



The Demographics of Wealth

Can Education Bridge the Racial and Ethnic Wealth Gaps?

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The Demographics of Wealth: Can Education Bridge the Racial and Ethnic Wealth Gaps?

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

- **The “silver-bullet” theory of education: A solution to large racial/ethnic wealth gaps?**

- **Facts vs. theory: Why didn’t higher education protect Hispanic and black wealth?**



Your Demographic Endowments

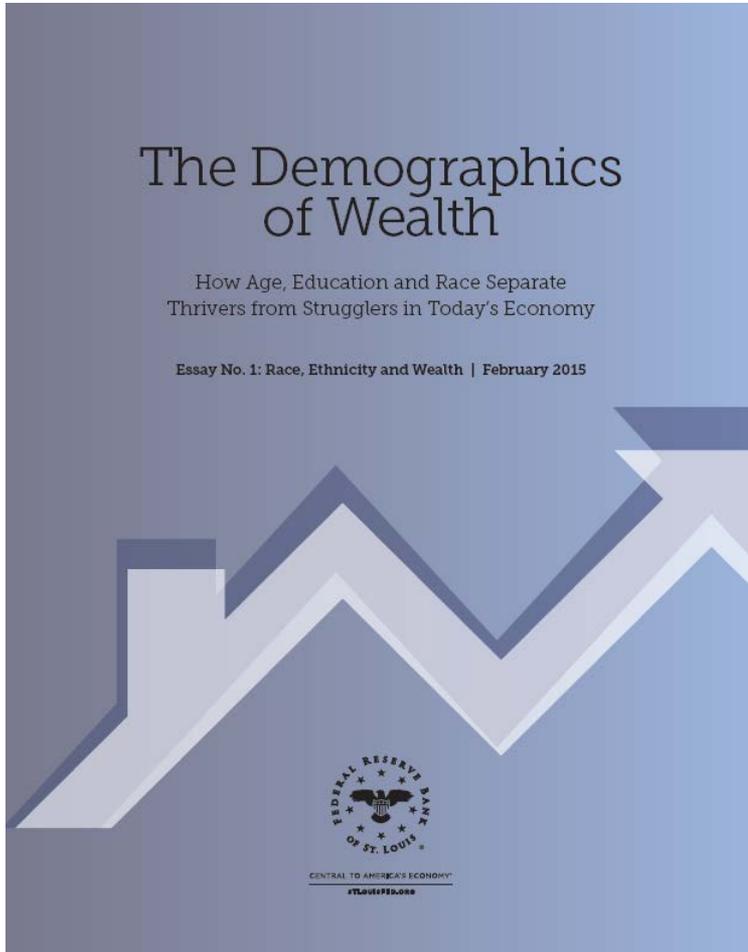
- **When you were born**
 - Your generation (Greatest, Silent, Baby Boom, Gen X, Gen Y)
 - Your age when we observe you in the data (“life-cycle effect”)
- **Your highest level of completed education**
 - Less than a high-school diploma
 - A high-school diploma, GED or vocational training
 - A two- or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

Education is complex:

- *Related to key individual characteristics like cognitive and non-cognitive abilities.*
- *Chosen early; unchanging later in life.*
- *A proxy for socio-economic status.*



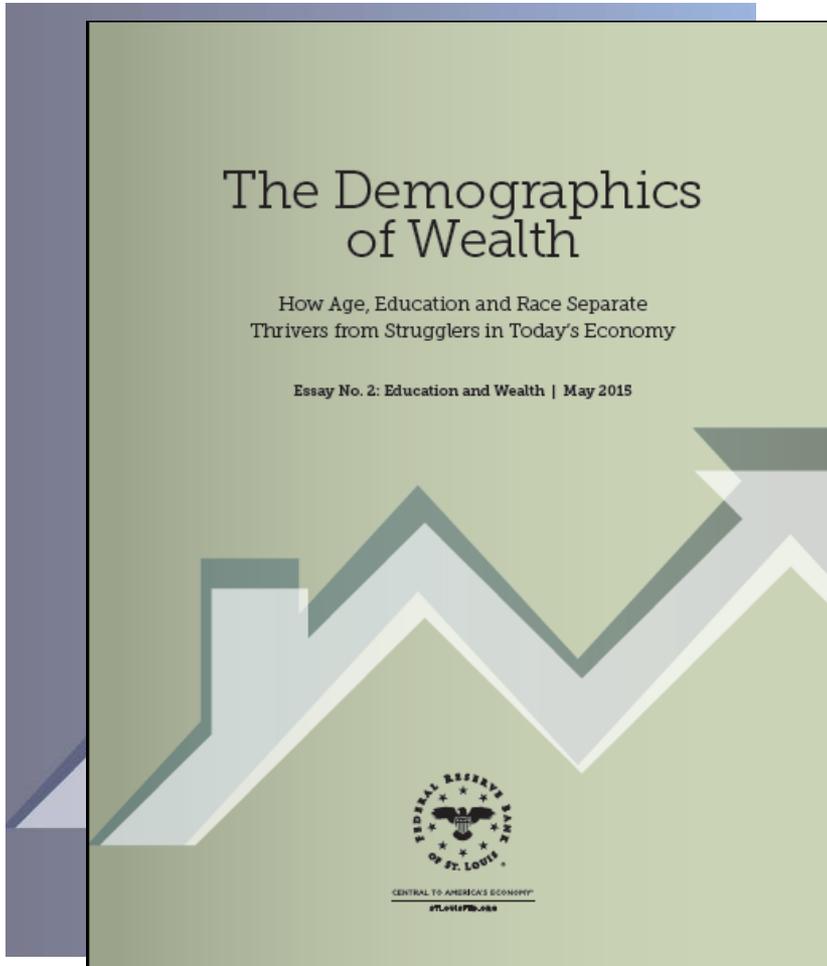
The Demographics of Wealth: An Essay Series



