



Researching Family Balance Sheets to Strengthen
Families and the Economy | stlouisfed.org/hfs

Thrivers and Strugglers: How Race, Age, and Education are Fueling an Economic Divide in America

Women's Voices Raised

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**These are my own views, and not necessarily the views of the Federal Reserve Bank of St. Louis, Federal Reserve System, or the Board of Governors*

Overview

- STL Fed's HFS
- Income and wealth inequality
- Financial (in)stability
- How do demographic factors play?
- What can be done?

Why Study Wealth?



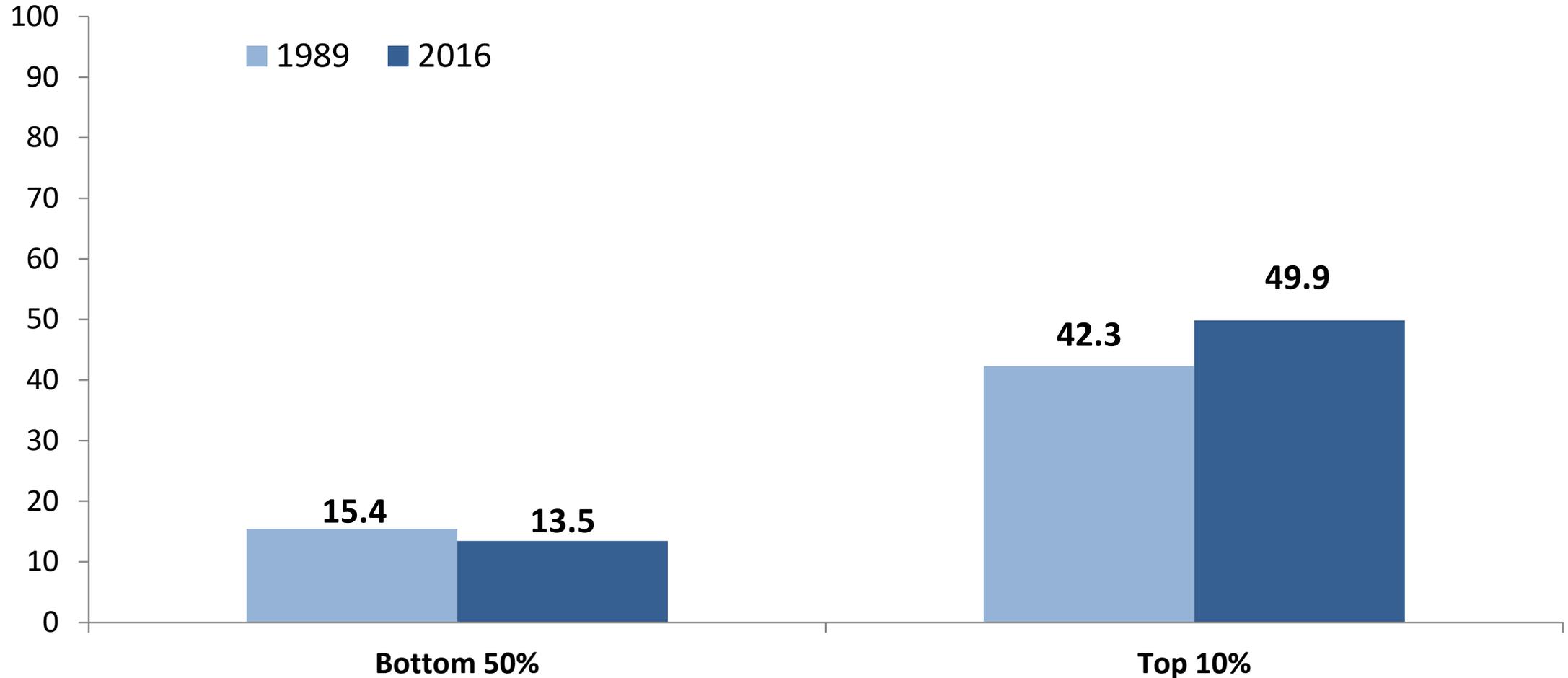
- Assets matter for economic security and upward economic mobility in ways income does not; balance sheets reveal dimensions of financial stress and health not otherwise apparent.
- Holding assets is associated with distinct social, psychological, emotional, child well-being, health, and civic outcomes.
- “Households should be encouraged to maintain at least a small buffer of liquid savings, even if the cash in that buffer is not being used to pay down high-interest debt.” (Gallagher, 2018)



