Household Financial Stability and Income Volatility

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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
The Demographics of Wealth

- First published in 2015
  - Education
  - Race
  - Age

- Updated in 2018
  - Adds effects of parents’ education on wealth

- Explores connection between wealth and a person’s race/ethnicity, education, and age
Income and Wealth Over Time

Changes in Median Income and Net Worth Over Time
Thousands of 2016 Dollars

Source: Federal Reserve Board, Survey of Consumer Finances.
Racial / Ethnic Wealth Gaps

Real Median Family Net Worth, by Race/Ethnicity

Thousands of 2016 Dollars

Source: Federal Reserve Board, Survey of Consumer Finances.
Educational Wealth Gaps

Real Median Family Net Worth, by Educational Attainment

Thousands of 2016 Dollars

- Graduate Degree
- 4-Year Degree
- Some College
- HS Diploma
- GED or No Diploma

Source: Federal Reserve Board, Survey of Consumer Finances.
Real Median Family Net Worth, by Age

Thousands of 2016 Dollars

Source: Federal Reserve Board, Survey of Consumer Finances.
Effect of Parents’ Education On Wealth

Real Median Family Net Worth, Middle-Aged Families, by Parental Education

Thousands of 2016 Dollars

- Low Parental Education: 98
- High Parental Education: 342

Source: Federal Reserve Board, Survey of Consumer Finances.
Data on Household Finances in the U.S.

Survey of Household Economics and Decision Making (SHED)

- Annual survey conducted by FRB
- Since 2013
- Evaluates economic well-being of U.S. households
- 2016 survey had 6,643 respondents
- Oversamples low-income (<$40k/year) respondents
- Weighted to be representative of the U.S. adult population

Survey of Consumer Finances (SCF)

- Triennial survey sponsored by FRB
- Since 1989
- Comprehensive data on household balance sheets; considered the “gold standard”
- 2016 survey had 6,248 household
- Oversamples high-income respondents
- Weighted to be representative of the U.S. adult population

https://www.federalreserve.gov/consumerscommunities/shed.htm

https://www.federalreserve.gov/econres/scfindex.htm
Income Volatility (SHED)

Percent of Americans

- Income varies month-to-month: 32%
- Struggling to get by: 30%

Percent of Respondents Whose Income Varied

- Struggle to pay bills because of volatility: 40%
- Irregular work schedule primary cause of volatility: 43%
Income Volatility by Race and Education (SHED)

Month-to-Month Income Volatility

<table>
<thead>
<tr>
<th>Race</th>
<th>All Americans</th>
<th>White</th>
<th>Black</th>
<th>Hispanic</th>
<th>High school or less</th>
<th>Some college or associate degree</th>
<th>Bachelor's degree or more</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>32.4%</td>
<td>30%</td>
<td>40%</td>
<td>41%</td>
<td>34.5%</td>
<td>35.7%</td>
<td>26.8%</td>
</tr>
</tbody>
</table>
Financial Fragility

**SHED 2016**

- **Reported they could only cover a $400 expense by selling something, borrowing, or would not be able to (total):** 44%
- **Could not cover a $400 emergency expense at all:** 27%
- **Could only cover a $400 emergency expense by selling something or borrowing:** 17%
- **Cannot pay current month’s bills in full:** 23%
- **Had to forgo at least one type of healthcare in past year due to affordability:** 25%

**SCF 2016**

- **Would not be able to get $3000 from family or friends in an emergency:** 36%
- **Held debt of any kind:** 77%
- **Did not save out of income:** 45%
- **Reported income below "normal" income:** 15%
Financial Fragility by Age, Race, and Education (SCF)

Conditional Median Value of Safe and Liquid Assets

<table>
<thead>
<tr>
<th>Category</th>
<th>Median Value</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Americans</td>
<td>$7,980</td>
<td>81.6%</td>
</tr>
<tr>
<td>&lt;40</td>
<td>$4,702</td>
<td>78.9%</td>
</tr>
<tr>
<td>41-61</td>
<td>$7,878</td>
<td>80.8%</td>
</tr>
<tr>
<td>62+</td>
<td>$14,240</td>
<td>85.2%</td>
</tr>
<tr>
<td>White</td>
<td>$10,758</td>
<td>85.4%</td>
</tr>
<tr>
<td>Black</td>
<td>$3,012</td>
<td>70.6%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>$3,010</td>
<td>71.6%</td>
</tr>
<tr>
<td>&lt; 4-year degree</td>
<td>$4,604</td>
<td>75.6%</td>
</tr>
<tr>
<td>4-year degree+</td>
<td>$20,072</td>
<td>93.4%</td>
</tr>
</tbody>
</table>

Age: 81.6% of All Americans are <40 years old, 80.8% are 41-61, and 85.2% are 62+.
Race: 85.4% of Whites are 62+, 70.6% of Blacks are <4-year degree, and 71.6% of Hispanics are <4-year degree.
Education: 93.4% of those with a 4-year degree+ have high levels of liquid assets.
Other Types of Household Fragility (SHED)

Retirement

- 28% of non-retired adults report that they have no retirement savings or pension
- 13% of adults with retirement savings either borrowed from those savings, cashed out, or did both in the past year
- 53% of adults with self-directed retirement accounts are not comfortable or only slightly comfortable in their ability to make the right investment decisions

Employment

- 17% of working adults have schedules that vary based on their employer’s needs
  - 53% of these workers are told about their hours less than 3 days in advance
- 15% of working adults indicated they worked at multiple jobs
- 28% of all adults report that they or their family earned money through informal, occasional activities in the prior month (e.g. babysitting, selling items at garage sales, selling items online)
  - 42% of these adults engage in these activities primarily to earn extra money
Cross-Country Comparison of Financial Fragility in 2009

“How confident are you that you could come up with $2,000 if an unexpected need arose within the next month?”

Source: TNS Global Economic Crisis Study 2009 data from Lusardi, Schneider, & Tufano, 2011.
Conclusion:

1. Is income volatility the hidden culprit?

2. Why are household finances important to the Fed?

3. What are some possible responses to improve household financial stability and balance sheets?