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



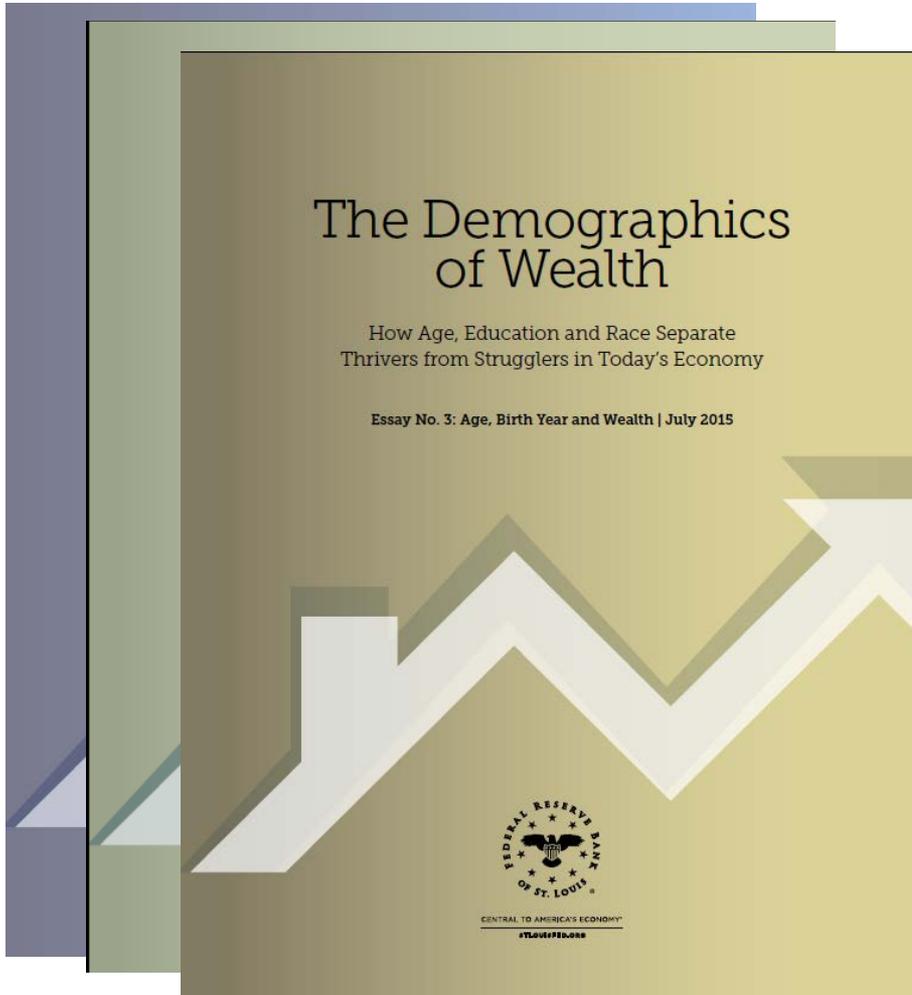
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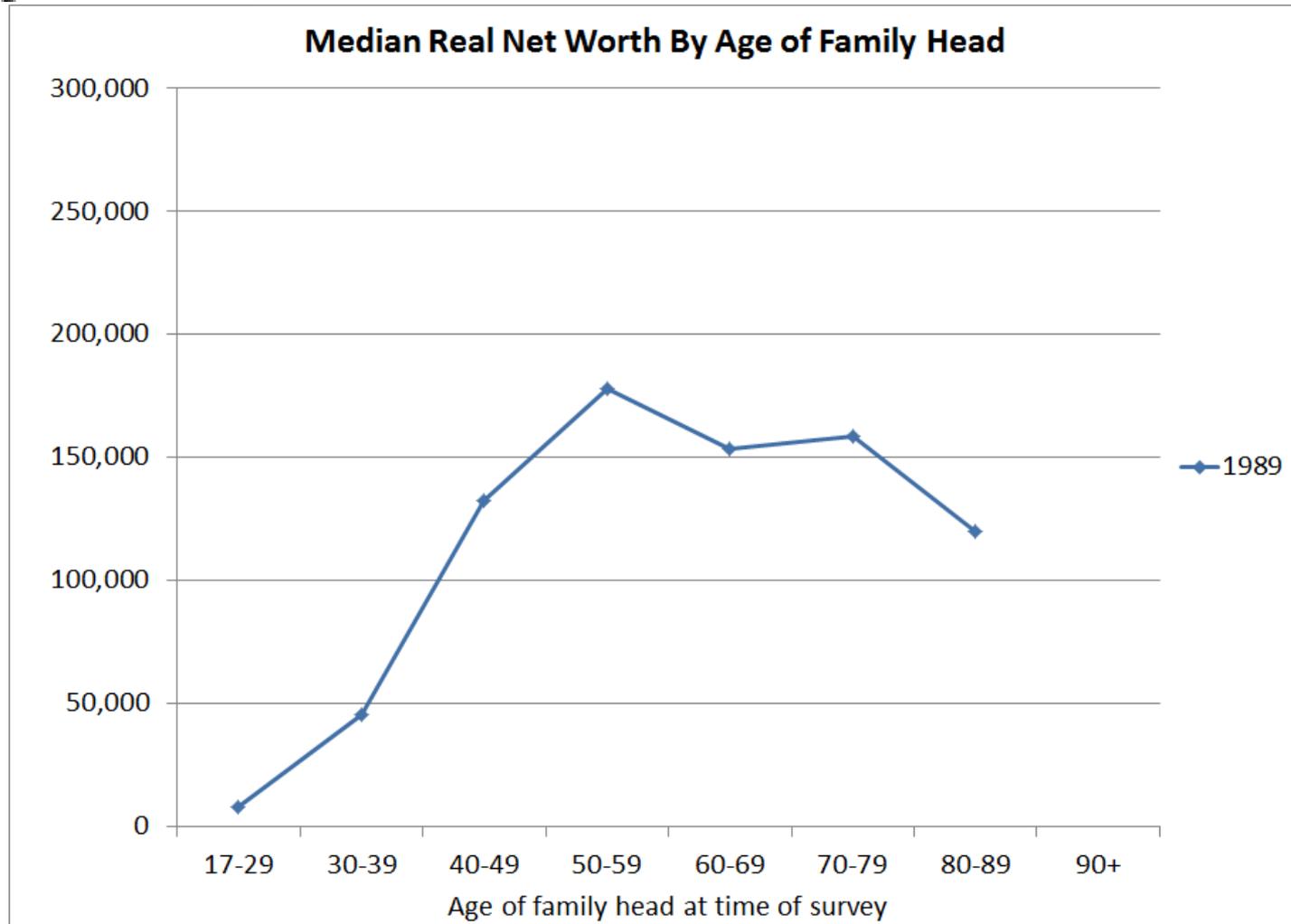
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- **Part 3: Age, Birth Year and Wealth (July 2015).**



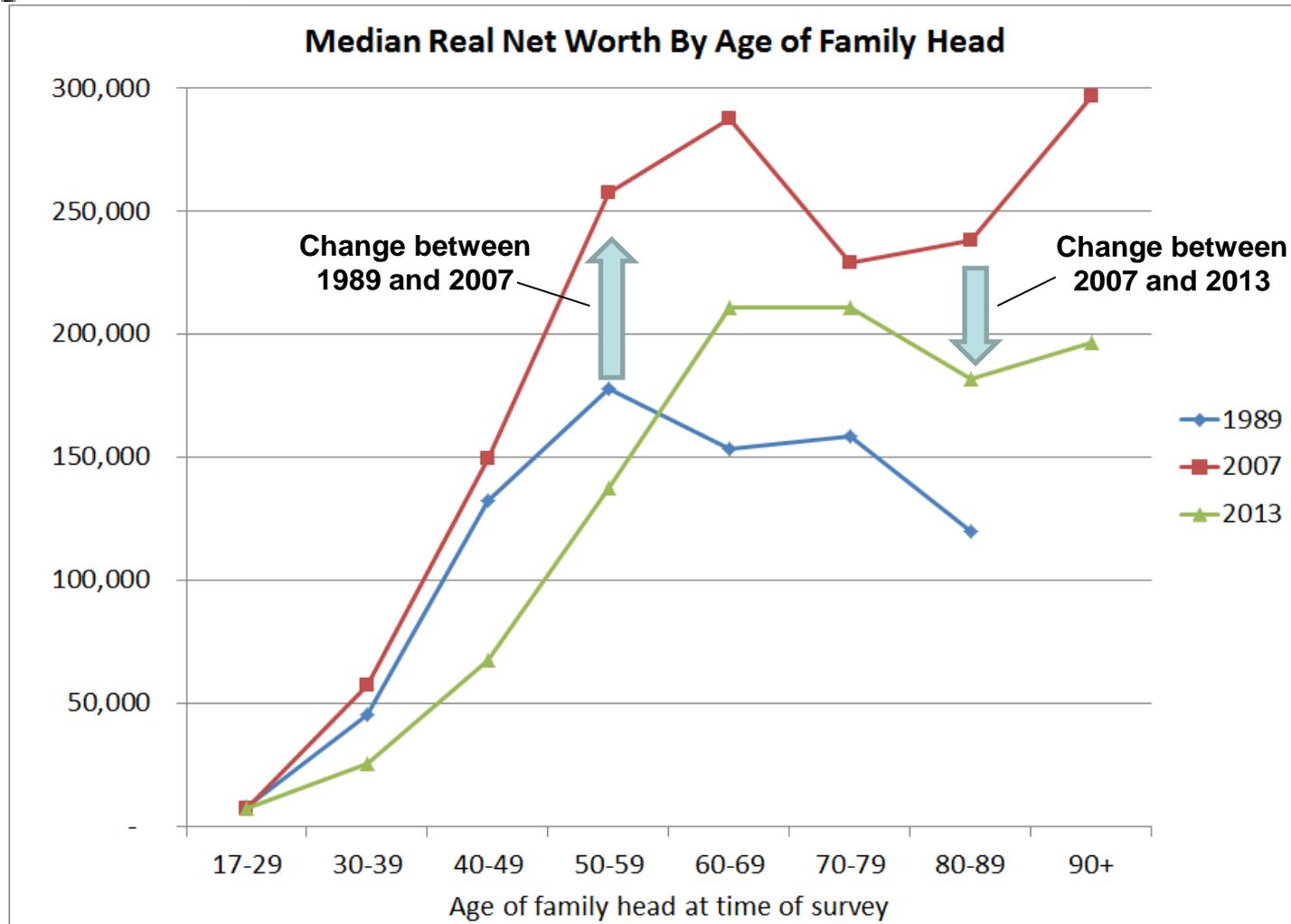
Age Distribution of Median Wealth in 1989



