The Demographics of Wealth:
How Education, Race and Birth Year Shape Financial Outcomes

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The views expressed here are those of the speaker and do not necessarily represent the views of the Federal Reserve Bank of St. Louis or of the Federal Reserve System.
Overview

- STL Fed’s Center for Household Financial Stability
- Income and wealth inequality
- Financial (in)stability
- How do demographic factors play?
- What can be done?
Why Study Wealth?

- Assets matter for economic security and upward economic mobility in ways income does not; balance sheets reveal dimensions of financial stress and health not otherwise apparent.

- Holding assets is associated with distinct social, psychological, emotional, child well-being, health, and civic outcomes.

- “Households should be encouraged to maintain at least a small buffer of liquid savings, even if the cash in that buffer is not being used to pay down high-interest debt.” (Gallagher, 2018)
**Income Inequality Overall**

**Share of Total Pre-Tax Income**

<table>
<thead>
<tr>
<th>Percent</th>
<th>Bottom 50%</th>
<th>Top 10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>15.4</td>
<td>42.3</td>
</tr>
<tr>
<td>2016</td>
<td>13.5</td>
<td>49.9</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Survey of Consumer Finances and authors' calculations.
Wealth Inequality Overall

Share of Total Net Worth

Percent

Inequality correlates (Kaplan, Pamuk, Lynch, Cohen, & Balfour, 1996; Wilkinson & Pickett, 2006):
- Mortality rates
- Lack of social trust
- Homicide
- Violent crime
- Poor educational outcomes
- Lower population health
- Classism

Source: Federal Reserve Survey of Consumer Finances and authors' calculations.
Demographics of Wealth Series

- Five essays written by Center staff
- Explore connections between wealth and a person’s race/ethnicity, own education, parents’ education, and age and birth year
- These factors are related to which families struggle and thrive
- Uses Survey of Consumer Finances; the “gold” standard
Race and Ethnicity

Real Median Family Net Worth, by Race/Ethnicity

Thousands of 2016 Dollars

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.
Education

Real Median Family Net Worth, by Education

Thousands of 2016 Dollars

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

Median Family Net Worth, by Parental Education

Thousands of 2016 Dollars

- No College: 87
- One College: 131
- Both College: 162
Essay 1: The Financial Returns from College Across Generations: Large but Unequal
College Attainment Increases

U.S. Families Headed by College Graduates and Post-Graduates

Percent of all U.S. families

Source: Federal Reserve Board, Survey of Consumer Finances.
Income and Wealth Shares Rise

Shares of Household Population, Total Wealth, and Total Income Among College Graduates

Percentage Share

Source: Federal Reserve Board, Survey of Consumer Finances.
Own Effort vs. Inherited Characteristics?

- College income and wealth premiums – individual efforts to complete the degree and the benefits of the learning itself?
- Or – inherited demographic traits both in predisposing someone to complete a degree and in boosting later financial achievement?
- We attempt to isolate the effect of these traits by comparing outcomes among otherwise identical groups save for a single trait.
### Inherited vs. Acquired

<table>
<thead>
<tr>
<th>Partition 0</th>
<th>Partition 1</th>
<th>Partition 2</th>
<th>Partition 3</th>
<th>Partition 4</th>
<th>Percentile Increase or Decrease from Addition of Own Education</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Parents' Education</strong></td>
<td><strong>Expected Income Based on Inherited Demographics</strong></td>
<td><strong>Own Education</strong></td>
<td><strong>Expected Income Based on Inherited Demographics and Own Education</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>All Families</strong></td>
<td>$52,657 (50th percentile)</td>
<td>$113,618 (80th percentile)</td>
<td>$156,756 (67th percentile)</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td><strong>Middle-aged Families</strong></td>
<td>$67,239 (59th percentile)</td>
<td>$65,659 (58th percentile)</td>
<td>$76,758 (65th percentile)</td>
<td>-15</td>
<td></td>
</tr>
<tr>
<td><strong>Whites</strong></td>
<td>$79,593 (66th percentile)</td>
<td></td>
<td>$114,225 (80th percentile)</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td><strong>Other Races and Ethnicities</strong></td>
<td>$47,594 (45th percentile)</td>
<td>$71,695 (62nd percentile)</td>
<td>$52,657 (50th percentile)</td>
<td>-8</td>
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<td>$102,681 (76th percentile)</td>
<td>14</td>
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<td></td>
<td></td>
<td></td>
<td>$43,417 (47th percentile)</td>
<td>-15</td>
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<td></td>
<td>$70,479 (61st percentile)</td>
<td>21</td>
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<td></td>
<td>$35,240 (33rd percentile)</td>
<td>-7</td>
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1. The Head Start effect: Families with “favorable” (white, middle-aged or older, college grad parents) inherited traits typically earn higher incomes and accumulate more wealth than families without them.

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<tr>
<th>Partition 3</th>
<th>Expected Income Based on Inherited Demographics</th>
<th>Own Education</th>
<th>Partition 4</th>
<th>Expected Income Based on Inherited Demographics and Own Education</th>
<th>Percentile Increase or Decrease from Addition of Own Education</th>
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<td>Own Education</td>
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<td>$113,618 (30th percentile)</td>
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<td>$156,756 (67th percentile)</td>
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<td>$41,518 (40th percentile)</td>
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<td>$52,657 (50th percentile)</td>
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2. The Upward Mobility effect:
Among families with less “favorable” traits, a college degree usually boosts income and wealth far above levels achieved without a degree.
3. The Downward Mobility effect:
Families with college-educated parents who fail to also earn a degree are likely to slip notably downward in expected ranking.

