Trends and Patterns in the Asset Holdings of Young Households

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Motivation

- CD Research Conference 2013:
  - Emmons and Noeth (2013) look at losses by young households during the Great Recession and find that homeownership rates among younger households were elevated in 2007 relative to earlier years
- FDIC Consumer Research Symposium 2013:
  - McKernan, Ratcliffe, Steuerle, and Zhang (2013) find that the young and people of color lost the most wealth proportionately, and were not on good paths prior to the Great Recession

This Paper

- Examine young households' decisions to hold a range of asset types, including financial and nonfinancial assets
  - How do asset holdings vary with age and other household characteristics?
  - Is there a profile for acquisition of different asset types for young households?
  - Have ownership patterns changed in recent years?

- Implications? Composition of asset ownership affects:
  - Long-term economic mobility
  - Ability to weather temporary financial shocks

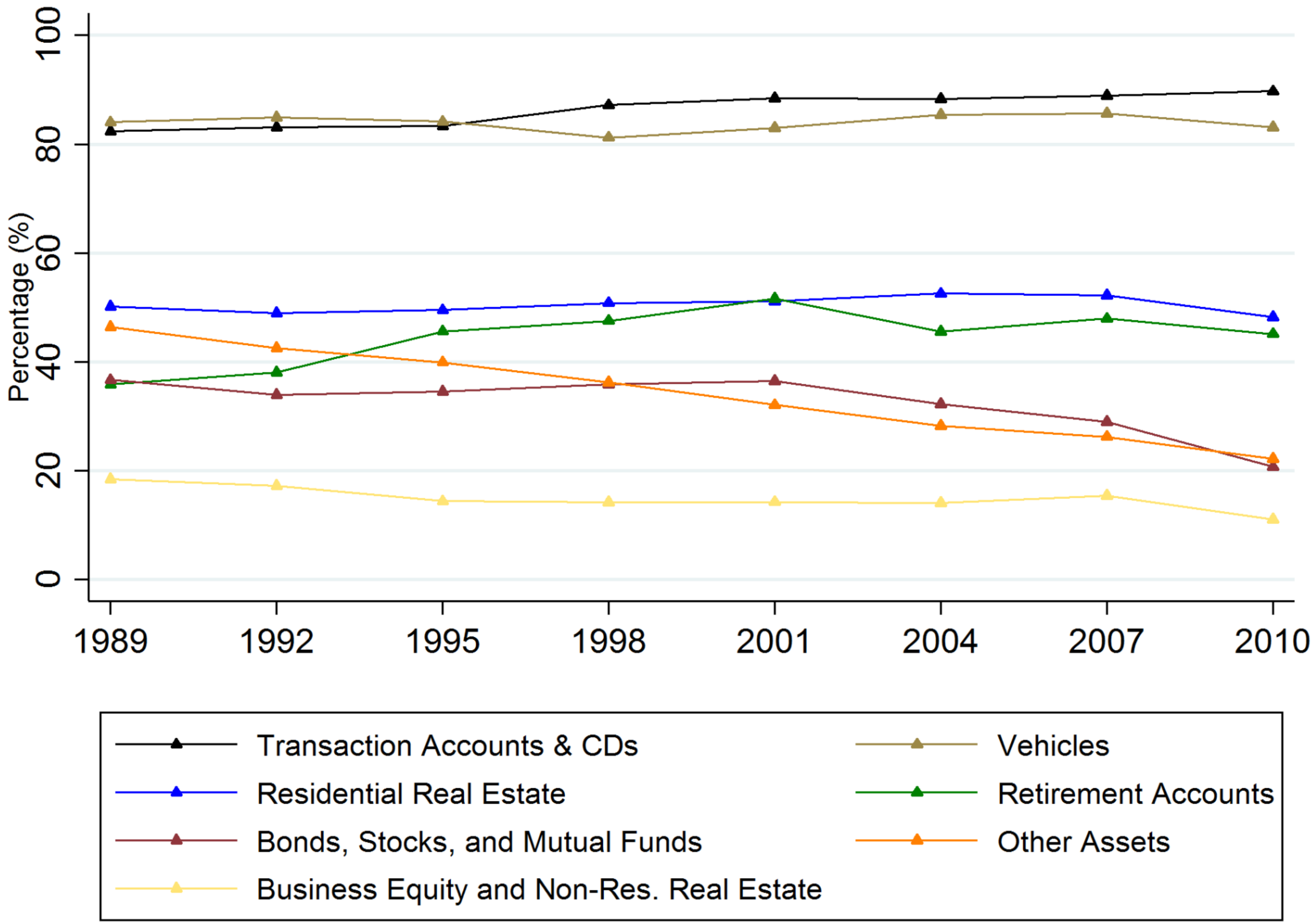
Approach & Related Work

- Examine portfolio composition using triennial Survey of Consumer Finances (SCF)
  - Ages 18 – 41, 6 year age groups: 18-23; 24-29; 30-35; 36-41