Source: Federal Reserve Board, Survey of Consumer Finances



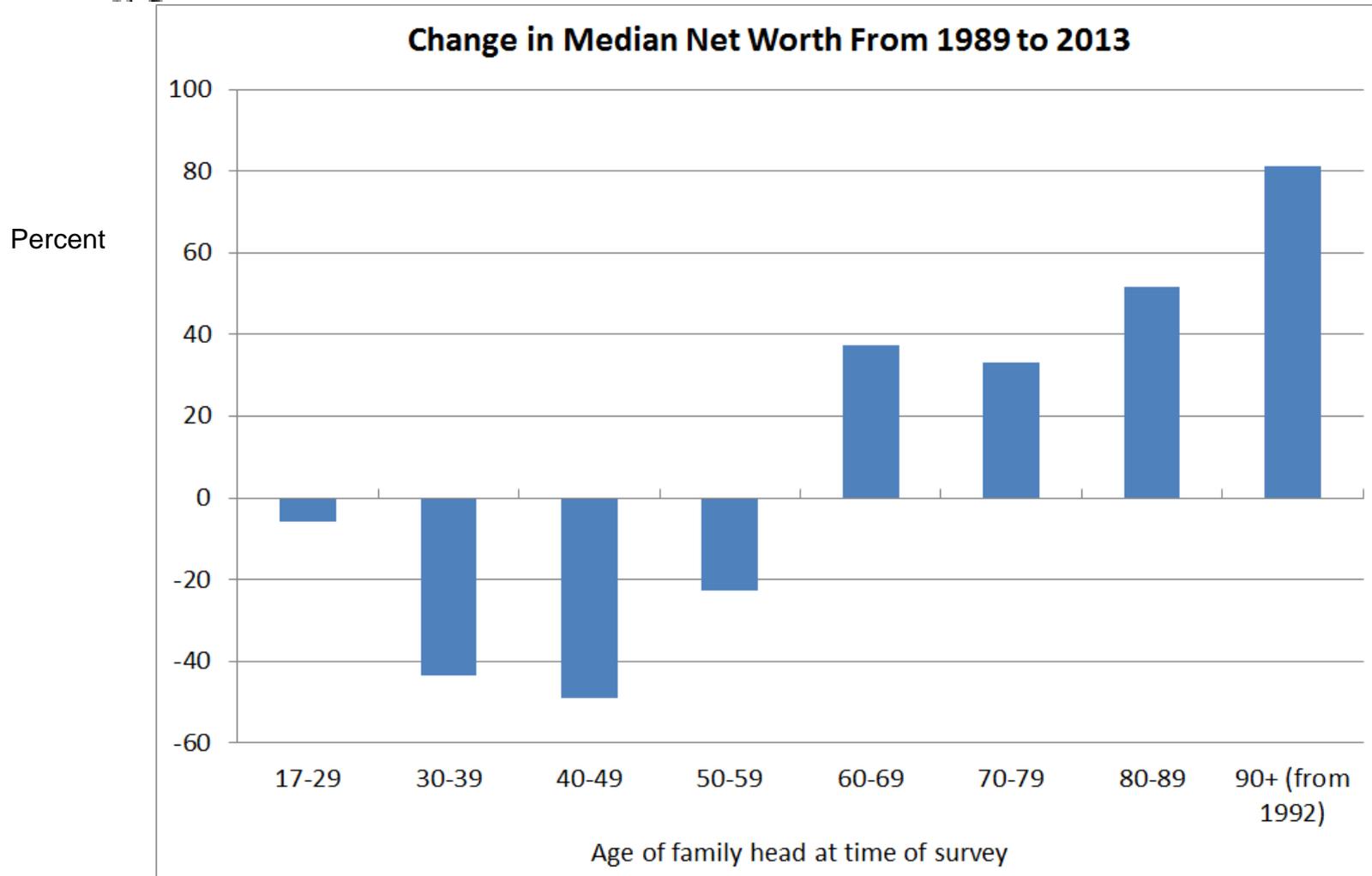
All Age Groups Gained Through 2007; All Groups Declined Through 2013



Source: Federal Reserve Board, Survey of Consumer Finances



Net Result, 1989-2013: All Age Groups 60+ Are Richer; Groups <60 Are Poorer

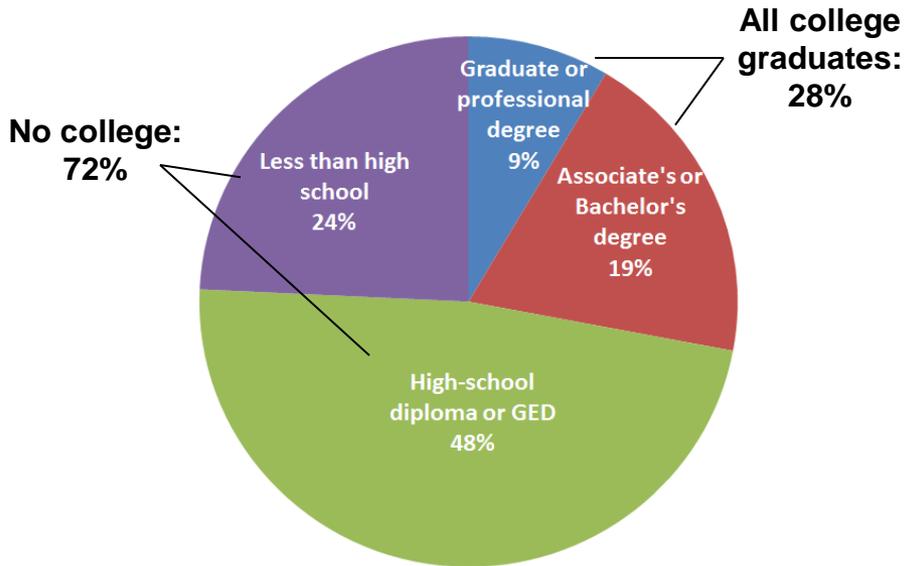


Source: Federal Reserve Board, Survey of Consumer Finances

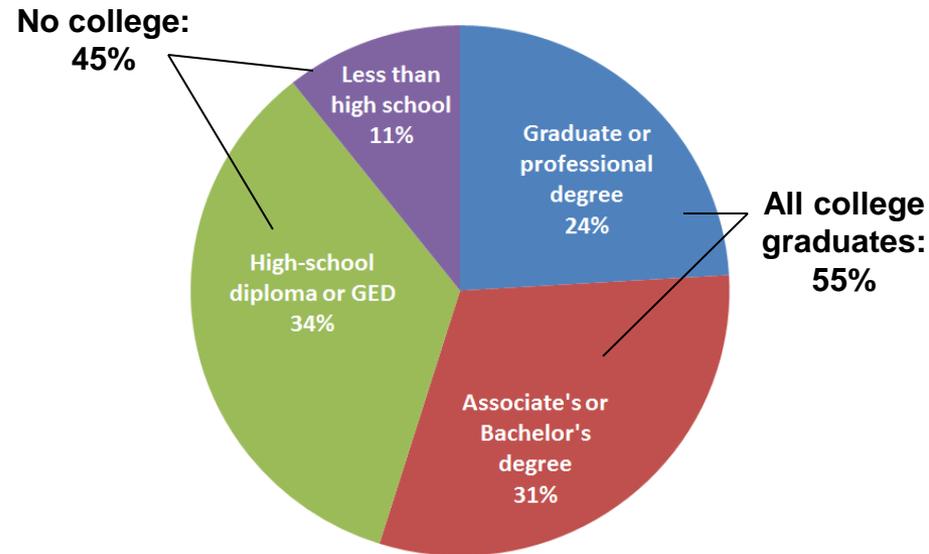


In 1989, College Grads Were 28% of Families But Owned 55% of Wealth

1989 SCF Sample Shares by Educational Attainment



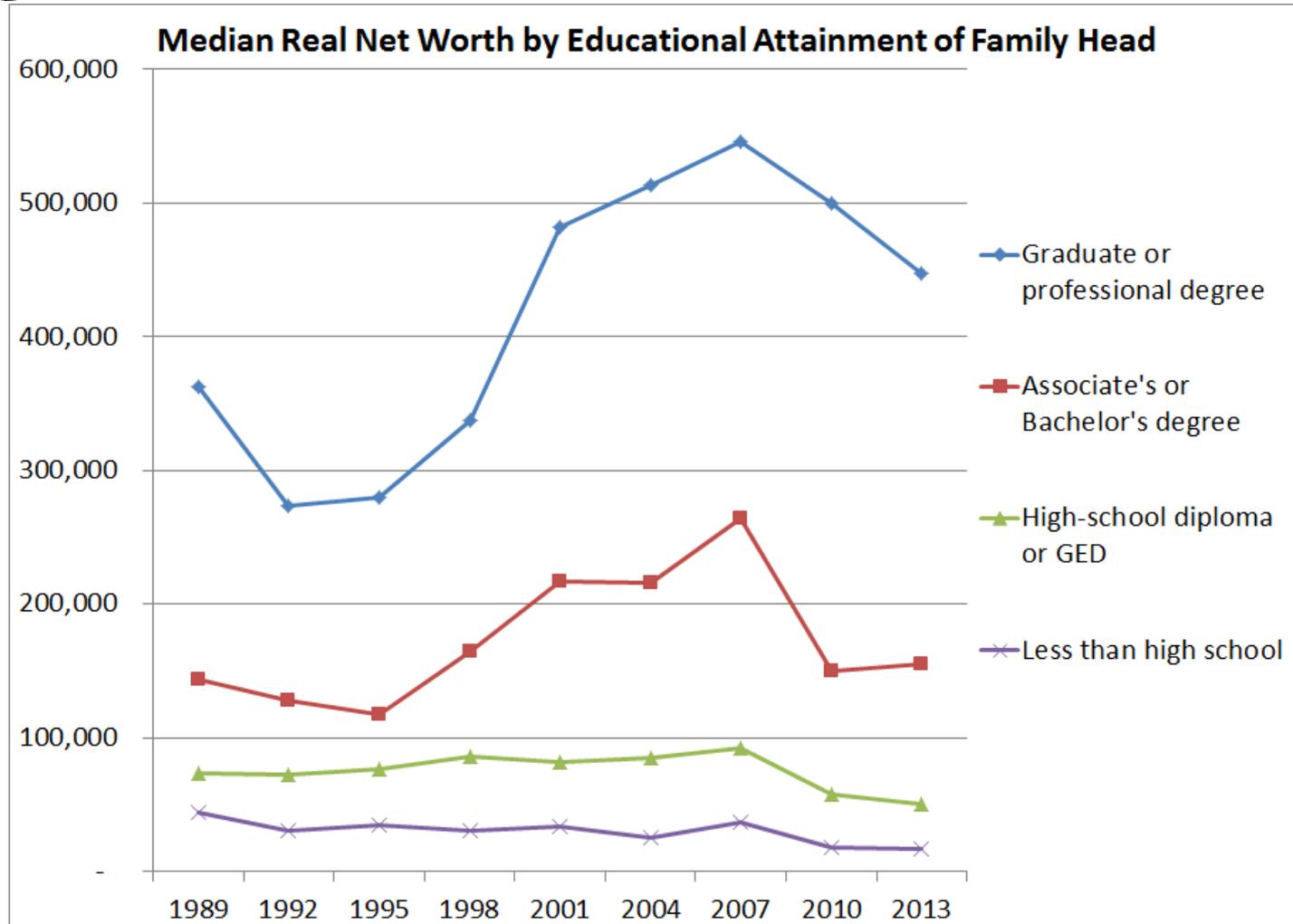
1989 SCF Wealth Shares by Educational Attainment



