



Demographics and the Future of American Families

The Demographics of Wealth

May 13, 2015

William R. Emmons

Bryan J. Noeth

Center for Household Financial Stability

Federal Reserve Bank of St. Louis

William.R.Emmons@stls.frb.org

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



The Demographics of Wealth

- **What are the “demographics of wealth?”**

- **Three demographic factors that affect your wealth:**
 - **When you were born**
 - **How much education you have**
 - **Your race or ethnicity**

- **The future of American families**



Wealth

- **How we define wealth**

- **Wealth = Net Worth**

- **Net Worth = Assets – Liabilities**

- **Assets = Tangible assets + Financial assets + Business assets**

- **Liabilities = Mortgage debt + Non-mortgage debt**

- **We adjust all wealth figures for inflation to make them comparable to 2013.**

- **Data: Federal Reserve's Survey of Consumer Finances.**



Wealth Matters

- **Wealth is important because it is a building block of opportunity...**

... for you:

- **Provides protection against temporary loss of income or other hardships.**
- **Allows you to invest in further education, a business or a home.**
- **Provides for your retirement and medical expenses.**



Wealth Matters

- **Wealth is important because it is a building block of opportunity...**

... for your family:

- **Gives your children the chance to explore and experience the world.**
- **Allows you to invest in their education.**
- **Enables you to provide financial assistance to family members.**
- **Makes it possible for you to leave an inheritance.**



Wealth Matters

- **Wealth is important because it is a building block of opportunity...**

... for your community:

- **Allows you to provide financial support to the local organizations and institutions you value.**
- **Strengthens your neighborhood if you remain a pillar of financial strength under adverse circumstances, such as the housing-market crash.**
- **Motivates and enables you to become politically involved.**



Defining Demographics

- **Demographics**

- **Demos = people**

- **Graphic = written or recorded**

- **Demographics = the science of vital social statistics**

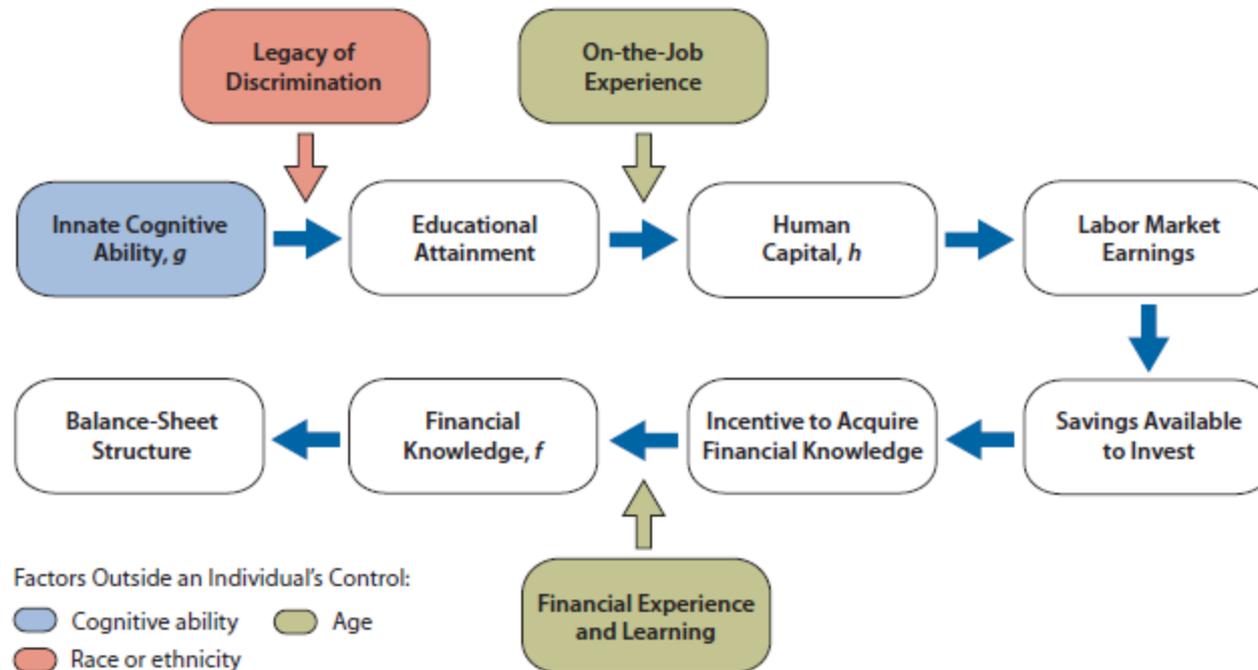


The Demographics of Wealth

- **What we mean by the “demographics of wealth”**
 - **We measure and analyze how the vital statistics of people, families and groups of people affect their financial choices and outcomes.**
 - **The vital statistics we study that affect your income, financial decisions and wealth accumulation include:**
 - **Your year of birth and your current age.**
 - **Your level of education.**
 - **Your race or ethnicity.**



Our Framework: Endowments => Capability => Behavior => Outcomes



Source: William R. Emmons and Bryan J. Noeth, "Economic Vulnerability and Financial Fragility," Federal Reserve Bank of St. Louis *Review* 95 (2013), No. 5, Sept.-Oct., pp. 361-88.



1) Your Demographic Endowments

- **When you were born**
 - **Your generation (Greatest, Silent, Baby Boom, Gen X, Gen Y)**
 - **Your age when we observe you in the data**
- **Your highest level of education**
 - **Less than a high-school diploma**
 - **A high-school diploma, GED or vocational training**
 - **A two- or four-year college degree**
 - **A post-graduate or professional degree**
- **Your race or ethnicity**
 - **Non-Hispanic white**
 - **Non-Hispanic black**
 - **Non-Hispanic Asian**
 - **Hispanic of any race**



2) Assessing Financial Capability: Your “Financial-Health Score”

- **Did you save any money last year?**
- **Did you miss any payments on any obligation last 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 the form of safe and highly liquid assets?**
- **Is your total monthly debt service less than 40 percent of your monthly after-tax income?**

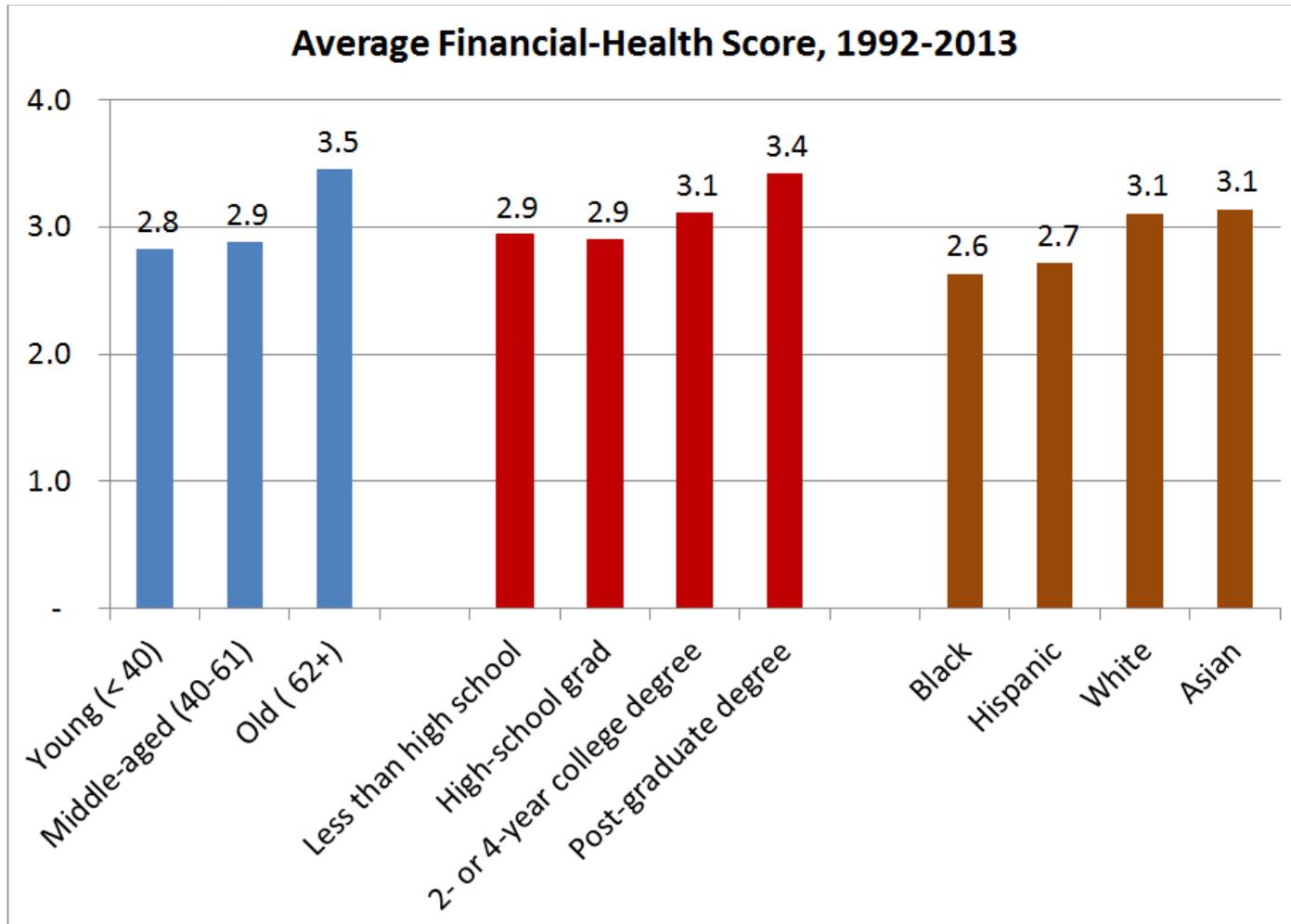


2) *Assessing Financial Capability: Your “Financial Health Score”*

Questions in the Financial-Capability Index	Scoring	Mean score in 8 SCF waves, 1992-2013
1. Did you save any money last year?	Yes = 1, No = 0	0.56
2. Did you miss any payments on any debt in the last year?	No = 1, Yes = 0	0.84
3. Did you have a balance on your credit card after the last payment was due? (Other screens if no card.)	No = 1, Yes = 0	0.44
4. Including all of your assets, was more than 10% of the value in liquid assets?	Yes = 1, No = 0	0.27
5. Is your total debt service less than 40% of your income?	Yes = 1, No = 0	0.91
Total score	0 to 5 possible	3.01



Financial-Health Scores Along Three Demographic Dimensions



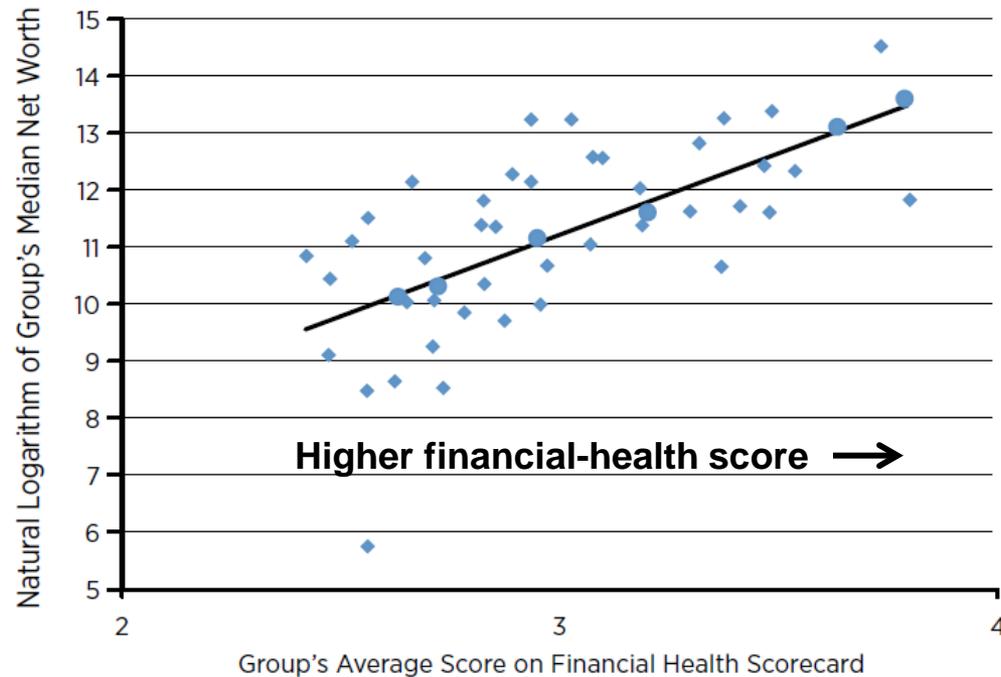


Financial Health Predicts Wealth

Scatterplot of Net Worth vs. Score on Financial Health Scorecard

Each dot represents one of 48 groups of families based on:

- 3 age brackets
- 4 education levels
- 4 racial/ethnic groups



SOURCE: Federal Reserve Board's Survey of Consumer Finances and our calculations. The simple correlation coefficient is 0.67. Enlarged round markers in this chart represent groups highlighted in Table 2.



3) Balance-Sheet Choices Translate Financial Capability into Outcomes

- **A person's demographic characteristics predict:**
 - **Everyday financial decision-making: Your financial health.**
 - **Your choice of financial assets and liabilities: Your balance sheet.**

- **Balance-sheet choices shape financial outcomes.**
 - **We define risky balance sheets as having:**
 - **A low level of liquid assets**
 - **High concentration of your assets in a house, cars, other “things”**
 - **High level of debt (leverage)**
 - **Groups of families or individuals most likely to choose risky balance sheets (and have low financial-health scores) are:**
 - **Young**
 - **Less-educated**
 - **Black or Hispanic**



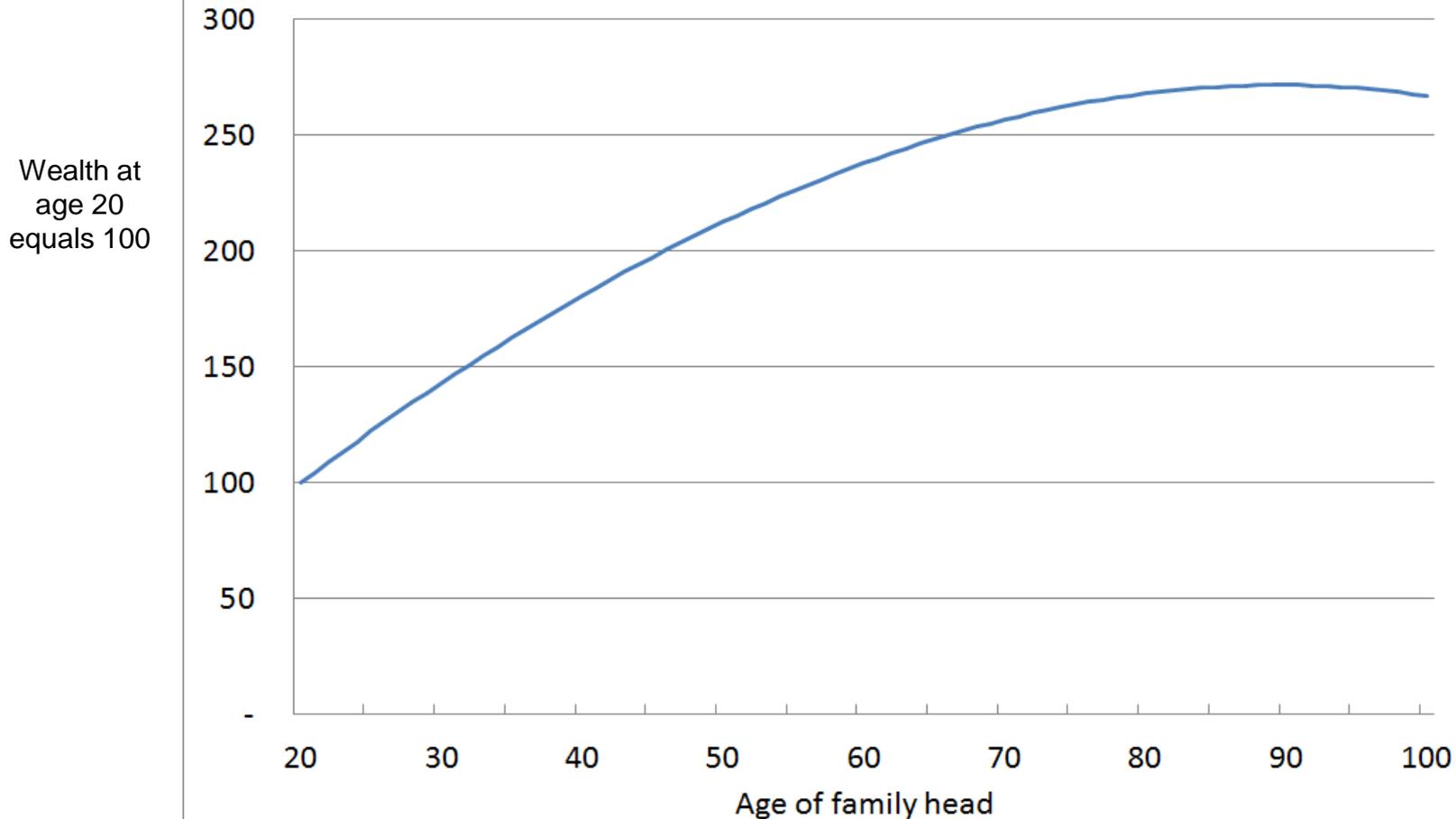
4) *Outcomes: How Are Demographics Related to Wealth Accumulation?*

Demographic variable	<u>Average effect <i>ceteris paribus</i>, 1989-2013</u>	<u>Changes between 1989 and 2013</u>
	<i>Evidence: Wealth regression</i>	<i>Evidence: Charts below</i>
<u>Age</u>	W increases at a decreasing rate.	W increased for 62+, decreased for < 62.
<u>Birth year</u>	Increases until about 1940, then decreases until 1970.	Appears to be a robust finding across samples.
<u>Educational attainment</u>	Virtually no wealth accumulation w/out college.	W increased for college grads, decreased o/wise.
<u>Race or ethnicity</u>	White > Asian > Black = Hispanic	B & H increased rapidly until 2004, then crashed; W & A more moderate.



