



# *Consumer Financial Protection Bureau Financial-Capability Lunch & Learn*

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## **A Demographic Approach to the Financial Challenges of Economically Vulnerable Families**

**April 13, 2016**

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Center for Household Financial Stability  
Federal Reserve Bank of St. Louis**

**[www.stlouisfed.org/hfs](http://www.stlouisfed.org/hfs)**

**These comments do not necessarily represent the views of the  
Federal Reserve Bank of St. Louis or the Federal Reserve System.**



# *Outline of Today's Talk*

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- **Center purpose and overview (Ray)**
- **A demographic approach to wealth trends and inequality (Bill)**
- **The demographics of balance sheets and wealth, 1989-2013 (Bill)**
- **Research implications (Bill)**
- **Policy implications and directions (Ray)**



*“Researching family balance sheets to strengthen families and the economy” [www.stlouisfed.org/hfs](http://www.stlouisfed.org/hfs)*

## Why balance sheets?

### From asset building to balance sheets

- Balance sheet “failures”
- How an asset is financed matters as much as the asset itself

### Connection to CFPB’s “Financial Well-Being” framework



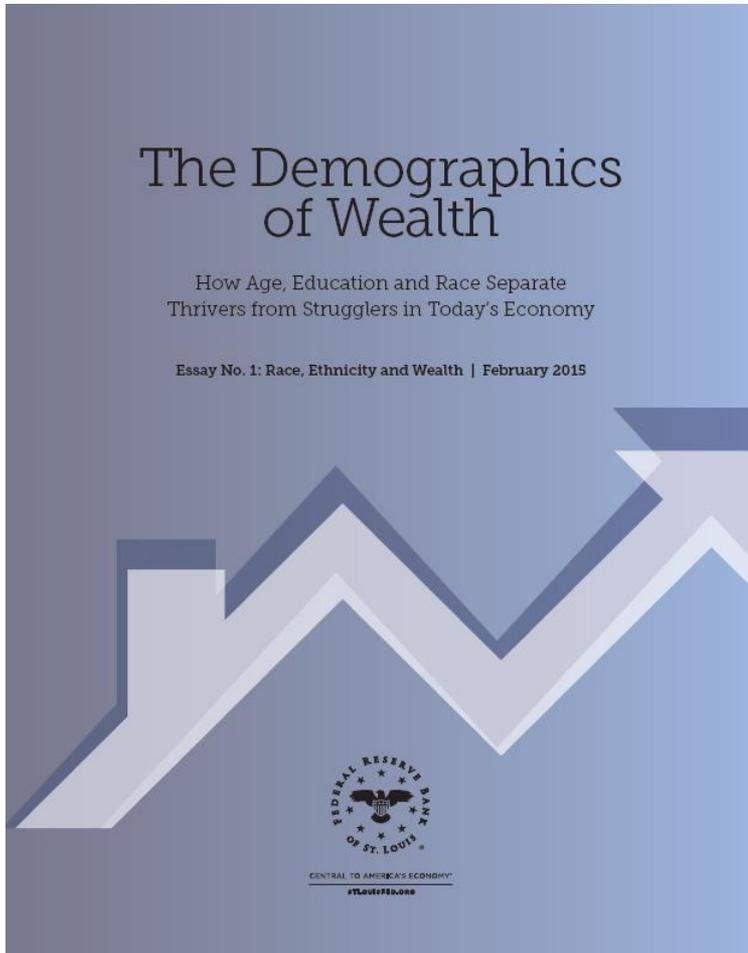
## *A Demographic Approach to Wealth Trends and Inequality*

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- **The advantages of a demographic framework**
- **The evolution of wealth and household balance sheets using the demographic approach, 1989-2013**



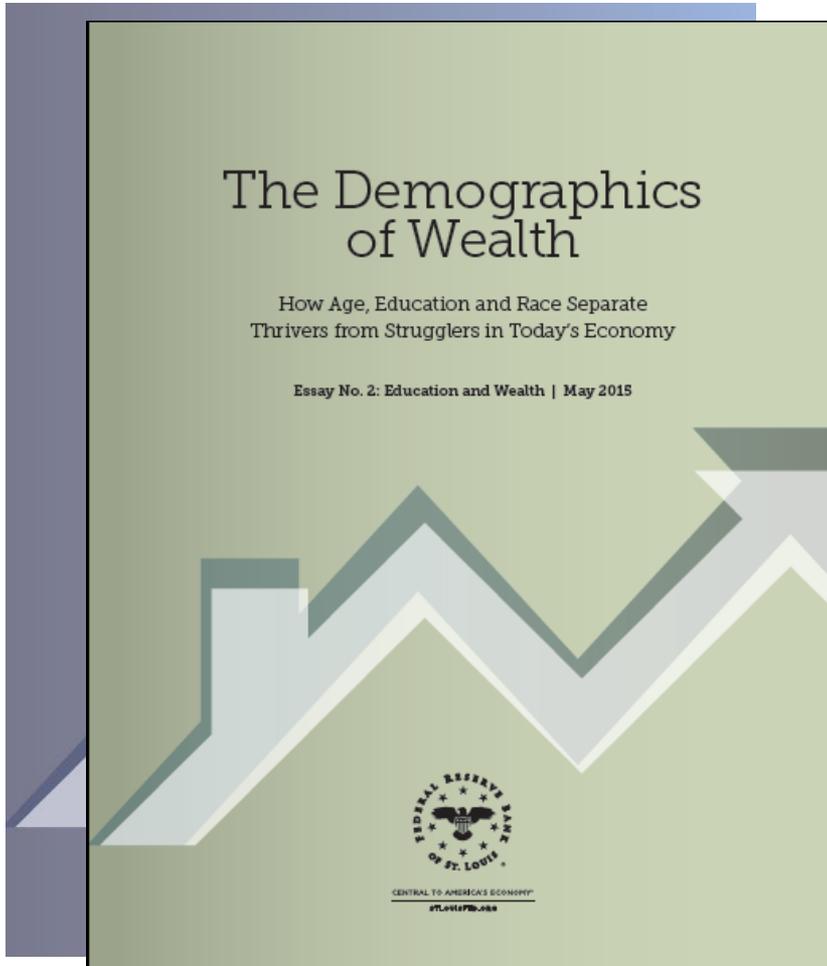
# *The Demographics of Wealth: An Essay Series*



- [www.stlouisfed.org/household-financial-stability/the-demographics-of-wealth](http://www.stlouisfed.org/household-financial-stability/the-demographics-of-wealth)
- **Part 1: Race, Ethnicity and Wealth (Feb. 2015).**



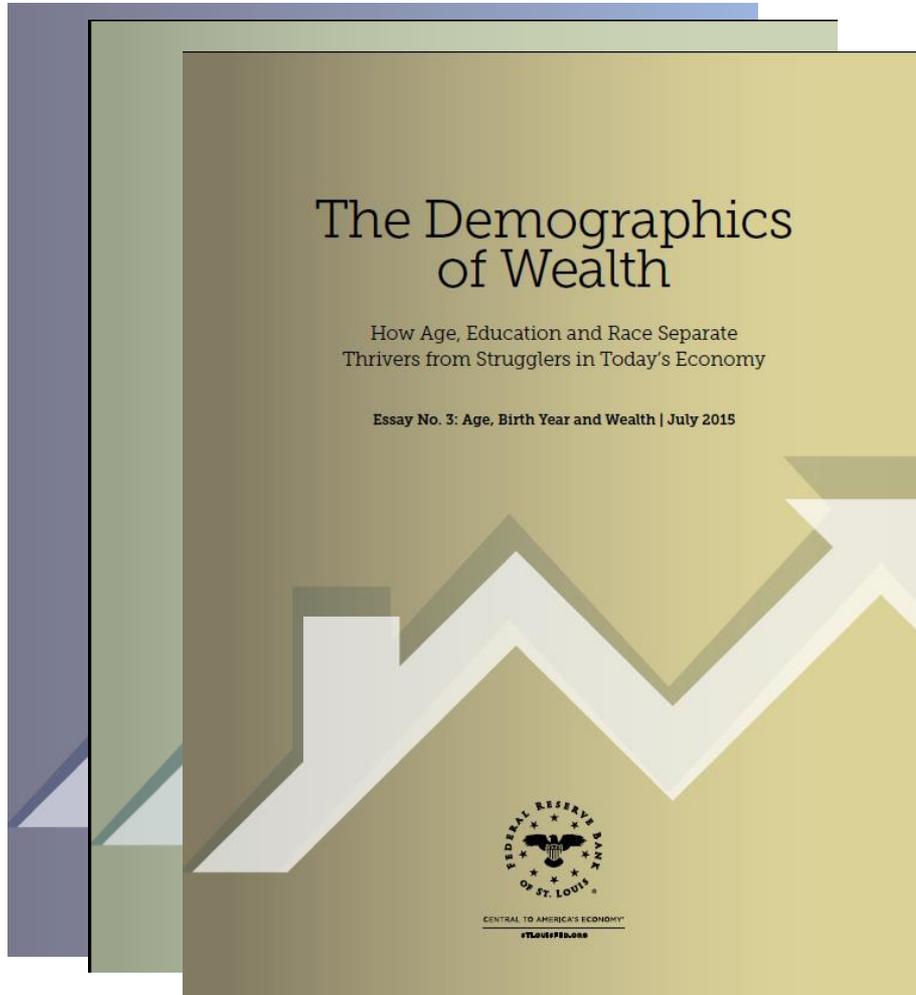
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- **Part 2: Education and Wealth (May 2015).**



# *The Demographics of Wealth: An Essay Series*



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- **Part 2: Education and Wealth (May 2015).**
- **Part 3: Age, Birth Year and Wealth (July 2015).**



## *A Demographic Approach to Wealth Trends and Inequality*

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- **Conventional wisdom:** “The rich are getting richer, the poor are getting poorer.”
- **But who are the rich and the poor? Why are they rich or poor? Are the same families and groups of families rich or poor throughout their lives and across generations?**
- **Many datasets—including ours, the Survey of Consumer Finances—provide merely snapshots at a point in time.**
- **Our solution: Create “quasi-panels” based on stable, demographically defined groups or track cohorts over time.**



## *Why It Pays To Track Demographic Groups: The Overall Median is Misleading!*

<b>Group</b>	<b>Percent change in median wealth, 1989-2013 (inflation-adjusted)</b>	<b>Percentage-point change in the share of all families</b>
<b>All families</b>	<b>-4.8</b>	<b>0.0</b>
<b>White</b>	<b>3.0</b>	<b>-4.7</b>
<b>Black</b>	<b>44.6</b>	<b>1.9</b>
<b>Hispanic</b>	<b>50.6</b>	<b>2.7</b>
<b>Other (mostly Asian)</b>	<b>42.5</b>	<b>0.1</b>

Source: Federal Reserve Board, Survey of Consumer Finances



## *A Simple Illustration of Misleading Medians*

- *Percent Change in Overall Median = -80%*
- *Percent Change in Each Coin's Value = 0*

**Median Value of Coins = 5 cents**



**Median Value of Coins = 1 cent**





## *Why the Demographic Approach to Wealth Trends and Inequality is Fruitful*

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- **Allows us to create quasi-panels (time series) using cross-sectional SCF data.**
- **Allows us to interpret correlations as causal—for example, your birth year may “cause” your wealth but your wealth does not cause your birth year.**
- **More intuitive than rankings—everyone knows their race or ethnicity, education level and birth year but not necessarily where they rank.**
  - **Changes in the “top 10%” or “the bottom half” reflect different groups of people over time.**
  - **Do you know where you rank in the income or wealth distributions? Where you or your parents ranked in 2001 or 1989??**



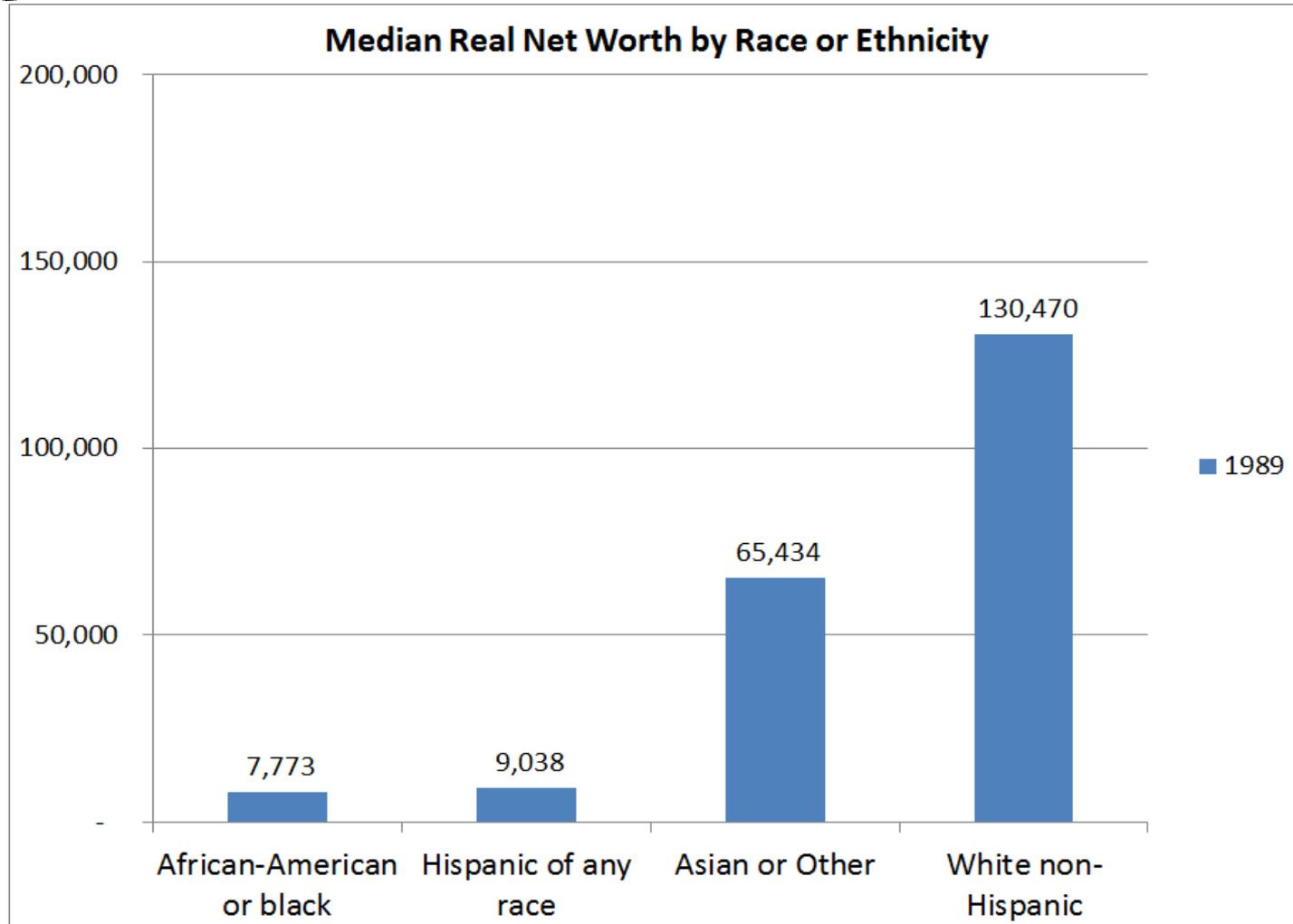
# *The Demographics of Balance Sheets and Wealth*

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- **Part 1: Race, Ethnicity and Wealth**
  
- **Groups based on race or ethnicity of family head**
  - **Non-Hispanic white**
  - **Non-Hispanic black or African-American**
  - **Hispanic of any race**
  - **Other (mainly Asian)**



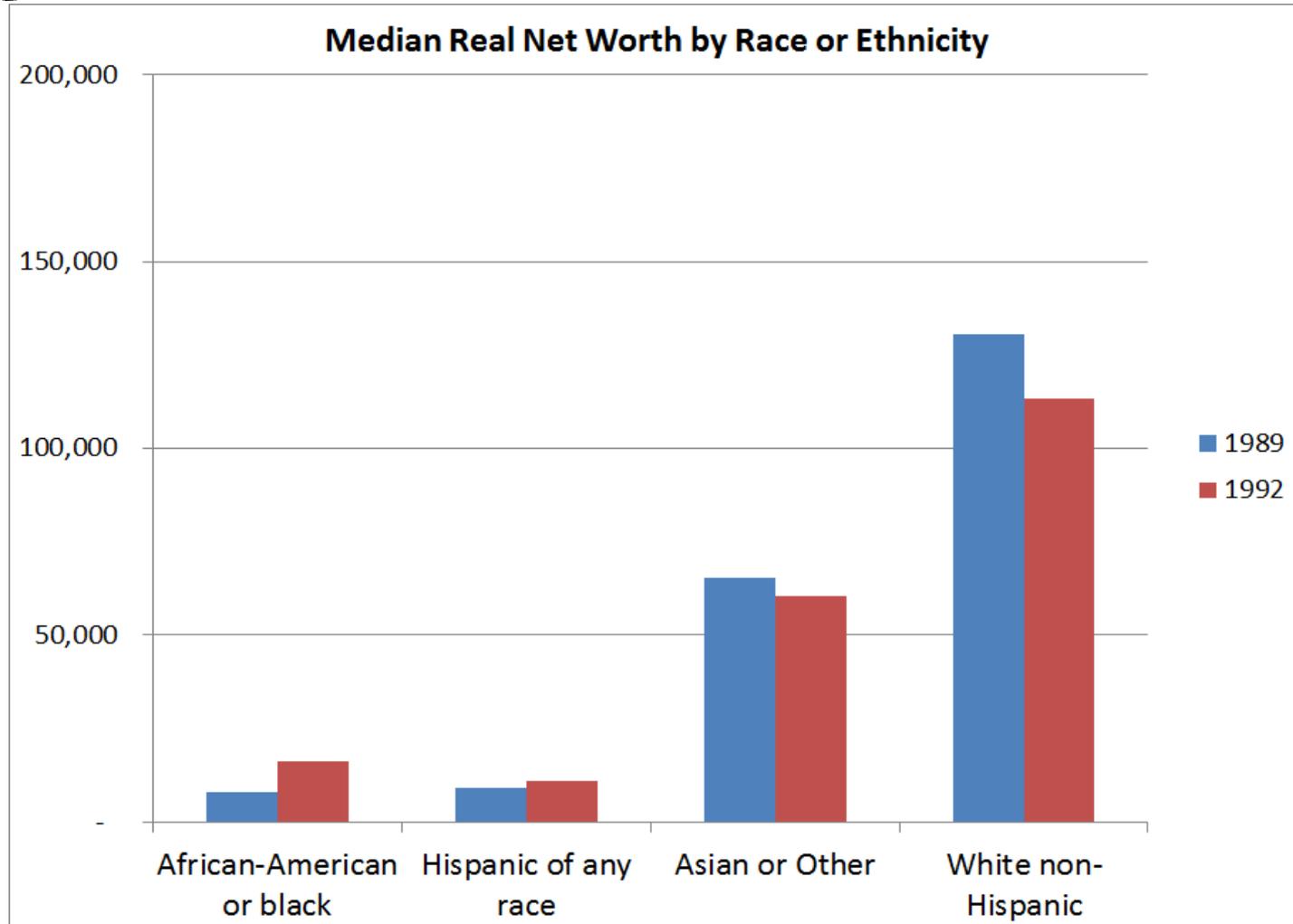
# *Wealth Gaps by Race or Ethnicity Were Huge in 1989*



