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

Thrivers and Strugglers: The Balance Sheets and Financial Health of U.S. Families

Assets Funders Network

2015 Grantmaker Meeting
April 2015, Dallas

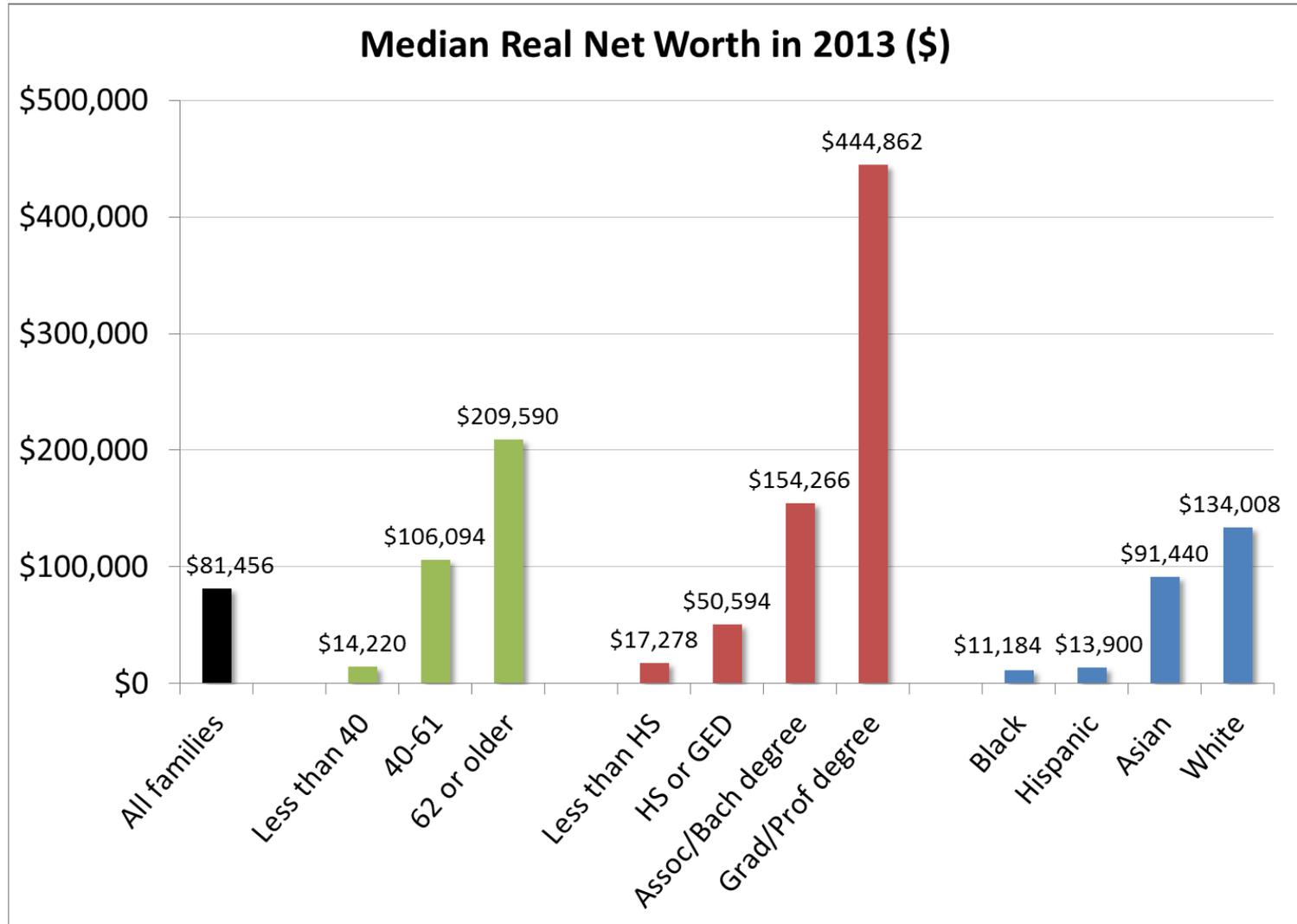