Inherited traits matter

- The Great Recession of 2007-09 inflicted deep and widespread losses to wealth across American families.

- While wealth losses occurred across the age spectrum, the extent of the damage has been unequal.

- Younger families suffered the most and have rebounded slowly.
Great Recession Hit Under-Retirement Age Families Harder

**Change in Median Net Worth by Age Group, Relative to 2007**

Percent Change

<table>
<thead>
<tr>
<th>Year</th>
<th>Young (&lt;40)</th>
<th>Middle-aged (40-61)</th>
<th>Old (62+)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>-37</td>
<td>-43</td>
<td>-6</td>
</tr>
<tr>
<td>2013</td>
<td>-36</td>
<td>-47</td>
<td>-17</td>
</tr>
<tr>
<td>2016</td>
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<td>-27</td>
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Source: Federal Reserve Board, Survey of Consumer Finances.
Can Families Recover What They Lost?

- For the families which lost the most wealth, how likely are they to recover in time for major goals?
  - First-time home purchase
  - College tuition for their children
  - Retirement

- Will young or middle-aged families at the advent of the Recession become part of a “lost generation” that struggles to achieve life’s financial milestones?
The Life Cycle of Wealth

- The life cycle of wealth sounds complicated but you may find it pretty intuitive.

- When you’re young your earnings are typically at their lowest, and you haven’t had much time to save.

- By middle-age your income is close to its maximum and you (hopefully) start to build a sizable savings.

- As you reach your elder years you eventually retire and draw down your savings in the form of income.
The classical life cycle is represented as a hump shaped trend.

This trend line is estimated from responses from 47,776 families in the Survey of Consumer Finances between 1989 and 2016.
The Life Cycle of Wealth (Transformed)

- We transform the scale because wealth accumulation is a compounding process.
- Using this approach, equal vertical distances represent equal percentage differences.
- The life cycle that we estimate removes the effects that are associated with taking the survey in a specific year.

**Predicted Median Net Worth by Age**

*Thousands of 2016 $, Natural Log Scale on Y-Axis*

Source: Federal Reserve Board, Survey of Consumer Finances, and authors’ calculations.
The Pre-Housing Bubble Period

- As compared to the long-run life cycle, the 1990s featured...
- Greater predicted wealth among families under 45: +$6,600 at age 30.
- Lower predicted wealth among those over 55: -$28,600 at age 70.

Predicted Median Net Worth by Age and Survey Year
Thousands of 2016 $, Natural Log Scale on Y-Axis

Source: Federal Reserve Board, Survey of Consumer Finances, and Authors' Calculations
The Housing Bubble Period

Early to mid-2000s had greater predicted wealth for families of all ages: +$60,300 at age 70.

Further gains for predicted wealth among young families: +$9,800 at age 30.

Some of this wealth effect was illusory.
The late 2000s and early 2010s featured a reduction in almost all levels of predicted wealth.

- The fall was particularly severe for young families: -$10,500 at age 30.

- Families typically in retirement still above trend: +$3,800 at age 70.

Source: Federal Reserve Board, Survey of Consumer Finances, and Authors' Calculations
The Changing Fortunes of Age

- The age of 60 marks a turning point in predicted wealth.
- Since 1989, all families younger than 60 have lower predicted wealth; all families older than 60 have greater predicted wealth.

Source: Federal Reserve Board, Survey of Consumer Finances, and authors’ calculations.
When You Were Born Matters

- Given substantial shifts in predicted wealth by age, when you reach age milestones is important.
- To understand how members of particular birth years have fared, we track six decade-long cohorts over time:
  - Family heads born in the 1930s, 1940s, 1950s, 1960s, 1970s and 1980s.
1930s-1950s: Hit, but then Recovered

Predicted vs. Actual Median Net Worth, Family Heads born 1930-1959
Thousands of 2016 $, Natural Log Scale on Y-Axis

\[ \text{Age of Family Head} \]
1960s-1980s: Hit Hard and Still Behind

Median Net Worth, Predicted vs. Actual, by Age and Birth Cohorts
Thousands of 2016 $, Natural Log Scale on Y-Axis

Age of Family Head

Predicted
1960-1969
1970-1979
1980-1989
Born in the 1980s

The 1980s cohort not only suffered a severe setback from the Recession but drifted further from predicted values between 2010 and 2013.

Joining the 1960s and 1970s cohort, the typical family born in the 1980s has yet to regain their predicted wealth.

**Source:** Federal Reserve Board, Survey of Consumer Finances, and authors' calculations.
Which generations are back on track?

- **1960s and 1970s:** high homeownership, delinquency, and debt ratios
- **1980s:** non-mortgage debt
- **Why?**
- **Optimism?**

![Deviation of Birth Cohort Median Wealth from Predicted Value](image)

*Source: Federal Reserve Board, Survey of Consumer Finances, and authors' calculations.*
What can be done?

- **If born in 1980s:**
  - Build wealth – start saving early, and diversify assets and risks.
  - Keep debts low and tied to appreciating or income-generating assets.
  - Build education and skills early, and throughout life.
  - Avoid over-investing in housing; a home purchase shouldn’t deplete your liquid savings buffer.

- **Future generations:**
  - Early assets/childhood development accounts

- Don’t forget that inherited traits *matter*