Source: Federal Reserve Board, Survey of Consumer Finances



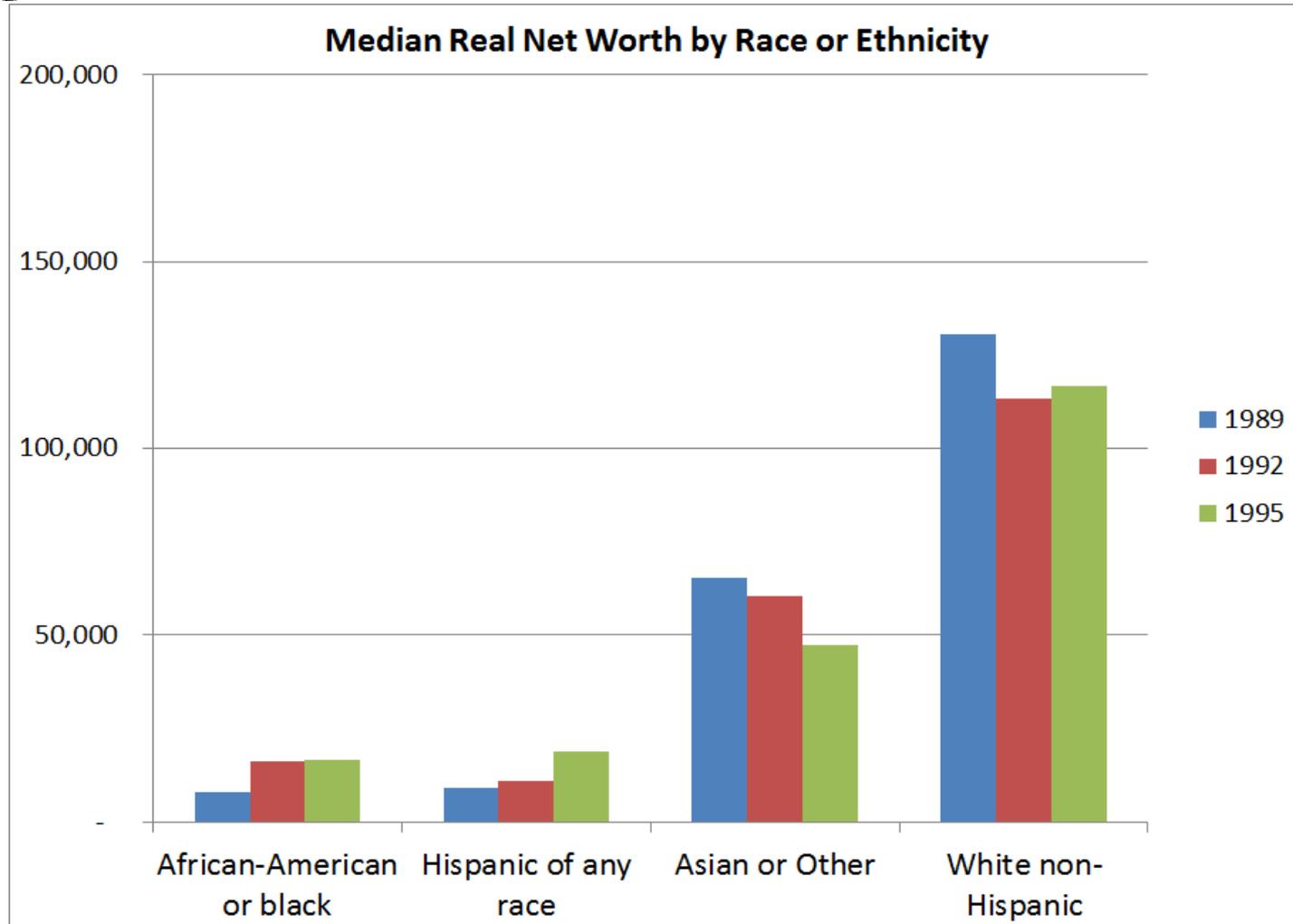
# *The Changing Distribution of Wealth By Race or Ethnicity*