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



Education Strongly Predicts Wealth



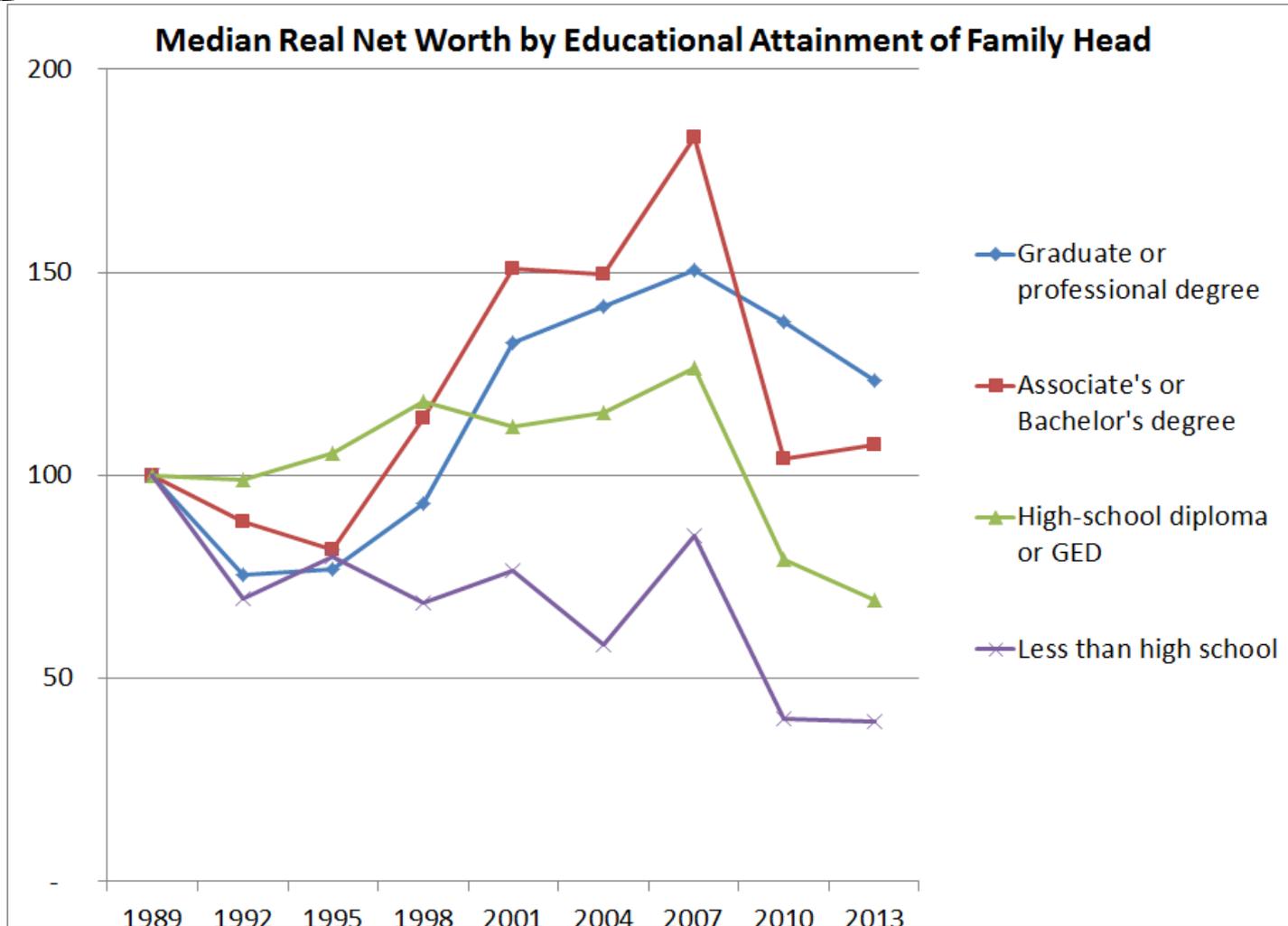
Note: these figures include all families. Some of our recent work covers only families headed by someone 40 or older.

Source: Federal Reserve Board, Survey of Consumer Finances



Education-Related Wealth Gaps Are Growing Larger

Index levels equal 100 in 1989



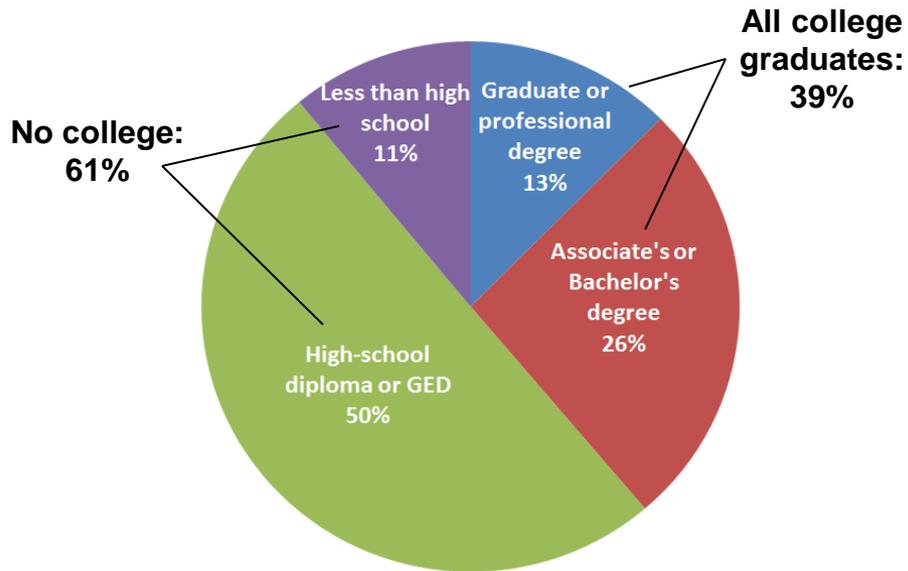
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Source: Federal Reserve Board, Survey of Consumer Finances