Regression Evidence: Age

Estimated Effect of Age on Standardized Wealth



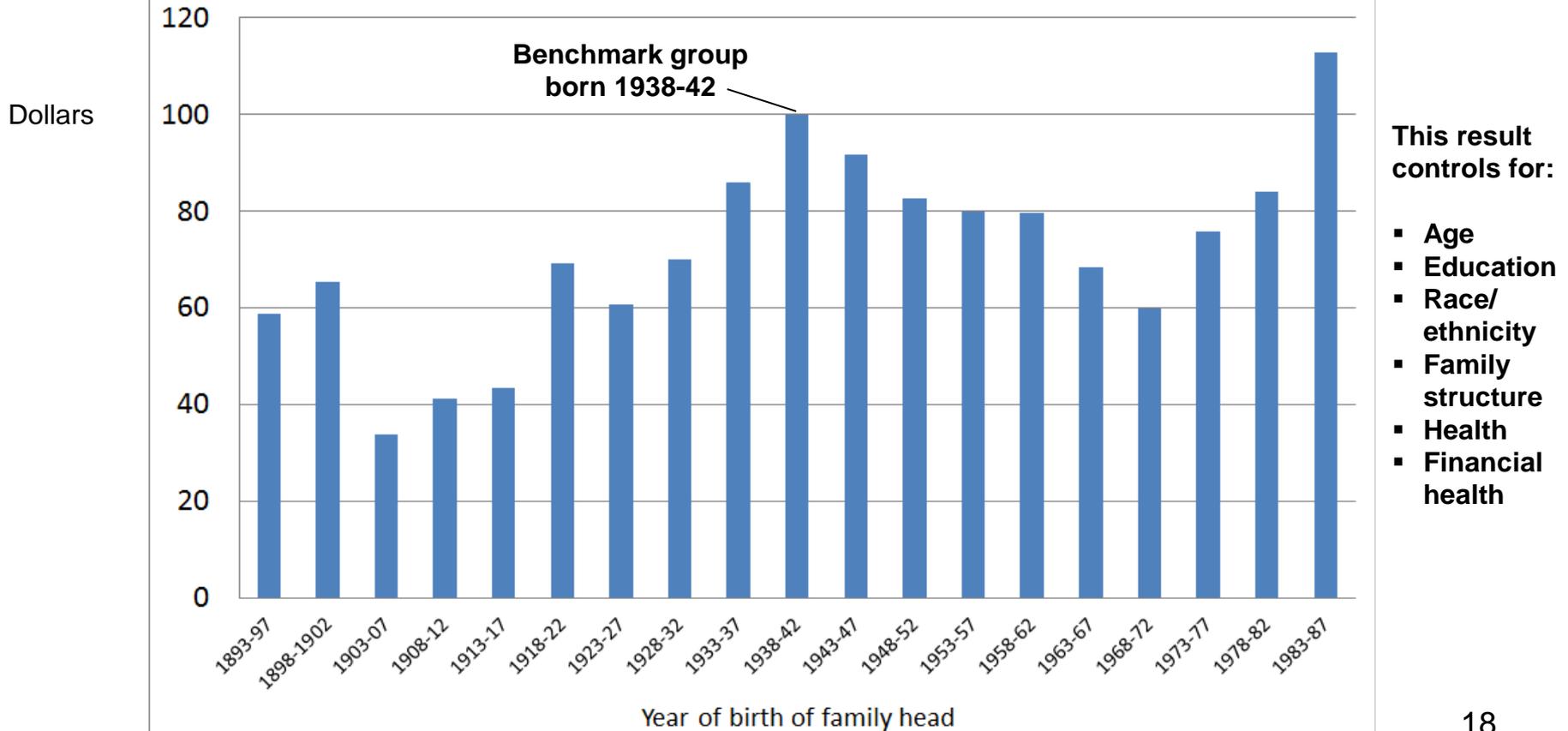
This result controls for:

- Education
- Race/ethnicity
- Birth year
- Family structure
- Health
- Financial health



Regression Evidence: Birth Year

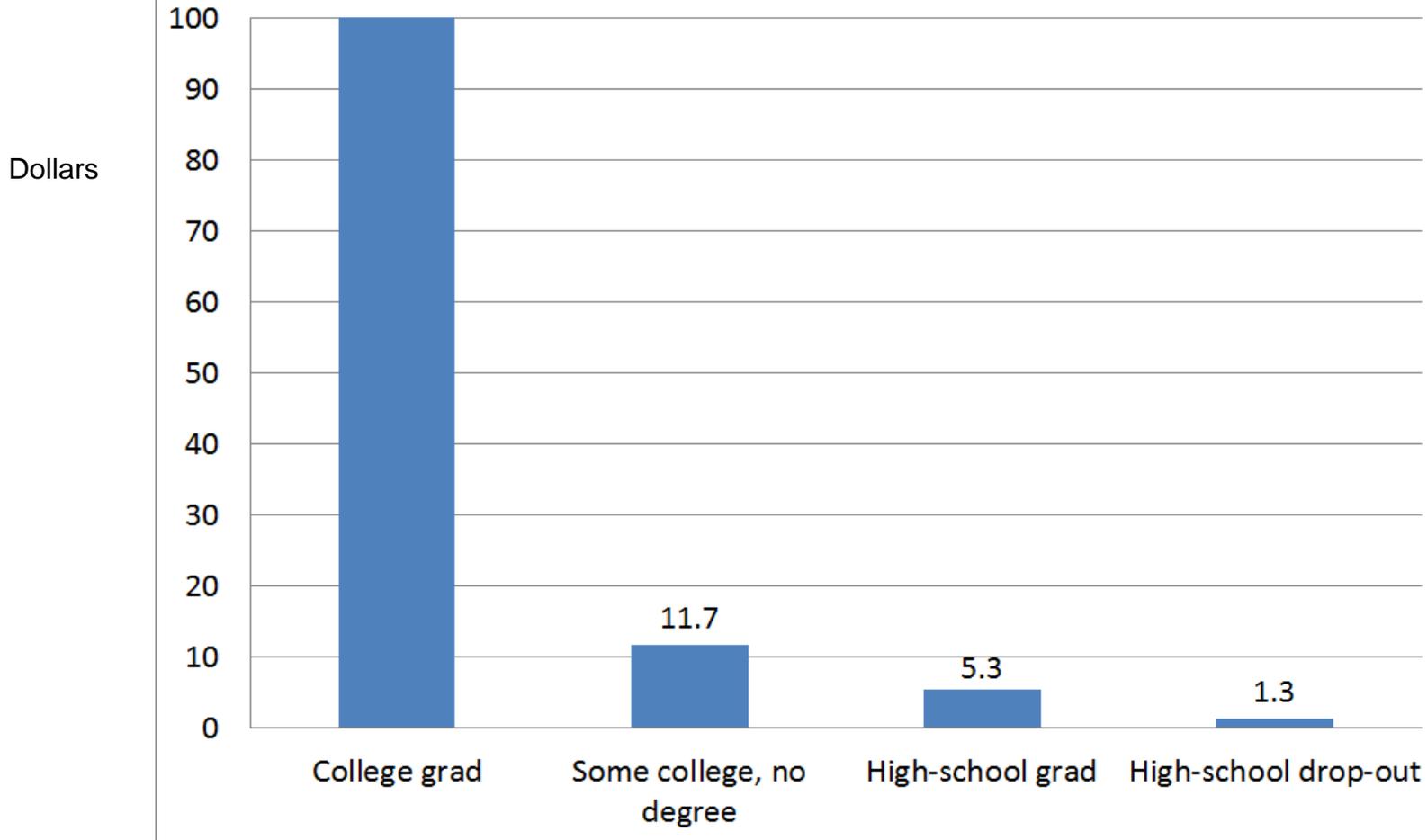
**Wealth per \$100 Owned by A Family Headed By Someone
Born 1938-42**





Regression Evidence: Educational Attainment

Wealth Per \$100 Owned By A College Graduate



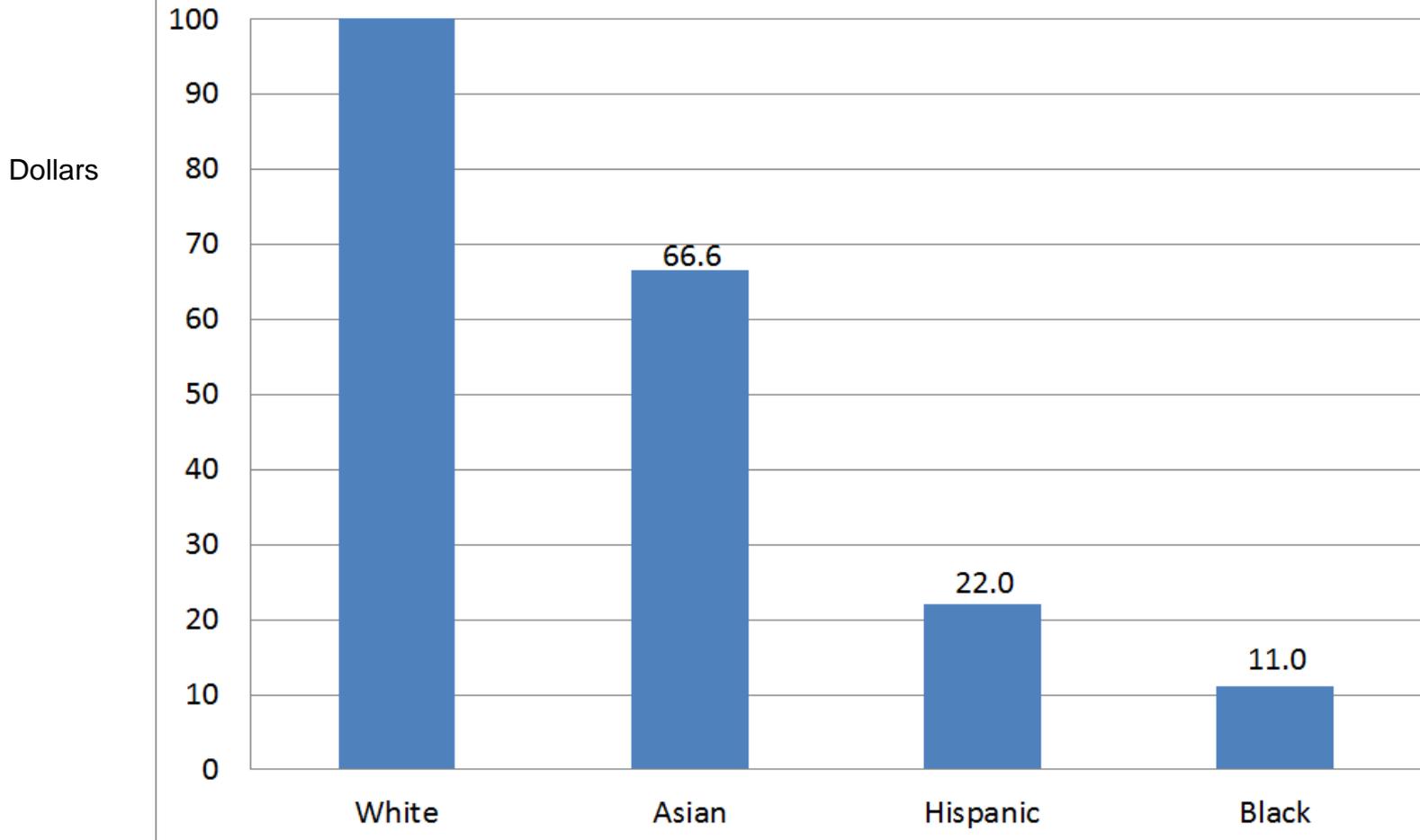
This result controls for:

- Age
- Race/ethnicity
- Birth year
- Family structure
- Health
- Financial health



Regression Evidence: Race and Ethnicity

Wealth Per \$100 Owned By A White Family

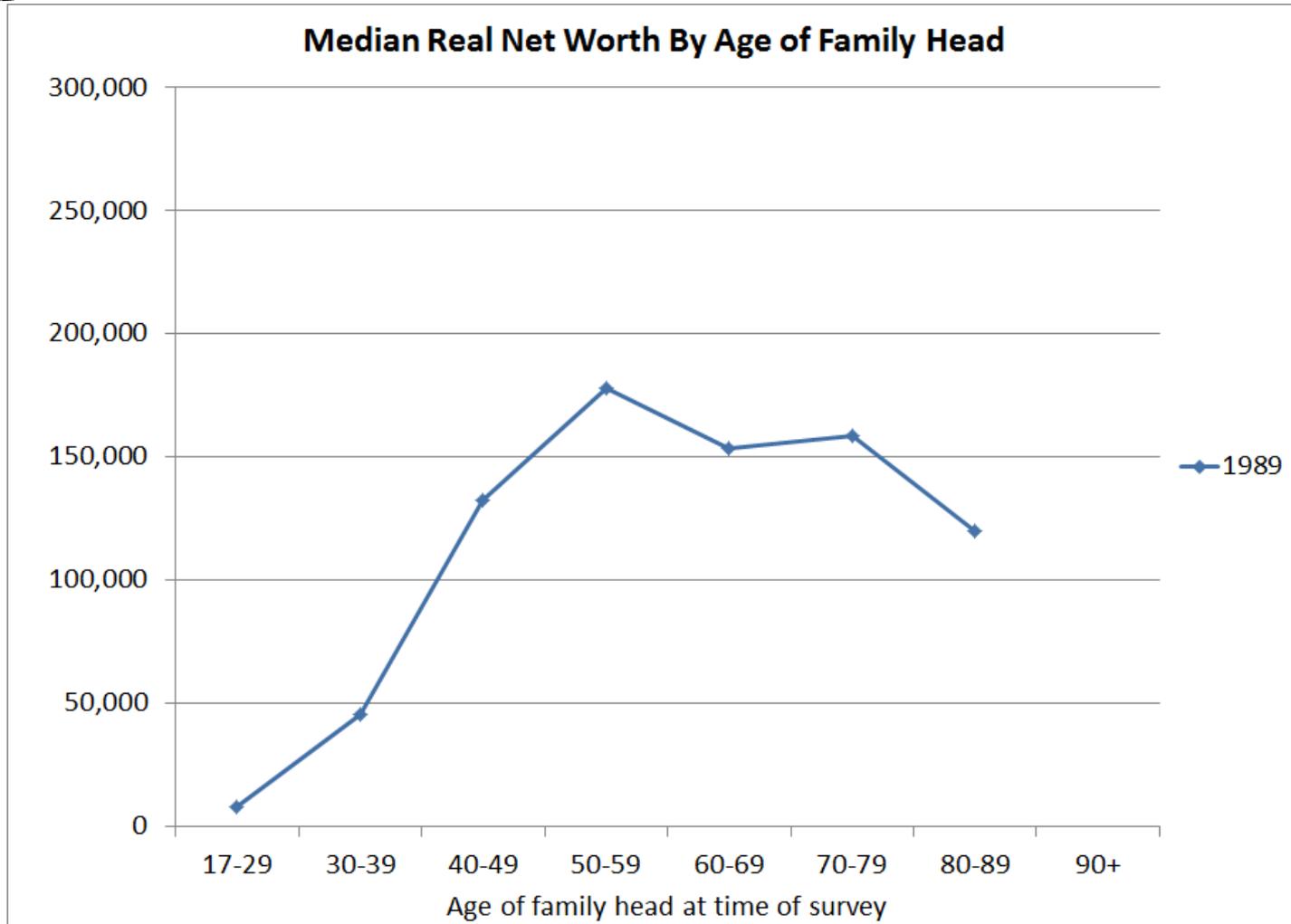


This result controls for:

- Age
- Education
- Birth year
- Family structure
- Health
- Financial health



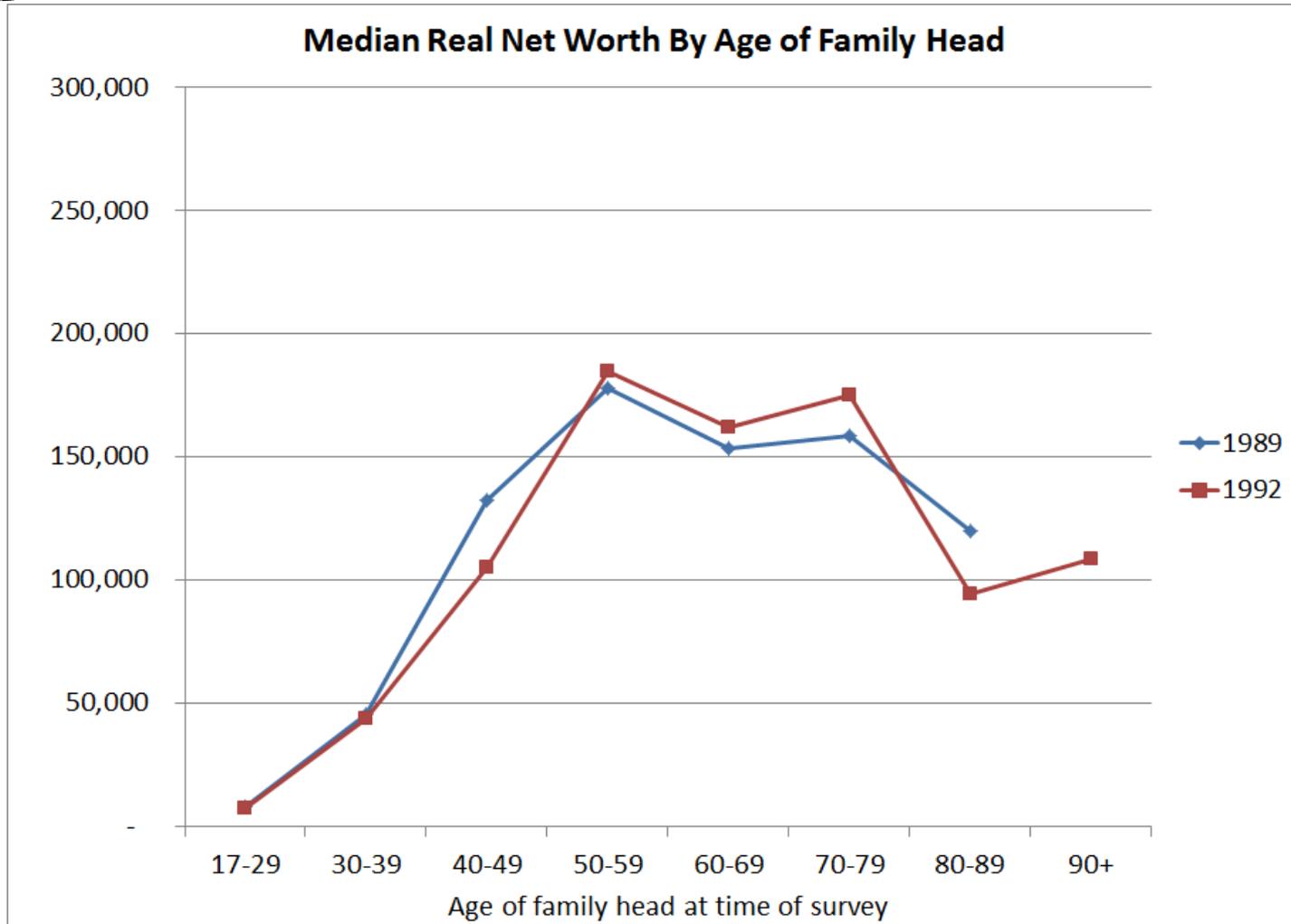
Changes in the Age Distribution of Wealth, 1989-2013