  - 1989 to 2010
- Gouskova, Juster and Stafford (2006) examine the asset types that comprise household portfolios in the Panel Study of Income Dynamics (PSID) from 1984 to 2001
- Poterba and Samwick (2003) use the SCF to explore portfolio composition using probit models with particular attention to tax treatment of assets

Asset Categories

Broad Asset Category	Assets Included
Transaction Accounts & CDs	checking, saving, money market deposit account, money market mutual fund, call account or certificate of deposit (CD)
Vehicles	auto, motor home, RV, airplane, or boat
Residential Real Estate	owner-occupied or other residential real estate
Retirement Accounts	quasi-liquid retirement accounts including IRAs, Keoghs, thrift accounts, 401ks, 403bs, and supplemental retirement accounts
Bonds, Stocks, and Mutual Funds	bonds (including savings bonds), stocks, or non-money market mutual funds
Business Equity & Nonresidential Real Estate	business equity or nonresidential real estate
Other Assets	cash value of life insurance, other managed assets (e.g. trusts, annuities) and other financial or nonfinancial assets

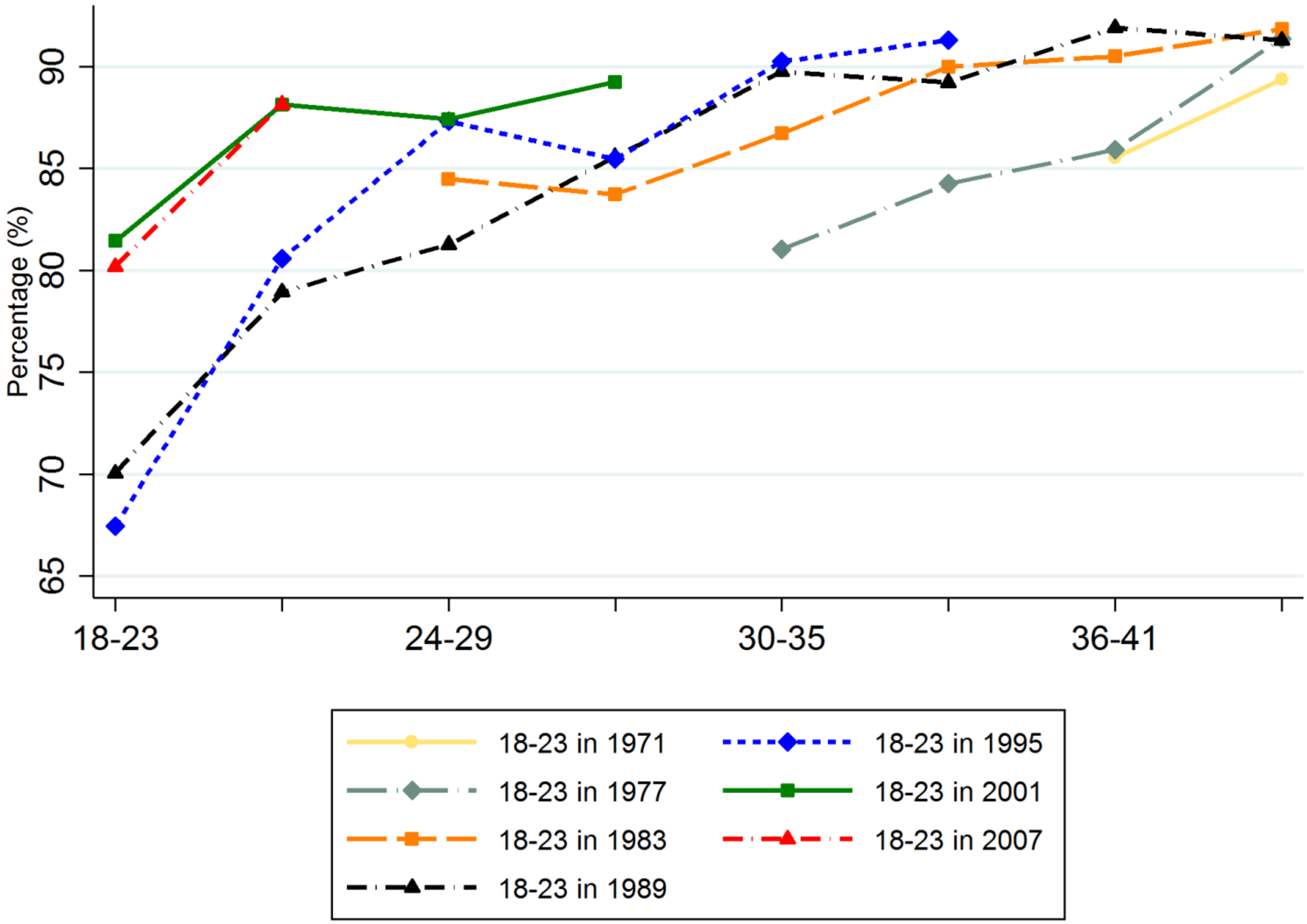
Percentage of households owning each asset group, ages 18-41



