Discussant Comments

Financial Decisions of Young Households During the Great Recession

by Wenhua Di, Sherrie L.W. Rhine, William H. Greene, and Emily Ryder Perlmeter

Towards Healthy Balance Sheets: The Role of a Savings Account for Young Adults' Asset Diversification and Accumulation

by Terry Friedline, Paul Johnson, and Robert Hughes

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Key Questions

- Did young people behave differently than others during the Great Recession, and in ways that led to disproportionate financial distress?
- Does acquiring a savings account contribute (in a dynamic sense) to improvements in young people’s balance sheet outcomes?

Overarching Comments

1. Two great papers, both really capture the goals and overall spirit of this conference
2. Both papers clearly exhibit very careful statistical work on complex data sets
3. Both papers address tough questions that could have immediate policy implications
4. Both papers suggestive about prescriptive actions, but much more research and testing is needed

Are the Young Different?

- Researchers who work with wealth data are known to cite a legendary exchange:
- F. Scott Fitzgerald is said to have written, “The rich are very different from you and me”
- Ernest Hemingway is said to have answered, “Yes, they have more money”
- The two writers meant things like character and values, but (more boring) economists think about utility function parameters and risk aversion

So, Are the Young Different?

- These papers (and this conference) suggest a corresponding exchange on the young
- Some papers say, “The young are very different from you and me”
- Some papers respond, “Yes, they are at an earlier point in the lifecycle”
- Distinction here: Hemingway view focuses on how the environment faced by young people and their planning horizons are different, and how macro shocks interact with those differences

Differences by Age and Over Time

- Earnings uncertainty much higher for the young at all points in time, macro shifts proportional
- Young have non-retirement financial priorities, so participation in retirement plans predictably low
- Young (today) living in a world where education is more expensive (and more valuable?)
- Common macro shocks interacted with these understandable differences by age to generate predictable differences in outcomes over time

