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

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*These are our views, and not necessarily the views of the Federal Reserve Bank of St. Louis, Federal Reserve System, or the Board of Governors*
Income Inequality Overall

Share of Total Pre-Tax Income
Percent

Bottom 50%
- 1989: 15.4%
- 2016: 13.5%

Top 10%
- 1989: 42.3%
- 2016: 49.9%

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

- Lack of income means you don’t get by; lack of assets means you don’t get ahead. (Boshara 2002)
Wealth Inequality Overall

Share of Total Net Worth

Percent

100
90
80
70
60
50
40
30
20
10
0

3.0
1.2
66.9
77.1

1989
2016

Bottom 50%
Top 10%

Source: Federal Reserve Survey of Consumer Finances and authors' calculations.
Median Income and Wealth Trends

Real Median Income and Net Worth

Source: Federal Reserve Board, Survey of Consumer Finances and authors’ calculations
The Demographics of Wealth

- 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
- 2015 series; redux in 2018
Thrivers vs. Strugglers: A Growing Economic Divide

Percentage of Population:
- Thrivers: 13%
- Middle: 48%
- Strugglers: 39%

Percentage of Total Wealth Owned:
- Thrivers: 42%
- Middle: 28%
- Strugglers: 9%

1989:
- Thrivers: 13%
- Middle: 48%
- Strugglers: 39%

2016:
- Thrivers: 21%
- Middle: 49%
- Strugglers: 30%

Thrivers: NH white and NH “other” college grad families 40+

Strugglers: Families under 40 (exceptions: NH white and NH “other” college grad families)

Middle: All other families

Source: Federal Reserve Board, Survey of Consumer Finances and authors’ calculations
Essay 1: The Financial Returns from College Across Generations: Large but Unequal
Share of College Households Increasing

U.S. Families Headed by Grads and Post-Grads

Source: Federal Reserve Board, Survey of Consumer Finances and authors’ calculations
Rising Income and Wealth Shares

Shares Among College Graduates

<table>
<thead>
<tr>
<th>Year</th>
<th>Population</th>
<th>Income</th>
<th>Wealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>23.1</td>
<td>44.5</td>
<td>50.1</td>
</tr>
<tr>
<td>2016</td>
<td>34.0</td>
<td>62.7</td>
<td>74.2</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Board, Survey of Consumer Finances and authors’ calculations
Education Wealth Differences in 2016

Real Median Household Net Worth, 2016

Source: Federal Reserve Board, Survey of Consumer Finances and authors’ calculations
Education Wealth Gaps Increasing

Real Median Household Net Worth

Thousands of 2016$

GED or no HS  High School  Some College  Four-Year Degree  Post-Graduate

Source: Federal Reserve Board, Survey of Consumer Finances and authors’ calculations
Intergenerational Education

At least one parent has a four-year college degree

60 percent likelihood that adult children household heads also have degrees

Neither parent has a degree

24 percent likelihood that adult children household heads have degrees

Wealth Patterns by Parental Education

Median Household Net Worth by Parental Education

Source: Federal Reserve Board, Survey of Consumer Finances and authors’ calculations
Demographics Combined

**Own Effort**
- College income and wealth premiums – individual efforts to complete the degree and the benefits of the learning itself?

**Inherited Traits**
- Or – inherited demographic traits both in predisposing someone to complete a degree and in boosting later financial achievement?
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.
Figure 6. Median Middle-Aged Family Net Worth by Inherited Characteristics and Own Education

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

0
-5
-10
-15
-20
-25
-30
-35
-40
-45
-50

2010
-37
Young (<40)
-43
Middle-aged (40-61)
-47
Old (62+)

2013
-36
-17

2016
-37
-27
-9

Source: Federal Reserve Board, Survey of Consumer Finances.
The Changing Fortunes of Age: 60 Marks Turning Point in Wealth Outcomes

Change Between 1989 and 2016 in Predicted Wealth
Percentage Difference

Sources: Federal Reserve Board's 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.

- To be clear, we don’t track individual families across time; instead, we track outcomes among all families with a shared birth-cohort.
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 families in younger birth cohorts become part of a “lost generation” that struggles to achieve life’s financial milestones?
Which generations are back on track?

- Cohorts born before 1960 were above benchmark levels in 2016.
- Cohorts born in 1960 or later were below predicted wealth levels.
- The 1980s cohort slipped noticeably further behind between 2010 and 2016.

**Deviation of Birth Cohort Median Wealth from Predicted Value**

<table>
<thead>
<tr>
<th>Birth Cohort</th>
<th>2007</th>
<th>2010</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930s</td>
<td>5</td>
<td>1</td>
<td>17</td>
</tr>
<tr>
<td>1940s</td>
<td></td>
<td>61</td>
<td></td>
</tr>
<tr>
<td>1950s</td>
<td>56</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>1960s</td>
<td></td>
<td></td>
<td>33</td>
</tr>
<tr>
<td>1970s</td>
<td></td>
<td></td>
<td>-29</td>
</tr>
<tr>
<td>1980s</td>
<td>20</td>
<td></td>
<td>-34</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Board, Survey of Consumer Finances, and authors' calculations.
Housing Was Key for 1960s, 1970s Cohorts

- Together, high debt ratios, high homeownership rates and high delinquency rates spelled trouble for families born in the 1960s and 1970s.