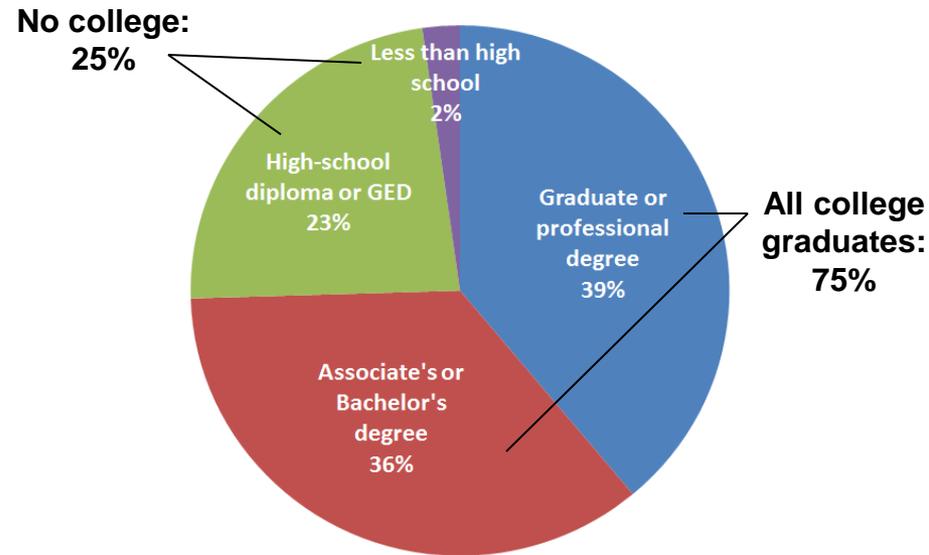


In 2013, College Grads Were 39% of Families But Owned 75% of Wealth

2013 SCF Sample Shares by Educational Attainment



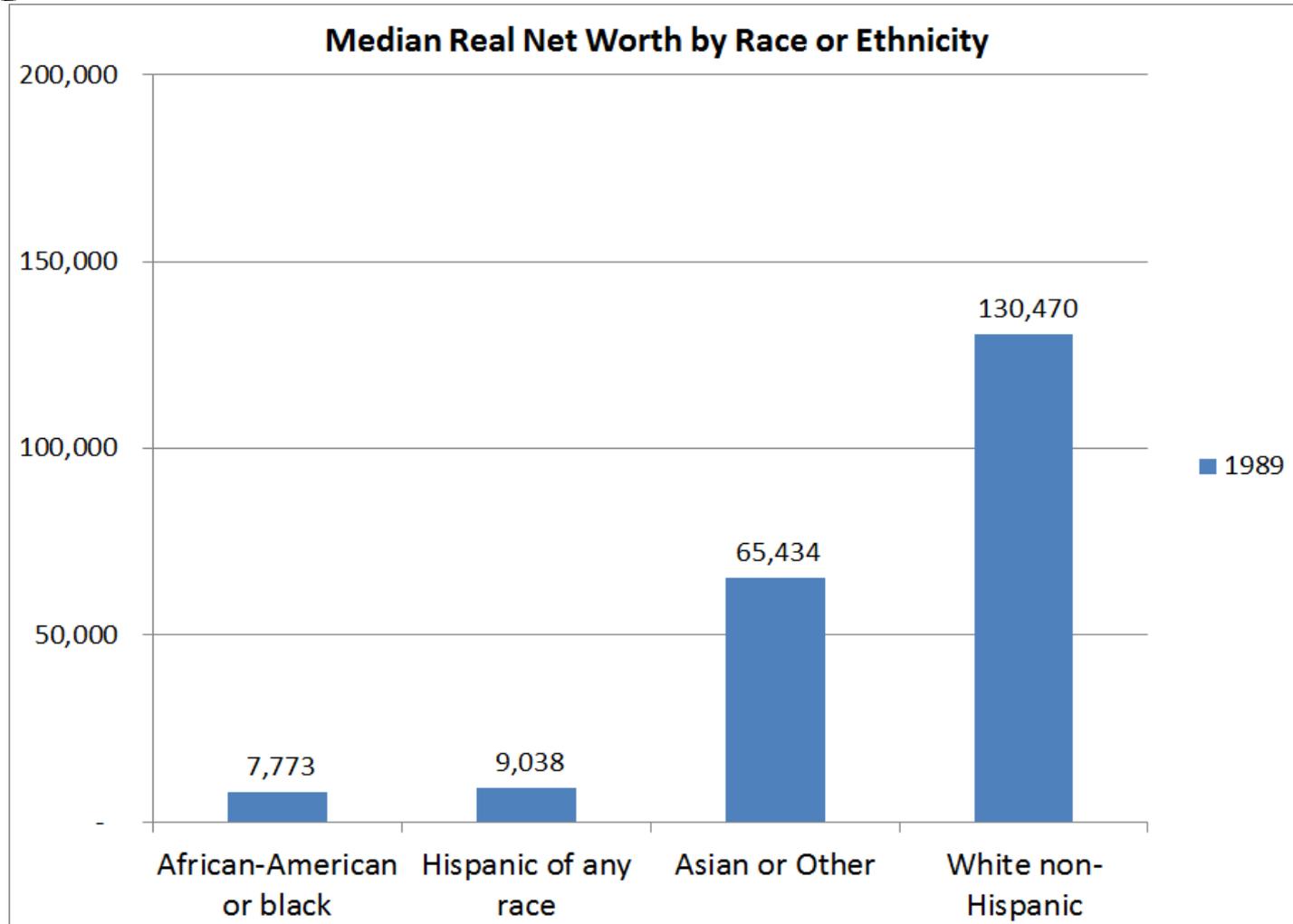
2013 SCF Wealth Shares by Educational Attainment



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



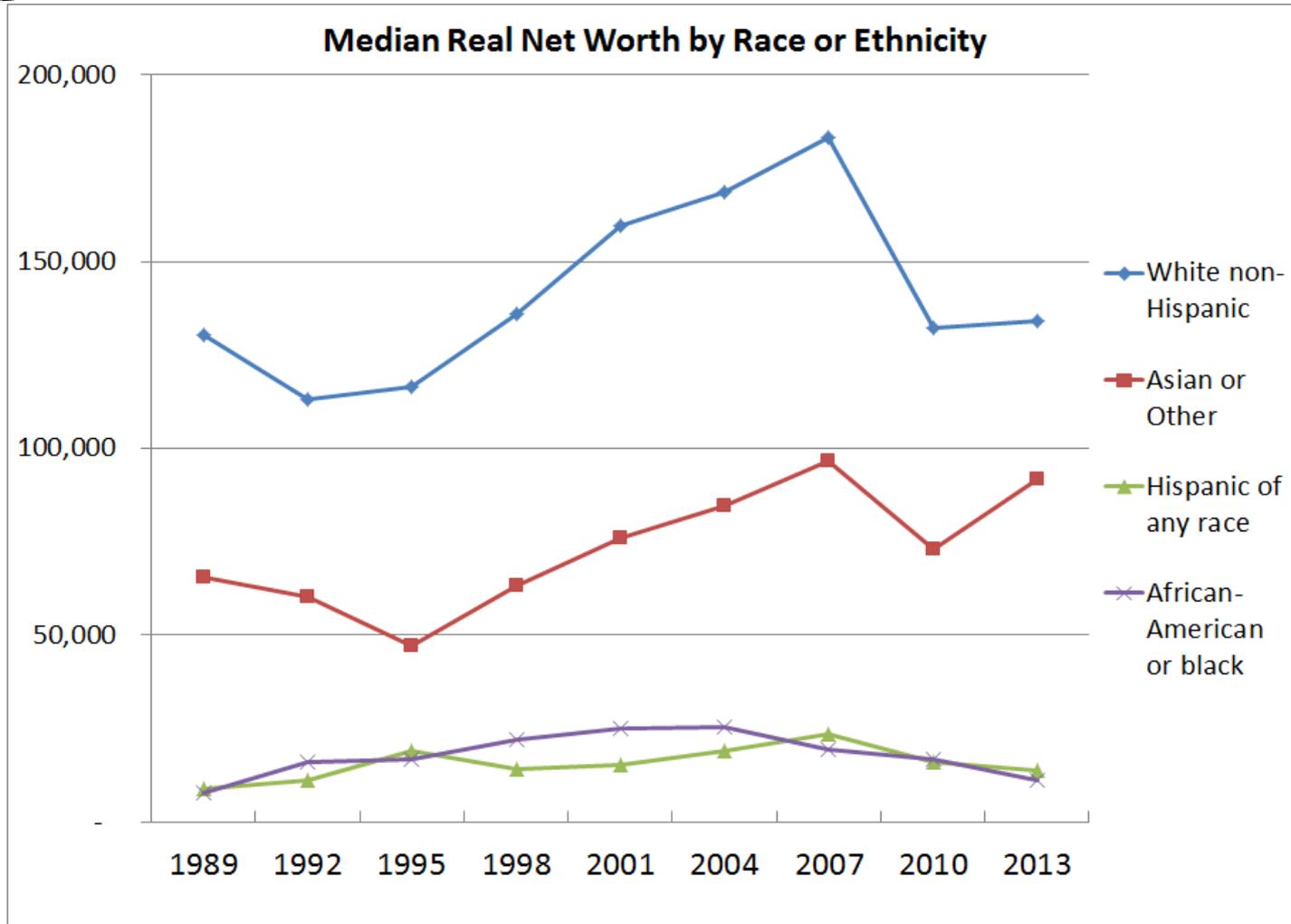
Wealth Gaps by Race or Ethnicity Were Huge in 1989



Source: Federal Reserve Board, Survey of Consumer Finances



Evolution of the Wealth Gap By Race or Ethnicity



Source: Federal Reserve Board, Survey of Consumer Finances



Racial and Ethnic Wealth Gaps Haven't Changed Much (Except for Asians)

Race or ethnicity of family head	Median wealth in 1989 (in 2013 dollars)	1989 percent of white median	Median wealth in 2013 (in 2013 dollars)	2013 percent of white median
White	\$130,102	100%	\$134,008	100%
Asian	\$64,165	49%	\$91,440	68%
Hispanic	\$9,229	7%	\$13,900	10%
Black	\$7,736	6%	\$11,184	8%
All families	\$85,575	--	\$81,456	--



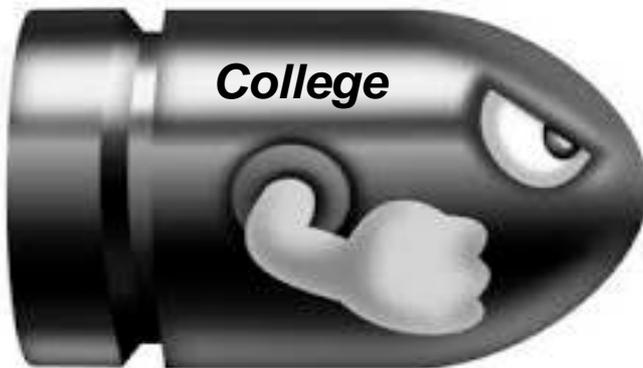
Basic Facts From the Demographics of Wealth

- **When you were born matters.**
 - People born in 1970 have 40 percent less wealth than those born in 1940, holding constant many important factors.
- **There is a strong life-cycle of wealth.**
 - Wealth typically rises into your 60s or 70s.
 - Most older people today are doing much better, while most younger people are doing much worse, than 25 years ago.
- **Your education is a strong predictor of your wealth.**
 - Wealth gaps are enormous across education levels.
 - The gaps are increasing.
- **Racial and ethnic wealth gaps loom large.**
 - Hispanic and black wealth typically is a small fraction of white.
 - With the exception of Asians, little change in gaps since 1989.