Source: Federal Reserve Board, Survey of Consumer Finances



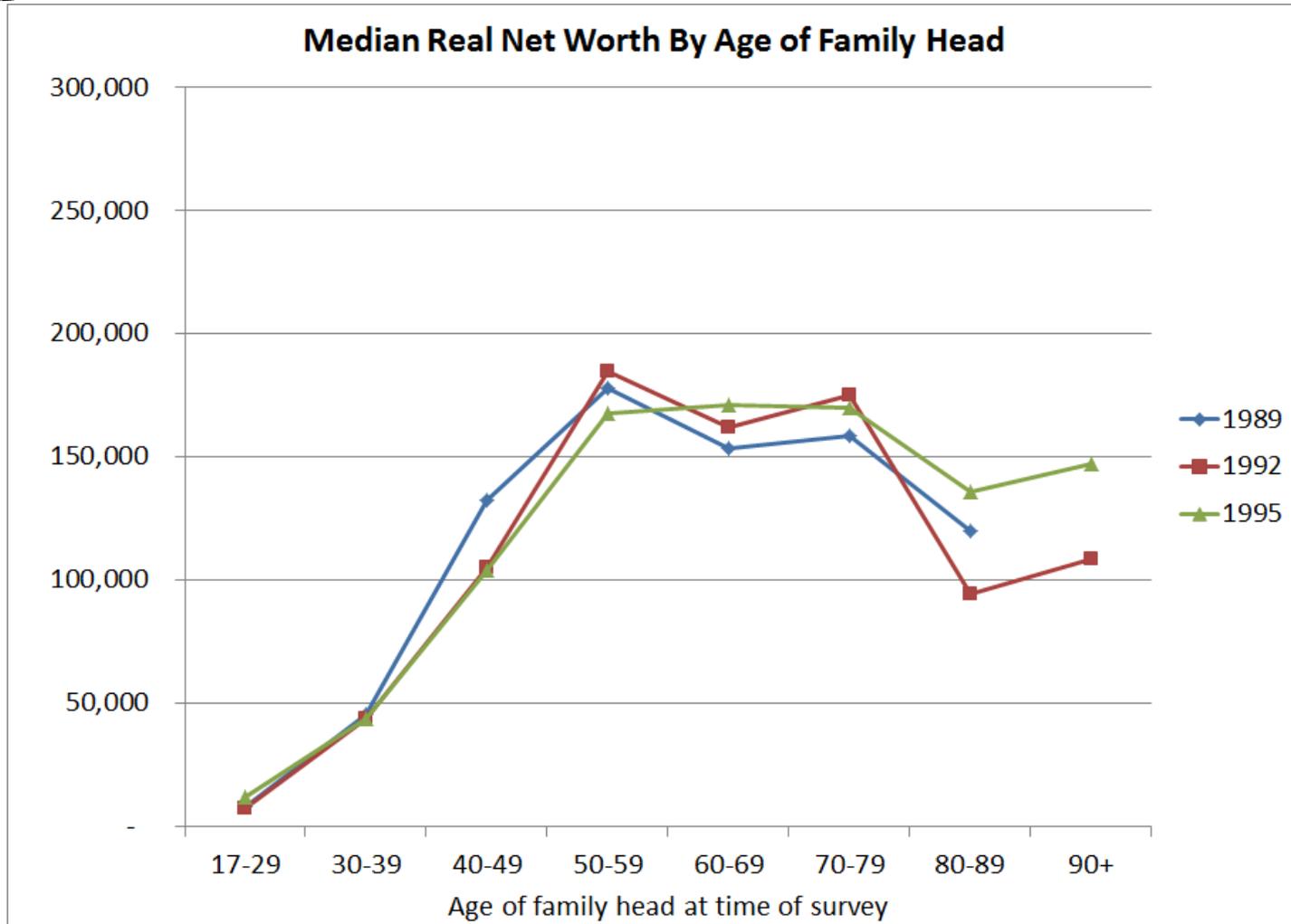
Changes in the Age Distribution of Wealth, 1989-2013



Source: Federal Reserve Board, Survey of Consumer Finances



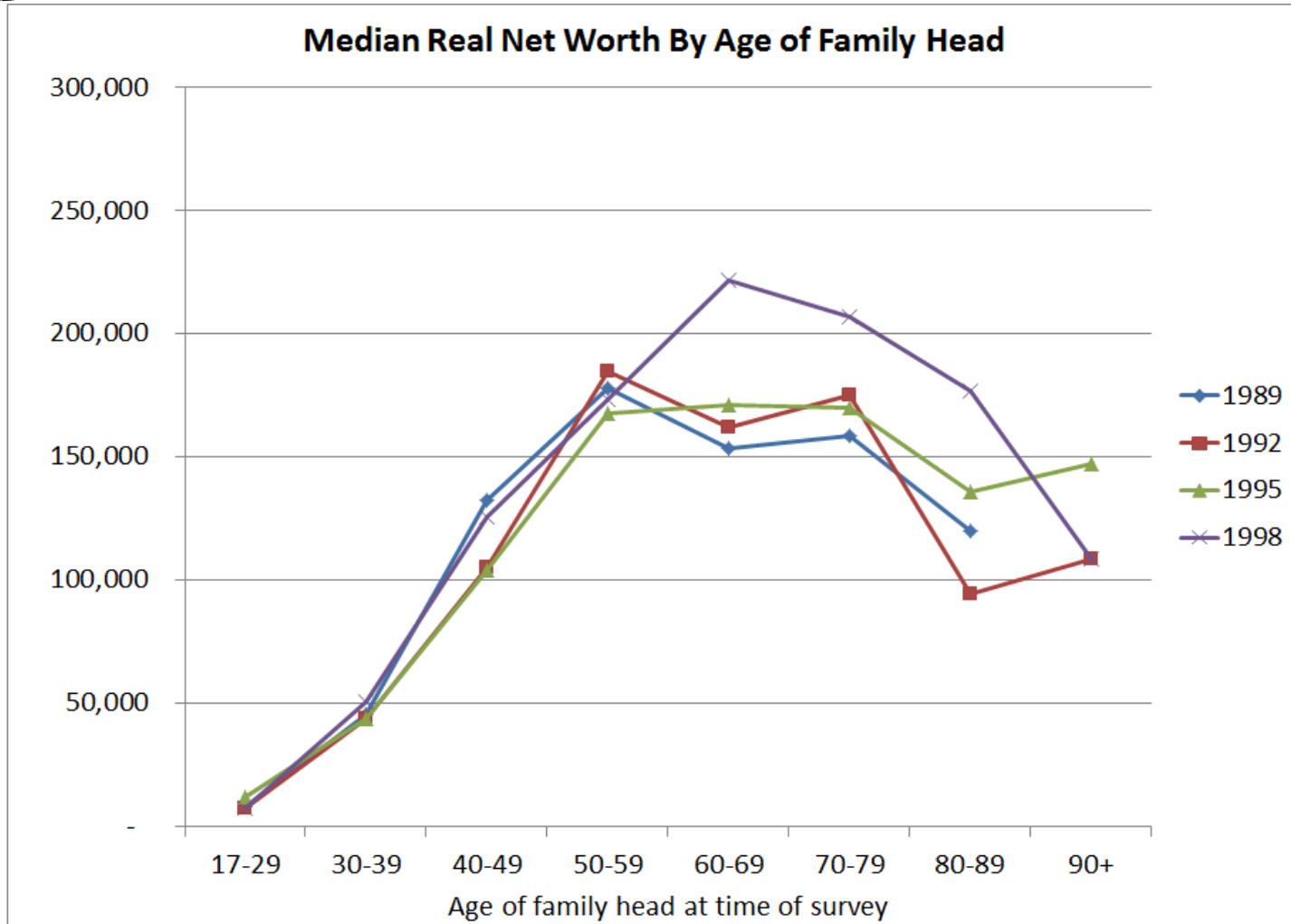
Changes in the Age Distribution of Wealth, 1989-2013



Source: Federal Reserve Board, Survey of Consumer Finances



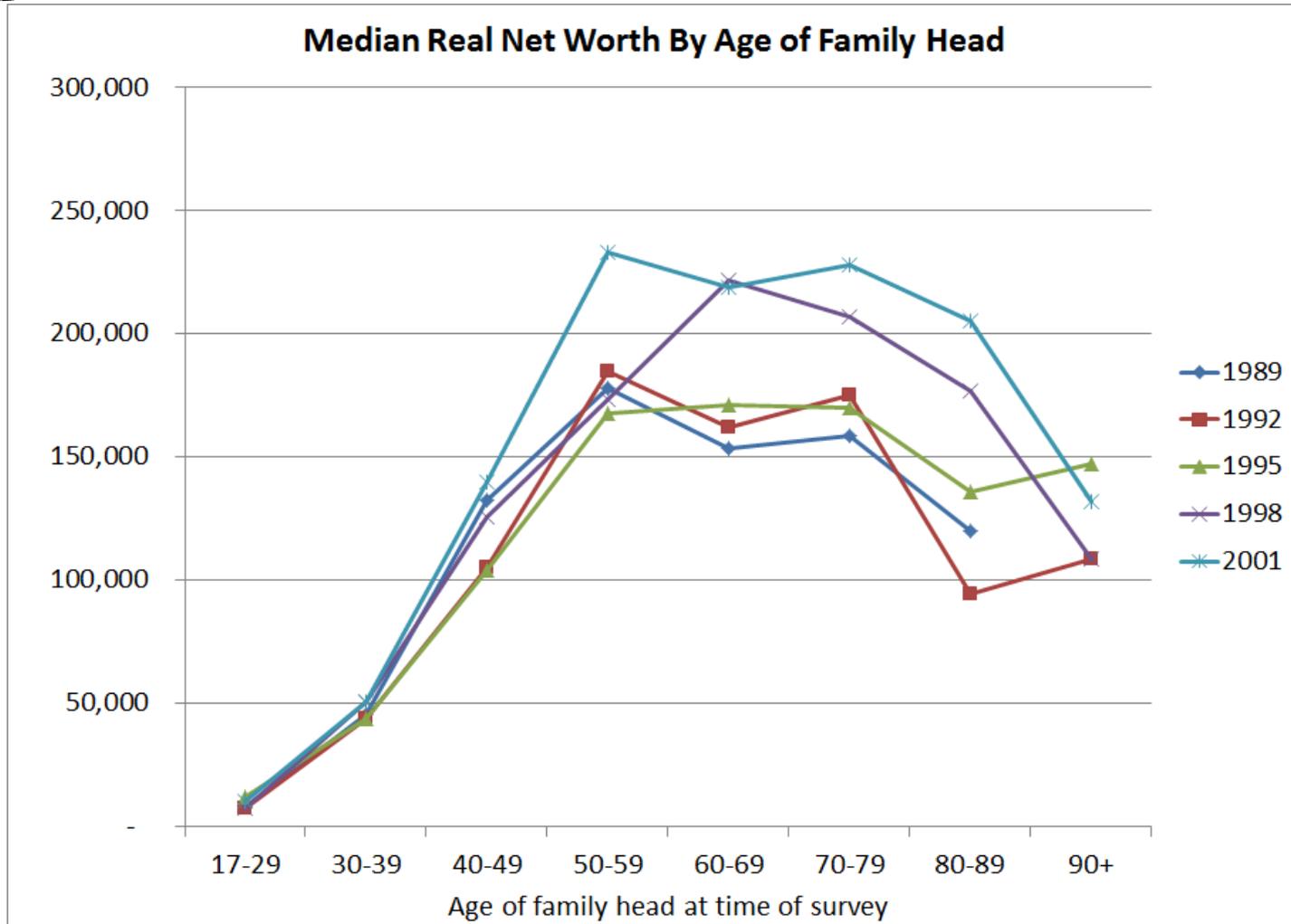
Changes in the Age Distribution of Wealth, 1989-2013



Source: Federal Reserve Board, Survey of Consumer Finances



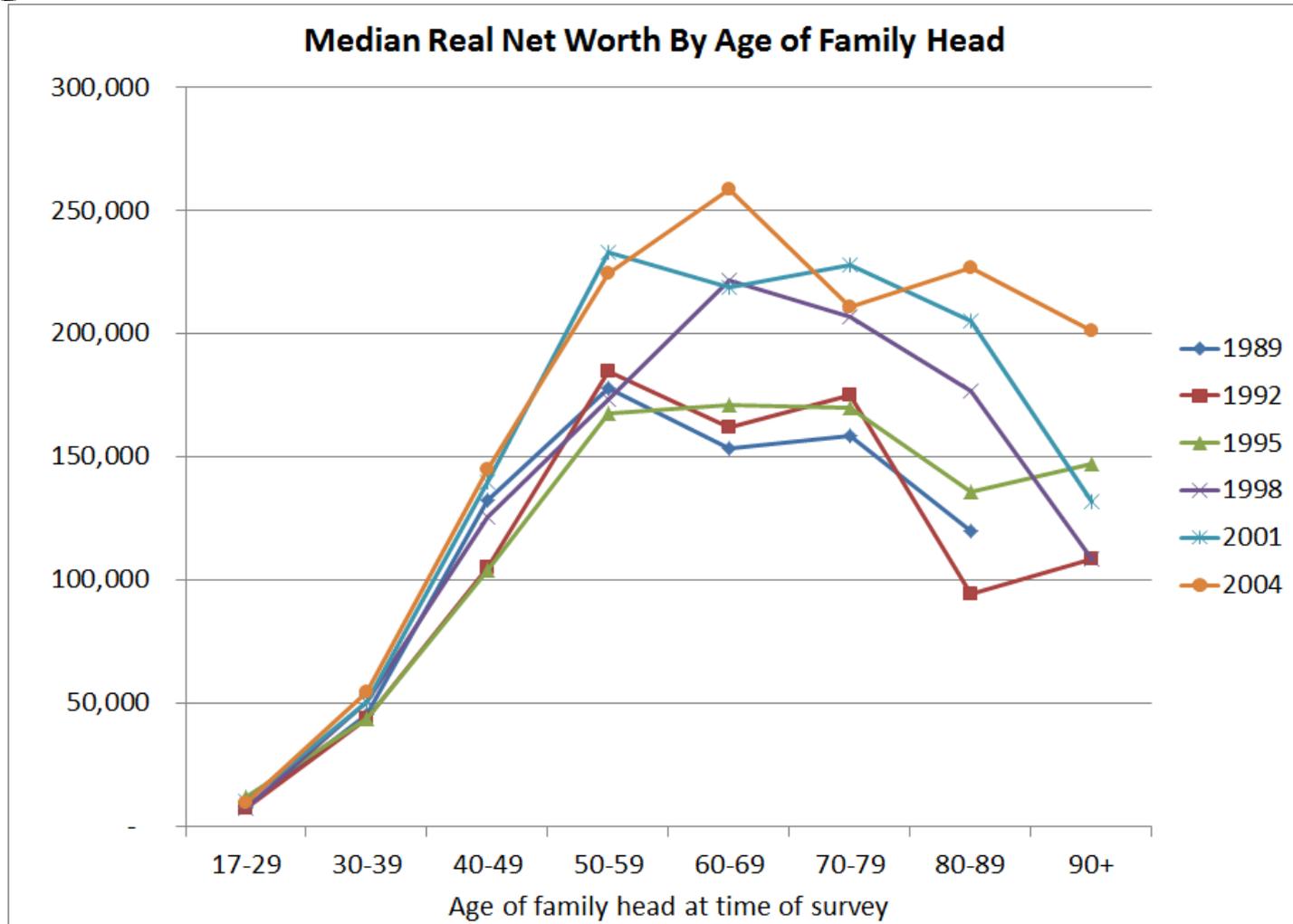
Changes in the Age Distribution of Wealth, 1989-2013