Income Inequality Overall

Share of Total Pre-Tax Income

Percent

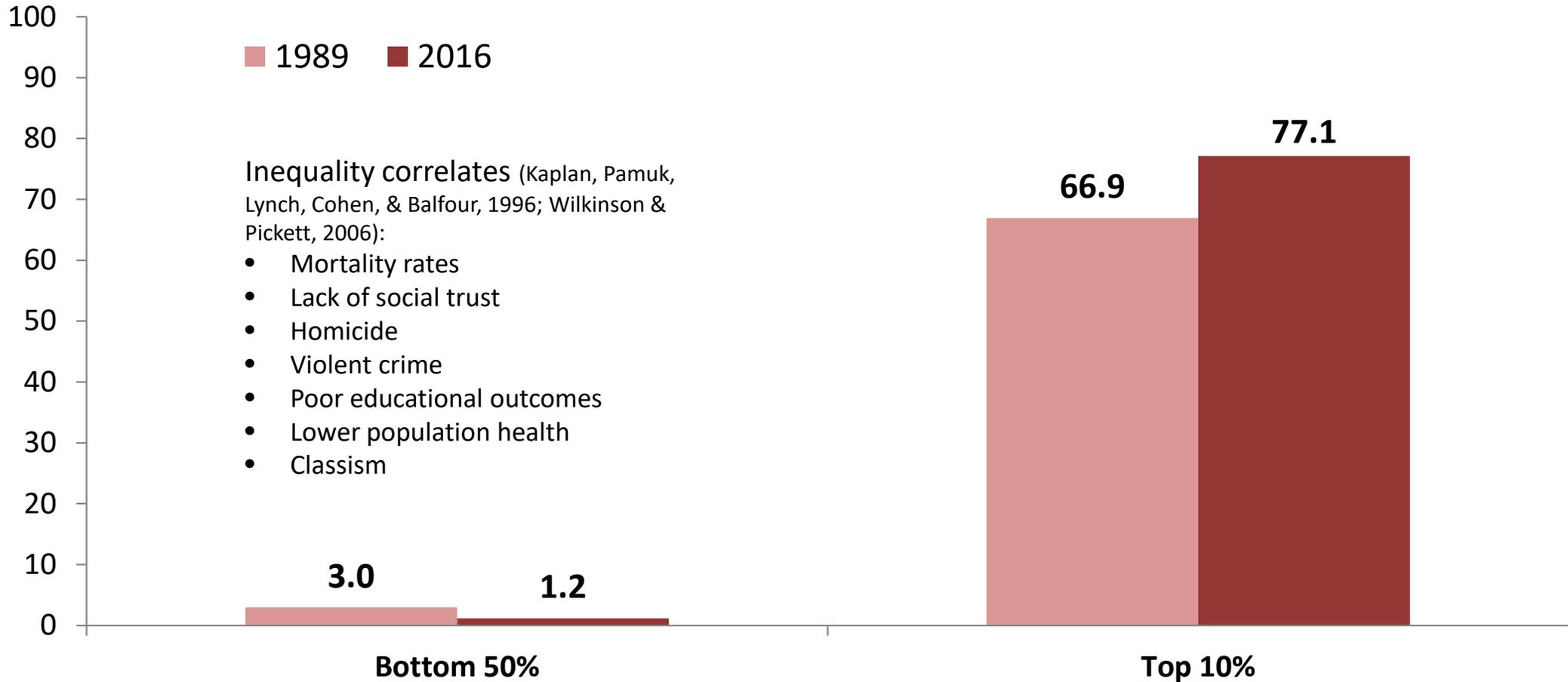


Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

Wealth Inequality Overall

Share of Total Net Worth

Percent



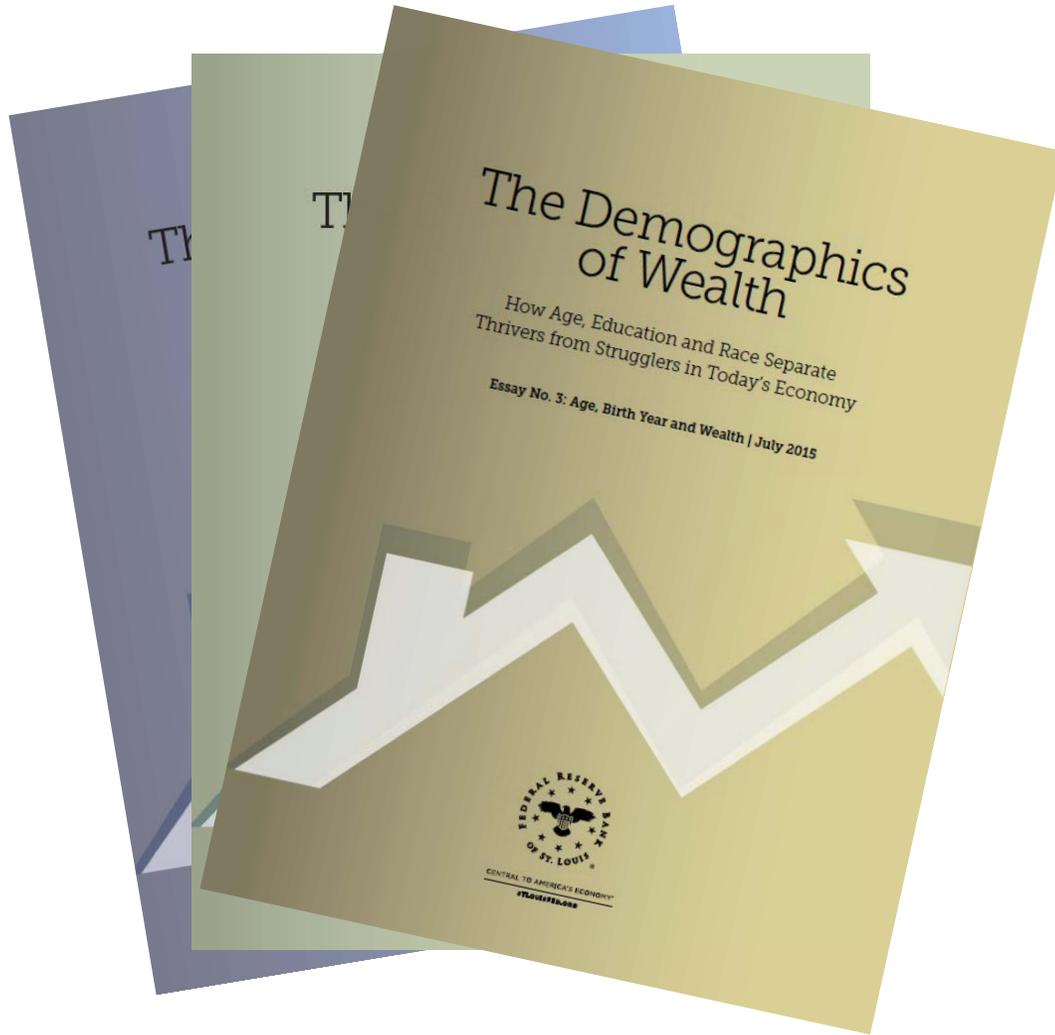
Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

Widespread Financial Instability



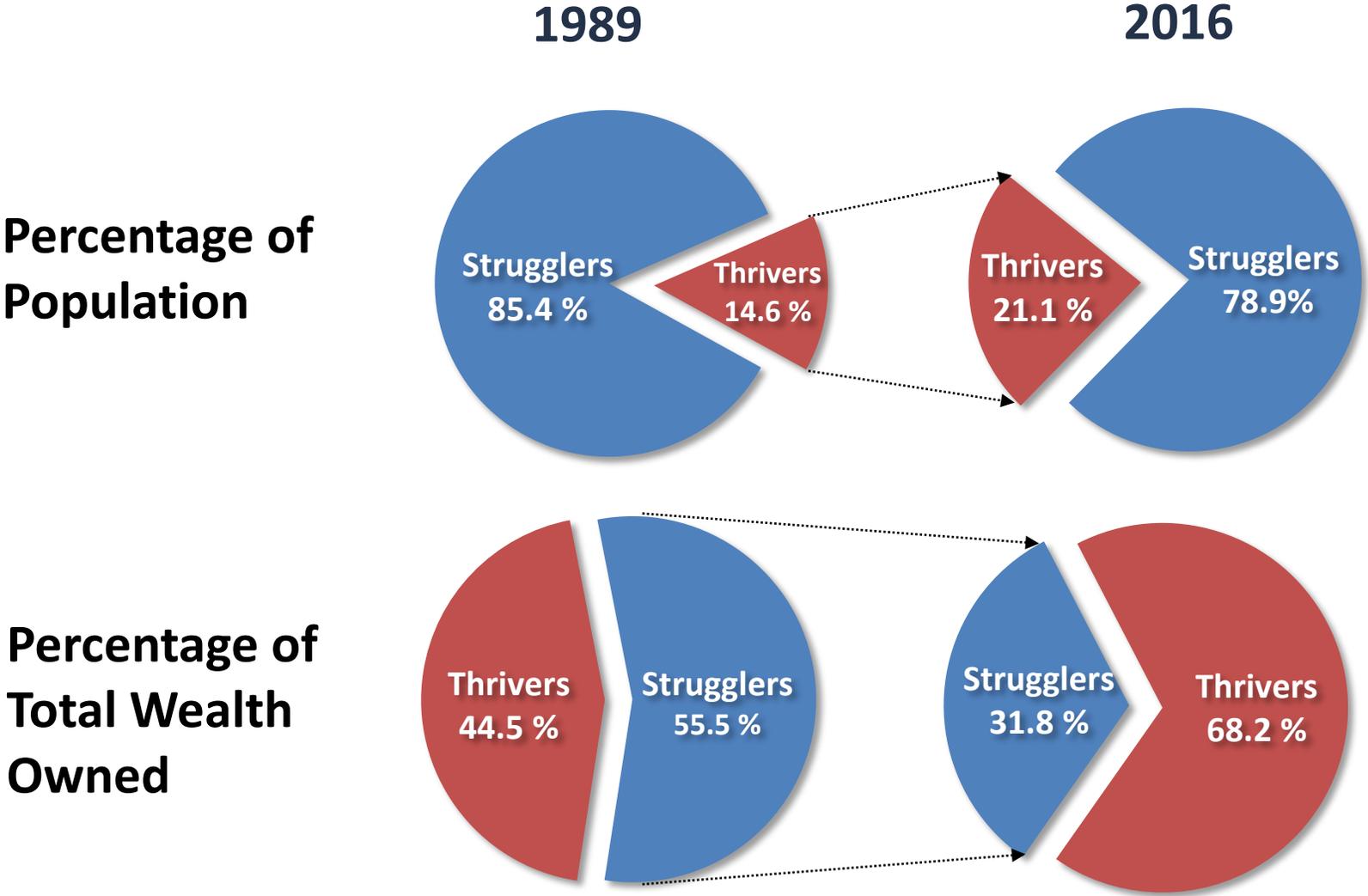
- 51% are “asset poor” – can’t cover expenses for 3 months (SHED, 2016)
- A \$400 emergency expense would prompt nearly half of all families to borrow funds, sell something, or simply not pay (SHED, 2016)
- 57% of Americans are challenged to achieve “financial health” (CFSI, 2015)
- Volatile employment schedules; 17% have schedules that vary by employer’s needs (SHED, 2016)
- 40% struggled to pay bills because income was lower than normal (SHED, 2016)
- Almost 3/4 of Americans were stressed about money (APA, 2015)

The Demographics of Wealth



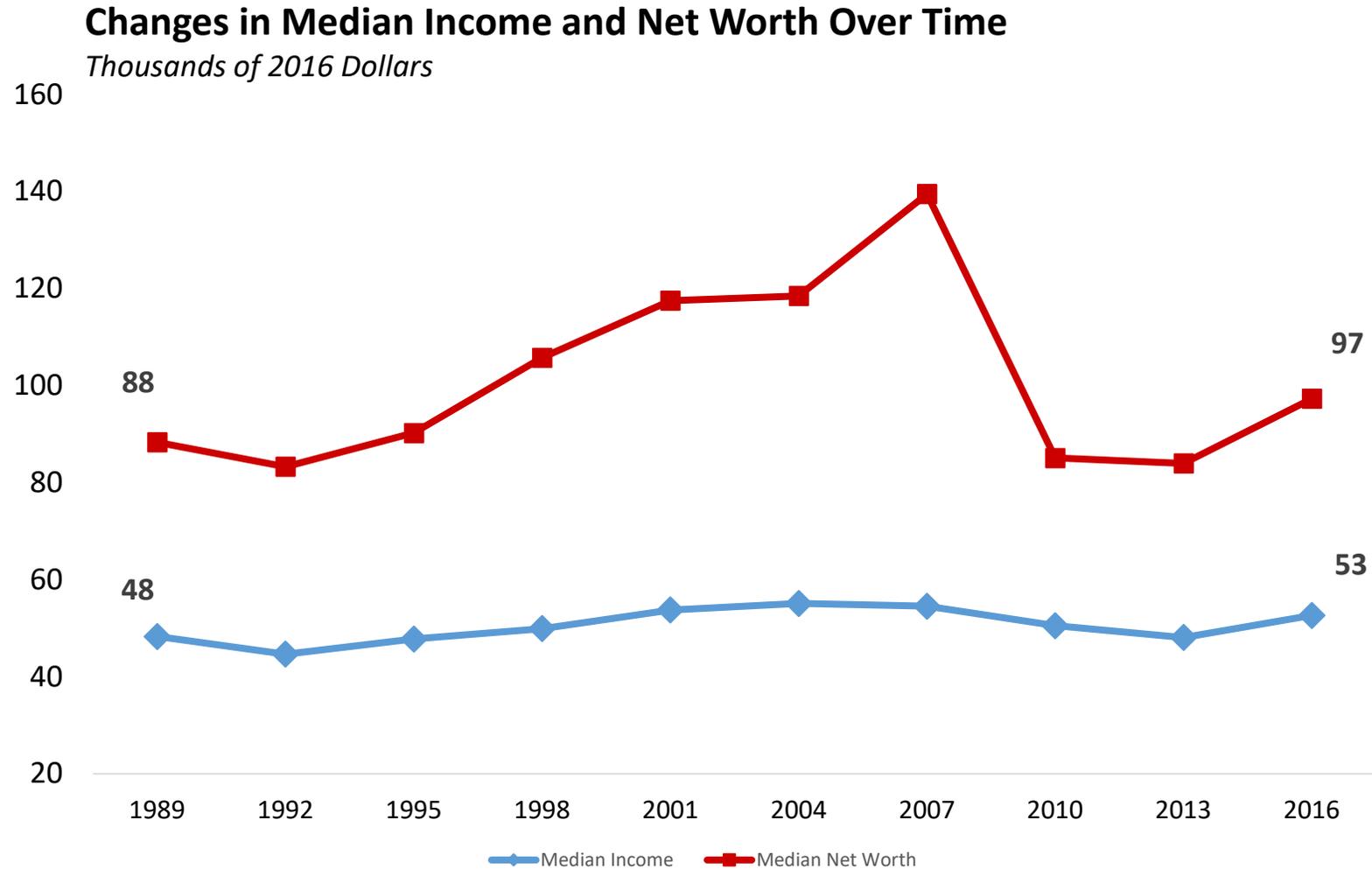
- First published in 2015
 - Education
 - Race
 - Age
- Updated in 2018
 - Adds education of respondent's parents
- Uses the Survey of Consumer Finances; considered the “gold standard” in family wealth research