The “Silver-Bullet“ Theory of Education

- **More education—especially college—might overcome other disadvantages, such as the racial/ethnic wealth gap.**



- **Why? More education is correlated with:**
 - Higher income.
 - Greater financial literacy.
 - Better health behaviors.
 - Longer life span.
 - Higher socio-economic status.
 - Better child outcomes.
 - Stronger marriages.
 - Lower criminality.
 - Less chance of poverty.
 - Greater civic involvement.
 - Many more good things....



But Facts Don't Support the Theory: Hispanic/Black College Grads Fared Poorly



Why Didn't Higher Education Protect Hispanic and Black Wealth?

William R. Emmons and Bryan J. Noeth

College-educated families usually earn significantly higher incomes and accumulate more wealth than families headed by someone who does not have a four-year college degree. The income- and wealth-boosting effects of education apply within all racial and ethnic groups. Higher education may also help "protect" wealth, buffering families against major economic and financial shocks and mitigating adverse long-term trends. Based on two decades of detailed wealth data, we conclude that education does not, however, protect the wealth of all racial and ethnic groups equally.

Compared to their less-educated counterparts, typical white and Asian families with four-year college degrees withstood the recent recession much better and have accumulated much more wealth over the longer term. Hispanic and black families headed by someone with a four-year college degree, on the other hand, typically fared significantly worse than Hispanic and black families without college degrees. This was true both during the recent turbulent period (2007-2013) as well as during a two-decade span ending in 2013 (the most recent data available).

Why didn't higher education protect Hispanic and black family wealth from either short-term turbulence or long-term

(continued on Page 2)



The Center for Household Financial Stability at the Federal Reserve Bank of St. Louis focuses on family balance sheets. The Center's researchers study the determinants of healthy family balance sheets, their links to the broader economy and new ideas to improve them. The Center's original research, publications and public events support researchers, practitioners and policy-makers seeking to rebuild and strengthen the balance sheets of all American households, but especially those harmed by recent economic and financial shocks. For more information, see the web site at www.stlouisfed.org/hfs.

TABLE 1
Median Family Income in 2013

	Four-Year College Graduates	Non-College Graduates	Median College Income as a Multiple of Median Non-College Income
All Families	\$87,250	\$36,523	2.4
White	\$94,351	\$41,474	2.3
Asian	\$92,931	\$32,668	2.8
Hispanic	\$68,379	\$30,436	2.2
Black	\$52,147	\$26,581	2.0

TABLE 2
Median Family Net Worth in 2013

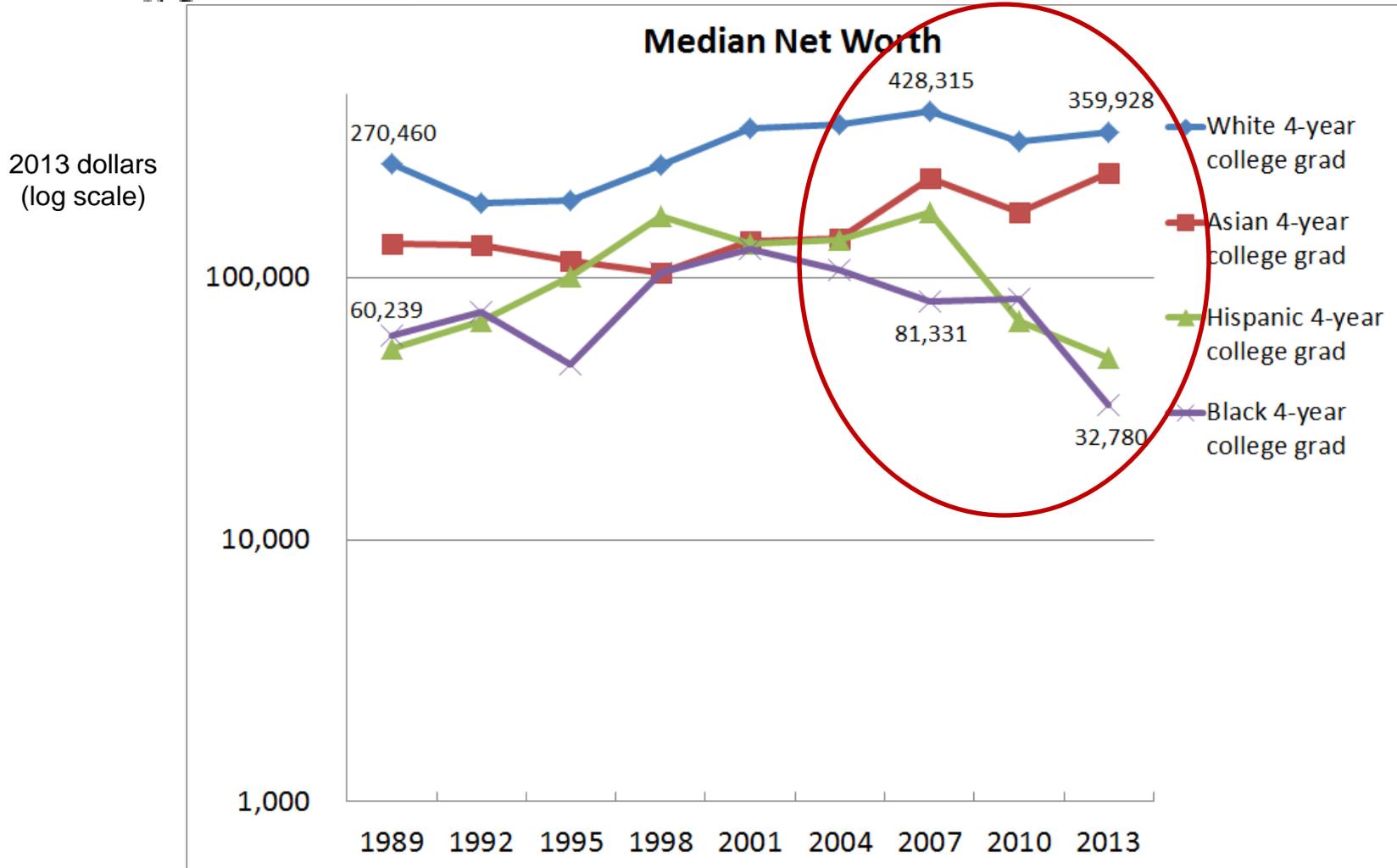
	Four-Year College Graduates	Non-College Graduates	Median College Net Worth as a Multiple of Median Non-College Net Worth
All Families	\$273,586	\$43,625	6.3
White	\$359,928	\$80,692	4.5
Asian	\$250,637	\$25,632	9.8
Hispanic	\$49,606	\$12,160	4.1
Black	\$32,780	\$9,006	3.6

SOURCE: FOR BOTH TABLES: Survey of Consumer Finances

- Follow 8 demographically defined groups over time
 - 4 racial/ethnic identities.
 - 2 education levels: 4-year college/no college degree.
- Key assumptions (subjects of our current research)
 - Race/ethnicity-specific determinants of college-degree status are stable over time.
 - College-degree status alone is a sufficient statistic for “quality.”
- www.stlouisfed.org/~media/Publications/In%20the%20Balance/Images/Issue_12/ITB_August_2015.pdf