Figure 6. Estimated Variances of Permanent and Transitory Earnings Shocks by Age

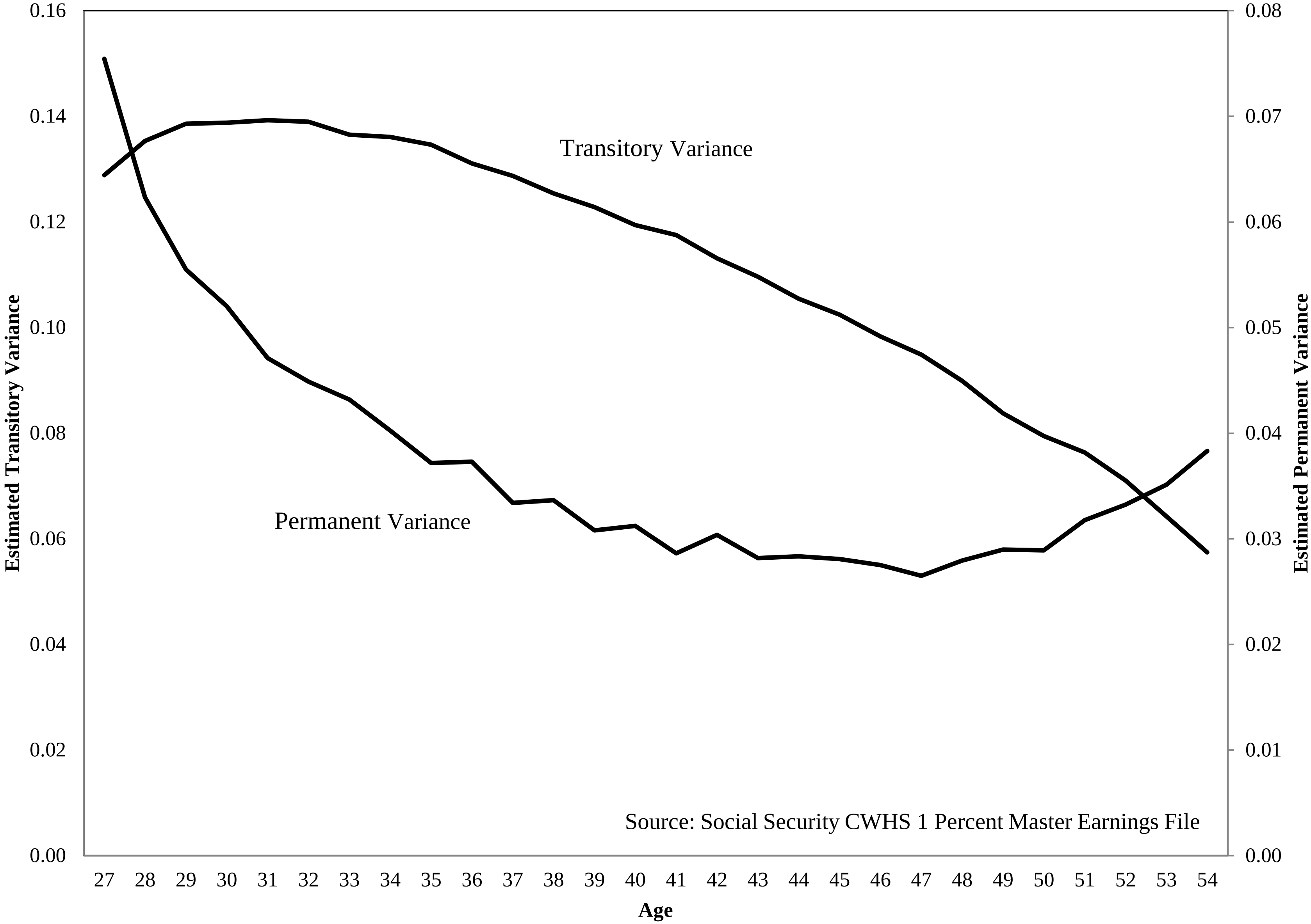