Thrivers vs. Strugglers: A Growing Economic Divide



Source: Survey of Consumer Finances

Income and Wealth Trends

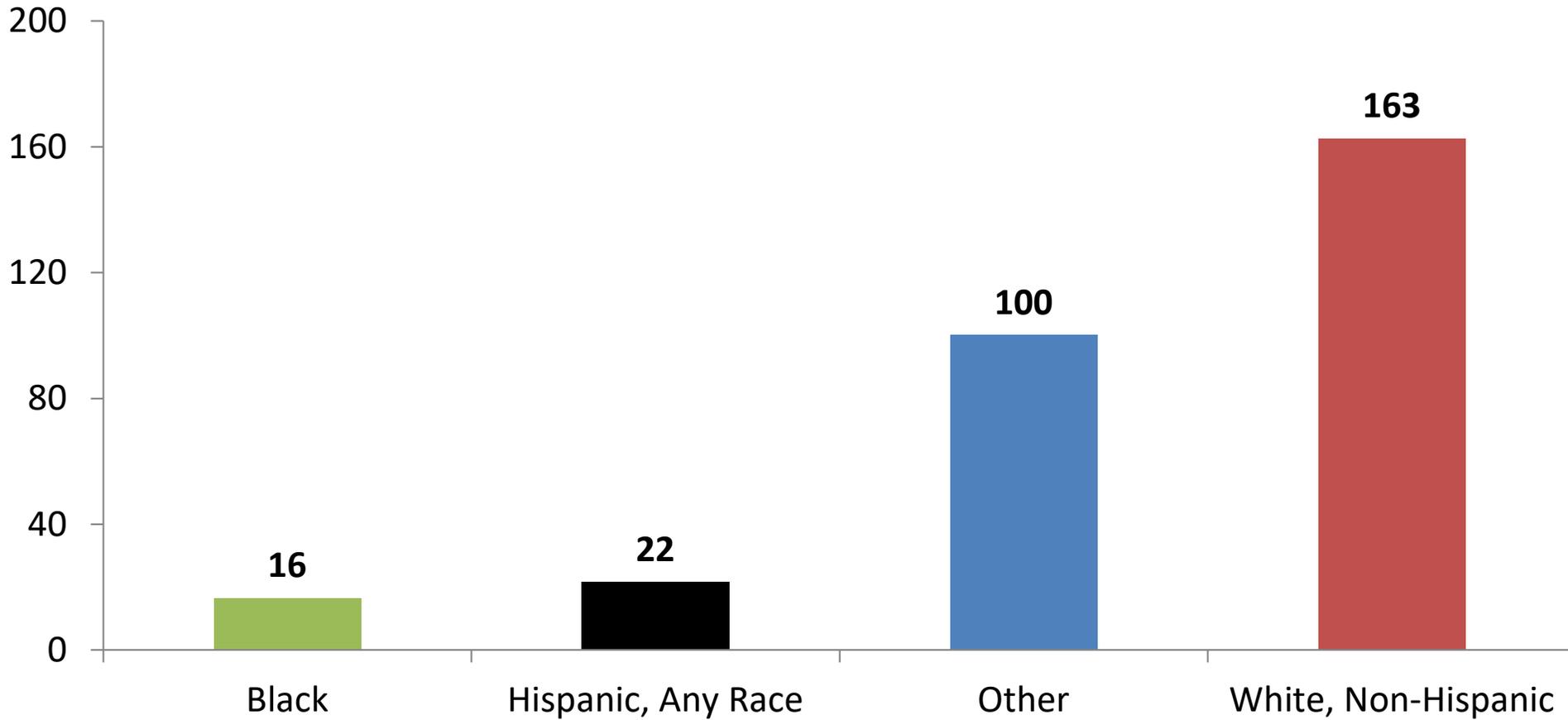


Source: Federal Reserve Board, Survey of Consumer Finances.

Race and Ethnicity

Real Median Family Net Worth, by Race/Ethnicity

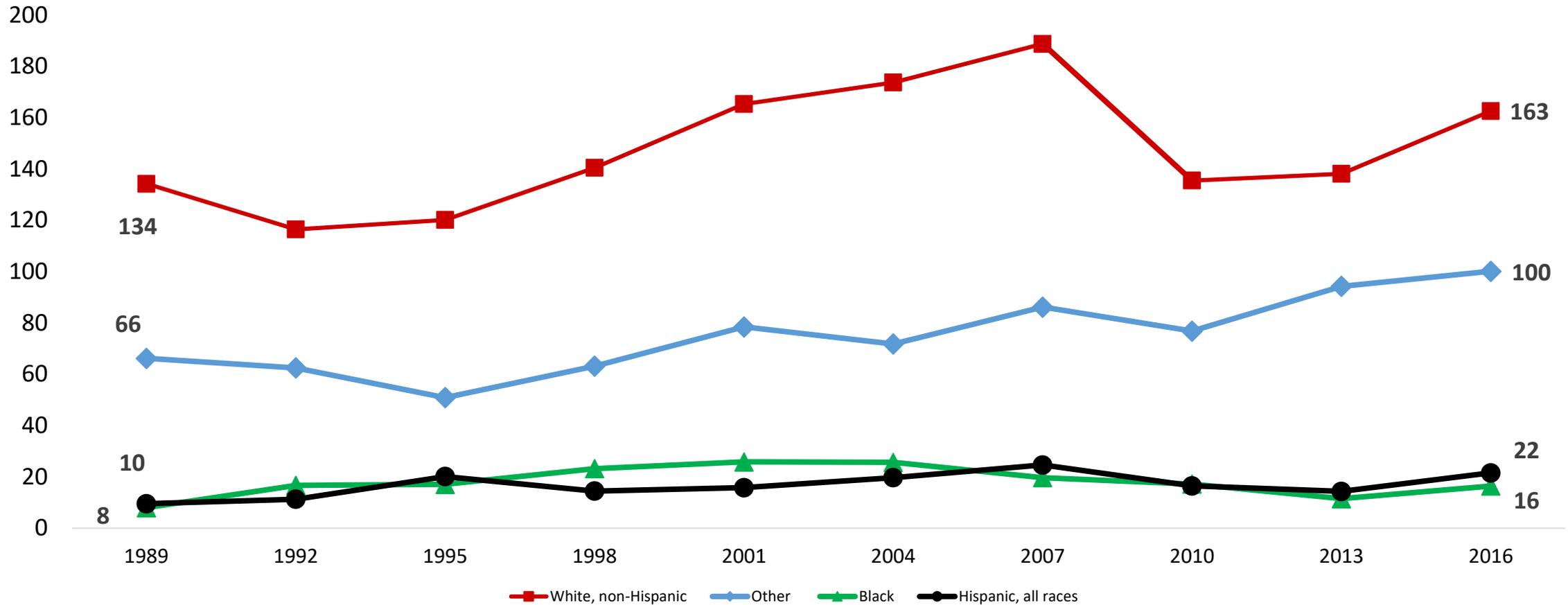
Thousands of 2016 Dollars



Source: Federal Reserve Board, Survey of Consumer Finances.