Fact 1) Latino/Black College Grads Lost More Wealth Than White/Asian Grads

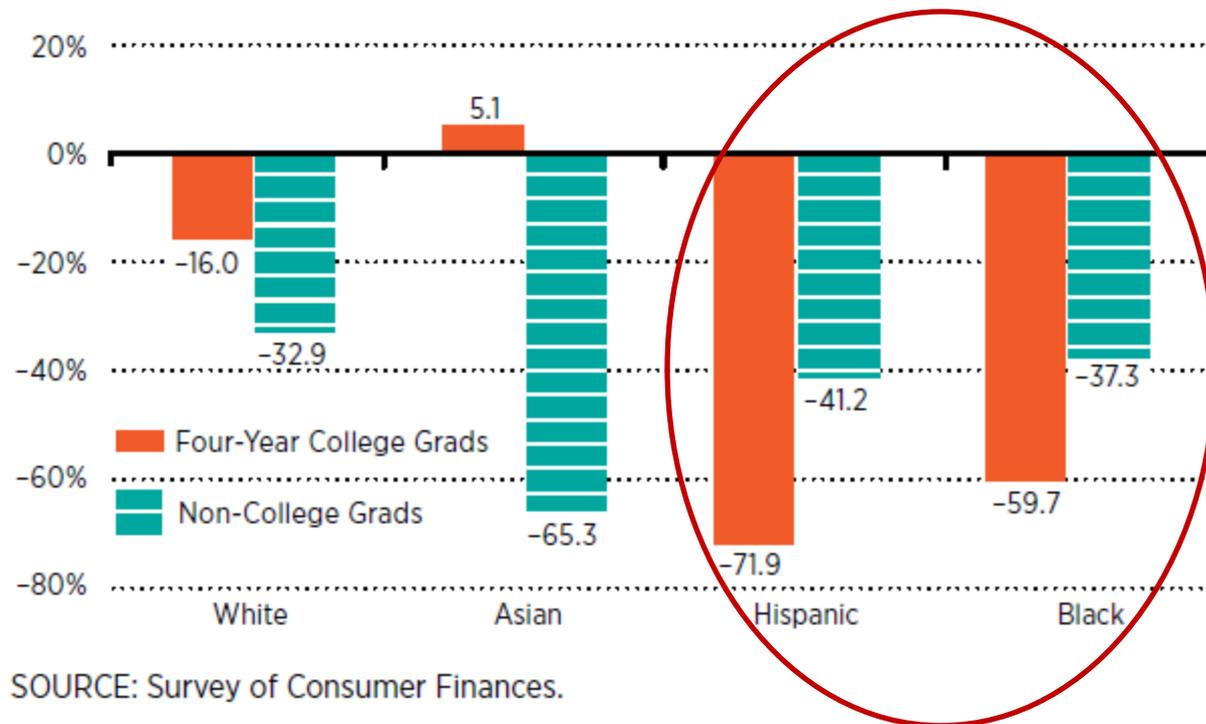


Source: Federal Reserve Survey of Consumer Finances; some data-smoothing by authors.



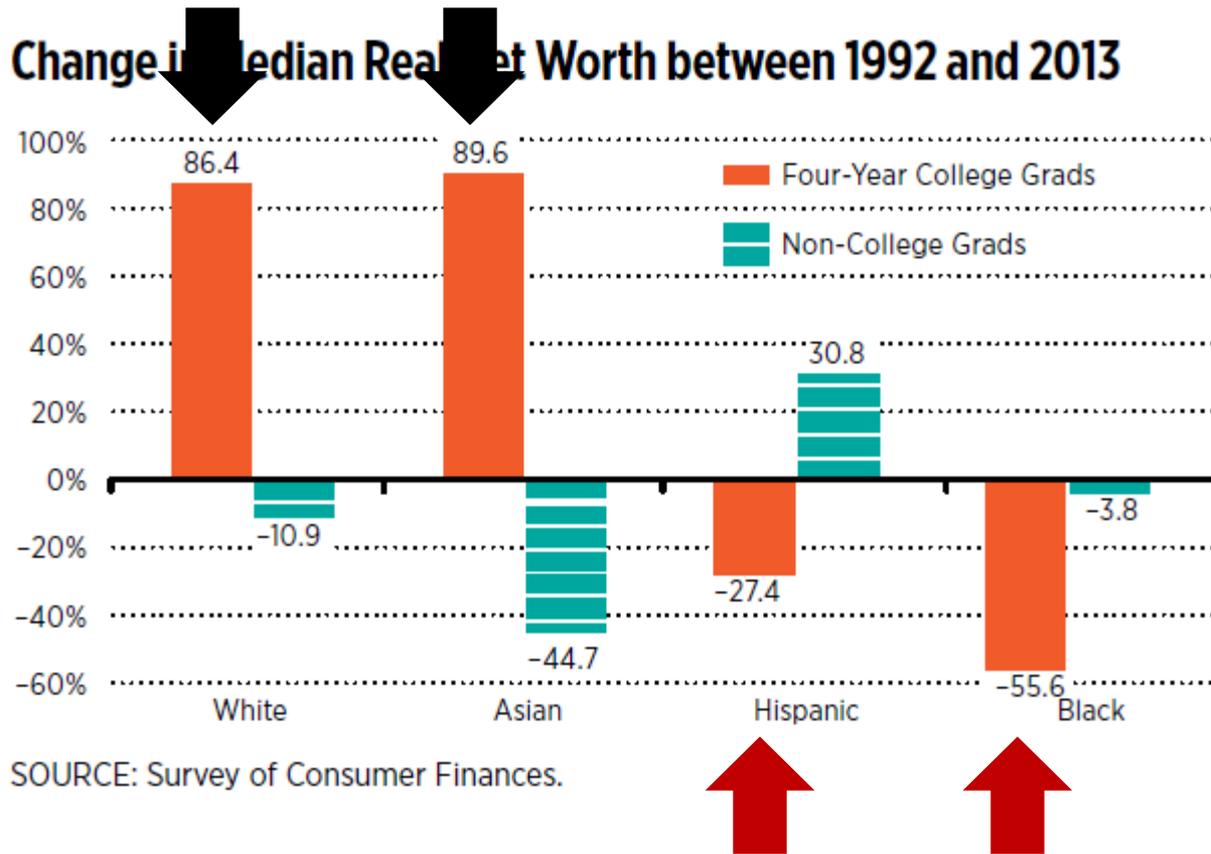
Fact 2) Worse Outcomes Than Latino/Black Families Without 4-Year College Degrees

Change in Median Real Net Worth between 2007 and 2013





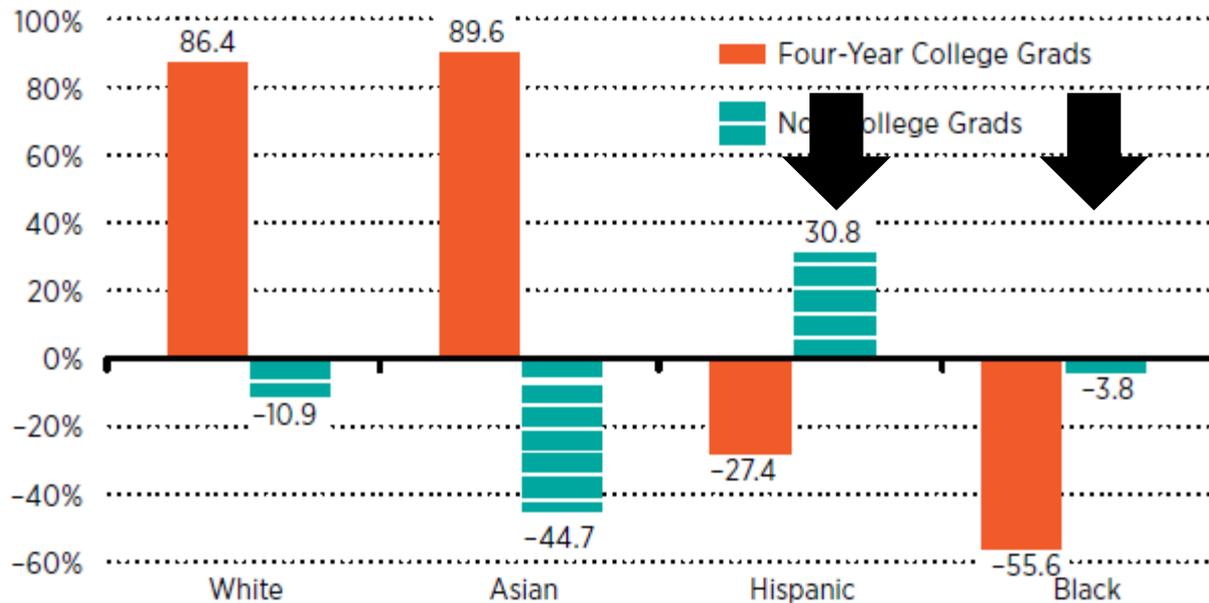
Fact 3) Significantly Worse Long-Term Outcomes Than White/Asian Grads...