Source: Federal Reserve Board, Survey of Consumer Finances



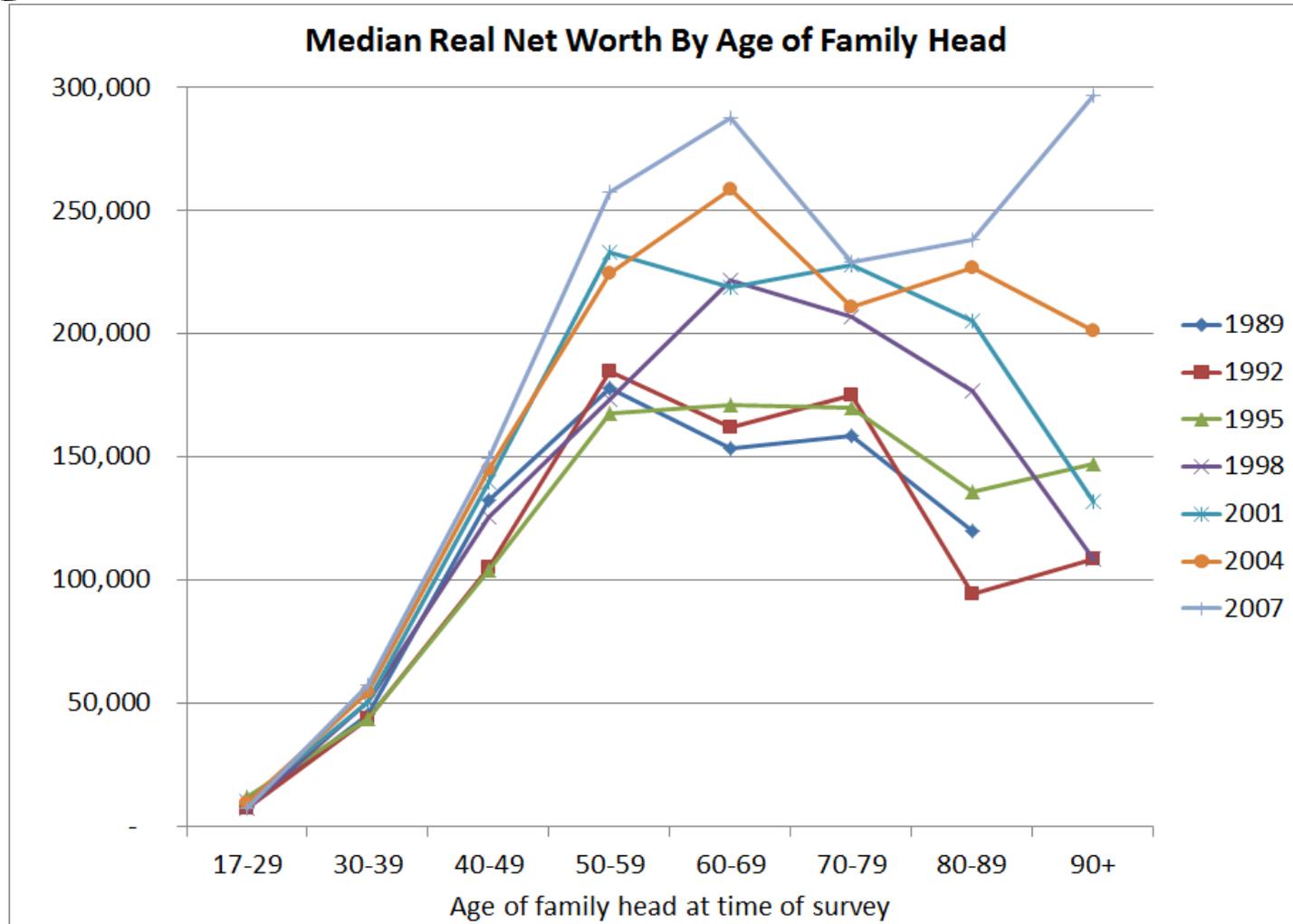
Changes in the Age Distribution of Wealth, 1989-2013



Source: Federal Reserve Board, Survey of Consumer Finances



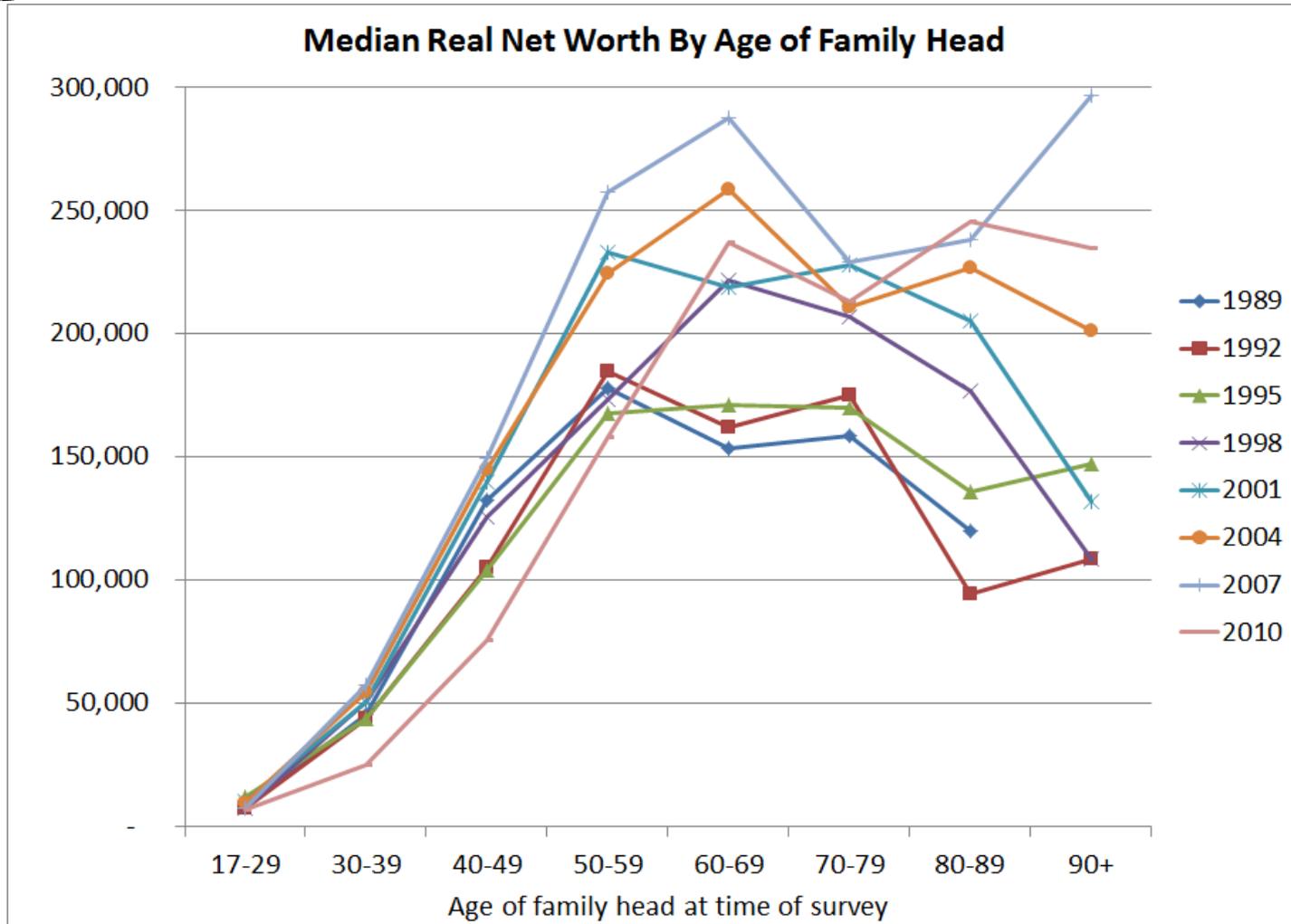
Changes in the Age Distribution of Wealth, 1989-2013



Source: Federal Reserve Board, Survey of Consumer Finances



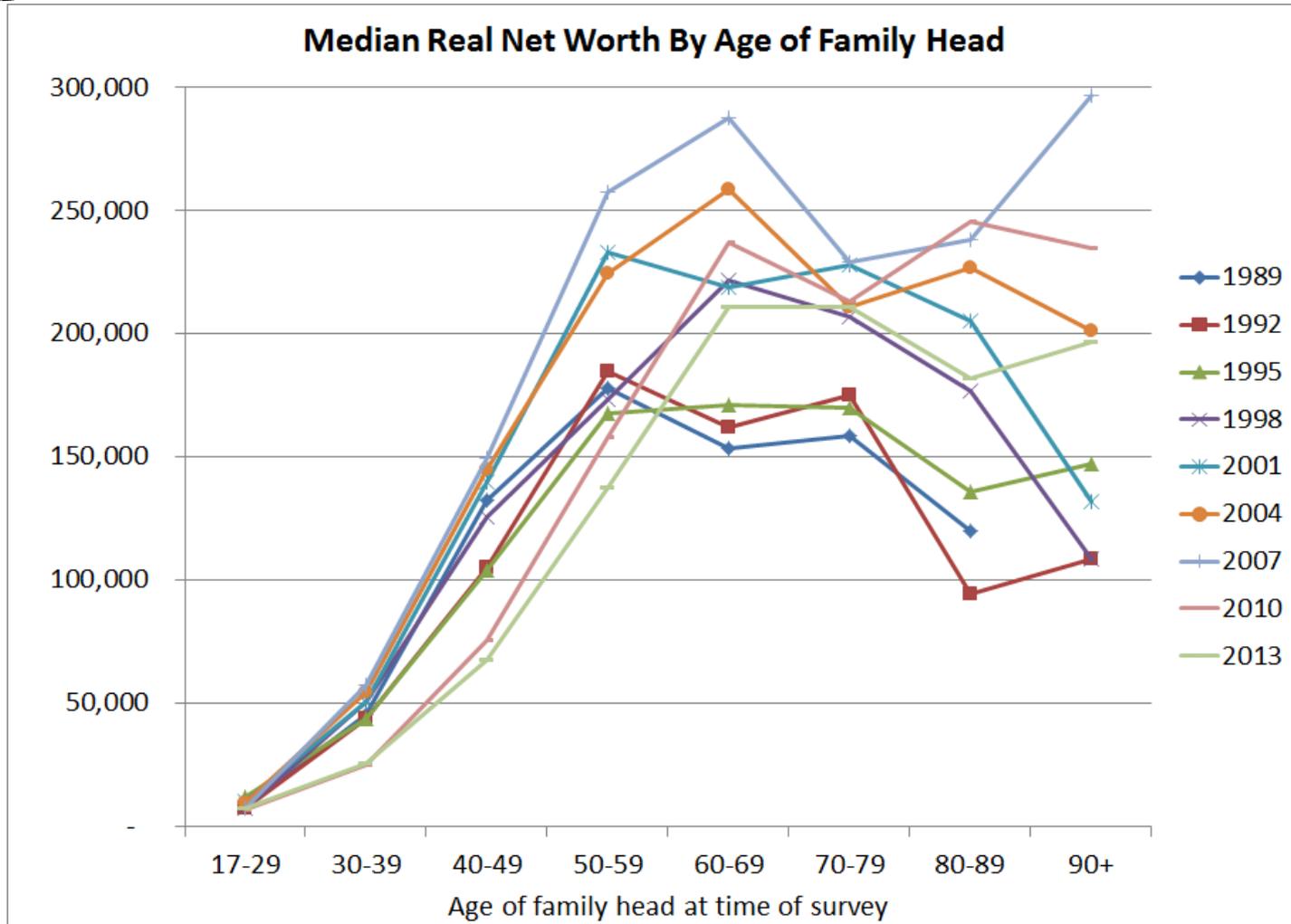
Changes in the Age Distribution of Wealth, 1989-2013



Source: Federal Reserve Board, Survey of Consumer Finances



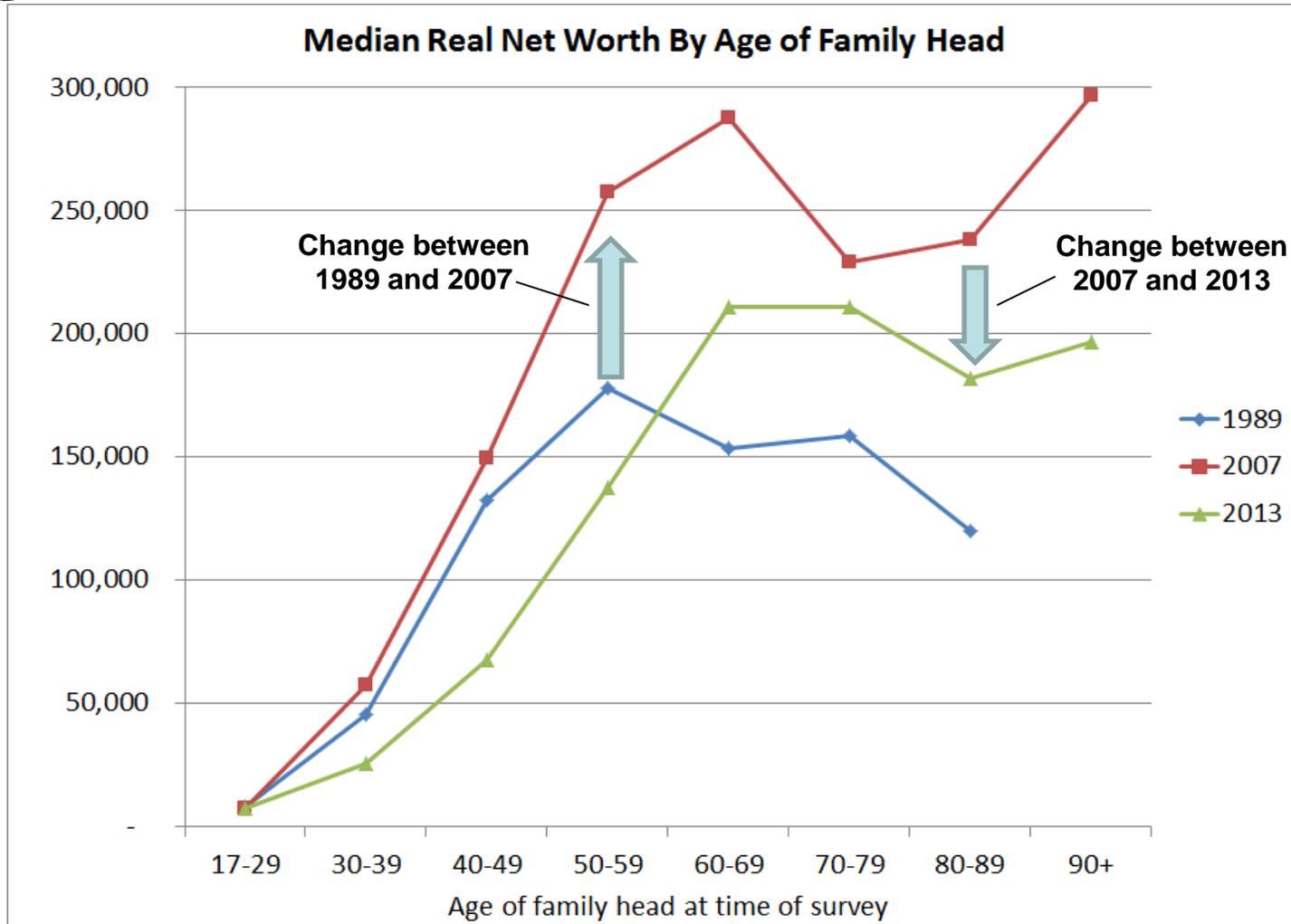
Changes in the Age Distribution of Wealth, 1989-2013



Source: Federal Reserve Board, Survey of Consumer Finances



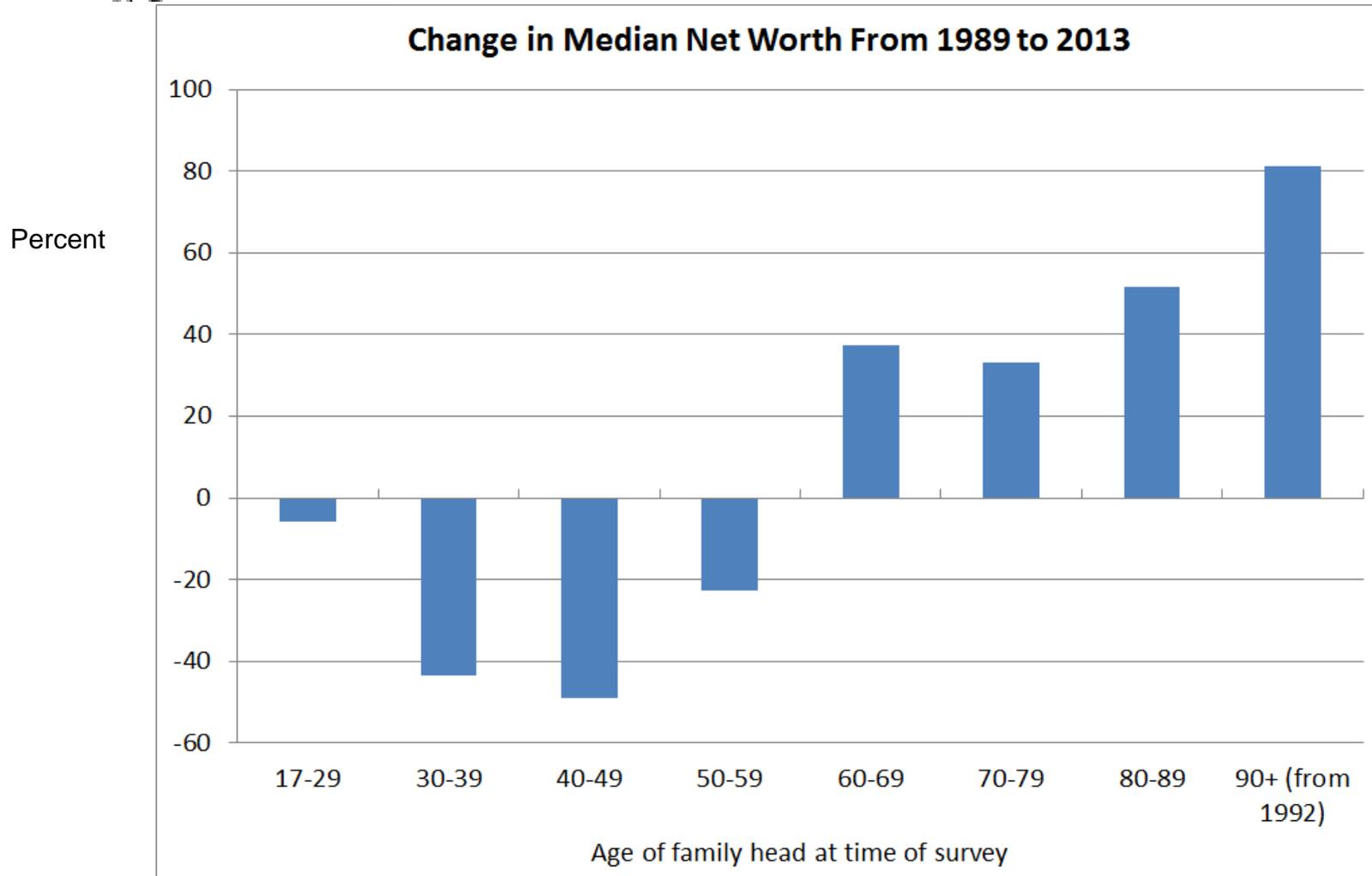
Only Age Groups 60+ Have Higher Median Wealth in 2013 Than in 1989



