Toward Healthy Balance Sheets

The Role of a Savings Account for Young Adults’ Asset Diversification and Accumulation

Terri Friedline, Paul Johnson, and Robert Hughes
Outline of Remarks

• Background

• Research questions
  ▫ Acquiring a savings account
  ▫ Diversifying asset portfolios
  ▫ Accumulating liquid assets

• Data and analytic plan

• Results

• Implications
Background

- The financial products young adults acquire may serve as strategies for diversifying and accumulating assets, nudging them toward healthy balance sheets.

- A savings account is one of the most basic financial products available in the financial mainstream and hypothesized as a starting place for asset diversification and accumulation.\(^1\)
Background

• Young adults who acquire a savings account and ascend a hierarchy of financial products that comprise a diverse asset portfolio may be more financially secure^2

• As young adults ascend a hierarchy of financial products ranging from savings to retirement accounts, they transition from meeting lower-level, survival needs to higher-level growth needs^3

• It is useful to understand how young adults acquire a savings account and the role account acquisition plays for diversifying and accumulating assets
Research Questions

• What factors relate to young adults’ acquisition or take-up of a savings account?

• Once acquired, what fraction of young adults acquire other financial products that comprise a diverse portfolio like certificates of deposit, stock, and retirement accounts?

• How much do young adults’ acquisition of a savings account and a diverse portfolio contribute to the value of their accumulated liquid assets?
Data and Analytic Plan

• 1996 Survey of Income and Program Participation (SIPP)
  ▫ 4-year panel
  ▫ Reference month data collected quarterly (demographics, employment, income, ownership of financial products)
  ▫ Topical module data collected annually (assets, debt, net worth)

• Young adults ages 18 to 40 ($M = 31.89; SD = 5.60$) who were in panel at least 2 years
  ▫ Reference month sample $N = 30,601$
  ▫ Topical module sample $N = 36,415$

• Multinomial logit regression with individual clustering and multilevel regression with individual random effects were used to analyze the data$^4$
Acquiring a Savings Account

- Savings account acquisition used variations between quarters to determine young adults’ account status:
  - Ownership: yes → yes
  - Acquisition: no → yes
  - Closure: yes → no
  - No ownership: no → no

- 11 control variables: Age, gender, race, marital status, college enrollment, education level, employment status, new reference person (head of household), home ownership, geographic region, quarterly mean income

- Reference month sample $N = 30,601$ analyzed with multinomial logit regression
Acquiring a Savings Account

- Percentages of Savings Account Ownership, Acquisition, and Closure

3% to 2% Account Acquisition
27% to 49% Account Ownership
63% to 43% No Account Ownership
Acquiring a Savings Account

- Multinominal logit regression models \( N = 29,585 \); No Account Ownership as the Model Reference

<table>
<thead>
<tr>
<th></th>
<th>Account Ownership</th>
<th>Account Acquisition</th>
<th>Account Closure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Female</strong></td>
<td>+</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non white</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Unemployed</strong></td>
<td></td>
<td>-</td>
<td>+</td>
</tr>
<tr>
<td><strong>Home owner</strong></td>
<td>+</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Southern region</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Age Spline 1</strong></td>
<td>+</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Age Spline 2</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Age Spline 3</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
Acquiring a Savings Account

• Few young adults acquired or closed a savings account across the 4-year panel
  ▫ Young adults’ financial behavior may be “sticky” and guided by inertia, suggesting a powerful trigger may be needed to interrupt behavior and promote acquisition

• Young adults were more likely to own a savings account when they were younger and less likely to acquire an account as they got older
  ▫ Early young adulthood may be an important time to promote participation in the financial mainstream via account acquisition
Acquiring a Savings Account

• Young adults who were unemployed were less likely to acquire an account and more likely to close an account
  ▫ Employment status may facilitate access to an account in the financial mainstream

• Young adults who were home owners were more likely to own an account and less likely to acquire or close an account
  ▫ Home ownership may promote account ownership and acquisition
Diversifying Asset Portfolios

• Financial products that comprised a diverse asset portfolio included (yes / no):
  ▫ Checking account – 24%
  ▫ Certificate of deposit – 5%
  ▫ Savings bond – 11%
  ▫ Money market account – 5%
  ▫ Stock – 15%
  ▫ Retirement account – 24%

• Reference month sample $N = 30,601$ analyzed with descriptive statistics
Diversifying Asset Portfolios

- Percentage of Young Adults with a Savings Account who also Owned Other Financial Products

<table>
<thead>
<tr>
<th>Product</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Checking</td>
<td>43%</td>
</tr>
<tr>
<td>CD</td>
<td>29%</td>
</tr>
<tr>
<td>Money Market</td>
<td>42%</td>
</tr>
<tr>
<td>Savings Bond</td>
<td>29%</td>
</tr>
<tr>
<td>Stock</td>
<td></td>
</tr>
<tr>
<td>Retire</td>
<td>42%</td>
</tr>
</tbody>
</table>

- Savings account holders that created account
- Accounts created not preceded by savings account
Diversifying Asset Portfolios

- Percentage of Young Adults’ Savings Account Ownership in Combination with Other Financial Products by Age

![Graph showing the percentage of young adults’ savings account ownership by age and combinations with other financial products.](image)
Diversifying Asset Portfolios

• Young adults consistently owned a savings account at or before the acquisition of a diverse portfolio
  ▫ A savings account appears to be a gateway – if not a prerequisite – for a diverse portfolio