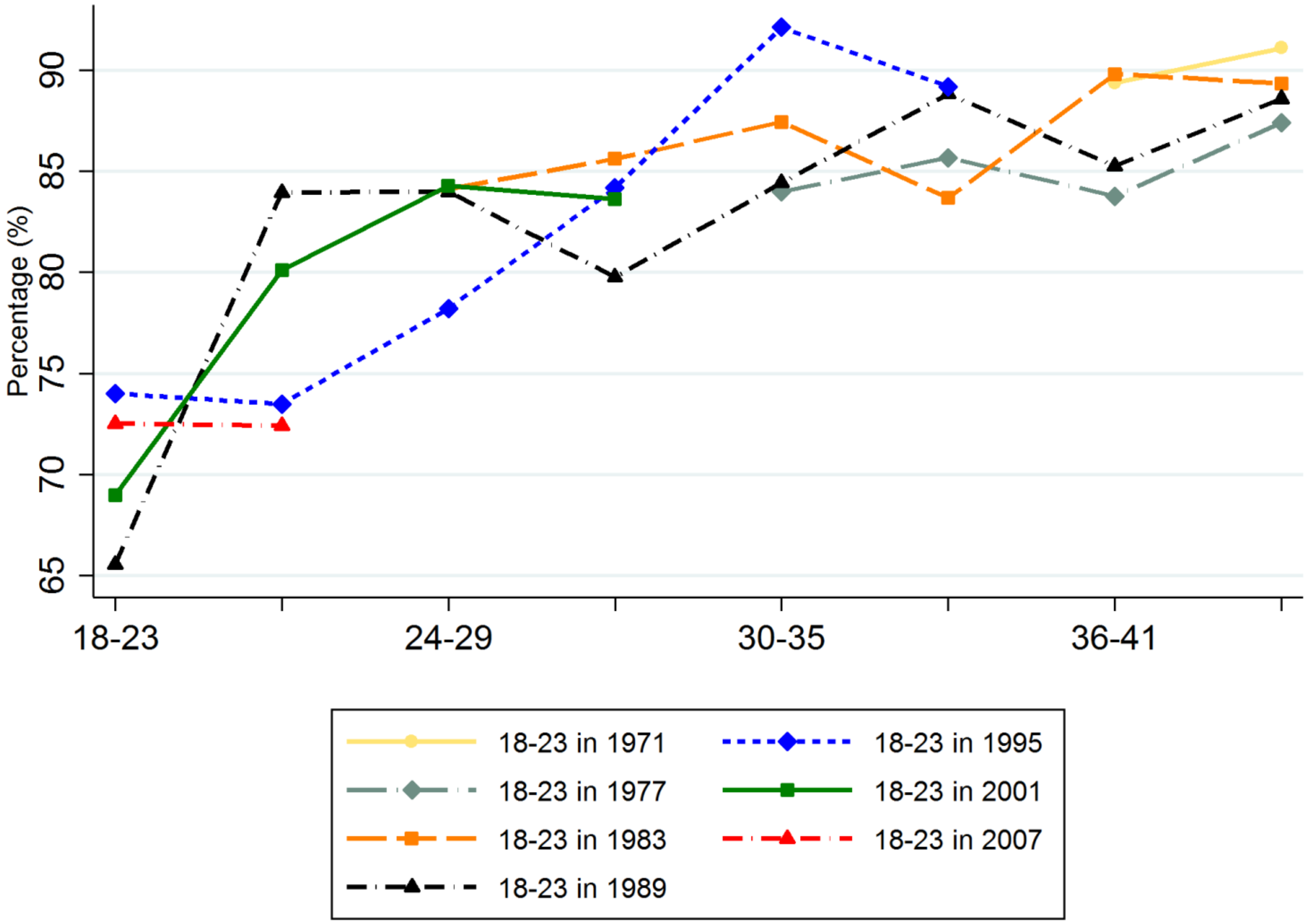
Cohort Classification

Birth Years	**Year that cohort was ages 18-23**	**SCF waves when full cohort is within ages 18-41 (44)**
1948-1953	1971	1989 (1992)
1954-1959	1977	1989-1995 (1998)
1960-1965	1983	1989-2001 (2004)
1966-1971	1989	1989-2007 (2010)
1972-1977	1995	1995-2010
1978-1983	2001	2001-2010
1984-1989	2007	2007-2010