Race and Ethnicity Gaps Over Time

Real Median Family Net Worth, By Race/Ethnicity
Thousands of 2016 Dollars

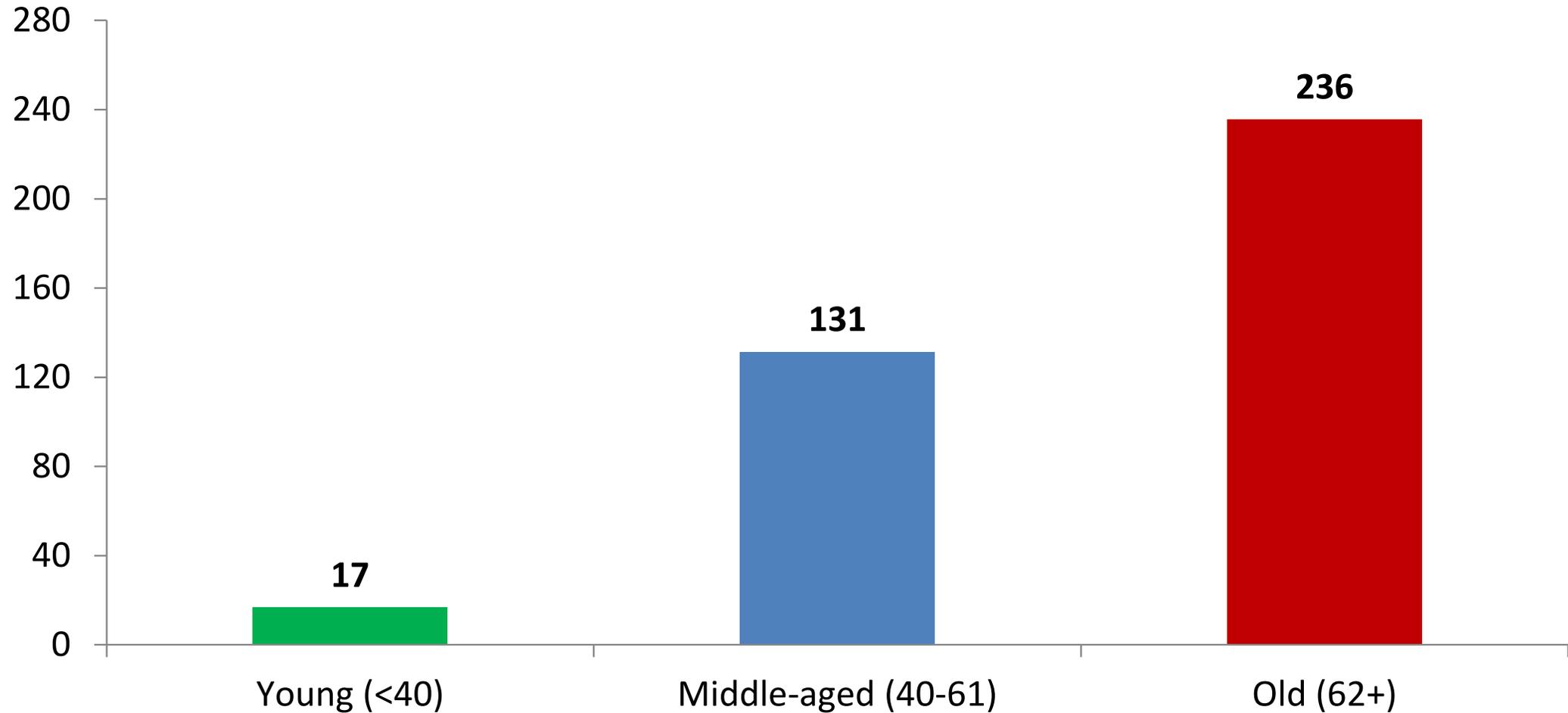


Source: Federal Reserve Board, Survey of Consumer Finances.

Age

Real Median Family Net Worth, by Age

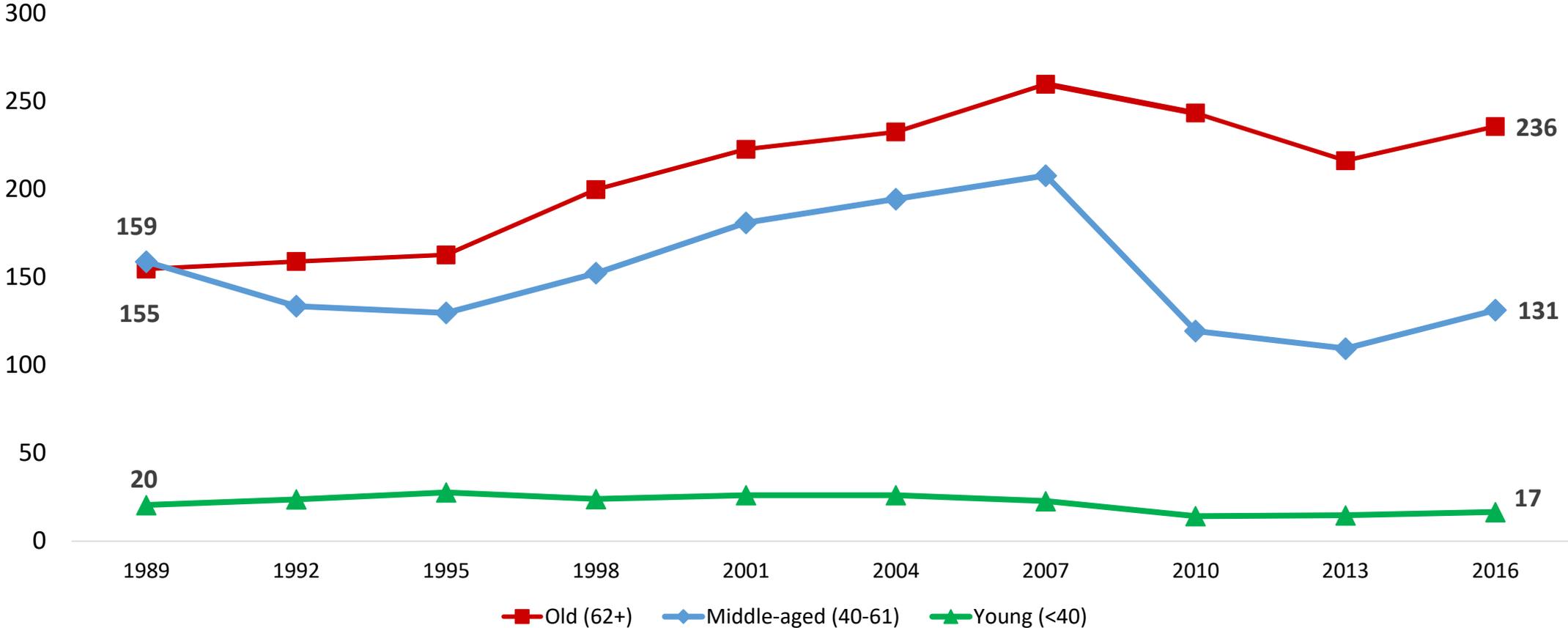
Thousands of 2016 Dollars



Source: Federal Reserve Board, Survey of Consumer Finances.