Source: Federal Reserve Board, Survey of Consumer Finances



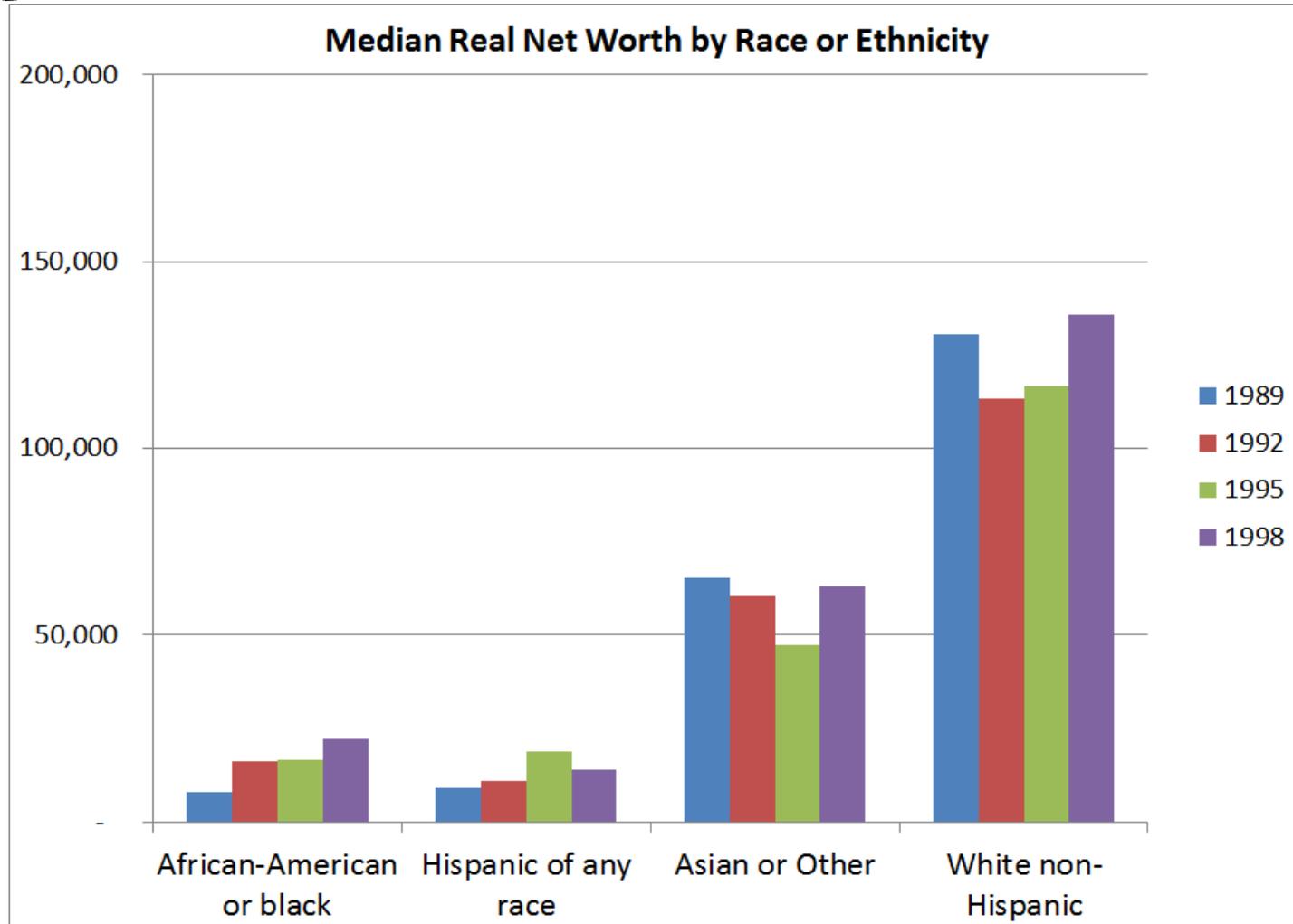
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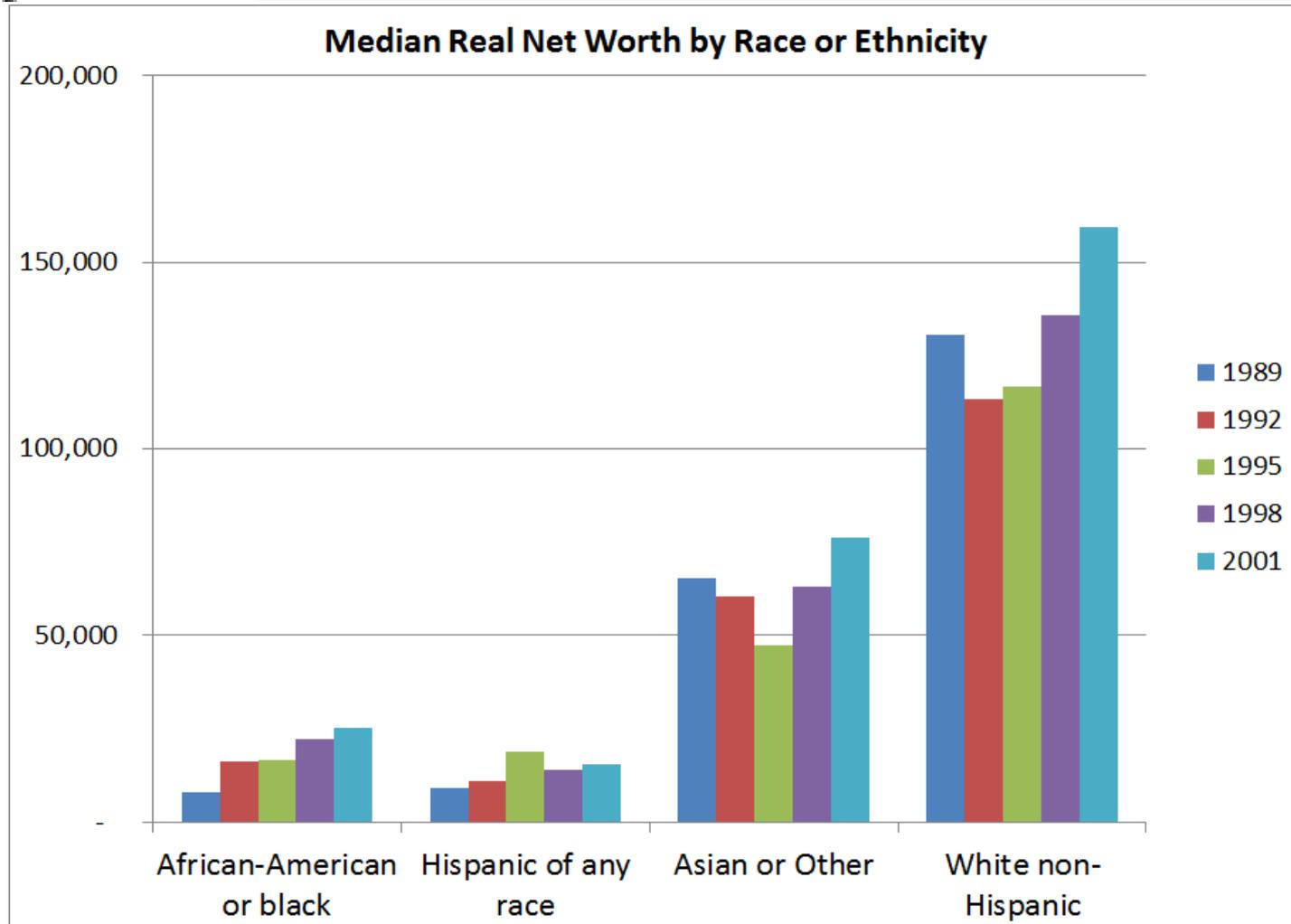
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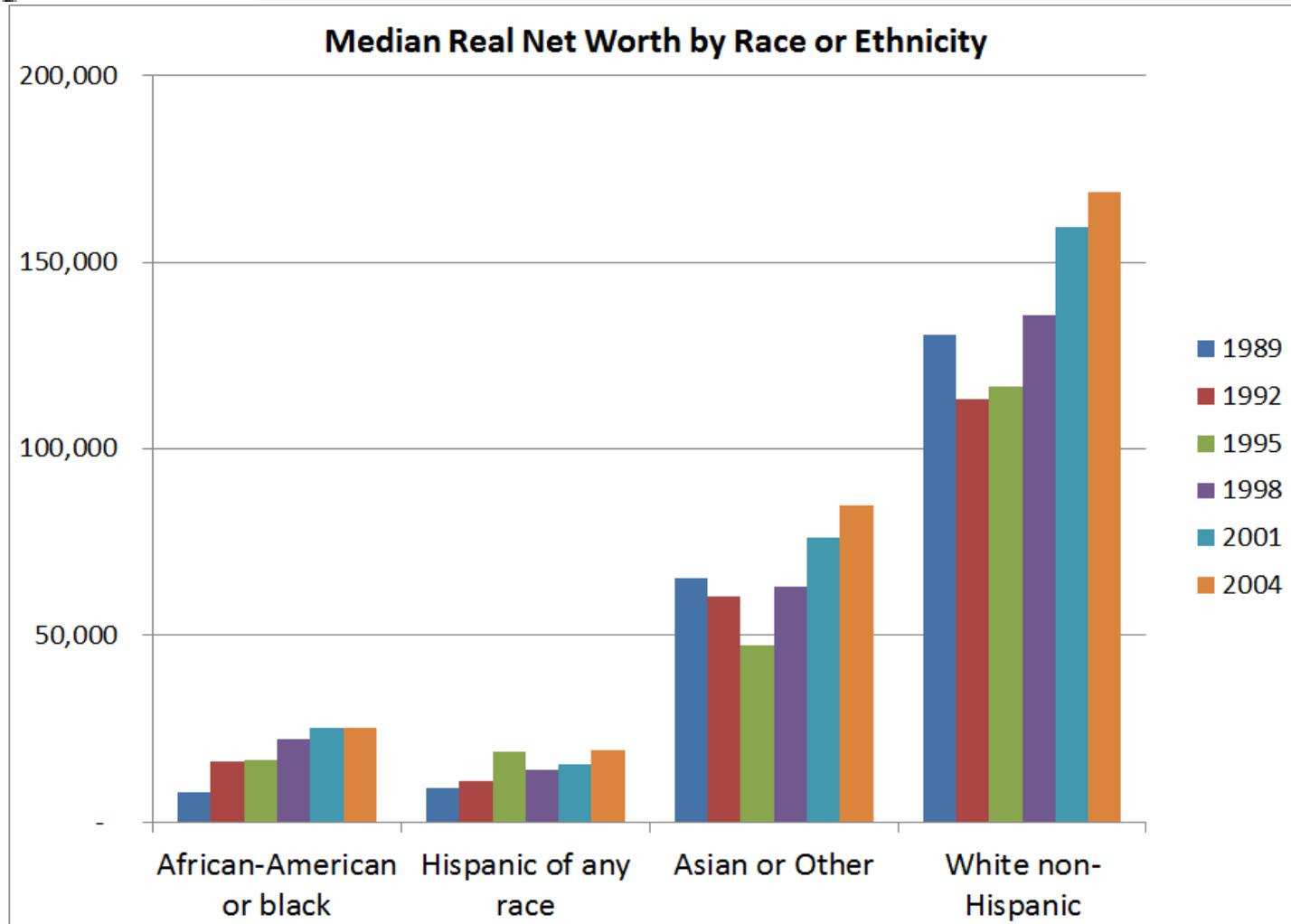
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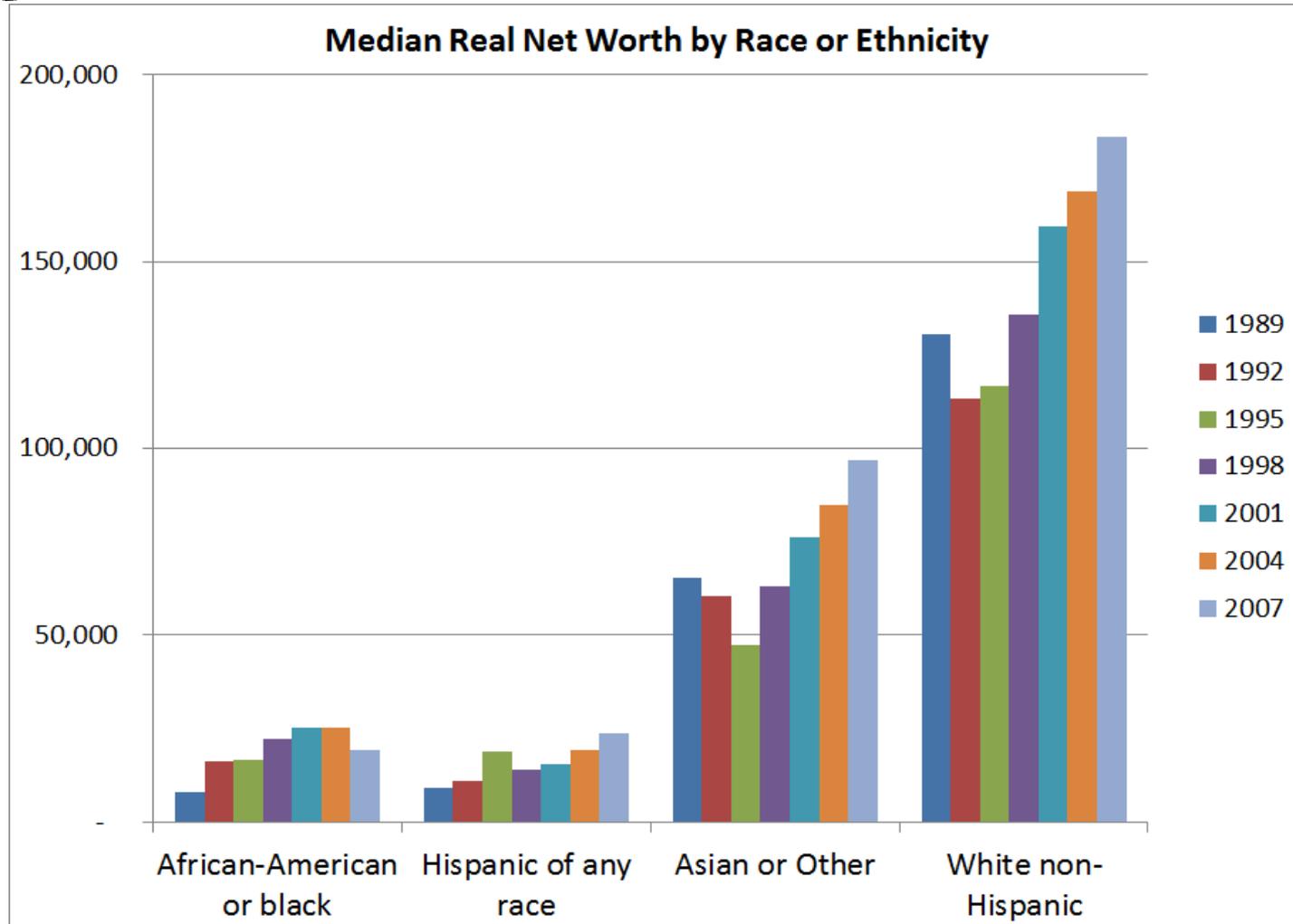
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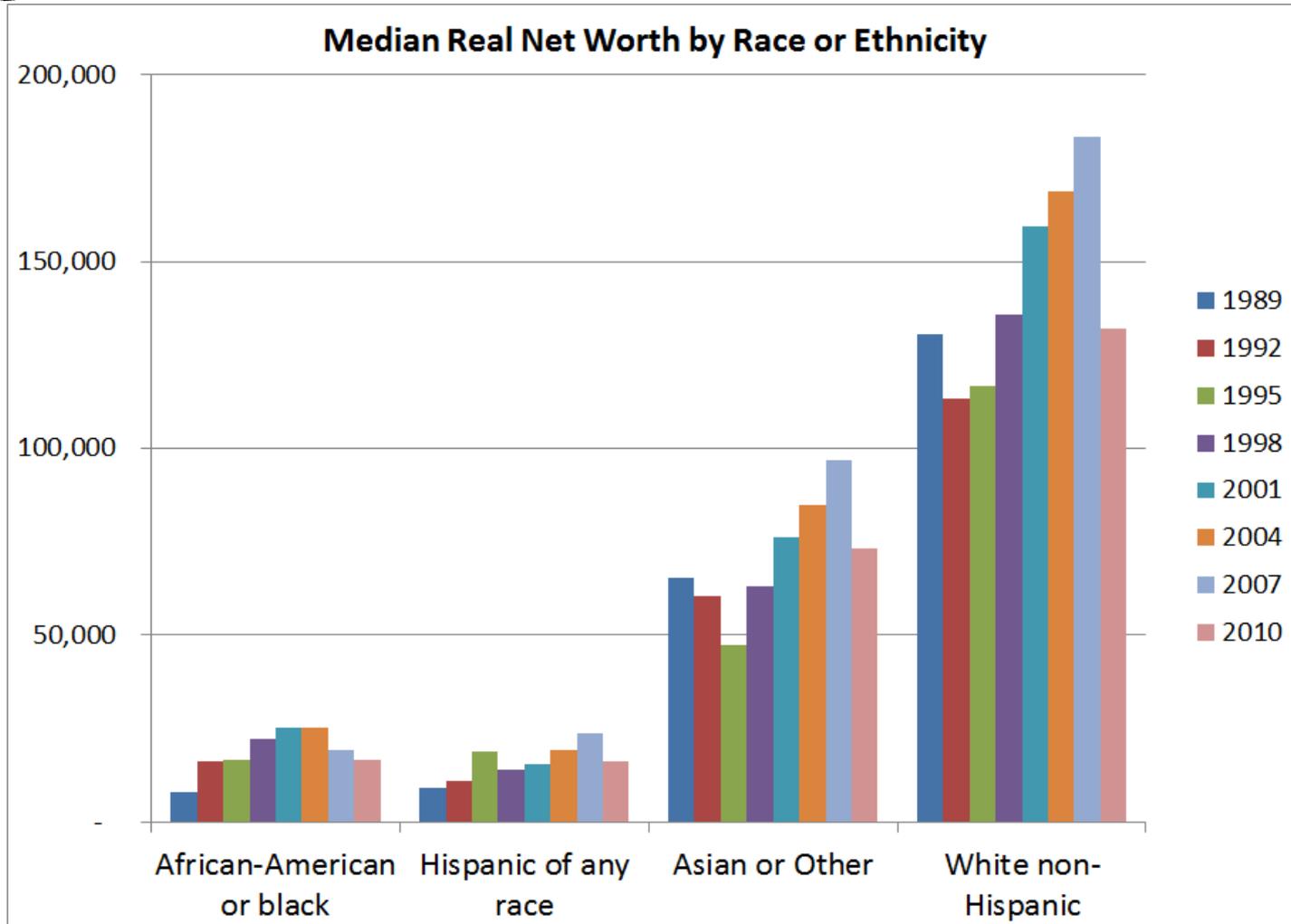
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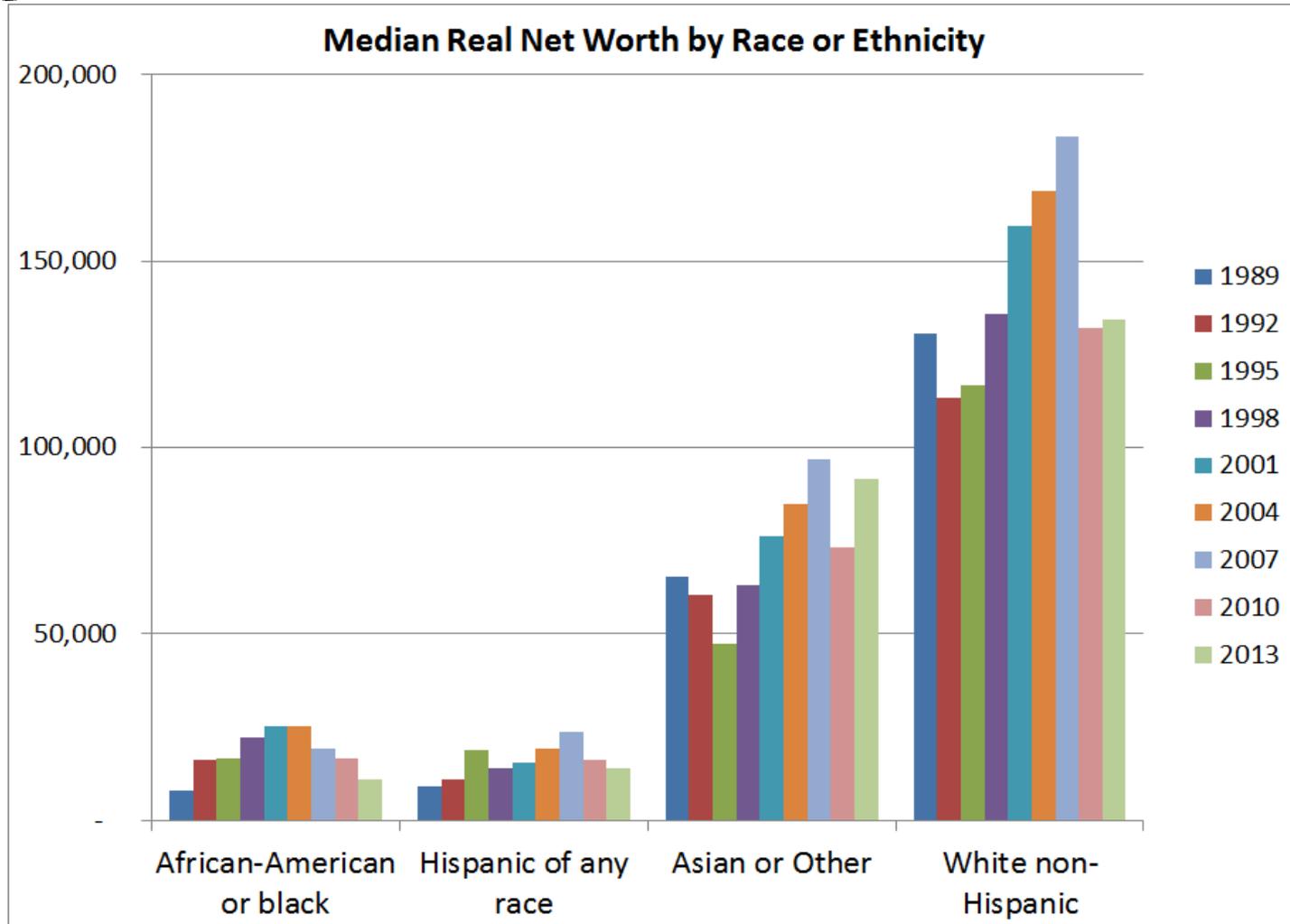
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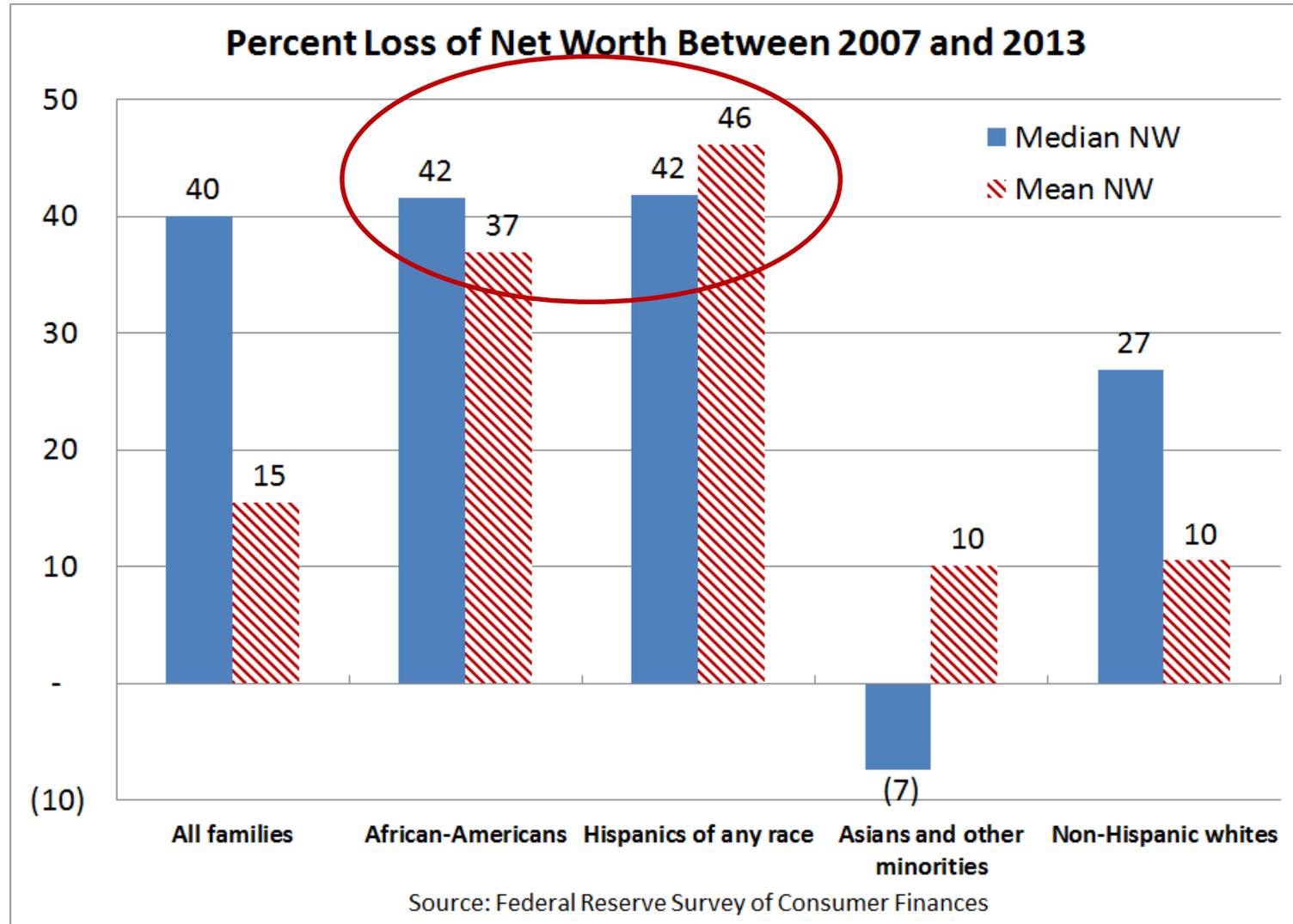
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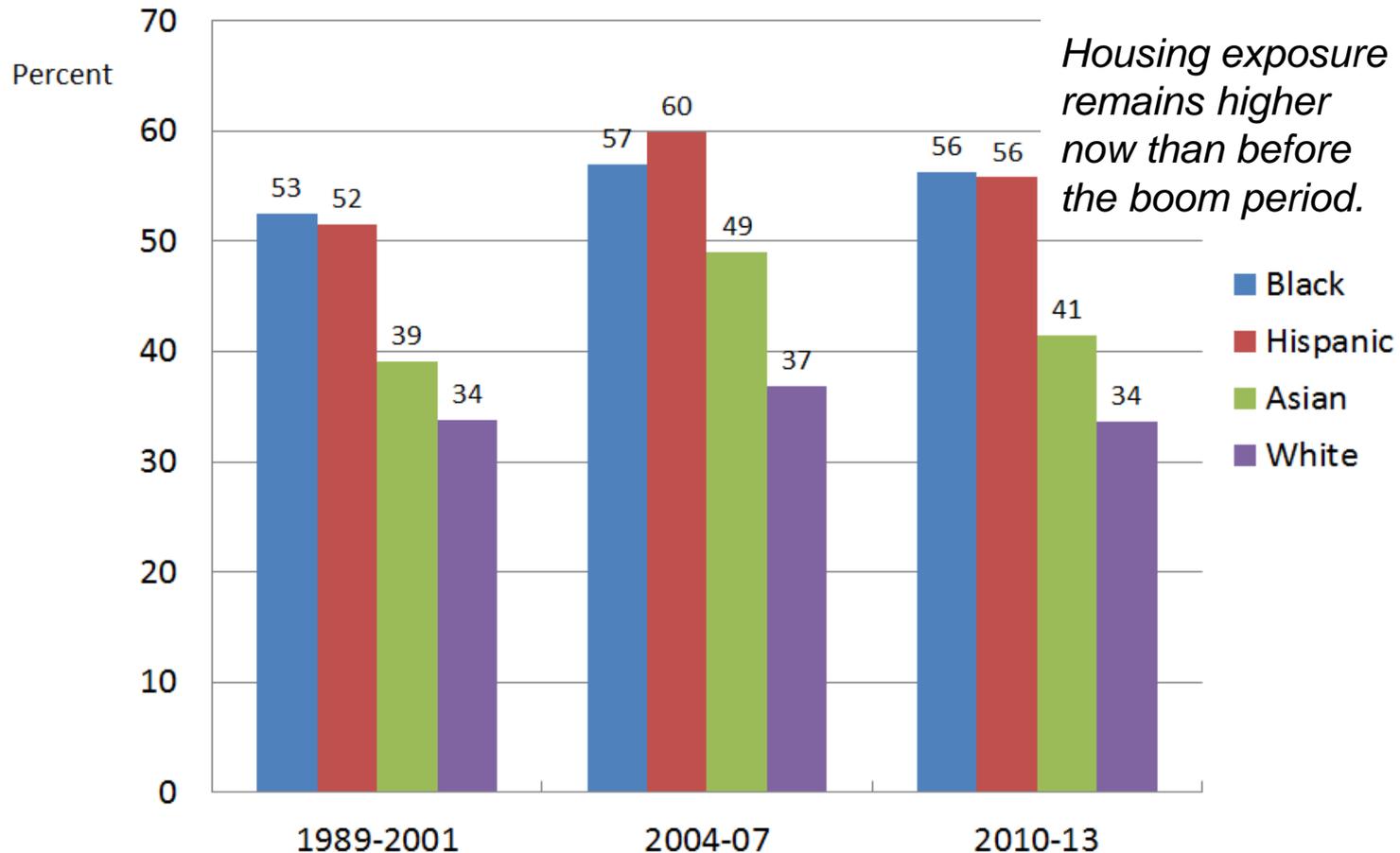
# *Why Were Wealth Losses Higher Among Black and Latino Families After 2007?*