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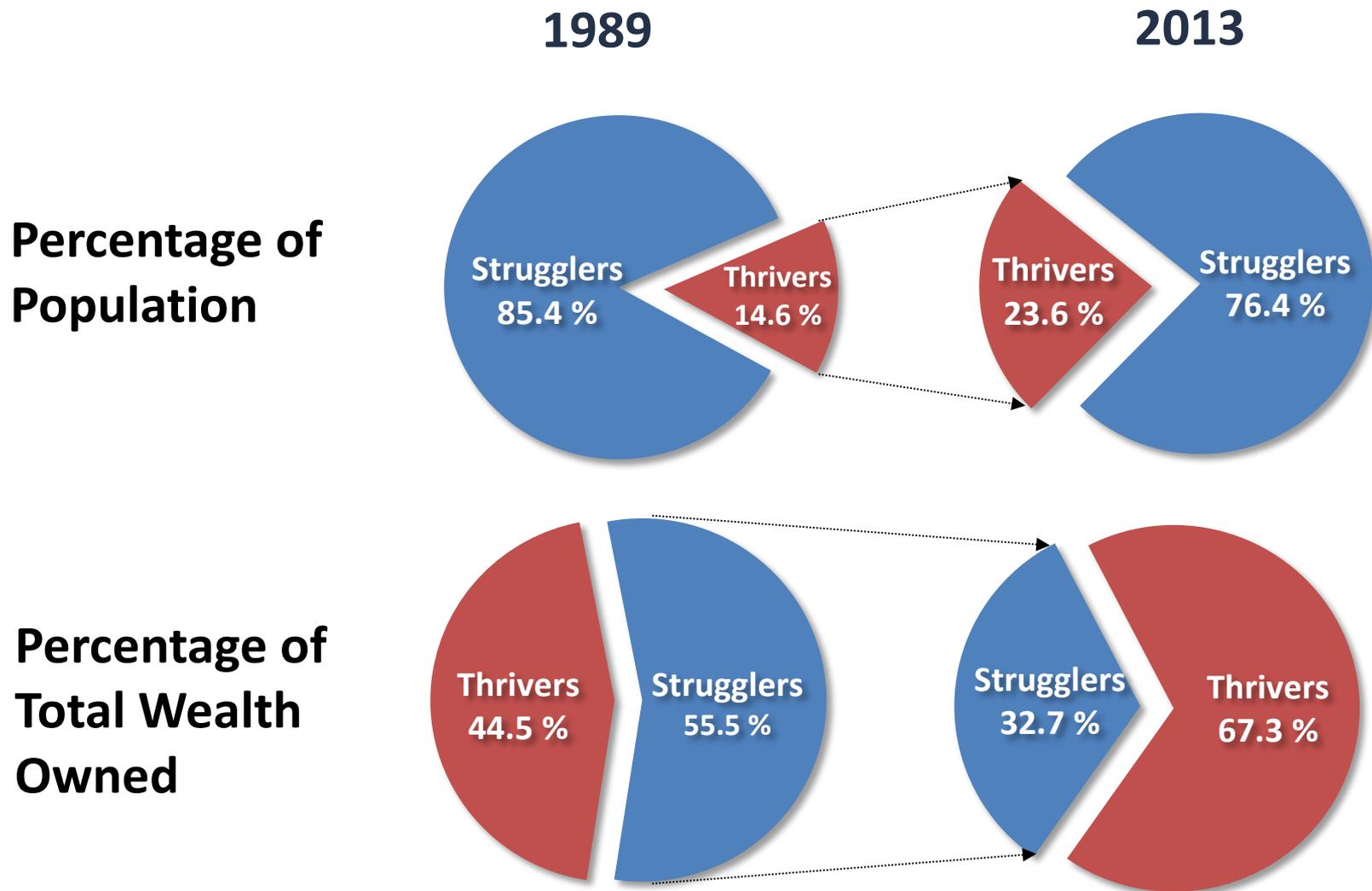
These are my own views, and not necessarily the views of the Federal Reserve Bank of St. Louis, Federal Reserve System, or the Board of Governors.

