Thriving or Struggling?
Economic Security in America Varies by Race and Education

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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
Income Inequality Overall

Share of Total Pre-Tax Income

Percent

15.4 13.5
1989 2016

42.3 49.9
Top 10%

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.

- “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)
Wealth Inequality Overall

Share of Total Net Worth
Percent

<table>
<thead>
<tr>
<th>Year</th>
<th>Bottom 50%</th>
<th>Top 10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>3.0</td>
<td>66.9</td>
</tr>
<tr>
<td>2016</td>
<td>1.2</td>
<td>77.1</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Thrivers (%)</th>
<th>Middle (%)</th>
<th>Strugglers (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>13</td>
<td>48</td>
<td>39</td>
</tr>
<tr>
<td>2016</td>
<td>21</td>
<td>48</td>
<td>30</td>
</tr>
</tbody>
</table>

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<tr>
<th>Year</th>
<th>Thrivers (%)</th>
<th>Middle (%)</th>
<th>Strugglers (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>42</td>
<td>49</td>
<td>9</td>
</tr>
<tr>
<td>2016</td>
<td>68</td>
<td>28</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Board, Survey of Consumer Finances and authors’ calculations
Shares of Households in U.S. by Race/Ethnicity

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

Median Family Net Worth

Thousands 2016$

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

Real Median Family Net Worth

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></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 Over Time

Real Median Household Net Worth

Thousands of 2016$

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?
Figure 6. Median Middle-Aged Family Net Worth by Inherited Characteristics and Own Education

<table>
<thead>
<tr>
<th>Partition 0</th>
<th>Partition 1</th>
<th>Partition 2</th>
<th>Partition 3</th>
<th>Partition 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parents’ Education</td>
<td>Expected Net Worth Based on Inherited Demographics</td>
<td>Own Education</td>
<td>Expected Net Worth Based on Inherited Demographics and Own Education</td>
<td>Percentile Increase or Decrease from Addition of Own Education</td>
</tr>
<tr>
<td>Inherited</td>
<td>Acquired</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **All Families**
  - Median: $97,326 (50th percentile)
  - Median: $131,262 (59th percentile)

- **Middle-aged Families**
  - Median: $203,578 (63rd percentile)

- **Whites**
  - Median: $203,578 (63rd percentile)

- **Other Races and Ethnicities**
  - Median: $37,970 (36th percentile)

- **Expected Net Worth**
  - Partition 0: $374,640 (75th percentile)
  - Partition 1: $162,094 (76th percentile)
  - Partition 2: $96,944 (49th percentile)
  - Partition 3: $26,718 (33rd percentile)
  - Partition 4: $629,900 (83rd percentile)

- **Percentile Increase or Decrease**
  - 8
  - -17
  - 17
  - -9
  - 25
  - -13
  - 17
  - -4

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
WWC Shares of U.S. Population, Income and Wealth

Figure 1: White Working Class Share of Population, Income and Wealth (percent)

White Working Class Falling

Share of Families in Population

- Other, No College: 3 (1989), 2 (2016)
- Other, College: 2 (1989), 3 (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
Reasons for the Fall – Declining Advantages

- Neither race nor education is sufficient alone to explain the decline of the white working class.
  - White college graduates are doing well
  - Black and Hispanic working class families have made some progress

- High school graduation rates, reduced access to relatively high-paying jobs/changing economy, and lessening of explicit workplace discrimination
Is College Still Worth It?

https://en.wikipedia.org/wiki/Georgiana_Simpson#cite_ref-10

https://www.walshhonda.com/honda-graduate-bonus
Aggregate: Wealth College Premium Growing

**Income**

Income Premiums of Median Bachelor’s and Median Post-Graduate Degree Holders over Median Non-Grads

- Graduate median-income premium
- Post-graduate median-income premium

**Wealth**

Median-Net Worth Premiums of Bachelor’s and Post-Graduate Degree Holders over Non-Grads

- Graduate median-net worth premium
- Post-graduate median-net worth premium

Includes SCF families of all races and ethnicities, all ages and all birth years.

But... Small, Shrinking College Premiums

Non-Hispanic White

Income

Predicted Income by Education and Birth Decade: Non-Hispanic White

Wealth

Predicted Net Worth by Education and Birth Decade: Non-Hispanic White

Model includes SCF families of a particular race or ethnicity adjusted for family size and life cycle.

Source: https://www.stlouisfed.org/household-financial-stability/events/past-events/is-college-still-worth-it
Disappearing Wealth Premium for Blacks

Non-Hispanic Black

Model includes SCF families of a particular race or ethnicity adjusted for family size and life cycle.

Source: https://www.stlouisfed.org/household-financial-stability/events/past-events/is-college-still-worth-it
Taken Together... Financial Fragility?

- 51% are “asset poor” – can’t cover expenses for 3 months (SHED, 2016)
- A $400 emergency expense would prompt nearly half of all families to borrow funds, sell something, or simply not pay (SHED, 2016)
- 57% of Americans are challenged to achieve “financial health” (CFSI, 2015)
- Volatile employment schedules; 17% have schedules that vary by employer’s needs (SHED, 2016)
- 40% struggled to pay bills because income was lower than normal (SHED, 2016)
- Almost 3/4 of Americans were stressed about money (APA, 2015)
Financial Fragility by Demographics

Source: Federal Reserve Board, Survey of Household Economic Decisionmaking and author’s calculations
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. Promote stability, then mobility
   - 92% of Americans would choose stability over mobility (Pew, 2014)
   - Help families build a rainy day fund
   - Of all the factors examined, disparities in financial well-being are greatest between subgroups that have different levels of liquid savings (CFPB, 2017)

2. Recognize the inequality
   - “In the United States, inequality remains for many respondents a sign of future opportunities and mobility, even though the data on mobility rates no longer support that perception.” – Graham, 2010
   - Improve access to social capital, networks, relationships
   - Awareness of own biases
Solutions

3. Invest in early childhood
   - Invest in schools, teachers, first-gen students
   - The earlier the better! The earlier a child...
     • is read to
     • receives good nutrition
     • faces less toxic stress
     • attends an early-education program
     • is exposed to a good neighborhood
     • attends a high-performing school, and
     • has assets in the home
   ...the more educationally and financially successful that child will turn out as an adult.
   - Early assets and childhood development accounts can address age, race, and education disparities, and promote financial inclusion
     • Positive impacts on child development:
       - Maternal mental health
       - Educational expectations
       - Child development
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IN THE Balance
Perspectives on Household Balance Sheets

The Demographics of Wealth
2020 Update

The Demographics of Wealth
2019 Update

The Demographics of Wealth
2018 Update

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