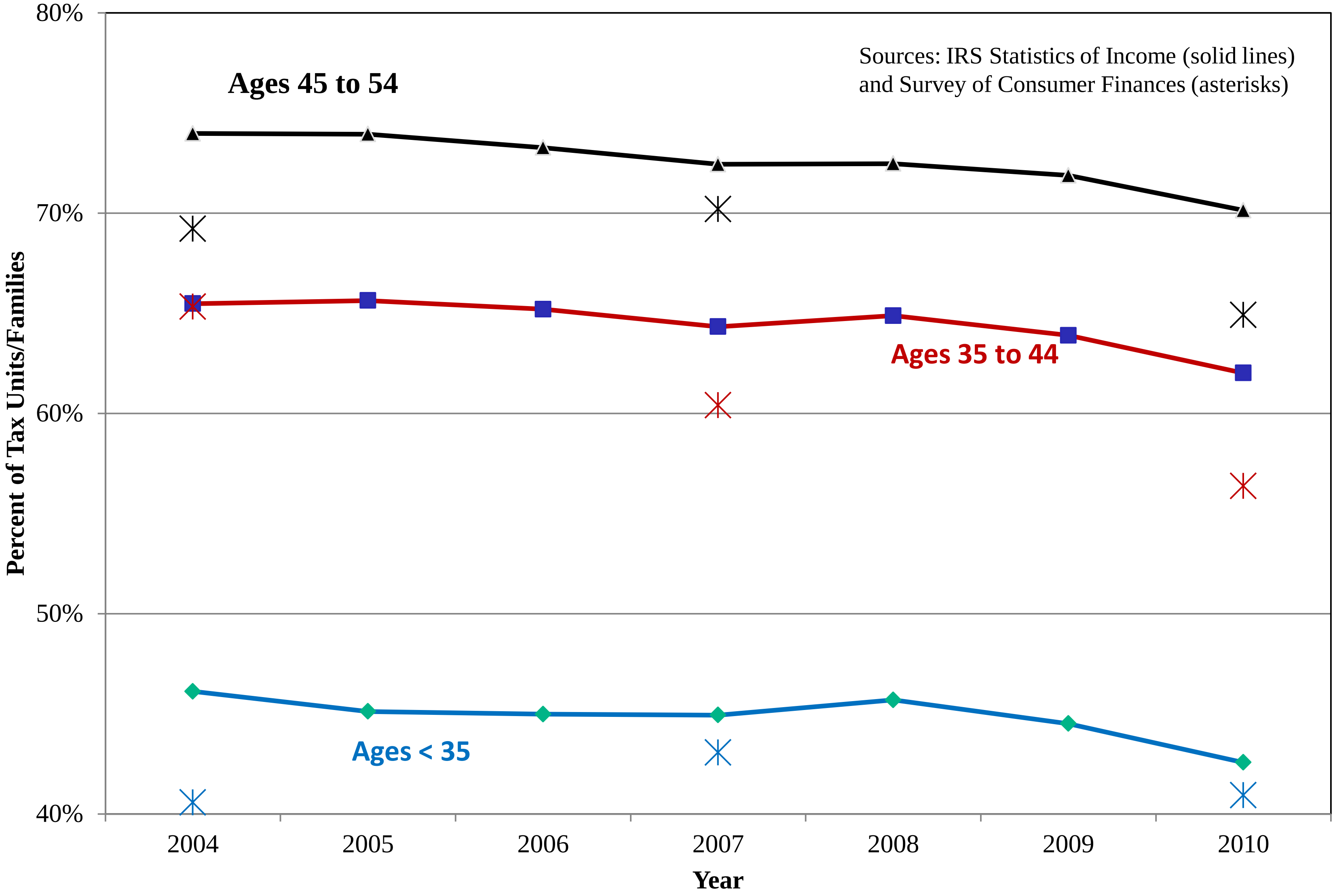
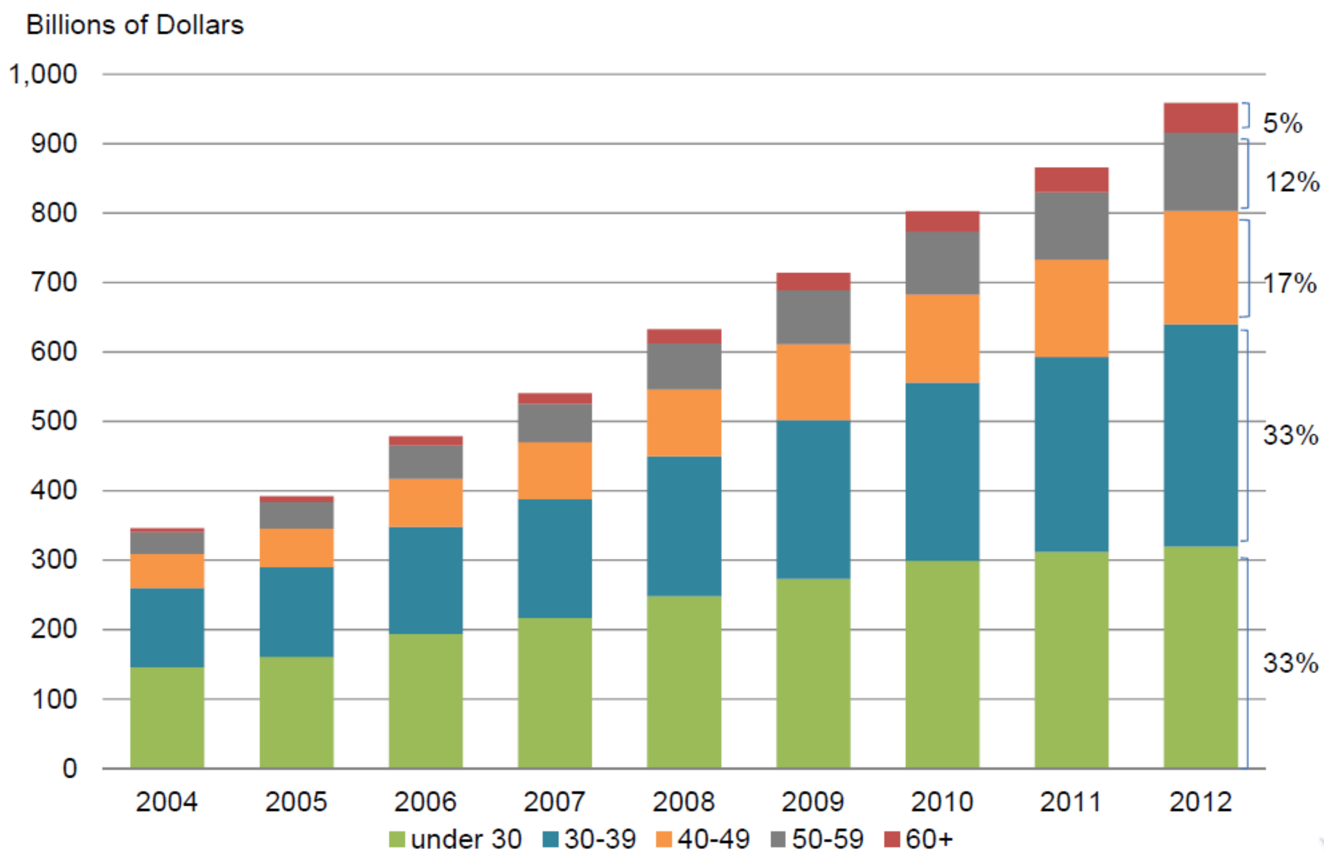