Age Over Time

Real Median Family Net Worth, Age/Year of Birth
Thousands of 2016 Dollars

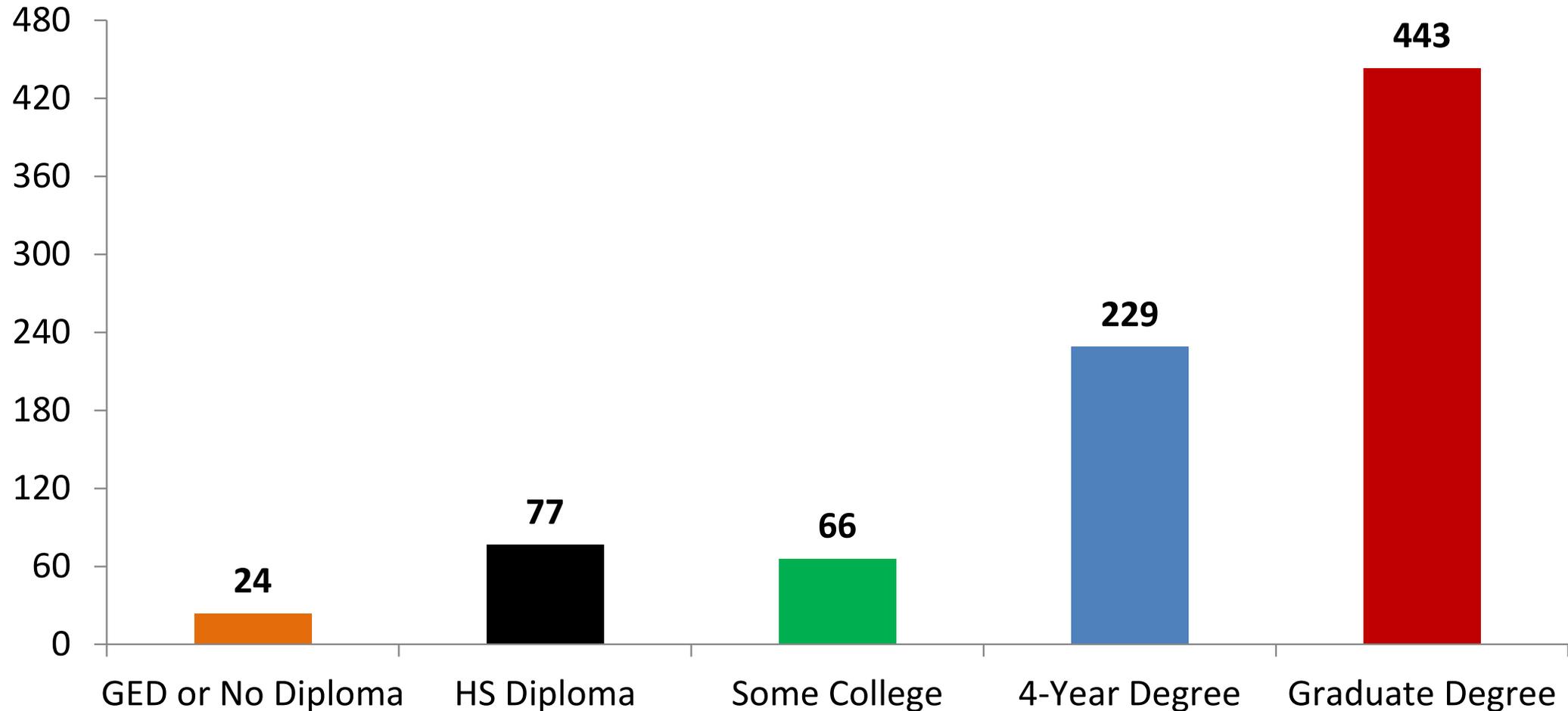


Source: Federal Reserve Board, Survey of Consumer Finances.

Education

Real Median Family Net Worth, by Education

Thousands of 2016 Dollars

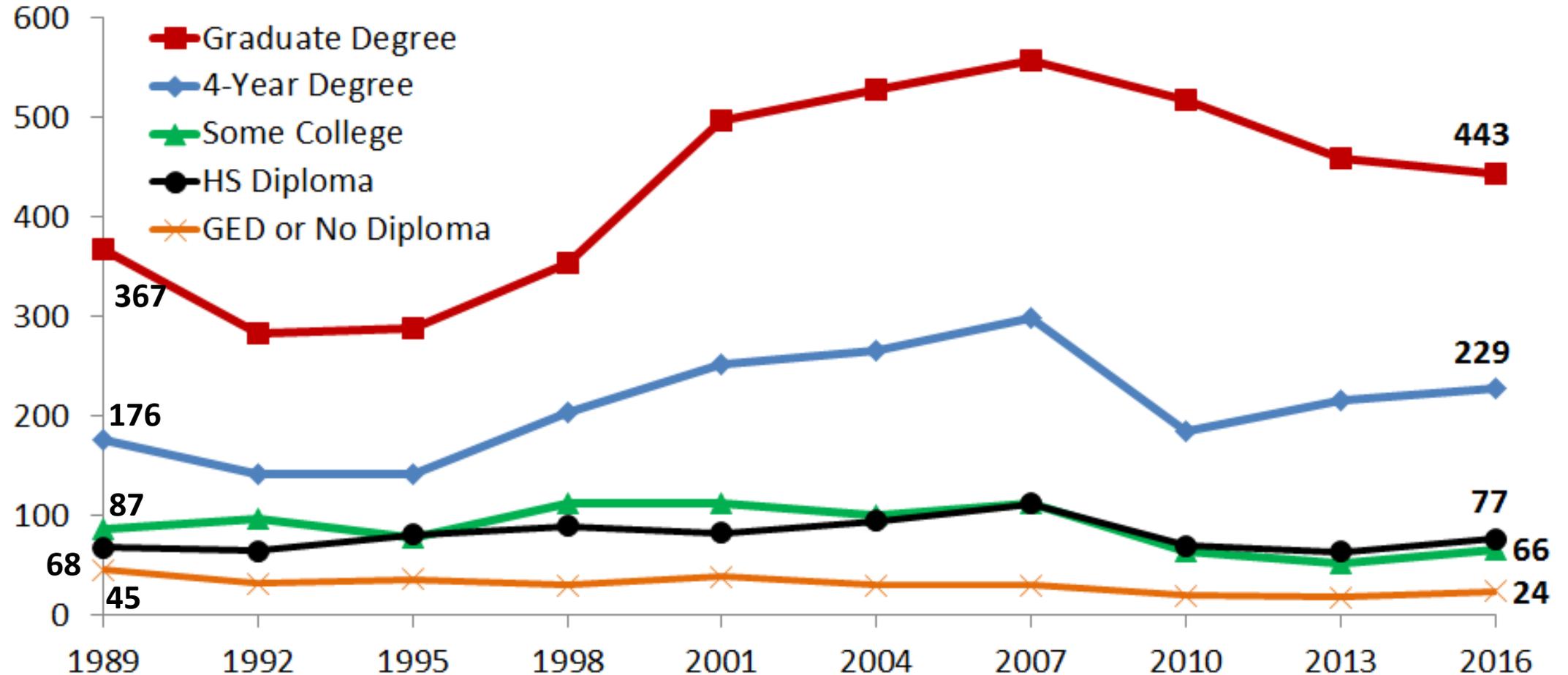


Source: Federal Reserve Board, Survey of Consumer Finances.

Education Over Time

Real Median Family Net Worth, by Educational Attainment

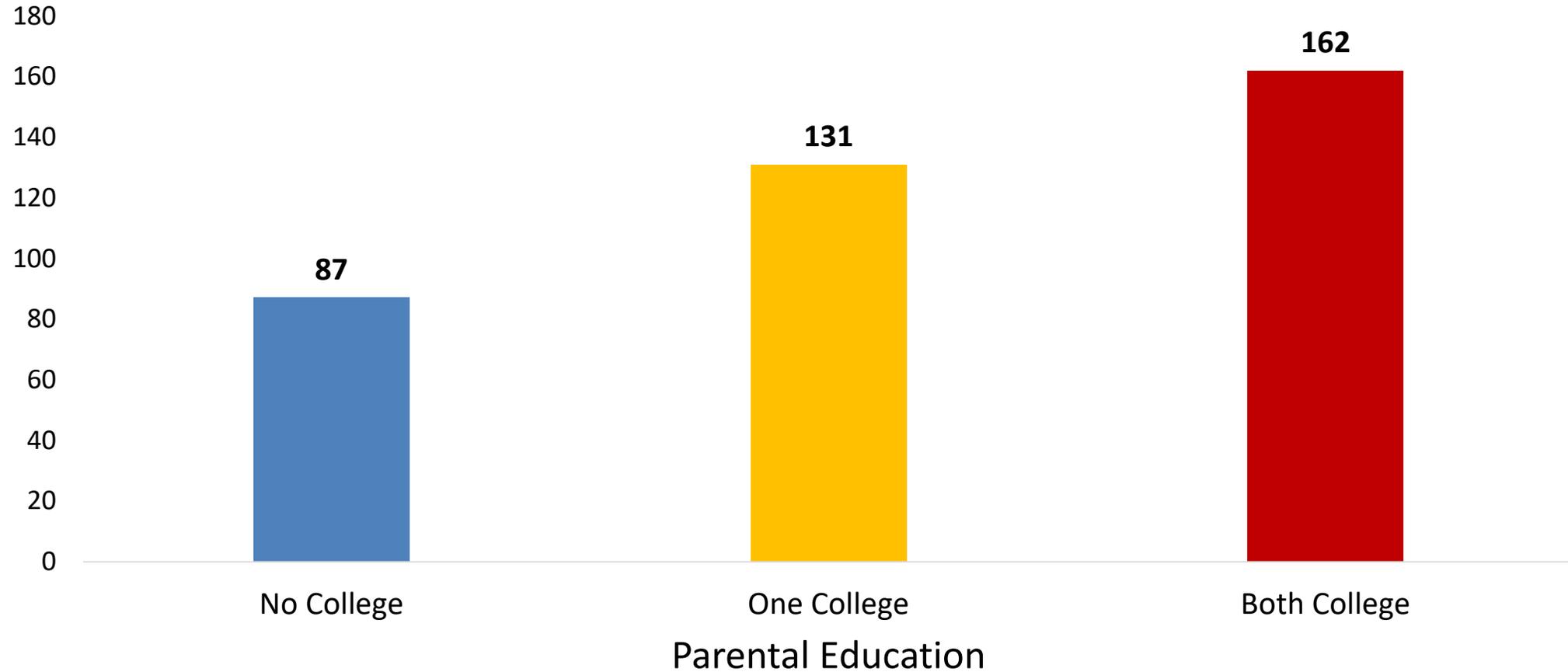
Thousands of 2016 Dollars



Source: Federal Reserve Board, Survey of Consumer Finances.

