Asset Poor	9.7	27.5	9.8	43.9

Cell values represent the baseline probability of being in one of the four possible outcomes over the two periods related to each sample group, 2007-2009.

Mortgage Loan Outcomes

	40 and Under		Over 40	
	To 2009		To 2009	
	Mortgage	No Mortgage	Mortgage	No Mortgage
From 2007	%	%	%	%
Mortgage	40.4	4.7	43.8	5.5
No Mortgage	6.5	48.5	2.7	48.1

Cell values represent the baseline probability of being in one of the four possible outcomes over the two periods for each group in 2007 and 2009.

Education Loan Outcomes

	40 and Under		Over 40	
	To 2009		To 2009	
	Education Loan	No Education Loan	Education Loan	No Education Loan
From 2007	%	%	%	%
Education Loan	24.0	5.1	6.9	2.8
No Education Loan	7.5	63.4	3.7	86.6

Cell values represent the baseline probability of being in one of the four possible outcomes over the two periods for each group in 2007 and 2009.

Stock Ownership Outcomes

	40 and Under		Over 40	
	To 2009		To 2009	
	Stocks	No Stocks	Stocks	No Stocks
From 2007	%	%	%	%
Stocks	9.8	5.7	14.2	5.6
No Stocks	5.2	79.2	6.0	74.1

Cell values represent the baseline probability of being in one of the four possible outcomes over the two periods for each group in 2007 and 2009.

Empirical Model

- **Bivariate probit model:**

  $y^*_{i0} = \beta'\mathbf{x}_{i0} + \varepsilon_{i0} + u_i$

  $y^*_{i1} = \beta'\mathbf{x}_{i1} + \alpha'(\Delta\mathbf{x}_i) + \varepsilon_{i1} + u_i$

  with correlation across the two periods: $\rho = \sigma^2_u / (1 + \sigma^2_u)$

  Standard errors were adjusted for the five implicates with RII
- **Economic factors** of influence include: family income, educational level, homeownership, employment
- **Socio-demographic factors** of influence include: age group, marital status, number of children, racial and ethnicity
- **Behavioral and change factors** of influence include: loss of job, drop in liquidity, becoming uncovered by health insurance, becoming unmarried, becoming a longer-term planner, stated risk preference, and becoming an extensive credit shopper

Results

Partial Effects for 40 and Under

	Outcome=1 (2007) Outcome=1 (2009)	*Outcome=0 (2007) Outcome=1 (2009)*
Dependent Variables	**Covariate: Less40**	**Covariate: Less40**
Pr(Banked)	-.00549	-0.00049
	(0.004)	(0.000)
Pr(Liquid-Asset Poor)	.03804***	.05356***
	(0.009)	(0.012)
Pr(Mortgage Loan)	-.01687*	-.01292*
	(0.010)	(0.008)
Pr(Education Loan)	.03820***	.07385***
	(0.005)	(0.008)
Pr(Owning Stock)	-.01191*	-.01799*
	(0.007)	(0.011)

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Bank Status

- Factors that have similar impact for both the younger and older
  - Income (+), homeownership (+), education (+)
  - Black (-), Hispanic (-)
- Factors that have different impacts for the younger and older

	Banked in 2007 and 2009		Unbanked in 2007 and banked in 2009	
	Younger	**Older**	**Younger**	**Older**
Loss in liquidity		-.009*		
Loss in health insurance		-.011**		-.0008**
Willing to take risk		.0003*		

*** p<0.01, ** p<0.05, * p<0.1

Liquid Asset Poverty

- Factors that have similar impact for both the younger and older
  - Income (-), education (-)
- Factors that have different impacts for the younger and older

	Liq-asset poor in both years		Liq-asset poor in 2009 only	
	Younger	**Older**	**Younger**	**Older**
Black		.162***	-.066**	.094***
Hispanic		.071***		
Asian and other race	-.241***		.168*	
Divorced or separated	.077**		.050**	
Number of children		.012***		.021***
Loss in health insurance		.031**		.052**
Become a long-term planner		.022**		.037**
Homeowner		-.083***		-.141***

*** p<0.01, ** p<0.05, * p<0.1

Mortgage Loans

- Factors that have similar impact for both the younger and older
  - Income (+), education (+) , number of children (+)
  - Becoming an extensive credit shopper (-)
- Factors that have different impacts for the younger and older

	Have a mortgage in both years		Get a mortgage by 2009	
	Younger	**Older**	**Younger**	**Older**
Black	-.222***		.119*	
Hispanic	-.172***			
Asian and other race	-.127*			
Willing to take risk		.042***		.030***
Loss in liquidity		.025*		.017*
Become a long-term planner		-.031**		-.022**

*** p<0.01, ** p<0.05, * p<0.1

Education Loans

- Factors that have similar impact for both the younger and older
  - Becoming an extensive credit shopper (-)
- Factors that have different impacts for the younger and older

	Have an education loan in both years		Get an education loan by 2009	
	Younger	**Older**	**Younger**	**Older**
Hispanic	-.074*			
Asian and other race	-.211***		.085*	
Income		.003**		.006**
Number of children		.018***		.037***
Divorced or separated		-.015*		-.032*
Homeowner		-.009*		-.019*
Black		.058***		.022**