Source: Federal Reserve Board, Survey of Consumer Finances



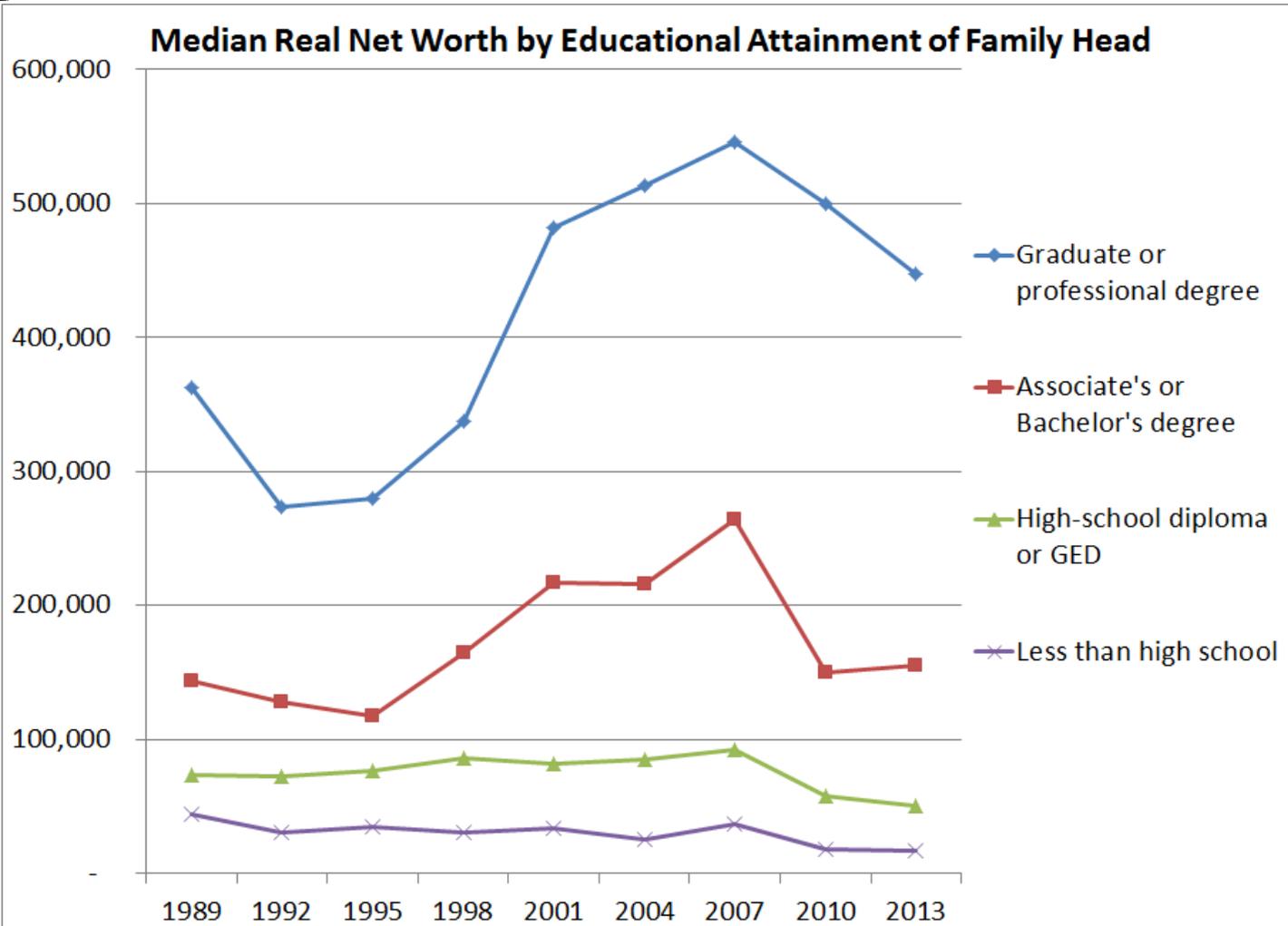
All Age Groups 60+ Are Richer Now; All Age Groups Under 60 Are Poorer



Source: Federal Reserve Board, Survey of Consumer Finances



Changes in Wealth By Educational Attainment



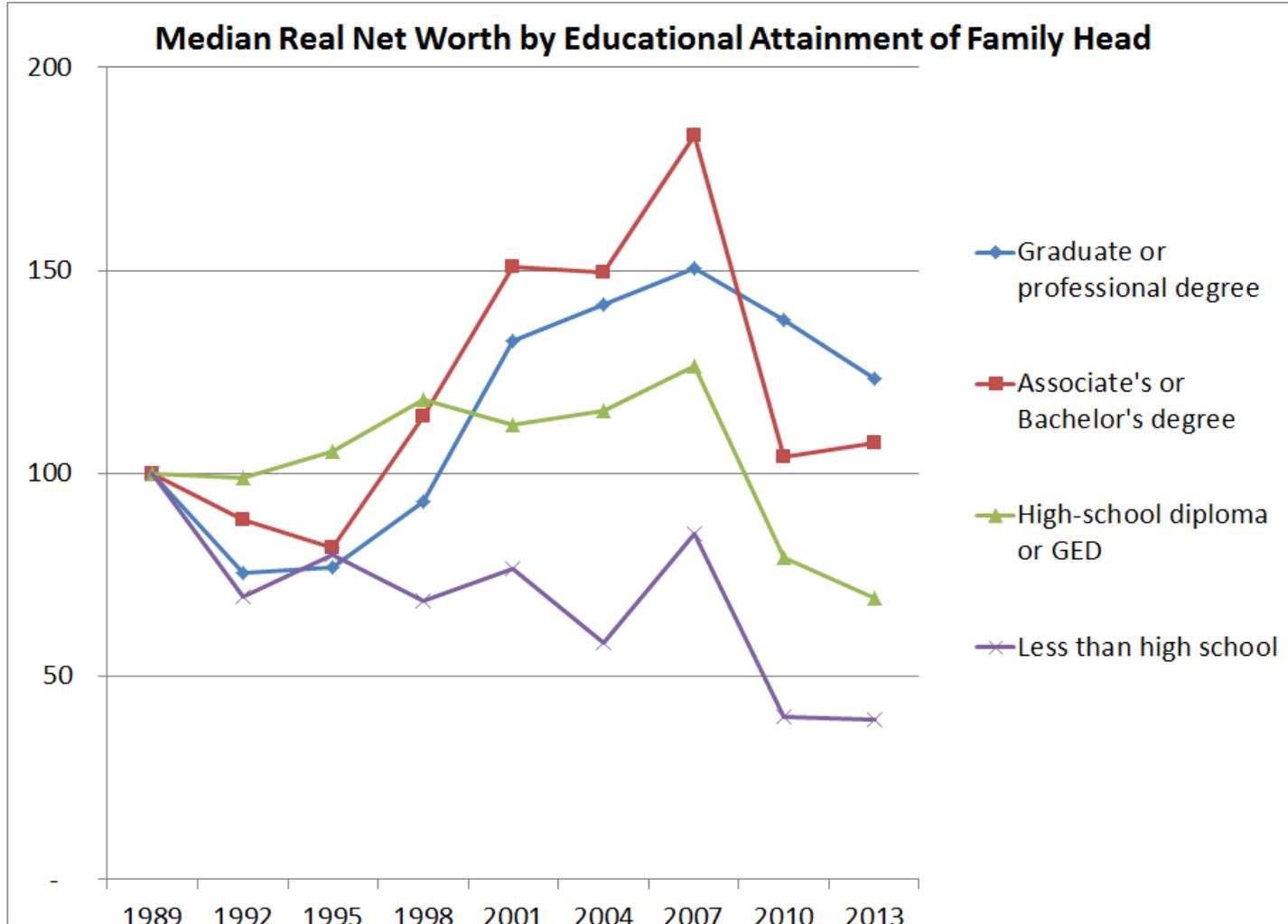
Note: these figures include all families. Some of our recent work covers only families headed by someone 40 or older.

Source: Federal Reserve Board, Survey of Consumer Finances



Only College-Graduate Medians Are Higher Now Than in 1989

Index levels equal 100 in 1989



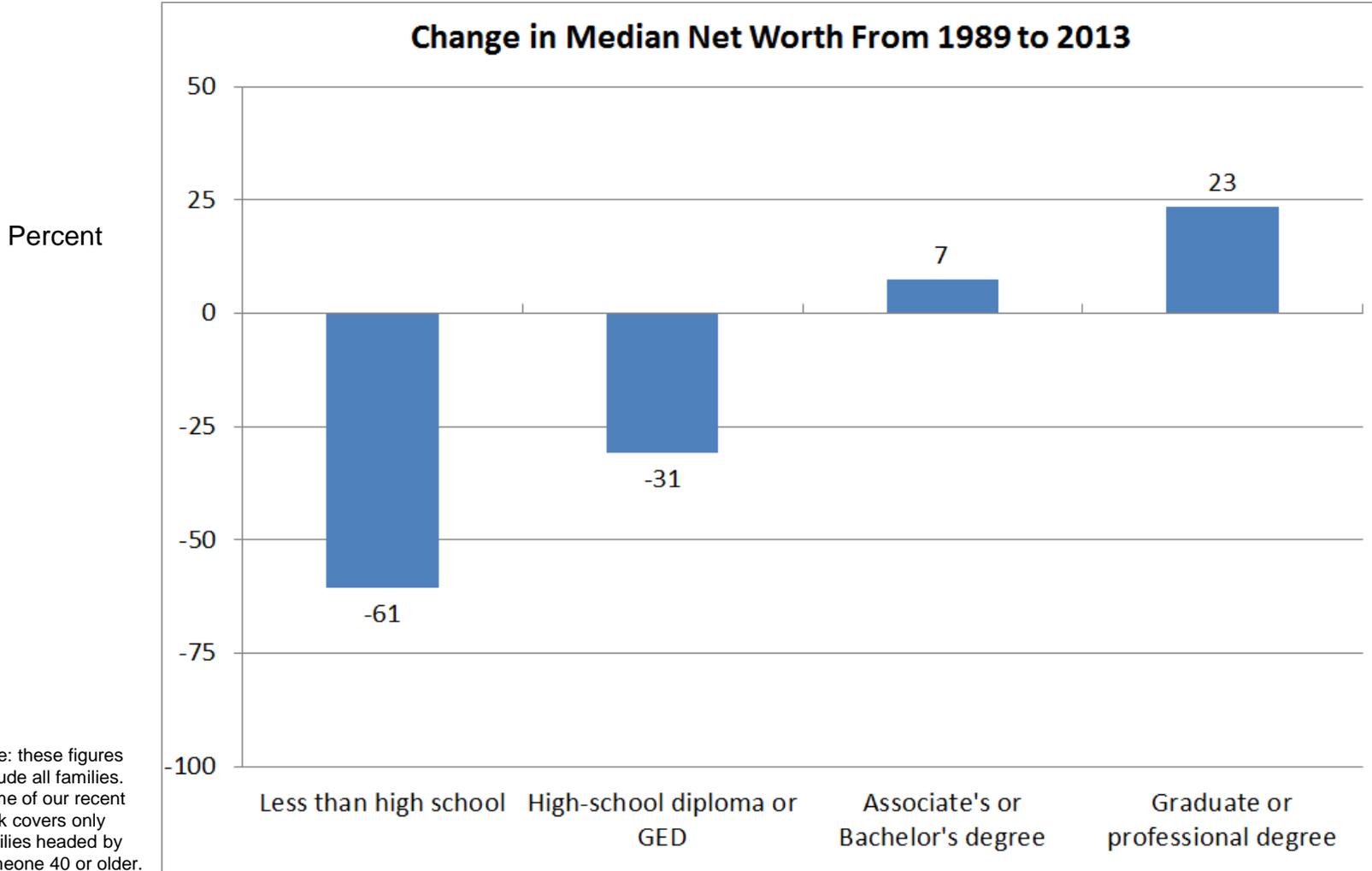
Note: these figures include all families. Some of our recent work covers only families headed by someone 40 or older.

Source: Federal Reserve Board, Survey of Consumer Finances



Only College-Graduate Medians Are Higher Now Than in 1989

Change in Median Net Worth From 1989 to 2013

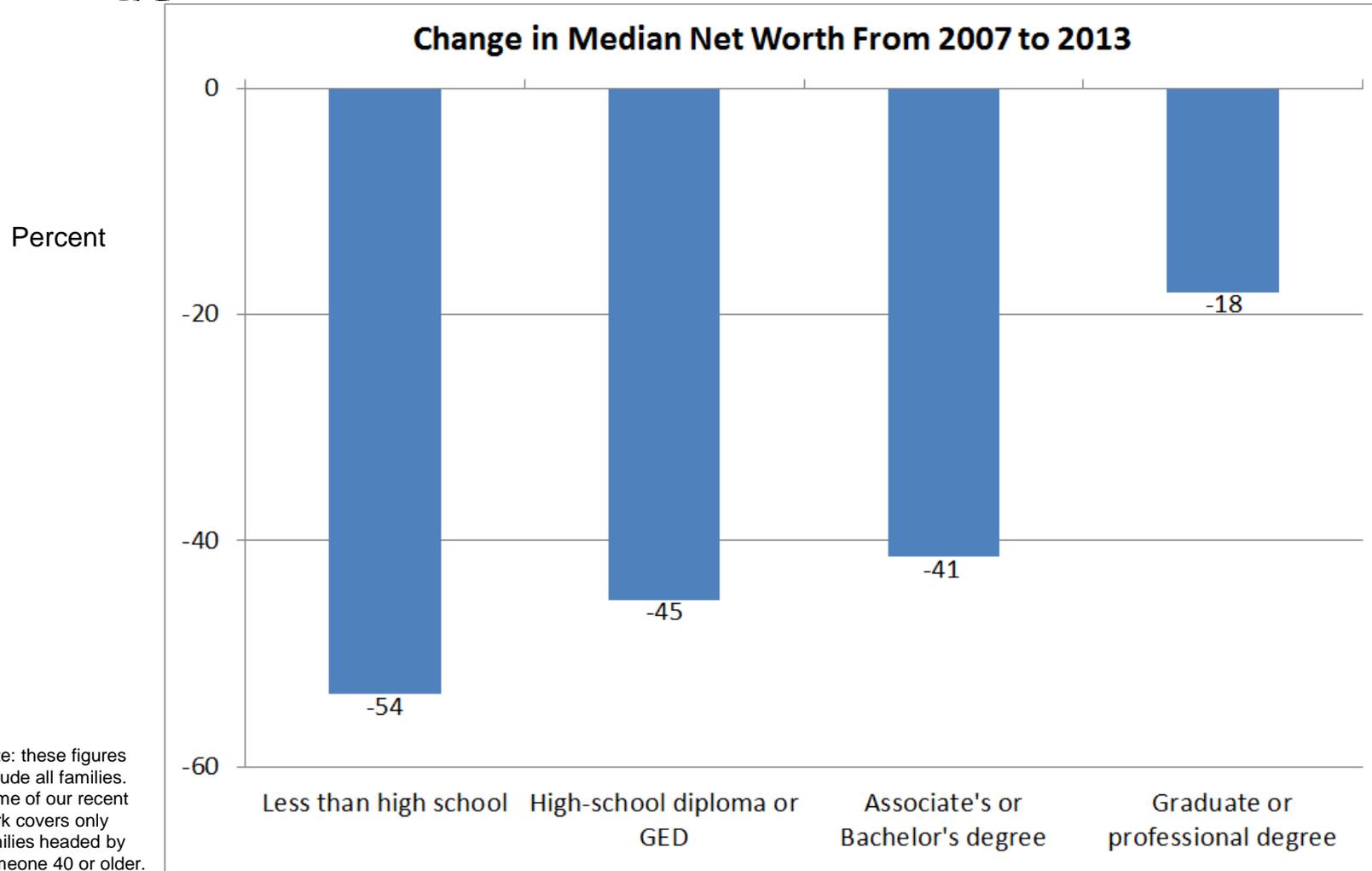


Note: these figures include all families. Some of our recent work covers only families headed by someone 40 or older.