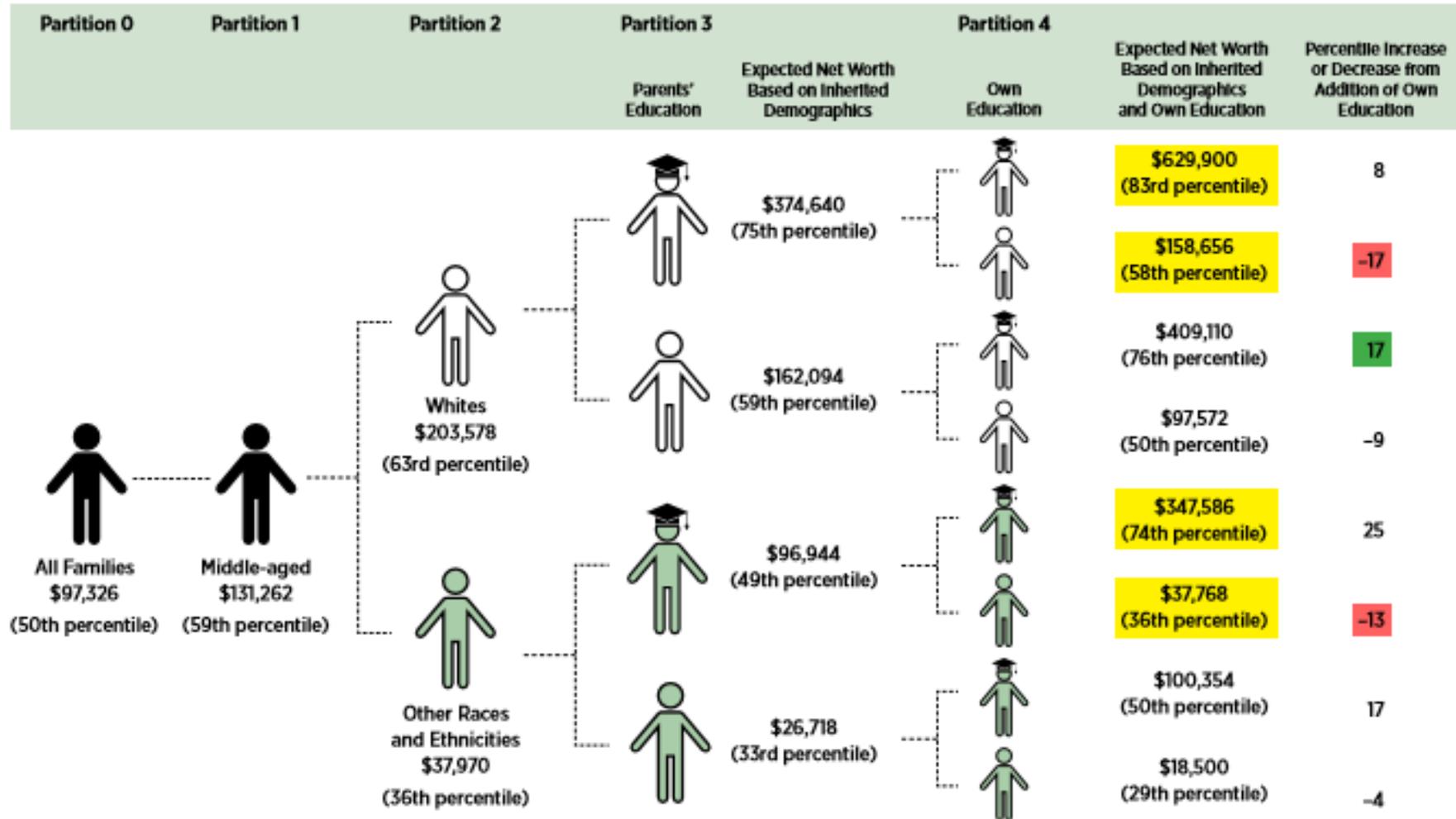
Parents' Education

Median Family Net Worth, by Parental Education
Thousands of 2016 Dollars



What About Combined? DoW I

Figure 6. Median Middle-Aged Family Net Worth by Inherited Characteristics and Own Education



https://www.stlouisfed.org/~media/Files/PDFs/HFS/essays/HFS_essay_1-2018.pdf

Effects — Demographics of Wealth # 1



The Head Start effect: Families with “favorable” (white, middle-aged or older, college grad parents) inherited traits typically earn higher incomes and accumulate more wealth than families without them.



The Upward Mobility effect: Among families with less “favorable” traits, a college degree usually boosts income and wealth far above levels achieved without a degree.

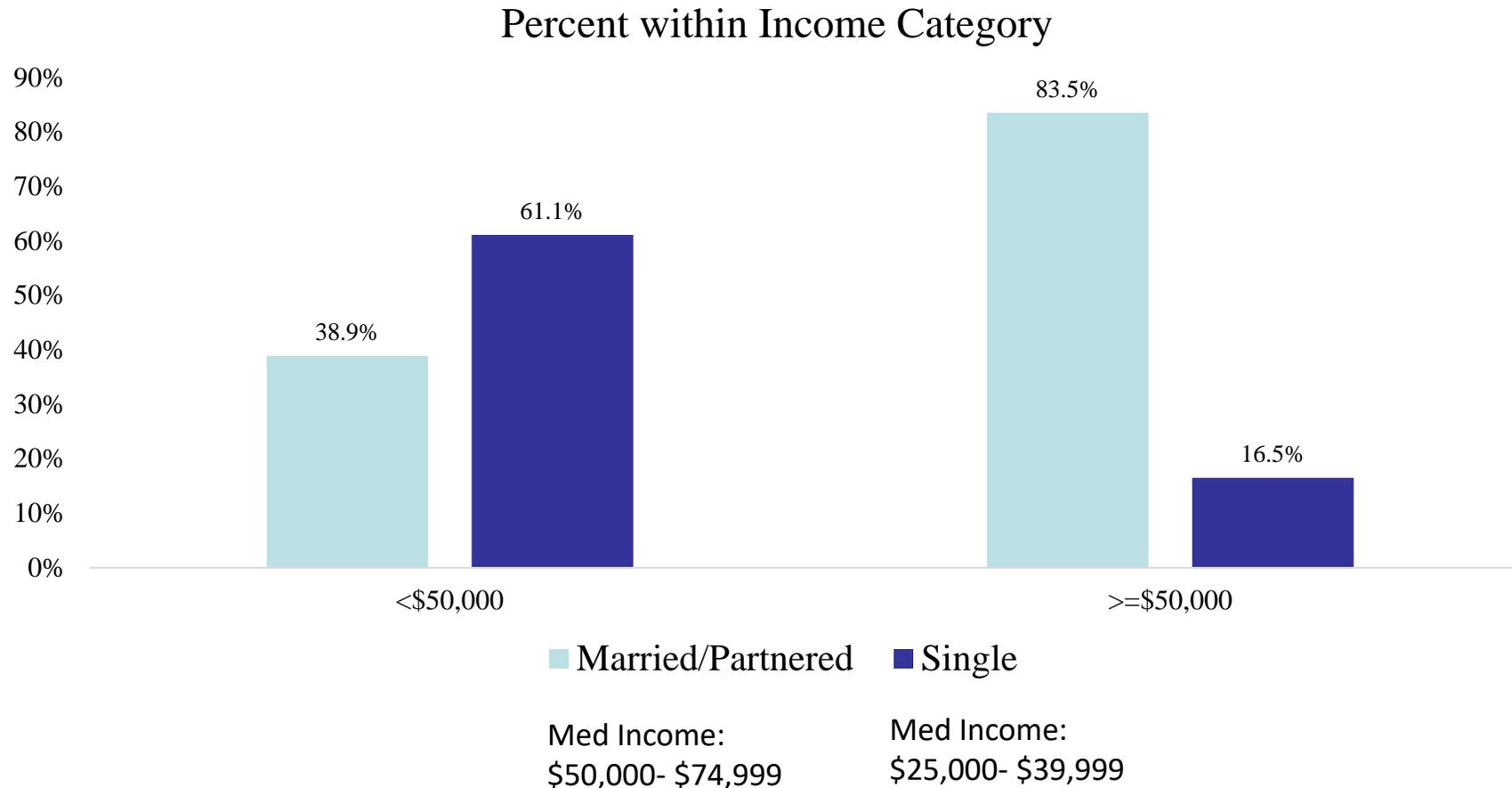


The Downward Mobility effect: Families with college-educated parents who fail to also earn a degree are likely to slip notably downward in expected ranking.



