The Millennial Wealth Gap: Trends, Origins, and Implications

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Ana H. Kent, Ph.D.
Center for Household Financial Stability
Federal Reserve Bank of St. Louis
www.stlouisfed.org/hfs

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Millennials


- The median millennial family (born 1980-89) is far behind the wealth path set by previous generations.
Generational Wealth Gap is Growing

Comparing the median (50th percentile) household wealth of younger families and older families

In 2016, older families had over 12 times as much wealth as younger families did.

- $155,000
- $20,000
- $18,000
- $228,000

- 65- to 75-year-old family heads
- 25- to 35-year-old family heads
Why is the Generational Wealth Gap Growing?

- Older Millennials are below the wealth-accumulation path established by previous generations.
  - Our estimate is -34% at ages 27-36 (as of 2016).
  - In contrast, millennial median income is only 3% below its norm.

- Short-term cause: Widespread wealth losses from the recession

- Long-term causes: Secular wealth-redistribution trends
  - From less- to more-educated
  - From young to old

- Great-Recession shocks + Secular wealth redistribution trends result in a large millennial wealth gap
The 1980s Millennial group was the only cohort to fall below both income and wealth benchmarks in 2010 and then further behind in 2016.
Why Is the Millennial Wealth Gap So Large?

- Median millennial family income weakened relative to norms between 2007 and 2016, but *relative wealth decline was larger.*
  - Nothing unusual about savings habits of 1980s generation.
  - Loss of housing wealth affected older cohorts more.
  - Millennials seem to be slow to begin wealth accumulation.

- Short-term cause: Widespread wealth losses from the recession

- Long-term causes: Secular wealth-redistribution trends
  - From less- to more-educated
  - From young to old
Long-term cause: From less- to more-educated

- College-grad millennial families (23% of cohort in 2007; 37% by 2016) were far above predicted income and wealth levels in 2007; the recession wiped out these advantages.

- No-college millennial families (77% then 63% of cohort) were already at or below norms in 2007; recession knocked them lower.

Wealth Deviation by Education in 2016

<table>
<thead>
<tr>
<th>Birth Decade</th>
<th>Percent difference from expectations</th>
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</thead>
<tbody>
<tr>
<td>1930-1939</td>
<td>Nongrad: 4, Grad: 72</td>
</tr>
<tr>
<td>1940-1949</td>
<td>Nongrad: -8, Grad: 2</td>
</tr>
<tr>
<td>1950-1959</td>
<td>Nongrad: -19, Grad: 15</td>
</tr>
<tr>
<td>1960-1969</td>
<td>Nongrad: -23, Grad: -6</td>
</tr>
<tr>
<td>1970-1979</td>
<td>Nongrad: -38, Grad: -44</td>
</tr>
<tr>
<td>1980-1989</td>
<td></td>
</tr>
</tbody>
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Benchmarks are same-education families
Long-term cause: From young to old

- The old are getting richer while the young are getting poorer.
- This gap has been growing for many decades.

Source: Federal Reserve Board, Survey of Consumer Finances and authors’ calculations
Cumulative Effect: Wealth Redistribution from Young to Old

Change Between 1989 and 2016 in Predicted Wealth

Percentage Difference

Source: Federal Reserve Board, Survey of Consumer Finances and authors’ calculations
One Final Note on Race/Ethnicity Wealth Gaps…

For every $1 in income the median white family earned…

- The median black family made 61 cents.
- The median Hispanic family made 67 cents.

For every $1 in wealth the median white family had…

- The median black family had 11 cents.
- The median Hispanic family had 49 cents.
Will Millennials Become Part of a “Lost Generation”?  

- The Great Recession imposed large wealth losses on millennial families but hit older cohorts, too.

- Longer-term trends of wealth redistribution from less- to more-educated and from young to old families were in place before the recession.

- The combination of Great-Recession wealth shocks and secular wealth-redistribution trends resulted in large millennial wealth gap, especially among families headed by non-college grads.

- Only time will tell whether Millennials will recover, or if they will become part of a lost generation.