Source: Federal Reserve Board, Survey of Consumer Finances



College-Grad Medians Declined Less After 2007

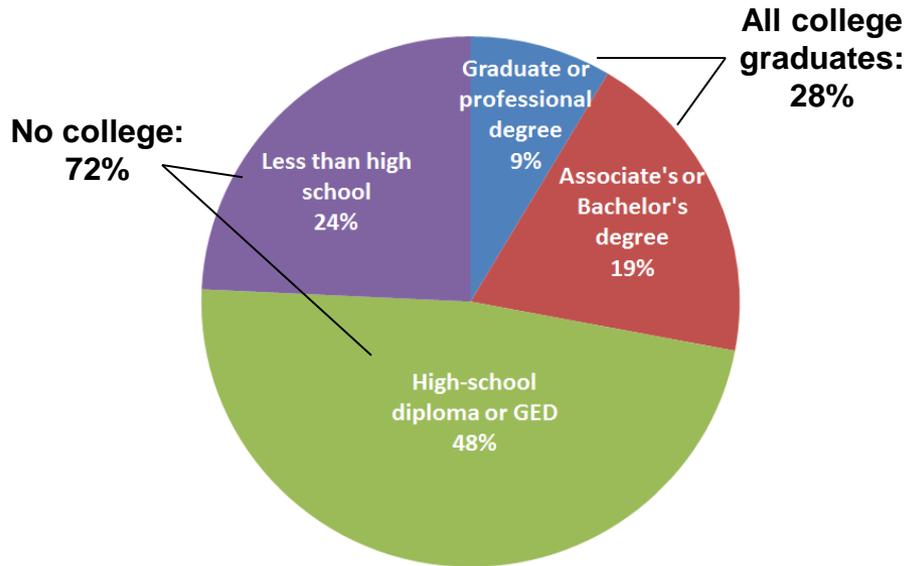


Source: Federal Reserve Board, Survey of Consumer Finances

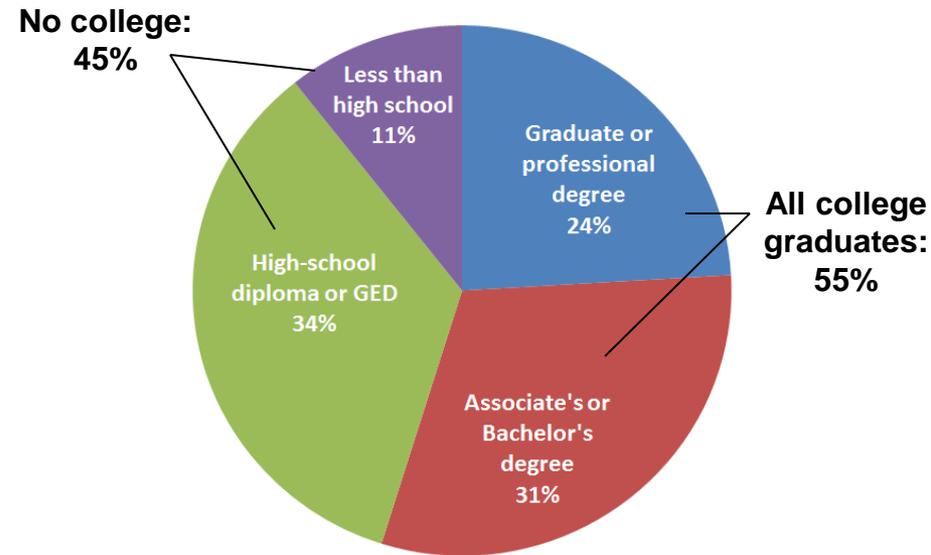


In 1989, College Grads Were 28% of Families But Owned 55% of Wealth

1989 SCF Sample Shares by Educational Attainment



1989 SCF Wealth Shares by Educational Attainment

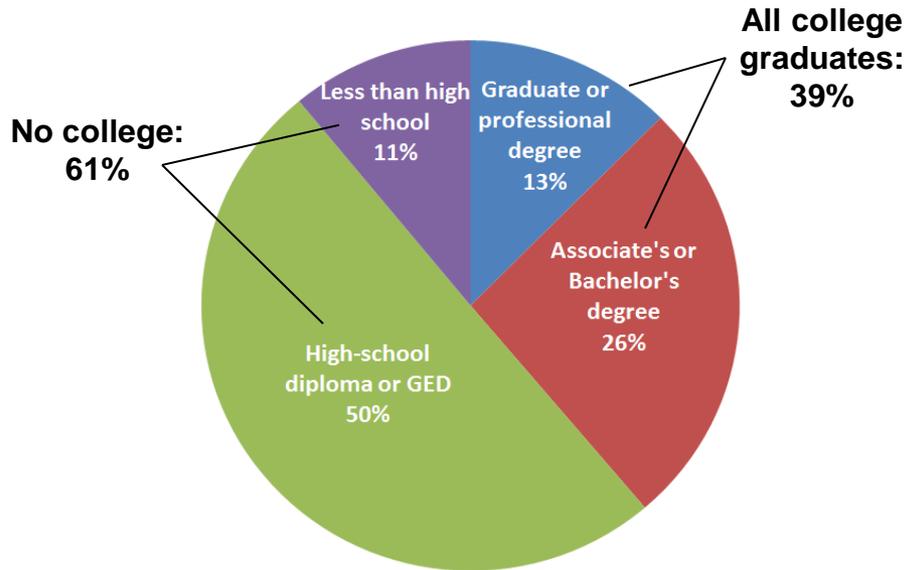


Note: these figures include all families. Some of our recent work covers only families headed by someone 40 or older.

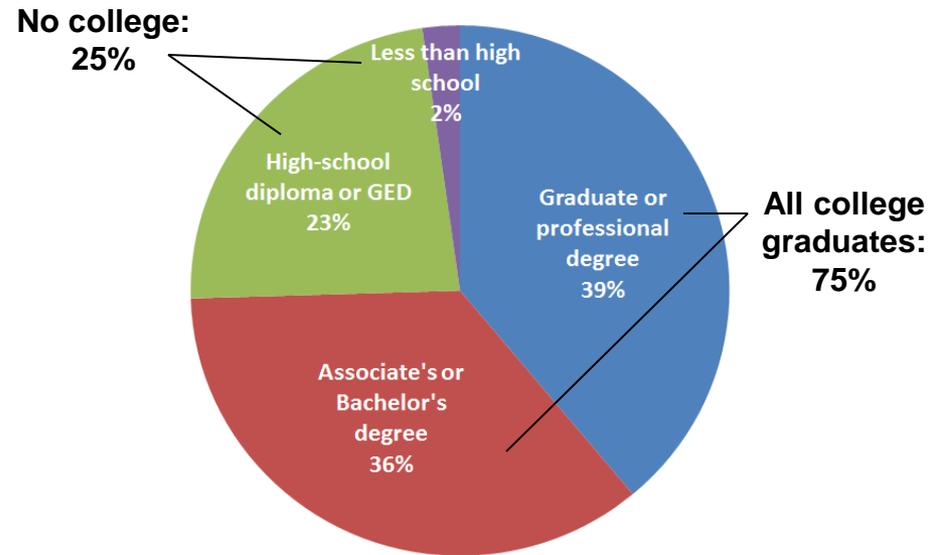


In 2013, College Grads Were 39% of Families But Owned 75% of Wealth

2013 SCF Sample Shares by Educational Attainment



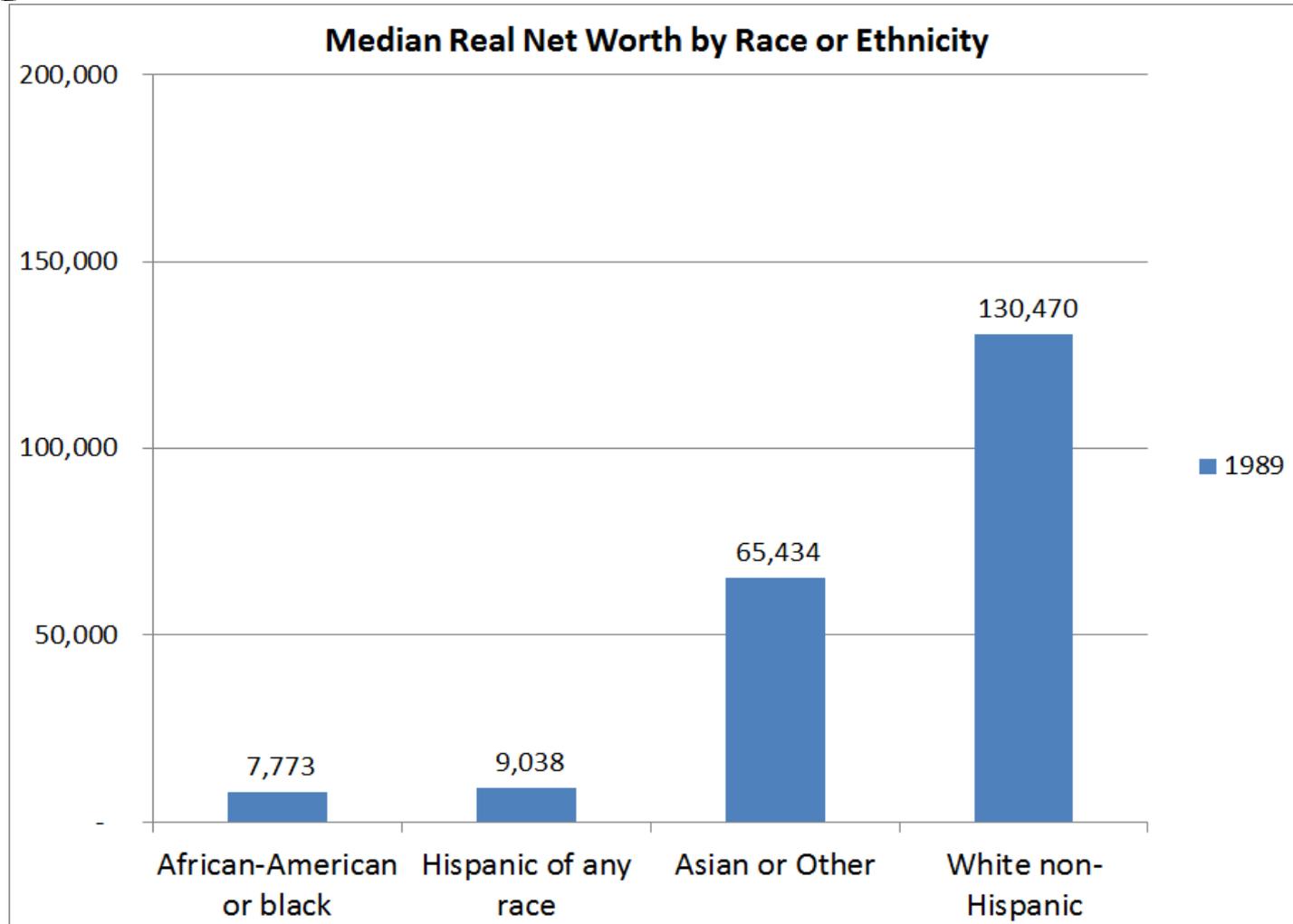
2013 SCF Wealth Shares by Educational Attainment



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



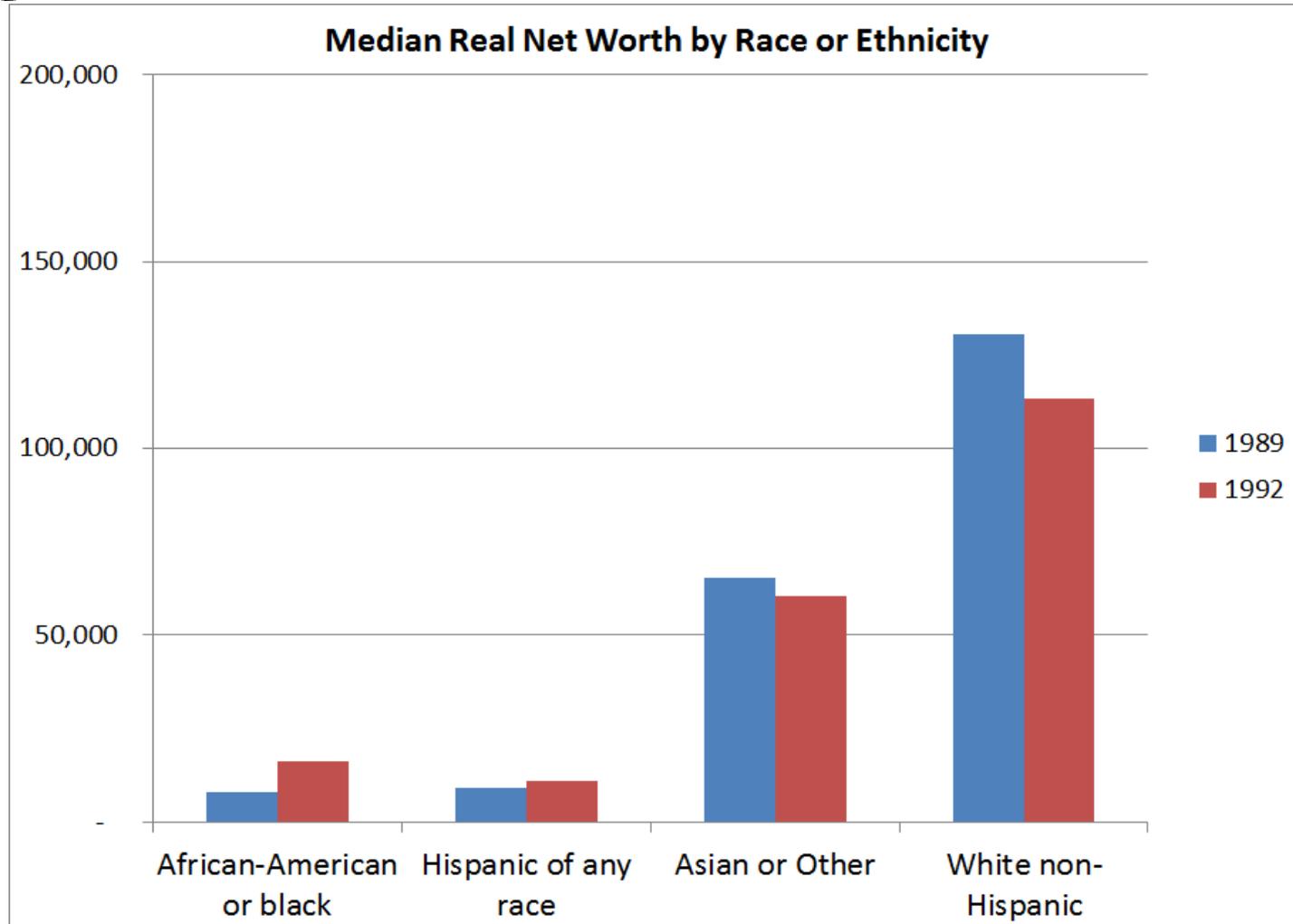
Wealth Gaps by Race or Ethnicity Were Huge in 1989



Source: Federal Reserve Board, Survey of Consumer Finances



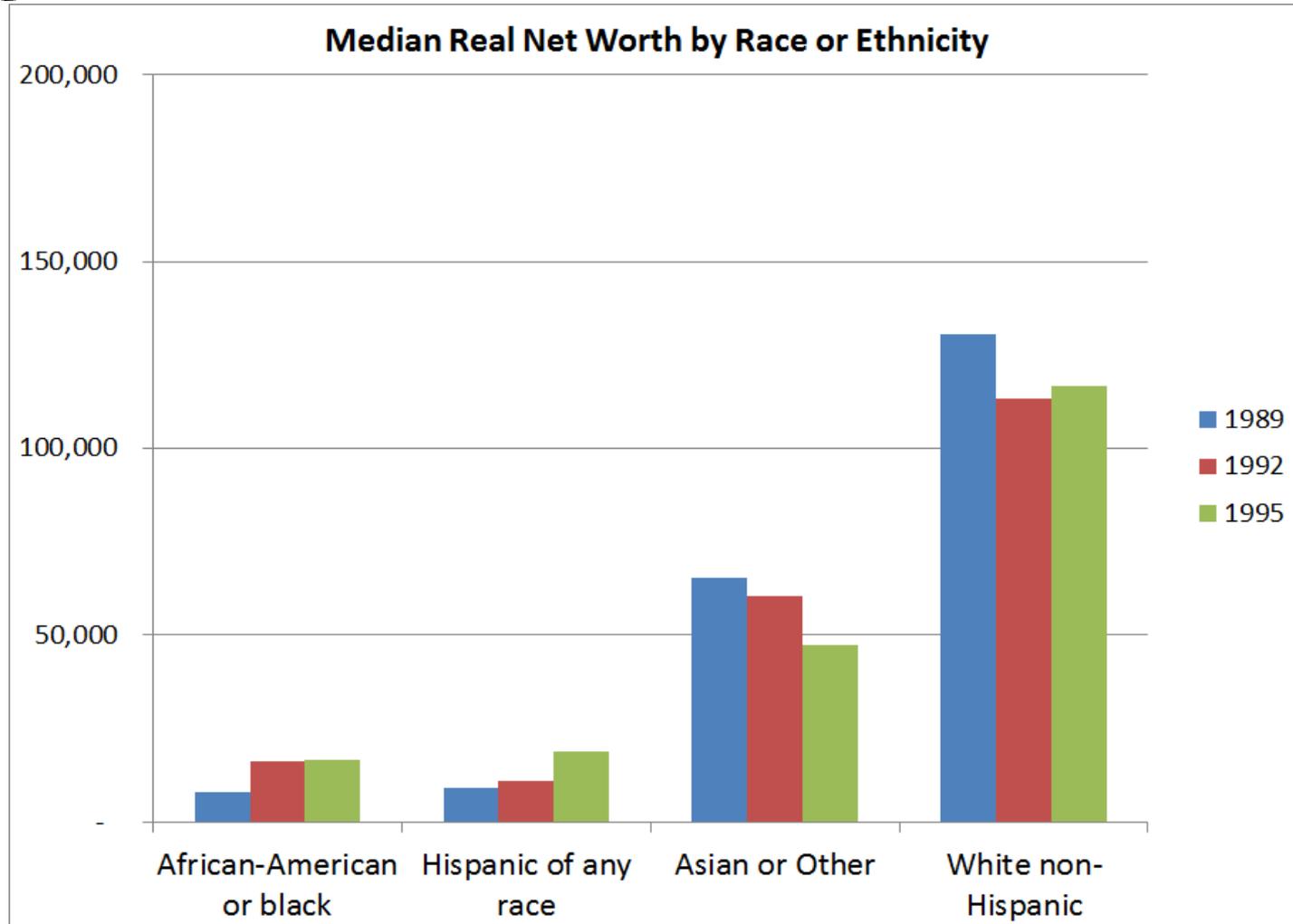
The Changing Distribution of Wealth By Race or Ethnicity