WHAT ABOUT OTHER DEMOGRAPHICS?*

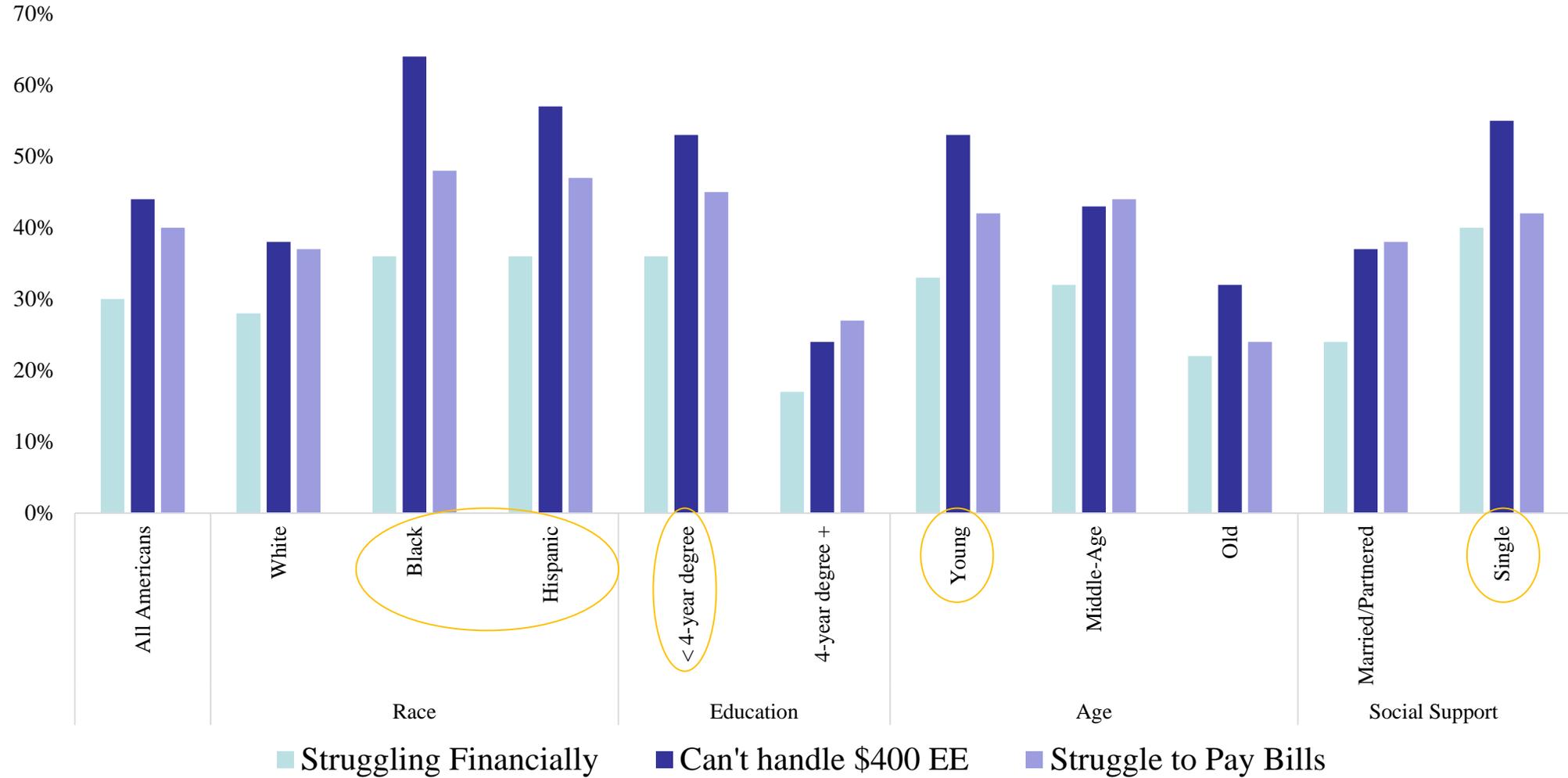
Social Support – Being Married or Partnered



Source: SHED 2016



Financial Fragility by Demographics



Source: SHED 2016

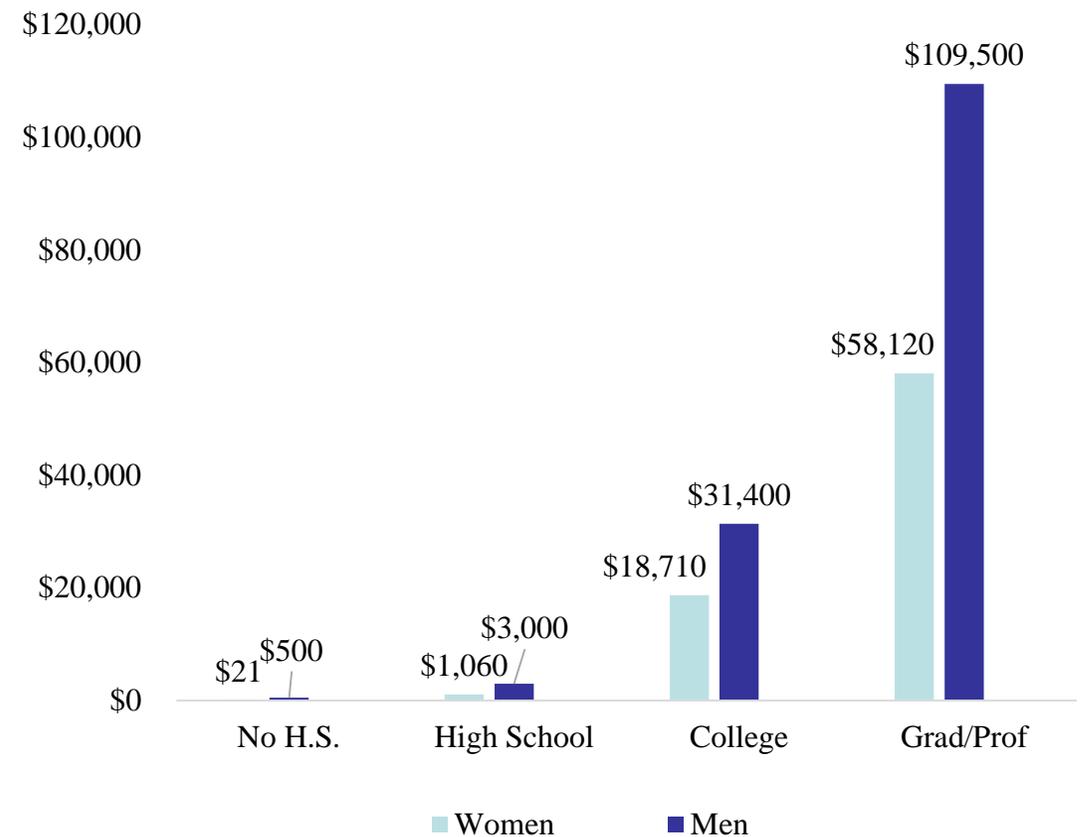
Gender Wealth Gap

(Value in Median Net Worth; Source: Mariko Chang, 2015)

Single Females and Single Males

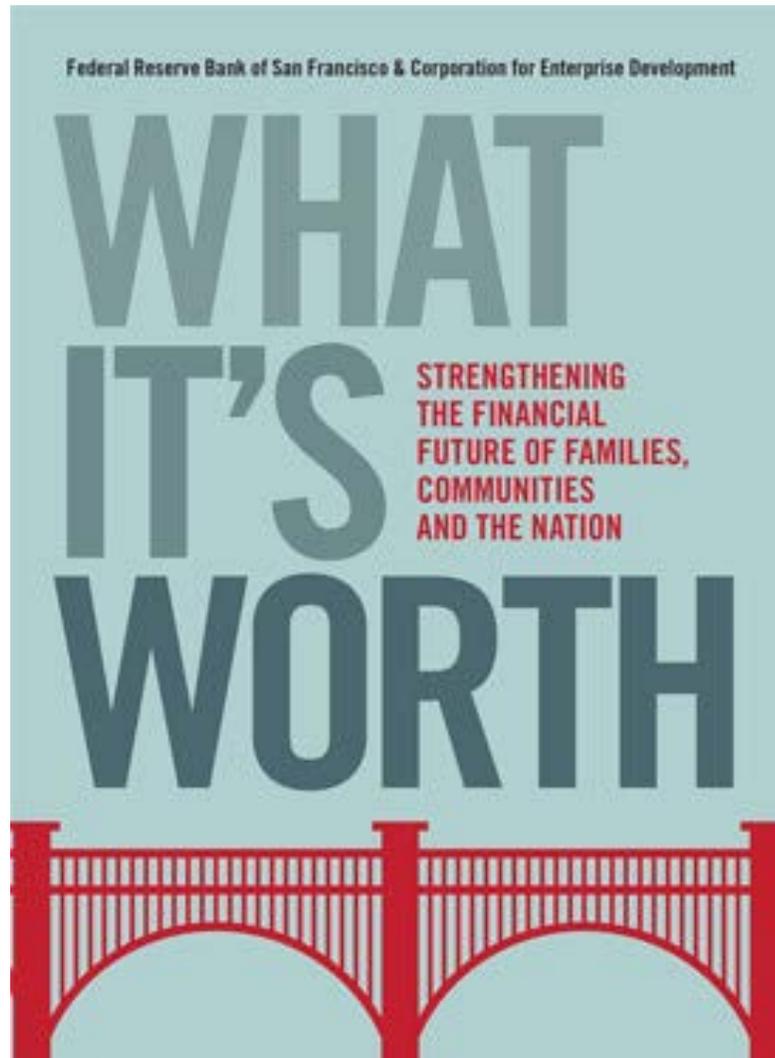


Single Men vs. Women, by Education



CONCLUSIONS AND SOLUTIONS

Is Demography Economic Destiny?