- Housing and mortgage debt likely played a role in the wealth losses seen during the Great Recession.

- Conversely, as home values recovered in recent years, many of these homeowners benefited, as evidenced by closing gaps between actual and predicted wealth.
Families Born in the 1980s Are Different

- In 2007, only 19 percent of 1980s families were homeowners.

- Instead of mortgages, student loans, credit card debt, and auto loans were a key source of leverage.

- Unlike stocks and real estate, these debt-financed assets haven’t rapidly appreciated in the last few years.

- The 1980s cohort was unusual in falling further behind wealth benchmarks from 2010-2016.
Is the 1980s a “Lost Generation”?

- The high returns on housing and financial assets in recent years are unlikely to continue in future years.
- Thus, catching up to the wealth benchmarks set by earlier generations is possible – but no simple feat.
- Income and homeownership trends have been unexceptional for the 1980s cohort so far.
- The challenge faced by the typical 1980s family should not be underestimated.
A Case for Optimism

- Two key factors on the side of 1980s-born families are time and education.
- These families have many more years to earn, save and accumulate wealth.
- This is the most highly educated generation; it’s possible that their income and wealth trajectories will be steeper.
- It’s far too soon to know whether families born in the 1980s will catch up; we will have to wait and see.
A Case for Pessimism

Change in Expected Wealth
Four-Year Degree Families

<table>
<thead>
<tr>
<th>Decade</th>
<th>White, Non-Hispanic</th>
<th>Black</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930s</td>
<td>247%</td>
<td>253%</td>
</tr>
<tr>
<td>1940s</td>
<td>195%</td>
<td>126%</td>
</tr>
<tr>
<td>1950s</td>
<td>185%</td>
<td>177%</td>
</tr>
<tr>
<td>1960s</td>
<td>166%</td>
<td>18%</td>
</tr>
<tr>
<td>1970s</td>
<td>134%</td>
<td></td>
</tr>
<tr>
<td>1980s</td>
<td>42%</td>
<td>6%</td>
</tr>
</tbody>
</table>

SOURCES: Federal Reserve Board’s Survey of Consumer Finances and authors’ calculations.
NOTE: Percent change is relative to nongrad families of the same race born in the same decade.
Essay 3: The Bigger They Are, The Harder They Fall: The Decline of the White Working Class

1. Largest race/ethnicity by education subgroup
2. Outcomes have diverged from similar groups
3. Focus of intense scholarly and popular discourse
Race/Ethnicity Wealth Differences in 2016

Median Family Net Worth

Thousands 2016$

- Black: 16
- Hispanic: 22
- Other: 100
- White: 163

Source: Federal Reserve Board, Survey of Consumer Finances and authors’ calculations
Race/Ethnicity Wealth Gap, Persistent Over Time

Real Median Family Net Worth

Thousands 2016$

Source: Federal Reserve Board, Survey of Consumer Finances and authors’ calculations
The Decline of the White Working Class

- White working class defined as white, non-Hispanic families lacking four-year college degree.
- Decline in total income and wealth share outpaced decline in population share.
- Aside from college-grad whites, most other groups experienced little change.

Source: Federal Reserve Board's Survey of Consumer Finances
White Working Class Falling

Share of Families in Population

- Other, No College: 9 (1989), 3 (2016)
- Other, College: 3 (1989), 2 (2016)

Source: Federal Reserve Board, Survey of Consumer Finances and authors’ calculations
Diverging Trends for Whites by Education

Share of Total Family Wealth in the U.S.

Source: Federal Reserve Board, Survey of Consumer Finances and authors' calculations
Parallels with Black & Hispanic Grads

- Median income and wealth fell among white working class families as well as black college-grad families between 1989-98 and 2010-16.
- Over the same period, nonfinancial measures of well-being declined for both groups. Such as:
  - Homeownership rate
  - Marriage or cohabitation rate
  - Share self-reporting as in good or excellent health
- Results are similar among Hispanics, with some exceptions.
Does Race or Education Explain the Decline?

- Our evidence suggests that neither race nor education in isolation explains the decline of the white working class.

- White college graduate families are doing very well, suggesting that disadvantages related to identifying as white are not a plausible explanation.

- As for education, Hispanic and black working classes, while still clearly disadvantaged in many respects, are making broad-based progress over time.
CONCLUSIONS AND SOLUTIONS
Is Demography Economic Destiny?

No, but....

- Demographics are strongly correlated with financial outcomes
- Ongoing structural and systemic barriers make it difficult to narrow income and wealth gaps
- Can do more to equalize the playing field
Solutions

1. **Wealth to promote stability**
   - Start building savings early, diversify assets/risks, and lower debts.
   - Help families build a rainy day fund; i.e., have cash on hand.
   - “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)
   - Avoid over-investing in housing; a home purchase shouldn’t deplete your liquid savings buffer.

2. **Invest in education**
   - Invest in early childhood (e.g., childhood development accounts)
     - Invest also in schools, teachers, first-gen students
     - Many working-class children are not applying or not being admitted to elite colleges despite having the academic credentials (Jerrim et al., 2015)
   - Build education and skills early, and update throughout life.