## *Non-White Families Increased Already High Housing Exposures*

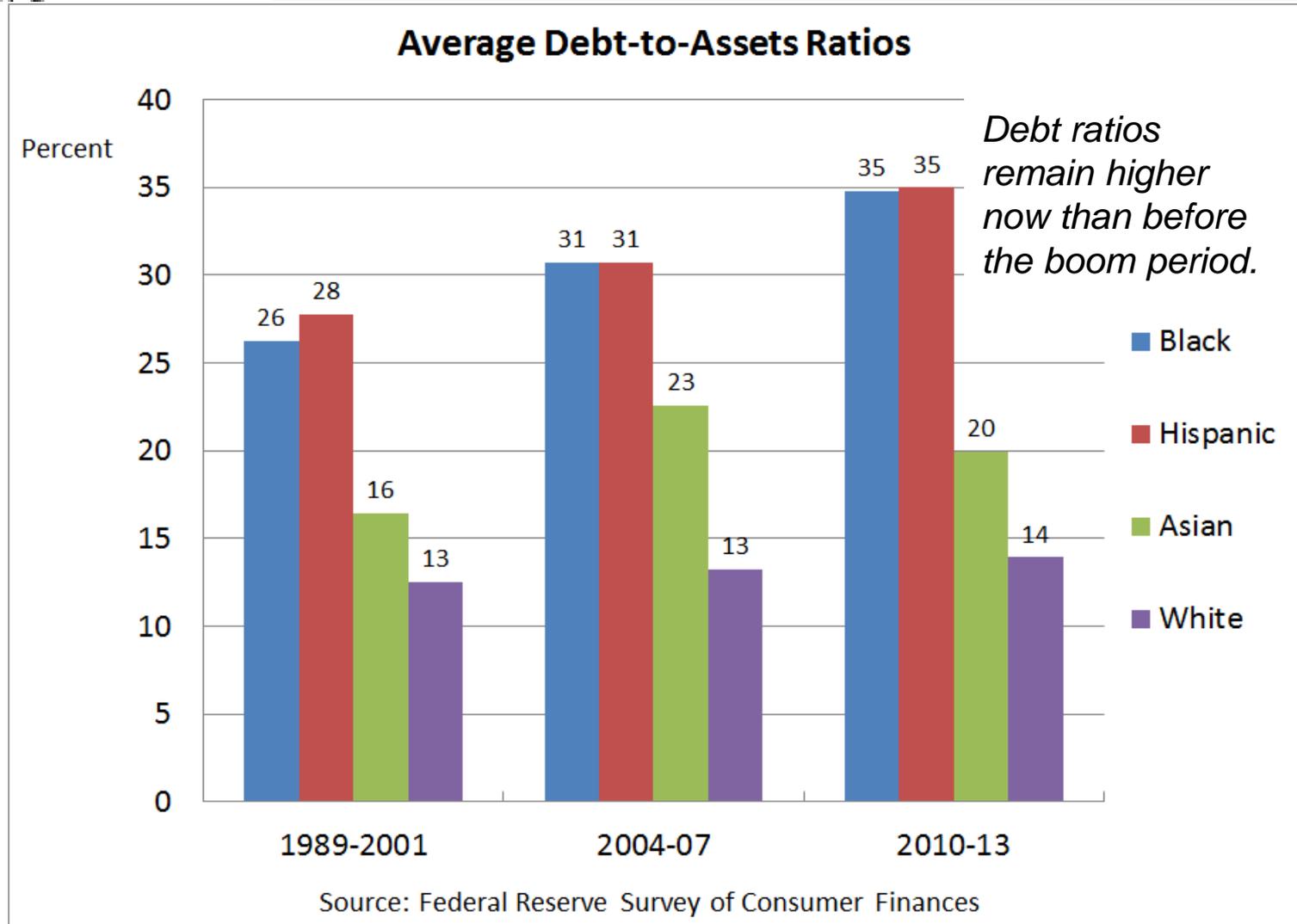
**Average Share of Assets Invested in Housing**



Source: Federal Reserve Survey of Consumer Finances



## *Non-White Families Increased Debt*





# *The Demographics of Balance Sheets and Wealth*

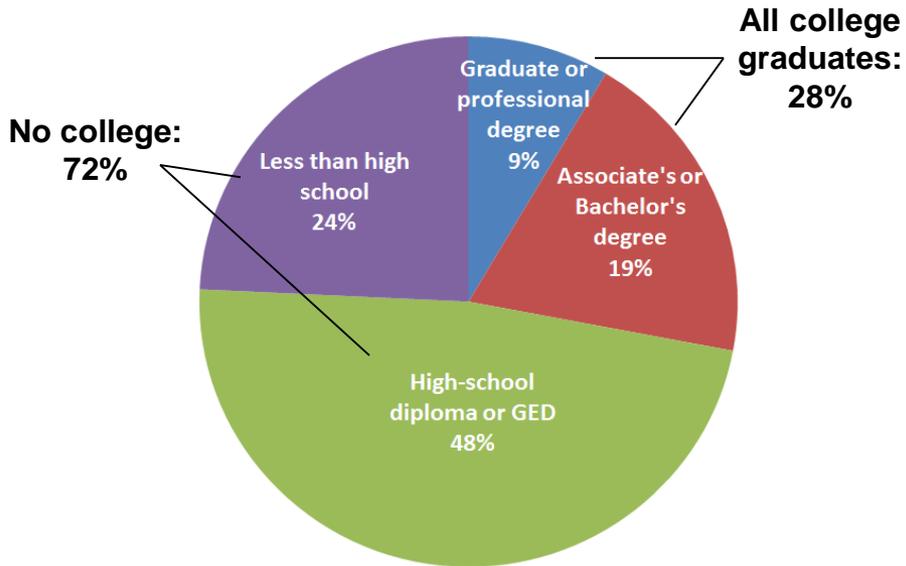
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- **Part 2: Education and Wealth**
  
- **Groups based on highest educational attainment of family head**
  - **Did not complete high school or GED**
  - **High-school diploma or GED**
  - **2- or 4-year college degree**
  - **Post-graduate degree**

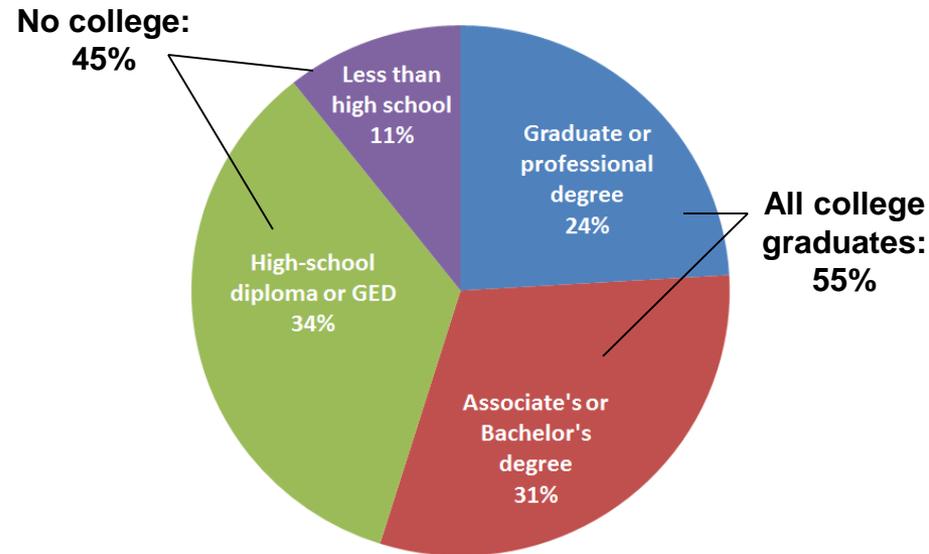


# *In 1989, College Grads Were 28% of Families But Owned 55% of Wealth*

1989 SCF Sample Shares by Educational Attainment



1989 SCF Wealth Shares by Educational Attainment

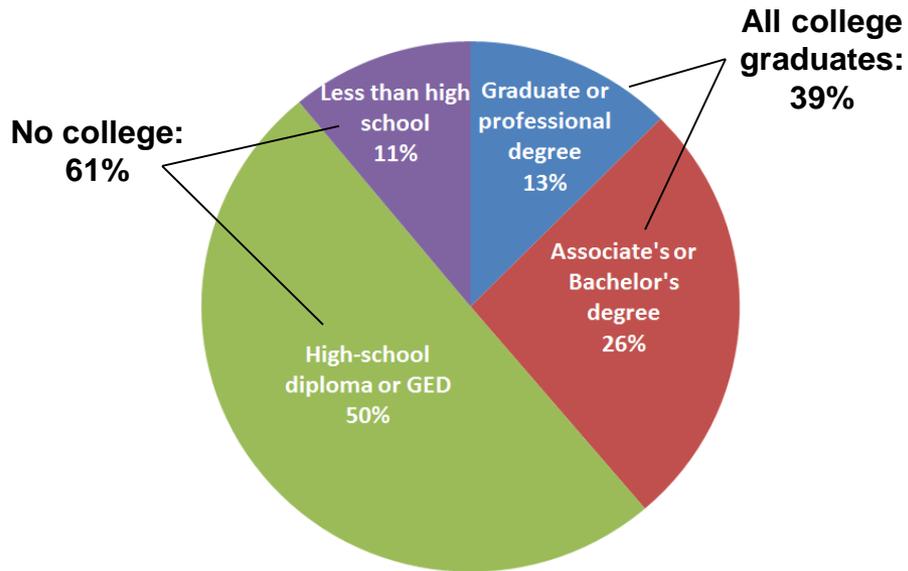


Note: these figures include all families. Some of our recent work covers only families headed by someone 40 or older.

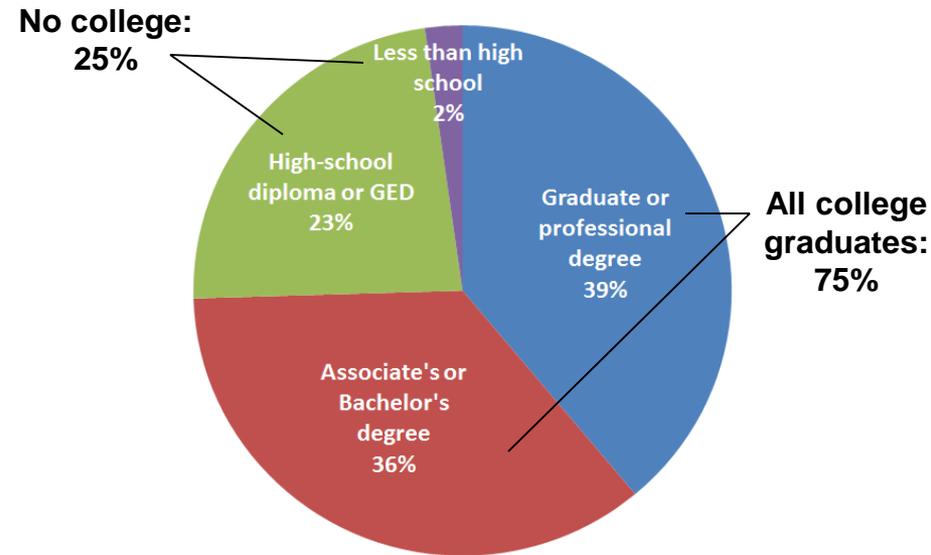


# *In 2013, College Grads Were 39% of Families But Owned 75% of Wealth*

2013 SCF Sample Shares by Educational Attainment



2013 SCF Wealth Shares by Educational Attainment

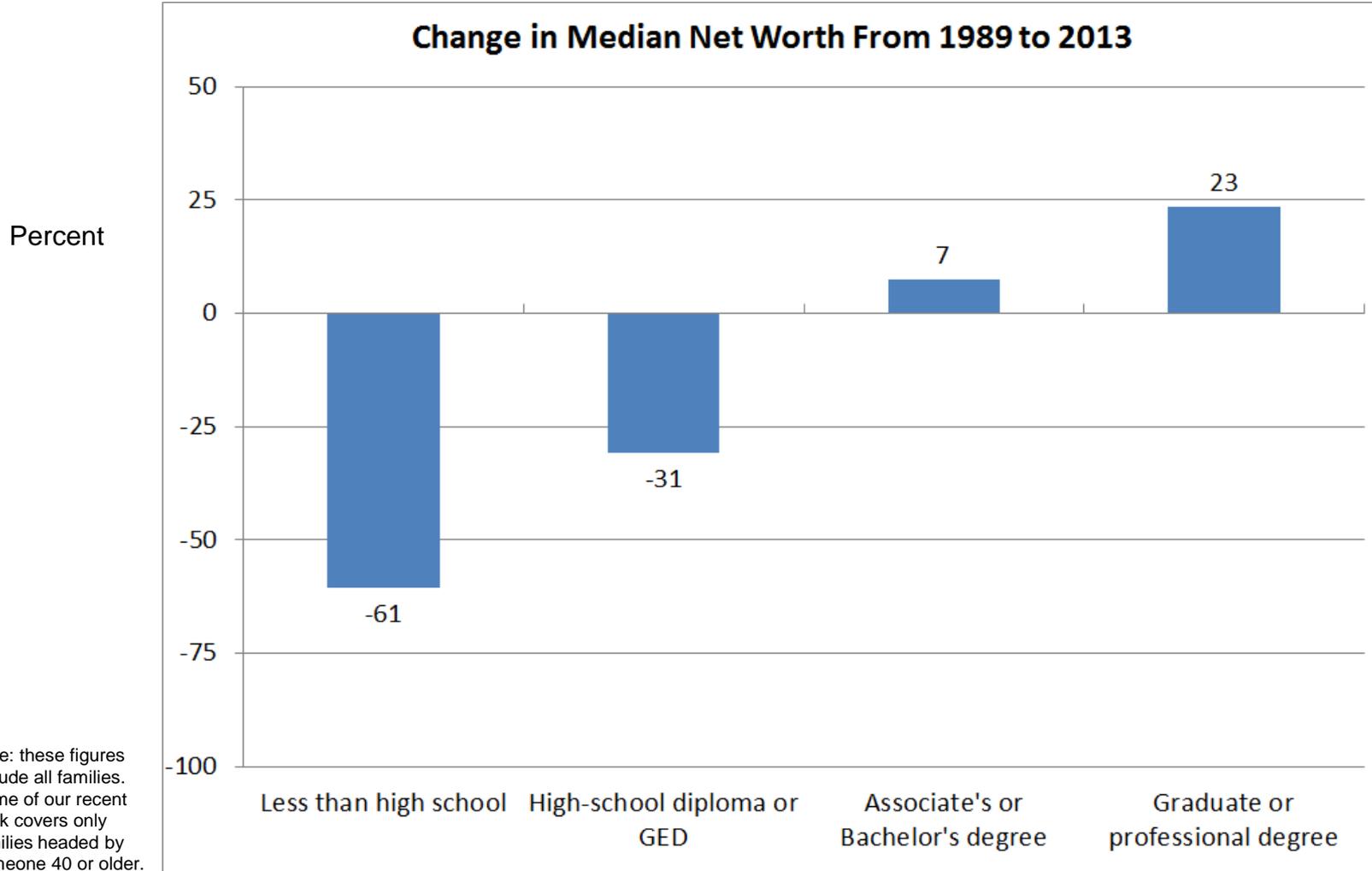


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## *Only College-Graduate Medians Are Higher Now Than in 1989*

**Change in Median Net Worth From 1989 to 2013**



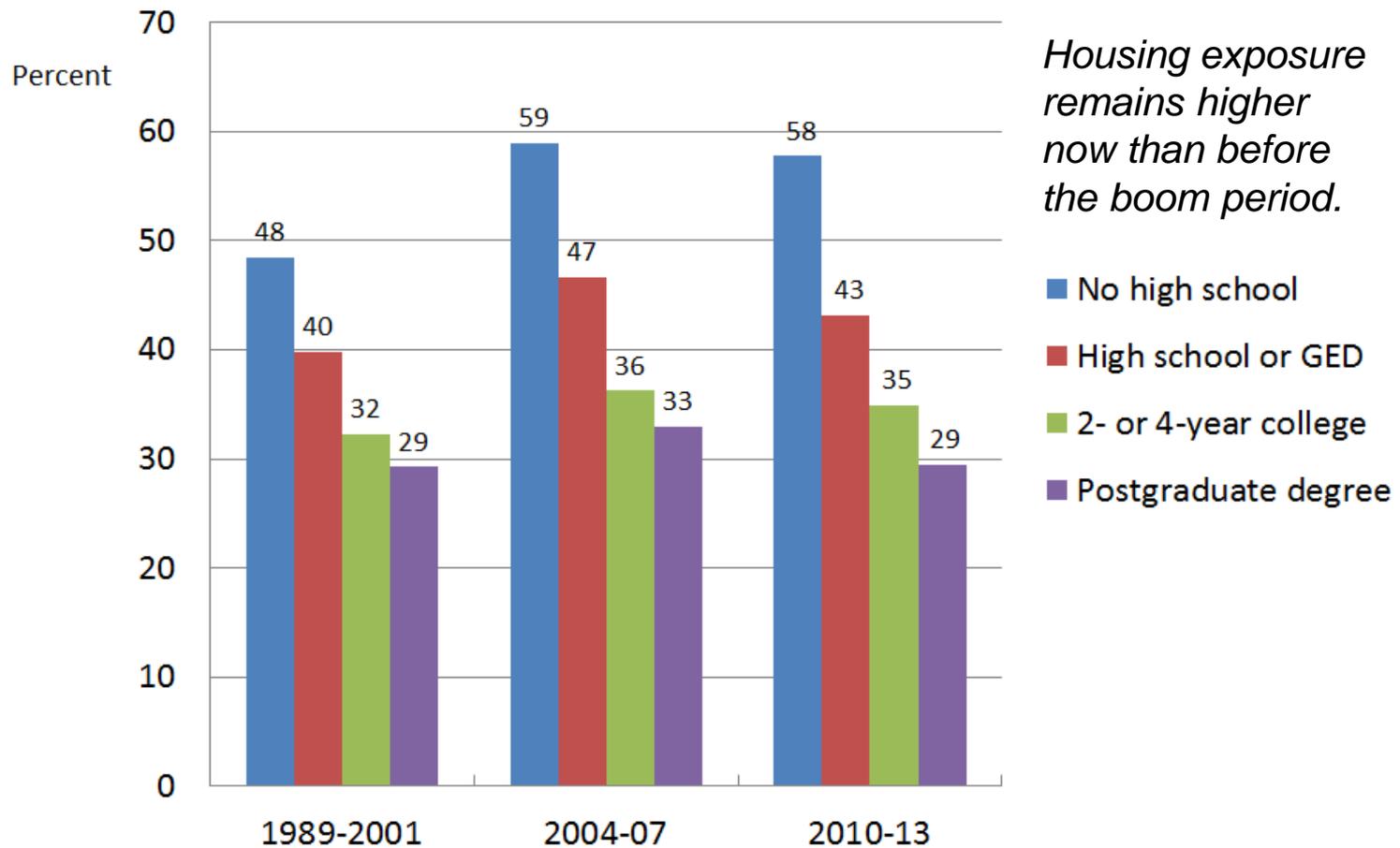
Note: these figures include all families. Some of our recent work covers only families headed by someone 40 or older.