Transaction Accounts & CDs

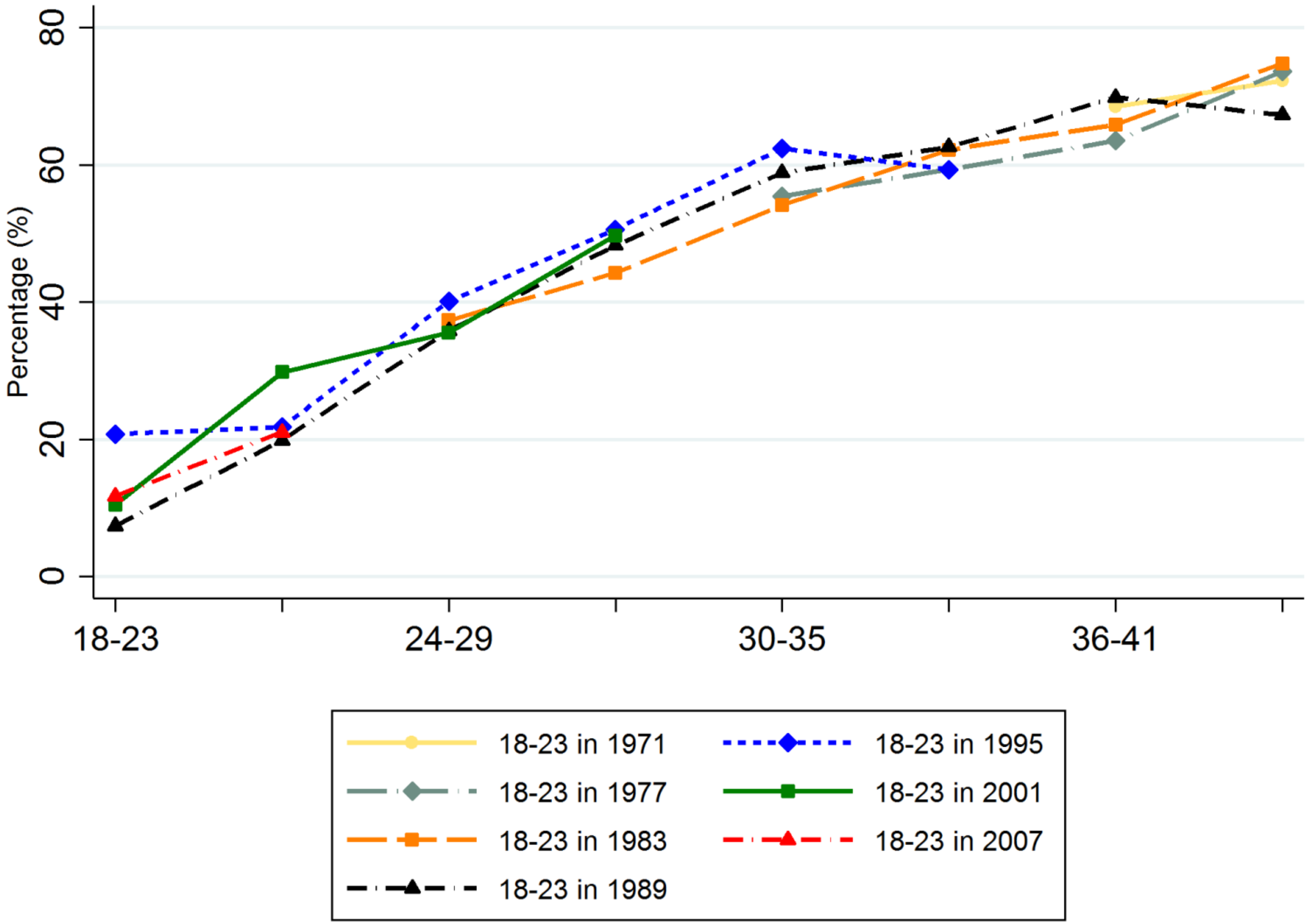


Vehicles

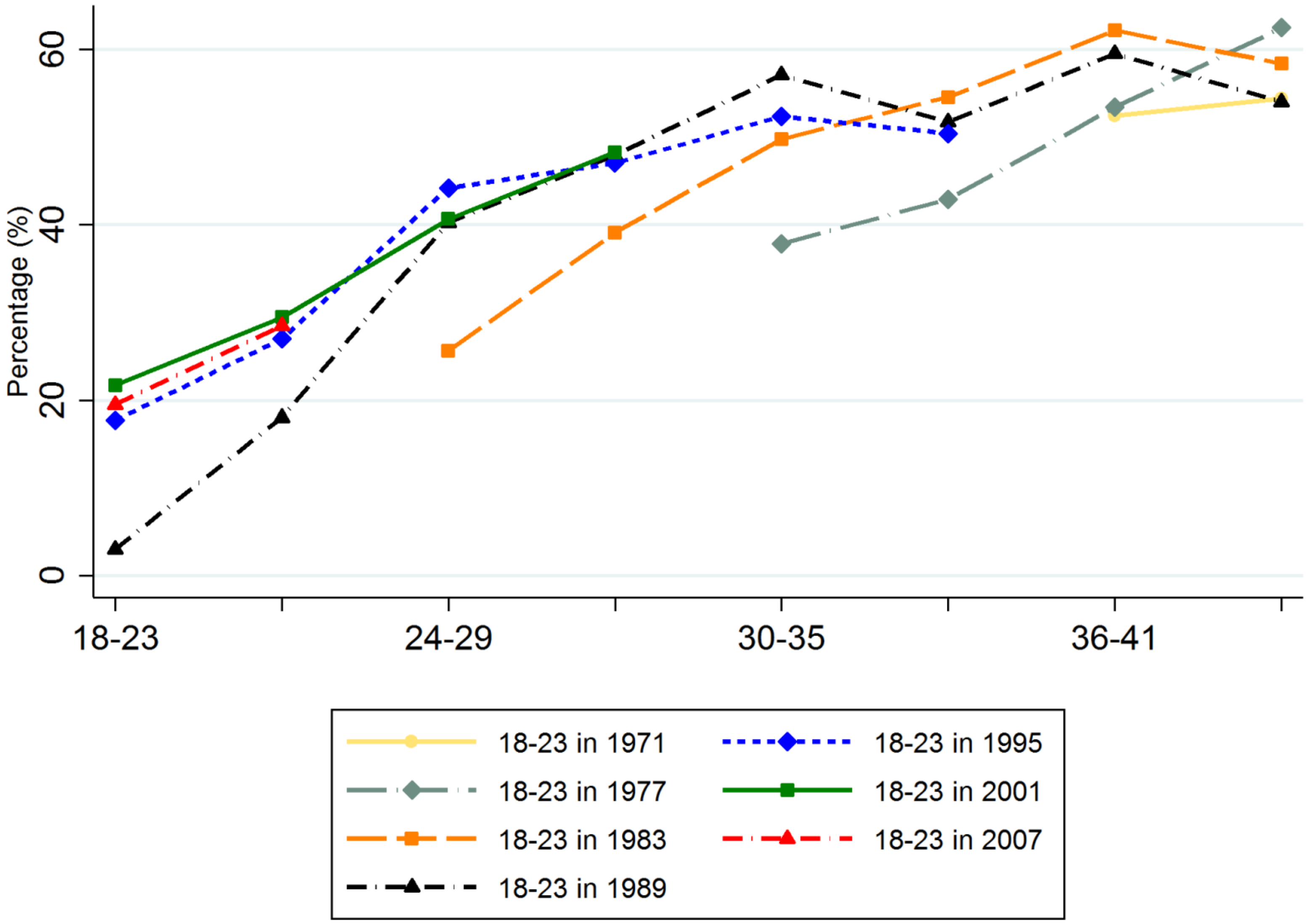


Percentage (%)
65
70
75
80
85
90
18-23
24-29
30-35
36-41
18-23 in 1971
18-23 in 1977
18-23 in 1983
18-23 in 1989
18-23 in 1995
18-23 in 2001
18-23 in 2007