No, but....

- Demographics are strongly correlated with financial outcomes
- How can we assign greater weight to demographic factors in targeting consumer protections and public and private resources?
- How can we compensate for stronger “headwinds” faced by struggling families?
- How can we promote the upward-mobility effect and compensate for the head-start effect?

1. Promote Stability, *Then* Mobility:



- 92% of Americans would choose stability over mobility (Pew, 2014)
- Help families build a rainy day fund
 - Cash beats paying debt (Gallagher, 2018)
- The balance sheets of struggling families share three characteristics:
 1. Too little savings/liquidity
 2. Too much wealth in homeownership
 3. Too much debt
- Liquid assets (even if <\$2000), related to:
 - Fewer missed payments
 - Less foregone medical care
 - Greater food security
- Of all the factors examined, disparities in financial well-being are greatest between subgroups that have different levels of liquid savings (CFPB, 2017)

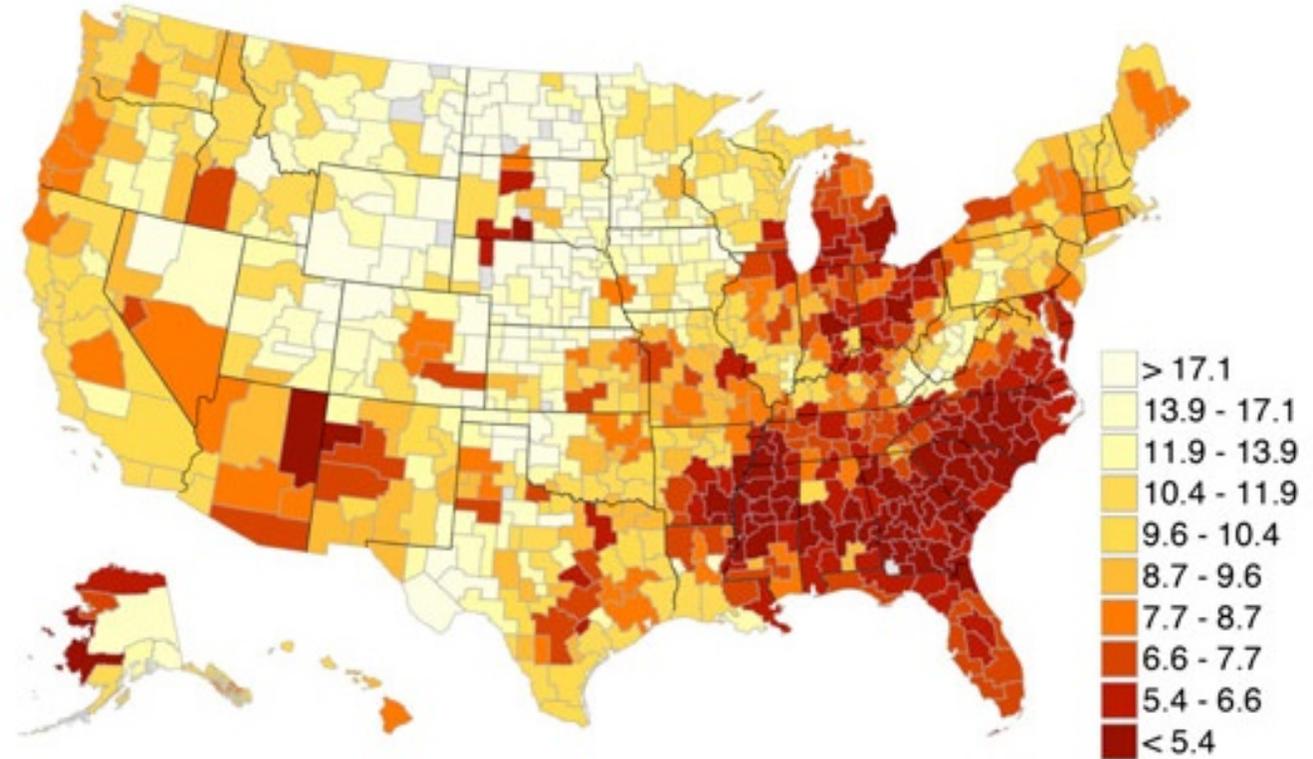
2. Recognize the Inequality

“If you work hard, if you believe in yourself, if you believe in America, then you can dream anything, you can be anything, and together, we can achieve anything.” – Trump, 2018

“If you work hard, if you’re willing to meet your responsibilities, you can get ahead. You can get ahead. Doesn’t matter what you look like, doesn’t matter where you come from.” – Obama, 2013

“In the United States, inequality remains for many respondents a sign of future opportunities and mobility, even though the data on mobility rates no longer support that perception.” – Graham, 2010

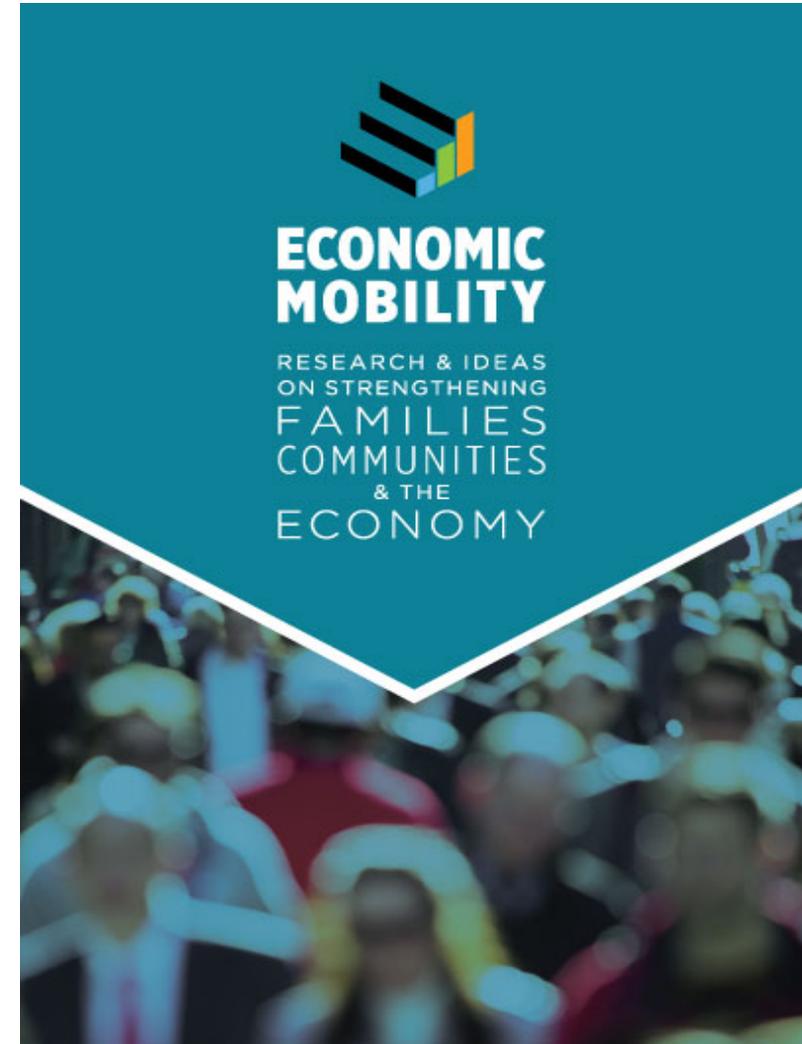
The Geography of Intergenerational Mobility in the United States
Odds that Child Born to a Family in Bottom Quintile Reaches the Top Quintile



Note: Lighter Color = More Upward Mobility
Source: Chetty, Hendren, Kline, and Saez (2013)

Investments that Promote Upward Mobility

1. Reduce racial segregation.
2. Reduce economic inequality and segregation.
3. Invest in schools – especially in teachers, principals, and efforts to get first-gen kids to and through college.
4. Improve social capital, networks and relationships.
5. Stabilize families, and reduce the incidence of single-parent households.



3. Invest in Early Childhood Environments and Assets



Early Environments

- Black-White reading and math test score gaps increase every year (Fryer & Levitt, 2004)
- The earlier the better! The earlier a child...
 - is read to
 - receives good nutrition
 - faces less toxic stress
 - attends an early-education program
 - is exposed to a good neighborhood
 - attends a high-performing school
 - is raised by two parents, and
 - has assets in the home

...the more educationally and financially successful that child will turn out as an adult.



Early Assets/CDAs

- Can address age, race, and education disparities, and promote financial inclusion
- Typically established at birth or when a child enters kindergarten
- Universal (for all kids) and progressive (more for the poor)
- Over 80% of programs use 529s
- Positive impacts on child development:
 - Maternal mental health
 - Educational expectations
 - Child development



Symposium, May 23-24, St. Louis Fed

Is College Still Worth It? Looking Back and Looking Ahead
→ *How Has Education Impacted Wealth Across Generations?*

<https://www.stlouisfed.org/events/2018/05/hfs-collegeed0518>

Thank You!

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Questions?