Source: Federal Reserve Board, Survey of Consumer Finances



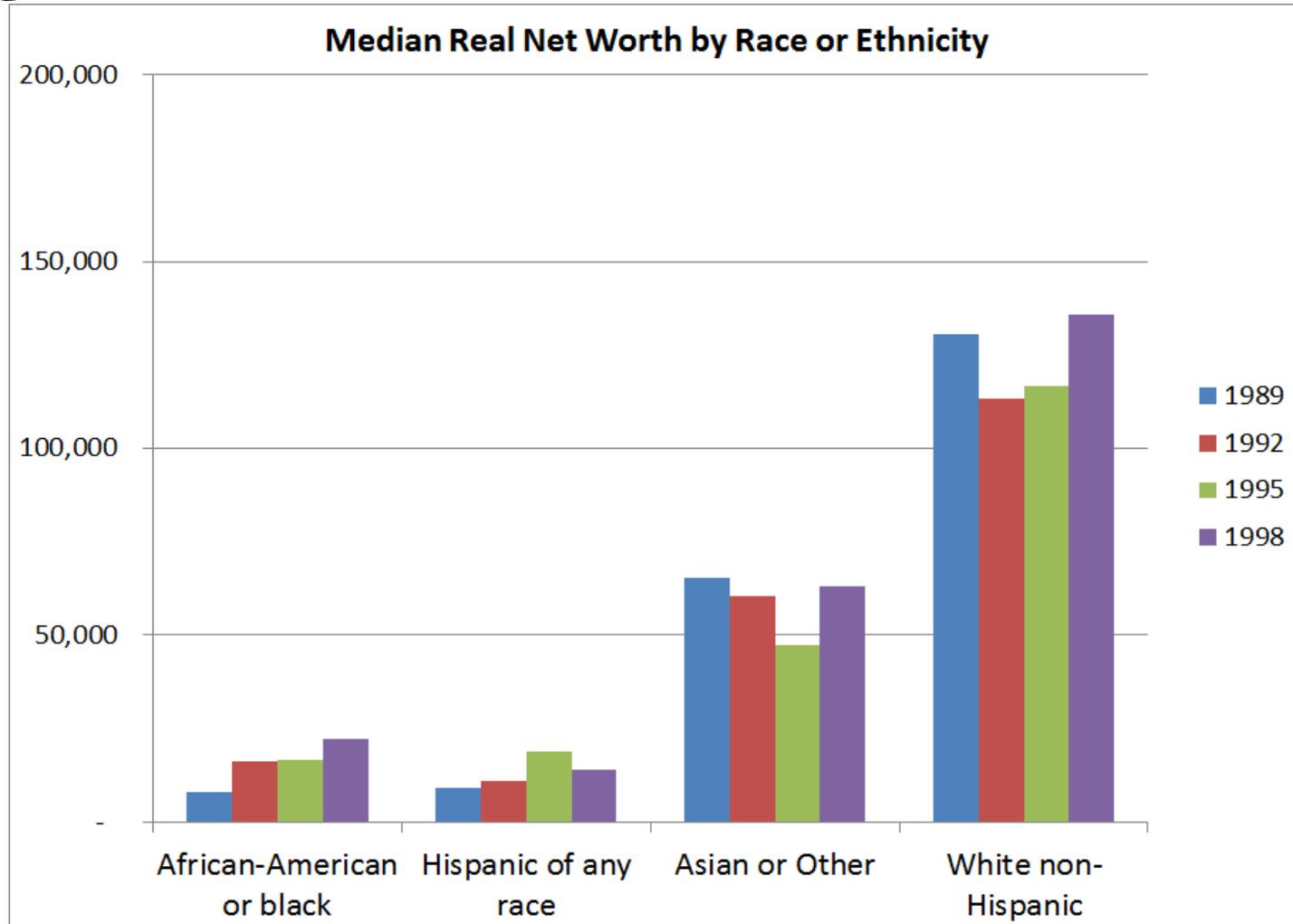
The Changing Distribution of Wealth By Race or Ethnicity



Source: Federal Reserve Board, Survey of Consumer Finances



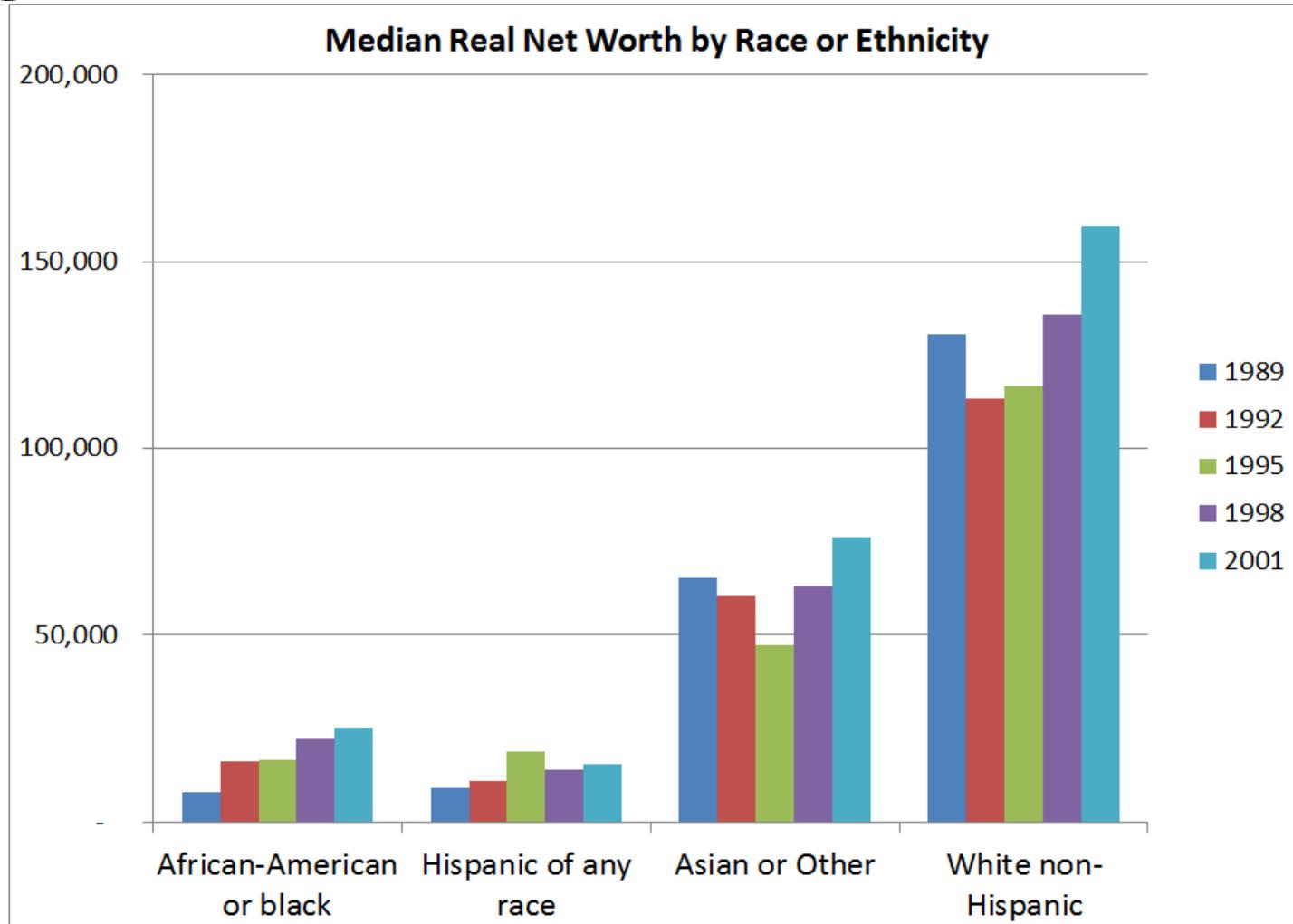
The Changing Distribution of Wealth By Race or Ethnicity



Source: Federal Reserve Board, Survey of Consumer Finances



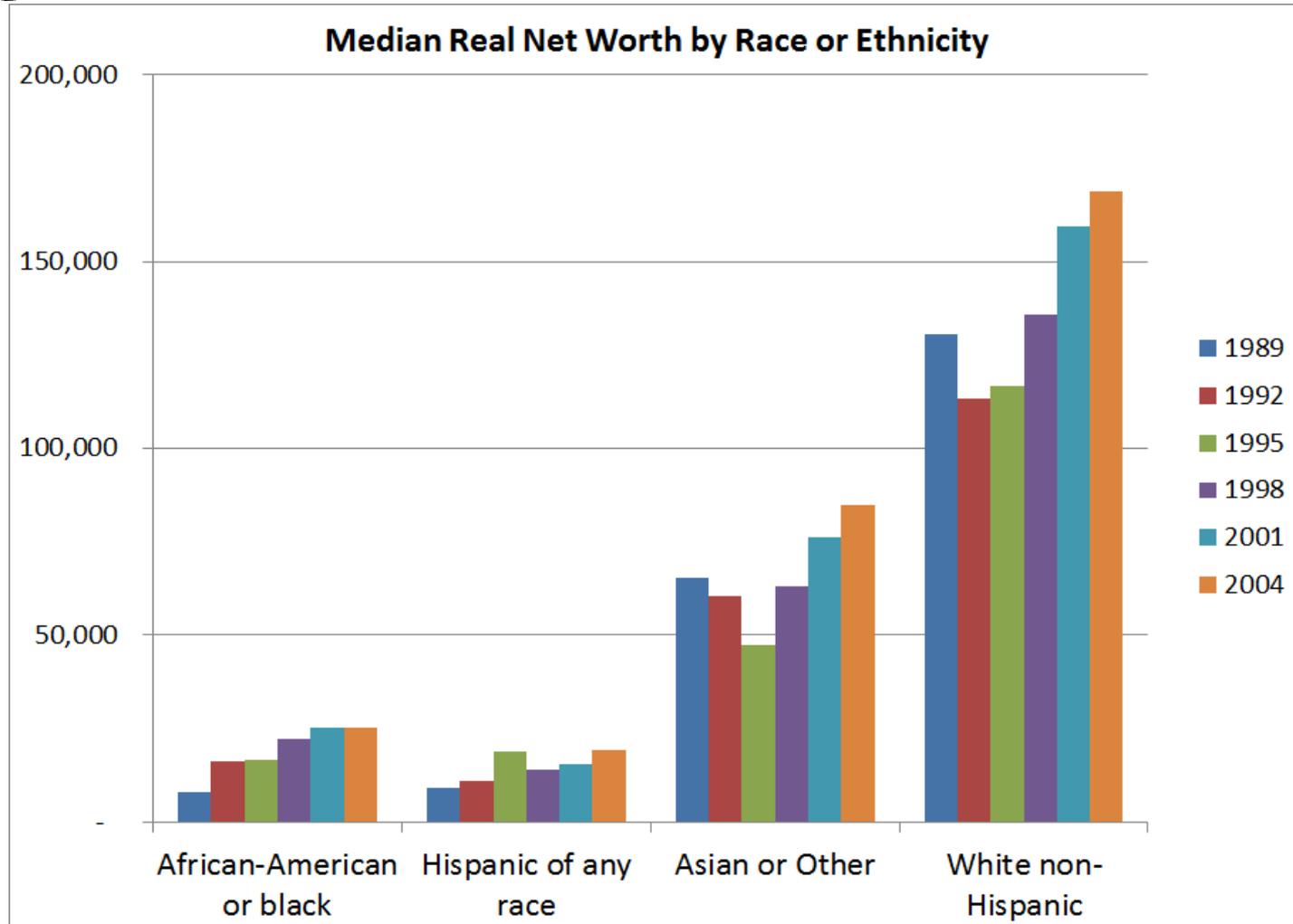
The Changing Distribution of Wealth By Race or Ethnicity



Source: Federal Reserve Board, Survey of Consumer Finances



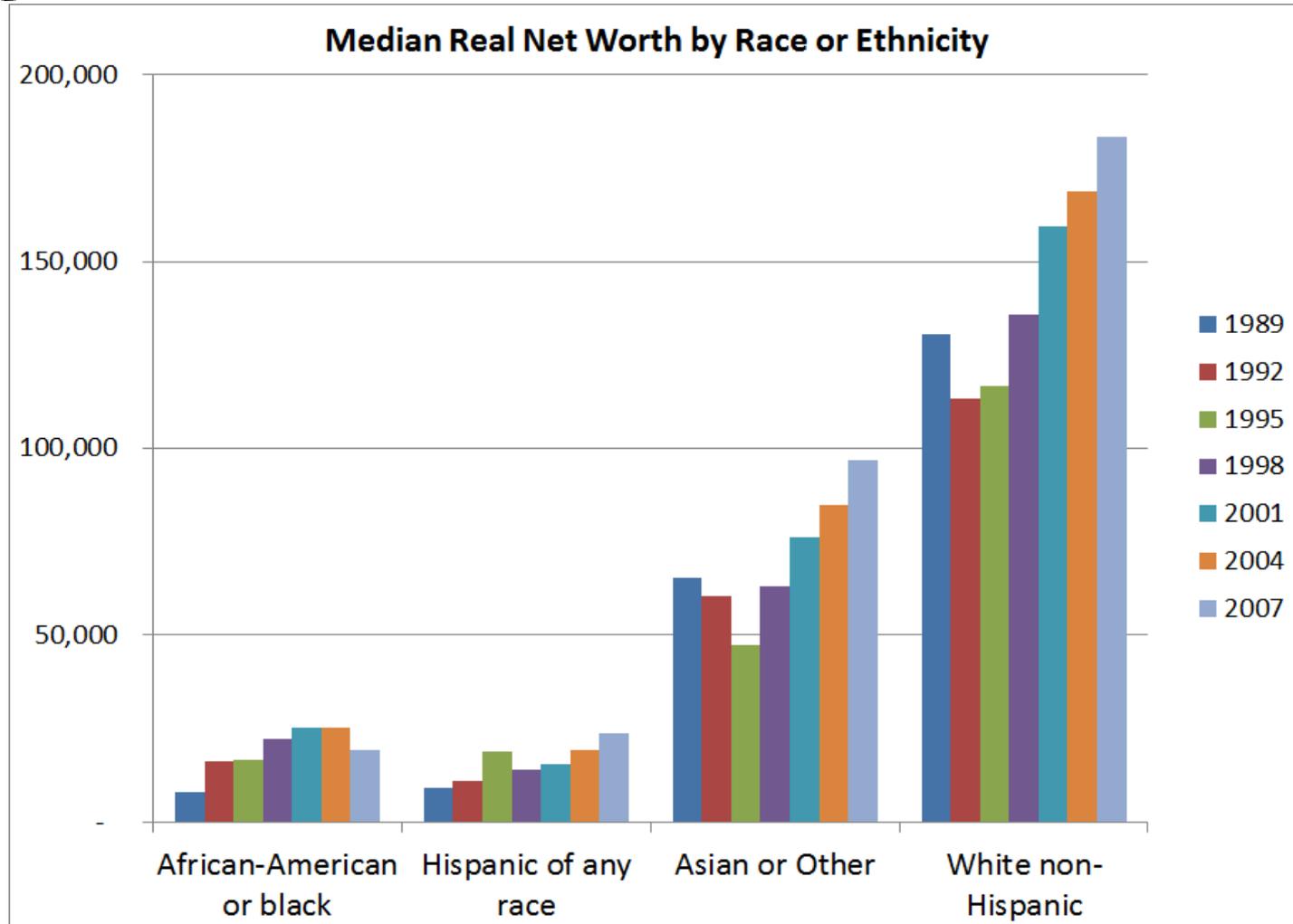
The Changing Distribution of Wealth By Race or Ethnicity



Source: Federal Reserve Board, Survey of Consumer Finances



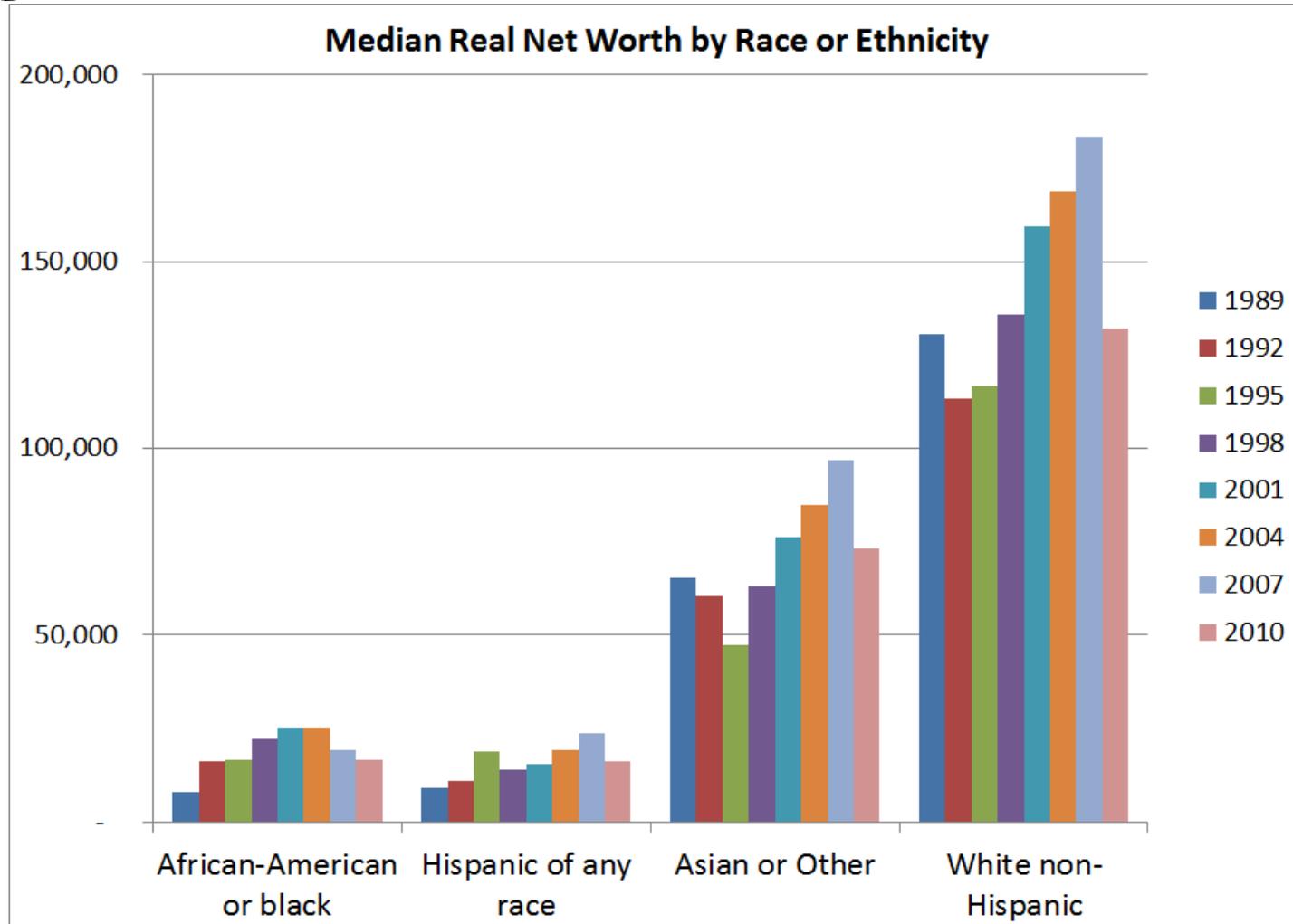
The Changing Distribution of Wealth By Race or Ethnicity