... and Latino/Black Non-Grads

Change in Median Real Net Worth between 1992 and 2013

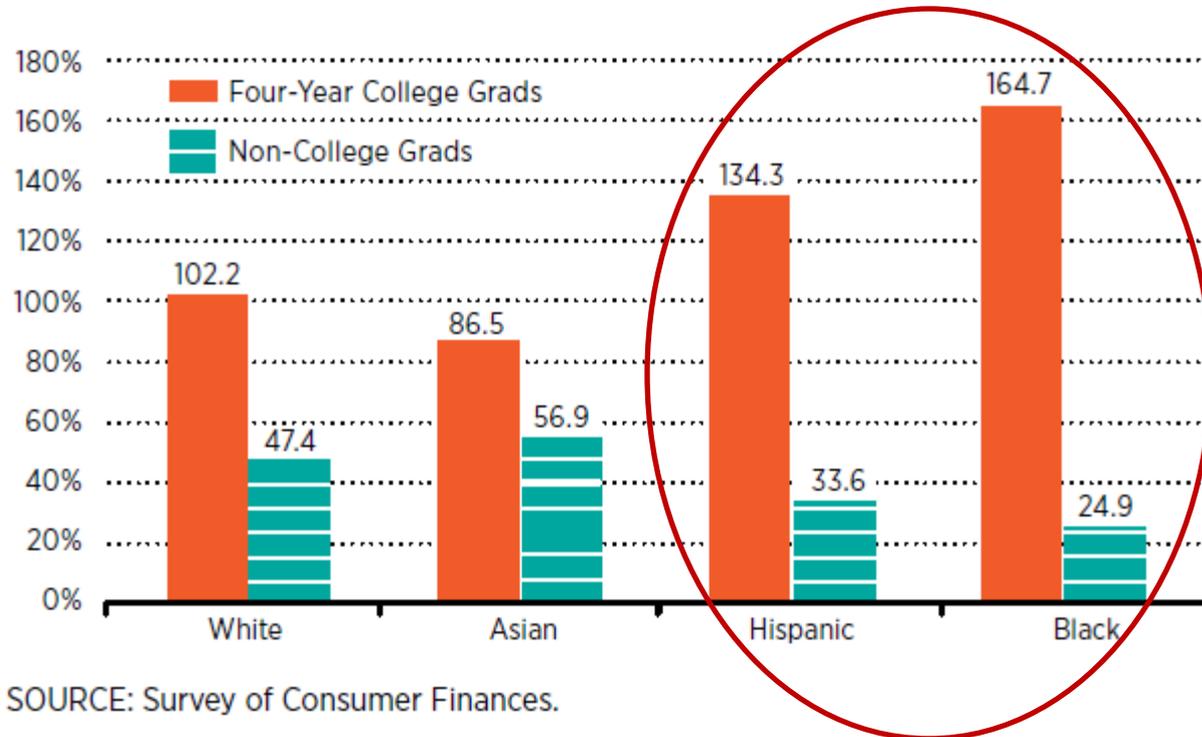


SOURCE: Survey of Consumer Finances.



High Debt Ratios Could Be Related to Poor Wealth Outcomes Recently

Median Debt-to-Income Ratio in 2007

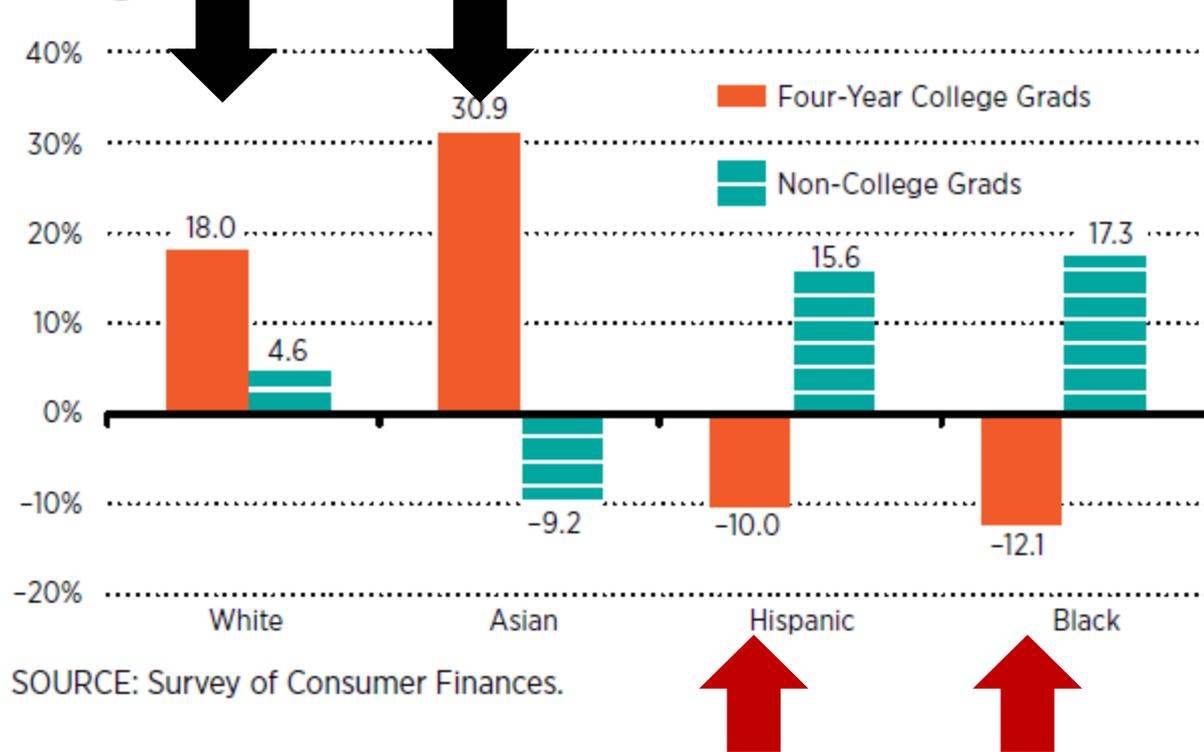


SOURCE: Survey of Consumer Finances.



Poor Long-Term Income Trends For Latino and Black College Grads

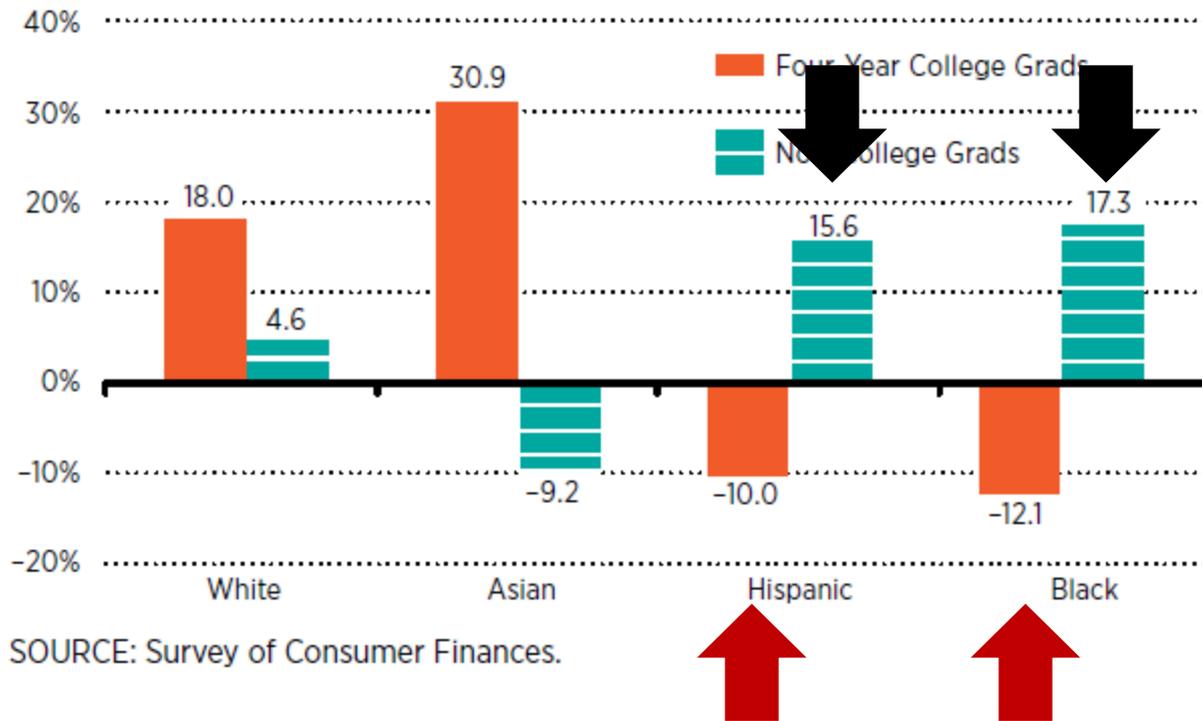
Change in Median Real Net Income between 1992 and 2013





Poor Long-Term Income Trends For Latino and Black College Grads

Change in Median Real Net Income between 1992 and 2013





Education Is More Than the Degree

- **Educational attainment represents many other factors that contribute to a person's success.**





Education Alone Is Not A Silver Bullet

- **Without all of the background factors associated with college success, a college degree by itself may not be powerful enough to overcome other disadvantages.**



In Sum: The Demographics of Balance Sheets and Wealth

- **Age/birth year, education and race or ethnicity are strong predictors of wealth and a host of other outcomes.**
- **Demographic factors—including the background factors associated with college success—are more powerful than commonly thought.**
- **Education alone is not a silver bullet.**



For More Information

Center for Household Financial Stability

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Community Development

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Demographics of Wealth series

www.stlouisfed.org/household-financial-stability/the-demographics-of-wealth



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