Source: Federal Reserve Board, Survey of Consumer Finances



# *Housing Exposure Increased More Among Less-Educated Families*

## Average Share of Assets Invested in Housing

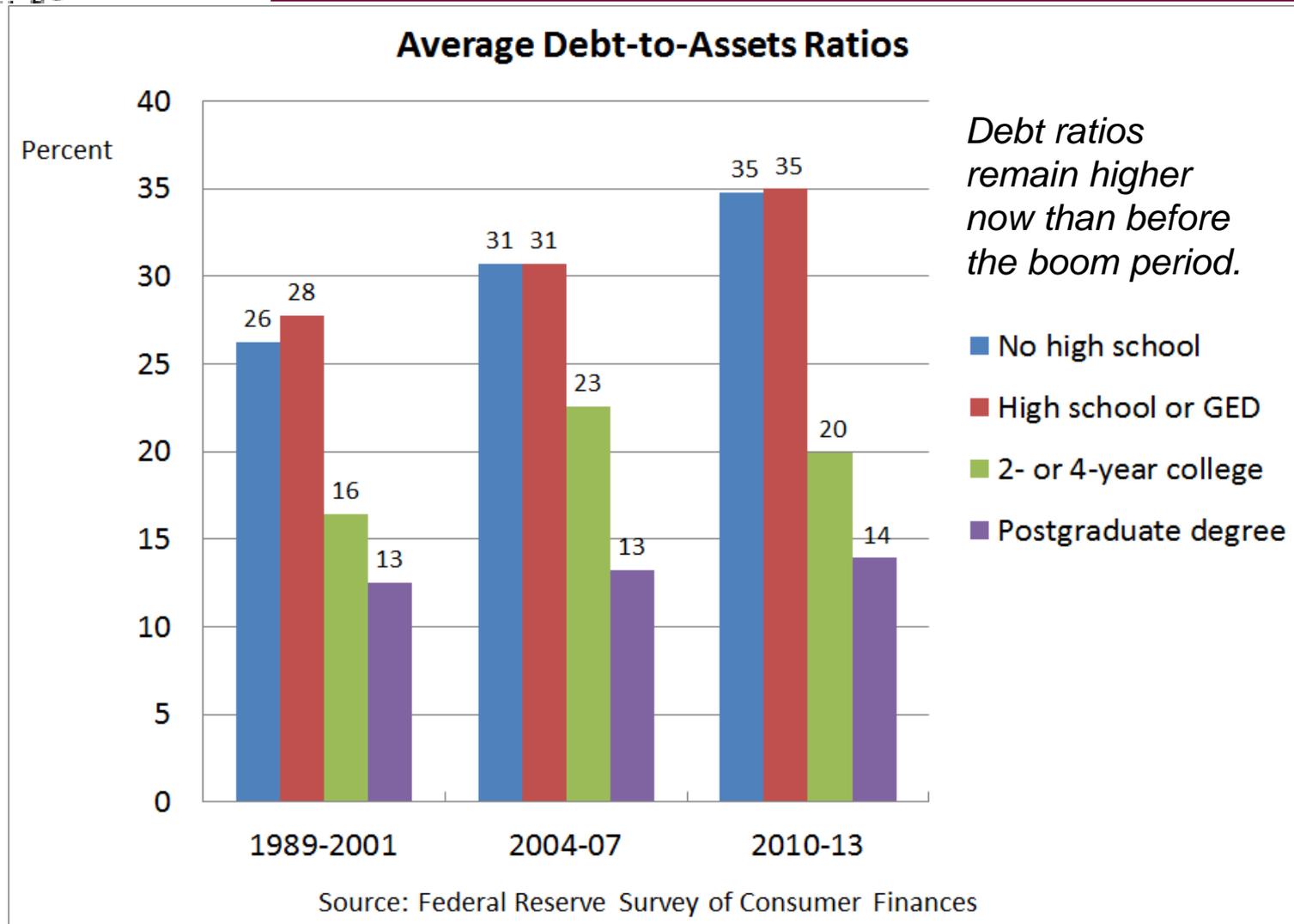


*Housing exposure remains higher now than before the boom period.*

Source: Federal Reserve Survey of Consumer Finances

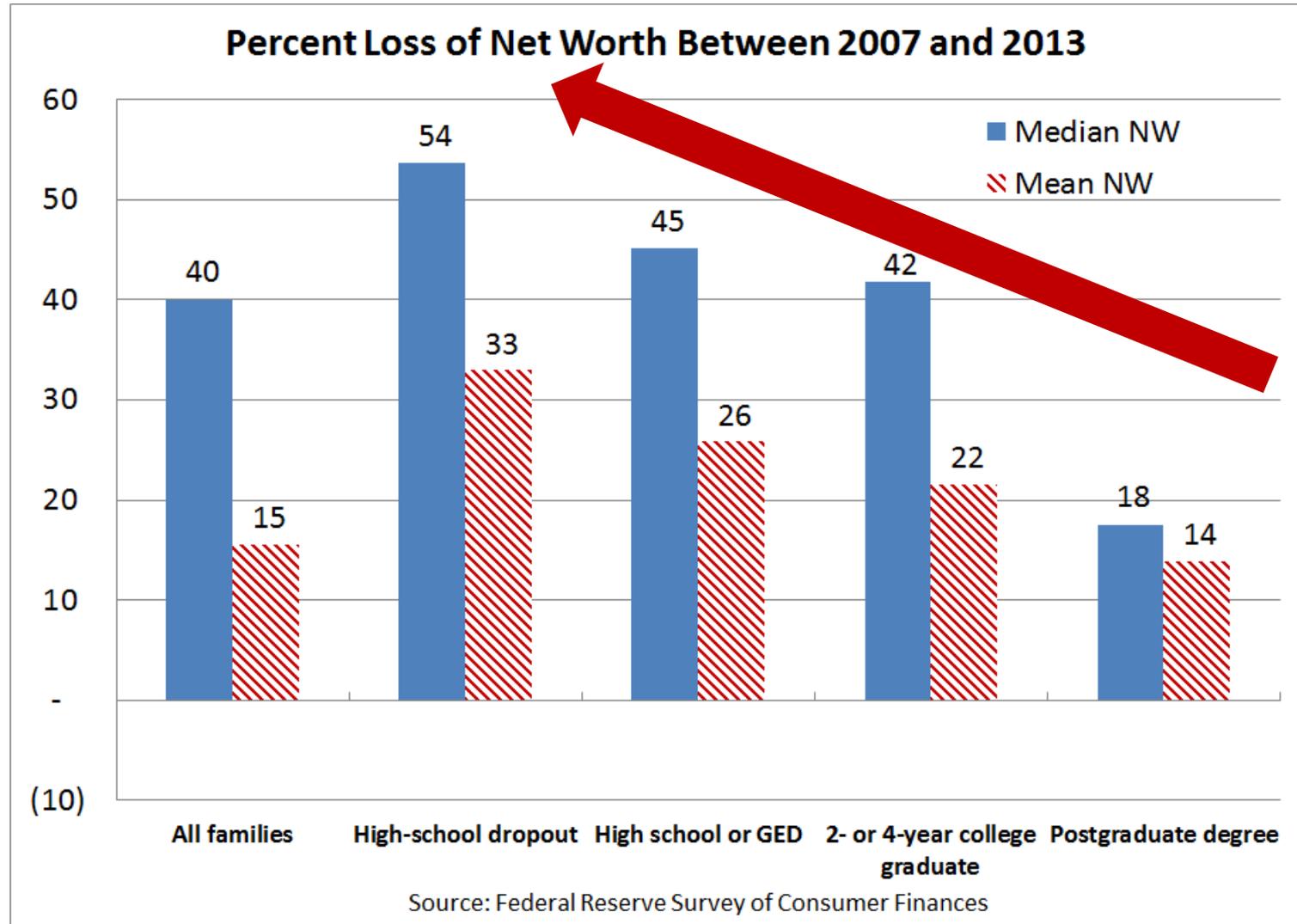


## *Debt Ratios Increased At All Education Levels Except Postgraduate*





# *Less-Educated Families Lost More Wealth Than Better-Educated Families*





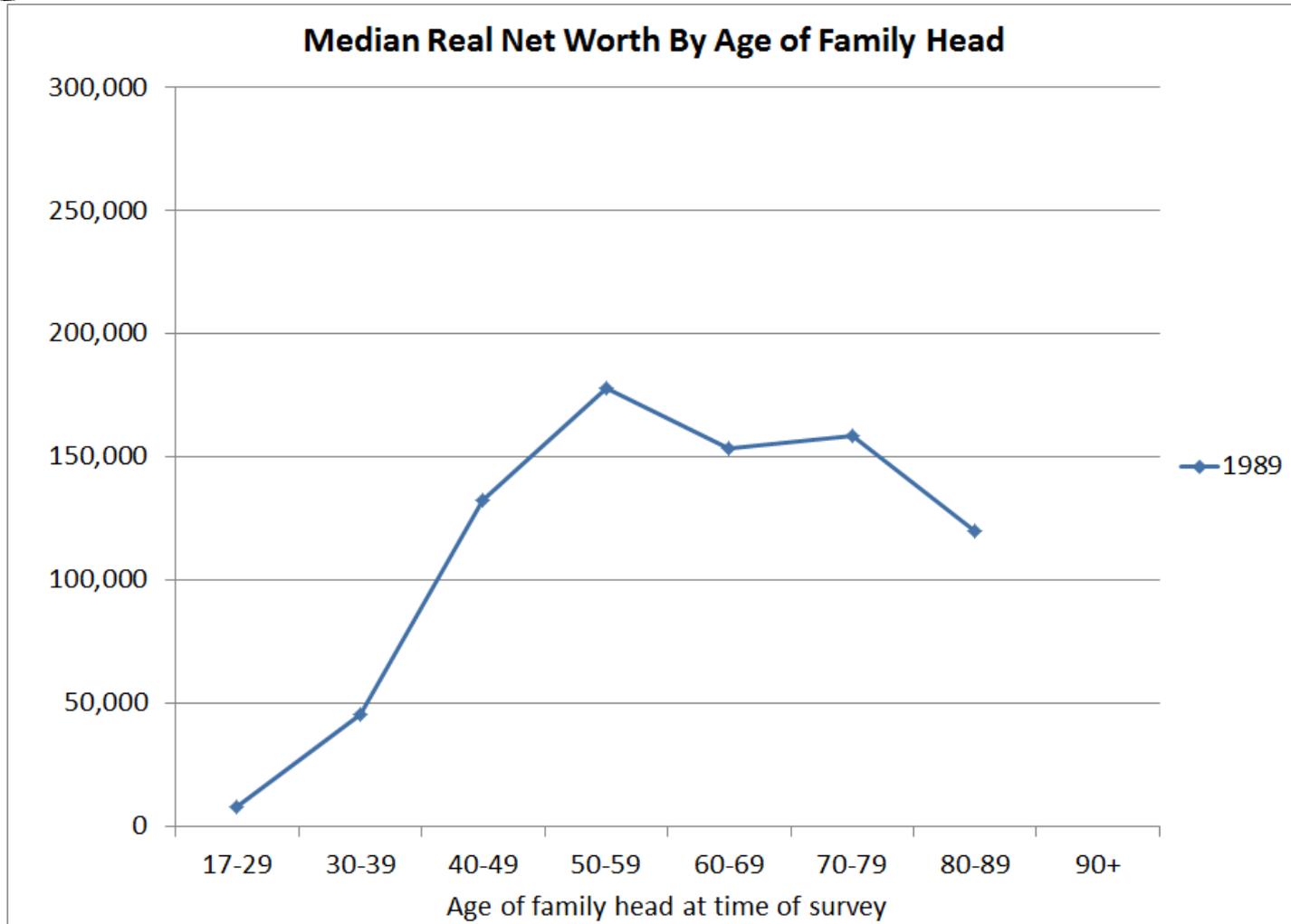
# *The Demographics of Balance Sheets and Wealth*

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- **Part 3: Age, Birth Year and Wealth**
- **Groups based on age of family head**
  - **Young: Under 40**
  - **Middle-aged: 40-61**
  - **Old: 62 or older**
- **Cohorts based on birth year of family head**
  - **5-year cohorts centered on years ending in 0 or 5**
  - **Beginning in 1900, ending in 1990**



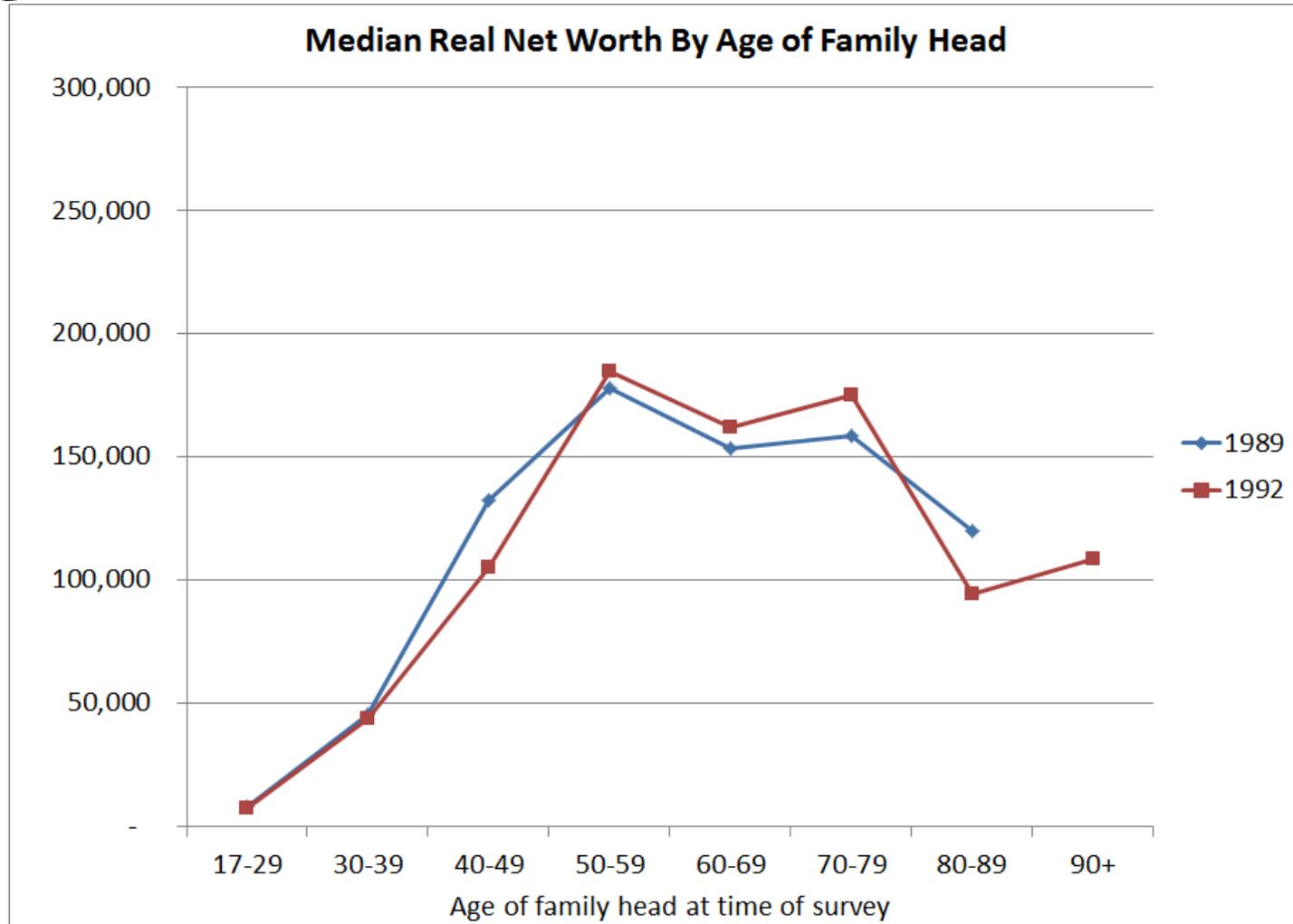
# *Changes in the Age Distribution of Wealth, 1989-2013*