Source: Federal Reserve Board, Survey of Consumer Finances



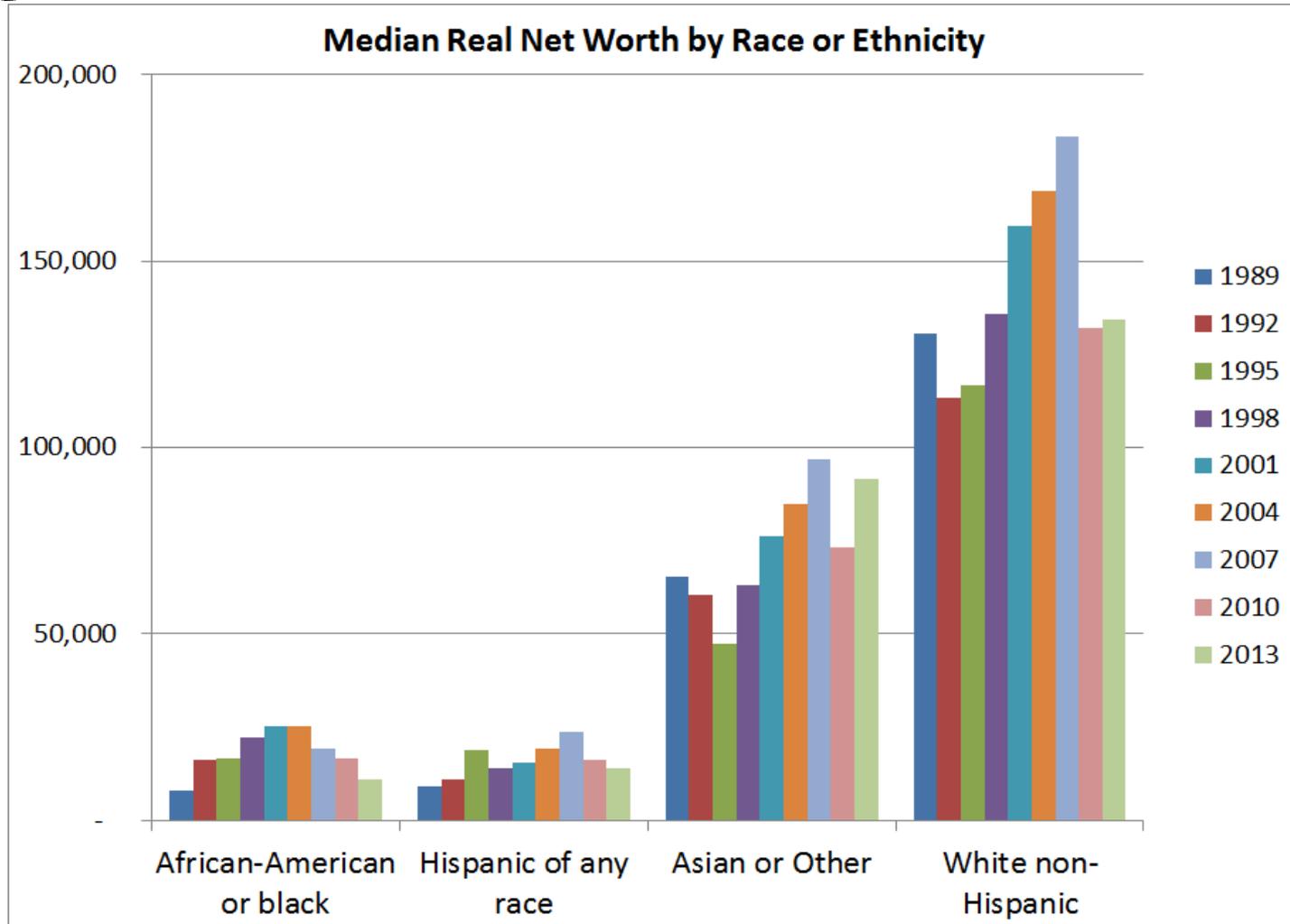
The Changing Distribution of Wealth By Race or Ethnicity



Source: Federal Reserve Board, Survey of Consumer Finances



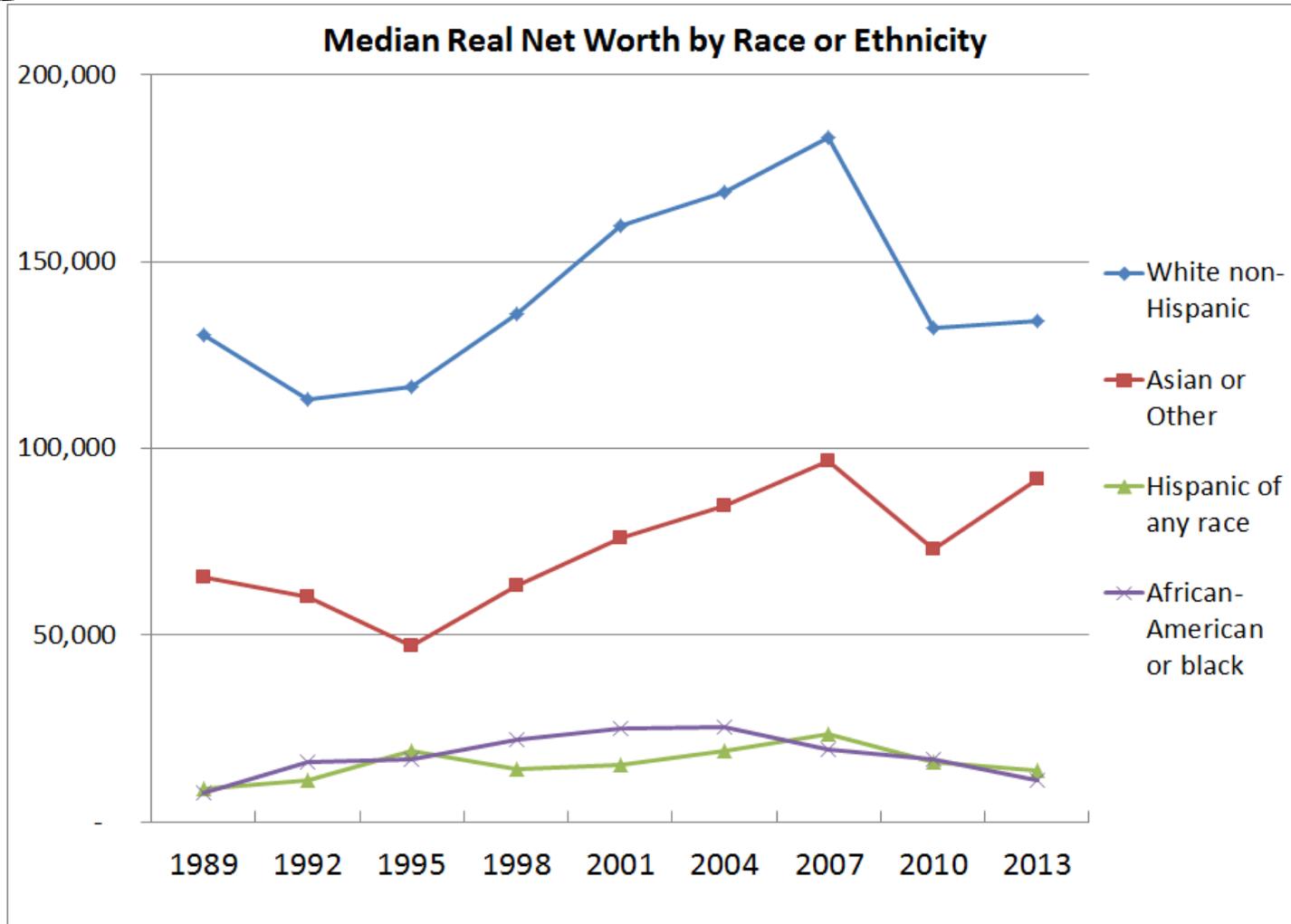
The Changing Distribution of Wealth By Race or Ethnicity



Source: Federal Reserve Board, Survey of Consumer Finances



Evolution of the Wealth Gap By Race or Ethnicity

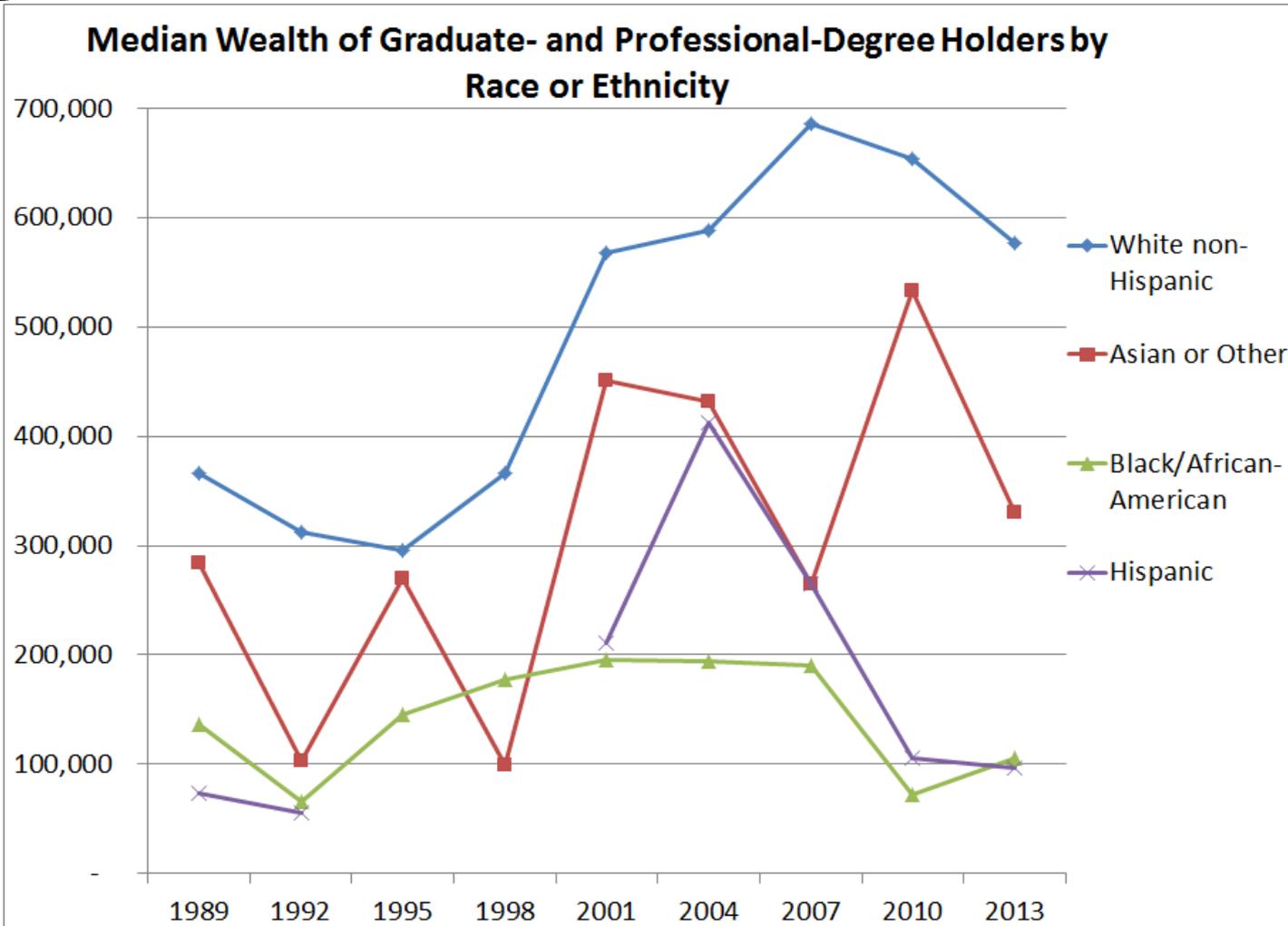


Source: Federal Reserve Board, Survey of Consumer Finances



Wealth Gaps by Race and Ethnicity Are Not Due Entirely to Education

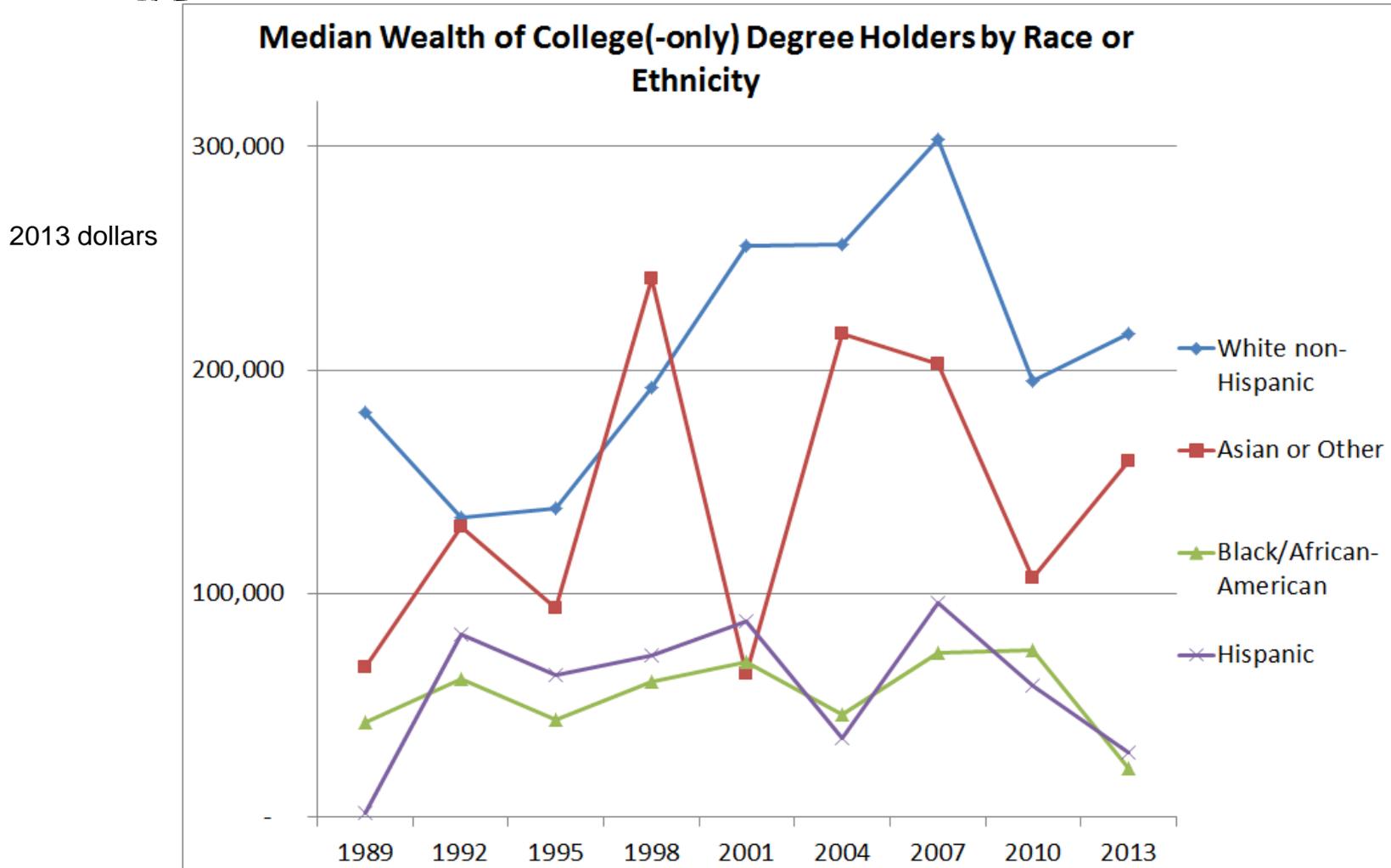
2013 dollars



Source: Federal Reserve Board, Survey of Consumer Finances



Same Pattern Among Families Headed by College Grads



Source: Federal Reserve Board, Survey of Consumer Finances



Conclusions From Our Study of the Demographics of Wealth

- **Discussions of income or wealth trends (or simple rankings) that don't isolate the underlying determinants are incomplete and unproductive.**
- **Age-based policies (Social Security, Medicare) often benefit the old—who have become much richer—while the young struggle.**
- **Intergenerational persistence of wealth inequality is linked to: a) differences in educational attainment across families and b) the continuing legacies of race- and ethnicity-related disadvantage.**
- **Bottom line—The playing field is *not* level for all families for building wealth and maintaining household financial stability.**



What Can Be Done?

- **Recognize that some things cannot be changed.**
 - **Your year of birth**
 - **Your native abilities, aptitudes and interests**
 - **Your race or ethnicity**
 - **Your parents and earlier ancestors**
- **Focus on things an individual can affect.**
 - **Realizing your potential in school, at work, at home**
 - **Day-to-day financial decision-making**
 - **Balance-sheet choices**
- **Advocate for social policies that address inequities of birth and circumstance.**



Making Changes in Financial Behaviors

- **Day-to-day financial decision-making**
 - Save regularly.
 - Pay all bills and debts on time.
 - Minimize use of high-cost credit.
 - Keep plenty of cash reserves on hand.
 - Don't allow debt to strain your budget.
- **Balance-sheet recommendations**
 - Allocate at least 5% of your assets to cash reserves.
 - Allocate at least 30% of your assets to financial assets (retirement accounts, etc.) or business assets.
 - Use debt cautiously and pay it off as quickly as possible.
 - For families under 40: Debt-to-assets ratio of 50% by age 40.
 - For families over 40: Have a plan to be debt-free by age 60.



Social Policies Should Address the Inequities of Birth, Circumstances and the Life Cycle

- **Children and young adults need and deserve our help more than any other age group.**
- **First-generation college students need and deserve special assistance.**
- **Not everyone can or should go to college, so we need alternative pathways to the middle class.**
- **The legacies of racial, ethnic and gender discrimination and disadvantage are real and should be actively remediated.**



For More Information

Center for Household Financial Stability

Federal Reserve Bank of St. Louis

www.stlouisfed.org/household-financial-stability

Community Development

Federal Reserve Bank of St. Louis, Louisville Branch

www.stlouisfed.org/louisville/community-development



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