Figure 1. Evidence of Retirement Accounts or Current Pension Coverage, Ages <55



Total student loan balances by age group
increasing across all age groups



Source: FRBNY Consumer Credit Panel / Equifax

Confessions of a Hemingway Fan

- I enjoy Fitzgerald, and I enjoyed these papers!
- Many differences between young and old in terms of outcomes are driven by macro events
- Many “negatives” have associated “positives”
  - Earnings and employment prospects much better for people who went to college and/or back to college
- Some lifecycle differences *improved* outcomes
  - Young buying houses in 2007 much better off than middle-aged who upgraded in 2002-2006!

Policy Tradeoffs

- When suggesting policy actions to overcome behavioral shortcomings, first establish why behavioral differences exist in the first place
- Education loans are a pretty efficient way to use risk-sharing to invest in specific human capital
  - May need to tweak rules, but system works for most
  - Moral hazard => alternatives that sound better are not
- Consumers can and should be protected from bad behavior of financial institutions, but we should be careful when telling individuals what to own

Financial Decisions of Young vs Old

- Abstract says, “Younger households are significantly different from older households”
- Table 3: Transition into liquid asset poverty 2007 to 2009 is 9.72% for ages <40, and 9.80% 40+
- Reconciling apparent discrepancy
  - Authors estimate transition equation into liquid poverty, many demographic and economic controls
  - Coefficient on dummy for age <40 is positive
  - Interpreted as young more likely to become asset poor *given* their economic and demographic situation

Alternative Interpretation

- Estimated equation does not show what we *can* explain, it shows what we *cannot* explain
- Imposing common coefficients on economic and demographic variables across all age groups generates an unexplained residual
- The young are different, but in ways not captured by this econometric specification and data set
- Basic fact is in the cross-tab: the young had the same rates of transition into asset poverty as old

Effects of Acquiring Savings Accounts

- SIPP data from 1990s => young people who acquired a saving account also more likely to acquire substantial equities and retirement assets
- Very likely there is a correlated but unmeasured factor underlying both the decision and outcome
- Question clearly calls for experimental evidence, and a focus on specific behavior to encourage
- Are savings accounts really the key for young people today?

Behavioral Nudges vs Literacy

- Behavioral economics shows us we can *nudge* people, good practice => we researchers have to look at all tradeoffs before "choosing" outcomes
- Paper on saving accounts in this spirit: if we can nudge people to open savings accounts, we can improve their outcomes along other dimensions
- But before nudging, need to explain the choices (in economic terms, not just "inertia") by some people to not have certain types of accounts

Thanks!