Source: Federal Reserve Board, Survey of Consumer Finances



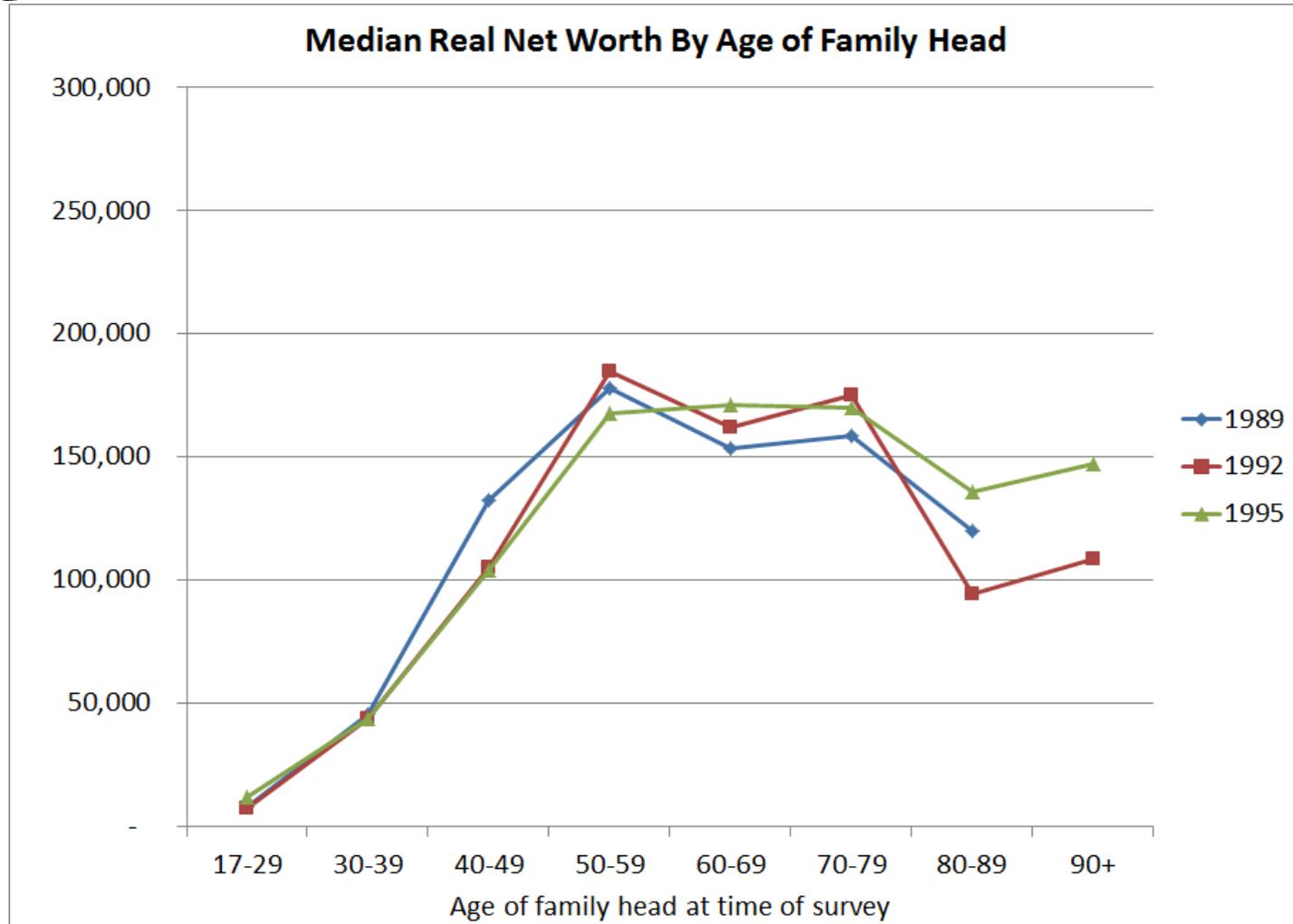
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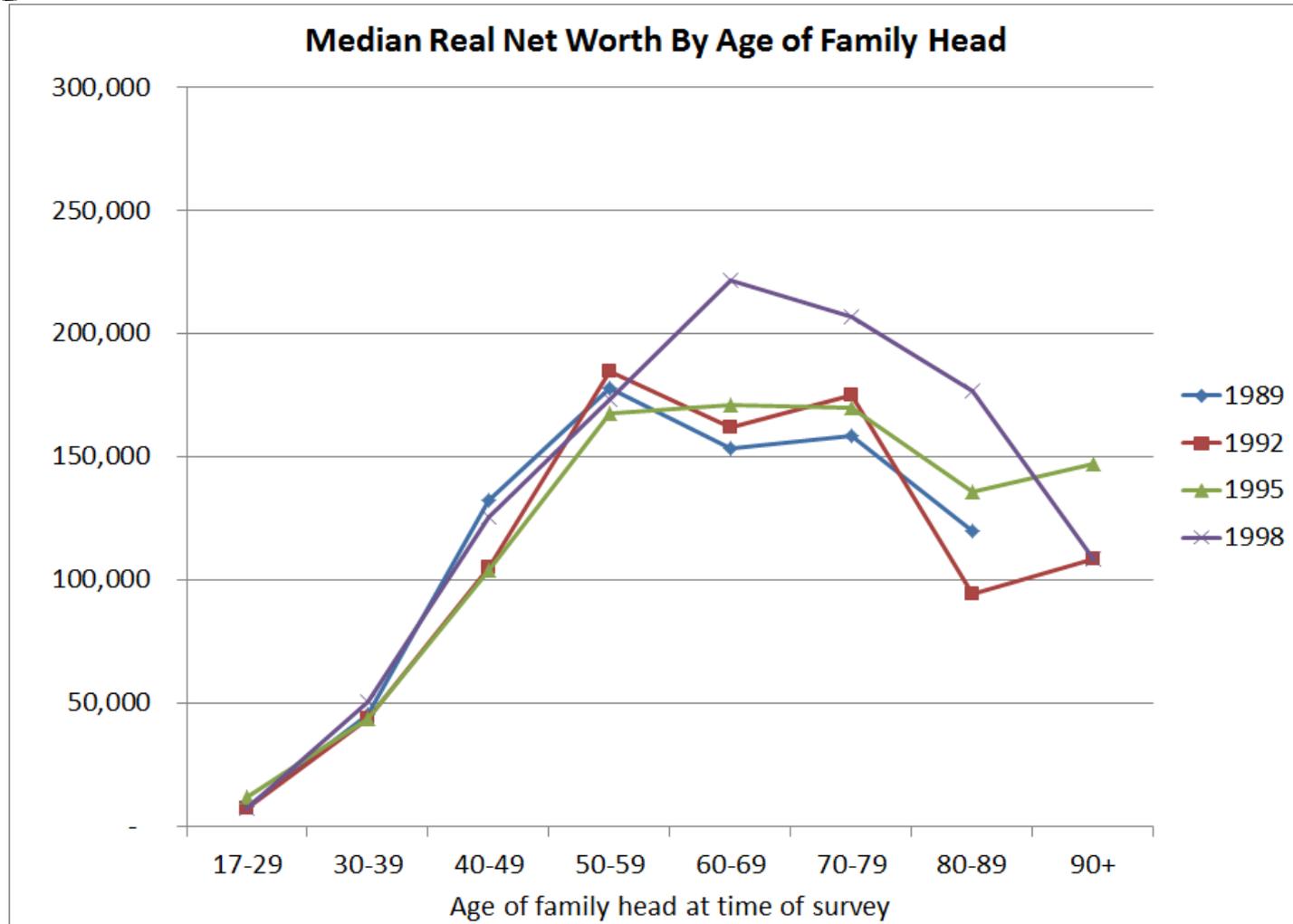
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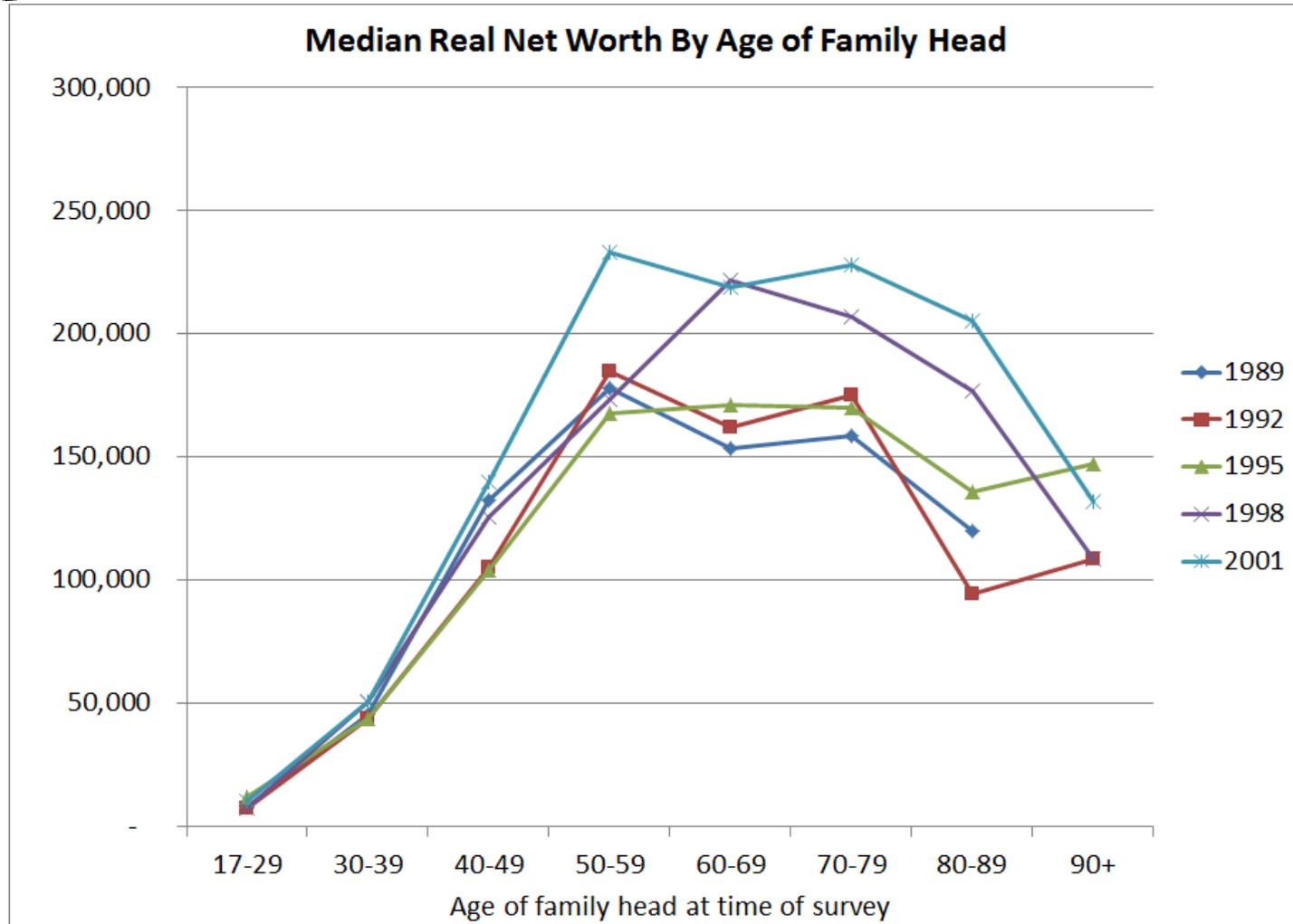
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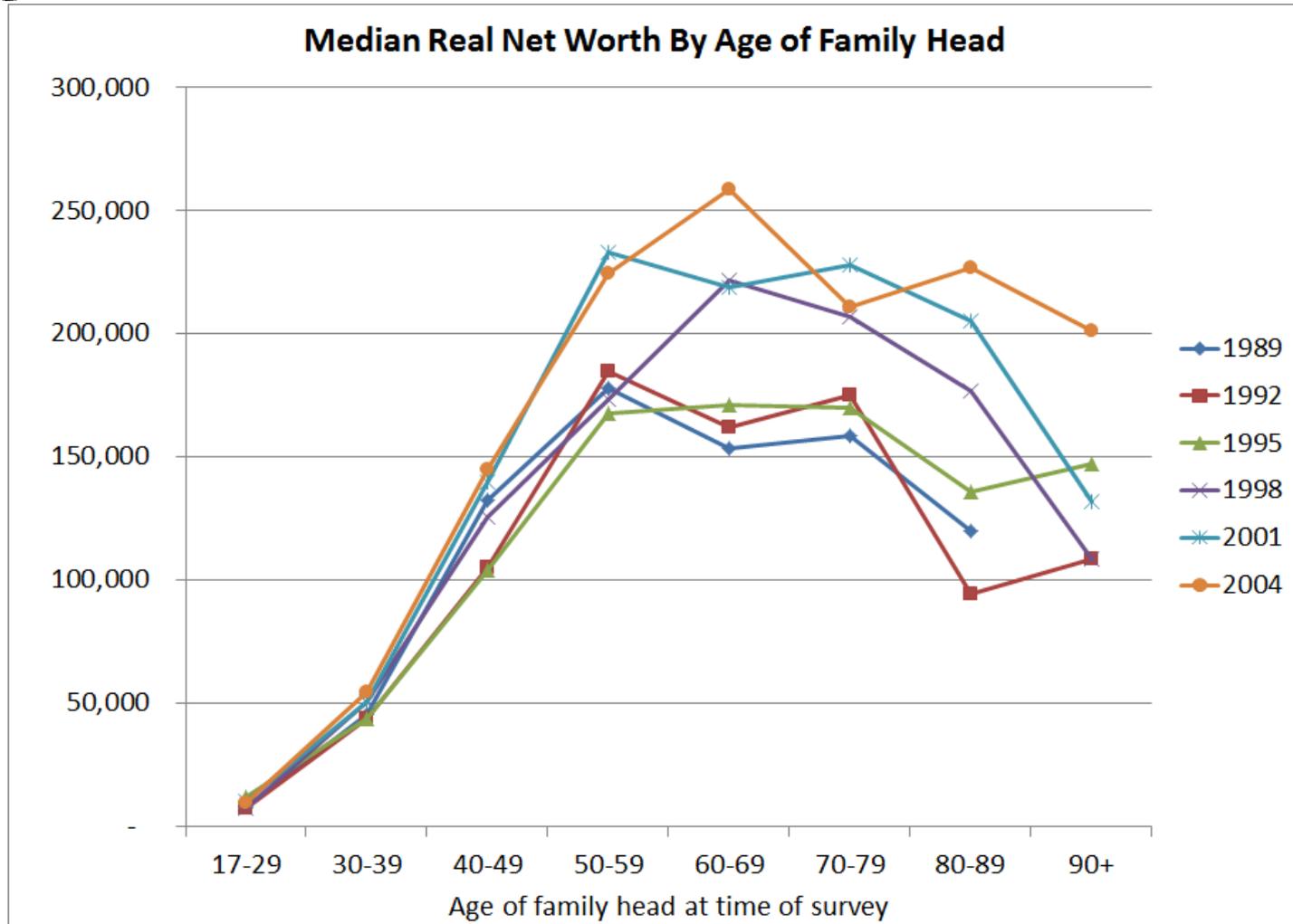
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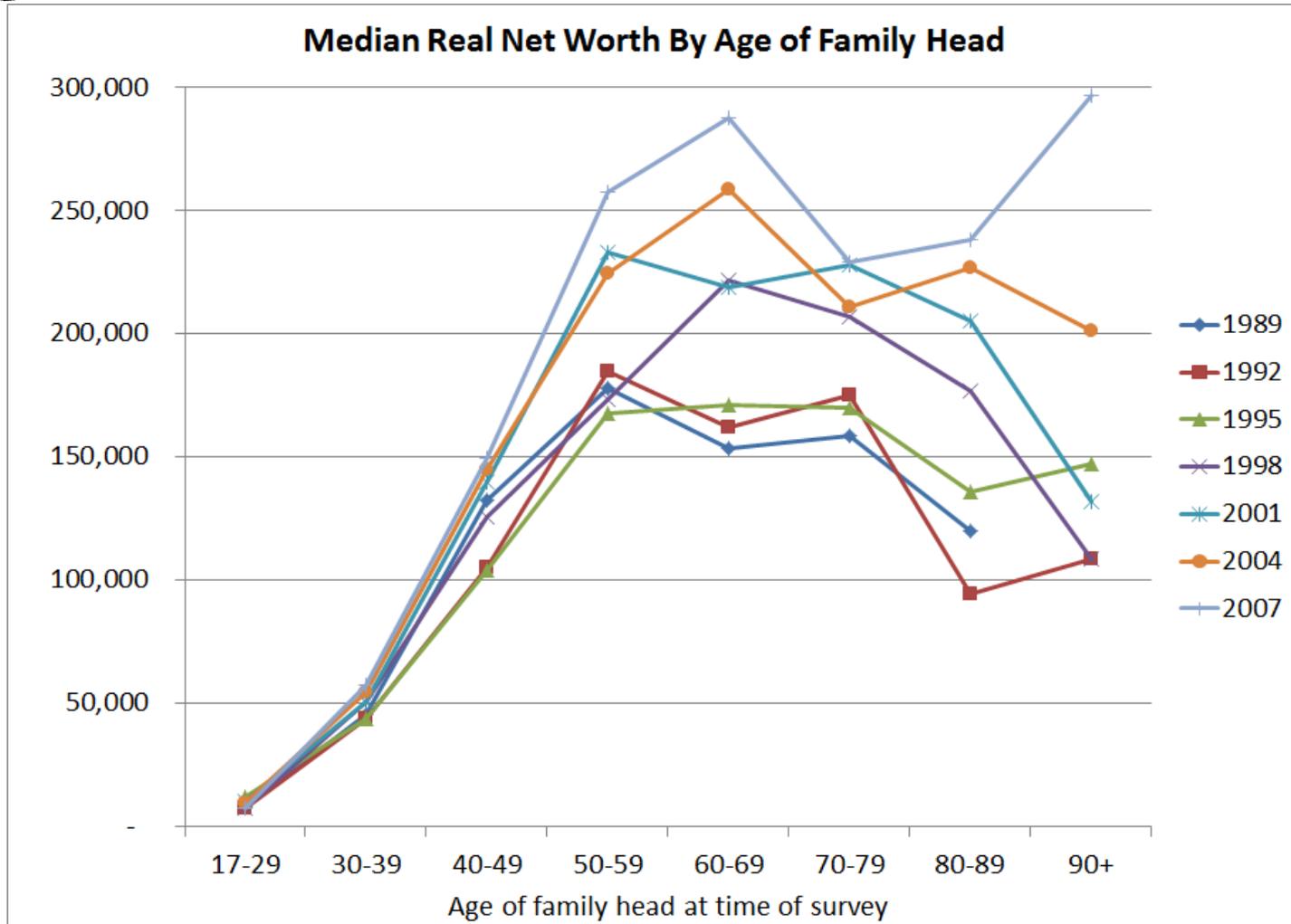