*** p<0.01, ** p<0.05, * p<0.1

Participation in the Stock Market

- Factors that have similar impact for both the younger and older
  - Income (+), education (+), willingness to take risk (+)
- Factors that have different impacts for the younger and older

	Have stock in both years		**Enter the stock market by 2009**	
	Younger	**Older**	**Younger**	**Older**
Black	-.033*	-.152***		-.036*
Hispanic	-.059***	-.114***		-.047**
Become unemployed		-.018*		-.024*
Divorced or separated		.026*		.034*

*** p<0.01, ** p<0.05, * p<0.1

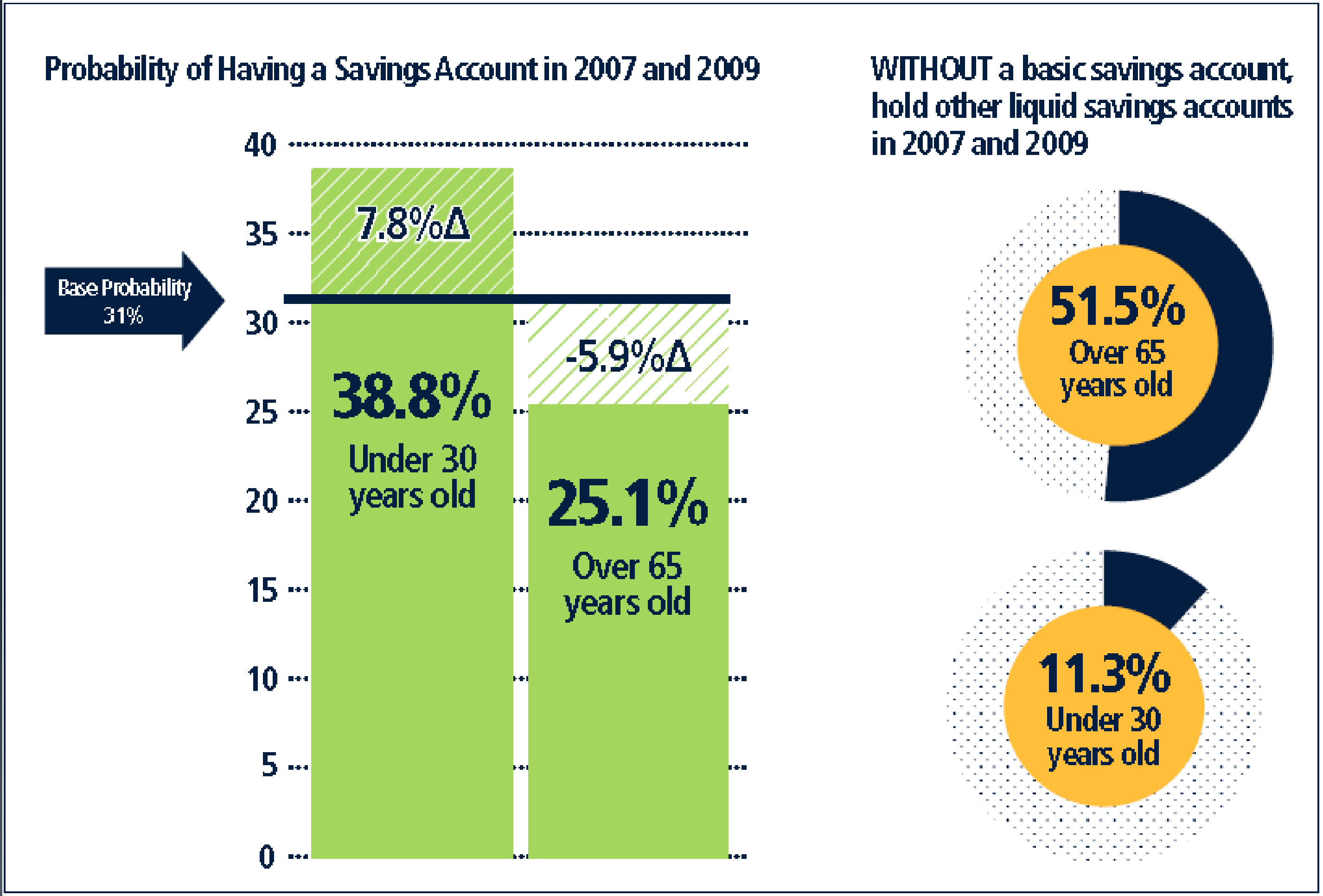
Summary and Policy Implications

- Younger households differed from older households in their financial behaviors during the Great Recession
- The influence of income, homeownership, education, credit shopping behavior, and risk preferences on younger households' financial decisions are similar to those on older households
- Race/ethnicity, number of children, and changes in health insurance coverage, liquidity constraints, employment status, and marital status have different influences on the younger versus older households

Future Research

- Explore alternative age cutoffs and the distribution of financial decisions by age

Savings Account Ownership Example



Omitted: 30< Age < = 64

Other liquid savings accounts include money market accounts, CDs, and brokerage call accounts.

Future Research

- Explore alternative age cutoffs and the distribution of financial decisions by age
- Investigate race/ethnicity dynamics
- Refine the specification of the mortgage and education loan models and examine the interactions among financial decisions
- Compare with studies that analyze financial decisions over financially stable timeframes or different recessions and studies that follow age cohorts

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