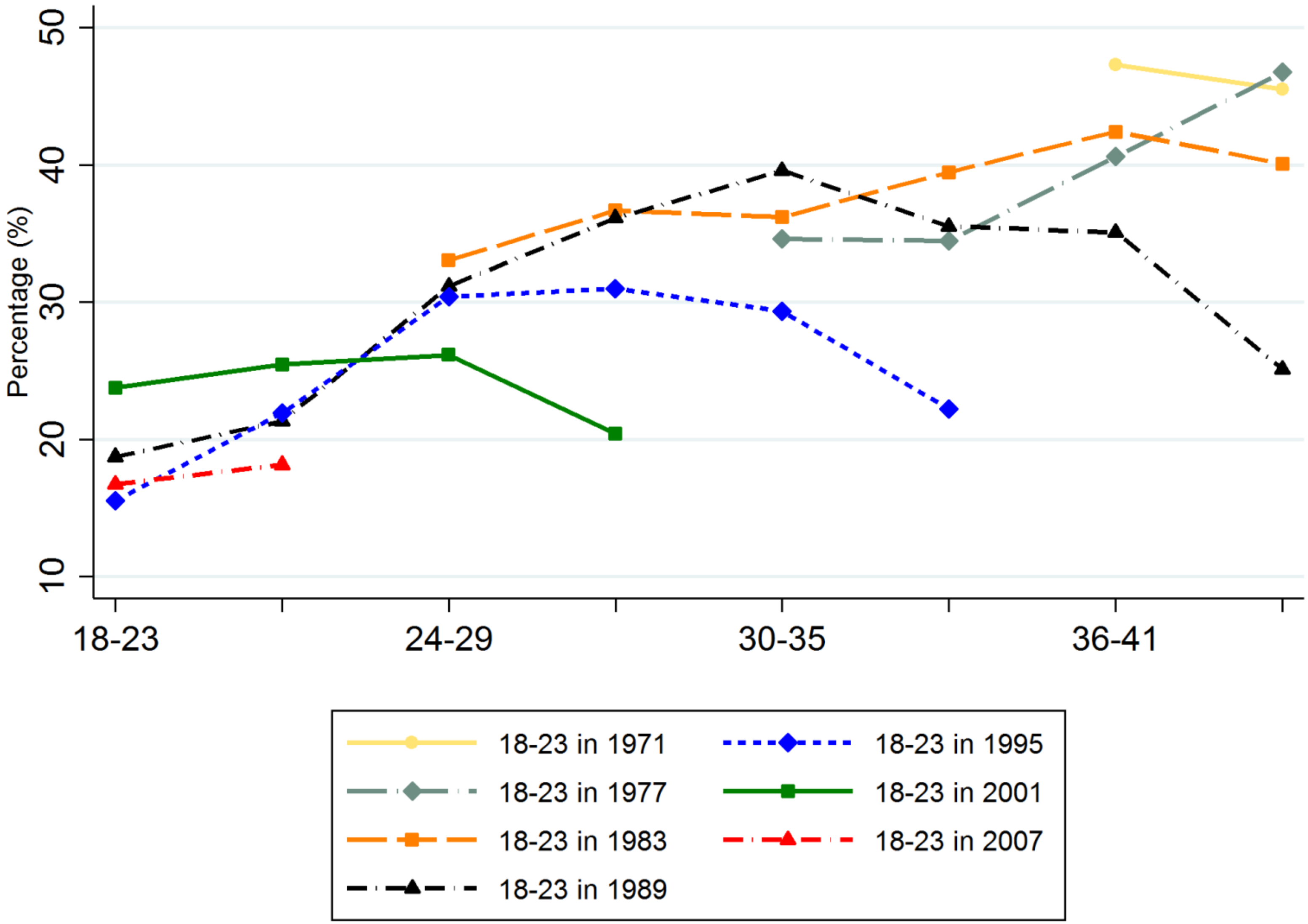
Residential Real Estate



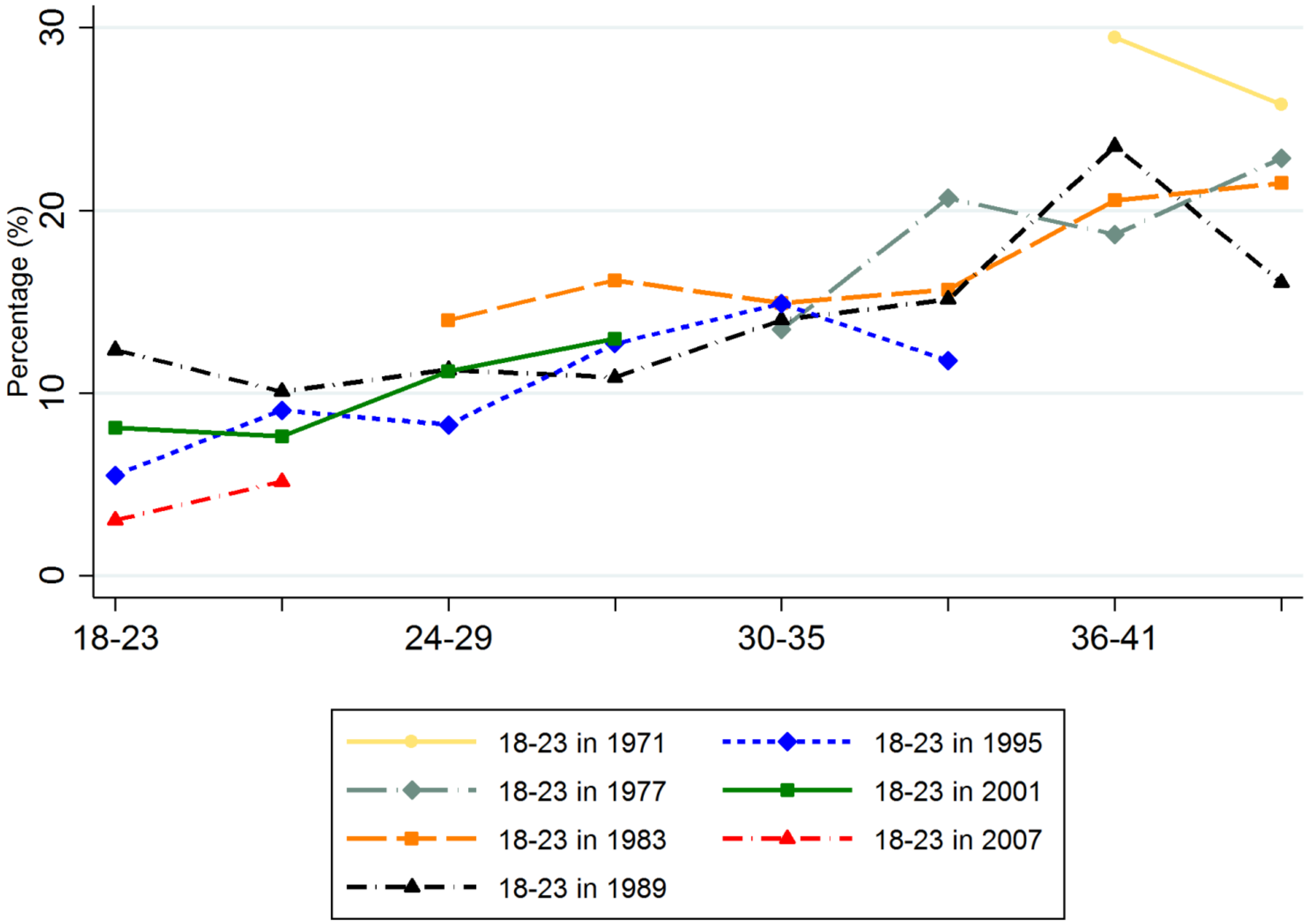
Retirement Accounts



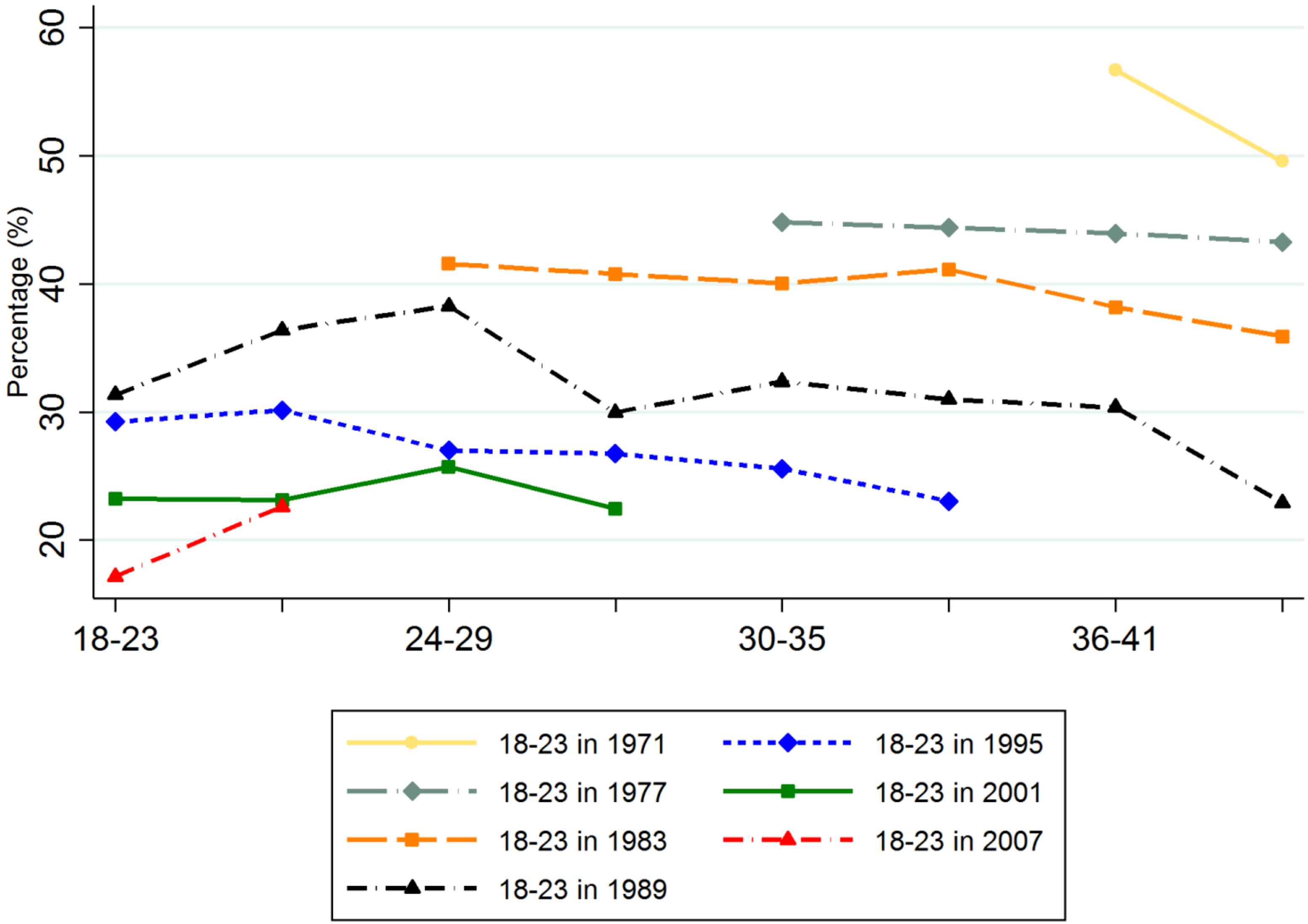
Bonds, Stocks, and Mutual Funds



Business Equity & Non-Residential Real Estate



Other Assets



Marginal Effects

Predicted probability of ownership at age 40

	Transaction Accounts & CDs	Vehicles	Residential Real Estate	Retirement Accounts	Bonds, Stocks and Mutual Funds	Business Equity & Nonres Real Estate	Other Assets
Education							
Head has a college degree	96.5%	88.3%	70.4%	67.2%	51.6%	34.6%	46.6%
Head does not have college degree	89.5%	87.7%	67.0%	55.2%	35.4%	27.6%	40.1%
Difference	*7.0%*	*0.7%*	*3.4%*	*12.0%*	*16.2%*	*7.0%*	*6.5%*
Race/Ethnicity							
White	93.8%	90.4%	71.7%	63.1%	46.9%	33.0%	45.2%