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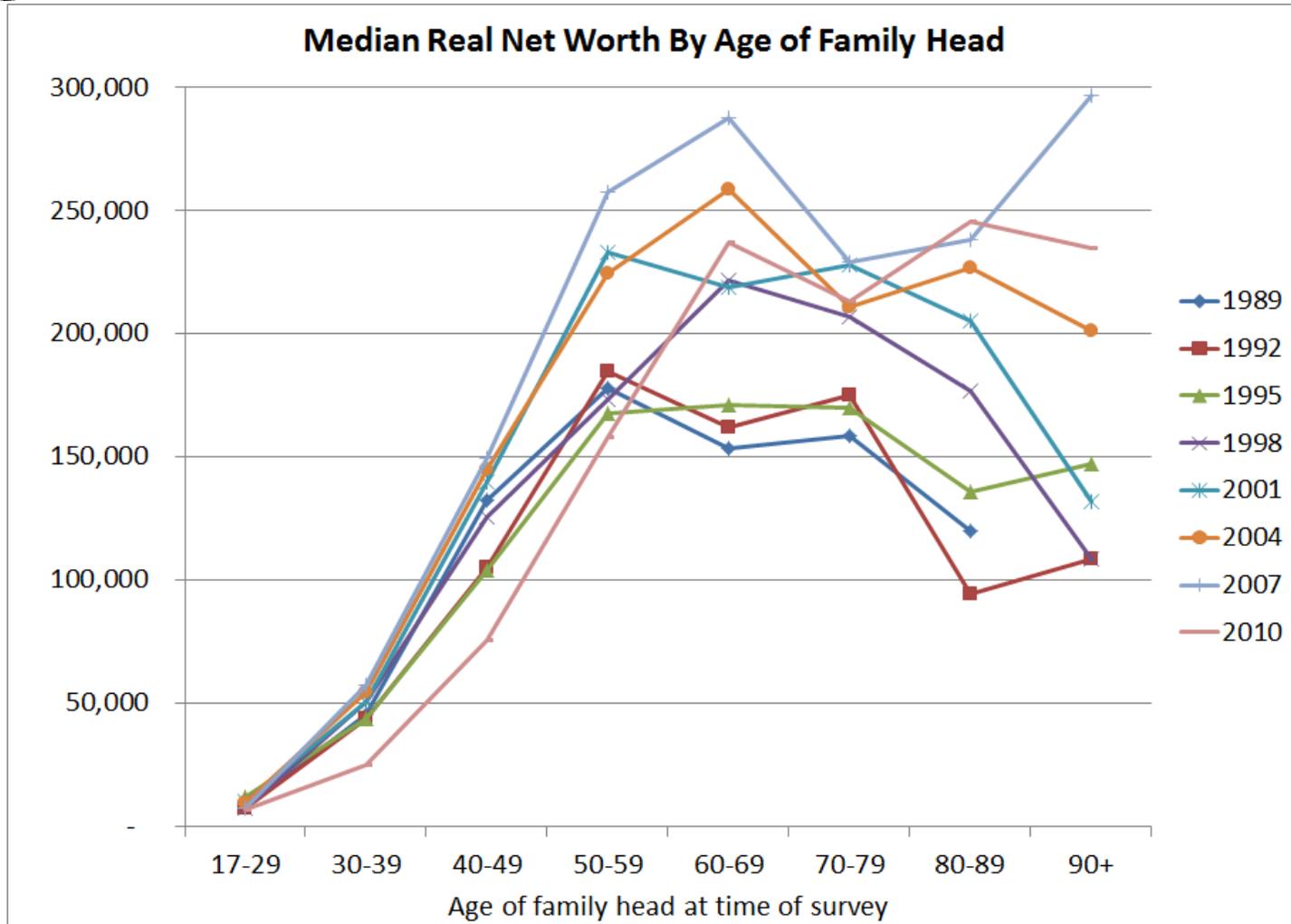
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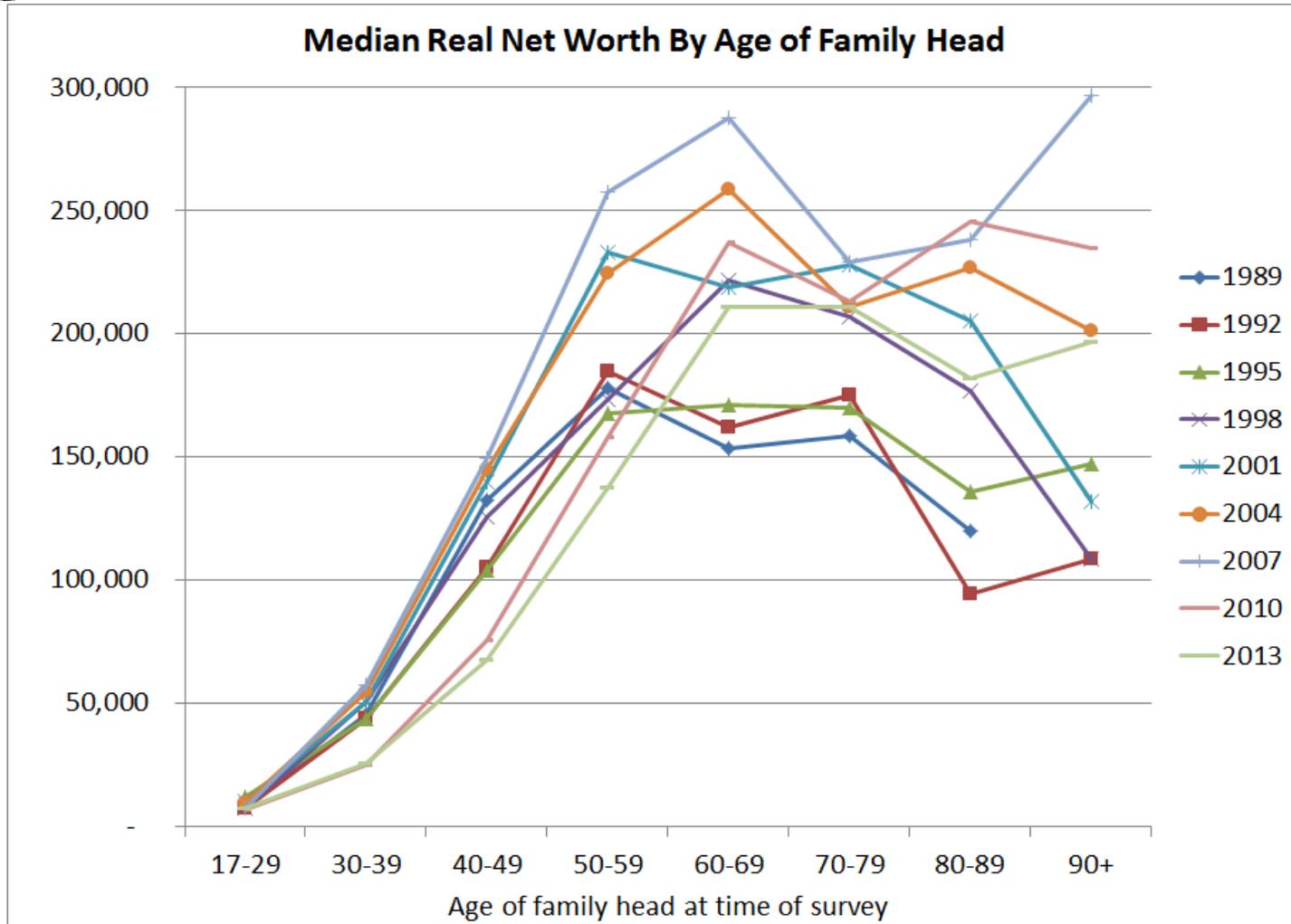
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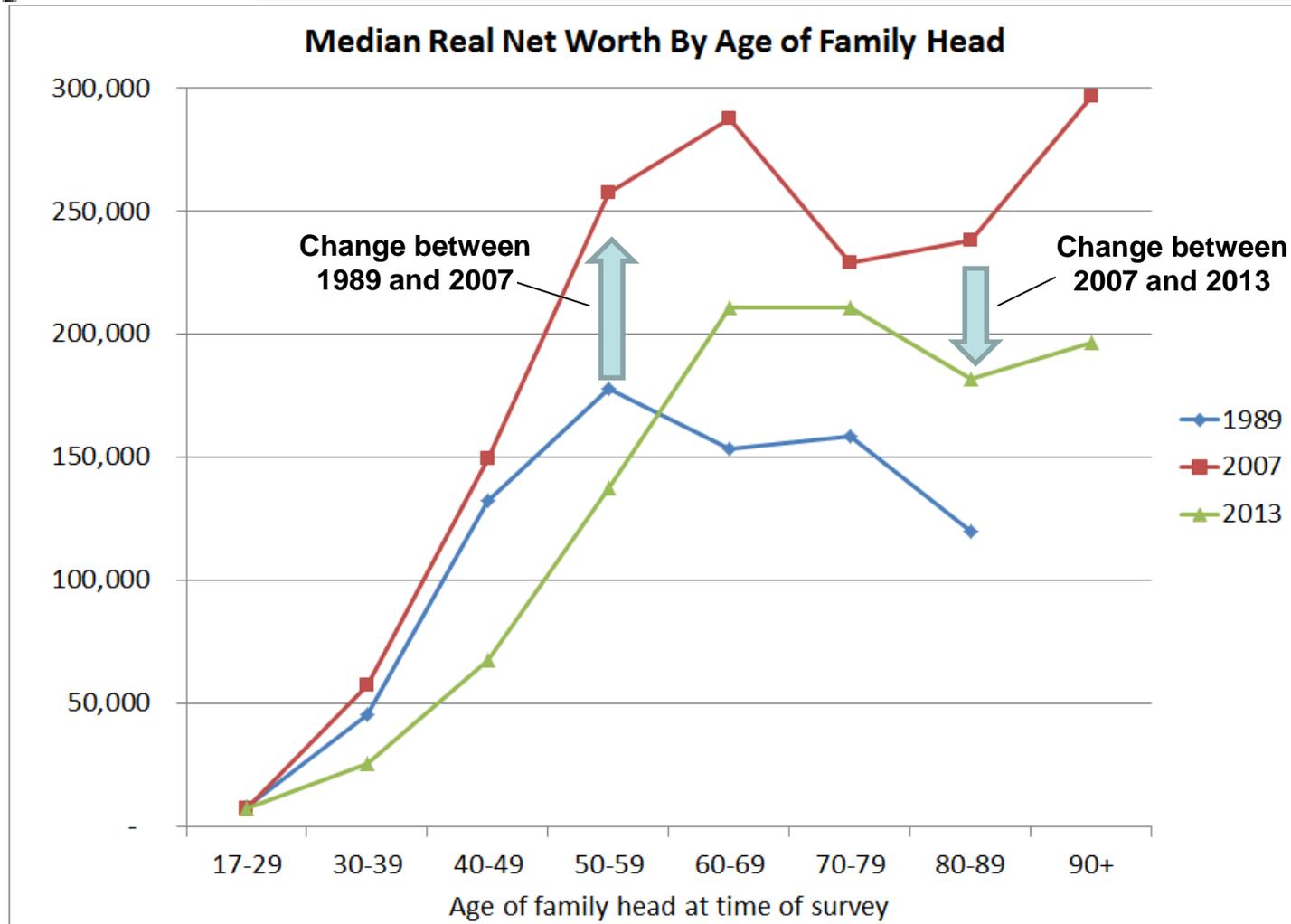
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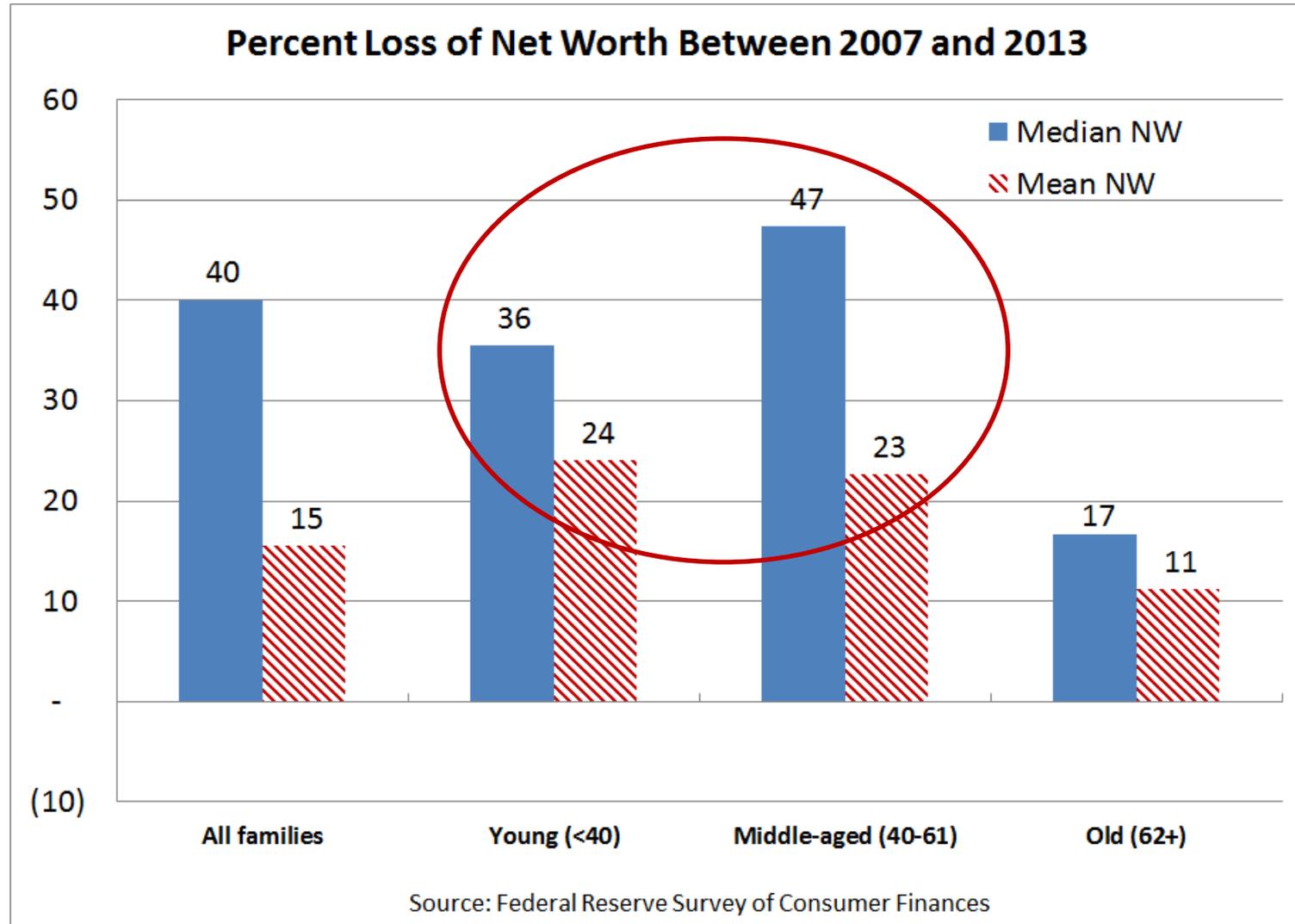
# *Only Age Groups 60+ Have Higher Median Wealth in 2013 Than in 1989*