Net Worth by Age/Birth Year, Education, and Race/Ethnicity:

(Emmons and Noeth, 2015. The Demographics of Wealth, Federal Reserve Bank of St. Louis)



New Economic Divide



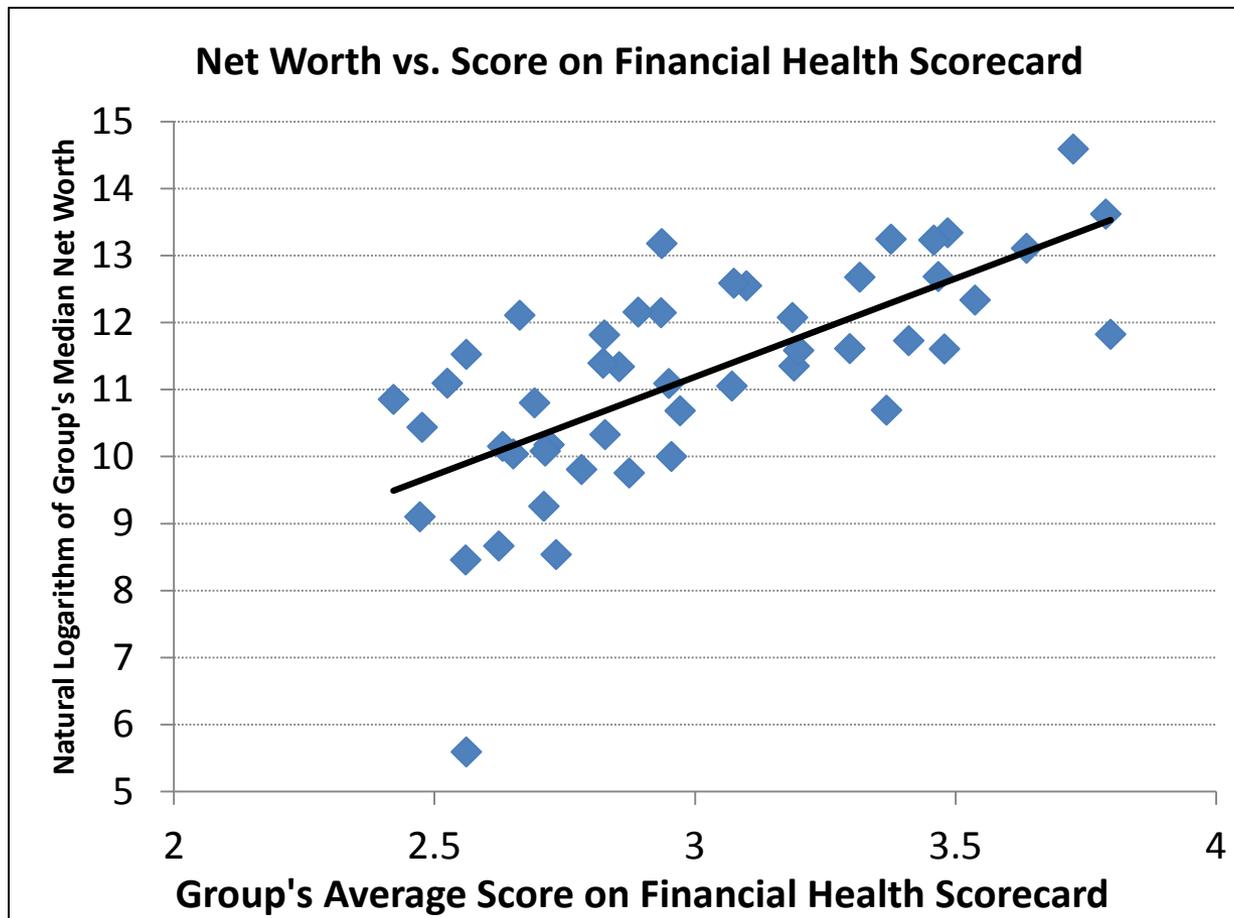
Source: Survey of Consumer Finances



Financial Health Scorecard

(Source: Survey of Consumer Finances; N=38,385 families, 1992-2013)

- *Did you save any money last year?*
- *Did you miss any payments on any obligations in the past year?*
- *Did you have a balance on your credit card after the last payment was due?*
- *Including all of your assets, was more than 10 percent of the value in liquid assets?*
- *Is your total debt service (principal and interest) less than 40 percent of your income?*



Observations

- Large disparities in wealth are driven, in part, by *already* economically vulnerable families assuming too much balance sheet risk – too much wealth in homeownership, financed with too much debt, and holding too few liquid assets – while encountering institutions not geared toward accumulating wealth. That is, both economic decision-making *and* institutions matter.
- Age, even controlling for education and race, appears to be the strongest predictor of balance sheet health.
- Differences in age and education explain very little of racial wealth gaps; the racial wealth gap is similar across age and educational levels.
- Blacks and Hispanics have, on average, significantly lower incomes than whites and Asians, but also appear to have fewer opportunities to “convert” their incomes into appreciating assets.
- The median income of Asian families has long surpassed that of whites and, if current trends continue, median Asian wealth will surpass median white wealth as well.
- Education itself matters for wealth accumulation but other characteristics of people who obtain college and graduate degrees – family background, cognitive skills, “grit” – also contribute. In other words, even if everyone had the same college degree, a wealth gap would still exist.
- No strategy alone – homeownership, education – is likely to result in closing the wealth gap. In fact, the returns on key assets such as homes, education, and savings, appear to be weaker among minority families.
- A realist goal should not be to close the wealth gap, but to improve the financial health, balance sheets and lives of more struggling Americans.

Economic Trends Impacting Family Balance Sheets

- Increasing income and expense volatility (U.S. Financial Diaries; Dynan *et al.*)
- Debt overhang and prolonged recovery (Sufi and Mian; Emmons and Noeth); long shadow of a severe “balance sheet recession”
- Family structure, especially the rise of single-parent households without college degrees (Putnam; Wilcox; Cahn and Carbone; Cherlin; Sawhill, etc.)
- Returns to capital v. returns to labor; growing income and wealth inequality (Piketty; Stiglitz; Chetty; Saez; Krueger, etc.)

Ideas for Moving Forward

- Consider demographic drivers of economic vulnerability, not just income
- Start as early in life as possible to build a healthy balance sheet
- Strive toward balance sheet diversification, beginning with the shorter-term liquidity needs of families
- Think about influencing institutions, not just products and people