Nonwhite	86.6%	81.6%	59.2%	52.0%	30.1%	24.6%	36.5%
Difference	*7.1%*	*8.8%*	*12.5%*	*11.1%*	*16.8%*	*8.4%*	*8.7%*
Family structure							
Couple	91.7%	90.9%	72.7%	61.9%	43.8%	32.2%	43.1%
Single	90.5%	83.8%	61.4%	57.5%	42.6%	28.7%	43.7%
Difference	*1.2%*	*7.1%*	*11.3%*	*4.4%*	*1.2%*	*3.5%*	*-0.6%*

Note: Computed with models estimated using SCF years 1992-2010 with age set equal to 40.

Conclusion

- Many observed choices by young households to acquire and hold assets are consistent with what we may expect
  - Demographic characteristics are correlated with ownership of assets; relationships are supported by existing literature
  - Some of the observed trends over time are expected given changes in economic conditions – e.g.
    - Stock market rise of late 1990s (increase in holdings of retirement accounts)
    - Great Recession (declines in residential real estate; bonds, stocks, and mutual funds)

Implications

- Young households generally invest with a long time horizon in mind
  - Understanding their behavior in response to economic shocks may improve portfolio choice and management
  - As Wolff (2012) notes, though rates of return may be negative over a short-term (i.e., 2007 to 2010), long-term returns remain strongly positive and beat inflation (i.e., 1983 to 2010)
- In light of the Great Recession, we are reminded of the importance of examining what strategies for asset ownership are sustainable among vulnerable populations including young households

Citations

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