• The most common combinations within a diverse portfolio included savings accounts with checking, stock, and retirement accounts

• Less than half (43%) owned a savings account with at least one other financial product by age 40
  ▫ While a savings account may be a gateway or a prerequisite for a diverse portfolio, diversification may still be limited
Accumulating Liquid Assets

- Accumulated liquid assets ($M = $6,328; SD = $79,498) measured annually and summed values held in interest earning accounts including savings, checking, CD, money market, stock, bond, and retirement accounts
  - Censored, transformed using the inverse hyperbolic sine (IHS), back-transformed into real $US dollar values

- 11 control variables: Age, gender, race, marital status, college enrollment, education level, employment status, quarterly mean income, new reference person (head of household), change in home ownership, geographic region

- Topical module sample $N = 36,415$ analyzed with multilevel regression with individual random effects and predicted values
Accumulating Liquid Assets

- Multilevel model w/ individual random effects ($N = 36,415$)

<table>
<thead>
<tr>
<th>Financial Products from a Diverse Portfolio</th>
<th>Accumulated Liquid Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>No account of any kind</td>
<td>—</td>
</tr>
<tr>
<td>Savings account</td>
<td>+</td>
</tr>
<tr>
<td>Checking</td>
<td>+</td>
</tr>
<tr>
<td>Stock</td>
<td>+</td>
</tr>
<tr>
<td>Retirement account</td>
<td>—</td>
</tr>
<tr>
<td>Stock + retirement account</td>
<td>—</td>
</tr>
</tbody>
</table>
Accumulating Liquid Assets

- Multilevel model w/ individual random effects ($N = 36,415$)

<table>
<thead>
<tr>
<th>Financial Products from a Diverse Portfolio Interacted with Quarterly Mean Income / $1,000</th>
<th>Accumulated Liquid Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings account</td>
<td>+</td>
</tr>
<tr>
<td>Checking</td>
<td>+</td>
</tr>
<tr>
<td>Stock</td>
<td>+</td>
</tr>
<tr>
<td>Retirement account</td>
<td>+</td>
</tr>
<tr>
<td>Stock + retirement account</td>
<td>−</td>
</tr>
</tbody>
</table>
Accumulating Liquid Assets

- Multilevel model w/ individual random effects \((N = 36,415)\); Predicted Values by Quintiles of Quarterly Mean Income

<table>
<thead>
<tr>
<th>Predicted Values of Financial Products from a Diverse Portfolio Interacted with Quarterly Mean Income / $1,000</th>
<th>Accumulated Liquid Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>25(^{th})</td>
</tr>
<tr>
<td>Savings account</td>
<td>$43</td>
</tr>
<tr>
<td>Checking</td>
<td>$47</td>
</tr>
<tr>
<td>Stock</td>
<td>$390</td>
</tr>
<tr>
<td>Retirement account</td>
<td>$1,700</td>
</tr>
<tr>
<td>Stock + retirement account</td>
<td>$5,650</td>
</tr>
</tbody>
</table>
Accumulating Liquid Assets

• Overall, a diverse portfolio contributed to liquid asset accumulation
  ▫ A diverse portfolio may assist with building a healthy balance sheet

• The effects of a diverse portfolio increased as young adults earned more income
  ▫ Young adults may be able to leverage a diverse portfolio and their income to accumulate liquid assets

• A retirement account was especially responsive, more than doubling in contribution to liquid assets between the 25th and 75th quintiles and contributing $3,945 at the 75th income quintile
Implications

- **Automatic enrollment:** Without a potentially powerful interruption in financial behavior, young adults who do not already own a savings account may not acquire one.

- **Policy change:** The tax code – an extensive and publicly accepted vehicle for promoting asset diversification and accumulation – may be insufficient for benefitting young adults given their limited and nascent diversification.
  - Substantial change is needed given young adults’ disproportionate recovering from the recession, mounting student loan debt, lending via predatory mortgages, rising unemployment, expanding low wage jobs.
Implications

• Young adults’ balance sheets of today – including savings account acquisition, diverse portfolios, and accumulated assets – help determine how they invest in their futures of tomorrow

• Is the young adult who acquires a savings account, diversifies their asset portfolio, and accumulates liquid assets better off financially in the long run?
  ▫ Are young adults better able to weather income shocks, invest in homes, save for retirement, accumulate less debt and more net worth?
Thank You

Contact Information:
Terri Friedline
Email: tfriedline@ku.edu
Phone: (785) 864-2267
References


References


Acquiring a Savings Account

• Predicted Probability of Savings Account Ownership, w/o Controls

\(N = 30,601\)
Acquiring a Savings Account

- Predicted Probability of Savings Account Ownership, w/ Controls
  \( (N = 30,601) \)
Acquiring a Savings Account

• Predicted Probability of Savings Account Ownership w/ Controls

\( (N = 30,601) \)
Acquiring a Savings Account

- Percentages of Savings Account Acquisition and Closure ($N = 30,601$)

![Graph showing percentages of account acquisition and closure by age.]
Acquiring a Savings Account

• Predicted Probability of Savings Account Ownership, w/o Controls
  \((N = 30,601)\)
Acquiring a Savings Account

• Predicted Probability of Savings Account Ownership, w/ Controls

\[(N = 30,601)\]
Diversifying Asset Portfolios

• Percentage of Young Adults who Acquired Financial Products in Coincidence with or Preceded by a Savings Account ($N = 36,416$)