Source: Federal Reserve Board, Survey of Consumer Finances

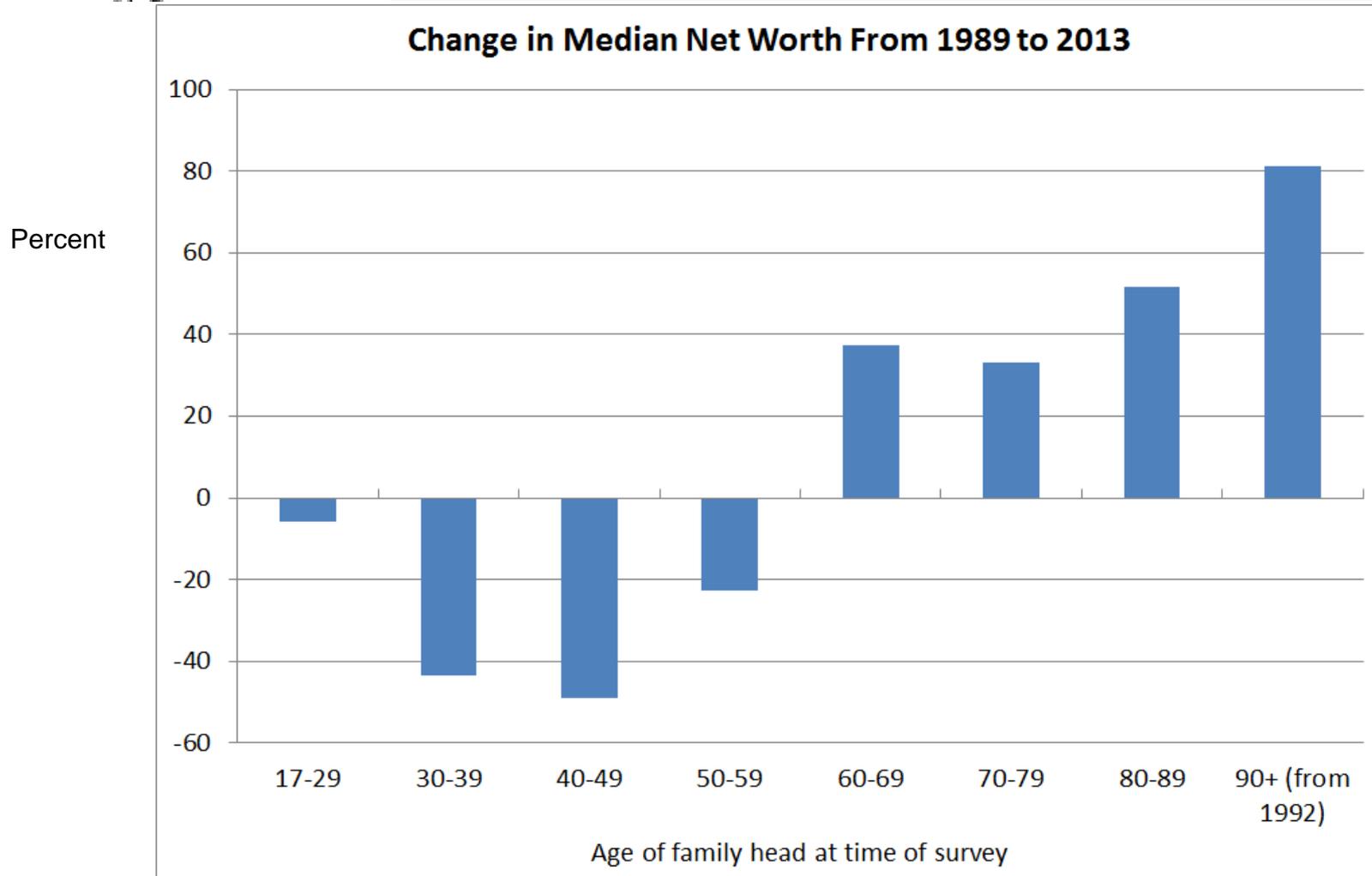


## *Result: Young and Middle-Aged Families Lost More Wealth Than Older Families*





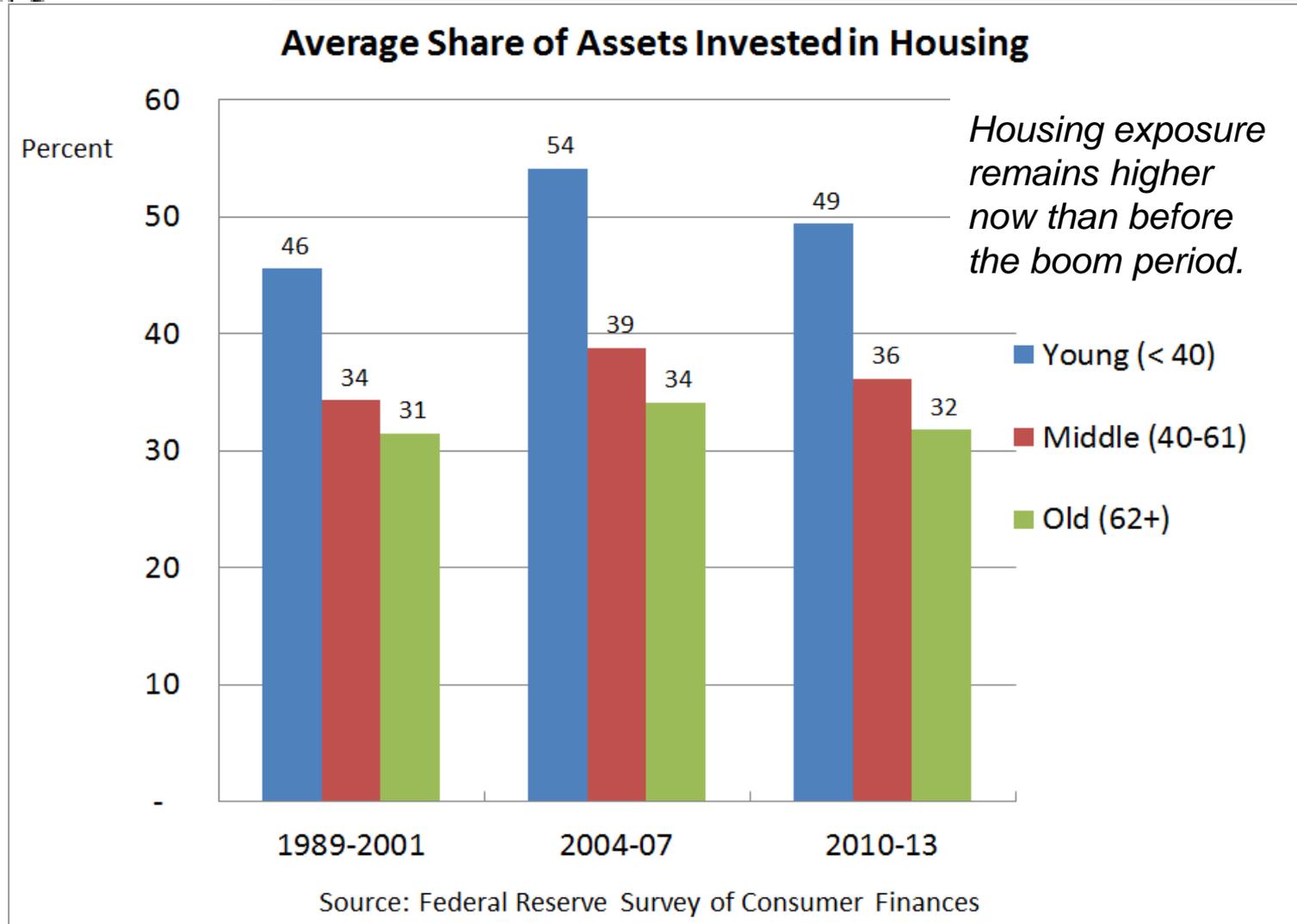
# *All Age Groups 60+ Are Richer Now; All Age Groups Under 60 Are Poorer*



Source: Federal Reserve Board, Survey of Consumer Finances

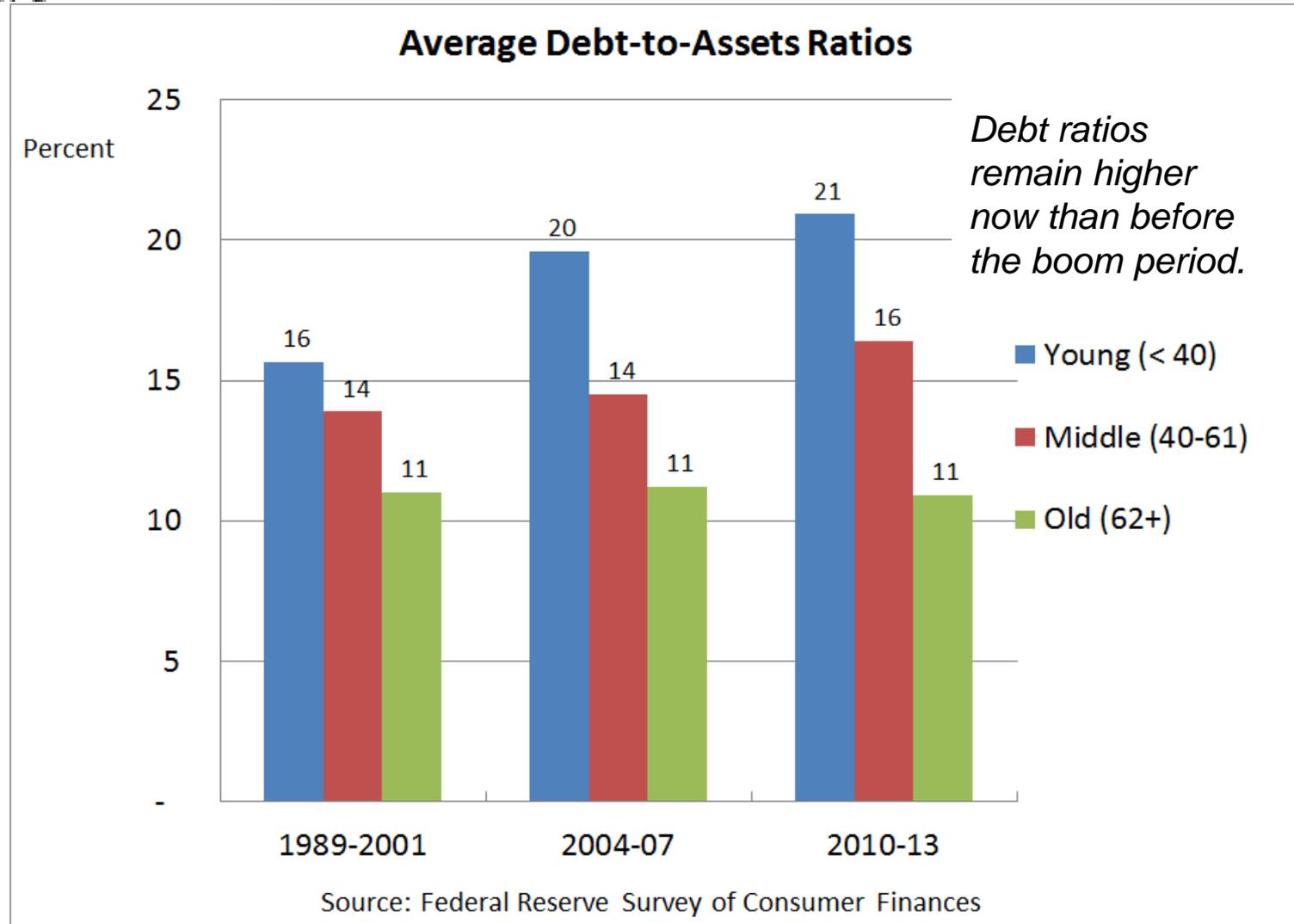


## *Young and Middle-Aged Families Increased Exposure to Housing the Most*





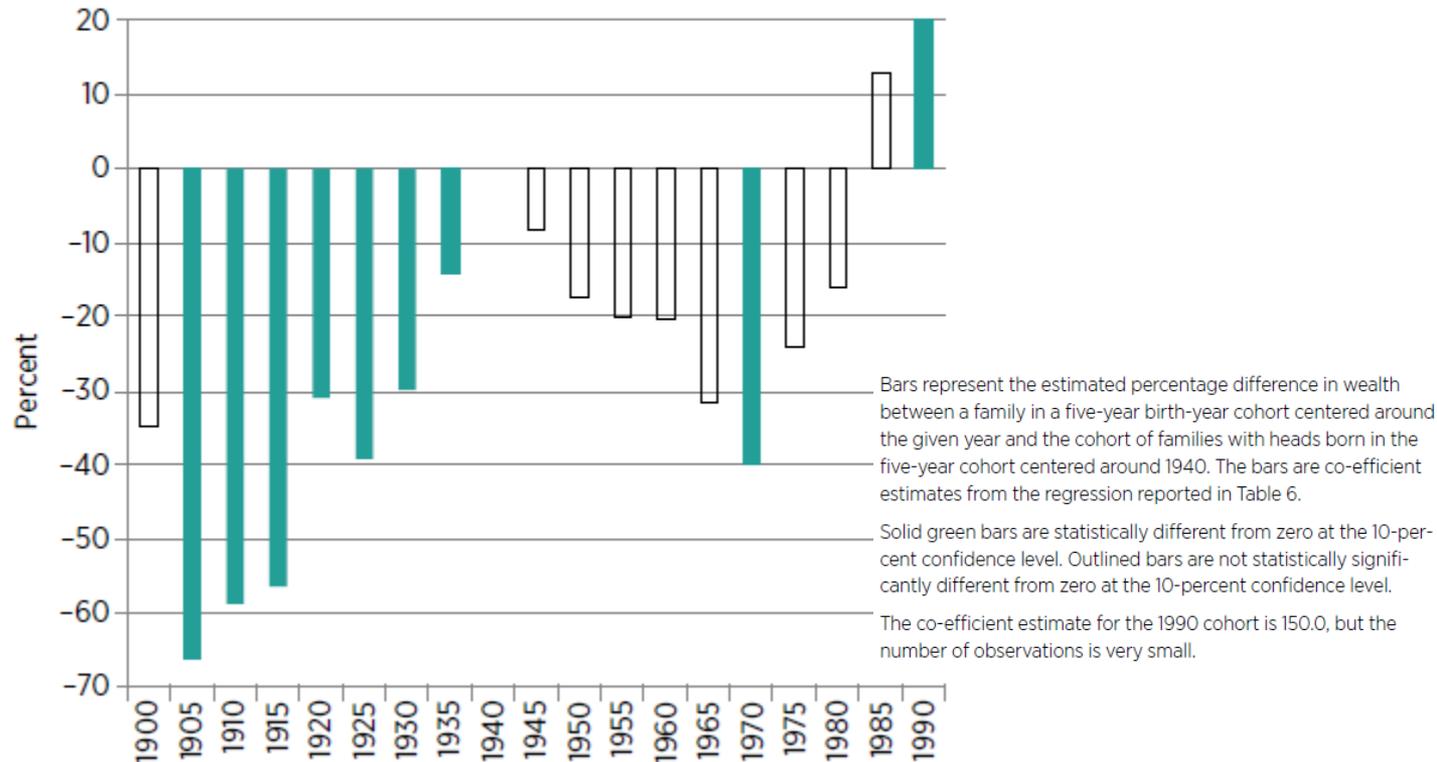
## *Young Families Increased Debt Loads More Than Middle-Aged or Older Families*





# Americans Born Around 1940 Won the 20th-Century Birth Lottery

Figure 15. Marginal Effect of Family Head's Birth Year on Transformed Family Wealth Relative to Being Born in the Period 1938-42





## *In Sum: A Demographic Approach to the Financial Challenges of Economically Vulnerable Families*

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- **Age, birth year, education and race/ethnicity are strong predictors of both wealth and balance-sheet risk.**
- **The recession hit the most-vulnerable (least-wealthy, highest-risk) groups the hardest.**
- **We need to understand why economically vulnerable families have become so financially fragile and what measures can assist them.**



## *Research Questions*

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- **How much did household financial fragility increase before the recession? How fragile are families now?**
  - Many families were heavily exposed to house-price declines.
  - Heavy debt burdens amplified income (job-market) and housing shocks.
- **Why did families with certain demographic characteristics increase their vulnerability to economic and housing disruptions so much?**
  - Young
  - Less-educated
  - Families of color



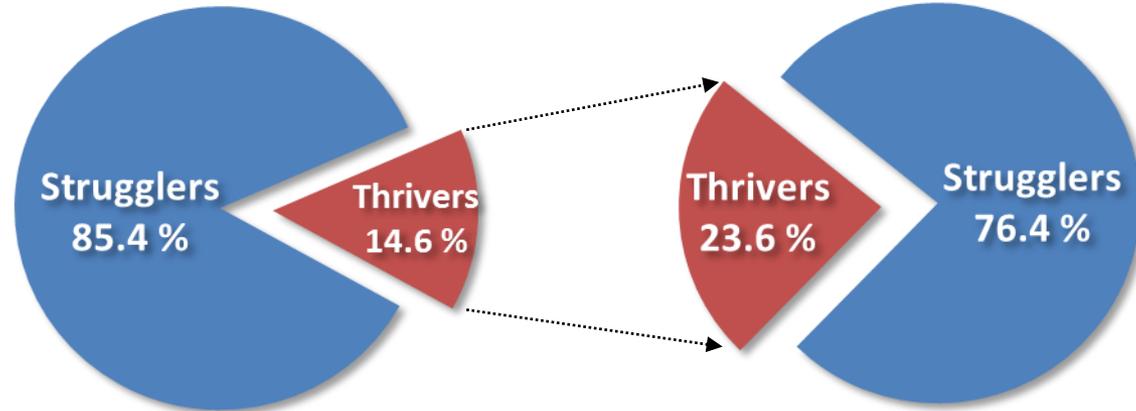
# A Growing Economic Divide

Changes in the Distribution of Net Worth by Age, Race and Education, 1989-2013

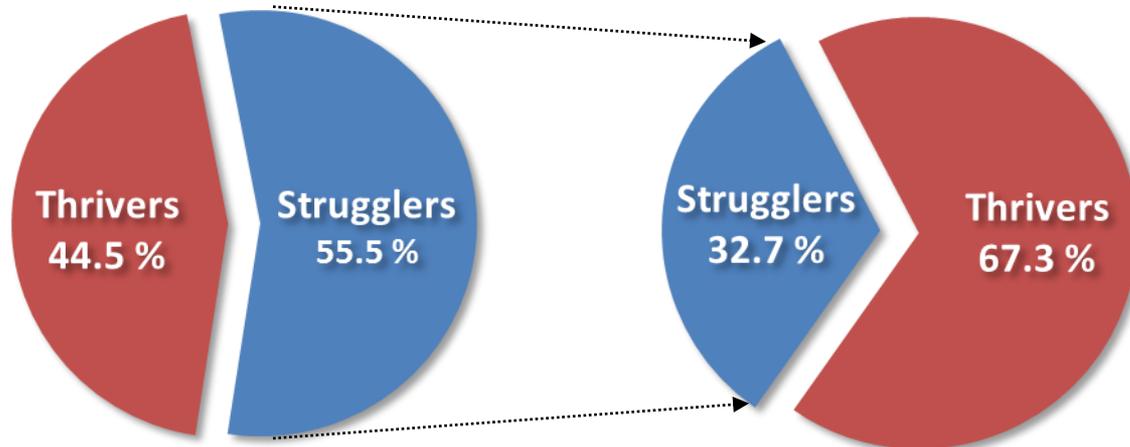
1989

2013

**Percentage of Population**



**Percentage of Total Wealth Owned**



Source: Survey of Consumer Finances



# *Is Demography Economic Destiny?*

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## **Implications for public policy:**

- *How to assign greater weight to demographic factors in targeting consumer protections and public resources?*

## **Implications for financial capability:**

- *How can policy compensate for stronger “headwinds” faced by struggling families?*

**See the book, *What It’s Worth*, available at <http://www.strongfinancialfuture.org>**



# Promising Policy Directions

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1. Early-in-life and youth savings, integrated into the fabric of other early interventions
2. Diversification, beginning with liquidity
3. College savings, affordability, completion, and better repayment options
4. Retirement savings
5. Homeownership as a “capstone” financial event



## *Further Information & Upcoming Events*

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### **Center for Household Financial Stability**

[www.stlouisfed.org/hfs](http://www.stlouisfed.org/hfs)

### *Does College Level the Playing Field?*

*Racial and Ethnic Differences in Family Wealth*

*Among College-Educated Families*

*A Research Symposium May 25-26, 2016 St. Louis*

### *In the Balance* articles

[www.stlouisfed.org/publications/in-the-balance](http://www.stlouisfed.org/publications/in-the-balance)

### *Demographics of Wealth* series

[www.stlouisfed.org/household-financial-stability/the-demographics-of-wealth](http://www.stlouisfed.org/household-financial-stability/the-demographics-of-wealth) 53